CITY AND COUNTY OF SAN FRANCISCO

OFFICE OF THE CONTROLLER

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY:

Audited Financial Statements
July 1, 2002, Through
June 30, 2003

Audit Number 03018
January 28, 2004

CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER

Ed Harrington
Controller

Monique Zmuda
Deputy Controller

March 22, 2004

Audit Number 03018

Chairperson and Members
Board of Commissioners
San Francisco County Transportation Authority
100 Van Ness Avenue, 25th Floor
San Francisco, CA 94102

Chairperson and Members:

The Office of the Controller presents its audit report of the financial statements of the San Francisco County Transportation Authority (Authority) of the City and County of San Francisco for the fiscal year ended June 30, 2003. The financial statements present the financial position and the results of the Authority's operations for the audit period.

We found that the statements present fairly, in all material respects, the financial position of the Authority for the audit period and the results of its operations in conformity with generally accepted accounting principles.

Respectfully submitted,

Ed Harrington
Controller

CITY AND COUNTY OF SAN FRANCISCO
OFFICE OF THE CONTROLLER **Ed Harrington**
AUDITS DIVISION **Controller**

Monique Zmuda
Deputy Controller

AUDITOR'S REPORT

Board of Commissioners
San Francisco County Transportation Authority

We have audited the accompanying basic financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Francisco County Transportation Authority (Authority), a blended component unit of the City and County of San Francisco, as of and for the year ended June 30, 2003, which collectively comprise the Authority's basic financial statements. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Authority, as of June 30, 2003, and the respective changes in financial position, when applicable, thereof, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 11 to the financial statements, certain errors previously reported in sales tax receivables, program receivables, investments, consulting expenditures, accounts payable and fund balance as of June 30, 2002, were discovered. Accordingly, adjustments have been made to fund balance as of June 30, 2003, to correct the errors.

The Management's Discussion and Analysis (MD&A) and the required supplementary information other than MD&A, are not a required part of the basic financial statements but are supplementary information required by the Government Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Noriaki Hirasuna, CPA

San Francisco, California
January 28, 2004

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SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Management Discussion and Analysis
For the Fiscal Year Ended June 30, 2003

This section of the San Francisco County Transportation Authority's (Authority) annual financial report presents a discussion and analysis of the Authority's financial performance during the fiscal year ended June 30, 2003. The Authority's financial performance is discussed and analyzed within the context of the accompanying financial statements and disclosures following this section.

FINANCIAL HIGHLIGHTS

- The assets of the Authority exceeded liabilities at the close of the 2002-2003 fiscal year by $150.1 million (*net assets*). Of this amount, $35 million (*unrestricted net assets*) may be used to meet ongoing obligations, and $115.1 million is restricted for capital projects.

- The Authority's total net assets increased by $7.2 million during the 2002-2003 fiscal year, as compared to a decrease of $19.3 million in the prior year. The $26 million change is mainly due to less spending for capital project expenses in the Sales Tax Program of $35.8 million, offset by a net decrease in the fair value of investments and investment income totaling $5.5 million. Additionally, net assets decreased by $4.2 million due to prior period corrections that adjusted the unrestricted net assets.

- As of June 30, 2003, the Authority's governmental funds reported combined ending fund balances of $150 million, an increase of $7.3 million in comparison with the prior year. Approximately 23% of the combined fund balances, $35 million, is available to meet the Authority's current and future needs. (*unreserved fund balance*).

- Approximately $35 million of the combined ending fund balance is unreserved fund balance available for the specified programs of the Authority's funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements comprise three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the basic financial statements. Required Supplementary Information is included in addition to the basic financial statements.

Government-wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business.

The ***statement of net assets*** presents information on all Authority 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 whether or not the financial position of the Authority is improving or deteriorating.

The ***statement of activities*** presents information showing how the Authority's net assets changed during the most recent fiscal year. 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. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

Both of these government-wide financial statements distinguish functions of the Authority that are principally supported by receipt of sales taxes and other sources of government grants. The only governmental activity of the Authority is public works, transportation and commerce. The Authority does not have any business-type activities.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts, which are used to maintain control over resources that have been segregated for specific activities or objectives. The Authority, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The funds of the Authority are all classified as governmental funds.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements-i.e., most of the Authority's basic services are reported in governmental funds. These statements, however, focus on (1) how cash and other financial assets can readily be converted to available resources and (2) the balances left at year-end that are available for spending. Such information may be useful in determining what financial resources are available in the near future to finance the Authority's programs.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental funds balance sheet and the governmental funds statements of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The Authority maintains several governmental funds organized according to their source of funding. Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the Sales Tax Program and the Traffic Congestion Relief Program (TCRP), which are considered major funds. Data from the remaining governmental funds are combined into a single, aggregated presentation.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Required Supplementary Information

The required supplementary information is presented concerning the Authority's budgetary comparison schedules. The Authority adopts annual appropriated budgets for its Sales Tax Program Fund and TCRP Fund. Budgetary comparison statements have been provided for these funds to demonstrate compliance with the budgets.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

This year is the second year that the Authority has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board (GASB) Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments.

Below are comparative statements of the Authority for the current and past year:

Statement of Net Assets

	Governmental Activities	
	June 30, 2003	June 30, 2002
Assets:		
Current and other assets	$236,887,781	$155,014,162
Capital assets	125,075	164,538
Total Assets:	$237,012,856	$155,178,700
Liabilities:		
Current and other liabilities	$ 86,896,638	$ 12,287,359
Total Liabilities:	$ 86,896,638	$ 12,287,359

Statement of Net Assets (continued)

Net Assets:		
Investment in capital assets	$ 125,075	$ 164,538
Restricted for capital projects	115,099,137	134,730,315
Unrestricted net assets	34,892,006	7,996,488
Total Net Assets:	$150,116,218	$142,891,341

Analysis of Net Assets

The largest portion of the Authority's net assets (76.7%) reflects its restriction for future expenditures of the different programs.

The unrestricted net assets amounting to $35 million (23.3%) may be used to meet the Authority's ongoing obligations.

At the end of the current fiscal year, the Authority reported positive balances in both categories of net assets.

Changes in Net Assets
For the Year Ended June 30, 2003

	Governmental Activities
Revenues:	
Sales tax	$ 62,050,264
Interest and investment income	3,932,813
Unrealized gain (loss) on investments	(557,786)
Program and other revenue	75,452,403
Total revenue:	$140,877,694
Expenses:	
Public works, transportation and commerce	$129,490,747
Total expenses:	$129,490,747
Change in net assets	11,386,947
Prior Period Adjustments	(4,162,070)
Net Assets, Beginning	142,891,341
Net Assets, Ending	$150,116,218

Analysis of Changes in Net Assets

Governmental activities increased the Authority's net assets by $11.4 million, although prior period adjustments decreased the beginning net assets by $4.2 million. The key element of this increase is less spending for capital project expenses in the Sales Tax

Program, which decreased by $35.8 million or 69% during the year, offset by decreases in income.

Although expenditures for certain functional categories reflected minor decreases in the demand for services; overall, expenditures for governmental activities increased by $34.5 million from last year's expenditures total. The increase in TCRP funded capital projects during the year accounted for the marked increase in total expenses.

FINANCIAL ANALYSIS OF THE AUTHORITY'S FUNDS

As noted earlier, the Authority uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds

The focus of the Authority's governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the Authority's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

At June 30, 2003, the Authority's governmental funds reported combined ending fund balances of $150 million, an increase of $7.3 million in comparison with the prior year. Approximately 77% of the combined ending fund balances, $115.1 million, constitutes reserved fund balance, which is appropriated for future expenditures. The remainder of fund balance is available for future spending as unreserved-undesignated fund balance.

The Sales Tax Program is the larger of the two major funds of the Authority. At June 30, 2003, this fund had 97 % of the unreserved fund balance, or $33.9 million, while its total fund balance was $146.6 million. As a measure of the fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. Unreserved fund balance represents 63% of total fund expenditures of $53.9 million, while total fund balance represents 272% of the same amount

Revenues for the Authority's activities totaled $140.9 million in fiscal year 2002/2003, which represents an increase of $65.2 million or 86% from fiscal year ended 2001/2002. Expenditures for Authority's activities, totaling $129.5 million, increased by $34.5 million or 36%, from the fiscal year 2001/2002. In the fiscal year 2002/2003, expenses for governmental functions exceeded revenues by $11.4 million.

The following table presents the amount of revenues from various sources as well as increases or decreases from the prior year.

Revenues Classified by Source
Governmental Funds

	FY 2003		FY 2002		Increase/(Decrease)	
Revenues by Source	Amount	% of Total	Amount	% of Total	Amount	% of Change
Sales Tax	$ 62,050,264	44%	$62,805,426	83%	$ (755,162)	(1.2%)
Investment income	3,932,813	2.8%	7,045,264	10%	(3,112,451)	(44%)
Unrealized gain/loss	(557,786)	(.4%)	1,810,644	2%	(2,368,430)	(131%)
Program revenues	75,452,403	53.6%	4,033,502	5%	71,418,901	1,770%
Total	$140,877,694	100%	$75,694,836	100%	$65,182,858	86%

The following table presents expenditures by function compared to prior year amounts.

Expenditures by Function
Governmental Funds

	FY 2003		FY 2002		Increase/(Decrease)	
Expenditures by Function	Amount	% of Total	Amount	% of Total	Amount	% of Change
General administrative	$ 4,728,902	3.6%	$ 6,273,543	7%	$ (1,544,641)	(25%)
Prop B Reauthorization	85,070	0.1%	-		85,070	100%
Capital projects	124,637,312	96.3%	88,718,488	93%	35,918,824	40%
Total	$129,451,284	100%	$94,992,031	100%	$34,459,253	36%

The current year excess of revenues and other financing sources over expenditures and other financing uses is presented below:

Statement of Revenues, Expenditures, and Changes in Fund Balance
Governmental Funds

	Major Funds: Sales Tax Program	Major Funds: Traffic Congestion Relief Program	Nonmajor Funds	Total
Revenues	$65,798,371	$71,080,192	$3,999,131	$140,877,694
Expenditures	53,946,204	71,104,679	4,400,401	129,451,284
Net change in fund balance	11,852,167	(24,487)	(401,270)	11,426,410
Prior Period Adjustment	(5,555,301)		1,393,231	(4,162,070)
Fund Balance, beginning	140,324,617		2,402,186	142,726,803
Fund Balance, ending	$146,621,483	$(24,487)	$3,394,147	$149,991,143

The fund balance in the Authority's sales tax program increased by $6.3 million during the fiscal year, mainly due to the lower capital project expenditures. The Authority's investment income also decreased from the previous year. As noted above, the Authority's sales tax also decreased by approximately 1.2% during the fiscal year related to lower collections made during the year. In addition, investment income decreased by approximately 44% from last year.

BUDGETARY HIGHLIGHTS

For the Sales Tax Program, during the year actual revenues were less than the final budgetary estimates by $13.5 million, not including the carry-over budgetary fund balance. The $13.5 million difference represents program and other revenue. Actual expenditures were less than budgetary estimates by $44.8 million. This amount includes $45.2 million of capital expenditures.

For the Traffic Congestion Relief Program, actual grant revenues were less than the final budgetary estimates by $17.4 million. Actual capital project and general expenditures were less than budgetary estimates by $17.4 million. This resulted in a negative budgetary fund balance of $24.5 thousand.

Capital Assets

The Authority's investment in capital assets for its governmental activities as of June 30, 2003, amounted to $125.1 thousand (net of accumulated depreciation). This investment in capital assets includes leasehold improvements and furniture and equipment.

Capital assets for the government activities are presented below to illustrate changes from the prior year:

	Governmental Activities 2003	Governmental Activities 2002, Restated	Increase/ (Decrease) % of Change
Leasehold improvements	$140,955	$140,955	0%
Furniture and equipment	339,212	255,328	33%
Total cost	480,167	396,283	
Less: accumulated depreciation	(355,092)	(231,745)	53%
Capital assets, net	$125,075	$164,538	(24%)

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

- The Authority foresees no growth in its mainstream sales tax receipts for the fiscal year 2003-2004 due to decline in economic activity at the County level.

- The Authority also foresees a decrease in revenue from interest on investments in the next fiscal year due to the continued drop in market interest rates.

These factors were considered in preparing the Authority's budget for fiscal year 2004.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Authority's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the San Francisco County Transportation Authority, Attention: Manager of Accounting and Finance, 100 Van Ness Avenue, 25th Floor, San Francisco, California 94102.

Basic Financial Statements

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SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Statement of Net Assets
June 30, 2003

	Governmental Activities
ASSETS	
Cash in Bank	$ 4,706,363
Deposits and Investments with City Treasury–Pooled Accounts	131,327,394
Other Investments	3,393,981
Receivables:	
Sales Tax Receivable	10,873,863
Interest Receivable from the City & County of San Francisco	826,770
Other Interest Receivable	324,937
Program Receivables	68,099,307
Due from other programs	17,335,166
Net Capital Assets	125,075
Total Assets	$237,012,856
LIABILITIES	
Accounts Payable	$ 757,985
Due to the City & County of San Francisco	68,718,556
Accrued Salaries and Taxes	29,564
Accrued Vacation	55,367
Due to Other Programs	17,335,166
Total Liabilities	$ 86,896,638
NET ASSETS	
Invested in Capital Assets	$ 125,075
Restricted for Appropriations	115,099,137
Unrestricted	34,892,006
Total Net Assets	$150,116,218
Total Liabilities and Net Assets	$237,012,856

See Accompanying Notes to Financial Statements

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Statement of Activities
For the Year Ended June 30, 2003

Programs/Projects	Expenses	Program Revenues Operating Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets Governmental Activities
Governmental Activities			
Transportation and Capital Projects	$129,490,747	$ 75,452,403	($ 54,038,344)
Total Governmental Activities	$129,490,747	$ 75,452,403	($ 54,038,344)
General Revenues			
Sales Tax			62,050,264
Interest and Investment Income			3,932,813
Unrealized Loss on Investments			(557,786)
Total General Revenues			65,425,291
Change in Net Assets			11,386,947
Prior Period Adjustment			(4,162,070)
Net Assets, Beginning			142,891,341
Net Assets, Ending			$ 150,116,218

See Accompanying Notes to Financial Statements

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Balance Sheet
Governmental funds
June 30, 2003

		Sales Tax Program		Traffic Congestion Relief Program		Nonmajor Funds		Totals (Memorandum Only)
ASSETS								
Cash in Bank (Note 3)	$	4,574,414			$	131,949		$4,706,363
Deposits and Investments with City Treasurer (Note 4)		131,327,394						131,327,394
Other Investments		1,200,000			$	2,193,981		3,393,981
Sales Tax Receivable		10,873,863						10,873,863
Interest Receivable from the City & County of San Francisco		826,770						826,770
Other Interest Receivable		324,937						324,937
Program Receivables		4,006		63,448,884	$	4,646,417		68,099,307
Due from Other Programs		17,335,166						17,335,166
Total Assets	$	166,466,550	$	63,448,884	$	6,972,347		236,887,781
LIABILITIES								
Accounts Payable	$	39,325	$	288	$	718,372	$	757,985
Due to the City & County of San Francisco		19,720,811		48,997,745				68,718,556
Accrued Salaries and Taxes		29,564						29,564
Accrued Vacation		55,367			$	-		55,367
Due to Other Programs				14,475,338	$	2,859,828		17,335,166
Total Liabilities	$	19,845,067	$	63,473,371	$	3,578,200	$	86,896,638
FUND BALANCE								
Reserved for Appropriations	$	112,765,905			$	2,333,232	$	115,099,137
Unreserved-undesignated		33,855,578		(24,487)	$	1,060,915		34,892,006
Total Fund Balance	$	146,621,483	$	(24,487)	$	3,394,147	$	149,991,143
Total Liabilities and Fund Balances	$	166,466,550	$	63,448,884	$	6,972,347	$	236,887,781

See Accompanying Notes to Financial Statements

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Reconciliation of the Governmental Fund Balance Sheet to the Government-wide Statement of Net Assets – Governmental Activities June 30, 2003

Fund Balance – Total Governmental Fund	$149,991,143
Amounts reported for governmental activities in the Statement of Net Assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	125,075
Net Assets of Governmental Activities	$150,116,218

See Accompanying Notes to Financial Statements

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Statement of Revenues, Expenditures, and Changes in Fund Balances
Governmental Funds
For the Year Ended June 30, 2003

	Sales Tax Program	Traffic Congestion Relief Program	Nonmajor Funds	Totals (Memorandum Only)
Revenues				
Sales Tax	$ 62,050,264		$ -	$ 62,050,264
Investment Income	3,905,893		26,920	3,932,813
Net Increase (decrease) in Fair Value of Investments	(557,786)			(557,786)
Program Revenues and Other	400,000	71,080,192	3,972,211	75,452,403
Total Revenues	$ 65,798,371	$ 71,080,192	3,999,131	$ 140,877,694
Expenditures				
General & Administrative	$ 2,280,435	$ 24,487	2,423,980	$ 4,728,902
Proposition B Reauthorization Costs	85,070			85,070
Capital Projects	51,580,699	71,080,192	1,976,421	124,637,312
Total Expenditures	$ 53,946,204	$ 71,104,679	$ 4,400,401	$ 129,451,284
Excess (deficiency) of Revenues over Expenditures	11,852,167	(24,487)	(401,270)	11,426,410
Fund Balance - July 1, 2002	140,324,617		2,402,186	142,726,803
Prior Period Adjustments	(5,555,301)		1,393,231	(4,162,070)
Fund Balance - July 1, 2002 (restated)	134,769,316		3,795,417	138,564,733
Fund Balance - June 30, 2003	$ 146,621,483	$ (24,487)	$ 3,394,147	$ 149,991,143

See Accompanying Notes to Financial Statements

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

Reconciliation of the Governmental Fund Statement of Revenues, Expenditures, and Changes in Fund Balance to the Government-wide Statement of Activities– Governmental Activities
June 30, 2003

Net Change in Fund Balance – Total Governmental Fund		$ 11,426,410
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period.		
Expenditures for general capital assets, infrastructure, and other related capital assets adjustment	$ 83,884	
Less current year depreciation	(123,347)	(39,463)
Change in Net Assets of Governmental Activities		$ 11,386,947

See Accompanying Notes to Financial Statements

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Notes to the Financial Statements
June 30, 2003

NOTE 1 – BACKGROUND AND GENERAL INFORMATION

(a) Sales Tax Program

The San Francisco County Transportation Authority (the Authority) was established in 1989 by the voters of the City and County of San Francisco (City) to impose voter-approved transactions and use tax of ½ of 1% to fund essential traffic and transportation projects set forth in the San Francisco County Transportation Expenditure Plan (the Plan) for a period not to exceed 20 years. One of the objectives of the Plan is to direct all city transportation agencies to develop five-year program plans describing service and capital improvements annually, as well as prepare long-range (10 to 20 years) comprehensive transportation plans. The principal focus of the Plan is to define a program of prioritized projects to ensure that funding is allocated across major transportation categories. The projected allocation between major categores is Transit – 60%, Streets and Traffic Safety – 30%, Paratransit – 8%, and Transportation Systems Management – 2%. The State of California began collecting the additional ½ of 1% sales tax in January of 1990.

The members of the Authority's Board of Commissioners are the eleven members of the Board of Supervisors of the City. Because of this, the Authority is considered a component unit of the City for financial reporting purposes. The Authority is included as a blended component unit in the Special Revenue Fund in the Comprehensive Annual Financial Report (CAFR) of the City. The City's Mayor has no oversight control over the Authority. The ordinance creating the Authority also empowers it to issue bonds up to $742 million to finance transportation projects under the plan. The borrowing capacity of the Authority is separate and distinct from the City.

(b) Transportation Fund for Clean Air Program (TFCA)

On June 15, 1992, the San Francisco County Transportation Authority was designated by the City's Board of Supervisors as the overall program manager for the Local Guarantee (40%) share of the transportation funds available through the new Transportation Fund for Clean Air (TFCA). These funds result from the collection of a $4 surcharge on the vehicle registration fee and are administered by the Bay Area Air Quality Management District (BAAQMD). The Authority recommends to BAAQMD projects to include in the Program Manager Fund, and BAAQMD approves expenditures as long as these projects are eligible activities for the TFCA program.

(c) Surface Transportation Program (STP)

In September 1992, the Metropolitan Transportation Commission (MTC) programmed 3% off the top of the Federal Surface Transportation Program (STP) funds for congestion management agencies in the bay area. The funds are distributed to each Congestion Management Agency (CMA) on a population basis, with no county receiving less than $100,000. The Authority, in its capacity as CMA for the City, is responsible for certain planning and programming activities, work tasks and products that support MTC's overall work program in this area.

(d) Central Freeway

Following the Loma Prieta Earthquake of 1989, the Board of Supervisors adopted Proposition I "Central Freeway Housing and Transportation Project", which the voters approved in November 1989. Under Proposition I, a portion of State Highway 101 between Market Street and Turk Street will be removed and there will be a new surface-level boulevard along Octavia Street. The City is permitted to use the proceeds of the sale of the land underlying State Highway 101 transferred by the State of California to the City to fund the construction of the Project.

(e) Countywide Transportation Plan

The Authority, as CMA, is acting as the lead agency for the development of a long-range transportation plan for the City. The plan will help to prioritize transportation investments in the City, addressing short-term (5 years) mid-term (10 years), and long-term (20 years) planning needs balanced against realistic assumptions about funding prospects.

(f) Doyle Drive Environmental & Design Study

During fiscal year 1998-99, $6 million in ISTEA Section 204 funds were granted to the California Department of Transportation (Caltrans) for environmental impact research and study (EIR/EIS) and the preliminary design for the Doyle Drive Replacement Project. The ISTEA grant was awarded to the Authority, which also manages the Doyle Drive Intermodal Study, which is funded by Caltrans. In April 1998, the Authority and Caltrans signed a Memorandum of Understanding designating the Authority as the lead agency for the environmental study.

(g) Traffic Congestion Relief Program (TCRP)

The Traffic Congestion Relief Program is funded through the California Traffic Congestion Relief Act of 2000, which provided $5.39 billion dollars of funding throughout the State. The Authority was designated to receive funding for two of the 22 projects detailed in the funding resolution. The two projects are the Muni Third Street Light Rail Project, which will provide a light rail connection for the City's southeast neighborhoods to downtown, and project development for the proposed Replacement of Doyle Drive Project. Respective funding for these two projects is $140 million and $3 million.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

Government-wide Financial Statements

The statement of net assets and the statement of activities display information about the Authority. These statements include the financial activities of the overall government program activities excluding fiduciary and internal service activities. The Authority does not have fiduciary activities or internal service activities. Governmental activities are normally supported by taxes, grants, and other revenues.

The statement of activities presents a comparison between direct expenses and general revenues for each function of the governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. General revenues include the sales tax resources authorized by the taxpayers. The comparison of program revenues and expenses identifies the extent to which each program is self-financing or draws from the general revenues of the Authority.

When both restricted and unrestricted net assets are available, restricted resources are used only after the unrestricted resources are depleted.

Fund Financial Statements

Fund financial statements are organized into funds, each of which is considered to be a separate accounting entity. Each fund is accounted for through a separate set of self-balancing accounts that constitute its assets, liabilities, fund equity, revenues and expenditures/expenses. Generally, funds are organized into three major categories: governmental, proprietary, and fiduciary. The emphasis of fund financial statements is on major governmental and enterprise funds. The Authority has two major funds, the Sales Tax Program and the Traffic Congestion Relief Program and no enterprise funds. Nonmajor funds are presented separately.

Governmental Fund

The Authority reports two major governmental funds:

The Sales Tax Program is the general operating fund of the authority and is always classified as a major fund. It is used to account for all the revenues and expenditures necessary to carry out basic governmental activities of the Authority that are not required to be accounted for through other funds. For the Authority, the Sales Tax Program's primary activity is capital projects and transportation.

The *Traffic Congestion Relief Program* (TCRP) is the second major governmental fund. It is used to account for the revenues from the State's allocation of $140,000,000 toward the Authority's Third Street Light Rail Project and the expenditures related to this project.

(b) Measurement Focus and Basis of Accounting

Measurement focus is a term used to describe "which" transactions are recorded within the various financial statements. Basis of accounting refers to "when" transactions are recorded regardless of the measurement focus applied.

The government-wide, proprietary, and fiduciary fund financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This differs from the manner in which governmental fund financial statements are prepared. Therefore, governmental fund financial statements include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for governmental funds. The Authority has no proprietary or fiduciary funds.

The accounting objectives of the economic resources measurement focus are the determination of operating income, changes in net assets (or cost recovery), financial position, and cash flows. All assets and liabilities (whether current or noncurrent) associated with their activities are reported. Fund equity is classified as net assets.

Under the accrual basis of accounting, revenues are recorded when earned and expenses are recorded at the time liabilities are incurred or economic asset used. Revenues, expenses, gain, losses, assets, and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.

The Authority has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*, and GASB Statement No. 36, *Recipient Reporting for Certain Shared Nonexchange Revenues – an amendment of GASB Statement No. 33*. Nonexchange transactions, in which the Authority gives (or receives) value without directly receiving (or giving) equal value in exchange, include sales taxes. On an accrual basis, revenue from sales taxes is recognized when the underlying exchange transactions occur.

The Authority has contracted with the California State Board of Equalization (Board) for collection and distribution of the one-half percent sales tax. The Board receives an administrative fee for providing this service. The Authority records sales tax revenues net of such fees. Expenditures are generally recognized when incurred.

In the current financial resources measurement focus, only current financial assets and liabilities are generally included on the balance sheets. The operating statements present sources and uses of available financial resources during a given period. The fund balance is used as the measure of available expendable financial resources at the end of the period.

Revenues are recognized when measurable and available. Measurable means knowing or being able to reasonably estimate the amount. Available means collecting within the current period or within ninety days after year-end.

(c) Capital Assets

In the government-wide financial statements, capital assets (fixed assets) are recorded at historical cost or at estimated historical cost if actual historical cost is not available. The Authority capitalizes assets with a purchase price of $5,000 and above.

Depreciation of all exhaustible capital assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation expense is provided over the assets' estimated useful lives using the straight-line method of depreciation. The estimated useful lives by type of asset is as follows:

Furniture	5 years
Leasehold Improvements	7 years
Computer Equipment and Software	3 years

Maintenance and repairs are charged to operations when incurred. Betterments and major improvements that significantly increase values, change capacities or extend useful lives are capitalized. Upon sale or retirement of capital assets, the cost and related accumulated depreciation are removed from the respective accounts and any resulting gain or loss is included in the results of operations.

In the fund financial statements, capital assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. When a sale of capital assets occurs, the proceeds from sale of capital assets is included in the results of operations as other financing sources.

(d) Equity Classifications

In government-wide and proprietary fund financial statements, equity is classified as net assets and divided into three components:

- *Investment In Capital Assets, Net of Related Debt* – This category groups all capital assets into one component of net assets. Accumulated depreciation and outstanding balances of debt that are attributable to the acquisition, construction or improvement of these assets reduce the balance in this category.

- *Restricted Net Assets* – This category presents external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Assets* – This category represents net assets of the Authority, not restricted for any project or other purpose.

In governmental fund financial statements, equity is classified as fund balance. Reservations and designations segregate portions of fund balance that are either not available or have been earmarked for specific purposes. The various reservations and designations are established by actions of the Board of Commissioners and management and can be increased, reduced or eliminated by similar actions.

Portions of unreserved fund balance may be designated to indicate tentative plans for financial resource utilization in a future period, such as for general contingencies or capital projects. Such plans or intent are subject to change and have not been legally authorized and may not result in expenditures.

(e) Budgetary Data

The Authority's expenditures are generally budgeted on a capital project or program-grant basis. Comparisons with financial results for the current fiscal period are presented as supplementary data for management analysis purposes. The Authority's budget is subject to the approval of the Authority's Board of Commissioners. The supplementary data includes in addition to actual expenditures, amounts that have been appropriated for projects and programs. Under generally accepted accounting principles, appropriations would not be included with actual amounts until actually incurred or encumbered. Unexpended capital budget appropriations are carried forward to subsequent years.

(f) "Total (Memorandum Only)" Columns on Combined Statements

Total columns on the combined statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in financial position in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Inter-fund elimination has not been made in the aggregation of this data.

(g) Estimates

The preparation of the basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 3 – CASH IN BANK

Cash in bank as of June 30, 2003 consisted of the following:

	Sales Tax Program	TFCA Program	Total
Cash in banks	$4,574,414	$131,949	$4,706,363

Cash balances held in banks are insured up to $100,000 by the Federal Depository Insurance Corporation. Excess funds are collateralized by the institution with government securities.

NOTE 4– DEPOSITS AND INVESTMENTS WITH CITY TREASURY

The deposits and investments of the Authority are included with the pooled deposits and investments of the City and invested pursuant to investment policy guidelines established by the Authority, which are consistent with those of the City. 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 State Government Code, and the percentage of the portfolio that may be invested in certain instruments with longer terms to maturity.

Pooled investments permitted by the City's investment polity are obligations of the U.S. government, commercial paper rated no lower than A-1 by Standard and Poor's Corporation or P-1 by Moody's Investors Services, Inc., banker's acceptances, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. Pooled investments during the year did not included repurchase or reverse repurchase agreements.

The California State Government Code requires California banks and savings and loan associations to secure the City's deposits not covered by federal deposit insurance by pledging government securities as collateral. The market value of pledged securities must equal at least 110% of the City's deposits. The collateral must be held at the pledging bank's agent, in the City's name. The Comprehensive Annual Financial Report of the City categorized the level of risk associated with the City's pooled deposits and investments.

City management believes the liquidity in the portfolio is more than adequate to meet cash flow requirements and to preclude the City from having to sell investments below carrying value for that purpose. The earned yield, which includes net gains on investments sold, on all investments held by the City Treasurer for fiscal year 2002-03 was 2.766%.

The Authority has adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, which require governmental entities to report certain investments at fair value in the balance sheet and recognize the corresponding unrealized gain or loss in the year in which the change occurred. In accordance with GASB 31, the Authority has stated the deposits and investments with City Treasury at fair value. The fair value of the pooled investments is determined annually by the City and is based upon current market prices and an unrealized gain or loss is determined. For the fiscal year ended June 30, 2003 an unrealized loss of $557,786 is recorded on the combined statement of revenues, expenditures and changes in fund balance for the year as follows:

	Sales Tax Program	TFCA Program	Total
Interest Income	$3,905,893	$26,920	$3,932,813
Net Increase (decrease) in Fair Value of Investments	(557,786)	-	(557,786)
Total Investment Income	$3,348,107	$26,920	$3,375,027

NOTE 5 – CAPITAL ASSETS

The capital asset activity for the year ended June 30, 2003, is as follows:

	Furniture & Equipment	Leasehold Improvements	Total
Cost			
Balance, July 1, 2002	$255,328	$140,955	$396,283
Additions (Deletions), net	83,884	-	83,884
Balance, June 30, 2003	$339,212	$140,955	$480,167
Accumulated Depreciation			
Balance, July 1, 2002	$153,939	$ 77,806	$231,745
Depreciation Expense	103,210	20,137	123,347
Balance, June 30, 2003	$257,149	$ 97,943	$355,092
Net Book Value	$ 82,063	$ 43,012	$125,075

NOTE 6 – EMPLOYEE BENEFITS

(a) Health Benefits

All employees have the option of selecting medical, dental, disability and life insurance benefits under a cafeteria plan in accordance with section 125 of the Internal Revenue Code at a total cost to the Authority not to exceed $9,924 per employee. For fiscal year ending June 30, 2003, the Authority was in compliance with the plan.

(b) Deferred Compensation Plan

The Authority offers its employees a deferred compensation plan in accordance with Internal Revenue Code (IRC) Section 457. The plan, available to all employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees or other beneficiaries until termination, retirement, death, or unforeseeable emergency.

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

(c) Retirement Plan

Plan Description. The Authority contributes to PERS, an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by State statute and Authority contract amendments to the standard PERS plan. Copies of PERS' annual financial report may be obtained from its Executive Office – 400 P Street, Sacramento, CA 95814.

Funding Policy. Participants are required to contribute 7% of their annual covered salary. The Authority also makes the contributions required of the Authority employees on their behalf and for their account. The Authority is required to contribute at an actuarially determined rate; the current rate is 3.364% of annual covered payroll. The contribution requirements of plan members and the Authority are established annually and may be amended by PERS.

Annual Pension Cost. For fiscal year 2002-03, the Authority's annual pension cost was $186,321 and the Authority actually contributed $186,321. The required contribution was determined as part of the June 30, 2000 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) 8.25% investment rate of return (net of administrative expenses), (b) 3.75% to 14.20% projected annual salary increases that vary by age, service, and type of employment, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 3-year period (smooth market value). Initial unfunded liabilities are amortized over a closed period that depends on the plan's date of entry into PERS. Subsequent plan amendments are amortized as a level percentage of pay over a closed 20-year period. Gains and losses that occur in the operation of the plan are amortized over a rolling period, which results in an amortization of 10% of unamortized gains and losses each year. If the plan's accrued liability exceeds the actuarial value of plan assets, then the amortization payment on the total unfunded liability may not be lower than the payment calculated over a 30-year amortization period.

Three-Year Trend Information is as follows:

Fiscal Year	Annual Pension Costs (APC)	Percentage of APC Contributed	Net Pension Cost (NPC)
6/30/00	58,377	100%	$-0-
6/30/01	71,610	100%	$-0-
6/30/02	85,093	100%	$-0-

NOTE 7 – ADMINISTRATION EXPENSE LIMITATIONS

In accordance with California Public Utilities Code, Section 131107, not more than one percent of the Authority's annual net amount of revenues raised by the sales tax may be used to fund the salaries and benefits of the staff of the Authority in administering the Plan. For the fiscal year ended June 30, 2003, revenues (excluding unrealized gains and/or losses), staff salaries and fringe benefits (in thousands) for the Sales Tax Program were as follows:

	Fiscal Year 02/03
Revenue	$65,956
Expenses:	
Salaries	$ 424
Fringe Benefits	221
Total	$ 645
Percentage of Revenues	0.98%

Based on the above, the Authority's expenditures for salaries and fringe benefits were within the limits of the California Public Utilities Code, Section 131107 and the Transportation Authority Expenditure Plan.

NOTE 8 – INTER-PROGRAM TRANSFERS

Inter-Program transfers occur when salaries, rent, professional services, and other expenses are paid from the Sales Tax program funds for the CMA, TCRP, and/or TFCA programs. The Sales Tax program is reimbursed by the CMA, TCRP, and TFCA programs when the respective funding sources are received.

NOTE 9 – CONTINGENCIES

The Authority participates in numerous state and federal grant programs, which are governed by various rules and regulations of the grantor agencies. Costs charged to the respective grant programs are subject to audit and adjustment by the grantor agencies; therefore, to the extent that the Authority has not complied with the rules and regulations governing the grants, refunds of any money received may be required and the collectibility of any related receivable at June 30, 2003, may be impaired. In the opinion of management, there are no significant contingent liabilities relating to compliance with rules and regulations governing the respective grants; thus, no provision has been recorded in the accompanying general-purpose financial statements for such contingencies.

NOTE 10 – SUBSEQUENT EVENT

On November 4, 2003, the voters of San Francisco passed Proposition K empowering the Authority to maintain its programs through April 2029.

NOTE 11 – PRIOR PERIOD ADJUSTMENTS

In the current fiscal year, the Authority recorded a prior period adjustment of $5,232,380 to recognize the proper statement of its fund balance and sales tax receivable. Further, the Authority corrected its accounting for investments with a prior period adjustment of $1,088,379. Adjustments were also necessary to correct fund balance for prior year technical consulting expenditures and program receivables of $903,633, and accounts payable of $2,007,413. The result was a net decrease to beginning fund balance and decrease in prior year operations of $4,162,070.

NOTE 12 – CAPITAL EXPENDITURES

As Congestion Management Agency for San Francisco, the Authority has purview over the programming of State Transportation Improvement (STIP) funds subvened by formula to San Francisco as part of the five-year STIP programming process. The programming of these funds to specific projects is discretionary to the Authority Board.

The Peninsula Joint Powers Board (Caltrain) is an eligible recipient of STIP funds from San Francisco. The Authority Board programmed Four Million Three Hundred Thousand dollars ($4,300,000) of FY 2006-07 STIP San Francisco county share funds to Caltrain for the Caltrain Electrification project. In January, 2003, through Resolution 03-38, the Authority Board authorized an advance on the FY 2006-07 STIP funds of Three Million Three Hundred Thousand Dollars ($3,300,000) to Caltrain in order to ensure the availability of funds to the project in the current fiscal period. This was structured as a funds swap under which Caltrain formally relinquished all claims on the FY 2006-07 STIP funds for that project.

The swap, as structured, met and exceeded the Authority's revenue neutrality test for fund exchanges involving sales tax funds. The Authority has every expectation of receiving its entire STIP county subvention amount. It further expects to receive the entire subvention amount of the swapped funds in the year in which they are programmed. However, as the California Transportation Commission has not yet formally appropriated STIP funds for FY 2006-07, the Authority recognized the transaction as Capital Expenditures.

NOTE 13 - FUND BALANCE

Fund balance reserves consist of amounts appropriated for future expenditures for transportation programs. The fund balance for the Traffic Congestion Relief Program fund shows a deficit amount of $24,487, because expenditures exceeded revenues for this fund.

NOTE 14 – DUE TO THE CITY & COUNTY OF SAN FRANCISCO

Due to the City & County of San Francisco consists of the following:

	Sales Tax	TCRP	Nonmajor	Total
Due to MUNI/DPT	$14,649,446	$48,997,745	$0	$63,647,191
Due to DPW	4,710,768	0	0	4,710,768
Due to City Planning	360,597	0	0	360,597
	$19,720,811	$48,997,745	$0	$68,718,556

Required Supplementary Information

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SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Budgetary Comparison Schedule – Sales Tax Program
For the Fiscal Year Ended June 30, 2003

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Budgetary Balances, July 1	$174,078,695	$174,078,695	$140,324,617	$(33,754,078)
Resources (inflows)				
Sales tax	75,197,850	62,435,124	62,050,264	(384,860)
Investment income	5,200,000	4,025,960	3,905,893	(120,067)
Unrealized loss on investment	-	-	(557,786)	(557,786)
Program revenues and other	-	-	400,000	400,000
Bond proceeds	69,126,368	12,864,866	-	(12,864,866)
Total Resources	149,524,218	79,325,950	65,798,371	(13,527,579)
Amounts Available for Appropriation	323,602,913	253,404,645	206,122,988	(47,281,657)
Charges to appropriation (outflows)				
Public works, transportation and commerce				
General and administrative	2,238,058	1,990,576	2,280,435	(289,859)
Proposition B reauthorization costs	-	-	85,070	(85,070)
Capital projects	185,283,306	96,783,502	51,580,699	45,202,803
Total Charges to Appropriation	187,521,364	98,774,078	53,946,204	44,827,874
Prior Period Adjustment	-	-	(5,555,301)	(5,555,301)
Budgetary Fund Balance, Ending	$136,081,549	$154,630,567	$146,621,483	$(8,009,084)

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Budget to GAAP Reconciliation
For the Fiscal Year Ended June 30, 2003

Explanation of Differences between Budgetary Inflows and Outflows and GAAP Revenues and Expenditures

Sources/Inflows of Resources

Actual amounts (budgetary basis) "available for appropriation" from the budgetary comparison schedule	$206,122,988
Differences – budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(140,324,617)
Total Revenues as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds	$ 65,798,371

Uses/Outflows of Resources

Actual amounts (budgetary basis) "total charges to appropriation" from the budgetary comparison schedule	$ 53,946,204
Differences – budget to GAAP	-
Total Expenditures as reported on the Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds	$ 53,946,204

SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY
Budgetary Comparison Schedule – Traffic Congestion Relief Program
For the Fiscal Year Ended June 30, 2003

	Original Budget	Final Budget	Actual Amount	Variance with Final Budget Positive (Negative)
Budgetary Balances, July 1	$ -	$ -	$ -	$ -
Resources (inflows)				
Program revenues and other	101,000,000	88,522,000	71,080,192	(17,441,808)
Amounts Available for Appropriation	101,000,000	88,522,000	71,080,192	(17,441,808)
Charges to appropriation (outflows)				
Public works, transportation and commerce				
General and administrative	-	-	24,487	(24,487)
Capital projects	101,000,000	88,522,000	71,080,192	17,441,808
Total Charges to Appropriation	101,000,000	88,522,000	71,104,679	17,417,321
Budgetary Fund Balance, Ending	$ -	$ -	$ (24,487)	$ (24,487)

SAN FRANCISCO TRANSPORTATION AUTHORITY
Schedule of Funding Progress on
California Public Employees' Retirement System (Note 6)
For the Fiscal Year Ended June 30, 2003
(unaudited)

Valuation Date	Entry Age Normal Accrued Liability	Actuarial Value of Assets	Unfunded Liability (Excess Assets)	Funded Status	Annual Covered Payroll	Unfunded Actual Actuarial Liability as a Percentage of Covered Payroll
6/30/2000	$844,909	$1,115,262	$(270,353)	132.0%	$541,446	49.9%
6/30/2001	1,034,298	1,213,364	(179,066)	117.3%	472,873	37.9%
6/30/2002	1,095,449	1,148,239	(52,790)	104.8%	619,543	8.5%

cc: Mayor
Board of Supervisor
Civil Grand Jury
Budget Analyst
Public Library
KPMG LLP