

TAMPA HISTORIC STREETCAR, INC.

Financial Statements

September 30, 2003

(With Independent Auditors' Report Thereon)

Tampa Historic Streetcar, Inc.

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KPMG LLP
Suite 1700
100 North Tampa Street
Tampa, FL 33602

Independent Auditors' Report

Board of Trustees
Tampa Historic Streetcar, Inc.:

We have audited the accompanying statement of net assets of the Tampa Historic Streetcar, Inc., a component unit of the City of Tampa, as of September 30, 2003, and the related statement of revenues, expenses and changes in net assets, and of cash flows for the year then ended. These financial statements are the responsibility of the Tampa Historic Streetcar, Inc.'s management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tampa Historic Streetcar, Inc. as of September 30, 2003, and the changes in its financial position and its cash flows for the year 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 December 19, 2003 on our consideration of the Tampa Historic Streetcar, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The management's discussion and analysis on pages 2 through 5 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

KPMG LLP

December 19, 2003



KPMG LLP, a U.S. limited liability partnership, is the U.S. member firm of KPMG International, a Swiss cooperative.

Tampa Historic Streetcar, Inc.

Management's Discussion and Analysis

September 30, 2003

This annual financial report consists of two parts: management's discussion and analysis and the basic financial statements. The basic financial statements include notes that explain in more detail some of the information in the financial statements.

This section of Tampa Historic Streetcar, Inc.'s (the Streetcar) annual financial report presents management's analysis of the Streetcar's financial performance during the fiscal year ended September 30, 2003. Please read it in conjunction with the basic financial statements, which follow this section.

Financial Highlights

	Actual	Versus Budget
Operating revenues	\$ 443	17%
Nonoperating revenues	\$2,254	57%
Operating expenses	\$2,210	2%

In fiscal 2003, the Streetcar completed its first full year of operation.

Required Financial Statements

The financial statements of the Streetcar report information about the Streetcar using accounting methods similar to those used by private sector companies. These statements offer short- and long-term financial information about its activities. The statement of net assets includes all of the Streetcar's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to Streetcars creditors (liabilities). The assets and liabilities are presented in a classified format, which distinguishes between current and non-current assets and liabilities. It also provides the basis for assessing the liquidity and financial flexibility of the Streetcar. All of the current year's revenues, expenses, and other changes in net assets are accounted for in the statement of revenues, expenses, and changes in net assets. This statement measures the success of the Streetcar's operations over the past year and can be used to determine whether the Streetcar has successfully recovered all its costs through its activities, as well as its profitability and credit worthiness. The final required financial statement is the statement of cash flows. The primary purpose of this statement is to provide information about the Streetcar's cash receipts and cash payments during the reporting period. The statement reports cash receipts, cash payments and net changes in cash resulting from operating, investing and noncapital financing activities and provides answers to such questions as where did cash come from, what was cash used for and what was the change in the cash balance during the reporting period. In future years when prior period information is available, a comparative analysis will be presented.

Financial Analysis of the Streetcar

One of the most important questions asked about the Streetcar's finances is, "Is the Streetcar as a whole better off or worse off as a result of the year's activities?" The statement of net assets and the statement of revenues, expenses and changes in net assets report information about the Streetcar's activities in a way that will help answer this question. These two statements report the net assets of the Streetcar and

Tampa Historic Streetcar, Inc.

Management's Discussion and Analysis (continued)

the changes in its net assets. You can think of the Streetcar's net assets - the difference between assets and liabilities - as one way to measure financial health or financial position. Over time, increases or decreases in the Streetcar's net assets are one indicator of whether its financial health is improving or deteriorating. However, you will need to consider other non-financial factors such as changes in economic conditions, the tourism industry, surrounding area population growth, regulation and new or changed government legislation.

Net Assets

To begin our analysis, a summary of the Streetcar's statement of net assets at September 30, 2003 is presented in Table A-1.

TABLE A-I
Condensed Summary of Net Assets
(In thousands)

Current assets	\$6,249
Current liabilities	\$659
Net assets - unrestricted	\$5,590

Total net assets increased by \$706,000 to a net asset total \$5,590,000. As discussed earlier, operations realized a \$1,767,000 loss and non-operating activities netted a \$2,473,000 surplus.

Net assets "unrestricted" are \$5,590,000. These net assets are available for future spending to support the ongoing operation of the Streetcar. During this first full year of operation, operating expenses exceeded operating revenues by \$1,767,000, and this trend is budgeted to continue. The increase in net assets during this first year was achieved mainly through non-recurring sources of revenue.

Capital Assets

The Streetcar does not own any capital assets. All of the capital assets used in the Streetcar operation are owned either by HARTline or the City of Tampa.

Tampa Historic Streetcar, Inc.

Management's Discussion and Analysis (continued)

Changes in net assets for the year ended September 30, 2003 are as follows:

TABLE A-2
Condensed Summary of Revenues,
Expenses, and Changes in Net Assets
(In thousands)

Operating revenues	\$ 443
Operating expenses	<u>2,210</u>
Operating loss	(1,767)
Nonoperating revenues	<u>2,254</u>
Income before contributions	487
Contributions	<u>219</u>
Change in net assets	706
Beginning net assets	<u>4,884</u>
Ending net assets	<u>\$5,590</u>

Operating Revenues

Ridership and related farebox revenues reflect the Streetcar's customer base in fiscal 2003. The average fare paid was \$1.00, which translates to 408,000 riders in 2003. An additional \$7,000 collected from the leasing of cars for special events, and \$28,000 for amortization of naming rights to revenue during 2003.

Operating Expenses

The Streetcar's most significant operating expense is reimbursement to HARTline for the cost of operating the Streetcar system.. HARTline currently has 25 full time employees dedicated to operating the system. Expenses reimbursed to HARTline totaled \$1,892,000 in 2003. The next most significant expense during fiscal 2003 was for a CSX flagman and supervisor in the amount of \$248,000.

Non-Operating Revenues

Most of the contribution revenues result from the sale of the right to name stops along the route for a period of ten years, totaling \$219,000 of recognized revenue in 2003. Contributions received in 2003 that will be recognized as revenue in future periods totaled \$185,000.

Local government revenue consists of a Congestion Mitigation and Air Quality grant passed through HARTline totaling \$1,436,000 in 2003. An additional final amount of \$664,000 is scheduled to be received in fiscal 2004 when it anticipated to be earned.

Non ad valorem assessments are billed by Hillsborough County to property owners within the geographical area served by the Streetcar. The County collects these revenues and passes them through to the Streetcar.

Tampa Historic Streetcar, Inc.

Management's Discussion and Analysis (continued)

Fiscal 2004 Outlook

Ridership is budgeted to remain level in 2004 with what was experienced in 2003. The current fare of \$1.25 is proposed to increase to \$1.50 January 2004, which would provide a slight increase in operating revenue. Operating expenses are budgeted to remain level in 2004 as well.

An additional FDOT grant in the approximate amount of \$1,000,000 has been approved to HARTline for the Streetcar in 2004. This will be used for the purchase of one additional car, some capital improvements to the system, and for a feasibility study on expanding the route down Franklin street into the downtown area.

Requests for Information

This financial report is designed to provide a general over view of the Tampa Historic Streetcar, Inc.'s finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to the Chief Accountant, 315 E. Kennedy Blvd., Tampa, FL 33602.

Tampa Historic Streetcar, Inc.

Statement of Net Assets--

September 30, 2003 (in thousands)

ASSETS

Current assets:

Cash and cash equivalents	\$	514
Investments		4,938
Receivables--net		647
Deposit		150
Total assets		<u>6,249</u>

LIABILITIES

Current liabilities:

Accounts payable		474
Deferred revenue		185
Total liabilities		<u>659</u>

NET ASSETS

Unrestricted		<u>5,590</u>
Total net assets	\$	<u><u>5,590</u></u>

The notes to the financial statements are an integral part of this statement.

Tampa Historic Streetcar, Inc.

Statement of Revenues, Expenses, and Changes in Net Assets--

For the fiscal year ended September 30, 2003 (in thousands)

Operating revenues:	
Charges for sales and services	\$ 443
Operating expenses:	
Contract services	2,171
Other services and charges	34
Supplies and materials	5
Total operating expenses	<u>2,210</u>
Operating loss	<u>(1,767)</u>
Nonoperating revenues:	
Investment earnings	511
Non ad valorem assessments	307
Local government	1,436
Total nonoperating revenues	<u>2,254</u>
Income before contributions	487
Contributions	<u>219</u>
Change in net assets	706
Total net assets - beginning	<u>4,884</u>
Total net assets - ending	<u>\$ 5,590</u>

The notes to the financial statements are an integral part of this statement.

Tampa Historic Streetcar, Inc.

Statement of Cash Flows--

For the fiscal year ended September 30, 2003 (in thousands)

Cash flows from operating activities:	
Receipts from customers and users	\$ 418
Payments to suppliers	(1,886)
Net cash used by operating activities	<u>(1,468)</u>
Cash flows from noncapital financing activities:	
Non ad valorem assessments received	307
Nonoperating grants received	823
Nonoperating contributions	404
Net cash provided by noncapital financing activities	<u>1,534</u>
Cash flows from investing activities:	
Loss on investments, interest and dividends	(358)
Purchase of investment securities	(37)
Net cash used by investing activities	<u>(395)</u>
Net decrease in cash and cash equivalents	(329)
Beginning cash and cash equivalents	<u>843</u>
Ending cash and cash equivalents	<u>\$ 514</u>
Reconciliation of operating loss to net cash used by operating activities:	
Operating loss	\$ (1,767)
Adjustments to reconcile operating loss to net cash used by operating activities:	
Changes in assets and liabilities:	
Increase in receivables--net	(25)
Increase in prepaids	(150)
Increase in accounts payable	474
Total adjustments	<u>299</u>
Net cash used by operating activities	<u>\$ (1,468)</u>
Noncash investing and noncapital financing activities:	
Increase in fair value of investments	\$ 860

The notes to the financial statements are an integral part of this statement.

Tampa Historic Streetcar, Inc.

Notes to Financial Statements

September 30, 2003

1. Organization

Tampa Historic Streetcar, Inc. (the Streetcar) was incorporated November 20, 1998, in the state of Florida, as a not-for-profit organization. The City of Tampa (the City) completed construction of an electric streetcar rail line and the City, the Hillsborough Area Rapid Transit Authority (HARTline), and the Streetcar signed an Operation Agreement in April of 2002. Operation of the Streetcar began in October of 2002. The Operation Agreement defines the rights and obligations of the City, HARTline, and the Streetcar. Under the Operation Agreement, after the City has approved the Streetcar's annual budget, the City is responsible for reimbursing the Streetcar for any deficiency of revenues and support received over expenses incurred, if the expenses were included in the annual budget which must be approved by the City. During the year ended September 30, 2003 the City made no contributions to fund the Streetcar operations. The City approved the Streetcar's annual plan for the year ending September 30, 2003.

The Streetcar is reported as a discretely presented component unit in the City's basic financial statements. The Streetcar's financial statements are presented in accordance with the provisions of the Governmental Accounting Standards Board (GASB) as an enterprise fund, as they are considered a special purpose government engaged solely in business-type activities.

The Streetcar's mission is to provide a 2.3 mile light rail transportation system from the Tampa Convention Center through the Channelside district to Ybor City, thereby reducing traffic congestion and encouraging economic development in the area.

2. Significant Accounting Policies

Basis of Accounting

The financial statements of the Streetcar are accounted for on the flow of economic resources measurement focus and uses the accrual basis of accounting, whereby revenues are recognized when earned and expenses are recognized when incurred. The accounting and reporting policies of the Streetcar conform to the accounting rules prescribed by GASB. The Streetcar has elected under GASB Statement No. 20, Paragraph 7, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting*, to only apply all applicable Financial Accounting Standards Board (FASB) Statements and Interpretations issued after November 30, 1989, except for those that conflict with or contradict GASB pronouncements.

The Streetcar follows the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis -for State and Local Governments* (Statement 34), GASB Statement No. 37, *Basic Financial Statements - and Management's Discussion and Analysis -for State and Local Governments: Omnibus* (Statement 37), and GASB Statement No. 38, *Certain Financial Statement Note Disclosures* (Statement 38). Statement 34 establishes standards for external financial reporting for all state and local governmental entities, which includes a statement of net assets, a statement of revenues, expenses, and changes in net assets and a statement of cash flows.

In the statement of revenues, expenses, and changes in net assets, revenues and expenses are distinguished between operating and nonoperating items. Operating revenues and expenses generally result from providing services in connection with the Streetcar's ongoing operations. Operating

Tampa Historic Streetcar, Inc.

Notes to Financial Statements (continued)

expenses include the costs of providing services, including operation and maintenance. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Statement 34 requires the classification of net assets into three components - invested in capital assets, net of related debt; restricted; and unrestricted. These classifications are defined as follows:

Invested in capital assets, net of related debt - This component of net assets consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets. If there are significant unspent related debt proceeds at year-end, the portion of the debt attributable to the unspent proceeds are not included in the calculation of invested in capital assets, net of related debt. Rather, that portion of the debt is included in the same net assets component as the unspent proceeds. The Streetcar has no capital assets or related debt at September 30, 2003. Accordingly, there is no related component of net assets.

Restricted - This component of net assets consists of constraints placed on net asset use through external factors imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments. The streetcar has no restricted net assets.

Unrestricted net assets - This component of net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Cash and Cash Equivalents

Cash and cash equivalents represents cash held in bank accounts available for immediate usage.

Investments

Investments include marketable equity securities reported at fair value based on quoted market rates, plus accrued interest and dividends. The total increase/decrease in fair market value of investments is reflected in the accompanying statement of revenues, expenses and changes in net assets.

Capital Assets

The Streetcar owns no capital assets; all capital assets used in the Streetcar operation are owned either by the City of Tampa or HARTline.

Contributions and Grants

Unrestricted contributions are recognized within unrestricted net assets at fair value when received. Grant revenues are recognized when all eligibility requirements have been met.

Tampa Historic Streetcar, Inc.

Notes to Financial Statements (continued)

Tax Status

The Streetcar has received a favorable determination letter from the Internal Revenue Service, and is exempt from federal income taxes under Internal Revenue Code (IRC) Section 501 (a) as an organization described in Section 501(c)(3) and additionally has been classified a governmental subdivision.

Use of Estimates

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

3. Deposits and Investments

The Streetcar's demand deposits are insured by Federal depository insurance or collateralized in accordance with Chapter 280, Florida Statutes. This statute establishes a multiple financial institution collateral pool in which all financial institutions holding public deposits together pledge a pool of collateral against all public deposits they collectively hold. In the event of a default or insolvency by a qualified public depository, any loss not covered by deposit insurance or the proceeds from the sale of securities pledged by the defaulting depository is covered by an assessment against the other qualified public depositories of the same type as the depository in default. The assessment is based upon the average share of the public fund deposits held by each of these depositories.

The Streetcar's investments are categorized into three categories of custodial credit risk:

- (1) Insured or registered, or securities held by the Streetcar or its agent in the Streetcar's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the Streetcar's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent, but not primarily in the Streetcar's name.

Tampa Historic Streetcar, Inc.

Notes to Financial Statements (continued)

At year end, the Streetcar's investment balances were as follows (in thousands):

	Category			Reported Amount/ Fair value
	1	2	3	
U.S. Government securities	\$ 686	\$ -	\$ -	\$ 686
Corporate bonds	878	-	-	878
Equity securities	2,421	-	-	2,421
	<u>\$ 3,985</u>	<u>\$ -</u>	<u>\$ -</u>	<u>3,985</u>
Investments not subject to categorization:				
Mutual money market fund				953
				<u>\$ 4,938</u>

The mutual money market fund is not categorized by risk category as it is not covered by securities issued to the investing governmental entity.

4. Accounts Receivable

Accounts receivable in the amount of \$647,000 consisting of \$613,000 in grant revenue from the State of Florida, \$25,000 in Streetcar farebox collections, and \$9,000 of investment earnings is reported in the statement of net assets. There is no allowance for doubtful accounts.

5. Deposit

The deposit represents \$150,000 paid to HARTline to cover two months of operations.

6. Assets used in the Streetcar Operations

The City has \$30,448,000 recorded for the value of assets related to the installation of the Streetcar line. HARTline has \$12,383,000 recorded for its investment in Streetcar assets.

7. Accounts Payable and Accrued Expenses

Tampa Historic Streetcar, Inc.

Notes to Financial Statements (continued)

Accounts payable in the amount of \$474,000 consists of \$357,000 due to HARTline based on the operation agreement, \$105,000 payable to CSX for services provided and \$12,000 attorney and advertising fees.

8. Deferred Revenue

Deferred revenue represents \$185,000 received in advance on various naming right agreements, which are for ten years. Revenue is recognized in the statement of revenues, expenses, and changes in net assets over the life of the agreement as a component of charges for sales and services.

Tampa Historic Streetcar, Inc.

Notes to Financial Statements (continued)

9. Contributions

Included in contributions is approximately \$219,000 received from members or entities affiliated with certain members of the Board of Directors and Trustees (the Board).

10. Risk Disclosures

Liabilities of the Streetcar are reported when it is probable that a loss has occurred and the amount of the loss can be estimated. The Streetcar has experienced disputes incidental to its operation, however management believes these disputes are de minimus. The owner of the Streetcar line (the City) and the owner of the Streetcar's vehicles and facilities (HARTline) are both self insured.

11. Related Party Disclosures

The Streetcar has an operating agreement with HARTline that is renewable each year. The amount of the contract represents approximately 85% of the Streetcar's expenses, however only 30% of the Streetcar's board is appointed by HARTline.

