

CITY AND COUNTY OF SAN FRANCISCO
MANAGEMENT'S DISCUSSION AND ANALYSIS,
BASIC FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION,
SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS WITH
INDEPENDENT AUDITOR'S REPORTS
FOR THE YEAR ENDED JUNE 30, 2009

**CITY AND COUNTY OF SAN FRANCISCO
 BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS
 FOR THE YEAR ENDED JUNE 30, 2009**

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OAKLAND

LOS ANGELES

NEWPORT BEACH

SAN DIEGO

The Honorable Mayor Gavin Newsom
 The Honorable Members of the Board of Supervisors
 City and County of San Francisco, California

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City and County of San Francisco, California (City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the San Francisco International Airport, San Francisco Water Enterprise, Hetch Hetchy Water and Power, San Francisco Municipal Transportation Agency, San Francisco Wastewater Enterprise, San Francisco Market Corporation, City and County of San Francisco Finance Corporation, and the Health Service System, which collectively represent the following percentages of assets, net assets/fund balances and revenues/additions as of and for the year ended June 30, 2009.

Opinion Unit	Assets	Net Assets/ Fund Balances	Revenues/ Additions
Governmental activities	2%	15%	0%
Business-type activities	91%	85%	71%
Aggregate remaining fund information	3%	0%	8%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. The prior year partial and summarized comparative information has been derived from the City's 2008 basic financial statements and, in our report dated January 30, 2009, we expressed unqualified opinions, based on our audit and the reports of other auditors, on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2009, and the respective changes in financial position and, where applicable, cash flows thereof, and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 2(r) to the basic financial statements, effective July 1, 2008, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 23, 2009 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The financial statements include partial or summarized prior year comparative information. Such prior year information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's basic financial statements for the year ended June 30, 2008, from which such partial or summarized information was derived.

The management's discussion and analysis and schedules of funding progress listed in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors 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 and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


Certified Public Accountants

Walnut Creek, California
December 23, 2009

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City and County of San Francisco's (the City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2009. We encourage readers to consider the information presented here in conjunction with additional information in our transmittal letter. Certain amounts presented as 2007-2008 summarized comparative financial information in the basic financial statements have been reclassified to conform to the presentation in the 2008-2009 basic financial statements.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at the end of the fiscal year by approximately \$6.07 billion (net assets). Of this amount, the City's unrestricted net assets, decreased from \$229.5 million to a deficit of \$165.2 million.

The government's total net assets decreased by \$368.1 million or 5.7 percent over the previous fiscal year. Within the \$368.1 million, the government's total capital assets net of related debt and restricted assets increased by \$71.6 million, which includes a \$15.5 million decrease related to an adjustment to beginning net assets of the business-type activities, and were offset by a \$394.7 million decrease in unrestricted net assets. A significant portion of the decrease in unrestricted net assets is due to recognition of \$301.3 million other postemployment benefit expense and \$33.5 million pollution remediation liabilities in the current fiscal year, of which \$27.5 million was reported as an adjustment to beginning net assets as a result of the implementation of the new pollution remediation accounting standard.

The City's governmental funds reported total revenues of \$3.68 billion; an \$8.2 million or 0.2 percent slight increase over the prior year. The growth in property tax revenues of \$92.7 million and the growth in federal and state grant revenues of approximately \$49.2 million were largely offset by declines in other local taxes and other revenues. Governmental funds expenditures totaled \$3.65 billion for this period, a \$109.4 million or 3.1 percent increase, reflecting increases in cost of living and growth in demand for government services.

At the end of the fiscal year, the City's General Fund had an unreserved fund balance of \$28.2 million, representing 1.2 percent of total General Fund expenditures of \$2.41 billion. The General Fund's unreserved fund balance decreased by 63.4 percent from the prior year amount of \$77.1 million. Factors contributing to this decline include a moderate decrease in total revenue, increase in demand for services and the City's related use of fund balances.

The City's total long-term debt, including all bonds, loans, commercial paper and capital leases increased by \$454.9 million during this fiscal year. The City issued a total of \$963.9 million in debt. Of this amount, \$175.5 million was for general obligation bonds for improvement works for the San Francisco General Hospital, clean and safe neighborhood parks as well as Seismic Safety Loan Program. A total of \$163.3 million in certificates of participation for the Laguna Honda Hospital were issued for the construction and improvement of the Laguna Honda Hospital. The City also issued a total of \$118.1 million General Obligation Bonds to refund the variable rate General Obligation Bonds (Laguna Honda Hospital) and a total of \$145.3 million in Lease Revenue Refunding bonds to refund the variable rates Lease Revenue Bonds (Moscone Center Expansion Project). In addition, the San Francisco International Airport issued a total of \$314.9 million Revenue Refunding Notes to refund various variable rate demand bonds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the financial statements. This report also contains other **supplementary information** in addition to the basic financial statements themselves. These various elements of the Comprehensive Annual Financial Report are related as shown in the graphic below.

Organization of City and County of San Francisco Comprehensive Annual Financial Report

CAFR	Introductory Section	INTRODUCTORY SECTION			
	+				
	Financial Section	Management's Discussion and Analysis			
		Government-wide Financial Statements	Fund Financial Statements		
		Statement of net assets	Governmental Funds	Proprietary Funds	Fiduciary Funds
			Balance Sheet	Statement of net assets	Statement of fiduciary net assets
		Statement of activities	Statement of revenues, expenditures, and changes in fund balances	Statement of revenues, expenses, and changes in fund net assets	Statement of changes in fiduciary net assets
			Budgetary comparison statement	Statement of cash flows	
		Notes to the Financial Statements			
		Required Supplementary Information Other Than MD&A			
Information on individual non-major funds and other supplementary information that is not required					
+					
Statistical Section	STATISTICAL SECTION				

The following figure summarizes the major features of the financial statements. The overview section below also describes the structure and contents of each of the statements in more detail.

	Government-wide Statements	Fund Financial Statements		
		Governmental	Proprietary	Fiduciary
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the City for basic governmental services	The day-to-day operating activities of the City for business-type enterprises	Instances in which the City administers resources on behalf of others, such as employee benefits
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus; except agency funds do not have measurement focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter	All assets and liabilities, both financial and capital, short-term and long-term	All assets held in a trustee or agency capacity for others
Type of inflow and outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Financial Statements

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

The **statement of net assets** presents information on all of the City's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether or not the financial position of the City is improving or deteriorating.

The **statement of activities** presents information showing how the City'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 the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City include public protection, public works, transportation and commerce, human welfare and neighborhood development, community health, culture and recreation, general administration and finance, and general City responsibilities. The business-type activities of the City include an airport, port, public transportation systems (including parking), water and power operations, an acute care hospital, a long-term care hospital, sewer operations, and a produce market.

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate redevelopment agency, the San Francisco Redevelopment Agency, and a legally separate development authority, the Treasure Island Development Authority (TIDA), for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government. Included within the governmental activities of the government-wide financial statements are the San Francisco County Transportation Authority and San Francisco Finance Corporation. Included within the business-type activities of the government-wide financial statements is the operation of the San Francisco Parking Authority. Although legally separate from the City, these component units are blended with the primary government because of their governance or financial relationships to the City.

Fund Financial Statements

The fund financial statements are designed to report information about groupings of related accounts that are used to maintain control over resources that have been segregated for specific activities or objectives. The City, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into the following three categories: **governmental** funds, **proprietary** funds, and **fiduciary** funds.

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 City'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 City'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 statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains several individual governmental funds organized according to their type (special revenue, debt service, capital projects and permanent funds). 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 General Fund, which is considered to be a major fund. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is provided in the form of combining statements elsewhere in this report.

The City adopts an annually appropriated budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary funds are generally used to account for services for which the City charges customers - either outside customers, or internal units or departments of the City. Proprietary funds provide the same type of information as shown in the government-wide financial statements, only in more detail. The City maintains the following two types of proprietary funds:

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the San Francisco International Airport (SFO or Airport), Port of San Francisco (Port), San Francisco Water Enterprise (Water), Hetch Hetchy Water and Power (Hetch Hetchy), Municipal Transportation Agency (MTA), Laguna Honda Hospital, San Francisco General Hospital Medical Center, and the San Francisco Wastewater Enterprise (Wastewater), all of which are considered to be major funds of the City.
- **Internal Service funds** are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, management information services, printing and mail services, and for lease-purchases of equipment by the San Francisco Finance Corporation. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The City employees' pension and health plans, the external portion of the Treasurer's Office investment pool, and the agency funds are reported under the fiduciary funds. Since the resources of these funds are not available to support the City's own programs, they are not reflected in the government-wide financial statements. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to the Basic Financial Statements

The notes to the basic 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

In addition to the basic financial statements and accompanying notes, this report presents certain required supplementary information concerning the City's progress in funding its obligation to provide pension and other postemployment benefits to its employees.

Combining Statements and Schedules

The combining statements and schedules referred to earlier in connection with non-major governmental funds, internal service funds, and fiduciary funds are presented immediately following the required supplementary information on pensions and other postemployment benefits.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets June 30, 2009 (In thousands)

	Governmental activities		Business-type activities		Total	
	2009	2008	2009	2008 *	2009	2008 *
Assets:						
Current and other assets.....	\$ 1,982,121	\$ 1,905,426	\$ 2,106,943	\$ 2,109,649	\$ 4,089,064	\$ 4,015,075
Capital assets.....	3,028,915	2,931,077	9,460,894	9,148,394	12,489,809	12,079,471
Total assets.....	<u>5,011,036</u>	<u>4,836,503</u>	<u>11,567,837</u>	<u>11,258,043</u>	<u>16,578,873</u>	<u>16,094,546</u>
Liabilities:						
Noncurrent liabilities outstanding...	2,750,324	2,324,641	5,558,722	5,558,339	8,309,046	7,882,980
Other liabilities.....	955,509	926,806	1,248,969	851,355	2,204,478	1,778,161
Total liabilities.....	<u>3,705,833</u>	<u>3,251,447</u>	<u>6,807,691</u>	<u>6,409,694</u>	<u>10,513,524</u>	<u>9,661,141</u>
Net assets:						
Invested in capital assets, net of related debt **.....	1,725,203	1,436,842	4,017,577	3,935,008	5,443,483	5,371,850
Restricted.....	371,831	410,111	415,237	421,904	787,068	832,015
Unrestricted (deficit) **.....	<u>(791,831)</u>	<u>(261,897)</u>	<u>327,332</u>	<u>491,437</u>	<u>(165,202)</u>	<u>229,540</u>
Total net assets.....	<u>\$ 1,305,203</u>	<u>\$ 1,585,056</u>	<u>\$ 4,760,146</u>	<u>\$ 4,848,349</u>	<u>\$ 6,065,349</u>	<u>\$ 6,433,405</u>

* The 2008 ending balances in the table above have not been restated as discussed in Note 2(t) to the basic financial statements.

** In accordance with GASB implementation guidance, the City reclassified \$299.3 million of total net assets from invested in capital assets, net of related debt to unrestricted to reflect the primary government as a whole perspective.

Analysis of Net Assets

Net assets may serve as a useful indicator of the government's financial position. At the end of fiscal year 2008-2009, the City's total net assets exceeded liabilities by \$6.07 billion.

The largest portion of the net assets reflects the City's \$5.4 billion investment in capital assets (e.g. land, buildings, and equipment) less any outstanding debt related to the acquisition of these assets. This is 89.8 percent of the City's total net assets, a 1.3 percent increase over the prior year, and is largely due to growth in net capital assets with the governmental activities as well as at the Laguna Honda Hospital, Hetch Hetchy, and Water, which are business-type activities of the City. Since the government uses capital assets to provide services, these assets are not available for future spending. Further, the resources required to pay the debt related to these assets must come from other sources since the capital assets themselves cannot be liquidated to pay that liability.

Another portion of the City's net assets, \$787.1 million (13.0 percent) represents restricted resources that are subject to external limitations regarding their use. The governmental activities have a \$791.8 million deficit in the unrestricted net asset component, due to an overall increase in expenses over revenues as well as the continual recognition of other postemployment benefit expense, in conformance and compliance with GASB Statement No. 45 requirements. Also contributing to the governmental activities deficit unrestricted net assets is \$299.3 million of long-term bonds used for the purpose of rebuilding and improving Laguna Honda Hospital (see Note 2 (k)). The business-type activities reported positive balances in all categories of net assets at the end of this fiscal year.

Changes in Net Assets
Year Ended June 30, 2009
(In thousands)

	Governmental activities		Business-type activities		Total	
	2009	2008	2009	2008	2009	2008
Revenues						
Program revenues:						
Charges for services.....	\$ 392,411	\$ 461,625	\$ 2,034,298	\$ 1,973,961	\$ 2,426,709	\$ 2,435,586
Operating grants and contributions.....	909,695	926,089	186,776	181,725	1,096,471	1,107,814
Capital grants and contributions.....	44,048	36,079	87,253	152,511	131,301	188,590
General revenues:						
Property taxes.....	1,302,071	1,189,511	-	-	1,302,071	1,189,511
Business taxes.....	388,653	396,025	-	-	388,653	396,025
Sales and use tax.....	172,794	190,967	-	-	172,794	190,967
Hotel room tax.....	214,460	219,089	-	-	214,460	219,089
Utility users tax.....	89,801	86,964	-	-	89,801	86,964
Other local taxes.....	126,017	155,951	-	-	126,017	155,951
Interest and investment income.....	35,434	57,929	49,691	67,217	85,125	125,146
Other.....	44,086	25,939	201,624	233,244	245,710	259,183
Total revenues.....	<u>3,719,470</u>	<u>3,746,168</u>	<u>2,559,642</u>	<u>2,608,658</u>	<u>6,279,112</u>	<u>6,354,826</u>
Expenses						
Public protection.....	1,109,311	1,020,457	-	-	1,109,311	1,020,457
Public works, transportation and commerce.....	254,955	342,411	-	-	254,955	342,411
Human welfare and neighborhood development.....	908,449	848,195	-	-	908,449	848,195
Community health.....	608,733	567,410	-	-	608,733	567,410
Culture and recreation.....	319,994	347,433	-	-	319,994	347,433
General administration and finance.....	238,601	250,295	-	-	238,601	250,295
General City responsibilities.....	72,634	80,887	-	-	72,634	80,887
Unallocated Interest on long-term debt.....	93,387	97,694	-	-	93,387	97,694
Airport.....	-	-	683,335	651,581	683,335	651,581
Transportation.....	-	-	863,218	830,411	863,218	830,411
Port.....	-	-	71,778	67,495	71,778	67,495
Water.....	-	-	277,162	252,802	277,162	252,802
Power.....	-	-	96,228	109,436	96,228	109,436
Hospitals.....	-	-	820,236	812,399	820,236	812,399
Sewer.....	-	-	184,977	182,712	184,977	182,712
Market.....	-	-	1,144	1,052	1,144	1,052
Total expenses.....	<u>3,606,064</u>	<u>3,554,782</u>	<u>2,998,078</u>	<u>2,907,888</u>	<u>6,604,142</u>	<u>6,462,670</u>
Increase/(decrease) in net assets before special items and transfers....	<u>113,406</u>	<u>191,386</u>	<u>(438,436)</u>	<u>(299,230)</u>	<u>(325,030)</u>	<u>(107,844)</u>
Special items.....	-	-	-	(41,026)	-	(41,026)
Transfers.....	<u>(393,259)</u>	<u>(477,341)</u>	<u>393,259</u>	<u>477,341</u>	-	-
Change in net assets.....	<u>(279,853)</u>	<u>(285,955)</u>	<u>(45,177)</u>	<u>137,085</u>	<u>(325,030)</u>	<u>(148,870)</u>
Net assets at beginning of year, as restated..	<u>1,585,056</u>	<u>1,871,011</u>	<u>4,805,323</u>	<u>4,711,264</u>	<u>6,390,379</u>	<u>6,582,275</u>
Net assets at end of year.....	<u>\$ 1,305,203</u>	<u>\$ 1,585,056</u>	<u>\$ 4,760,146</u>	<u>\$ 4,848,349</u>	<u>\$ 6,065,349</u>	<u>\$ 6,433,405</u>

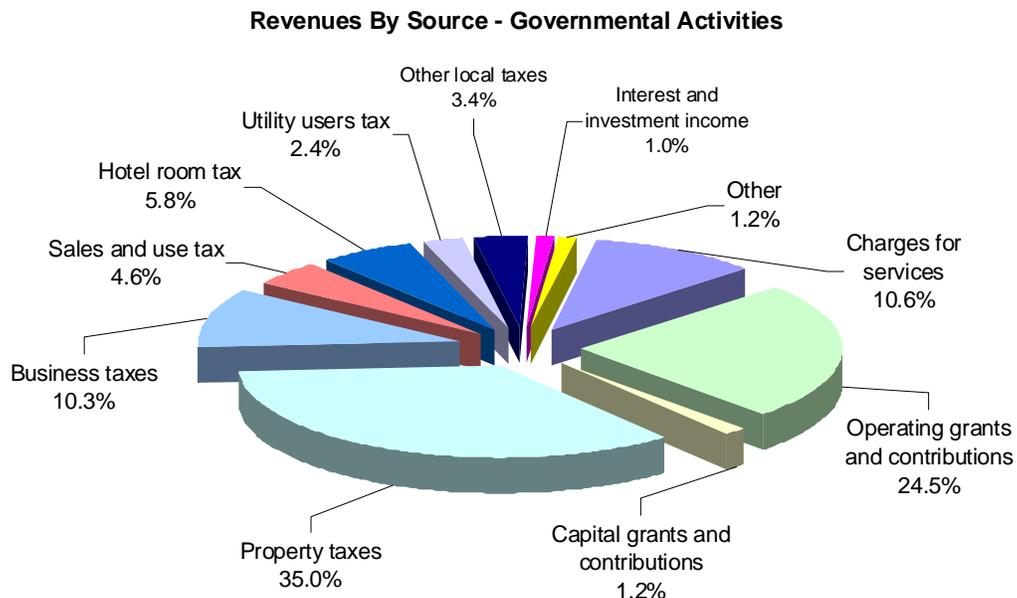
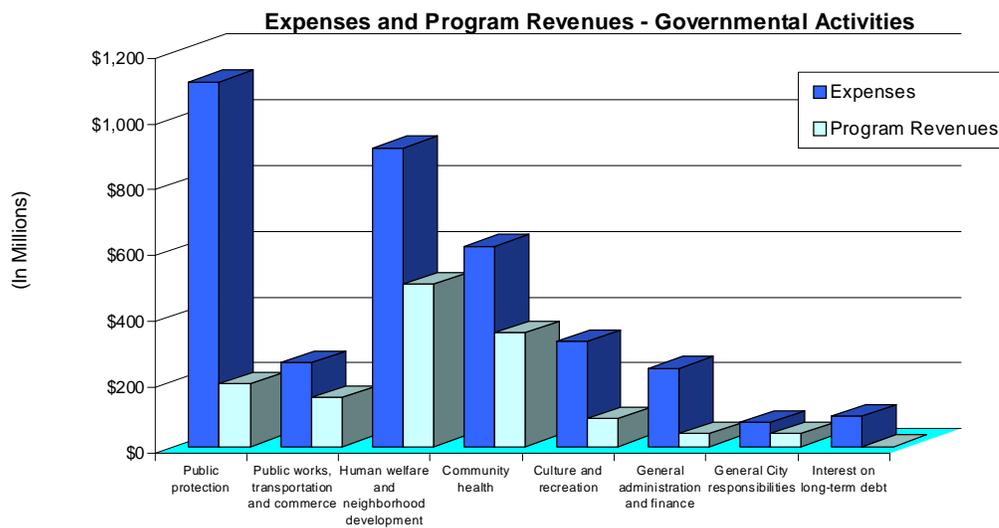
* The 2008 ending balances in the table above have not been restated as discussed in Note 2 to the basic financial statements.

Analysis of Changes in Net Assets

The City's total net assets decreased by \$325.0 million during fiscal year 2008-2009. Both the governmental and business-type activities realized net asset decreases of \$279.9 million and \$45.2 million, respectively. Within the business-type activities, Laguna Honda reported a major growth in net assets of \$77.0 million mainly due to the capital asset transfers funded with governmental resources.

In addition, Water, Wastewater, Hetch Hetchy and Market Corporation also reported a combined growth of \$51.4 million increase in net assets due to these funds managing their decreasing revenues against their expenses. These increases are offset by the combined decrease of net assets of \$173.5 million from the remaining enterprises, including MTA, Airport, Port and General Hospital.

The City's governmental-type activities experienced a \$26.7 million or 0.7 percent decline in total revenues. Despite the \$112.6 million growth in property tax and \$8.0 million in capital grants and contributions and a combined growth of \$21.0 million in utility user taxes and other revenues, there was a general decline in remaining revenue sources that range from \$7.4 million in business taxes to \$69.2 million in charges for services. The City's governmental activities expenses also increased moderately by \$51.3 million or 1.4 percent this fiscal year, which contributed to the gap between public expenses and revenues. A discussion of these and other changes is presented in the governmental activities and business-type activities sections that follow.



Governmental activities. Governmental activities decreased the City's total net assets by approximately \$279.9 million. Key factors contributing to this year's change are discussed below.

Overall, total revenues from governmental activities were \$3.72 billion, a \$26.7 million or 0.7 percent decrease over the prior year. For the same period, expenses totaled \$3.61 billion before transfers of \$393.3 million, resulting in a total net asset decrease of \$279.9 million by June 30, 2009.

Property tax revenue grew significantly by \$112.6 million or 9.5 percent primarily due to a growth in assessed valuation in the current fiscal year over prior fiscal year. Business taxes decreased by \$7.4 million or 1.9 percent. Revenues from hotel, sales, utility users and other local taxes totaled approximately \$603.1 million, a \$49.9 million decrease over the prior year. Of this, property transfer tax (part of other local taxes) decreased by \$37.3 million or 43.2% that reflected the depressed number and value of transactions for the City for the fiscal year. Sales and use tax decreased by \$18.2 million or 9.5%, hotel room tax by \$4.6 million or 2.1% and parking tax (part of other local taxes) by \$2.7 million or 4.1%. The Access Line Tax of \$10 million approved by voters in November 2008 that replaced the Emergency Response Fee helped to improve the revenue shortfall in the other local taxes. In general, the decreases in other local taxes correlated with declined business and tourist activities as well as the increased unemployment rate caused by the global credit crunch and weak economy.

Total charges for services revenues dropped this year by \$69.2 million, or 15.0 percent. Of this amount, \$50.1 million was the decline of development impact fees due to a downturn in the economy that negatively affected development and construction activities and sale of housing units. The remaining decreases reflected a general decline in governmental fee-based services including building safety charges, building permits, ambulance billings and others.

Interest and investment income revenue was down by \$22.5 million, 38.8 percent, due to declining interest rates on the City's pooled investments from the gross annual 4.3 percent to 2.6 percent and lower daily cash balances caused by delays in state grant and subvention payments during the fiscal year. In general, these returns reflect the City's concentration of investments in Treasury Bills and Notes and other government agencies short-term investments. As interest rates fell and stayed low for short term investments, the Portfolio included investments with longer maturities that had higher interest yields. As of June 30, 2009, 45.7% of the pooled investment will mature within 1 year compared to the 71.1% last fiscal year. Also, the portfolio now holds Temporary Liquidity Guarantee Program bonds, which are corporate bonds backed by the Federal Deposit Insurance Corporation and the U.S. government. At the end of the fiscal year, deposits and investments for governmental activities with the City Treasury were \$984.3 million, a 15.3 percent decrease over the prior year.

Revenues from capital grants and contributions totaled \$44.0 million this year compared to \$36.1 million last year. This \$7.9 million, or 22.1 percent increase was mainly for streets, roads and library improvement projects.

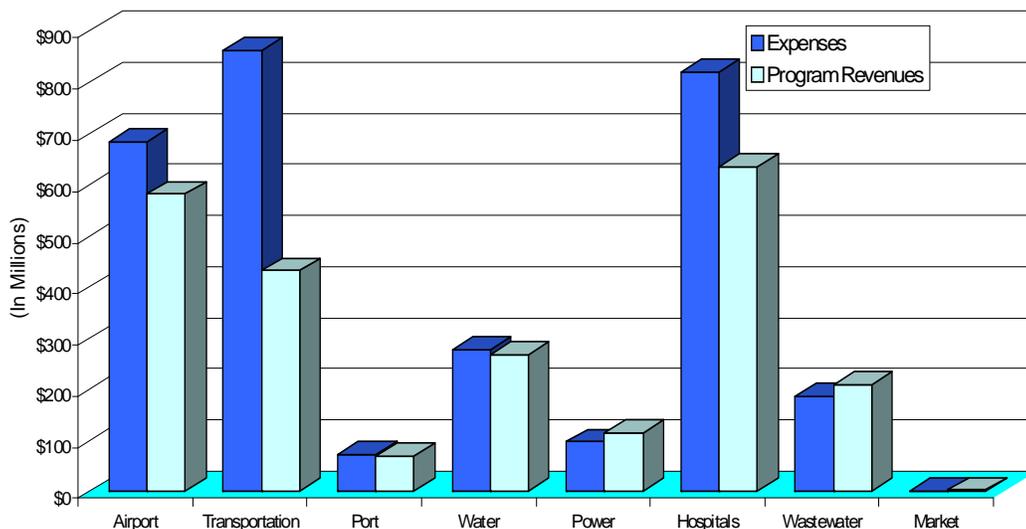
Net transfers to business-type activities were \$393.3 million, a 17.6 percent or \$84.1 million decrease over the prior fiscal year. The total General Fund transfers to MTA, General Hospital and Laguna Honda remains at about the same level of \$402 million this fiscal year. Yet, both General Hospital and Laguna Honda reimbursed the General Fund for a total of approximately \$50.9 million of capital expenditures related to the hospital rebuild projects paid in prior years. In addition, the transfers from the San Francisco County Transportation Authority to MTA were reduced by \$24.8 million and the City Facilities Improvement Funds to Laguna Honda for the hospital rebuild were reduced by approximately \$8.7 million.

The increase in total governmental expenses of \$51.3 million or 1.4% was primarily due to increases in demand for the government's services, salaries related expenses, including other postemployment benefits, and claims against the City. Major components of the increase include approximately \$60.3 million increases in the human welfare and neighborhood services functions due to growth in increased aid programs, social services contracts and various community based organization services. Community health expenses also grew by \$41.3 million due to higher levels of health services that were provided. The majority of the growth in public protection services is offset by a similar amount in the

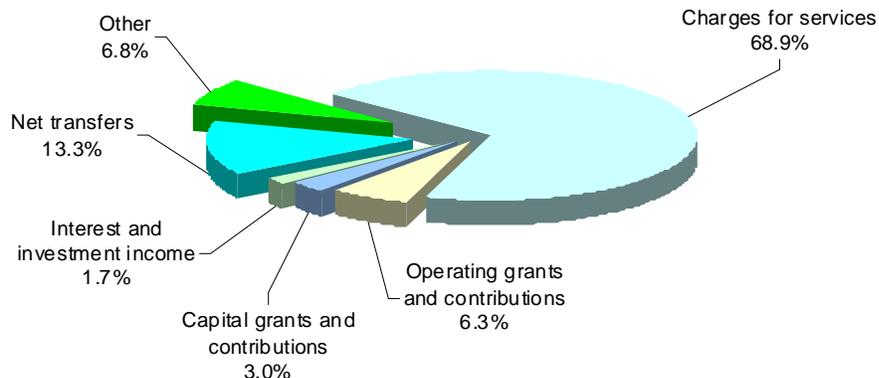
decline in public works, transportation and commerce since the Emergency Communications Department has been reclassified to the public protection function from the public works, transportation and commerce function in the last fiscal year. This reclassification is to better reflect the nature of services provided by the department. These overall increases in expenses are partially offset by decreases of \$27.4 million, \$11.7 million, and \$8.3 million in the functions of culture and recreation, general administration and general city responsibilities expenses, respectively, due to a combination of decreases in administrative costs and decreased elections and related expenses as compared to last year.

The charts on the previous page illustrate expenses and program revenues by functional area, and all revenues by source. As shown, public protection is the largest function (30.8 percent), followed by human welfare and neighborhood development (25.2 percent) and community health (16.9 percent). General revenues are not shown by program or function because they are used to support activities citywide. The distribution of these revenues shows property tax (35.0 percent) as the single largest funding source, followed by operating grants and contributions (24.5 percent), charges for services (10.6 percent), and business taxes (10.4 percent). This relative ranking is equivalent to the prior fiscal year and the actual percentage distributions showed only small differences.

Expenses and Program Revenues - Business-type Activities



Revenues By Source and Net Transfers - Business-type Activities



Business-type activities. Business-type activities decreased the City's net assets by \$45.2 million. Key factors contributing to this decline are:

- The Municipal Transportation Agency (MTA) had net assets of \$1.83 billion at the end of this fiscal year, a \$73.7 million decrease for the period. The City's municipal railway, MUNI, accounts for 97.6 percent or \$1.79 billion of these net assets. The remainder represents the combined net assets of the Department of Parking and Traffic and the Parking Authority. MUNI's net assets decreased by \$70.9 million this fiscal year compared to an increase of \$14.3 million the prior fiscal year. This year's change was based on \$668.0 million in total revenues and net transfers versus \$738.7 million in total expenses. Net transfers increased by \$23.2 million and operating and non-operating revenues grew by about \$1.7 million. The latter reflects modest increases in passenger fare, advertising rental and other revenues. At the same time, the railway saw a \$74.8 million decrease in federal and state capital contributions and a \$35.2 million increase in total expenses. Within this, salary and fringe benefit expense, including the cost of other post-employment benefits, increased by \$21.3 million and the cost of service from other City departments rose by \$13.6 million. The remaining expense increase is due to a small net increase in depreciation, contractual services, and administrative expenses. This year, the City's General Fund total subsidy to MTA was \$229.7 million. Of this, \$180.8 million went to MUNI and \$48.9 million went to the Department of Parking and Traffic. This was a \$26.2 million increase and a \$0.7 million decrease, respectively, for each entity over the prior year.
- Laguna Honda Hospital, the City's skilled nursing care hospital, increased net assets by \$77.0 million or 20.1 percent this year, reflecting continued progress on construction of the new hospital complex. This increase is primarily related to \$97.6 million of transfers from the non-major governmental funds for the hospital's capital activities, which are supported by general obligation bonds and certificates of participation. The increase is partially offset by a transfer of \$25.9 from Laguna Honda Hospital to the General Fund to reimburse the General Fund for certain hospital capital asset expenditures. Laguna Honda Hospital also received a \$55.5 million subsidy from the General Fund offset by \$47.9 million in losses this year as compared to a \$49.8 million in losses in the prior year.
- General Hospital, the City's acute care hospital had a decrease in net assets of \$58.0 million, which resulted in a net deficit of \$16.1 million at June 30, 2009. The decrease was partially the result of a smaller operating subsidy from the General Fund that was \$19.1 million less than the prior year. General Hospital also transferred \$25.0 million to the General Fund to reimburse capital activities related to the General Hospital rebuild project that were previously paid by the General Fund.
- Hetch Hetchy operates San Francisco's water storage and power generating facilities in the Sierra Nevada Mountains. Its total net assets were \$444.4 million at the end of fiscal year 2009, a \$23.2 million increase over the prior year when a \$14.7 million decrease was reported. That decrease consisted of a \$26.5 increase in net assets from operating and non-operating revenue and expenses offset by a \$41.2 million one-time write-off of a turbine project. This year, Hetch Hetchy's operating expenses fell by \$13.2 million due to a \$10.1 million decrease in the cost of purchased power from the Western System Power Pool and a \$13.7 million decrease in claims liability expenses. These were offset by increases of \$4.3 million in personnel costs, \$4.1 million in contractual service costs, \$2.2 million for San Francisco's new Go-Solar incentive program as well as increases in depreciation and other expenses equaling about \$2.1 million. Total revenues for this year were \$122.1 million, a decrease of \$14.4 million since last year. This includes a \$6.6 million decrease in revenues from electricity sales to Modesto and Turlock Irrigation Districts and other municipalities; a \$2.6 million decrease in revenue from TIDA, a \$2.6 million increase in sales to City departments, and a \$2.1 million increase in water assessment fees to the San Francisco Water Enterprise and others. This year's total revenue decrease also included an approximately \$12.1 million decline in non-operating revenue primarily due to \$7.6 million one-time refunds and reimbursements in the prior year, and about a \$2.3 million fall in investment and interest income in fiscal year 2009 due to lower interest rates.

- The City's Water Enterprise reported net assets of \$462.3 million, a \$1.0 million or 0.2 percent increase over the prior year. The enterprise is engaged in a massive, multi-billion dollar, ten-year project to rebuild the City's water system know as the Water System Improvement Program (WSIP). Directly related to this effort, the enterprise's total assets and total liabilities increased by \$243.8 million and \$242.8 million, respectively. Within this, net capital assets rose by \$233.3 million and current assets increased by \$11.1 million, including a \$13.7 million total increase in receivables from suburban customers and approximately \$4.7 million increase in receivables from mainly other City retail ratepayers, offset by a \$7.8 million decrease in cash balances due to a decline in interest earnings and increases in operating expenses. Liabilities show an increase of \$229.6 million in commercial paper associated with WSIP, a reduction of \$25.3 million in bond principal repayment, approximately \$20.0 million increase in accounts payable for capital projects, and the WSIP program; \$15.9 increase in the liability for other postemployment benefit expenses, and \$4.3 million in arbitrage payable expense, and a net reduction of about \$1.3 million in claims and other current liabilities.
- The City's Wastewater Enterprise had net assets of \$1.01 billion at the end of this fiscal year, a \$26.7 million or 2.7 percent increase for the fiscal year. The enterprise reported total revenues of \$211.7 million, a \$4.2 million increase over the prior year. This included an \$11.5 million increase in charges for service due to a 9.0% rate increase on July 1, 2008. That was partially offset by a decline of \$5.4 million in capacity fee revenues related to a drop in building permits, and a decrease of \$1.9 million in interest and other income, reflecting the drop in interest rates during the period. Total expenses were about \$185.0 million, a \$2.3 million increase over the prior year. This included an increase of \$5.6 million for services of other departments, particularly the City's Department of Public Works for sewer repair, street cleaning and engineering work. Concurrently, contractual service expense increased \$1.9 million, material and supplies declined by \$3.8 million, interest and other expenses fell by a net of \$1.7 million.
- The Port had an increase in net assets of \$2.5 million from its current year activities, however the ending net assets decreased by a total of \$40.6 million due to prior year restatements, which resulted from a prior year adjustment for fixed assets of \$15.5 million and a restatement due to recognizing a pollution remediation cost of \$27.5 million in accordance with GASB Statement No. 49.
- The Airport's net assets decreased by \$44.0 million or 14.0 percent from the prior year. The decrease is primarily the result of increased operating expenses over last year of \$27.3 million and a decrease in nonoperating revenues of \$12.2 million and an increase in nonoperating expenses of \$4.4 million and a decreased federal capital contribution of \$11.3 million. The main reasons for the increase in operating expenses was higher personnel costs of \$14.3 million due to base wage increases and other postemployment benefits, and increased depreciation expense of \$7.1 million due to additional capital assets placed in service and additional contractual services of \$3.3 million for marketing and other services. In addition, repairs and maintenance increased by \$1.7 million. Although operating revenues grew by \$15.5 million or 2.9% driven largely by increased aviation revenues, concession and parking and transportation revenue, it was not enough to offset the combined effect of the aforementioned increases in operating expenses and the decreases in nonoperating revenues mostly due to lower interest and other earnings, and the increase in interest expense. Finally, the transfer from the Airport to the City's General Fund was \$26.8 million this year, a 3.5 percent growth over fiscal year 2007-2008.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

The focus of the City's governmental funds statements is to provide information on near-term inflows, outflows, and balances of resources available for future spending. Such information is useful in assessing the City's financing requirements. The 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. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, and the Permanent Fund.

At the end of the current fiscal year, the City reported combined ending governmental fund balances of \$985.0 million, an increase of \$13.3 million over the prior year. The City realized growth in total governmental funds revenues, including growth in property tax revenues, federal and state revenues for a total of \$141.9 million. These increases were offset by a decline in the rest of other taxes, such as business, hotel room tax, other local taxes, as well as interest and investment income as discussed earlier, leaving a net increase of \$8.2 million in revenues for the fiscal year.

The governmental funds have a combined deficit of \$63.5 million in the unrestricted fund balance component. Of the \$63.5 million deficit, \$95.6 million was from Special Revenue and Capital Projects funds. The remainder of the fund balances in governmental funds is reserved, a measure of the fund resources already committed and not available for new spending. These commitments include support for (1) a General Fund "rainy day" reserve (\$98.3 million), (2) encumbrances for existing contracts and purchase orders (\$233.1 million), (3) funds continued for programs or projects in future fiscal years (\$610.2 million), (4) funds reserved for future debt service payments (\$75.9 million), and (5) assets not available for appropriation (\$31.1 million).

The General Fund is the chief operating fund of the City and had an unreserved fund balance of \$28.2 million and a total fund balance of \$301.7 million at the end of the fiscal year. For the year, the General Fund's total revenues exceeded expenditures by \$306.6 million, before transfers and other items of \$410.6 million. In the aggregate, the resulting total fund balance decreased by \$104.0 million for the fiscal year ended June 30, 2009. Overall, this was due to smaller than expected increase in revenues, particularly in real estate property transfer tax, grants and subventions, and an increased rate of expenditure growth due to growth in demand for services and personnel costs across City functions. These factors were partly offset by management controls on the General Fund expenditures put in place during the middle of this fiscal year.

As a measure of the General Fund's liquidity, it may be useful to compare both unreserved fund balance and total fund balance to total fund expenditures. For this fiscal year, the unreserved fund balance of \$28.2 million represents 1.17 percent of total General Fund expenditures of \$2.4 billion, and the total fund balance of \$301.7 million represents essentially 12.5 percent of that amount. At the end of the prior fiscal year, the General Fund's unreserved fund balance of \$77.1 million was 3.2 percent of total expenditures of \$2.39 billion, and the total fund balance represented approximately 17.0 percent of expenditure. This change also reflects the City's relatively higher use of budgetary use of balances and reserves in fiscal 2008-2009 due to the weak economy of the City.

Proprietary Funds

The City's proprietary fund statements provide the same type of information found in the business-activities section of the government-wide financial statements, but in more details.

At the end of the current fiscal year, the unrestricted net assets for the Airport were \$226.3 million, the Water Enterprise \$83.9 million, the Hetch Hetchy Water and Power were \$170.7 million, the Wastewater Enterprise Program were \$26.3 million, and the Port were \$31.7 million. In addition, the MTA, the San Francisco General Hospital and Laguna Honda Hospital had deficits in unrestricted net assets of \$106.5 million, \$67.5 million and \$42.2 million, respectively.

The following table shows actual revenues, expenses and results of operations for the current fiscal year in the City's proprietary funds (in thousands). As seen here, the total net assets for these funds decreased by approximately \$45.2 million due to current year operations. Reasons for this change are discussed in the previous section on the City's business-type activities.

	Operating Revenues	Operating Expenses	Operating Income (Loss)	Non- Operating Revenues (Expense)	Capital Contributions and Others	Interfund Transfers	Change In Net Assets
Airport.....	\$ 551,283	\$ 478,589	\$ 72,694	\$ (119,634)	\$ 29,780	\$ (26,849)	\$ (44,009)
Water.....	265,781	248,315	17,466	(15,356)	-	(1,143)	967
Hetch Hetchy.....	115,274	96,228	19,046	4,477	-	(302)	23,221
Municipal Transportation Agency.....	257,083	860,471	(603,388)	235,572	55,915	237,882	(74,019)
General Hospital.....	448,881	628,387	(179,506)	66,365	-	55,155	(57,986)
Wastewater Enterprise.....	208,654	169,300	39,354	(12,663)	-	-	26,691
Port.....	66,467	71,234	(4,767)	2,037	1,558	3,644	2,472
Laguna Honda Hospital.....	119,329	191,266	(71,937)	24,034	-	124,872	76,969
Market Corporation.....	1,546	1,144	402	115	-	-	517
Total.....	<u>\$ 2,034,298</u>	<u>\$ 2,744,934</u>	<u>\$ (710,636)</u>	<u>\$ 184,947</u>	<u>\$ 87,253</u>	<u>\$ 393,259</u>	<u>\$ (45,177)</u>

Fiduciary Funds

The City maintains fiduciary funds for the assets of the San Francisco Employee's Retirement System and Health Service System, and manages the investment of monies held in trust to benefit public service employees. At the end of the current fiscal year, the net assets of the Retirement System and Health Services System combined totaled \$11.9 billion, representing a \$3.96 billion decrease over the prior year, a 24.9 percent change. This decrease is essentially due to a decrease in the fair value of the Retirement System's investments resulting from a decline in financial and real estate market conditions. The Investment Trust Fund's net assets were \$565.4 million at year's end, compared to \$538.4 million at the end of the previous fiscal year. This 5.0 percent increase represents the increase in additions over withdrawals or distributions to external participants in the current year.

General Fund Budgetary Highlights

The City's final budget differs from the original budget in that it contains carry-forward appropriations for various programs and projects, and supplemental appropriations approved during the fiscal year. In fiscal year 2008-2009, the City approved approximately \$3.3 million in General Fund supplemental appropriations with additional state revenues associated with the November 2008 and May 2009 elections.

During the year, actual revenues and other resources were \$162.2 million less than budgeted. The City realized \$9.5 million more revenue than budgeted in property taxes and utility users taxes. There was a total of \$171.7 million shortfall of actual revenue compared to budgeted revenue in other categories, namely, business taxes, other local taxes, licenses permits and franchises, fines forfeitures and penalties, rents and concessions, federal, state and other grants and subventions, charges for services, and other resources.

Differences between the final budget and the actual (budgetary basis) expenditures resulted in \$128.9 million in expenditure savings. Major factors include:

- \$31.4 million savings in the Human Services Agency, due largely to lower than budgeted client assistance and aid as well as other operating costs. These savings are partially offset by reductions in Human Service federal and state subvention revenues.
- \$22.2 million savings in Fire, Police, Juvenile Probation and Sheriff departments achieved through delayed or freezing certain civilian and uniform positions.
- \$28.0 million in savings due to close-out of unspent General Reserve not used for supplemental appropriation or other contingencies during fiscal year 2008-2009.
- \$20.3 million in savings on general administration and finance and other general city responsibilities.
- \$14.1 million in savings in salary and fringe benefit costs in the Department of Public Health. In addition, the General Services Agency – Department of Public Works and Business and Economic Development had a combined savings of \$7.5 million primarily from capital projects and some City grant programs.

The net effect of revenue shortfall, savings in expenditures and reduction in appropriations and reserve balances was a positive unreserved budgetary fund balance available for subsequent year appropriation of \$95.4 million at the end of fiscal year 2008-2009. The City's fiscal year 2009-2010 Adopted Original Budget assumed an available balance of \$94.5 million, so an additional \$0.9 million remains available. (See also Note 4 to the Basic Financial Statements for additional fund balance details.)

Capital Assets and Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2009, increased by \$410.3 million, 3.4 percent, to \$12.49 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, streets, and bridges. Governmental activities contributed \$97.8 million or 0.8 percent to this total while \$312.5 million or 2.5 percent was from business-type activities. Details are shown in the table below.

**Capital Assets, Net of Accumulated Depreciation
(in thousands)**

	Governmental Activities		Business-type Activities		Total	
	2009	2008	2009	2008 *	2009	2008 *
Land.....	\$ 155,512	\$ 151,917	\$ 180,919	\$ 196,264	\$ 336,431	\$ 348,181
Facilities and Improvement..	2,337,478	2,188,543	6,306,617	6,114,993	8,644,095	8,303,536
Machinery and equipment....	58,648	60,701	785,888	780,793	844,536	841,494
Infrastructure.....	290,144	281,329	793,866	794,180	1,084,010	1,075,509
Property held under lease....	-	-	2,218	2,464	2,218	2,464
Easements.....	-	-	62,694	65,448	62,694	65,448
Construction in progress.....	187,133	248,587	1,328,692	1,194,252	1,515,825	1,442,839
Total.....	\$ 3,028,915	\$ 2,931,077	\$ 9,460,894	\$ 9,148,394	\$ 12,489,809	\$ 12,079,471

* The 2008 ending balances in the table above have not been restated as discussed in Note 2 to the basic financial statements.

Major capital asset events during the current fiscal year included the following:

- Under governmental activities, net capital assets increased by \$97.8 million mainly due to the increase in construction in progress and completed assets at various park and recreational sites, branch libraries, various street improvement and traffic signal upgrades. About \$226.0 million worth of construction-in-progress work was substantially completed and capitalized as facilities and improvement and infrastructure. Of the completed projects, \$119.9 million is for the California Academy of Science and approximately \$56.8 million for various Recreation Centers such as Duboce Park, Larsen Sava Pool and J.P. Murphy Clubhouse and \$46.6 million in various street and public work projects. Apart from the increase in various city-wide parks, libraries, public works and traffic signal projects, the City also funded the General Hospital Rebuild Project with general obligation bonds proceeds issued in the fiscal year. The rebuild project for the fiscal year totaled \$39.6 million and was recorded under the governmental activities.
- The Water Enterprise's net capital assets increased by \$233.3 million or 18.4 percent. Close to 53.3 percent, or \$124.2 million, of the change reflects the net increase in construction-in-progress on the enterprise's ten-year capital plan, including the Water System Improvement Program. This change includes a \$282.7 million increase in construction projects offset by \$138.8 million in transfers to facilities and improvements, \$14.5 million transfers to equipment, and \$5.2 million expensed for projects not continued. Major additions to construction work included Tesla Treatment Facility, McLaren Park Pump Station Upgrade, New Crystal Springs Bypass Tunnel, Local Water Main Replacement Program and other Water System Improvement Program. The remaining net increase of \$48.8 million reflects the increase to facilities, improvements and equipment less increase to depreciation. The Water Enterprise had \$12.7 million in development costs and \$9.9 million in site acquisition as of June 30, 2009 for an office building located at 525 Golden Gate Avenue. Demolition of existing site was completed in June 2009. Construction is expected to start in January 2010 with an expected completion date of February 2012, with an expected occupancy date of April 2012.
- MTA's net capital assets decreased by \$36.3 million or 1.8 percent, compared to the previous year, which was attributed to a decline in construction work for new and existing projects and more depreciation expense for existing assets. Construction completion of the Muni Metro East Maintenance Facility occurred in the summer of 2008. The facility is a new, state-of-the-art storage yard, maintenance shop and operations/dispatch facility for a fleet of 80 light rail vehicles. The advanced preliminary engineering for Phase II of the Third Street Light Rail Project is near completion and is pending approval to enter into final design in fiscal year 2010.
- Laguna Honda Hospital's net capital assets increased by \$112.8 million or 35.4 percent due almost entirely to construction-in-progress on the capital project to rebuild the hospital. This work is principally funded by the Laguna Honda General Obligation Bonds and the Certificates of Participation issued by the City.
- General Hospital's net capital assets decreased by \$13.5 million or 20.0 percent, primarily due to handing over the hospital rebuild project to the governmental activities for managing and financing with the first series of \$131.7 million general obligation bonds issued in the current fiscal year. The total amount approved by the voters for the rebuild project is \$887.4 million.
- The Wastewater Enterprise reported a net increase of \$34.1 million or 2.5 percent due to completion of the Southeast Water Pollution Control Program Digester Cover and Mixing Improvements, Oceanside Heating, Ventilation, Air conditioning assessment, North Point Facilities Wet Weather Improvements-Pumps, and other capital projects throughout the system.
- Hetch Hetchy net capital assets increased by \$14.3 million or 5.5 percent during the year. Contributing to this net increase was the addition in construction work in progress and in land and rights-of-way over depreciation and deletion of assets.

- The Airport's net capital assets decreased \$16.2 million or 0.5 percent largely due to depreciation and deletions of certain capital projects. Major capital additions this fiscal year included Terminal 2 Renovation, Secure Connector Terminal 3 to Boarding Area G, and Runway 28R-10L Overlay and Reconstruction.
- The Port's net capital assets decreased by \$16.3 million or 5.9 percent from its previously reported capital asset balance of \$275.1 million primarily due to a restatement of \$15.5 million on certain land improvements that had not been depreciated but determined to be exhaustible assets and should have been depreciated in prior periods and \$2.5 million of reclassification of other assets to capital assets.

At the end of the year, the City's business-type activities had approximately \$520.0 million in commitments for various capital projects. Of this, Water Enterprise had an estimated \$303.4 million, MTA had \$68.4 million, Wastewater had \$23.8 million, Airport had \$39.0 million, Hetch Hetchy had \$22.3 million, Port had \$7.2 million, Laguna Honda had \$53.7 million and the General Hospital had \$2.2 million. In addition, there was approximately \$58.2 million reserved for encumbrances in capital project funds for the general government.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of the current fiscal year. Fund financial statements record capital asset purchases as expenditures.

For governmental activities, no net infrastructure assets were recorded in fiscal year 2000-2001 (the first year of presentation in the GASB 34 format), because the historical costs did not meet the threshold established by GASB. Beginning in fiscal year 2001-2002, newly completed projects are capitalized and ongoing infrastructure projects are accounted for in construction in progress.

Additional information about the City's capital assets can be found in Note 7 to the Basic Financial Statements.

Debt Administration

At the end of the current fiscal year, the City had total long-term and commercial paper debt outstanding of \$8.04 billion. Of this amount, \$1.17 billion is general obligation bonds backed by the full faith and credit of the City and \$6.87 billion is revenue bonds, loans, certificates of participation, capital leases, and other debt of the City secured solely by specified revenue sources.

As noted previously, the City's total long-term debt including all bonds, loans, commercial paper and capital leases increased by \$454.9 million during fiscal year 2008-2009, due to the issuance of new debt in the governmental and business-type activities. The net increase in obligations was \$221.6 million in governmental activities and was primarily due to issuance of new debt. For the business-type activities, the net increase in obligations was \$233.3 million primarily due to the issuance of commercial paper by the Airport, San Francisco Water Enterprise and San Francisco Wastewater Enterprise.

The City issued \$578.4 million in refunding bonds, with \$118.1 million in general obligation refunding bonds to take advantage of lower interest rates to reduce debt payments; \$145.3 million in lease revenue refunding bonds and \$314.9 million by the Airport in revenue refunding notes to stabilize variable interest expense set to reset to higher rates due to the downgrade of the bonds insurers caused by the turmoil in the financial markets. The Airport likewise converted the tax status of \$266.7 million of variable rate refunding bonds, from Alternative Minimum Tax (AMT) to Non-AMT to lower interest payments. In addition, the City issued \$131.7 million in general obligation bonds to finance the rebuilding and improve the earthquake safety of the San Francisco General Hospital and \$42.5 million to finance the construction and improvement of parks and recreational facilities in the City and made the fourth borrowing in the amount of \$1.3 million on the Seismic Safety Loan Program general obligation bonds under the Board of Supervisors Resolution No. 65-07 for loans to finance the seismic retrofitting of masonry buildings within the City. Lease revenue bonds for \$34.3 million were issued, through the San Francisco Finance

Corporation to finance the construction and renovation of public libraries and certificates of participation were issued for \$163.3 million for the construction and equipping of Laguna Honda Hospital. The San Francisco International Airport, San Francisco Water Enterprise and San Francisco Wastewater Enterprise issued commercial paper in the total amount of \$1.2 billion of which \$845.3 million was repaid. The Hetch Hetchy Water and Power Enterprise issued \$6.3 million in clean renewable energy bonds to finance the installation of solar energy equipment on selected City-owned facilities.

The City's Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is three percent of the taxable assessed value of property in the City - approximately \$150 billion in value as of the close of the fiscal year. As of June 30, 2009, the City had \$1.17 billion in authorized, outstanding property tax-supported general obligation bonds, which is equal to approximately 0.75 percent of gross (0.78 percent of net) taxable assessed value of property. As of June 30, 2009, there were an additional \$1.2 billion in bonds that were authorized but unissued. If all of these general obligation bonds were issued and outstanding in full, the total debt burden would be approximately 1.52 percent of gross (1.58 percent of net) taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2009 were:

Moody's Investors Service, Inc.	Aa2
Standard and Poor's	AA
Fitch Ratings	AA-

During the fiscal year, Moody's Investors Service upgraded the City's rating to Aa2 from Aa3 and revised the City's rating outlook from positive to stable, and Standard and Poor's affirmed rating with a stable outlook. Fitch Ratings affirmed ratings with their stable rating outlook on all the City's outstanding bonds.

The City's enterprise activities maintained their underlying debt ratings this fiscal year. The Airport's underlying bond ratings were affirmed by all rating agencies in conjunction with the issuance of their revenue refunding notes and the conversion of their variable rate refunding bonds to non-AMT. Moody's Investors Services, Standard & Poor's, and Fitch Ratings maintained their long-term rating of "A1", "A", and "A", respectively. The San Francisco Water Enterprise carried underlying ratings of "A1" and "AA-" from Moody's and Standard and Poor's, respectively. The San Francisco Waste Water Enterprise carried underlying ratings of "A2" and "A+" from Moody's and Standard & Poor's respectively.

Additional information in the City's long-term debt can be found in Note 8 to the Basic Financial Statements.

Economic factors and next year's budget and rates

The City, like the State, is faced with a set of financial challenges over the next few years. The following economic factors were considered in the City's fiscal year 2009-2010 budget.

- By the end of fiscal year 2008-2009, San Francisco's economy was weathering the State's recession relatively well compared to other Bay Area cities and regions throughout the State. The fundamental cause of the recession in California, as well as several other states in the United States, has been the downturn in the housing market. Housing prices across California have rapidly declined after more than a decade of double-digit annual appreciation.
- San Francisco's housing prices have fallen, although the rate of decline has been much lower than the state average. Between the second quarter of 2008 and the second quarter of 2009, housing prices in California have fallen by an average of 15.5 percent, whereas in the San Francisco metropolitan division they only fell by 8.1 percent during the same period¹.

¹ Source: Office of Federal Housing Enterprise Oversight Housing Price Index. The San Francisco Metropolitan Division includes San Francisco, San Mateo and Marin Counties.

- There is a fundamental difference in the City's housing market and those in the fast-growing suburban areas of the state. Consequently, San Francisco's economy has proven far more resilient than other parts of the state. While low mortgage rates certainly contributed to rising housing prices in San Francisco during the early years of the decade, the City has relatively few sub-prime mortgages, and its default rate on those mortgages has been far below the state average. During fiscal year 2008-2009, San Francisco recorded 1,424 Notices of Default, which was only 0.4 percent of the state total of 389,138². By contrast, San Francisco has approximately 2.2 percent of the state's population, suggesting a per capita default rate that was only one-sixth of the state average.
- The wage and salary employment base of San Francisco lost 16,999 jobs between March 2008 and March 2009, the latest data available³.
- Unemployment in San Francisco rose during fiscal year 2008-2009 to an annual average of 7.4 percent, up from 4.6 percent in 2007-2008. Nevertheless, this rate is significantly below the state average of 9.6 percent and further confirms the essential strength of the City's economy in the face of the state and national recession. San Francisco's June 2009 unemployment rate of 9.9 percent was the 8th lowest among California's 58 counties⁴.
- The office market struggled in fiscal year 2008-2009, with the vacancy rate climbing from 10.5 percent in the third quarter of 2008 to 15.2 percent in the second quarter of 2009. During the same period, office rental rates fell 30.4 percent to \$32.67 per square foot as of the second quarter of 2009⁵. In addition, the market experienced almost 1,325,000 square feet of negative net absorption during this time period. Despite falling commercial space under construction, fiscal year 2008-2009 saw the completion of a 33-story office tower at 555 Mission Street, the first high-rise office completed in San Francisco in five years.
- San Francisco's long-term economic fundamentals – the quality of its workforce, environment, technological base, and cultural amenities – are among the strongest of any city in the United States. These competitive advantages are likely to secure the City's continued prosperity during and after the economic recovery.

² Source: DataQuick.

³ Source: U.S. Bureau of Labor Statistics, Quarterly Census of Employment and Wages.

⁴ Source: State of California Employment Development Department (EDD).

⁵ Source: Grubb & Ellis.

REQUESTS FOR INFORMATION

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the City's finances and to demonstrate the City's accountability for the money it receives. Below are the contacts for questions about this report or requests for additional financial information.

City and County of San Francisco

Office of the Controller
1 Dr. Carlton B. Goodlett Place, Room 316
San Francisco, CA 94102-4694

Individual Department Financial Statements

San Francisco International Airport

Office of the Airport Deputy Director
Business and Finance Division
PO Box 8097
San Francisco, CA 94128

Port of San Francisco

Fiscal Officer
Pier 1, The Embarcadero
San Francisco, CA 94111

San Francisco Water Enterprise

Hetch Hetchy Water and Power
San Francisco Wastewater Enterprise
Director of Accounting Financial Services
1155 Market Street, 4th Floor
San Francisco, CA 94103

Laguna Honda Hospital

Chief Financial Officer
375 Laguna Honda Blvd.
San Francisco, CA 94116

Municipal Transportation Agency

MTA Finance and Administration
1 South Van Ness Avenue, 8th Floor
San Francisco, CA 94103

Health Service System

1145 Market Street, Suite 200
San Francisco, CA 94103

San Francisco General Hospital Medical Center

Chief Financial Officer
1001 Potrero Avenue, Suite 2A7
San Francisco, CA 94110

San Francisco Employees' Retirement System

Executive Director
30 Van Ness Avenue, Suite 3000
San Francisco, CA 94102

Component Unit Financial Statement

San Francisco Redevelopment Agency

One South Van Ness Avenue, 5th Floor
San Francisco, CA 94103

Blended Component Units Financial Statements

San Francisco County Transportation Authority

Deputy Director for Administration and Finance
100 Van Ness Avenue, 26th Floor
San Francisco, CA 94102

San Francisco Finance Corporation

Mayor's Office of Public Finance
City Hall, Room 336
1 Dr. Carlton B. Goodlett Place
San Francisco, CA 94102

WWW.SFGOV.ORG

Basic Financial Statements

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets

June 30, 2009

(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority
ASSETS					
Current assets:					
Deposits and investments with City Treasury.....	\$ 984,266	\$ 970,347	\$ 1,954,613	\$ -	\$ 2,821
Deposits and investments outside City Treasury.....	209,021	8,041	217,062	207,059	-
Receivables (net of allowance for uncollectible amounts of \$92,621 for the primary government):					
Property taxes and penalties.....	73,715	-	73,715	6,432	-
Other local taxes.....	218,348	-	218,348	-	-
Federal and state grants and subventions.....	220,738	36,359	257,097	-	-
Charges for services.....	54,645	223,036	277,681	-	851
Interest and other.....	9,306	38,808	48,114	3,590	11
Capital lease receivable from primary government.....	-	-	-	15,825	-
Due from component unit	5,031	-	5,031	-	-
Inventories.....	-	63,768	63,768	-	-
Deferred charges and other assets.....	10,813	7,376	18,189	403	-
Restricted assets:					
Deposits and investments with City Treasury.....	-	111,256	111,256	-	-
Deposits and investments outside City Treasury.....	-	52,190	52,190	88,965	-
Grants and other receivables.....	-	1,257	1,257	1,109	-
Total current assets.....	<u>1,785,883</u>	<u>1,512,438</u>	<u>3,298,321</u>	<u>323,383</u>	<u>3,683</u>
Noncurrent assets:					
Loans receivable (net of allowance for uncollectible amounts of \$510,133 and \$258,482 for the primary government and component unit, respectively).....	69,431	-	69,431	4,480	-
Advance to component units.....	6,707	4,427	11,134	-	-
Capital lease receivable from primary government.....	-	-	-	146,868	-
Deferred charges and other assets.....	24,050	51,526	75,576	12,279	-
Restricted assets:					
Deposits and investments with City Treasury.....	-	205,715	205,715	-	-
Deposits and investments outside City Treasury.....	96,050	306,427	402,477	19,703	-
Grants and other receivables.....	-	26,410	26,410	-	-
Property held for resale	-	-	-	2,962	-
Capital assets:					
Land and other assets not being depreciated.....	342,645	1,509,611	1,852,256	161,473	-
Facilities, infrastructure, and equipment, net of depreciation.....	<u>2,686,270</u>	<u>7,951,283</u>	<u>10,637,553</u>	<u>137,131</u>	<u>-</u>
Total capital assets.....	<u>3,028,915</u>	<u>9,460,894</u>	<u>12,489,809</u>	<u>298,604</u>	<u>-</u>
Total noncurrent assets.....	<u>3,225,153</u>	<u>10,055,399</u>	<u>13,280,552</u>	<u>484,896</u>	<u>-</u>
Total assets.....	<u>\$ 5,011,036</u>	<u>\$ 11,567,837</u>	<u>\$ 16,578,873</u>	<u>\$ 808,279</u>	<u>\$ 3,683</u>

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets (continued)

June 30, 2009

(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business- Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority
LIABILITIES					
Current liabilities:					
Accounts payable.....	\$ 207,282	\$ 155,388	\$ 362,670	\$ 12,598	\$ 623
Accrued payroll.....	91,110	68,576	159,686	89	76
Accrued vacation and sick leave pay.....	76,008	51,058	127,066	1,139	-
Accrued workers' compensation.....	39,799	26,899	66,698	-	-
Estimated claims payable.....	43,798	26,634	70,432	-	-
Bonds, loans, capital leases, and other payables.....	307,239	499,564	806,803	36,643	-
Capital lease payable to component unit.....	15,825	-	15,825	-	-
Accrued interest payable.....	12,468	12,881	25,349	28,249	-
Unearned grant and subvention revenues.....	15,695	-	15,695	-	-
Due to primary government.....	-	-	-	2,759	2,272
Internal balances.....	19,440	(19,440)	-	-	-
Deferred credits and other liabilities.....	126,845	200,520	327,365	1,472	564
Liabilities payable from restricted assets:					
Bonds, loans, capital leases, and other payables.....	-	122,566	122,566	-	-
Accrued interest payable.....	-	29,296	29,296	-	-
Other.....	-	75,027	75,027	-	-
Total current liabilities.....	<u>955,509</u>	<u>1,248,969</u>	<u>2,204,478</u>	<u>82,949</u>	<u>3,535</u>
Noncurrent liabilities:					
Accrued vacation and sick leave pay.....	67,520	39,042	106,562	964	-
Accrued workers' compensation.....	173,082	119,112	292,194	-	-
Other postemployment benefits obligation.....	338,822	247,647	586,469	552	-
Estimated claims payable.....	101,208	52,109	153,317	-	-
Bonds, loans, capital leases, and other payables.....	1,921,048	5,024,864	6,945,912	790,050	-
Advance from primary government.....	-	-	-	6,707	4,427
Capital lease payable to component unit.....	146,868	-	146,868	-	-
Accrued interest payable.....	-	-	-	54,591	-
Deferred credits and other liabilities.....	1,776	75,948	77,724	3,284	-
Total noncurrent liabilities.....	<u>2,750,324</u>	<u>5,558,722</u>	<u>8,309,046</u>	<u>856,148</u>	<u>4,427</u>
Total liabilities.....	<u>3,705,833</u>	<u>6,807,691</u>	<u>10,513,524</u>	<u>939,097</u>	<u>7,962</u>
NET ASSETS					
Invested in capital assets, net of related debt, Note 2(k).....	1,725,203	4,017,577	5,443,483	158,791	-
Restricted for:					
Reserve for rainy day.....	98,297	-	98,297	-	-
Debt service.....	30,724	277,034	307,758	50,318	-
Capital projects.....	-	107,843	107,843	-	-
Community development.....	64,031	-	64,031	-	-
Transportation Authority activities.....	2,515	-	2,515	-	-
Grants and other purposes.....	176,264	30,360	206,624	-	-
Unrestricted (deficit), Note 2(k).....	(791,831)	327,332	(165,202)	(339,927)	(4,279)
Total net assets (deficit).....	<u>\$ 1,305,203</u>	<u>\$ 4,760,146</u>	<u>\$ 6,065,349</u>	<u>\$ (130,818)</u>	<u>\$ (4,279)</u>

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Activities
 Year Ended June 30, 2009
 (In Thousands)

Functions/Programs	Expenses	Net (Expense) Revenue and Changes in Net Assets							
		Program Revenues			Primary Government			Component Units	
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority
Primary government:									
Governmental activities:									
Public protection.....	\$ 1,109,311	\$ 90,044	\$ 100,971	\$ -	\$ (918,296)	\$ -	\$ (918,296)	\$ -	\$ -
Public works, transportation and commerce.....	254,955	72,287	40,325	36,276	(106,067)	-	(106,067)	-	-
Human welfare and neighborhood development...	908,449	33,988	461,361	-	(413,100)	-	(413,100)	-	-
Community health.....	608,733	60,708	285,211	-	(262,814)	-	(262,814)	-	-
Culture and recreation.....	319,994	74,477	3,671	7,772	(234,074)	-	(234,074)	-	-
General administration and finance.....	238,601	33,530	5,138	-	(199,933)	-	(199,933)	-	-
General City responsibilities....	72,634	27,377	13,018	-	(32,239)	-	(32,239)	-	-
Unallocated interest on long-term debt.....	93,387	-	-	-	(93,387)	-	(93,387)	-	-
Total governmental activities.....	<u>3,606,064</u>	<u>392,411</u>	<u>909,695</u>	<u>44,048</u>	<u>(2,259,910)</u>	<u>-</u>	<u>(2,259,910)</u>	<u>-</u>	<u>-</u>
Business-type activities:									
Airport.....	683,335	551,283	-	29,780	-	(102,272)	(102,272)	-	-
Transportation.....	863,218	257,083	117,767	55,915	-	(432,453)	(432,453)	-	-
Port.....	71,778	66,467	-	1,558	-	(3,753)	(3,753)	-	-
Water.....	277,162	265,781	1,784	-	-	(9,597)	(9,597)	-	-
Power.....	96,228	115,274	-	-	-	19,046	19,046	-	-
Hospitals.....	820,236	568,210	67,001	-	-	(185,025)	(185,025)	-	-
Sewer.....	184,977	208,654	224	-	-	23,901	23,901	-	-
Market.....	1,144	1,546	-	-	-	402	402	-	-
Total business-type activities.....	<u>2,998,078</u>	<u>2,034,298</u>	<u>186,776</u>	<u>87,253</u>	<u>-</u>	<u>(689,751)</u>	<u>(689,751)</u>	<u>-</u>	<u>-</u>
Total primary government.....	<u>\$6,604,142</u>	<u>\$2,426,709</u>	<u>\$ 1,096,471</u>	<u>\$ 131,301</u>	<u>(2,259,910)</u>	<u>(689,751)</u>	<u>(2,949,661)</u>	<u>-</u>	<u>-</u>
Component units:									
San Francisco Redevelopment Agency.....									
Agency.....	\$ 196,059	\$ 26,141	\$ 9,358	\$ -	-	-	-	(160,560)	-
Treasure Island Development Authority.....									
Authority.....	13,036	9,152	-	-	-	-	-	-	(3,884)
Total component units.....	<u>\$ 209,095</u>	<u>\$ 35,293</u>	<u>\$ 9,358</u>	<u>\$ -</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(160,560)</u>	<u>(3,884)</u>
General Revenues:									
Taxes:									
Property taxes.....	-	-	-	-	1,302,071	-	1,302,071	86,702	-
Business taxes.....	-	-	-	-	388,653	-	388,653	-	-
Sales and use tax.....	-	-	-	-	172,794	-	172,794	-	-
Hotel room tax.....	-	-	-	-	214,460	-	214,460	5,316	-
Utility users tax.....	-	-	-	-	89,801	-	89,801	-	-
Other local taxes.....	-	-	-	-	126,017	-	126,017	-	-
Interest and investment income.....	-	-	-	-	35,434	49,691	85,125	6,097	105
Other.....	-	-	-	-	44,086	201,624	245,710	5,634	1,745
Transfers - internal activities of primary government.....	-	-	-	-	(393,259)	393,259	-	-	-
Total general revenues and transfers.....	-	-	-	-	<u>1,980,057</u>	<u>644,574</u>	<u>2,624,631</u>	<u>103,749</u>	<u>1,850</u>
Change in net assets.....	-	-	-	-	(279,853)	(45,177)	(325,030)	(56,811)	(2,034)
Net assets (deficit) - beginning, as restated.....	-	-	-	-	<u>1,585,056</u>	<u>4,805,323</u>	<u>6,390,379</u>	<u>(74,007)</u>	<u>(2,245)</u>
Net assets (deficit) - ending.....	-	-	-	-	<u>\$ 1,305,203</u>	<u>\$ 4,760,146</u>	<u>\$ 6,065,349</u>	<u>\$ (130,818)</u>	<u>\$ (4,279)</u>

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

CITY AND COUNTY OF SAN FRANCISCO

Balance Sheet – Governmental Funds

June 30, 2009

(with comparative total financial information as of June 30, 2008)

(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2009	2008	2009	2008	2009	2008
ASSETS						
Deposits and investments with City Treasury.....	\$ 264,893	\$ 400,328	\$ 703,064	\$ 750,431	\$ 967,957	\$ 1,150,759
Deposits and investments outside City Treasury.....	337	242	208,684	48,834	209,021	49,076
Receivables (net of allowance for uncollectible amounts of \$67,904 in 2009; \$41,631 in 2008):						
Property taxes and penalties.....	62,351	47,312	11,364	9,863	73,715	57,175
Other local taxes.....	206,884	182,112	11,464	15,269	218,348	197,381
Federal and state grants and subventions.....	115,406	57,531	105,332	99,012	220,738	156,543
Charges for services.....	43,531	43,152	11,025	11,556	54,556	54,708
Interest and other.....	2,593	13,145	5,860	6,323	8,453	19,468
Due from other funds	24,387	16,890	4,174	11,578	28,561	28,468
Due from component unit	7,220	6,581	4,518	2,579	11,738	9,160
Loans receivable (net of allowance for uncollectible amounts of \$510,133 in 2009; \$453,577 in 2008).....	18	10	69,413	67,325	69,431	67,335
Deferred charges and other assets.....	5,850	6,486	3,739	3,819	9,589	10,305
Total assets.....	<u>\$ 733,470</u>	<u>\$ 773,789</u>	<u>\$ 1,138,637</u>	<u>\$ 1,026,589</u>	<u>\$ 1,872,107</u>	<u>\$ 1,800,378</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable.....	\$ 112,475	\$ 118,109	\$ 85,844	\$ 114,889	\$ 198,319	\$ 232,998
Accrued payroll.....	72,927	65,640	16,279	15,279	89,206	80,919
Deferred tax, grant and subvention revenues.....	106,811	83,973	41,179	59,457	147,990	143,430
Due to other funds.....	1,003	1,501	43,857	22,575	44,860	24,076
Deferred credits and other liabilities.....	138,579	98,931	118,141	98,355	256,720	197,286
Bonds, loans, capital leases, and other payables.....	-	-	150,000	150,000	150,000	150,000
Total liabilities.....	<u>431,795</u>	<u>368,154</u>	<u>455,300</u>	<u>460,555</u>	<u>887,095</u>	<u>828,709</u>
Fund balances:						
Reserved for rainy day.....	98,297	117,792	-	-	98,297	117,792
Reserved for assets not available for appropriation.....	11,307	11,358	19,781	19,814	31,088	31,172
Reserved for debt service.....	-	-	75,886	47,334	75,886	47,334
Reserved for encumbrances.....	65,902	63,068	167,169	193,461	233,071	256,529
Reserved for appropriation carryforward.....	91,075	99,959	501,006	314,051	592,081	414,010
Reserved for subsequent years' budgets.....	6,891	36,341	11,245	13,504	18,136	49,845
Unreserved (deficit), reported in:						
General fund.....	28,203	77,117	-	-	28,203	77,117
Special revenue funds.....	-	-	(69,468)	(27,758)	(69,468)	(27,758)
Capital project funds.....	-	-	(26,153)	2,126	(26,153)	2,126
Permanent fund.....	-	-	3,871	3,502	3,871	3,502
Total fund balances.....	<u>301,675</u>	<u>405,635</u>	<u>683,337</u>	<u>566,034</u>	<u>985,012</u>	<u>971,669</u>
Total liabilities and fund balances.....	<u>\$ 733,470</u>	<u>\$ 773,789</u>	<u>\$ 1,138,637</u>	<u>\$ 1,026,589</u>	<u>\$ 1,872,107</u>	<u>\$ 1,800,378</u>

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

CITY AND COUNTY OF SAN FRANCISCO
Reconciliation of the Governmental Funds Balance Sheet
to the Statement of Net Assets
June 30, 2009
(In Thousands)

Fund balances - total governmental funds	\$ 985,012
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 funds.	3,022,552
Bond issue costs are not financial resources and, therefore, are not reported in the funds.	18,406
Long-term liabilities, including bonds payable and certain other liabilities, are not due and payable in the current period and therefore are not reported in the funds.	(2,778,532)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(10,378)
Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the funds.	265,504
Internal service funds are used by management to charge the costs of capital lease financing, fleet management, printing and mailing services, and information systems to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets.	<u>(197,361)</u>
Net assets of governmental activities	<u><u>\$ 1,305,203</u></u>

CITY AND COUNTY OF SAN FRANCISCO

**Statement of Revenues, Expenditures, and Changes in
Fund Balances – Governmental Funds**

Year Ended June 30, 2009

(with comparative total financial information as of June 30, 2008)

(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2009	2008	2009	2008	2009	2008
Revenues:						
Property taxes.....	\$ 999,528	\$ 939,812	\$ 272,857	\$ 239,876	\$ 1,272,385	\$ 1,179,688
Business taxes.....	387,313	394,267	1,340	1,758	388,653	396,025
Sales and use tax.....	101,662	111,411	71,132	79,556	172,794	190,967
Hotel room tax.....	161,714	165,541	52,746	53,548	214,460	219,089
Utility users tax.....	89,801	86,964	-	-	89,801	86,964
Other local taxes.....	126,017	155,951	-	-	126,017	155,951
Licenses, permits and franchises.....	24,750	23,212	7,403	7,731	32,153	30,943
Fines, forfeitures and penalties.....	5,618	8,398	4,076	4,819	9,694	13,217
Interest and investment income.....	9,193	15,779	24,354	38,477	33,547	54,256
Rents and concessions.....	19,096	19,490	54,129	50,670	73,225	70,160
Intergovernmental:						
Federal.....	172,162	173,059	185,450	155,256	357,612	328,315
State.....	473,187	476,864	107,860	84,231	581,047	561,095
Other.....	16	-	14,867	15,907	14,883	15,907
Charges for services.....	135,926	135,473	148,270	153,216	284,196	288,689
Other	11,199	17,948	19,119	63,373	30,318	81,321
Total revenues.....	2,717,182	2,724,169	963,603	948,418	3,680,785	3,672,587
Expenditures:						
Current:						
Public protection.....	889,594	881,009	109,924	137,203	999,518	1,018,212
Public works, transportation and commerce.....	61,812	69,944	186,349	166,625	248,161	236,569
Human welfare and neighborhood development.....	630,112	613,135	256,574	215,768	886,686	828,903
Community health.....	487,638	454,935	91,190	88,111	578,828	543,046
Culture and recreation.....	97,415	105,036	216,027	204,576	313,442	309,612
General administration and finance.....	170,109	196,430	20,571	18,624	190,680	215,054
General City responsibilities.....	72,893	70,874	254	331	73,147	71,205
Debt service:						
Principal retirement.....	938	864	125,563	105,716	126,501	106,580
Interest and fiscal charges.....	73	147	74,393	75,697	74,466	75,844
Bond issuance costs.....	-	-	4,746	1,090	4,746	1,090
Capital outlay.....	-	-	152,473	133,155	152,473	133,155
Total expenditures.....	2,410,584	2,392,374	1,238,064	1,146,896	3,648,648	3,539,270
Excess (deficiency) of revenues over expenditures.....	306,598	331,795	(274,461)	(198,478)	32,137	133,317
Other financing sources (uses):						
Transfers in.....	136,195	70,969	216,498	173,801	352,693	244,770
Transfers out.....	(550,910)	(543,640)	(195,268)	(180,532)	(746,178)	(724,172)
Issuance of bonds and loans						
Face value of bonds and refunding bonds issued.....	-	-	456,935	310,155	456,935	310,155
Face value of loans issued.....	-	-	-	1,829	-	1,829
Premium on issuance of bonds.....	-	-	12,875	13,071	12,875	13,071
Payment to refunded bond escrow agent	-	-	(120,000)	(283,494)	(120,000)	(283,494)
Other financing sources-capital leases.....	4,157	5,050	20,724	19,204	24,881	24,254
Total other financing sources (uses).....	(410,558)	(467,621)	391,764	54,034	(18,794)	(413,587)
Net change in fund balances.....	(103,960)	(135,826)	117,303	(144,444)	13,343	(280,270)
Fund balances at beginning of year.....	405,635	541,461	566,034	710,478	971,669	1,251,939
Fund balances at end of year.....	\$ 301,675	\$ 405,635	\$ 683,337	\$ 566,034	\$ 985,012	\$ 971,669

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

CITY AND COUNTY OF SAN FRANCISCO

**Reconciliation of the Statement of Revenues, Expenditures, and Changes in
Fund Balances of Governmental Funds to the Statement of Activities**

Year Ended June 30, 2009

(In Thousands)

Net change in fund balances - total governmental funds	\$ 13,343
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 plus assets donated to the City and acquired by funding from other revenues.	96,460
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the increase in certain liabilities reported in the statement of net assets of the previous year exceeded expenses reported in the statement of activities that do not require the use of current financial resources.	(215,629)
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	29,686
Some other revenues that do not provide current financial resources are not reported as revenues in the governmental funds but are recognized in the statement of activities.	7,442
Governmental funds report expenditures pertaining to the establishment of certain deferred credits related to long-term loans made. These deferred credits are not reported on the statement of net assets and, therefore, the corresponding expense is not reported on the statement of activities.	312
Lease payments on the Moscone Convention Center (including both principal and interest) are reported as expenditures in the governmental funds when paid. For the City as a whole, however, the principal portion of the payments serves to reduce the liability in the statement of net assets. This is the amount of property rent payments expended in the governmental funds that were reclassified as capital lease principal and interest payments in the current period.	19,515
Bond issue costs are reported in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount by which current year bond issue costs exceed amortization expense in the current period.	3,713
The issuance of long-term debt and capital leases provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and capital leases consume the current financial resources of governmental funds. These transactions, however, have no effect on net assets. This is the amount by which principal retirement exceeded bond and other debt proceeds in the current period.	(210,434)
Bond premiums and discounts are reported in the governmental funds when the bonds are issued, and are capitalized and amortized in the statement of net assets. This is the amount of bond premiums capitalized during the current period.	(12,875)
Interest expense in the statement of activities differs from the amount reported in the governmental funds because of additional accrued and accreted interest; amortization of bond discounts, premiums and refunding losses; and change in the accrual of arbitrage liabilities.	(9,947)
The net revenues of certain activities of internal service funds are reported with governmental activities.	<u>(1,439)</u>
Change in net assets of governmental activities	<u>\$ (279,853)</u>

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

CITY AND COUNTY OF SAN FRANCISCO
Budgetary Comparison Statement – General Fund
Year Ended June 30, 2009
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Budgetary Fund Balance, July 1	\$ 111,204	\$ 461,193	\$ 461,193	\$ -
Resources (Inflows):				
Property taxes.....	1,018,877	1,018,877	1,021,325	2,448
Business taxes.....	394,556	394,556	387,313	(7,243)
Other local taxes:				
Sales tax.....	119,326	119,326	101,662	(17,664)
Hotel room tax.....	188,717	188,717	161,714	(27,003)
Utility users tax.....	82,770	82,770	89,801	7,031
Parking tax.....	65,370	65,370	64,546	(824)
Real property transfer tax.....	96,794	96,794	61,471	(35,323)
Licenses, permits, and franchises:				
Licenses and permits.....	9,248	9,249	8,696	(553)
Franchise tax.....	15,792	15,792	16,054	262
Fines, forfeitures, and penalties.....	3,861	6,060	5,618	(442)
Interest and investment income.....	21,367	23,041	14,681	(8,360)
Rents and concessions:				
Garages - Recreation and Park.....	9,837	9,837	8,958	(879)
Rents and concessions - Recreation and Park.....	9,417	9,417	7,708	(1,709)
Other rents and concessions.....	1,853	1,853	1,840	(13)
Intergovernmental:				
Federal grants and subventions.....	206,370	214,340	182,935	(31,405)
State subventions:				
Social service subventions.....	101,309	101,570	102,385	815
Health / mental health subventions.....	121,931	120,773	116,830	(3,943)
Health and welfare realignment.....	170,166	170,166	147,501	(22,665)
Public safety sales tax.....	73,812	73,812	63,698	(10,114)
Motor vehicle in-lieu - county.....	4,960	4,960	2,673	(2,287)
Other grants and subventions.....	15,291	21,332	41,852	20,520
Other.....	-	-	16	16
Charges for services:				
General government service charges.....	48,724	48,804	42,723	(6,081)
Public safety service charges.....	26,820	26,821	23,945	(2,876)
Recreation charges - Recreation and Park.....	7,438	7,438	8,789	1,351
MediCal, MediCare and health service charges.....	64,767	67,776	60,403	(7,373)
Other financing sources:				
Transfers from other funds.....	118,218	133,771	132,342	(1,429)
Repayment of loan from Component Unit.....	1,783	2,579	796	(1,783)
Other resources (inflows).....	11,414	11,641	6,930	(4,711)
Subtotal - Resources (Inflows)	<u>3,010,788</u>	<u>3,047,442</u>	<u>2,885,205</u>	<u>(162,237)</u>
Total amounts available for appropriation.....	<u>3,121,992</u>	<u>3,508,635</u>	<u>3,346,398</u>	<u>(162,237)</u>

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

CITY AND COUNTY OF SAN FRANCISCO
Budgetary Comparison Statement – General Fund (continued)
Year Ended June 30, 2009
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Charges to Appropriations (Outflows):				
Public Protection				
Adult Probation.....	\$ 11,839	\$ 12,081	\$ 11,890	\$ 191
District Attorney.....	33,042	33,324	32,142	1,182
Emergency Communications.....	3,366	3,846	3,318	528
Fire Department.....	251,013	258,130	248,629	9,501
Juvenile Probation.....	37,702	36,244	33,609	2,635
Police Department.....	370,800	379,524	370,645	8,879
Public Defender.....	23,159	23,770	23,585	185
Sheriff.....	139,261	132,056	130,841	1,215
Superior Court.....	32,563	32,558	32,558	-
Subtotal - Public Protection	<u>902,745</u>	<u>911,533</u>	<u>887,217</u>	<u>24,316</u>
Public Works, Transportation and Commerce				
Board of Appeals.....	824	824	752	72
Business and Economic Development.....	9,519	9,866	8,434	1,432
General Services Agency - Public Works.....	36,401	57,853	51,749	6,104
Parking and Traffic Commission.....	-	244	243	1
Public Utilities Commission.....	-	52	45	7
Water Department.....	-	128	128	-
Subtotal - Public Works, Transportation and Commerce	<u>46,744</u>	<u>68,967</u>	<u>61,351</u>	<u>7,616</u>
Human Welfare and Neighborhood Development				
Children, Youth and Their Families.....	28,065	30,111	29,107	1,004
Commission on the Status of Women.....	3,482	3,494	3,259	235
County Education Office.....	80	80	80	-
Environment.....	700	1,536	1,388	148
Human Rights Commission.....	933	1,031	959	72
Human Services.....	618,541	617,442	585,995	31,447
Subtotal - Human Welfare and Neighborhood Development	<u>651,801</u>	<u>653,694</u>	<u>620,788</u>	<u>32,906</u>
Community Health				
Public Health.....	513,858	501,700	487,638	14,062
Culture and Recreation				
Academy of Sciences.....	4,812	4,812	4,571	241
Art Commission.....	8,723	8,424	7,912	512
Asian Art Museum.....	6,685	6,741	6,514	227
Fine Arts Museum.....	10,880	11,231	10,742	489
Law Library.....	598	602	489	113
Recreation and Park Commission.....	72,533	64,966	64,966	-
Subtotal - Culture and Recreation	<u>104,231</u>	<u>96,776</u>	<u>95,194</u>	<u>1,582</u>

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

CITY AND COUNTY OF SAN FRANCISCO
Budgetary Comparison Statement – General Fund (continued)
Year Ended June 30, 2009
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
General Administration and Finance				
Assessor/Recorder.....	\$ 13,495	\$ 14,412	\$ 12,850	\$ 1,562
Board of Supervisors.....	10,960	11,281	10,988	293
City Attorney.....	10,007	10,236	9,538	698
City Planning.....	23,191	22,133	19,928	2,205
Civil Service.....	524	559	559	-
Controller.....	13,543	14,211	13,444	767
Elections.....	10,341	15,136	14,813	323
Ethics Commission.....	4,031	3,230	3,123	107
General Services Agency - Administrative Services.....	54,721	55,696	49,306	6,390
General Services Agency - Telecomm. and Info. Services	3,033	3,134	2,021	1,113
Human Resources.....	11,947	6,541	5,858	683
Mayor.....	8,853	17,223	16,669	554
Retirement Services.....	573	583	583	-
Treasurer/Tax Collector.....	21,303	20,817	19,697	1,120
Subtotal - General Administration and Finance	<u>186,522</u>	<u>195,192</u>	<u>179,377</u>	<u>15,815</u>
General City Responsibilities				
General City Responsibilities.....	78,524	78,086	73,553	4,533
Other financing uses:				
Debt Service.....	1,011	1,011	1,011	-
Transfers to other funds.....	603,790	549,757	549,757	-
Budgetary reserves and designations.....	<u>32,766</u>	<u>28,028</u>	<u>-</u>	<u>28,028</u>
Total charges to appropriations.....	<u>3,121,992</u>	<u>3,084,744</u>	<u>2,955,886</u>	<u>128,858</u>
Total Sources less Current Year Uses	<u>\$ -</u>	<u>\$ 423,891</u>	<u>\$ 390,512</u>	<u>\$ (33,379)</u>
Budgetary fund balance, June 30 before reserves and designations			\$ 390,512	
Reserves and designations made from budgetary fund balance, June 30			<u>295,065</u>	
Net Available Budgetary Fund Balance, June 30			<u>\$ 95,447</u>	
Explanation of differences between budgetary inflows and outflows, and GAAP revenues and expenditures:				
Sources/inflows of resources				
Actual amounts (budgetary basis) "available for appropriation"			\$ 3,346,398	
Difference - 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.....			(461,193)	
Property tax revenue - Teeter Plan.....			(21,797)	
Change in unrealized gain/(loss) on investment.....			1,481	
Interest earnings / charges from other funds assigned to General Fund as interest adjustment.....			(6,969)	
Interest earnings from other funds assigned to General Fund as other revenues.....			4,270	
Grants, subventions and other receivables received after 120-day recognition period			(11,870)	
Loan repayment from component unit.....			(796)	
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes.....			<u>(132,342)</u>	
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.....			<u>\$ 2,717,182</u>	
Uses/outflows of resources				
Actual amounts (budgetary basis) "total charges to appropriations"			\$ 2,955,886	
Difference - budget to GAAP:				
Capital asset purchases funded under capital leases with Finance Corporation and other vendors.....			4,157	
Recognition of expenditures for advances and imprest cash.....			298	
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes.....			<u>(549,757)</u>	
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds.....			<u>\$ 2,410,584</u>	

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets – Proprietary Funds

June 30, 2009

(with comparative total financial information as of June 30, 2008)

(In Thousands)

	Business-type Activities - Enterprise Funds										Total		Governmental Activities-Internal Service Funds	
	Major Funds							Other Fund						
	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Waste-water Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	2009	2008	2009	2008	
ASSETS														
Current Assets:														
Deposits and investments with City Treasury.....	\$ 307,696	\$ 130,927	\$ 170,111	\$ 191,672	\$ 47,879	\$ 36,968	\$ 85,094	\$ -	\$ -	\$ 970,347	\$ 991,537	\$ 16,309	\$ 11,632	
Deposits and investments outside City Treasury.....	10	36	10	2,861	10	5	5	1	5,103	8,041	9,109	-	-	
Receivables (net of allowance for uncollectible amounts of \$24,717 and \$30,750 in 2009 and 2008, respectively):														
Federal and state grants and subventions.....	-	337	-	34,732	-	106	1,184	-	-	36,359	36,623	-	-	
Charges for services.....	33,674	65,869	9,347	3,335	43,969	34,699	4,176	27,956	11	223,036	206,507	89	146	
Interest and other.....	960	1,109	6,336	3,416	26,558	169	260	-	-	38,808	43,107	853	1,348	
Loans receivable.....	-	-	-	-	-	-	-	-	-	-	134	21,100	26,999	
Due from other funds.....	-	197	14,658	2,705	-	31	-	22,497	-	40,088	16,283	-	-	
Inventories.....	81	1,849	261	50,226	5,355	3,586	1,161	1,249	-	63,768	56,248	-	-	
Deferred charges and other assets.....	3,219	-	3,478	647	-	3	-	-	29	7,376	6,918	-	-	
Restricted assets:														
Deposits and investments with City Treasury.....	36,986	-	-	-	-	-	9,364	64,906	-	111,256	129,421	-	-	
Deposits and investments outside City Treasury....	44,955	-	-	-	-	-	7,058	-	177	52,190	47,388	-	-	
Grants and other receivables.....	1,257	-	-	-	-	-	-	-	-	1,257	342	-	-	
Total current assets.....	428,838	200,324	204,201	289,594	123,771	75,567	108,302	116,609	5,320	1,552,526	1,543,617	38,351	40,125	
Noncurrent assets:														
Deferred charges and other assets.....	39,178	6,834	40	2,029	-	2,576	869	-	-	51,526	60,413	4,233	4,347	
Loans receivable.....	-	-	-	-	-	-	-	-	-	-	188	272,191	257,699	
Advance to component unit.....	-	-	4,427	-	-	-	-	-	-	4,427	2,599	-	-	
Restricted assets:														
Deposits and investments with City Treasury.....	101,650	21,726	-	20,862	-	61,477	-	-	-	205,715	191,989	-	-	
Deposits and investments outside City Treasury....	243,874	40,974	6,091	14,420	18	-	-	932	118	306,427	301,500	96,050	95,727	
Grants and other receivables.....	21,546	117	-	4,359	-	163	-	225	-	26,410	25,626	-	-	
Capital assets:														
Land and other assets not being depreciated.....	112,687	565,679	43,641	136,808	13,651	99,117	111,739	425,415	874	1,509,611	1,390,516	-	-	
Facilities, infrastructure, and equipment, net of depreciation.....	3,471,738	935,581	229,998	1,820,852	40,224	1,295,806	147,015	5,989	4,080	7,951,283	7,757,878	6,363	4,985	
Total capital assets.....	3,584,425	1,501,260	273,639	1,957,660	53,875	1,394,923	258,754	431,404	4,954	9,460,894	9,148,394	6,363	4,985	
Total noncurrent assets.....	3,990,673	1,570,911	284,197	1,999,330	53,893	1,459,139	259,623	432,561	5,072	10,055,399	9,730,709	378,837	362,758	
Total assets.....	4,419,511	1,771,235	488,398	2,288,924	177,664	1,534,706	367,925	549,170	10,392	11,607,925	11,274,326	417,188	402,883	

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets – Proprietary Funds (continued)

June 30, 2009

(with comparative total financial information as of June 30, 2008)

(In Thousands)

	Business-type Activities - Enterprise Funds									Total		Governmental Activities-Internal Service Funds	
	Major Funds								Other Fund				
	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Waste-water Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	2009	2008	2009	2008
LIABILITIES													
Current liabilities:													
Accounts payable.....	\$ 33,698	\$ 14,778	\$ 14,853	\$ 41,033	\$ 19,333	\$ 7,891	\$ 4,797	\$ 18,641	\$ 364	\$ 155,388	\$ 155,329	\$ 8,963	\$ 7,587
Accrued payroll.....	8,512	6,846	1,544	23,870	16,199	3,498	1,369	6,738	-	68,576	62,271	1,904	1,951
Accrued vacation and sick leave pay.....	7,410	6,071	1,454	16,868	10,178	2,770	1,138	5,169	-	51,058	49,114	1,790	2,097
Accrued workers' compensation.....	1,015	1,551	405	17,003	3,693	774	365	2,093	-	26,899	26,573	161	166
Estimated claims payable.....	25	2,515	3,251	18,382	-	1,861	600	-	-	26,634	27,215	-	-
Due to other funds.....	-	23	-	1,315	1,645	556	736	16,373	-	20,648	9,481	3,141	11,194
Deferred credits and other liabilities.....	64,828	7,980	952	63,442	52,354	-	10,247	653	64	200,520	197,963	96,201	89,354
Accrued interest payable.....	-	7,420	-	154	-	5,108	199	-	-	12,881	13,426	2,090	2,704
Bonds, loans, capital leases, and other payables.....	81,429	256,205	422	4,539	1,142	151,329	4,416	82	-	499,564	207,029	19,128	23,775
Liabilities payable from restricted assets:													
Bonds, loans, capital leases, and other payables.....	122,566	-	-	-	-	-	-	-	-	122,566	37,119	-	-
Accrued interest payable.....	29,296	-	-	-	-	-	-	-	-	29,296	27,448	-	-
Other.....	19,871	40,603	-	6,667	-	6,998	-	888	-	75,027	54,670	-	-
Total current liabilities.....	368,650	343,992	22,881	193,273	104,544	180,785	23,867	50,637	428	1,289,057	867,638	133,378	138,828
Noncurrent liabilities:													
Accrued vacation and sick leave pay.....	6,472	5,383	1,086	11,774	7,339	2,308	864	3,816	-	39,042	37,499	1,593	1,912
Accrued workers' compensation.....	4,199	7,066	1,900	73,082	17,992	3,639	1,942	9,292	-	119,112	120,703	866	888
Other postemployment benefits obligation.....	32,226	30,967	5,799	73,785	62,522	11,413	5,816	25,119	-	247,647	120,383	7,885	4,147
Estimated claims payable.....	41	7,126	7,060	29,083	-	8,499	300	-	-	52,109	65,523	-	-
Deferred credits and other liabilities.....	-	4,500	-	28,327	-	919	42,084	-	118	75,948	44,655	-	-
Bonds, loans, capital leases, and other payables.....	3,738,537	909,901	5,295	50,262	1,380	316,539	2,919	31	-	5,024,864	5,169,576	274,910	259,949
Total noncurrent liabilities.....	3,781,475	964,943	21,140	266,313	89,233	343,317	53,925	38,258	118	5,558,722	5,558,339	285,254	266,896
Total liabilities.....	4,150,125	1,308,935	44,021	459,586	193,777	524,102	77,792	88,895	546	6,847,779	6,425,977	418,632	405,724
NET ASSETS													
Invested in capital assets, net of related debt.....	(222,948)	349,629	273,639	1,902,859	51,353	971,789	255,012	431,290	4,954	4,017,577	3,935,008	5,651	4,730
Restricted:													
Debt service.....	243,247	27,899	-	4,528	-	1,360	-	-	-	277,034	282,187	-	-
Capital projects.....	22,804	841	-	-	-	11,126	3,459	69,613	-	107,843	111,463	-	-
Other purposes.....	-	-	-	28,446	-	-	-	1,618	296	30,360	28,254	-	-
Unrestricted (deficit).....	226,283	83,931	170,738	(106,495)	(67,466)	26,329	31,662	(42,246)	4,596	327,332	491,437	(7,095)	(7,571)
Total net assets (deficit).....	\$ 269,386	\$ 462,300	\$ 444,377	\$ 1,829,338	\$ (16,113)	\$ 1,010,604	\$ 290,133	\$ 460,275	\$ 9,846	\$ 4,760,146	\$ 4,848,349	\$ (1,444)	\$ (2,841)

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds
 Year ended June 30, 2009
 (with comparative total financial information as of June 30, 2008)
 (In Thousands)

	Business-type Activities - Enterprise Funds													
	Major Funds								Other Fund					
	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Waste-water Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total		Governmental Activities-Internal Service Funds		
										2009	2008	2009	2008	
Operating revenues:														
Aviation.....	\$ 315,777	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 315,777	\$ 306,348	\$ -	\$ -	
Water and power service.....	-	247,664	115,028	-	-	-	-	-	-	362,692	336,449	-	-	
Passenger fees.....	-	-	-	150,437	-	-	-	-	-	150,437	149,886	-	-	
Net patient service revenue.....	-	-	-	-	437,839	-	-	118,631	-	556,470	543,994	-	-	
Sewer service.....	-	-	-	-	-	199,332	-	-	-	199,332	187,810	-	-	
Rents and concessions.....	101,099	9,399	246	6,231	1,711	-	53,871	-	-	172,557	209,489	48	14	
Parking and transportation.....	77,896	-	-	84,395	-	-	10,697	-	-	172,988	130,038	-	-	
Other charges for services.....	-	-	-	2,701	-	-	-	-	1,546	4,247	3,895	111,318	111,809	
Other revenues.....	56,511	8,718	-	13,319	9,331	9,322	1,899	698	-	99,798	106,052	-	-	
Total operating revenues.....	551,283	265,781	115,274	257,083	448,881	208,654	66,467	119,329	1,546	2,034,298	1,973,961	111,366	111,823	
Operating expenses:														
Personal services.....	199,519	106,869	36,469	560,012	381,392	69,141	29,238	164,004	225	1,546,869	1,497,198	46,873	52,241	
Contractual services.....	55,258	13,619	8,098	53,487	141,169	13,828	5,773	6,202	645	298,079	284,315	37,612	37,987	
Light, heat and power.....	19,306	-	18,466	-	-	-	1,929	-	-	39,701	50,510	-	-	
Materials and supplies.....	11,435	12,671	2,243	47,726	63,284	5,754	1,618	12,272	5	157,008	160,913	14,795	16,783	
Depreciation and amortization.....	158,216	49,100	11,869	104,486	6,913	38,815	13,348	1,164	261	384,172	367,245	1,704	2,384	
General and administrative.....	1,198	2,982	7,347	36,242	345	2,302	4,359	-	7	54,782	74,097	300	514	
Services provided by other departments.....	11,422	40,103	4,477	56,983	35,284	31,634	12,846	7,624	-	200,373	166,125	8,245	5,889	
Other.....	22,235	22,971	7,259	1,535	-	7,826	2,123	-	1	63,950	55,254	933	642	
Total operating expenses.....	478,589	248,315	96,228	860,471	628,387	169,300	71,234	191,266	1,144	2,744,934	2,655,657	110,462	116,440	
Operating income (loss).....	72,694	17,466	19,046	(603,388)	(179,506)	39,354	(4,767)	(71,937)	402	(710,636)	(681,696)	904	(4,617)	
Nonoperating revenues (expenses):														
Operating grants:														
Federal.....	-	1,784	-	13,277	-	224	-	2,172	-	17,457	9,109	-	-	
State / other.....	-	-	-	104,490	64,829	-	-	-	-	169,319	172,616	-	-	
Interest and investment income.....	22,805	7,088	4,160	6,833	1,692	1,992	2,596	2,410	115	49,691	67,217	9,219	11,183	
Interest expense.....	(204,746)	(28,847)	-	(2,747)	(156)	(15,677)	(544)	(427)	-	(253,144)	(252,231)	(8,975)	(11,218)	
Other, net.....	62,307	4,619	317	113,719	-	798	(15)	19,879	-	201,624	233,244	23	25	
Total nonoperating revenues (expenses).....	(119,634)	(15,356)	4,477	235,572	66,365	(12,663)	2,037	24,034	115	184,947	229,955	267	(10)	
Income (loss) before capital contributions, transfers and special item.....	(46,940)	2,110	23,523	(367,816)	(113,141)	26,691	(2,730)	(47,903)	517	(525,689)	(451,741)	1,171	(4,627)	
Capital contributions.....	29,780	-	-	55,915	-	-	1,558	-	-	87,253	152,511	-	-	
Transfers in.....	-	-	-	249,611	116,862	-	3,644	153,733	-	523,850	555,241	255	2,061	
Transfers out.....	(26,849)	(1,143)	(302)	(11,729)	(61,707)	-	-	(28,861)	-	(130,591)	(77,900)	(29)	-	
Income (loss) before special item.....	(44,009)	967	23,221	(74,019)	(57,986)	26,691	2,472	76,969	517	(45,177)	178,111	1,397	(2,566)	
Special item.....	-	-	-	-	-	-	-	-	-	-	(41,026)	-	-	
Change in net assets.....	(44,009)	967	23,221	(74,019)	(57,986)	26,691	2,472	76,969	517	(45,177)	137,085	1,397	(2,566)	
Net asset at beginning of year, as previously reported.....	313,395	461,333	421,156	1,903,357	41,873	983,913	330,687	383,306	9,329	4,848,349	4,711,264	(2,841)	(275)	
Restatements.....	-	-	-	-	-	-	(43,026)	-	-	(43,026)	-	-	-	
Net assets (deficit) at beginning of year, as restated.....	313,395	461,333	421,156	1,903,357	41,873	983,913	287,661	383,306	9,329	4,805,323	4,711,264	(2,841)	(275)	
Net assets (deficit) at end of year.....	\$ 269,386	\$ 462,300	\$ 444,377	\$ 1,829,338	\$ (16,113)	\$ 1,010,604	\$ 290,133	\$ 460,275	\$ 9,846	\$ 4,760,146	\$ 4,848,349	\$ (1,444)	\$ (2,841)	

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



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CITY AND COUNTY OF SAN FRANCISCO
Statement of Cash Flows – Proprietary Funds
Year ended June 30, 2009
(with comparative total financial information as of June 30, 2008)
(In Thousands)

	Business-type Activities - Enterprise Funds									Total		Governmental Activities-Internal Service Funds	
	Major Funds								Other Fund				
	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Waste- water Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation				
										2009	2008	2009	2008
Cash flows from operating activities:													
Cash received from customers, including cash deposits.....	\$ 574,731	\$ 235,841	\$ 111,439	\$ 402,888	\$ 447,636	\$ 208,067	\$ 7,009	\$ 113,021	\$ 1,546	\$ 2,102,178	\$ 2,104,475	\$ 143,646	\$ 142,620
Cash received from tenants for rent.....	-	9,069	246	-	1,711	-	56,398	-	-	67,424	71,041	-	-
Cash paid to employees for services.....	(180,574)	(88,027)	(32,322)	(519,784)	(347,135)	(62,702)	(26,106)	(152,183)	(256)	(1,409,089)	(1,363,222)	(43,837)	(47,444)
Cash paid to suppliers for goods and services.....	(135,268)	(78,888)	(49,595)	(208,451)	(245,890)	(59,424)	(27,245)	(12,612)	(594)	(817,967)	(810,148)	(94,955)	(82,303)
Cash paid for judgments and claims.....	-	(4,126)	(1,903)	(21,388)	-	(459)	-	-	-	(27,876)	(20,134)	-	-
Net cash provided by (used in) operating activities.....	258,889	73,869	27,865	(346,735)	(143,678)	85,482	10,056	(51,774)	696	(85,330)	(17,988)	4,854	12,873
Cash flows from noncapital financing activities:													
Operating grants.....	-	-	-	105,772	64,829	118	-	-	-	170,719	176,843	-	-
Transfers in.....	-	-	-	243,040	116,862	-	-	78,558	-	438,460	682,643	255	2,061
Transfers out.....	(26,849)	(1,143)	(302)	(15,574)	(36,733)	-	-	(28,861)	-	(109,462)	(220,265)	(29)	-
Transit Impact Development fees received.....	-	-	-	3,687	-	-	-	-	-	3,687	169	-	-
Other noncapital financing increases.....	3,942	-	2,699	6,558	-	798	-	11,346	-	25,343	21,611	-	-
Other noncapital financing decreases.....	-	-	(2,401)	(43)	(225)	-	-	-	-	(2,669)	(9,663)	-	-
Net cash provided by (used in) noncapital financing activities.....	(22,907)	(1,143)	(4)	343,440	144,733	916	-	61,043	-	526,078	651,338	226	2,061
Cash flows from capital and related financing activities:													
Capital grants and other taxes restricted for capital purposes.....	24,140	1,506	-	73,230	-	-	1,847	19,879	-	120,602	255,677	-	-
Transfers in.....	-	-	-	-	-	-	-	52,678	-	52,678	-	-	-
Transfers out.....	-	-	-	-	(24,973)	-	-	-	-	(24,973)	-	-	-
Bond sale proceeds and loans received.....	-	-	6,089	-	-	-	3,644	-	-	9,733	-	178,464	54,852
Proceeds from sale/transfer of capital assets.....	-	2,601	25	6	27,240	-	13	-	-	29,885	24,493	-	-
Proceeds from commercial paper borrowings.....	81,506	890,500	-	-	-	227,500	-	-	-	1,199,506	18,000	-	-
Proceeds from passenger facility charges.....	70,435	-	-	-	-	-	-	-	-	70,435	72,594	-	-
Acquisition of capital assets.....	(136,414)	(251,671)	(27,075)	(67,549)	(20,656)	(69,911)	(4,050)	(114,012)	(484)	(691,822)	(703,310)	(2,115)	(1,307)
Retirement of capital leases, bonds and loans.....	(88,205)	(660,900)	(704)	(7,201)	-	(49,427)	(4,277)	(536)	-	(811,250)	(166,585)	(167,948)	(21,567)
Retirement of commercial paper borrowings.....	-	(25,520)	-	-	-	(177,500)	-	-	-	(203,020)	-	-	-
Bond issue costs paid.....	-	-	-	-	-	-	-	-	-	-	-	(1,016)	(1,426)
Interest paid on debt.....	(188,808)	(46,169)	(7)	(2,487)	(156)	(17,959)	(371)	(427)	-	(256,384)	(262,203)	(9,456)	(9,939)
Other capital financing increases.....	-	-	-	-	-	-	-	-	-	-	50,559	-	-
Other capital financing decreases.....	(52)	-	-	(880)	(672)	-	(3,369)	-	-	(4,973)	(38,694)	-	-
Net cash provided by (used in) capital and related financing activities.....	(237,398)	(89,653)	(21,672)	(4,881)	(19,217)	(87,297)	(6,563)	(42,418)	(484)	(509,583)	(749,469)	(2,071)	20,613
Cash flows from investing activities:													
Purchases of investments with trustees.....	(3,360,413)	(70,311)	-	(4,557)	-	-	-	-	(258)	(3,435,539)	(2,873,839)	(23,716)	(159,000)
Proceeds from sale of investments with trustees.....	3,356,967	70,388	-	7,639	-	-	-	-	4,725	3,439,719	2,899,054	48,328	130,765
Interest and investment income.....	23,852	7,576	4,167	7,275	1,692	2,153	4,405	2,410	115	53,645	77,447	2,123	2,978
Other investing activities.....	-	1,533	-	-	1	-	-	(62)	-	1,472	2,735	(132)	(322)
Net cash provided by (used in) investing activities.....	20,406	9,186	4,167	10,357	1,693	2,153	4,405	2,348	4,582	59,297	105,397	26,603	(25,579)
Net increase (decrease) in cash and cash equivalents.....	18,990	(7,741)	10,356	2,181	(16,469)	1,254	7,898	(30,801)	4,794	(9,538)	(10,722)	29,612	9,968
Cash and cash equivalents-beginning of year, as restated.....	428,424	160,430	165,856	226,952	64,358	97,196	93,183	95,708	309	1,332,416	1,343,138	44,057	34,089
Cash and cash equivalents-end of year.....	\$ 447,414	\$ 152,689	\$ 176,212	\$ 229,133	\$ 47,889	\$ 98,450	\$ 101,081	\$ 64,907	\$ 5,103	\$ 1,322,878	\$ 1,332,416	\$ 73,669	\$ 44,057

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

CITY AND COUNTY OF SAN FRANCISCO
Statement of Cash Flows – Proprietary Funds (continued)
Year ended June 30, 2009
(with comparative total financial information as of June 30, 2008)
(In Thousands)

	Business-type Activities - Enterprise Funds									Total		Governmental Activities-Internal Service Funds	
	Major Funds								Other Fund				
	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Waste- water Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	2009	2008	2009	2008
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:													
Operating income (loss).....	\$ 72,694	\$ 17,466	\$ 19,046	\$ (603,388)	\$ (179,506)	\$ 39,354	\$ (4,767)	\$ (71,937)	\$ 402	\$ (710,636)	\$ (681,696)	\$ 904	\$ (4,617)
Adjustments for non-cash activities:													
Depreciation and amortization.....	158,216	49,100	11,869	104,486	6,913	38,815	13,348	1,164	261	384,172	367,245	1,704	2,384
Provision for uncollectibles.....	63	(252)	-	(1,015)	-	543	421	-	-	(240)	(4,147)	-	-
Write-off of capital assets.....	-	5,207	349	-	-	2,071	-	-	-	7,627	11,099	-	-
Other.....	3,434	-	10	113,804	-	-	-	-	-	117,248	111,701	23	26
Changes in assets/liabilities:													
Receivables, net.....	8,910	(18,723)	(1,500)	4,057	3,308	(952)	(1,209)	(6,109)	5	(12,213)	(5,377)	23,527	21,461
Due from other funds.....	-	-	(711)	-	-	(6)	-	-	-	(717)	1,150	(54)	(79)
Inventories.....	(8)	23	35	(3,530)	(278)	(3,586)	90	(51)	-	(7,305)	(5,100)	-	-
Deferred charges and other assets.....	29	-	(1,358)	5	-	(3)	157	-	-	(1,170)	(1,959)	6	(6)
Accounts payable.....	(2,668)	6,209	2,720	3,202	(5,531)	795	617	13,536	28	18,908	9,785	962	(2,012)
Accrued payroll.....	786	837	371	2,289	1,671	202	122	(198)	-	6,080	7,915	(49)	179
Accrued vacation and sick leave pay.....	969	598	169	1,618	360	80	61	(369)	-	3,486	1,714	(627)	171
Accrued workers' compensation.....	378	482	158	(2,031)	(231)	(262)	(236)	477	-	(1,265)	839	(27)	300
Other postemployment benefits obligation.....	16,813	15,919	3,076	38,347	32,457	5,729	3,011	11,912	-	127,264	120,383	3,738	4,147
Estimated claims payable.....	-	(1,613)	(4,990)	(8,515)	-	1,316	(221)	-	-	(14,023)	14,233	-	-
Due to other funds.....	-	76	-	1,000	(2,841)	556	653	(13)	-	(569)	14,820	225	(1)
Deferred credits and other liabilities.....	(727)	(1,460)	(1,379)	2,936	-	830	(1,991)	(186)	-	(1,977)	19,407	(25,478)	(9,080)
Total adjustments.....	186,195	56,403	8,819	256,653	35,828	46,128	14,823	20,163	294	625,306	663,708	3,950	17,490
Net cash provided by (used in) operating activities.....	\$ 258,889	\$ 73,869	\$ 27,865	\$ (346,735)	\$ (143,678)	\$ 85,482	\$ 10,056	\$ (51,774)	\$ 696	\$ (85,330)	\$ (17,988)	\$ 4,854	\$ 12,873
Reconciliation of cash and cash equivalents to the statement of net assets:													
Deposits and investments with City Treasury:													
Unrestricted.....	\$ 307,696	\$ 130,927	\$ 170,111	\$ 191,672	\$ 47,879	\$ 36,968	\$ 85,094	\$ -	\$ -	\$ 970,347	\$ 991,537	\$ 16,309	\$ 11,632
Restricted.....	138,636	21,726	-	20,862	-	61,477	9,364	65,838	-	317,903	321,410	-	-
Deposits outside of City Treasury:													
Unrestricted.....	10	36	10	2,861	10	5	5	1	5,103	8,041	9,109	-	-
Restricted.....	288,829	40,974	6,091	14,420	18	-	7,058	-	295	357,685	348,888	96,050	95,727
Total deposits and investments.....	735,171	193,663	176,212	229,815	47,907	98,450	101,521	65,839	5,398	1,653,976	1,670,944	112,359	107,359
Less: Investments outside of City Treasury not meeting the definition of cash equivalents.....	(287,757)	(40,974)	-	(682)	(18)	-	(440)	(932)	(295)	(331,098)	(338,528)	(38,690)	(63,302)
Cash and cash equivalents at end of year on statement of cash flows.....	\$ 447,414	\$ 152,689	\$ 176,212	\$ 229,133	\$ 47,889	\$ 98,450	\$ 101,081	\$ 64,907	\$ 5,103	\$ 1,322,878	\$ 1,332,416	\$ 73,669	\$ 44,057
Non-cash capital and related financing activities:													
Acquisition of capital assets on accounts payable and capital lease.....	\$ 29,290	\$ 40,603	\$ 6,304	\$ 437	\$ 535	\$ 6,998	\$ 1,803	\$ -	\$ 179	\$ 86,149	\$ 57,278	\$ 4,264	\$ 11,326
Tenant improvements financed by rent credit.....	-	-	-	-	-	-	1,315	-	-	1,315	-	-	-
Land acquired through real property exchange.....	-	500	-	-	-	-	-	-	-	500	-	-	-
Loss on abandonment of property and equipment.....	-	-	-	-	-	-	-	-	-	-	44,957	-	-

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Fiduciary Net Assets – Fiduciary Funds
June 30, 2009
(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Agency Funds
ASSETS			
Deposits and investments with City Treasury.....	\$ 66,155	\$ 569,851	\$ 91,131
Deposits and investments outside City Treasury:			
Cash and deposits.....	27,575	105	223
Short term investments.....	504,096	-	-
Alternative investments.....	1,511,250	-	-
Debt securities.....	3,716,233	-	-
Equity securities.....	5,114,484	-	-
Real estate.....	1,181,932	-	-
Foreign currency contracts, net.....	2,094	-	-
Receivables:			
Employer and employee contributions.....	36,666	-	48,107
Brokers, general partners and others.....	185,725	-	-
Interest and other.....	58,020	2,283	192,486
Invested in securities lending collateral.....	837,074	-	-
Deferred charges and other assets.....	-	-	24,299
Total assets.....	<u>13,241,304</u>	<u>572,239</u>	<u>\$ 356,246</u>
LIABILITIES			
Accounts payable.....	35,408	6,858	\$ 66,282
Estimated claims payable.....	12,143	-	-
Agency obligations.....	-	-	289,964
Payable to brokers.....	366,728	-	-
Deferred Retirement Option Program liabilities.....	4,143	-	-
Payable to borrowers of securities.....	881,830	-	-
Deferred credits and other liabilities.....	40,923	-	-
Total liabilities.....	<u>1,341,175</u>	<u>6,858</u>	<u>\$ 356,246</u>
NET ASSETS			
Held in trust for pension and other employee benefits and external pool participants.....	<u>\$ 11,900,129</u>	<u>\$ 565,381</u>	

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Changes in Fiduciary Net Assets – Fiduciary Funds
 Year ended June 30, 2009
 (In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund
Additions:		
Employees' contributions.....	\$ 291,488	\$ -
Employer contributions.....	637,244	-
Transfers from CalPERS.....	6,350	-
Contributions to pooled investments.....	-	2,998,603
Total contributions.....	<u>935,082</u>	<u>2,998,603</u>
Investment income/loss:		
Interest.....	233,611	14,585
Dividends.....	144,815	-
Net depreciation in fair value of investments.....	(3,815,602)	-
Securities lending loss.....	(25,493)	-
Fixed coupon dollar repurchase agreement loss.....	(9,104)	-
Total investment income/(loss)	<u>(3,471,773)</u>	<u>14,585</u>
Less investment expenses:		
Securities lending borrower rebates and expenses.....	(1,568)	-
Fixed coupon dollar repurchase agreement finance charges and expenses.....	(1,650)	-
Other investment expenses.....	(37,110)	-
Total investment expenses.....	<u>(40,328)</u>	<u>-</u>
Total additions, net.....	<u>(2,577,019)</u>	<u>3,013,188</u>
Deductions:		
Benefit payments.....	1,359,265	-
Refunds of contributions.....	6,714	-
Distribution from pooled investments.....	-	2,986,166
Administrative expenses.....	12,951	-
Total deductions.....	<u>1,378,930</u>	<u>2,986,166</u>
Change in net assets.....	(3,955,949)	27,022
Net assets at beginning of year.....	15,856,078	538,359
Net assets at end of year.....	<u>\$ 11,900,129</u>	<u>\$ 565,381</u>

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

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

(1) THE FINANCIAL REPORTING ENTITY

San Francisco is a city and county chartered by the State of California and as such can exercise the powers as both a city and a county under state law. As required by generally accepted accounting principles, the accompanying financial statements present the City and County of San Francisco (the City or primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of their operations or financial relationships with the City.

As a government agency, the City is exempt from both federal income taxes and California State franchise taxes.

Blended Component Units

Following is a description of those legally separate component units for which the City is financially accountable that are blended with the primary government because of their individual governance or financial relationships to the City.

San Francisco County Transportation Authority (The Authority) – The voters of the City created the Authority in 1989 to impose a voter-approved sales and use tax of one-half of one percent, for a period not to exceed 20 years, to fund essential traffic and transportation projects. In 2003, the voters approved Proposition K, extending the city-wide one-half of one percent sales tax with a new 30 year plan. A board consisting of the eleven members of the City's Board of Supervisors serving ex officio governs the Authority. The Authority is reported in a special revenue fund in the City's basic financial statements. Financial statements for the Authority can be obtained from their finance and administrative offices at 100 Van Ness Avenue, 26th Floor, San Francisco, CA 94102.

San Francisco City and County Finance Corporation (The Finance Corporation) – The Finance Corporation was created in 1990 by a vote of the electorate to allow the City to lease-purchase \$20 million (plus 5% per year growth) of equipment using tax-exempt obligations. Although legally separate from the City, the Finance Corporation is reported as if it were part of the primary government because its sole purpose is to provide lease financing to the City. The Finance Corporation is governed by a three-member board of directors approved by the Mayor and the Board of Supervisors. The Finance Corporation is reported as an internal service fund. Financial statements for the Finance Corporation can be obtained from their administrative offices at City Hall, Room 336, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

San Francisco Parking Authority (The Parking Authority) – The Parking Authority was created in October 1949 to provide services exclusively to the City. In accordance with Proposition D authorized by the City's electorate in November 1988, a City Charter amendment created the Parking and Traffic Commission (DPC). The PTC consists of five commissioners appointed by the mayor. Upon creation of the PTC, the responsibility to oversee the City's off-street parking operations was transferred from the Parking Authority to the PTC. The staff and fiscal operations of the Parking Authority were also incorporated into the PTC. Beginning on July 1, 2002, the responsibility for overseeing the operations of the PTC became the responsibility of the Municipal Transportation Agency (MTA) pursuant to Proposition E which was passed by the voters in November 1999. Separate financial statements are not prepared for the Parking Authority. Further information about the Parking Authority can be obtained from the MTA administrative offices at 1 South Van Ness Avenue, 7th Floor, San Francisco, CA 94102.

Discretely Presented Component Units

San Francisco Redevelopment Agency (The Agency) – The Agency is a public body, corporate and politic, organized and existing under the Community Redevelopment Law of the State of California. Seven commissioners who are appointed by the Mayor, subject to confirmation by the City's Board of Supervisors, govern it. The Agency has adopted as its mission the creation of affordable housing and

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economic development opportunities Citywide. Included in its financial data are the accounts of the San Francisco Redevelopment Financing Authority (SFRFA), a blended component unit of the Agency. The SFRFA is a separate joint-powers authority formed between the Agency and the City to facilitate the long-term financing of Agency activities. The Agency's governing commission serves as the Board of Directors of the SFRFA.

In May 2002, the Public Initiatives Development Corporation (PIDC) was formed to develop affordable housing on the Agency's behalf. The PIDC is reported as a blended component unit of the Agency, due to the Board of the PIDC being comprised of management of the Agency and other appointed individuals. Future funding will be dependent on the Agency.

The Agency's governing body is not substantively the same as that of the City, and the Agency does not provide services entirely or almost entirely to the City. The Agency is reported in a separate column to emphasize that it is legally separate from the City. The City is financially accountable for the Agency through the appointment of the Agency's Board and the ability of the City to approve the Agency's budget. Disclosures related to the Agency, where significant, are identified separately throughout these notes. Complete financial statements can be obtained from the Agency's finance department at 1 South Van Ness Avenue, 5th Floor, San Francisco, CA 94103.

Treasure Island Development Authority (TIDA) – The TIDA is a nonprofit public benefit corporation. The TIDA was authorized in accordance with the Treasure Island Conversion Act of 1997 and designated as a redevelopment agency pursuant to Community Redevelopment Law of the State of California. Seven commissioners who are appointed by the Mayor, subject to confirmation by the City's Board of Supervisors, govern the TIDA. The specific purpose of the TIDA is to promote the planning, redevelopment, reconstruction, rehabilitation, reuse, and conversion of the property known as Naval Station Treasure Island for the public interest, convenience, welfare, and common benefit of the inhabitants of the City. The TIDA has adopted as its mission the creation of affordable housing and economic development opportunities on Treasure Island.

The TIDA's governing body is not substantively the same as that of the City and does not provide services entirely or almost entirely to the City. The TIDA is reported in a separate column to emphasize that it is legally separate from the City. The City is financially accountable for the TIDA through the appointment of the TIDA's Board and the ability of the City to approve the TIDA's budget. Disclosures related to the TIDA, where significant, are separately identified throughout these notes. Separate financial statements are not prepared for TIDA. Further information about TIDA can be obtained from their administrative offices at 410 Palm Avenue, Building 1, Room 223, Treasure Island, San Francisco, CA 94130.

Non-Disclosed Organizations

There are other governmental agencies that provide services within the City. These entities have independent governing boards and the City is not financially accountable for them. The City's basic financial statements, except for certain cash held by the City as an agent, do not reflect operations of the San Francisco Airport Improvement Corporation, San Francisco Health Authority, San Francisco Housing Authority, Private Industry Council of San Francisco, San Francisco Unified School District and San Francisco Community College District. The City is represented in two regional agencies, the Bay Area Rapid Transit District and the Bay Area Air Quality Management District, both of which are also excluded from the City's reporting entity.

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(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

The basic financial statements include certain prior-year summarized comparative information. This information is presented only to facilitate financial analysis.

(b) Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Agency funds, however, report only assets and liabilities and cannot be said to have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. The City considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenues are considered to be available if they are generally collected within 120 days of the end of the current fiscal period. It is the City's policy to submit reimbursement and claim requests for federal and state grant revenues within 30 days of the end of the program cycle and payment is generally received within the first or second quarter of the following fiscal year. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to vacation, sick leave, claims and judgments, are recorded only when payment is due.

Property taxes, other local taxes, grants and subventions, licenses, and interest associated with the current fiscal period are all considered susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the City receives cash.

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The City reports the following major governmental fund:

- The **General Fund** is the City's primary operating fund. It accounts for all financial resources of the City except those required to be accounted for in another fund.

The City reports the following major proprietary (enterprise) funds:

- The **San Francisco International Airport Fund** accounts for the activities of the City-owned commercial service airport in the San Francisco Bay Area.
- The **San Francisco Water Enterprise Fund** accounts for the activities of the San Francisco Water Enterprise (Water Enterprise). The Water Enterprise is engaged in the distribution of water to the City and certain suburban areas.
- The **Hetch Hetchy Water and Power Enterprise Fund** accounts for the activities of Hetch Hetchy Water and Power Department (Hetch Hetchy). The department is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity.
- The **Municipal Transportation Agency Fund** accounts for the activities of the Municipal Transportation Agency (MTA). The MTA was established by Proposition E, passed by the City's voters in November 1999. The MTA includes the San Francisco Municipal Railway (MUNI), San Francisco Municipal Railway Improvement Corporation (SFMRIC), and the operations of the Department of Parking and Traffic (DPT), which includes the Parking Authority. MUNI was established in 1912 and is responsible for the operations of the City's public transportation system. SFMRIC is a nonprofit corporation established to provide capital financial assistance for the modernization of MUNI by acquiring, constructing, and financing improvements to the City's public transportation system. DPT is responsible for proposing and implementing street and traffic changes and oversees the City's off-street parking operations. DPT is a separate department of the MTA. The parking garages fund accounted for the activities of various non-profit corporations formed by the Parking Authority to provide financial and other assistance to the City to acquire land, construct facilities, and manage various parking facilities.
- The **San Francisco General Hospital Medical Center Fund** accounts for the activities of the San Francisco General Hospital Medical Center (SFGH), a City-owned acute care hospital.
- The **San Francisco Wastewater Enterprise Fund** (formerly known as the Clean Water Program) was created after the San Francisco voters approved a proposition in 1976, authorizing the City to issue \$240 million in bonds for the purpose of acquiring, construction, improving, and financing improvements to the City municipal sewage treatment and disposal system.
- The **Port of San Francisco Fund** accounts for the operation, development, and maintenance of seven and one-half miles of waterfront property of the Port of San Francisco (Port). This was established in 1969 after the San Francisco voters approved a proposition to accept the transfer of the Harbor of San Francisco from the State of California.
- The **Laguna Honda Hospital Fund** accounts for the activities of Laguna Honda Hospital, the City-owned skilled nursing facility which specializes in serving elderly and disabled residents.

Additionally, the City reports the following fund types:

- The **Permanent Fund** accounts for resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support specific programs.

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- The **Internal Service Funds** account for the financing of goods or services provided by one City department to another City department on a cost-reimbursement basis. Internal Service Funds account for the activities of the equipment maintenance services, centralized printing and mailing services, centralized telecommunications and information services, and lease financing through the Finance Corporation.
- The **Pension and Other Employee Benefit Trust Funds** reflect the activities of the Employees' Retirement System and the Health Service System. The Retirement System accounts for employee contributions, City contributions, and the earnings and profits from investments. It also accounts for the disbursements made for employee retirement benefits, withdrawals, disability and death benefits as well as administrative expenses. The Health Service System accounts for contributions from active and retired employees and surviving spouses, City contributions, and the earnings and profits from investments. It also accounts for the disbursements to various health plans and health care providers for the medical expenses of beneficiaries.
- The **Investment Trust Fund** accounts for the external portion of the Treasurer's Office investment pool. The funds of the San Francisco Community College District, San Francisco Unified School District, and the Trial Courts of the State of California are accounted for within the Investment Trust Fund.
- The **Agency Funds** account for the resources held by the City in a custodial capacity on behalf of: the State of California, human welfare, community health, and transportation programs.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board (GASB). Governments also have the option of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The City has elected not to follow subsequent private-sector guidance.

In general, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this rule are charges to other City departments from the General Fund, Water Enterprise and Hetch Hetchy. These charges have not been eliminated because elimination would distort the direct costs and program revenues reported in the statement of activities.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with the fund's principal ongoing operations. The principal operating revenues of the City's enterprise and internal service funds are charges for customer services including: water, sewer and power charges, public transportation fees, airline fees and charges, parking fees, hospital patient service fees, commercial and industrial rents, printing services, vehicle maintenance fees, and telecommunication and information system support charges. Operating expenses for enterprise funds and internal service funds include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

(c) Budgetary Data

The City adopts annual budgets for all governmental funds on a substantially modified accrual basis of accounting except for capital project funds and certain debt service funds which substantially adopt project length budgets.

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The budget of the City is a detailed operating plan, which identifies estimated costs and results in relation to estimated revenues. The budget includes (1) the programs, projects, services, and activities to be provided during the fiscal year, (2) the estimated resources (inflows) available for appropriation, and (3) the estimated charges to appropriations. The budget represents a process through which policy decisions are deliberated, implemented, and controlled. The City Charter prohibits expending funds for which there is no legal appropriation.

The Administrative Code Chapter 3 outlines the City's general budgetary procedures, with Section 3.3 detailing the budget timeline. A summary of the key budgetary steps are summarized as follows:

Original Budget

- (1) Departments and Commissions conduct hearings to obtain public comment on their proposed annual budgets beginning in December and submit their budget proposals to the Controller's Office no later than February 21.
- (2) The Controller's Office consolidates the budget estimates and transmits them to the Mayor's Office no later than the first working day of March. Staff of the Mayor's Office analyze, review and refine the budget estimates before transmitting the Mayor's Proposed Budget to the Board of Supervisors.
- (3) By the first working day of May, the Mayor submits the Proposed Budget for selected departments to the Board of Supervisors. The selected departments are determined by the Controller in consultation with the Board President and the Mayor's Budget Director. Criteria for selecting the departments include (1) that they are not supported by the City's General Fund or (2) that they do not rely on the State's budget submission in May for their revenue sources.
- (4) By the first working day of June, the Mayor submits the complete Proposed Budget to the Board of Supervisors along with a draft of the Annual Appropriation Ordinance prepared by the Controller's Office.
- (5) Within five working days of the Mayor's proposed budget transmission to the Board of Supervisors, the Controller reviews the estimated revenues and assumptions in the Mayor's Proposed Budget and provides an opinion as to their accuracy and reasonableness. The Controller also may make a recommendation regarding prudent reserves given the Mayor's proposed resources and expenditures.
- (6) The designated Committee (usually the Budget Committee) of the Board of Supervisors conducts hearings, hears public comment, and reviews the Mayor's Proposed Budget. The Committee recommends an interim budget reflecting the Mayor's budget transmittal and, by June 30, the Board of Supervisors passes an interim appropriation and salary ordinances.
- (7) Not later than the last working day of July, the Board of Supervisors adopts the budget through passage of the Annual Appropriation Ordinance, the legal authority for enactment of the budget.

Final Budget

The final budgetary data presented in the basic financial statements reflects the following changes to the original budget:

- (1) Certain annual appropriations are budgeted on a project or program basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, are carried forward to the following year. In certain circumstances, other programs and regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.
- (2) Appropriations may be adjusted during the year with the approval of the Mayor and the Board of Supervisors, e.g. supplemental appropriations. Additionally, the Controller is authorized to make

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certain transfers of surplus appropriations within a department. Such adjustments are reflected in the final budgetary data.

The Annual Appropriation Ordinance adopts the budget at the character level of expenditure within departments. As described above, the Controller is authorized to make certain transfers of appropriations within departments. Accordingly, the legal level of budgetary control by the Board of Supervisors is the department level.

Budgetary data, as revised, is presented in the basic financial statements for the General Fund. Final budgetary data excludes the amount reserved for encumbrances for appropriate comparison to actual expenditures.

(d) Deposits and Investments

Investment in the Treasurer's Pool

The Treasurer invests on behalf of most funds of the City and external participants in accordance with the City's investment policy and the California State Government Code. The City Treasurer who reports on a monthly basis to the Board of Supervisors manages the Treasurer's pool. In addition, the function of the County Treasury Oversight Committee is to review and monitor the City's investment policy and to monitor compliance with the investment policy and reporting provisions of the law through an annual audit.

The Treasurer's investment pool consists of two components: 1) pooled deposits and investments and 2) dedicated investment funds. The dedicated investment funds represent restricted funds and relate to bond issues of the Enterprise Funds and the General Fund's cash reserve requirement. In addition to the Treasurer's investment pool, the City has other funds that are held by trustees. These funds are related to the issuance of bonds and certain loan programs of the City. The investments of the Employees' Retirement System and deposits and investments of the Redevelopment Agency are held by trustees (note 5).

The San Francisco Unified School District (School District), San Francisco Community College District (Community College District), and the City are involuntary participants in the City's investment pool. As of June 30, 2009, involuntary participants accounted for approximately 95.4% of the pool. Voluntary participants accounted for 4.6% of the pool. Further, the School District, Community College District, trial courts of the State of California and the Transbay Joint Powers Authority are external participants of the City's pool. At June 30, 2009, \$565.4 million was held on behalf of these external participants. The total percentage share of the City's pool that relates to these three external participants is 19%. Internal participants accounted for 81% of the pool.

For reports on the external investment pool, contact the Office of the Treasurer, Room 140, City Hall, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

Investment Valuation

Investments are carried at fair value, except for certain non-negotiable investments that are reported at cost because they are not transferable and have terms that are not affected by changes in market interest rates, such as collateralized certificates of deposits and public time deposits. The fair value of investments is determined monthly and is based on current market prices. The fair value of participants' position in the pool approximates the value of the pool shares. The method used to determine the value of participants' equity is based on the book value of the participants' percentage participation. In the event that a certain fund overdraws its share of pooled cash, the overdraft is covered by the General Fund and a payable to the General Fund is established in the City's basic financial statements.

Employees' Retirement System (Retirement System) – Investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at

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current exchange rates. Investments that do not have an established market price are reported at estimated fair value derived from third party pricing services. Purchases and sales of investments are recorded on a trade date basis.

The fair values of the Retirement System's real estate investments are based on net asset values provided by the investment managers. Partnership financial statements are audited annually as of December 31 and net asset values are adjusted monthly or quarterly for cash flows to/from the Retirement System, investment earnings and expenses, and changes in fair value. The Retirement System has established leverage limits for each investment style based on the risk/return profile of the underlying investments. The leverage limits for core and value-added real estate investments are 50% and 60% respectively. The leverage limits for high return real estate investments depend on each specific offering. The underlying real estate holdings are valued periodically based on appraisals performed by independent appraisers in accordance with Uniform Standards of Professional Appraisal Practice (USPAP). Such fair value estimates involve subjective judgments of unrealized gains and losses, and the actual market price of the real estate can only be determined by negotiation between independent third parties in a sales transaction.

Alternative investments represent the Retirement System's interest in limited partnerships. The fair values of alternative investments are based on net asset values provided by the general partners. Partnership financial statements are audited annually as of December 31 and net asset values are adjusted monthly or quarterly for cash flows to/from the Retirement System, investment earnings and changes in fair value. Such fair value estimates involve subjective judgments of unrealized gains and losses, and the actual market price of the investments can only be determined by negotiation between independent third parties in a sales transaction.

The Charter and Retirement Board policies permit the Retirement System to use investments to enter into securities lending transactions – loans of securities to broker-dealers and other entities for collateral with a simultaneous agreement to return the collateral for the same securities in the future. The collateral may consist of cash or non-cash; non-cash collateral is generally U.S. treasuries or other U.S. government obligations. The Retirement System's securities custodian is the agent in lending the Retirement System's domestic securities for cash collateral of 102% and international securities for cash collateral of 105%. Contracts with the lending agent require them to indemnify the Retirement System if the borrowers fail to return the securities (and if the collateral were inadequate to replace the securities lent) or fail to pay the Retirement System for income distributions by the securities' issuers while the securities are on loan. Non-cash collateral cannot be pledged or sold unless the borrower defaults.

All securities loans can be terminated on demand by either the Retirement System or the borrower, although the average term of the loans as of June 30, 2009 was 85 days. In lending domestic securities, cash collateral is invested in the lending agent's short-term investment pool, which had a weighted average maturity as of June 30, 2009 of 38 days. In lending international securities, cash collateral is invested in a separate short-term investment pool, which had a weighted average maturity as of June 30, 2009 of 17 days. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the said collateral. Cash collateral may also be invested separately in term loans, in which case the maturity of the loaned securities matches the term of the loan.

Cash collateral invested in the lending agent's short-term investment pools is reported at fair value. The lending agent's short-term investment pools have not been rated by a nationally recognized statistical rating organization. Payable to borrowers of securities in the statements of plan net assets represents the cash collateral received from borrowers. Additionally, the costs of securities lending transactions, such as borrower rebates and fees, are recorded as expenses in the statements of plan net assets.

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The Charter and Retirement Board policies permit the Retirement System to use investments to enter into fixed coupon dollar repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase similar securities in the future at a lower price that reflects a financing rate. The fair value of the securities underlying fixed coupon dollar repurchase agreements equals the cash received. If the dealers default on their obligations to resell these securities to the Retirement System at the agreed-upon buy back price, the Retirement System could suffer an economic loss if the securities have to be purchased at a higher price (than the agreed-upon buy back price) in the open market. The Retirement System opted out of this program in September 2008 and transferred remaining funds to the Investment Cash Account or segregated account for cash management activities. This credit exposure at June 30, 2009 was \$0.

Other funds – Non-pooled investments are also generally carried at fair value. However, money market investments (such as short term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations) that have a remaining maturity at the time of purchase of one year or less and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) are carried at amortized cost, which approximates fair value. The fair value of non-pooled investments is determined annually and is based on current market prices. The fair value of investments in open-end mutual funds is determined based on the fund's current share price.

Component Unit – San Francisco Redevelopment Agency (The Agency) – The Agency pools deposits and investments, except for certain investments restricted for developers' deposits and pledged assets relating to specific projects. The Agency's investments are stated at fair value. Fair value has been obtained by using market quotes as of June 30, 2009. Money market investments (such as short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations) that have a remaining maturity of less than one year at the date of purchase and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) are valued at the amortized cost, which approximates fair value as of June 30, 2009.

Investment Income

Income from pooled investments is allocated at month-end to the individual funds or external participants based on the fund or participant's average daily cash balance in relation to total pooled investments. City management has determined that the investment income related to certain funds should be allocated to the General Fund. On a budget basis, the interest income is recorded in the General Fund. On a generally accepted accounting principles (GAAP) basis, the income is reported in the fund where the related investments reside. A transfer is then recorded to transfer an amount equal to the interest earnings to the General Fund. This is the case for certain other governmental funds, Internal Service, Investment Trust and Agency Funds.

It is the City's policy to charge interest at month-end to those funds that have a negative average daily cash balance. In certain instances, City management has determined that the interest expense related to the fund should be allocated to the General Fund. On a budget basis, the interest expense is recorded in the General Fund. On a GAAP basis, the interest expense is recorded in the fund and then a transfer from the General Fund for an amount equal to the interest expense is made to the fund. This is the case for certain other funds, MTA, Laguna Honda Hospital, General Hospital Medical Center, and the Internal Service Funds.

Income from non-pooled investments is recorded based on the specific investments held by the fund. The interest income is recorded in the fund that earned the interest.

(e) Loans Receivable

The Mayor's Office of Housing (MOH) and the Mayor's Office of Community Development (MOCD) administer several housing and small business subsidy programs and issues loans to qualified

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applicants. Management has determined through policy that many of these loans may be forgiven or renegotiated and extended long into the future if certain terms and conditions of the loans are met. At June 30, 2009, it was determined that \$510.1 million of the \$579.6 million loan portfolio is not expected to be ultimately collected.

For the purposes of the fund financial statements, the governmental funds expenditures relating to long-term loans arising from loan subsidy programs are charged to operations upon funding and the loans are recorded, net of an estimated allowance for potentially uncollectible loans, with an offset to a deferred credit account. For purposes of the government-wide financial statements, long-term loans are not offset by deferred credit accounts.

(f) Inventory

Inventory recorded in the proprietary funds primarily consists of construction materials and maintenance supplies, as well as pharmaceutical supplies maintained by the hospitals. Generally, proprietary funds value inventory at cost or average cost and expense supply inventory as it is consumed. This is referred to as the consumption method of inventory accounting. The governmental fund types also use the purchase method to account for supply inventories, which are not material. This method records items as expenditures when they are acquired.

(g) Redevelopment Agency Property Held for Resale

Property held for resale are both residential and commercial and are recorded as an asset at the lower of estimated cost or estimated conveyance value. Estimated conveyance value is management's estimate of net realizable value of a property based on current intended use. Property held for sale may, during the period it is held by the Agency, generate rental income, which is recognized as it becomes due and is considered collectible.

(h) Capital Assets

Capital assets, which include land, facilities and improvements, machinery and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than \$5 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Amortization of assets acquired under capital leases is included in depreciation and amortization. Facilities and improvements, infrastructure, machinery and equipment, and easements of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Facilities and Improvements	15 to 175
Infrastructure	15 to 70
Machinery and Equipment	2 to 75
Easements	20

Works of art, historical treasures and zoological animals held for public exhibition, education, or research in furtherance of public service, rather than financial gain, are not capitalized. These items are protected, kept unencumbered, cared for, and preserved by the City. It is the City's policy to utilize proceeds from the sale of these items for the acquisition of other items for collection and display.

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(i) Accrued Vacation and Sick Leave Pay

Vacation pay, which may be accumulated up to ten weeks depending on an employee's length of service, is payable upon termination.

Sick leave may be accumulated up to six months, except for Local 21 members, who are all entitled to accumulate all unused sick leave. Unused amounts accumulated prior to December 6, 1978 are vested and payable upon termination of employment by retirement or disability caused by industrial accident or death. Effective July 1, 2002, the City established a pilot "Wellness Incentive Program" (the Program) to promote workforce attendance. The Program was initially negotiated as part of the July 1, 2001 to June 30, 2004 labor contract between the City and forty-one labor organizations, representing about 48% of the City's workforce. It is described in several Memorandums of Understanding (MOUs) dated since July 1, 2001, between the City and the affected labor organizations. Under the terms of these MOUs and the labor contracts, the Program is in effect from July 1, 2002 and begins to sunset by June 30, 2010.

This Program provides:

Effective July 1, 2002, any full-time employee leaving the employment of the City upon service or disability retirement may receive payment for a portion of sick leave earned but unused at the time of separation. The amount of this payment shall be equal to 2.5% of sick leave balances earned but unused at the time of separation times the number of whole years of continuous employment times an employee's salary rate, exclusive of premiums or supplements, at the time of separation. Vested sick leave hours as described by Civil Service Commission rules, shall not be included in this computation.

The City accrues for all salary-related items, including the Program, in the government-wide and proprietary fund financial statements for which they are liable to make a payment directly and incrementally associated with payments made for compensated absences on termination. The City includes its share of social security and Medicare payments made on behalf of the employees in the accrual for vacation and sick leave pay.

(j) Bond Issuance Costs, Premiums, Discounts and Interest Accretion

In the government-wide financial statements and in the proprietary fund type financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund statement of net assets. San Francisco International Airport's bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. The remaining bond premiums, discounts, and issuance costs are calculated using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively, and bond issuance costs as debt service expenditures. Issuance costs, whether or not withheld from the actual debt proceeds received are reported as debt service expenditures.

Interest accreted on capital appreciation bonds is reported as accrued interest payable in the government-wide and proprietary fund financial statements.

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(k) Fund Equity

Reservations of Fund Equity

Reservations of fund balances of the governmental funds indicate that portion of fund equity which is not available for appropriation for expenditure or is legally segregated for a specific future use. Following is a brief description of the nature of certain reserves.

Reserve for rainy day – The City's Charter requires that the City set aside funds into a reserve account in years in which revenue growth exceeds five percent compared to the year before. The City will be able to spend those funds in years in which revenues decline or grow by less than two percent.

Reserve for assets not available for appropriation – Certain assets, primarily cash and investments outside the City Treasury and deferred charges, do not represent expendable available financial resources. Therefore, a portion of fund equity is reserved to offset the balance of these assets.

Reserve for debt service – The fund balance of the debt service funds is reserved for the payment of debt service in the subsequent year.

Reserve for encumbrances – Encumbrances are recorded as reservations of fund balances because they do not constitute expenditures or liabilities. In certain other governmental funds, this accounting treatment results in a deficit unreserved fund balance. This deficiency is carried forward to the next fiscal year where it is applied against estimated revenues in the year the commitments are expended.

Reserve for appropriation carryforward – At the end of the fiscal year, certain budgeted expenditures are authorized to be carried over and expended in the ensuing year. A reserve of fund balance is established in the amount of these budget authorizations.

Reserve for subsequent years' budgets – A portion of fund balance is reserved for subsequent years' budgets. This balance includes the reserve required by the City's Administrative Code for the budget incentive program for the purpose of making additional funds available for items and services that will improve the efficient operations of departments.

Restricted Net Assets

The government-wide and proprietary fund financial statements utilize a net assets presentation. Net assets are categorized as invested in capital assets (net of related debt), restricted, and unrestricted.

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the 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 represents net assets that have 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. At June 30, 2009, the government-wide statement of net assets reported restricted assets of \$371.8 million in governmental activities and \$415.2 million in business-type activities. For governmental activities, \$2.5 million is restricted by enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of the City, not restricted for any project or other purpose.

The City issued general obligation bonds for the purpose of rebuilding and improving Laguna Honda Hospital. These capital assets are reported in the City's business-type activities. However, the debt service will be paid with governmental revenues and as such the general obligation bonds are reported with unrestricted net assets in the City's governmental activities. In accordance with GASB implementation guidance, the City reclassified \$299.3 million of total net assets to unrestricted net

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assets from net assets invested in capital assets, net of related debt to reflect the primary government as a whole perspective.

Designations of Fund Equity

Designations of fund balances (note 4) indicate that portion of fund balance that is not available for appropriation based on management's plans for future use of the funds. Following is a brief description of the nature of the designation as of June 30, 2009.

Designation for litigation and contingencies – This designation represents management's estimate of anticipated legal settlements or contingencies to be paid in the subsequent fiscal year. At June 30, 2009, \$32.9 million was designated for litigation and contingencies which is included in the unreserved General Fund balance.

Deficit Net Assets/Fund Balances

The Environmental Protection Fund and Senior Citizens' Program Fund had deficits of \$0.2 million and \$0.9 million, respectively, as of June 30, 2009. The deficits relate to increases of deferred tax, grant and subvention revenues on various programs which are expected to be collected beyond 120 days of the end of fiscal year 2009.

The San Francisco County Transportation Authority Fund had a \$23.3 million deficit as of June 30, 2009. The deficit relates to the Authority's capital projects which are scheduled to be implemented over the course of several fiscal periods and are funded with non-current revenues.

The Moscone Convention Center Fund had a \$3.6 million deficit as of June 30, 2009. The deficit will be covered as hotel tax revenues are realized.

The Central Shops Fund and Telecommunications and Information Internal Service Fund had deficits in total net assets of \$1.7 million and \$0.3 million, respectively as of June 30, 2009 mainly due to the other postemployment benefits liability accrued as per GASB Statement 45. The deficits are expected to be reduced in future years through anticipated rate increases or reductions in the operating expenses. The rates are reviewed and updated annually.

(l) Interfund Transfers

Interfund transfers are generally recorded as transfers in (out) except for certain types of transactions that are described below.

- Charges for services are recorded as revenues of the performing fund and expenditures of the requesting fund. Unbilled costs are recognized as an asset of the performing fund and a liability of the requesting fund at the end of the fiscal year.
- Reimbursements for expenditures, initially made by one fund which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the fund that is reimbursed.

(m) Refunding of Debt

Gains or losses occurring from advance refundings, completed subsequent to June 30, 1993, are deferred and amortized into expense for both business-type activities and proprietary funds. For governmental activities, they are deferred and amortized into expense if they occurred subsequent to June 30, 2000.

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(n) Pollution Remediation Obligations

Pollution remediation obligations are measured at their current value using a cost-accumulation approach, based on the pollution remediation outlays expected to be incurred to settle those obligations. Each obligation or obligating event is measured as the sum of probability-weighted amounts in a range of possible estimated amounts. Some estimates of ranges of possible cash flows may be limited to a few discrete scenarios or a single scenario, such as the amount specified in a contract for pollution remediation services.

(o) Cash Flows

Statements of cash flows are presented for proprietary fund types. Cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less. Pooled cash and investments in the City's Treasury represent monies in a cash management pool and such accounts are similar in nature to demand deposits. The City determined that certain cash equivalents reported in its Airport, MTA and Market Corporation enterprise funds totaling \$22 million for 2008 should have been classified as investments. As a result of this determination, the Statement of Cash Flows reflects a decrease of \$22 million in cash equivalents from \$1.35 billion to \$1.33 billion for 2008.

(p) Estimates

The preparation of 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.

(q) Reclassifications

Certain amounts presented as 2007-2008 Summarized Comparative Financial Information in the basic financial statements have been reclassified for comparative purposes to conform to the presentation in the 2008-2009 basic financial statements.

(r) Effects of New Pronouncements

During fiscal year 2009, the City implemented the following accounting standards:

On July 1, 2008, the City adopted GASB Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*, which identifies the circumstances under which a government is required to report a liability related to pollution remediation. Pursuant to Paragraph 11 of GASB Statement No. 49, a government should estimate its expected pollution remediation outlays using the Expected Cash Flow Measurement technique as described in GASB Statement No. 49 for pollution remediation if it knows a site is polluted and any of the following obligating events occurs:

- The government is compelled to take remediation action because pollution creates an imminent endangerment to public health or welfare or the environment, leaving it little or no discretion to avoid remediation action.
- The government is in violation of a pollution prevention-related permit or license, such as a Resource Conservation and Recovery Act permit or similar permits under state law.
- The government is named, or evidence indicates that it will be named, by a regulator as a responsible party or potentially responsible party for remediation, or as a government responsible for sharing costs.
- The government is named, or evidence indicates that it will be named, in a lawsuit to compel the government to participate in remediation.
- The government commences, or legally obligates itself to commence, cleanup activities or monitoring or operation and maintenance of the remediation effort. If these activities are

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voluntarily commenced and none of the other obligating events have occurred relative to the entire site, the amount recognized should be based on the portion of the remediation project that the government has initiated and is legally required to complete.

GASB Statement No. 49 also requires governments to disclose information about their pollution obligations associated with clean up efforts in the notes to the financial statements. For the year ended June 30, 2009, the City recorded \$1.8 million for soil remediation efforts and \$31.7 million in other pollution remediation costs as other liabilities in its governmental activities and business-type activities, respectively. The disclosures required by GASB Statement No. 49 for the City's business-type activities are provided in Note 11.

The City is currently analyzing its accounting practices to determine the potential impact on the financial statements for the following GASB Statements:

In June 2007, GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets*. This Statement requires that all intangible assets not specifically excluded by its scope provisions be classified as capital assets. Accordingly, existing authoritative guidance related to the accounting and financial reporting for capital assets should be applied to these intangible assets, as applicable. This Statement also provides authoritative guidance that specifically addresses the nature of these intangible assets. Such guidance should be applied in addition to the existing authoritative guidance for capital assets. Application of this statement is effective for the City's fiscal year ending June 30, 2010.

In June 2008, GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*. The Statement specifically requires governments to measure and report most derivative instruments at fair value in their financial statements that are prepared using the economic resources measurement focus and the accrual basis of accounting. The requirement of reporting the derivative instruments at fair value on the face of financial statements gives the users of financial statements a clearer look into the risks their governments are sometimes exposed to when they enter into these transactions and how those risks are managed. The Statement also addresses hedge accounting requirements and improves disclosures, providing a summary of the government's derivative instrument activity, its objectives for entering into derivative instruments, and their significant terms and risks. Application of this Statement is effective for the City's fiscal year ending June 30, 2010.

In March 2009, GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective to this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Application of this Statement is effective for the City's fiscal year ending June 30, 2011.

(s) Restricted Assets

Certain proceeds of the City's enterprise fund revenue bonds, as well as certain resources set aside for their repayment, are classified as restricted assets on the statement of net assets because the use of the proceeds is limited by applicable bond covenants and resolutions. Restricted assets account for the principal and interest amounts accumulated to pay debt service, unspent bond proceeds, and amounts restricted for future capital projects.

(t) Restatement of Net Assets

Net assets of the business-type activities and the Port Enterprise fund have been reduced by \$43.0 million. As allowed by GASB Statement No. 49, existing pollution remediation liabilities associated with the Pier 70 project area (see Note 11) from prior periods in the amount of \$27.5 million is being recognized as a reduction of beginning net assets. In addition, Port

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management determined in 2009 that certain land improvements that had not been depreciated were exhaustible assets and should have been depreciated in prior periods. Beginning net assets at June 30, 2008 have been restated by \$15.5 million for the required accumulated depreciation and related adjustments of such land improvements.

(3) RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

(a) Explanation of certain differences between the governmental funds balance sheet and the government-wide statement of net assets

Total fund balances of the City's governmental funds, \$985,012, differs from net assets of governmental activities, \$1,305,203, reported in the statement of net assets. The difference primarily results from the long-term economic focus in the statement of net assets versus the current financial resources focus in the governmental funds balance sheets.

Balance Sheet/Statement of Net Assets

	Governmental Funds Total	Long-term Assets, Liabilities ⁽¹⁾	Internal Service Funds ⁽²⁾	Reclassi- fications and Eliminations	Statement of Net Assets Totals
Assets					
Deposits and investments with City Treasury.....	\$ 967,957	\$ -	\$ 16,309	\$ -	\$ 984,266
Deposits and investments outside City Treasury.....	209,021	-	96,050	-	305,071
Receivables, net:					
Property taxes and penalties.....	73,715	-	-	-	73,715
Other local taxes.....	218,348	-	-	-	218,348
Federal and state grants and subventions.....	220,738	-	-	-	220,738
Charges for services.....	54,556	-	89	-	54,645
Interest and other.....	8,453	-	853	-	9,306
Due from other funds.....	28,561	-	-	(28,561)	-
Due from/advances to component unit.....	11,738	-	-	-	11,738
Loans receivable, net.....	69,431	-	-	-	69,431
Capital assets, net.....	-	3,022,552	6,363	-	3,028,915
Deferred charges and other assets.....	9,589	18,406	6,868	-	34,863
Total assets	\$ 1,872,107	\$ 3,040,958	\$ 126,532	\$ (28,561)	\$ 5,011,036
Liabilities					
Accounts payable.....	\$ 198,319	\$ -	\$ 8,963	\$ -	\$ 207,282
Accrued payroll.....	89,206	-	1,904	-	91,110
Accrued vacation and sick leave pay.....	-	140,145	3,383	-	143,528
Accrued workers' compensation.....	-	211,854	1,027	-	212,881
Other postemployment benefits obligation.....	-	330,937	7,885	-	338,822
Estimated claims payable.....	-	145,006	-	-	145,006
Accrued interest payable.....	-	10,378	2,090	-	12,468
Deferred tax, grant and subvention revenues.....	147,990	(132,295)	-	-	15,695
Due to other funds/internal balances.....	44,860	-	3,141	(28,561)	19,440
Deferred credits and other liabilities.....	256,720	(129,562)	1,463	-	128,621
Bonds, loans, capital leases, and other payables.....	150,000	1,946,943	294,037	-	2,390,980
Total liabilities	887,095	2,523,406	323,893	(28,561)	3,705,833
Fund balances/net assets					
Total fund balances/net assets.....	985,012	517,552	(197,361)	-	1,305,203
Total liabilities and fund balances/net assets	\$ 1,872,107	\$ 3,040,958	\$ 126,532	\$ (28,561)	\$ 5,011,036

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- (1) When capital assets (land, infrastructure, buildings, and equipment) that are to be used in governmental activities are purchased or constructed, the costs of those assets are reported as expenditures in governmental funds. However, the statement of net assets includes those capital assets, net of accumulated depreciation, among the assets of the City as a whole.

Cost of capital assets	\$ 3,911,495
Accumulated depreciation	(888,943)
	<u>\$ 3,022,552</u>

Bond issuance costs are expended in governmental funds when paid and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets. \$ 18,406

Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. All liabilities, both current and long-term, are reported in the statement of net assets

Accrued vacation and sick leave pay	\$ (140,145)
Accrued workers' compensation	(211,854)
Other postemployment benefits obligation	(330,937)
Estimated claims payable	(145,006)
Bonds, loans, capital leases, and other payables.....	(1,946,943)
Deferred credits and other liabilities.....	(3,647)
	<u>\$(2,778,532)</u>

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as expenditure when paid. \$ (10,378)

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets (for example, receivables) are offset by deferred revenues in the governmental funds and thus are not included in fund balance.

Deferred tax, grant and subvention revenues	\$ 132,295
Deferred credits and other liabilities	133,209
	<u>\$ 265,504</u>

- (2) Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, equipment maintenance, printing and mailing services, and telecommunications, to individual funds. The assets and liabilities of certain internal service funds are included in governmental activities in the statement of net assets.

Net deficit before adjustments	\$ (1,444)
Adjustments for internal balances with San Francisco Finance Corporation:	
Capital lease receivables from other governmental and enterprise funds	(293,291)
Deferred charges and other assets	2,635
Deferred credits and other liabilities	94,739
	<u>\$ (197,361)</u>

In addition, intrafund receivables and payables among various internal service funds of \$0.3 million are eliminated.

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(b) Explanation of certain differences between the governmental funds statement of revenues, expenditures, and changes in fund balances and the government-wide statement of activities

The net change in fund balances for governmental funds, \$13,343, differs from the change in net assets for governmental activities, (\$279,853), reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated below.

Statement of Revenues, Expenditures, and Changes in Fund Balances/Statement of Activities

	Governmental Funds Totals	Long-term Revenues/ Expenses ⁽³⁾	Capital- related Items ⁽⁴⁾	Internal Service Funds ⁽⁵⁾	Long-term Debt Transactions ⁽⁶⁾	Statement of Activities Totals
Revenues						
Property taxes.....	\$ 1,272,385	\$ 29,686	\$ -	\$ -	\$ -	\$ 1,302,071
Business taxes.....	388,653	-	-	-	-	388,653
Sales and use tax.....	172,794	-	-	-	-	172,794
Hotel room tax.....	214,460	-	-	-	-	214,460
Utility users tax.....	89,801	-	-	-	-	89,801
Other local taxes.....	126,017	-	-	-	-	126,017
Licenses, permits and franchises.....	32,153	244	-	-	-	32,397
Fines, forfeitures and penalties.....	9,694	-	-	-	-	9,694
Interest and investment income.....	33,547	330	-	1,557	-	35,434
Rents and concessions.....	73,225	1,042	-	-	-	74,267
Intergovernmental:						
Federal.....	357,612	(2,150)	-	-	-	355,462
State.....	581,047	7,677	-	-	-	588,724
Other.....	14,883	(44)	-	-	-	14,839
Charges for services.....	284,196	450	-	-	-	284,646
Other revenues.....	30,318	(107)	-	-	-	30,211
Total revenues.....	3,680,785	37,128	-	1,557	-	3,719,470
Expenditures/Expenses						
Expenditures:						
Public protection.....	999,518	99,898	13,913	(4,018)	-	1,109,311
Public works, transportation and commerce.....	248,161	20,997	(2,425)	(11,778)	-	254,955
Human welfare and neighborhood development.....	886,686	21,242	521	-	-	908,449
Community health.....	578,828	28,939	966	-	-	608,733
Culture and recreation.....	313,442	15,445	25,603	(14,981)	(19,515)	319,994
General administration and finance.....	190,680	28,719	17,435	1,767	-	238,601
General City responsibilities.....	73,147	77	-	(1,623)	1,033	72,634
Debt service:						
Principal retirement.....	126,501	-	-	-	(126,501)	-
Interest and fiscal charges.....	74,466	-	-	8,974	9,947	93,387
Bond issuance costs.....	4,746	-	-	-	(4,746)	-
Capital outlay.....	152,473	-	(152,473)	-	-	-
Total expenditures/expenses.....	3,648,648	215,317	(96,460)	(21,659)	(139,782)	3,606,064
Other financing sources (uses)/changes in net assets						
Net transfers (to) from other funds.....	(393,485)	-	-	226	-	(393,259)
Issuance of bonds:						
Face value of bonds issued.....	456,935	-	-	-	(456,935)	-
Premium on issuance of bonds.....	12,875	-	-	-	(12,875)	-
Payment to escrow for refunded debt.....	(120,000)	-	-	-	120,000	-
Other financing sources - capital leases.....	24,881	-	-	(24,881)	-	-
Total other financing sources (uses)/changes in net assets.....	(18,794)	-	-	(24,655)	(349,810)	(393,259)
Net change for the year.....	\$ 13,343	\$ (178,189)	\$ 96,460	\$ (1,439)	\$ (210,028)	\$ (279,853)

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- (3) Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered as available revenues in the governmental funds. \$ 29,686

Some other revenues that do not provide current financial resources are not reported as revenues in the governmental funds but are recognized in the statement of activities.

7,442
\$ 37,128

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Certain long-term liabilities reported in the prior year statement of net assets were paid during the current period resulting in expenditures in the governmental funds. This is the amount by which the increase in long-term liabilities exceeded expenditures in funds that do not require the use of current financial resources.

\$ (215,629)

Some expenditures reported in the governmental funds pertain to the establishment of deferred credits on long-term loans since the loans are not considered "available" to pay current period expenditures. The deferred credits are not reported in the statement of net assets and, therefore, the related expenditures are not reported in the statement of activities.

312
\$ (215,317)

- (4) When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year, the loss on disposal of capital assets and capital asset acquired or funded by donation and other revenues.

Capital expenditures.....	\$ 179,419
Depreciation expense.....	(81,589)
Loss on disposal of capital assets.....	<u>(1,370)</u>
Difference.....	<u>\$ 96,460</u>

- (5) Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, equipment maintenance, printing and mailing services, and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year. \$ (1,439)

- (6) Lease payments on the Moscone Convention Center (note 8) are reported as a culture and recreation expenditure in the governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the liability in the statement of net assets and do not result in an expense in the statement of activities. The City's capital lease obligation was reduced because principal payments were made to lessee.

Total property rent payments.....\$ 19,515

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Bond issuance costs are expended in governmental funds when paid, and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of activities.

Bond issuance costs.....	\$ 4,746
Amortization of bond issuance costs	(1,033)
Difference.....	<u>\$ 3,713</u>

Bond premiums and discounts are expended in the governmental funds when the bonds are issued, and are capitalized in the statement of net assets. This is the amount of premiums capitalized during the current period.....\$ (12,875)

Repayment of bond principal and the payment to escrow for refunding of debt are reported as expenditures in governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. For the City as a whole however, the principal payments and payment to escrow for refunded debt reduce the liabilities in the statement of net assets and do not result in expenses in the statement of activities. The City's bonded debt was reduced because principal payments were made to bond holders and payments were made to escrow for refunded debt.

Principal payments made	\$ 126,501
Payments to escrow for refunded debt.....	<u>120,000</u>
	<u>246,501</u>

Bond and loan proceeds and capital leases are reported as other financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt increases long-term liabilities in the statement of net assets and do not affect the statement of activities. Proceeds were received from:

General obligation bonds.....	(185,540)
Refunding general obligation bonds.....	<u>(271,395)</u>
	<u>(456,935)</u>
	<u>\$ (210,434)</u>

Interest expense in the statement of activities differs from the amount reported in governmental funds because (1) additional accrued and accreted interest was calculated for bonds, notes payable and capital leases, (2) amortization of bond discounts, premiums and refunding losses are not expended within the fund statements, and (3) additional interest expense was recognized on the accrual of an arbitrage rebate liability which will not be recognized in the governmental funds until the liability is due and payable.

Increase in accrued interest	\$ (1,513)
Loss on refunding	(1,779)
Interest payment on capital lease obligations on the Moscone Convention Center	(10,232)
Amortization of bond premiums, discounts and refunding losses	2,756
Increase in arbitrage rebate liability	821
	<u>\$ (9,947)</u>

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(4) BUDGETARY RESULTS RECONCILED TO RESULTS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

Budgetary Results Reconciliation

The budgetary process is based upon accounting for certain transactions on a basis other than generally accepted accounting principles (GAAP). The results of operations are presented in the budget-to-actual comparison statement in accordance with the budgetary process (Budget basis) to provide a meaningful comparison with the budget.

The major differences between the Budget basis “actual” and GAAP basis are timing differences. Timing differences represent transactions that are accounted for in different periods for Budget basis and GAAP basis reporting. Certain revenues accrued on a Budget basis have been deferred for GAAP reporting. These primarily relate to the accounting for property tax revenues under the Teeter Plan (note 6), revenues not meeting the 120 day availability period and other assets not available for budgetary appropriation.

The fund balance of the General Fund as of June 30, 2009 on a budget basis is reconciled to the fund balance on a GAAP basis as follows:

	<u>General Fund</u>
Fund Balance – Budget Basis	\$ 390,512
Unrealized Losses on Investments	(1,148)
Cumulative Excess Property Tax Revenues Recognized on a Budget Basis	(56,426)
Cumulative Excess Health, Human Service, Franchise Tax and Other Revenues Recognized on a Budget Basis	(37,940)
Deferred amounts on loan receivables	(4,630)
Reserved for Assets Not Available for Appropriation	11,307
Fund Balance - GAAP Basis	<u>\$ 301,675</u>

General Fund Budget basis fund balance at June 30, 2009 is composed of the following:

Reserved for Rainy Day - Economic Stabilization Reserve.....	\$ 98,297	
Reserved for Encumbrances	65,902	
Reserved for Appropriation Carryforward	91,075	
Reserved for Subsequent Years' Budgets:		
Budget Savings Incentive Program - Recreation and Park.....	6,575	
Salaries and benefits costs (MOU).....	316	
Total Reserved Fund Balance		\$ 262,165
Designated for Litigation and Contingencies	32,900	
Unreserved, Undesignated Fund Balance –		
Available for Appropriation	95,447	
Total Unreserved Amounts		128,347
Fund Balance, June 30, 2009 – Budget basis.		<u>\$ 390,512</u>

Of the \$95.4 million unreserved, undesignated fund balance – available for appropriation, \$94.5 million has been subsequently appropriated as part of the General Fund budget for use in fiscal year 2009-2010.

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(5) DEPOSITS AND INVESTMENTS

(a) Cash, Deposits and Investments Presentation

Total City cash, deposits and investments, at fair value, are as follows:

	Primary Government			Total	Component Units
	Governmental Activities	Business-type Activities	Fiduciary Funds		
Deposits and investments with					
City Treasury	\$ 984,266	\$ 970,347	\$ 727,137	\$ 2,681,750	\$ 2,821
Deposits and investments outside					
City Treasury	209,021	8,041	12,057,992	12,275,054	207,059
Restricted assets:					
Deposits and investments with					
City Treasury	-	316,971	-	316,971	-
Deposits and investments outside					
City Treasury	96,050	358,617	-	454,667	108,668
Invested securities lending collateral	-	-	837,074	837,074	-
Total deposits and investments	\$ 1,289,337	\$ 1,653,976	\$ 13,622,203	\$ 16,565,516	\$ 318,548
Cash and deposits				\$ 26,757	\$ 29,555
Investments				16,538,759	288,993
Total deposits and investments				\$ 16,565,516	\$ 318,548

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code, the City's investment policy and the Retirement System's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. In addition, the City's investment policy states that mortgage-backed collateral will not be accepted. As of June 30, 2009, \$0.2 million and \$5.7 million of the business-type activities and the Retirement System's bank balances, respectively, were exposed to custodial credit risk by not being insured or collateralized.

(b) Investment Policies

Treasurer's Pool

The City's investment policy addresses the 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 objectives of the policy, in order of priority, are safety, liquidity, and yield. The City has established a Treasury Oversight Committee (Oversight Committee) as defined in the City Administrative Code section 10.80-3, comprised of various City officials and representatives of agencies with large cash balances, to monitor and review the management of public funds maintained in the investment pool in accordance with Sections 27130 to 27137 of the California Government Code. The Treasurer prepares and submits a comprehensive investment report to the

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members of the Oversight Committee and the investment pool participants every month. The report covers the type of investments in the pool, maturity dates, par value, actual cost, and fair value.

The California Government Code does not limit the amount of City funds that may be invested in federal agency instruments. However, the City's investment policy requires that investments in federal agencies should not exceed 60 percent of the total portfolio at the time of purchase. The investment policy also limits the maximum maturity of each type of agency instrument and does not permit the investments in medium term corporate notes.

The City's investment policy also limits the purchase of negotiable certificates of deposit to the five largest domestic commercial banks that have demonstrated profitability in their most recent audited financial statements at the time of purchase. In addition, the investment policy requires that public time deposits be made only at approved financial institutions with at least one full service branch within the geographical boundaries of the City, and that they yield a minimum of 0.125% higher than equal maturity U.S. Treasury instruments except in special circumstances specifically authorized by the Treasurer. The investment policy restricts exposure to the amount fully guaranteed by the Federal Deposit Insurance Corporation for each savings institution. The current guarantee limit is \$250. The investment policy also requires that commercial bank deposits be made on a competitive basis with risk exposure based on financial statements and related information gathered on each individual bank.

The table below identifies the investment types that are authorized by the City, along with the related interest rate and concentration of credit limits.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury bills, notes, and bonds	5 years	None	None
U.S. Agency Securities (all):	5 years	60% *	n/a
Federal National Mortgage Association	5 years	n/a	30% *
Federal Home Loan Mortgage Corporation	5 years	n/a	30% *
Federal Home Loan Bank	270 days *	n/a	30% *
Federal Farm Credit Bank	270 days *	n/a	30% *
Federal Agricultural Mortgage Association	270 days *	n/a	10% *
Resolution Trust Funding Corporation	270 days *	n/a	5% *
Tennessee Valley Authority	270 days *	n/a	10% *
Commercial Paper	270 days	25%	10% *
Bankers Acceptances	180 days	40%	30% *
Temporary Liquidity Guarantee Program	5 years	30%	None
State and local government agencies indebtedness	5 years	20%	None
Repurchase Agreements	30 days *	None	\$75 million
Reverse Repurchase Agreements	45 days *	20%	\$75 million
State of California Local Agency Investment Fund	n/a	None	None
Bank and Thrift:			
Public Time Deposits	5 years	None	None
Public Demand Accounts	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	None

* Represents restriction on which the City's investment policy is more restrictive than the California Government Code.

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The Treasurer also holds for safekeeping bequests, trust funds, and lease deposits for other City departments. The bequests and trust funds consist of stocks and debentures. Those instruments are valued at par, cost, or fair value at the time of donation.

Other Funds

Other funds consist primarily of deposits and investments with trustees related to the issuance of bonds and to certain loan programs operated by the City. These funds are invested either in accordance with bond covenants and are pledged for payment of principal, interest, and specified capital improvements or in accordance with grant agreements and may be restricted for the issuance of loans.

Employees' Retirement System

The Retirement System's investments are invested pursuant to investment policy guidelines as established by the Retirement Board. The objective of the policy is to maximize the expected return of the fund at an acceptable level of risk. The Retirement Board has established percentage guidelines for types of investments to ensure the portfolio is diversified.

The investment policy permits investments in domestic and international debt and equity securities; real estate; securities lending; and alternative investments, which include investments in a variety of commingled partnership vehicles.

San Francisco Redevelopment Agency

The investment policy of the Redevelopment Agency is governed by Article 2 of the California Government Code. Investments are restricted to certain types of instruments and certain of these instruments are only allowed within limits. The California Government Code permits reverse repurchase agreements, but reverse repurchase agreements require the prior approval of the Agency Commission. The Agency does not participate in reverse repurchase agreements or other high-risk investments as defined by the Agency's investment policy. It is the Agency's intention to hold investments until maturity, unless earlier liquidation would result in an investment gain.

Certain investments of the Agency are in the Local Agency Investment Fund (LAIF). LAIF is sponsored by the State Treasurer and prepares its market value report detailing the carrying cost and the estimated fair value for the entire pool. The Agency has used a multiplier provided by LAIF to determine estimated fair values. In addition, the Agency has investments with trustees. These investments are restricted by various bond covenants and are pledged for payment of principal, interest and specified capital improvements.

(c) Investment Risks

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. The following schedule indicates the interest rate risk of the City's investments as of June 30, 2009. The Employees' Retirement System's interest rate risk information is discussed in section (e) of this note.

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	Fair Value	Investment Maturities			
		Less than 1 year	1 to 5 years	5 to 10 years	More than 10 years
Primary Government:					
Investments in City Treasury:					
U.S. Treasury Bills	\$ 294,190	\$ 294,190	\$ -	\$ -	\$ -
U.S. Treasury Notes	362,845	181,283	181,562	-	-
U.S. Agencies - Coupon	1,175,399	279,653	895,746	-	-
U.S. Agencies - Discount	194,544	194,544	-	-	-
Temporary Liquidity Guarantee Program	554,562	-	554,562	-	-
Negotiable certificates of deposits	425,000	425,000	-	-	-
Public time deposits	15,300	5,300	10,000	-	-
Less: Treasure Island Development Authority					
Investments with City Treasury	(2,821)	(2,821)	-	-	-
Subtotal investments in City Treasury	<u>3,019,019</u>	<u>\$ 1,377,149</u>	<u>\$ 1,641,870</u>	<u>\$ -</u>	<u>\$ -</u>
Investments Outside City Treasury:					
(Governmental and Business-Type)					
U.S. Treasury Notes	6,142	\$ 6,142	\$ -	\$ -	\$ -
U.S. Treasury Bills	2,499	2,499	-	-	-
U.S. Agencies - Coupon	32,250	18,375	13,875	-	-
U.S. Agencies - Discount	312,315	312,315	-	-	-
Money market mutual funds	281,758	281,758	-	-	-
Guaranteed investment contract	15,958	-	15,958	-	-
Commercial paper	732	732	-	-	-
Certificate of deposits	923	923	-	-	-
Subtotal investments outside City Treasury	<u>652,577</u>	<u>\$ 622,744</u>	<u>\$ 29,833</u>	<u>\$ -</u>	<u>\$ -</u>
Employees' Retirement System investments	<u>12,867,163</u>				
Total Primary Government	<u>16,538,759</u>				
Component Units:					
Redevelopment Agency:					
U.S. Treasury Bills	61,995	\$ 61,995	\$ -	\$ -	\$ -
U.S. Agencies - Coupon	2,009	2,009	-	-	-
U.S. Agencies - Discount	29,999	29,999	-	-	-
Commercial paper	19,987	19,987	-	-	-
State Local Agency Investment Fund	16,718	16,718	-	-	-
Money market mutual funds	149,161	149,161	-	-	-
Guaranteed investment contracts	6,303	987	-	-	5,316
Subtotal Redevelopment Agency	<u>286,172</u>	<u>\$ 280,856</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 5,316</u>
Treasure Island Development Authority:					
Investments with City Treasury	<u>2,821</u>	<u>\$ 2,821</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Subtotal Treasure Island Development Authority	<u>2,821</u>	<u>\$ 2,821</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Total Component Units	<u>288,993</u>				
Total Investments	<u>\$ 16,827,752</u>				

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One of the ways that the Treasurer manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. All security transactions including collateral for repurchase agreements, entered into by the Treasurer are conducted on a deliver-versus-payment basis pursuant to approved custodial safekeeping agreements. Securities are held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts.

As a means of limiting its exposure to fair value losses arising from rising interest rates, the Agency's investment policy limits investments to securities with short maturities, such as the following:

- The maximum maturity of commercial paper is 180 days. Investment in commercial paper will comprise not more than 25% of the Agency's portfolio.
- The maximum maturity of bankers' acceptance is 180 days.
- The maximum maturity of corporate notes is five years. Investment in corporate notes may not exceed 15% of the Agency's portfolio.

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization.

Presented below is the minimum rating required by the California Government Code and the City's investment policy and the actual rating as of June 30, 2009 for each investment type in the City's Treasury.

<u>Investment Type</u>	<u>Minimum Legal Rating</u>	<u>Standard & Poor's Rating</u>	<u>Total Investment Portfolio</u>
U.S. Treasury Bills	N/A	A-1	9.7%
U.S. Treasury Notes	N/A	AAA/A-1	12.0%
U.S. Agencies	N/A	AAA/A-1	45.3%
Temporary Liquidity Guarantee Program	N/A	AAA	18.4%
Negotiable Certificates of Deposits	N/A	N/A	14.1%
Public Time Deposits	N/A	N/A	0.5%

As a means of limiting its exposure to credit risk, the Agency's investment policy limits investments to high-quality securities with an investment grade of A-1/P-1 or better for commercial paper and AAA for money market mutual funds, as well as maintaining a portfolio diversified by type and issuer.

<u>Investment Type</u>	<u>Credit Ratings</u>	<u>Total Investment Portfolio</u>
Treasury Bills	Exempt	21.7%
U.S. Agencies – Coupon	AAA	0.7%
U.S. Agencies – Discount	A-1/P-1	10.5%
Commercial paper	A -1/P-1	7.0%
State Local Agency Investment Fund	Not rated	5.8%
Money market mutual funds	AAAm	52.1%
Guaranteed investment contracts	Not Rated	2.2%

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Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments; however, it is the practice of the City Treasurer that all investments are insured, registered or held by the Treasurer's custodial agent in the City's name.

Concentration of Credit Risk

The City's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. U.S. Treasury and Agency securities are not subject to single issuer limitation. As of June 30, 2009, the City Treasurer has investments in U.S. Agencies that represent 5 percent or more of the total Pool in the following: Federal Home Loan Mortgage Corporation, Federal National Mortgage Association Notes, and Federal Home Loan Bank. These investments represent 13.4 percent, 14.9 percent, 11.7 percent, respectively.

In addition, 84 percent of Airport's investments with its trustees are held in Federal National Mortgage Association and 16 percent in Federal Home Loan Bank securities. The Finance Corporation's investments with its trustee are held in securities of Federal Home Loan Bank for 29 percent and Federal Farm Credit Bank for 6.4 percent. The Redevelopment Agency held investments with Federal Home Loan Bank and GE Capital Temporary Liquidity Guarantee Program for 17.8 percent and 11.1 percent, respectively.

(d) Treasurer's Pool

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2009:

Statement of Net Assets

Net assets held in trust for all pool participants	<u>\$ 3,001,542</u>
Equity of internal pool participants	2,436,161
Equity of external pool participants	565,381
Total equity	<u>\$ 3,001,542</u>

Statement of Changes in Net Assets

Net assets at July 1, 2008	\$ 3,157,781
Net change in investments by pool participants	<u>(156,239)</u>
Net assets at June 30, 2009	<u>\$ 3,001,542</u>

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The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2009 (in thousands):

Type of Investment	Rates	Maturities	Par Value	Carrying Value
U.S. government securities	0.13% - 3.86%	07/23/09 - 05/31/11	\$ 650,100	\$ 657,035
Federal agencies	0.11% - 3.60%	07/07/09 - 04/21/14	1,369,550	1,369,943
Negotiable certificates of deposits	1.20% - 2.52%	09/02/09 - 04/14/10	425,000	425,000
Temporary Liquidity Guarantee Program	0.77% - 2.13%	01/07/11 - 12/26/12	551,000	554,562
Public time deposits	1.00% - 3.90%	07/16/09 - 12/20/10	15,300	15,300
			<u>\$ 3,010,950</u>	<u>3,021,840</u>
Carrying amount of deposits in Treasurer's Pool				(20,298)
Total cash and investments in Treasurer's Pool				<u>\$ 3,001,542</u>

(e) Retirement System Investments

The Retirement System's investments as of June 30, 2009 are summarized as follows:

Fixed Income Investments:	
Short-term investments	<u>\$ 504,096</u>
Debt securities:	
U.S. Government and agencies	1,053,552
Other debt securities	<u>2,662,681</u>
Subtotal debt securities	<u>3,716,233</u>
Total fixed income investments	<u>4,220,329</u>
Equity securities:	
Domestic	2,835,168
International	<u>2,279,316</u>
Total equity securities	<u>5,114,484</u>
Real estate holdings	1,181,932
Alternative investments	1,511,250
Foreign currency contracts, net	2,094
Investment in lending agent's short-term investment pool	<u>837,074</u>
Total Retirement System Investments	<u>\$ 12,867,163</u>

Interest Rate Risk

The Retirement System does not have a specific policy to manage interest rate risk, but requires investment managers to diversify by issue, maturity, sector, coupon and geography. Investment managers retained by the Retirement System follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Any exemption from general guidelines requires approval from the Retirement Board.

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Below is a table depicting the segmented time distribution for fixed income investments based upon the expected maturity (in years) as of June 30, 2009:

Investment Type	Fair Value	Less than 1			
		year	1-5 years	6-10 years	10+ years
Asset Backed Securities	\$ 155,664	\$ 2	\$ 72,070	\$ 14,549	\$ 69,043
Bank Loans	31,848	774	8,767	21,104	1,203
Collateralized Bonds	3,017	-	-	470	2,547
Commercial Mortgage-Backed	482,725	892	64,534	130,896	286,403
Corporate Bonds	1,380,439	83,990	768,418	387,346	140,685
Corporate Convertible Bonds	159,112	3,599	74,444	11,743	69,326
Government Agencies	14,401	-	9,174	3,836	1,391
Government Bonds	409,885	-	320,627	52,709	36,549
Government Mortgage-Backed Securities	655,933	-	152,746	34,030	469,157
Index Linked Government Bonds	9,320	-	-	1,909	7,411
Mortgages	132	-	-	132	-
Municipal/Provincial Bonds	26,743	-	901	12,316	13,526
Non-Government Backed Collateralized					
Mortgage Obligations	157,258	900	-	3,188	153,170
Options and swaps	(8,201)	(2,535)	(1,964)	(2,851)	(851)
Other Fixed Income	484,658	390,657	62,688	24,293	7,020
Short-term Bills and Notes	17,877	17,877	-	-	-
Short-term Investment Funds	233,870	233,870	-	-	-
Total	\$ 4,214,681	\$ 730,026	\$ 1,532,405	\$ 695,670	\$ 1,256,580

As of June 30, 2009, two Argentina government bonds and four other fixed income funds amounting to \$0.2 and \$5.5 million, respectively, are in default. The latter amount is awaiting the outcome of the Lehman bankruptcy proceedings. These securities are excluded from the table above.

Credit Risk

Fixed income investment managers typically are limited within their portfolios to no more than 5% exposure in any single security, with the exception of United States Treasury and government agencies. The following table illustrates the Retirement System's exposure to credit risk excluding obligations of the U.S. government and those explicitly guaranteed by the U.S. government of \$598.3 million as of June 30, 2009:

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	\$ 754,702	20.8%
AA	143,653	4.0%
A	320,312	8.8%
BBB	428,870	11.8%
BB	186,482	5.1%
B	185,971	5.1%
CCC	107,140	3.0%
CC	13,104	0.4%
C	1,785	0.0%
D	8,167	0.2%
Not rated	1,471,872	40.8%
Total	\$ 3,622,058	100.0%

Investments are classified and rated using the lower of (1) Standard & Poor's (S&P) rating or (2) Moody's Investors Service (Moody's) rating corresponding to the equivalent S&P rating. If only a Moody's rating is available, the rating equivalent to S&P is used for the purpose of this disclosure.

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Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of the Retirement System's investment in a single issuer. Guidelines for investment managers typically restrict a position to become no more than 5% (at market) of the investment manager's portfolio. Securities issued or guaranteed by the U.S. government or its agencies are exempt from this limit.

As of June 30, 2009, the Retirement System had no investments of a single issuer that equal or exceed 5% of total Retirement System net assets.

Custodial Credit Risk

The Retirement System does not have a specific policy addressing custodial credit risk for investments, but it is the practice of the Retirement System that all investments are insured, registered, or held by the Retirement System or its agent in the Retirement System's name. As of June 30, 2009, \$12.0 million of the Retirement System's investments were exposed to custodial credit risk because they were not insured or registered in the name of the Retirement System, and were held by the counterparty's trust department or agent but not in the Retirement System's name. Cash received as securities lending collateral is invested in a securities lending collateral investment pool and is not exposed to custodial credit risk.

Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of investments. As of June 30, 2009, the Retirement System was subjected to foreign currency risk. To mitigate this risk, the Retirement System's investment policy allows international managers to enter into foreign currency exchange contracts limited to hedging currency exposure existing in the portfolio. The Retirement System's exposure to foreign currency risk derives from its positions in foreign currency denominated cash equity, fixed income, alternative investments, real estate, and swap investments.

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The Retirement System's net exposure to foreign currency risk as of June 30, 2009 is as follows:

Currency	Cash	Equity	Fixed Income	Alternative Investments	Real Estate	Total
Australian dollar	\$ 501	\$ 91,955	\$ 8,491	\$ -	\$ -	\$ 100,947
Brazilian real	-	27,807	2,684	-	-	30,491
British pound sterling	345	301,598	-	836	-	302,779
Canadian dollar	211	65,378	1,991	-	-	67,580
Colombian peso	-	-	658	-	-	658
Czech koruna	468	10,918	-	-	-	11,386
Danish krone	99	17,717	-	-	-	17,816
Egyptian pound	-	7,389	-	-	-	7,389
Euro	11,965	553,951	11,631	180,119	-	757,666
Hong Kong dollar	750	147,121	-	-	-	147,871
Hungarian forint	-	6,132	-	-	-	6,132
Indonesian rupiah	12	3,719	-	-	-	3,731
Japanese yen	3,214	416,627	-	-	63,994	483,835
Malaysian ringgit	-	1,776	-	-	-	1,776
Mexican peso	-	4,582	896	-	-	5,478
New Israeli shekel	-	2,833	-	-	-	2,833
New Taiwan dollar	-	29,445	-	-	-	29,445
New Zealand dollar	28	1,621	-	-	-	1,649
Nigerian naira	-	-	2,801	-	-	2,801
Norwegian krone	131	17,611	-	-	-	17,742
Polish zloty	-	3,330	-	-	-	3,330
Russian ruble (new)	27	-	1,670	-	-	1,697
Singapore dollar	280	39,228	-	-	-	39,508
South African rand	24	27,151	-	-	-	27,175
South Korean won	1,150	61,383	-	-	-	62,533
Swedish krona	(27)	37,695	-	-	-	37,668
Swiss franc	351	138,954	1,238	-	-	140,543
Thai baht	-	8,926	-	-	-	8,926
Turkish lira	-	14,169	3,699	-	-	17,868
United Arab dirham	-	-	5,164	-	-	5,164
TOTAL	\$ 19,529	\$ 2,039,016	\$ 40,923	\$ 180,955	\$ 63,994	\$ 2,344,417

Investments in forward currency contract investments are commitments to purchase or sell stated amounts of foreign currency. Changes in fair value of open contracts are immediately recognized as gains or losses. The fair values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 2009, the fair value of open contracts is summarized as follows:

Purchase contracts	\$ 1,752,959
Sales contracts	(1,750,865)
Net fair value	<u>\$ 2,094</u>

The Retirement System utilized these contracts to hedge (or decrease) the currency risk of foreign investments, to increase investment exposure in foreign currencies beyond the amounts reported as international investment securities, or to settle trades. Additionally, contracts may be used to effectively cancel previous contracts. The impact on market risk of these contracts can be summarized as follows:

Contracts used to hedge or to settle trades, net	\$ (429,284)
Contracts used to increase investment exposure in a foreign currency or to settle trades, net	431,378
Net fair value	<u>\$ 2,094</u>

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Securities Lending

The Retirement System lends U.S. government obligations, domestic and international bonds, and equities to various brokers with a simultaneous agreement to return collateral for the same securities plus a fee in the future. The securities lending agent manages the securities lending program and receives securities and cash as collateral. Collateral cash is pledged at 102% and securities at 105% of the fair value of domestic securities and international securities lent. There are no restrictions on the amount of securities that can be lent at one time. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the said collateral.

The Retirement System lent \$1.0 billion in securities and received collateral of \$0.88 billion and \$0.17 billion in cash and securities, respectively, from borrowers. Due to the decline in the fair value of assets held by the short-term investment pool, the Retirement System's invested cash collateral was valued at \$0.84 billion. The unrealized loss of \$44.8 million is presented as part of the net depreciation in fair value of investments in the statement of changes in fiduciary net assets. The Retirement System is exposed to investment risk including the possible loss of principal value in the short-term investment pool due to the fluctuation in the fair value of the assets held by the short-term investment pool.

The Retirement System does not have the ability to pledge or sell collateral securities unless a borrower defaults. The securities collateral is not reported on the statement of fiduciary net assets. As of June 30, 2009, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes them exceed the amounts they owe the Retirement System. As with other extensions of credit, the Retirement System may bear the risk of delay in recovery or of rights in the collateral should the borrower of securities fail financially. In addition, the lending agent indemnifies the Retirement System against all borrower defaults.

The Retirement System's securities lending transactions as of June 30, 2009, are summarized in the following table:

Security Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Securities Collateral
Securities Loaned for Cash Collateral:			
International Equities	\$ 136,365	\$ 144,864	\$ -
International Corporate Fixed Income	1,242	1,284	-
International Government Fixed Income	11,478	12,001	-
U.S. Government Agencies	1,860	1,906	-
U.S. Corporate Fixed Income	97,479	100,108	-
U.S. Equities	312,137	320,923	-
U.S. Government Fixed Income	294,014	300,744	-
Securities Loaned with Non-Cash Collateral:			
International Equities	167,406	-	167,586
International Government Fixed Income	75	-	67
U.S. Equities	393	-	386
Total	\$ 1,022,449	\$ 881,830	\$ 168,039

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

(6) PROPERTY TAXES

The City is responsible for assessing, collecting and distributing property taxes in accordance with enabling state law. Property taxes are levied on both real and personal property. Liens for secured property taxes attach on January 1st preceding the fiscal year for which taxes are levied. Secured property taxes are levied on the first business day of September and are payable in two equal installments: the first is due on November 1st and delinquent with penalties after December 10th; the second is due February 1st and delinquent with penalties after April 10th. Secured property taxes that are delinquent and unpaid as of June 30th are subject to redemption penalties, costs, and interest when paid. If not paid at the end of five years, the property may be sold at public auction and the proceeds used to pay delinquent amounts due. Any excess is remitted, if claimed, to the taxpayer. Unsecured personal property taxes do not represent a lien on real property. Those taxes are levied on January 1st and become delinquent with penalties after August 31st. Supplemental property tax assessments associated with changes in the assessed valuation due to transfer of ownership in property or upon completion of new construction are levied in two equal installments and have variable due dates based on the date the bill is mailed.

Since the passage of California's Proposition 13, beginning with fiscal year 1978-1979, general property taxes are based either on a flat 1% rate applied to the adjusted 1975-1976 value of the property or on 1% of the sales price of the property on sales transactions or construction value added after the 1975-1976 valuation. Taxable values on properties (exclusive of increases related to sales and construction) can rise or be adjusted at the lesser of 2% per year or inflation.

The Proposition 13 limitations on general property taxes do not limit taxes levied to pay the interest and redemption charges on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13). Proposition 13 was amended in 1986 to allow property taxes in excess of the 1% tax rate limit to fund general obligation bond debt service when such bonds are approved by two-thirds of the local voters. In 2000, California voters approved Proposition 39 which set the approval threshold at 55% for school facilities-related bonds. These "override" taxes for debt service amounted to approximately \$158 million for the year ended June 30, 2009.

Taxable valuation for the year ended June 30, 2009 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Redevelopment Agency) was approximately \$140 billion, an increase of 13.0%. The secured tax rate was \$1.163 per \$100 of assessed valuation. After adjusting for a State mandated property tax shift to schools, the tax rate is comprised of: \$0.65 for general government, \$0.35 for other taxing entities including the San Francisco Unified School District, San Francisco Community College District, the Bay Area Air Quality Management District and the Bay Area Rapid Transit District, and also \$0.163 for bond debt service. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 3.11% and 3.80%, respectively, of the current year tax levy, for an average delinquency rate of 3.16% of the current year tax levy.

As established by the Teeter Plan, the Controller allocates to the City and other agencies 100% of the secured property taxes billed but not yet collected by the City; in return, as the delinquent property taxes and associated penalties and interest are collected, the City retains such tax amounts in the Agency Fund. To the extent the Agency Fund balances are higher than required, transfers may be made to benefit the City's General Fund on a budgetary basis. The balance of the tax loss reserve as of June 30, 2009 was \$16.2 million, which is included in the Agency Fund for reporting purposes. The City has funded payment of accrued and current delinquencies, together with the required reserve, from interfund borrowing.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

(7) CAPITAL ASSETS

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2009 was as follows:

Governmental Activities:

	Balance July 1, 2008	Increases*	Decreases*	Balance June 30, 2009
Capital assets, not being depreciated:				
Land.....	\$ 151,917	\$ 3,595	\$ -	\$ 155,512
Construction in progress.....	248,587	164,572	(226,026)	187,133
Total capital assets, not being depreciated....	<u>400,504</u>	<u>168,167</u>	<u>(226,026)</u>	<u>342,645</u>
Capital assets, being depreciated:				
Facilities and improvements.....	2,759,693	205,873	(5,598)	2,959,968
Machinery and equipment.....	315,598	16,899	(8,599)	323,898
Infrastructure.....	310,556	17,242	-	327,798
Total capital assets, being depreciated.....	<u>3,385,847</u>	<u>240,014</u>	<u>(14,197)</u>	<u>3,611,664</u>
Less accumulated depreciation for:				
Facilities and improvements.....	571,150	55,610	(4,270)	622,490
Machinery and equipment.....	254,897	18,910	(8,557)	265,250
Infrastructure.....	29,227	8,427	-	37,654
Total accumulated depreciation.....	<u>855,274</u>	<u>82,947</u>	<u>(12,827)</u>	<u>925,394</u>
Total capital assets, being depreciated, net.....	<u>2,530,573</u>	<u>157,067</u>	<u>(1,370)</u>	<u>2,686,270</u>
Governmental activities capital assets, net.....	<u>\$ 2,931,077</u>	<u>\$ 325,234</u>	<u>\$ (227,396)</u>	<u>\$ 3,028,915</u>

* The increases and decreases include transfers of categories of capital assets from construction in progress to depreciable categories.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

Business-type Activities:

Capital asset activity of the business enterprises for the year ended June 30, 2009, was as follows:

San Francisco International Airport

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital assets, not being depreciated:				
Land.....	\$ 2,787	\$ -	\$ -	\$ 2,787
Construction in progress.....	55,150	146,639	(91,889)	109,900
Total capital assets, not being depreciated....	<u>57,937</u>	<u>146,639</u>	<u>(91,889)</u>	<u>112,687</u>
Capital assets, being depreciated:				
Facilities and improvements.....	5,037,915	72,677	(22,528)	5,088,064
Machinery and equipment.....	66,835	16,620	(4,294)	79,161
Easements.....	139,367	250	-	139,617
Total capital assets, being depreciated.....	<u>5,244,117</u>	<u>89,547</u>	<u>(26,822)</u>	<u>5,306,842</u>
Less accumulated depreciation for:				
Facilities and improvements.....	1,572,935	148,770	(20,260)	1,701,445
Machinery and equipment.....	54,568	2,492	(4,274)	52,786
Easements.....	73,919	6,954	-	80,873
Total accumulated depreciation.....	<u>1,701,422</u>	<u>158,216</u>	<u>(24,534)</u>	<u>1,835,104</u>
Total capital assets, being depreciated, net.....	<u>3,542,695</u>	<u>(68,669)</u>	<u>(2,288)</u>	<u>3,471,738</u>
Capital assets, net.....	<u>\$ 3,600,632</u>	<u>\$ 77,970</u>	<u>\$ (94,177)</u>	<u>\$ 3,584,425</u>

San Francisco Water Enterprise

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital assets, not being depreciated:				
Land.....	\$ 17,886	\$ 500	\$ -	\$ 18,386
Construction in progress.....	423,063	282,705	(158,475)	547,293
Total capital assets, not being depreciated....	<u>440,949</u>	<u>283,205</u>	<u>(158,475)</u>	<u>565,679</u>
Capital assets, being depreciated:				
Facilities and improvements.....	1,287,404	138,776	-	1,426,180
Machinery and equipment.....	128,758	18,821	(791)	146,788
Total capital assets, being depreciated.....	<u>1,416,162</u>	<u>157,597</u>	<u>(791)</u>	<u>1,572,968</u>
Less accumulated depreciation for:				
Facilities and improvements.....	496,886	41,085	(51)	537,920
Machinery and equipment.....	92,231	8,015	(779)	99,467
Total accumulated depreciation.....	<u>589,117</u>	<u>49,100</u>	<u>(830)</u>	<u>637,387</u>
Total capital assets, being depreciated, net.....	<u>827,045</u>	<u>108,497</u>	<u>39</u>	<u>935,581</u>
Capital assets, net.....	<u>\$ 1,267,994</u>	<u>\$ 391,702</u>	<u>\$ (158,436)</u>	<u>\$ 1,501,260</u>

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

Hetch Hetchy Water and Power

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital assets, not being depreciated:				
Land.....	\$ 4,594	\$ 82	\$ -	\$ 4,676
Construction in progress.....	24,517	23,642	(9,194)	38,965
Total capital assets, not being depreciated....	<u>29,111</u>	<u>23,724</u>	<u>(9,194)</u>	<u>43,641</u>
Capital assets, being depreciated:				
Facilities and improvements.....	484,567	4,775	-	489,342
Machinery and equipment.....	48,501	6,830	(169)	55,162
Total capital assets, being depreciated.....	<u>533,068</u>	<u>11,605</u>	<u>(169)</u>	<u>544,504</u>
Less accumulated depreciation for:				
Facilities and improvements.....	270,951	9,915	-	280,866
Machinery and equipment.....	31,852	1,954	(166)	33,640
Total accumulated depreciation.....	<u>302,803</u>	<u>11,869</u>	<u>(166)</u>	<u>314,506</u>
Total capital assets, being depreciated, net.....	<u>230,265</u>	<u>(264)</u>	<u>(3)</u>	<u>229,998</u>
Capital assets, net.....	<u>\$ 259,376</u>	<u>\$ 23,460</u>	<u>\$ (9,197)</u>	<u>\$ 273,639</u>

Municipal Transportation Agency

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital assets, not being depreciated:				
Land.....	\$ 26,245	\$ -	\$ -	\$ 26,245
Construction in progress.....	263,631	68,168	(221,236)	110,563
Total capital assets, not being depreciated....	<u>289,876</u>	<u>68,168</u>	<u>(221,236)</u>	<u>136,808</u>
Capital assets, being depreciated:				
Facilities and improvements.....	415,834	178,176	-	594,010
Machinery and equipment.....	1,140,301	37,176	(759)	1,176,718
Infrastructure.....	1,101,857	5,898	-	1,107,755
Total capital assets, being depreciated.....	<u>2,657,992</u>	<u>221,250</u>	<u>(759)</u>	<u>2,878,483</u>
Less accumulated depreciation for:				
Facilities and improvements.....	179,847	7,660	-	187,507
Machinery and equipment.....	466,352	64,518	(731)	530,139
Infrastructure.....	307,677	32,308	-	339,985
Total accumulated depreciation.....	<u>953,876</u>	<u>104,486</u>	<u>(731)</u>	<u>1,057,631</u>
Total capital assets, being depreciated, net.....	<u>1,704,116</u>	<u>116,764</u>	<u>(28)</u>	<u>1,820,852</u>
Capital assets, net.....	<u>\$ 1,993,992</u>	<u>\$ 184,932</u>	<u>\$ (221,264)</u>	<u>\$ 1,957,660</u>

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

San Francisco General Hospital Medical Center

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital assets, not being depreciated:				
Land.....	\$ 542	\$ -	\$ -	\$ 542
Construction in progress.....	21,670	18,680	(27,241)	13,109
Total capital assets, not being depreciated....	22,212	18,680	(27,241)	13,651
Capital assets, being depreciated:				
Facilities and improvements.....	135,231	853	-	136,084
Machinery and equipment.....	56,830	1,123	-	57,953
Total capital assets, being depreciated.....	192,061	1,976	-	194,037
Less accumulated depreciation for:				
Facilities and improvements.....	98,953	4,787	-	103,740
Machinery and equipment.....	47,947	2,126	-	50,073
Total accumulated depreciation.....	146,900	6,913	-	153,813
Total capital assets, being depreciated, net.....	45,161	(4,937)	-	40,224
Capital assets, net.....	\$ 67,373	\$ 13,743	\$ (27,241)	\$ 53,875

San Francisco Wastewater Enterprise

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital assets, not being depreciated:				
Land.....	\$ 21,787	\$ -	\$ -	\$ 21,787
Construction in progress.....	62,975	73,538	(59,183)	77,330
Total capital assets, not being depreciated....	84,762	73,538	(59,183)	99,117
Capital assets, being depreciated:				
Facilities and improvements.....	2,057,625	51,757	-	2,109,382
Machinery and equipment.....	51,583	6,765	(335)	58,013
Total capital assets, being depreciated.....	2,109,208	58,522	(335)	2,167,395
Less accumulated depreciation for:				
Facilities and improvements.....	807,038	36,368	-	843,406
Machinery and equipment.....	26,071	2,447	(335)	28,183
Total accumulated depreciation.....	833,109	38,815	(335)	871,589
Total capital assets, being depreciated, net.....	1,276,099	19,707	-	1,295,806
Capital assets, net.....	\$ 1,360,861	\$ 93,245	\$ (59,183)	\$ 1,394,923

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

Port of San Francisco

	Balance July 1, 2008 (as restated)	Increases	Decreases	Balance June 30, 2009
Capital assets, not being depreciated:				
Land.....	\$ 104,345	\$ 1,237	\$ -	\$ 105,582
Construction in progress.....	32,730	6,911	(33,484)	6,157
Total capital assets, not being depreciated....	<u>137,075</u>	<u>8,148</u>	<u>(33,484)</u>	<u>111,739</u>
Capital assets, being depreciated:				
Facilities and improvements.....	320,632	4,304	-	324,936
Machinery and equipment.....	16,527	861	(887)	16,501
Infrastructure.....	1,069	26,843	(1,928)	25,984
Easements and other intangible assets.....	5,480	3,369	-	8,849
Total capital assets, being depreciated.....	<u>343,708</u>	<u>35,377</u>	<u>(2,815)</u>	<u>376,270</u>
Less accumulated depreciation for:				
Facilities and improvements.....	204,173	8,906	-	213,079
Machinery and equipment.....	11,027	1,249	(887)	11,389
Infrastructure.....	571	1,245	(1,928)	(112)
Easements and other intangible assets.....	2,951	1,948	-	4,899
Total accumulated depreciation.....	<u>218,722</u>	<u>13,348</u>	<u>(2,815)</u>	<u>229,255</u>
Total capital assets, being depreciated, net.....	<u>124,986</u>	<u>22,029</u>	<u>-</u>	<u>147,015</u>
Capital assets, net.....	<u>\$ 262,061</u>	<u>\$ 30,177</u>	<u>\$ (33,484)</u>	<u>\$ 258,754</u>

Laguna Honda Hospital

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital assets, not being depreciated:				
Land.....	\$ 914	\$ -	\$ -	\$ 914
Construction in progress.....	310,534	113,967	-	424,501
Total capital assets, not being depreciated....	<u>311,448</u>	<u>113,967</u>	<u>-</u>	<u>425,415</u>
Capital assets, being depreciated:				
Facilities and improvements.....	28,128	-	(6,168)	21,960
Machinery and equipment.....	14,204	101	(481)	13,824
Property held under lease.....	2,931	-	(41)	2,890
Total capital assets, being depreciated.....	<u>45,263</u>	<u>101</u>	<u>(6,690)</u>	<u>38,674</u>
Less accumulated depreciation for:				
Facilities and improvements.....	24,945	616	(6,154)	19,407
Machinery and equipment.....	12,744	343	(481)	12,606
Property held under lease.....	467	205	-	672
Total accumulated depreciation.....	<u>38,156</u>	<u>1,164</u>	<u>(6,635)</u>	<u>32,685</u>
Total capital assets, being depreciated, net.....	<u>7,107</u>	<u>(1,063)</u>	<u>(55)</u>	<u>5,989</u>
Capital assets, net.....	<u>\$ 318,555</u>	<u>\$ 112,904</u>	<u>\$ (55)</u>	<u>\$ 431,404</u>

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

Other Fund – San Francisco Market Corporation

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital assets, not being depreciated:				
Construction in progress.....	\$ 3	\$ 871	\$ -	\$ 874
Total capital assets, not being depreciated....	<u>3</u>	<u>871</u>	<u>-</u>	<u>874</u>
Capital assets, being depreciated:				
Facilities and improvements.....	9,872	85	(327)	9,630
Machinery and equipment.....	56	33	-	89
Total capital assets, being depreciated.....	<u>9,928</u>	<u>118</u>	<u>(327)</u>	<u>9,719</u>
Less accumulated depreciation for:				
Facilities and improvements.....	5,347	254	-	5,601
Machinery and equipment.....	31	7	-	38
Total accumulated depreciation.....	<u>5,378</u>	<u>261</u>	<u>-</u>	<u>5,639</u>
Total capital assets, being depreciated, net.....	<u>4,550</u>	<u>(143)</u>	<u>(327)</u>	<u>4,080</u>
Capital assets, net.....	<u>\$ 4,553</u>	<u>\$ 728</u>	<u>\$ (327)</u>	<u>\$ 4,954</u>

Total Business-type Activities

	Balance July 1, 2008 (as restated)	Increases*	Decreases*	Balance June 30, 2009
Capital assets, not being depreciated:				
Land.....	\$ 179,100	\$ 1,819	\$ -	\$ 180,919
Construction in progress.....	1,194,273	735,121	(600,702)	1,328,692
Total capital assets, not being depreciated....	<u>1,373,373</u>	<u>736,940</u>	<u>(600,702)</u>	<u>1,509,611</u>
Capital assets, being depreciated:				
Facilities and improvements.....	9,777,208	451,403	(29,023)	10,199,588
Machinery and equipment.....	1,523,595	88,330	(7,716)	1,604,209
Infrastructure.....	1,102,926	32,741	(1,928)	1,133,739
Property held under lease.....	2,931	-	(41)	2,890
Easements and other intangible assets.....	144,847	3,619	-	148,466
Total capital assets, being depreciated.....	<u>12,551,507</u>	<u>576,093</u>	<u>(38,708)</u>	<u>13,088,892</u>
Less accumulated depreciation for:				
Facilities and improvements.....	3,661,075	258,361	(26,465)	3,892,971
Machinery and equipment.....	742,823	83,151	(7,653)	818,321
Infrastructure.....	308,248	33,553	(1,928)	339,873
Property held under lease.....	467	205	-	672
Easements and other intangible assets.....	76,870	8,902	-	85,772
Total accumulated depreciation.....	<u>4,789,483</u>	<u>384,172</u>	<u>(36,046)</u>	<u>5,137,609</u>
Total capital assets, being depreciated, net.....	<u>7,762,024</u>	<u>191,921</u>	<u>(2,662)</u>	<u>7,951,283</u>
Capital assets, net.....	<u>\$ 9,135,397</u>	<u>\$ 928,861</u>	<u>\$ (603,364)</u>	<u>\$ 9,460,894</u>

* The increases and decreases include transfers of categories of capital assets from construction in progress to depreciable categories.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

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(Dollars in Thousands)

Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental activities:		
Public Protection.....	\$	14,551
Public works transportation and commerce		12,127
Human welfare and neighborhood development.....		541
Community Health		1,174
Culture and recreation		34,574
General administration and finance.....		18,623
Capital assets held by the City's internal service funds charged to the various functions on a prorated basis.....		1,357
Total depreciation expense – governmental activities	\$	<u>82,947</u>
Business-type activities:		
Airport	\$	158,216
Water		49,100
Power.....		11,869
Transportation		104,486
Hospitals.....		8,077
Sewer.....		38,815
Port		13,348
Market.....		261
Total depreciation expense – business-type activities.....	\$	<u>384,172</u>

Equipment is generally estimated to have useful lives of 2 to 40 years, except for certain equipment of the Water Enterprise that has an estimated useful life of up to 75 years. Facilities and improvements are generally estimated to have useful lives from 15 to 50 years, except for utility type assets of the Water Enterprise, Hetch Hetchy Water and Power (Hetch Hetchy), the Wastewater Enterprise, the Municipal Transportation Agency (MTA), and the Port of San Francisco (Port) that have estimated useful lives from 51 to 175 years. These long-lived assets include reservoirs, aqueducts, pumping stations of Hetch Hetchy, Cable Car Barn facilities and structures of MTA, and pier substructures of the Port, which totaled \$1.7 billion as of June 30, 2009. In addition, the Water Enterprise had utility type assets with useful lives over 100 years, which totaled \$4.5 million as of June 30, 2009.

During the fiscal year ended June 30, 2009, the City's enterprise funds incurred total interest expense and interest income of approximately \$281.1 million and \$49.7 million, respectively. Of these amounts, interest expense of approximately \$28.0 million was capitalized, while no interest income was received as part of the cost of constructing proprietary capital assets.

The Water Enterprise and the Wastewater Enterprise expensed \$5.2 million and \$2.1 million, respectively, related to capitalized design and planning costs on certain projects that were discontinued. The amounts of the write-off were recognized as other operating expenses in the accompanying financial statements.

The General Hospital transferred approximately \$27.0 million in construction in progress to governmental activities and reimbursed the General Fund for the subsidies provided in prior years, which were used to fund the initial phases of the new hospital rebuild project. During the fiscal year, the City issued the first in a series of general obligation bonds of \$131.7 million 2008 San Francisco General Hospital Improvement Bonds (see Note 8.) The general obligation bonds will be funded by governmental activities. The governmental activities will report the construction of the new hospital and the related general obligation bonds during the construction phase.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

Port management determined in fiscal year 2009 that certain land improvements that had not been depreciated were exhaustible assets and should have been depreciated in prior periods. In connection with the restatement adjustment discussed in Note 2(t), accumulated depreciation as of July 1, 2008 has been increased by \$12.3 million and improvements of \$3.2 million have been written off.

Component Unit –Redevelopment Agency

Capital asset activity of the Redevelopment Agency for the year ended June 30, 2009 was as follows:

	Balance July 1, 2008	Increases	Decreases	Balance June 30, 2009
Capital assets, not being depreciated:				
Land.....	\$ 117,325	\$ 20,644	\$ -	\$ 137,969
Construction in progress.....	14,924	8,580	-	23,504
Total capital assets, not being depreciated....	<u>132,249</u>	<u>29,224</u>	<u>-</u>	<u>161,473</u>
Capital assets, being depreciated:				
Facilities and improvements.....	176,655	848	-	177,503
Machinery and equipment.....	8,103	17	-	8,120
Leasehold improvements.....	22,202	-	-	22,202
Total capital assets, being depreciated.....	<u>206,960</u>	<u>865</u>	<u>-</u>	<u>207,825</u>
Less accumulated depreciation for:				
Facilities and improvements.....	48,809	4,427	-	53,236
Machinery and equipment.....	7,852	56	-	7,908
Leasehold improvements.....	9,106	444	-	9,550
Total accumulated depreciation.....	<u>65,767</u>	<u>4,927</u>	<u>-</u>	<u>70,694</u>
Total capital assets, being depreciated, net.....	<u>141,193</u>	<u>(4,062)</u>	<u>-</u>	<u>137,131</u>
Capital assets, net.....	<u>\$ 273,442</u>	<u>\$ 25,162</u>	<u>\$ -</u>	<u>\$ 298,604</u>

(8) BONDS, LOANS, CAPITAL LEASES AND OTHER PAYABLES

Changes in Short-Term Obligations

The changes in short-term obligations for governmental and enterprise activities for the year ended June 30, 2009, are as follows:

Type of Obligation	July 1, 2008	Additional Obligation	Current Maturities	June 30, 2009
Governmental activities:				
Commercial paper.....	\$ 150,000	\$ 150,000	\$ (150,000)	\$ 150,000
Government activities short-term obligations.....	<u>\$ 150,000</u>	<u>\$ 150,000</u>	<u>\$ (150,000)</u>	<u>\$ 150,000</u>
Business-type activities:				
Commercial paper				
San Francisco International Airport.....	\$ 18,000	\$ 95,165	\$ (6,885)	\$ 106,280
San Francisco Water Enterprise.....	-	890,500	(660,900)	229,600
San Francisco Wastewater Enterprise.....	50,000	227,500	(177,500)	100,000
Business-type activities short-term obligations.....	<u>\$ 68,000</u>	<u>\$ 1,213,165</u>	<u>\$ (845,285)</u>	<u>\$ 435,880</u>

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

San Francisco County Transportation Authority

In March 2004, the San Francisco County Transportation Authority (the Authority) issued an initial tranche of \$50 million and in September 2004 the Authority issued the second tranche of \$100 million of a programmed \$200 million aggregate principal amount of commercial paper notes (Limited Tax Bonds), Series A and B. The commercial paper notes are issued to provide a source of financing for the Authority's voter approved Proposition K Expenditure Plan. Under this program, the Authority is able to issue commercial paper notes at prevailing interest rates not to exceed 12% per annum. The maximum maturity of the notes is 270 days. The principal amount of the commercial paper notes plus interest thereon is backed as to credit and liquidity by an irrevocable line of credit (LOC) issued by Landesbank Baden-Württemberg, New York Branch in the amount up to \$217.8 million. On July 12, 2005, the expiration date of the irrevocable LOC was extended from April 14, 2007 to December 29, 2015 through Authority Board Resolution 06-01. The commercial paper notes are secured by a first lien gross pledge of the Authority's Sales Tax. The principal and interest on the commercial paper notes is payable at each maturity.

As of June 30, 2009, \$150 million in commercial paper notes was outstanding and maturing within 1 to 120 days after year-end with interest rates ranging from 0.30% to 0.55%.

San Francisco International Airport

On May 20, 1997, the Airport authorized the issuance of its subordinate commercial paper notes (CP) in an aggregate principal amount not to exceed the lesser of \$400 million or the stated amount of the letter of credit. On May 9, 2006, the Airport obtained a letter of credit issued by State Street Bank and Trust Company, with a maximum principal amount of \$200 million.

As of June 30, 2009, the outstanding principal amount of CP was \$106.3 million. The proceeds of the notes will be used by the Airport to pay capital costs, costs of CP issuance and other incidental costs, certain extraordinary expenditures for which Airport funds are not otherwise available and principal and interest on maturing CP. For the fiscal year ended June 30, 2009, interest rates on the taxable CP was 0.90%; interest rate on tax exempt, private activity (AMT), CP ranged from 0.35% to 0.55% and the interest rates on the tax-exempt governmental purpose CP (non-AMT) ranged from 0.25% to 0.40%.

San Francisco Water Enterprise

The Commission and Board of Supervisors have authorized the issuance of up to \$500 million in commercial paper. Pursuant to the voter-approved 2002 Proposition A, the Water Enterprise is authorized to issue up to \$1,628 million of indebtedness, of which, \$507.8 million in long-term bonds were previously issued in fiscal year 2006 and \$890.5 million in short-term commercial paper were issued during fiscal year 2009 and \$660.9 million was repaid. Short-term commercial paper had an average yield of 1.4% and maximum yield at 2.9% during fiscal year 2009.

San Francisco Wastewater Enterprise

The San Francisco Public Utilities Commission and Board of Supervisors have authorized the issuance of up to \$150 million in commercial paper under the voter-approved 2002 Proposition E for the purpose of reconstructing, expanding, repairing or improving the Wastewater Enterprise's facilities. The commercial paper program is supported by a letter of credit issued by BNP Paribas and is dated as of February 2007 with the U.S. Bank Trust N.A., as agent bank. As of June 30, 2009, the Wastewater Enterprise had \$100 million in commercial paper notes outstanding with interest rates ranging from 0.30% to 2.2%. The letter of credit will expire on February 13, 2012.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements
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Long-Term Obligations

The following is a summary of long-term obligations of the City as of June 30, 2009:

GOVERNMENTAL ACTIVITIES

<u>Type of Obligation and Purpose</u>	<u>Final Maturity Date</u>	<u>Remaining Interest Rate</u>	<u>Amount</u>
GENERAL OBLIGATION BONDS ^(a):			
Affordable housing	2014	4.10% - 6.75%	\$ 6,280
California Academy of Sciences	2025	3.125% - 5.25%	74,700
Laguna Honda Hospital	2030	3.25% - 5.00%	162,685
Branch libraries	2028	3.00% - 5.00%	76,900
Parks and playgrounds	2028	3.00% - 5.25%	116,845
Schools	2023	3.00% - 5.00%	22,535
San Francisco General Hospital	2029	4.00% - 5.25%	131,650
Seismic safety loan program	2028	4.35% - 5.83%	10,296
Steinhart Aquarium	2025	3.125% - 5.00%	25,075
Zoo facilities	2025	3.00% - 5.00%	10,935
Refunding	2030	2.85% - 5.00%	527,240
General Obligation Bonds - governmental activities			<u>1,165,141</u>
LEASE REVENUE BONDS:			
San Francisco Finance Corporation ^{(b), (e) & (f)}	2034	2.75% - 5.875% *	294,310
Lease Revenue Bonds - governmental activities			<u>294,310</u>
OTHER LONG-TERM OBLIGATIONS:			
Certificates of participation ^{(c) & (d)}	2041	1.95% - 5.30%	565,205
Loans ^{(c), (d) & (f)}	2025	2.00% - 7.498%	11,329
Capital leases payable ^{(c) & (f)}	2025	2.90% - 7.05%	164,383
Settlement Obligation Bonds ^(d)	2011	2.75% - 3.05%	13,890
Accrued vacation and sick leave ^{(d) & (f)}			143,528
Accrued workers' compensation ^{(d) & (f)}			212,881
Estimated claims payable ^{(d) & (f)}			145,006
Other postemployment benefits obligation			338,822
Other long-term obligations - governmental activities			<u>1,595,044</u>
DEFERRED AMOUNTS:			
Bond issuance premiums			47,587
Bond issuance discounts			(4,034)
Bond refunding			(16,831)
Deferred amounts			<u>26,722</u>
Governmental activities total long-term obligations			<u><u>\$ 3,081,217</u></u>

Debt service payments are made from the following sources:

- (a) Property tax recorded in the Debt Service Fund.
- (b) Lease revenues from participating departments in the General, Special Revenue and Enterprise Funds.
- (c) Revenues recorded in the Special Revenue Funds.
- (d) Revenues recorded in the General Fund.
- (e) Hotel taxes and other revenues recorded in the General and Special Revenue Funds.
- (f) User-charge reimbursements from the General, Special Revenue and Enterprise Funds.

Internal Service Funds serve primarily the governmental funds. Accordingly, long-term liabilities for the Internal Service Funds are included in the above amounts.

* Includes the Moscone Center West Expansion Project Refunding Bonds Series 2008-1 & 2, which refunded Moscone Center West Expansion Project Series 2000-1, 2 & 3, both of which were financed with variable rate bonds that reset weekly. The average interest rate from refunding date of September 11, 2008 through June 30, 2009 was 0.95% for Series 2008-1 and 0.98% for Series 2008-2. The rate at June 30, 2009 for both series was 0.25%.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

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BUSINESS-TYPE ACTIVITIES

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rate	Amount
San Francisco International Airport:			
Revenue bonds	2032	3.00% - 6.50% *	\$ 3,563,705
Revenue notes	2029	3.00% - 6.75%	314,925
San Francisco Water Enterprise:			
Revenue bonds	2036	2.50% - 5.00%	921,390
Capital appreciation bonds	2019	7.00%	3,620
Hetch Hetchy Water and Power:			
Energy bonds **	2023		5,903
Municipal Transportation Agency:			
Parking and Traffic			
Revenue bonds	2020	4.35% - 5.00%	15,880
Lease revenue bonds	2022	4.70% - 5.50%	6,165
Notes, loans and other payables ***	2010	3.00% - 5.25%	2,482
Downtown Parking - parking revenue refunding bonds ..	2018	3.00% - 5.75%	8,570
Ellis-O'Farrell - parking revenue refunding bonds	2017	3.50% - 4.70%	3,820
Uptown Parking - revenue bonds	2031	4.50% - 6.00%	17,090
San Francisco General Hospital Medical Center:			
Capital leases	2013	2.75% - 4.00%	2,522
San Francisco Wastewater Enterprise:			
Revenue bonds	2025	3.00% - 5.25%	292,660
State of California - revolving funds loans	2021	2.80% - 3.50%	75,339
Port of San Francisco:			
Revenue bonds	2010	2.80% - 4.00%	4,320
Notes, loans and other payables	2029	4.50%	3,015
Laguna Honda Hospital:			
Capital leases	2012	2.75% - 4.00%	113
Accrued vacation and sick leave			90,100
Accrued workers' compensation			146,011
Estimated claims payable			78,743
Other postemployment benefits obligation			247,647
Deferred Amounts:			
Bond issuance premiums			97,483
Bond issuance discounts			(8,257)
Bond refunding			<u>(119,631)</u>
Business-type activities total long-term obligations			<u>\$ 5,773,615</u>

* Includes Second Series Revenue Bonds Issue 34 A / B, 36 A / B, 36 C / D, and 37 C / D, which were initially issued as variable rate bonds in a weekly mode. For the fiscal year ended June 30, 2009, the average interest rate on the Issue 34 A and B was 1.86% and 2.04 % respectively; for Issue 36 A and B was 1.29% and 1.34% respectively; for Issue 36 C and D was 2.80% and 2.39% respectively; and for Issue 37 C and D was 2.94% and 2.36% respectively.

** The Clean Renewable Energy Bonds issued to fund solar photovoltaic projects carry no interest cost since the effective equivalent of interest on the bonds is paid in the form of federal tax credits in lieu of interest paid by the issuer.

*** Includes an unamortized loan premium of \$0.1 million for Parking and Traffic.

Sources of funds to meet debt service requirements are revenues derived from user fees and charges for services recorded in the respective enterprise funds.

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COMPONENT UNIT

<u>Entity and Type of Obligation</u>	<u>Final Maturity Date</u>	<u>Remaining Interest Rate</u>	<u>Amount</u>
San Francisco Redevelopment Agency and Financing Authority:			
Lease Revenue Bonds:			
Moscone Convention Center ^(a)	2025	2.90% - 7.05%	\$ 116,605
Hotel tax revenue bonds ^(b)	2026	4.50% - 6.75%	57,080
Financing Authority Bonds:			
Tax allocation revenue bonds ^(c)	2038	2.50% - 8.30%	634,714
South Beach Harbor Variable Rate Refunding bonds ^(d)	2017	Variable (0.35% at 6/30/09)	6,300
Less deferred amounts:			
Bond issuance premiums			9,612
Bond issuance discounts			(2,610)
Refunding loss			(4,504)
Subtotal			<u>817,197</u>
California Department of Boating and Waterways Loan ^(e)	2037	4.50%	7,985
Loans payable			1,511
Accreted interest payable			66,640
Accrued vacation and sick leave			2,103
Other postemployment benefits obligation			<u>552</u>
Component unit total long-term obligations			<u>\$ 895,988</u>

Debt service payments are made from the following sources:

- (a) Hotel taxes and operating revenues recorded in the Convention Facilities Special Revenue Fund and existing debt service/escrow trust funds.
- (b) Hotel taxes from hotels located in the Redevelopment Project Areas.
- (c) Property taxes allocated to the Redevelopment Agency based on increased assessed valuations in project areas (note 12) and existing debt service/escrow trust funds.
- (d) South Beach Harbor Project cash reserves, property tax increments and project revenues.
- (e) South Beach Harbor Project revenues (subordinated to Refunding Bonds).

Debt Compliance

There are a number of limitations and restrictions contained in the various bond indentures. The City believes it is in compliance with all significant limitations and restrictions.

Legal Debt Limit and Legal Debt Margin

As of June 30, 2009, the City's debt limit (3% of valuation subject to taxation) was \$4.5 billion. The total amount of debt applicable to the debt limit was \$1.2 billion. The resulting legal debt margin was \$3.3 billion.

Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issue. The City has evaluated each general obligation bond and certificates of participation

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and has recognized an arbitrage liability of \$1.9 million as of June 30, 2009. This arbitrage liability is reported in deferred credits and other liabilities in the governmental activities of the statement of net assets. The Finance Corporation has evaluated its lease revenue bonds and a liability of \$0.2 million was reported in the deferred credits and other liabilities in the Internal Service Fund as of June 30, 2009. Each enterprise fund has performed a similar analysis of its debt, which is subject to arbitrage rebate requirements. Any material arbitrage liability related to the debt of the enterprise funds has been recorded as a liability in the respective fund. In addition, the Redevelopment Agency records any arbitrage liability in deferred credits and other liabilities.

Assessment District

During June 1996, the City issued \$1 million of Limited Obligation Improvement Bonds for the Bayshore Hester Assessment District No. 95-1. These bonds were issued pursuant to the Improvement Bond Act of 1915. The proceeds were used to finance the construction of a new public right-of-way. The bonds began to mature during the fiscal year ended June 30, 1999 and continue through 2026 bearing interest from 6.0% to 6.85%. These bonds do not represent obligations of the City. Neither the faith and credit nor the taxing power of the City is pledged to the payment of the bonds. Accordingly, the debt has not been included in the basic financial statements. Assessments collected for repayment of this debt are received in the Tax Collection Agency Fund. Unpaid assessments constitute fixed liens on the lots and parcels assessed within the Bayshore-Hester Assessment District and do not constitute a personal indebtedness of the respective owners of such lots and parcels.

Mortgage Revenue Bonds

In order to facilitate affordable housing, the City issues mortgage revenue bonds for the financing of multifamily rental housing and for below-market rate mortgage financing for first time homebuyers. These obligations are secured by the related mortgage indebtedness and are not obligations of the City. As of June 30, 2009, the aggregate outstanding obligation of such bonds was \$149.7 million.

Changes in Long-Term Obligations

The changes in long-term obligations for governmental activities for the year ended June 30, 2009, are as follows:

	July 1, 2008	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2009	Amounts Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds.....	\$ 1,098,913	\$ 293,600	\$ (227,372)	\$ 1,165,141	\$ 117,686
Lease revenue bonds.....	282,490	179,605	(167,785)	294,310	18,890
Certificates of participation.....	412,200	163,335	(10,330)	565,205	11,275
Settlement obligation bonds.....	20,585	-	(6,695)	13,890	6,850
Less deferred amounts:					
For issuance premiums.....	37,977	12,875	(3,265)	47,587	-
For issuance discounts.....	(3,967)	(209)	142	(4,034)	-
On refunding.....	(15,444)	(3,491)	2,104	(16,831)	-
Total bonds payable.....	<u>1,832,754</u>	<u>645,715</u>	<u>(413,201)</u>	<u>2,065,268</u>	<u>154,701</u>
Loans.....	12,495	-	(1,166)	11,329	1,321
Capital leases.....	174,149	5,306	(15,072)	164,383	17,042
Accrued vacation and sick leave pay.....	138,203	99,298	(93,973)	143,528	76,008
Accrued workers' compensation.....	204,330	47,005	(38,454)	212,881	39,799
Estimated claims payable.....	114,204	48,902	(18,100)	145,006	43,798
Other postemployment benefits obligation.....	164,786	174,036	-	338,822	-
Governmental activities long-term obligations.....	<u>\$ 2,640,921</u>	<u>\$ 1,020,262</u>	<u>\$ (579,966)</u>	<u>\$ 3,081,217</u>	<u>\$ 332,669</u>

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Internal Service Funds serve primarily the governmental funds, the long-term liabilities of which are included as part of the above totals for governmental activities. At the year ended June 30, 2009, \$293.3 million of lease revenue bonds, \$0.7 million of capital leases, \$3.4 million of accrued vacation and sick leave pay, \$1.0 million of accrued workers' compensation, and \$7.9 million of other postemployment benefits obligation are included in the above amounts. Also, for the governmental activities, claims and judgments, compensated absences, and other postemployment benefits obligations are generally liquidated by the General Fund.

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2009, are as follows:

	July 1, 2008	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2009	Amounts Due Within One Year
San Francisco International Airport					
Bonds payable:					
Revenue bonds.....	\$ 3,943,470	\$ -	\$ (379,765)	\$ 3,563,705	\$ 97,715
Revenue notes.....	-	314,925	-	314,925	-
Less deferred amounts:					
For issuance premiums.....	56,680	2,867	(4,147)	55,400	-
For issuance discounts.....	(8,428)	(347)	704	(8,071)	-
On refunding.....	(101,915)	(16,047)	28,255	(89,707)	-
Total Bonds payable.....	3,889,807	301,398	(354,953)	3,836,252	97,715
Accrued vacation and sick leave pay.....	12,913	10,761	(9,792)	13,882	7,410
Accrued workers' compensation.....	4,836	2,382	(2,004)	5,214	1,015
Estimated claims payable.....	37	271	(242)	66	25
Other postemployment benefits obligation.....	15,413	16,813	-	32,226	-
Long-term obligations.....	\$ 3,923,006	\$ 331,625	\$ (366,991)	\$ 3,887,640	\$ 106,165
San Francisco Water Enterprise					
Bonds payable:					
Revenue bonds.....	\$ 946,910	\$ -	\$ (25,520)	\$ 921,390	\$ 26,605
Less deferred amounts:					
For issuance premiums.....	25,952	-	(1,023)	24,929	-
For issuance discounts.....	-	-	-	-	-
On refunding.....	(14,452)	-	1,019	(13,433)	-
Total bonds payable.....	958,410	-	(25,524)	932,886	26,605
Accreted interest payable.....	3,380	240	-	3,620	-
Accrued vacation and sick leave pay.....	10,856	8,715	(8,117)	11,454	6,071
Accrued workers' compensation.....	8,135	2,195	(1,713)	8,617	1,551
Estimated claims payable.....	11,254	7,946	(9,559)	9,641	2,515
Other postemployment benefits obligation.....	15,048	15,919	-	30,967	-
Long-term obligations.....	\$ 1,007,083	\$ 35,015	\$ (44,913)	\$ 997,185	\$ 36,742
Hetch Hetchy Water and Power					
Clean renewable energy bonds.....	\$ -	\$ 6,325	\$ (422)	\$ 5,903	\$ 422
Less deferred amounts:					
For issuance discounts.....	-	(194)	8	(186)	-
Notes, loans, and other payables.....	282	-	(282)	-	-
Total bonds payable.....	282	6,131	(696)	5,717	422
Accrued vacation and sick leave pay.....	2,371	1,476	(1,307)	2,540	1,454
Accrued workers' compensation.....	2,147	533	(375)	2,305	405
Estimated claims payable.....	15,301	-	(4,990)	10,311	3,251
Other postemployment benefits obligation.....	2,723	3,076	-	5,799	-
Long-term obligations.....	\$ 22,824	\$ 11,216	\$ (7,368)	\$ 26,672	\$ 5,532

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Notes to Basic Financial Statements

June 30, 2009

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The changes in long-term obligations for each enterprise fund for the year ended June 30, 2009, are as follows (continued):

	July 1, 2008	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2009	Amounts Due Within One Year
Municipal Transportation Agency					
Bonds payable:					
Revenue bonds.....	\$ 46,875	\$ -	\$ (1,515)	\$ 45,360	\$ 1,825
Lease revenue bonds.....	7,310	-	(1,145)	6,165	345
Less deferred amounts:					
For issuance premiums.....	837	-	(43)	794	-
Total bonds payable.....	55,022	-	(2,703)	52,319	2,170
Notes, loans, and other payables.....	6,980	-	(4,498)	2,482 *	2,369
Accrued vacation and sick leave pay.....	27,023	20,696	(19,077)	28,642	16,868
Accrued workers' compensation.....	92,116	14,510	(16,541)	90,085	17,003
Estimated claims payable.....	55,981	12,872	(21,388)	47,465	18,382
Other postemployment benefits obligation.....	35,438	38,347	-	73,785	-
Long-term obligations.....	\$ 272,560	\$ 86,425	\$ (64,207)	\$ 294,778	\$ 56,792
* Includes an unamortized loan premium of \$0.1 million for Parking and Traffic.					
San Francisco General Hospital Medical Center					
Capital leases.....	\$ 3,194	\$ 535	\$ (1,207)	\$ 2,522	\$ 1,142
Accrued vacation and sick leave pay.....	17,157	13,886	(13,526)	17,517	10,178
Accrued workers' compensation.....	21,916	4,651	(4,882)	21,685	3,693
Other postemployment benefits obligation.....	30,065	32,457	-	62,522	-
Long-term obligations.....	\$ 72,332	\$ 51,529	\$ (19,615)	\$ 104,246	\$ 15,013
San Francisco Wastewater Enterprise					
Bonds payable:					
Revenue bonds.....	\$ 328,325	\$ -	\$ (35,665)	\$ 292,660	\$ 37,130
Less deferred amounts:					
For issuance premiums.....	17,366	-	(1,006)	16,360	-
On refunding.....	(18,218)	-	1,727	(16,491)	-
Total bonds payable.....	327,473	-	(34,944)	292,529	37,130
State of California - Revolving fund loans.....	89,101	-	(13,762)	75,339	14,199
Accrued vacation and sick leave pay.....	4,998	2,904	(2,824)	5,078	2,770
Accrued workers' compensation.....	4,675	428	(690)	4,413	774
Estimated claims payable.....	9,044	1,460	(144)	10,360	1,861
Other postemployment benefits obligation.....	5,684	5,729	-	11,413	-
Long-term obligations.....	\$ 440,975	\$ 10,521	\$ (52,364)	\$ 399,132	\$ 56,734
Port of San Francisco					
Bonds payable:					
Revenue bonds.....	\$ 8,505	\$ -	\$ (4,185)	\$ 4,320	\$ 4,320
Less deferred amounts:					
For issuance premiums.....	76	-	(76)	-	-
On refunding.....	(262)	262	-	-	-
Total bonds payable.....	8,319	262	(4,261)	4,320	4,320
Notes, loans, and other payables.....	3,107	-	(92)	3,015	96
Accrued vacation and sick leave pay.....	1,941	196	(135)	2,002	1,138
Accrued workers' compensation.....	2,543	274	(510)	2,307	365
Estimated claims payable.....	1,121	301	(522)	900	600
Other postemployment benefits obligation.....	2,805	3,011	-	5,816	-
Long-term obligations.....	\$ 19,836	\$ 4,044	\$ (5,520)	\$ 18,360	\$ 6,519

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June 30, 2009

(Dollars in Thousands)

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2009, are as follows (continued):

	July 1, 2008	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2009	Amounts Due Within One Year
Laguna Honda Hospital					
Capital leases.....	\$ 649	\$ -	\$ (536)	\$ 113	\$ 82
Accrued vacation and sick leave pay.....	9,354	7,324	(7,693)	8,985	5,169
Accrued workers' compensation.....	10,908	3,191	(2,714)	11,385	2,093
Other postemployment benefits obligation.....	13,207	11,912	-	25,119	-
Long-term obligations.....	<u>\$ 34,118</u>	<u>\$ 22,427</u>	<u>\$ (10,943)</u>	<u>\$ 45,602</u>	<u>\$ 7,344</u>
Total Business-type Activities:					
Bonds payable:					
Revenue bonds.....	\$ 5,274,085	\$ -	\$ (446,650)	\$ 4,827,435	\$ 167,595
Revenue notes.....	-	314,925	-	314,925	-
Clean renewable energy bonds.....	-	6,325	(422)	5,903	422
Lease revenue bonds.....	7,310	-	(1,145)	6,165	345
Less deferred amounts:					
For issuance premiums.....	100,911	2,867	(6,295)	97,483	-
For issuance discounts.....	(8,428)	(541)	712	(8,257)	-
On refunding.....	(134,847)	(15,785)	31,001	(119,631)	-
Total Bonds payable.....	<u>5,239,031</u>	<u>307,791</u>	<u>(422,799)</u>	<u>5,124,023</u>	<u>168,362</u>
Accreted interest payable.....	3,380	240	-	3,620	-
State of California - Revolving fund loans.....	89,101	-	(13,762)	75,339	14,199
Notes, loans, and other payables.....	10,369	-	(4,872)	5,497	2,465
Capital leases.....	3,843	535	(1,743)	2,635	1,224
Accrued vacation and sick leave pay.....	86,613	65,958	(62,471)	90,100	51,058
Accrued workers' compensation.....	147,276	28,164	(29,429)	146,011	26,899
Estimated claims payable.....	92,738	22,850	(36,845)	78,743	26,634
Other postemployment benefits obligation.....	120,383	127,264	-	247,647	-
Long-term obligations.....	<u>\$ 5,792,734</u>	<u>\$ 552,802</u>	<u>\$ (571,921)</u>	<u>\$ 5,773,615</u>	<u>\$ 290,841</u>

The changes in long term obligations for the component unit for the year ended June 30, 2009, are as follows:

	July 1, 2008 (as restated)	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2009	Amounts Due Within One Year
Component Unit -					
San Francisco Redevelopment Agency					
Bonds payable:					
Revenue bonds.....	\$ 845,076	\$ -	\$ (36,677)	\$ 808,399	\$ 36,468
Revenue notes.....	6,300	-	-	6,300	-
Less deferred amounts:					
For issuance premiums.....	10,527	-	(915)	9,612	-
For issuance discounts.....	(2,721)	-	111	(2,610)	-
On refunding.....	(4,927)	-	423	(4,504)	-
Total Bonds payable.....	<u>854,255</u>	<u>-</u>	<u>(37,058)</u>	<u>817,197</u>	<u>36,468</u>
Accreted interest payable.....	69,746	8,942	(12,048)	66,640	12,162 ⁽¹⁾
Notes, loans, and other payables.....	8,599 ⁽²⁾	904	(7)	9,496	175
Accrued vacation and sick leave pay.....	2,077	26	-	2,103	1,146
Other postemployment benefits obligation.....	493	59	-	552	-
Long-term obligations.....	<u>\$ 935,170</u>	<u>\$ 9,931</u>	<u>\$ (49,113)</u>	<u>\$ 895,988</u>	<u>\$ 49,951</u>

⁽¹⁾ This amount is included in accrued interest payable in the statement of net assets.

⁽²⁾ During the current fiscal year, the Agency evaluated the nature of some liabilities owed to other agencies and restated its June 30, 2008 net assets and related other liabilities balance in the amount of \$0.6 million to reflect the long-term nature of those liabilities owed to other agencies.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2009, for governmental activities are as follows:

Fiscal Year Ending June 30	Governmental Activities ^{(1) (2)}							
	General Obligation Bonds		Lease Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010.....	\$ 117,686	\$ 55,034	\$ 18,890	\$ 8,150	\$ 19,446	\$ 26,343	\$ 156,022	\$ 89,527
2011.....	98,315	48,068	17,330	7,538	24,971	26,842	140,616	82,448
2012.....	86,975	43,605	13,985	7,014	18,626	25,937	119,586	76,556
2013.....	77,172	40,185	12,545	6,598	18,458	25,137	108,175	71,920
2014.....	72,004	36,559	10,595	6,213	19,152	24,290	101,751	67,062
2015-2019.....	302,354	137,559	56,785	26,522	99,225	107,576	458,364	271,657
2020-2024.....	226,040	77,205	66,740	18,258	103,702	83,450	396,482	178,913
2025-2029.....	164,104	28,123	73,435	9,031	123,718	55,720	361,257	92,874
2030-2034.....	20,491	965	24,005	2,009	110,396	24,517	154,892	27,491
2035-2039.....	-	-	-	-	35,970	7,960	35,970	7,960
2040-2044.....	-	-	-	-	16,760	763	16,760	763
Total.....	\$ 1,165,141	\$ 467,303	\$ 294,310	\$ 91,333	\$ 590,424	\$ 408,535	\$ 2,049,875	\$ 967,171

(1) The specific year for payment of estimated claims payable, accrued vacation and sick leave pay, accrued workers' compensation and other postemployment benefits obligation is not practicable to determine.

(2) Includes the Moscone Center Expansion Project Lease Revenue Refunding Bonds Series 2008-1 & 2 which bears interest at a weekly rate. The rate as of June 30, 2009 was 0.25%, and together with liquidity fee of 0.750% and remarketing fee of 0.0725%, was used to project the interest payment in this table.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2009 for each enterprise fund is as follows:

Fiscal Year Ending June 30	San Francisco International Airport ⁽¹⁾					
	Lease Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010.....	\$ 97,715	\$ 171,360	\$ -	\$ 18,118	\$ 97,715	\$ 189,478
2011.....	125,855	166,839	8,620	17,134	134,475	183,973
2012.....	134,220	161,050	12,160	16,583	146,380	177,633
2013.....	127,215	154,583	20,015	15,806	147,230	170,389
2014.....	138,695	148,627	26,600	14,527	165,295	163,154
2015-2019.....	815,415	633,720	166,605	44,989	982,020	678,709
2020-2024.....	1,119,060	400,310	25,330	10,970	1,144,390	411,280
2025-2029.....	860,975	150,715	55,595	5,277	916,570	155,992
2030-2034.....	144,555	10,799	-	-	144,555	10,799
Total.....	\$ 3,563,705	\$ 1,998,003	\$ 314,925	\$ 143,404	\$ 3,878,630	\$ 2,141,407

Fiscal Year Ending June 30	San Francisco Water Enterprise ⁽¹⁾					
	Lease Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2010.....	\$ 26,605	\$ 42,991	\$ -	\$ -	\$ 26,605	\$ 42,991
2011.....	27,795	41,784	-	-	27,795	41,784
2012.....	29,190	40,401	-	-	29,190	40,401
2013.....	30,610	38,984	-	-	30,610	38,984
2014.....	32,090	37,510	-	-	32,090	37,510
2015-2019.....	153,470	164,233	-	-	153,470	164,233
2020-2024.....	159,705	128,192	-	-	159,705	128,192
2025-2029.....	184,395	86,839	-	-	184,395	86,839
2030-2034.....	188,280	41,066	-	-	188,280	41,066
2035-2039.....	89,250	6,493	-	-	89,250	6,493
Total.....	\$ 921,390	\$ 628,493	\$ -	\$ -	\$ 921,390	\$ 628,493

(1) The specific year for payment of estimated claims payable, accrued vacation and sick leave pay, accrued workers' compensation and other postemployment benefits obligation is not practicable to determine.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2009 for each enterprise fund is as follows (continued):

Hetch Hetchy Water and Power ⁽¹⁾

Fiscal Year Ending June 30	Lease Revenue		Other Long-Term		Total	
	Bonds		Obligations			
	Principal	Interest	Principal	Interest	Principal	Interest
2010.....	\$ 422	\$ -	\$ -	\$ -	\$ 422	\$ -
2011.....	422	-	-	-	422	-
2012.....	422	-	-	-	422	-
2013.....	422	-	-	-	422	-
2014.....	422	-	-	-	422	-
2015-2019.....	2,110	-	-	-	2,110	-
2020-2024.....	1,683	-	-	-	1,683	-
Total.....	\$ 5,903	\$ -	\$ -	\$ -	\$ 5,903	\$ -

Municipal Transportation Agency ^{(1) (2)}

Fiscal Year Ending June 30	Lease Revenue		Other Long-Term		Total	
	Bonds		Obligations			
	Principal	Interest	Principal	Interest	Principal	Interest
2010.....	\$ 2,170	\$ 1,854	\$ 2,369	\$ 61	\$ 4,539	\$ 1,915
2011.....	3,260	2,410	-	-	3,260	2,410
2012.....	3,405	2,282	-	-	3,405	2,282
2013.....	3,575	2,135	-	-	3,575	2,135
2014.....	3,750	1,977	-	-	3,750	1,977
2015-2019.....	19,360	6,767	-	-	19,360	6,767
2020-2024.....	7,410	3,377	-	-	7,410	3,377
2025-2029.....	4,895	1,754	-	-	4,895	1,754
2030-2034.....	3,700	111	-	-	3,700	111
Total.....	\$ 51,525	\$ 22,667	\$ 2,369	\$ 61	\$ 53,894	\$ 22,728

San Francisco Wastewater Enterprise ⁽¹⁾

Fiscal Year Ending June 30	Lease Revenue		Other Long-Term		Total	
	Bonds		Obligations			
	Principal	Interest	Principal	Interest	Principal	Interest
2010.....	\$ 37,130	\$ 13,183	\$ 14,199	\$ 2,307	\$ 51,329	\$ 15,490
2011.....	26,320	11,827	14,648	1,855	40,968	13,682
2012.....	22,010	10,959	9,594	1,389	31,604	12,348
2013.....	23,095	9,941	8,322	1,099	31,417	11,040
2014.....	24,395	8,754	8,192	848	32,587	9,602
2015-2019.....	90,925	27,001	17,028	1,649	107,953	28,650
2020-2024.....	62,530	8,197	3,356	147	65,886	8,344
2025-2029.....	6,255	315	-	-	6,255	315
Total.....	\$ 292,660	\$ 90,177	\$ 75,339	\$ 9,294	\$ 367,999	\$ 99,471

(1) The specific year for payment of estimated claims payable, accrued vacation and sick leave pay, accrued workers' compensation and other postemployment benefits obligation is not practicable to determine.

(2) Unamortized loan premiums of \$0.1 million (MTA) are not included in principal payments.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2009 for each enterprise fund is as follows (continued):

Port of San Francisco ⁽¹⁾

Fiscal Year Ending June 30	Lease Revenue		Other Long-Term		Total	
	Bonds		Obligations			
	Principal	Interest	Principal	Interest	Principal	Interest
2010.....	\$ 4,320	\$ 75	\$ 96	\$ 136	\$ 4,416	\$ 211
2011.....	-	-	100	131	100	131
2012.....	-	-	105	127	105	127
2013.....	-	-	110	122	110	122
2014.....	-	-	115	117	115	117
2015-2019.....	-	-	655	504	655	504
2020-2024.....	-	-	817	342	817	342
2025-2029.....	-	-	1,017	141	1,017	141
Total.....	\$ 4,320	\$ 75	\$ 3,015	\$ 1,620	\$ 7,335	\$ 1,695

Total Business-Type Activities ^{(1) (2)}

Fiscal Year Ending June 30	Lease Revenue		Other Long-Term		Total	
	Bonds		Obligations			
	Principal	Interest	Principal	Interest	Principal	Interest
2010.....	\$ 168,362	\$ 229,463	\$ 16,664	\$ 20,622	\$ 185,026	\$ 250,085
2011.....	183,652	222,860	23,368	19,120	207,020	241,980
2012.....	189,247	214,692	21,859	18,099	211,106	232,791
2013.....	184,917	205,643	28,447	17,027	213,364	222,670
2014.....	199,352	196,868	34,907	15,492	234,259	212,360
2015-2019.....	1,081,280	831,721	184,288	47,142	1,265,568	878,863
2020-2024.....	1,350,388	540,076	29,503	11,459	1,379,891	551,535
2025-2029.....	1,056,520	239,623	56,612	5,418	1,113,132	245,041
2030-2034.....	336,535	51,976	-	-	336,535	51,976
2035-2039.....	89,250	6,493	-	-	89,250	6,493
Total.....	\$ 4,839,503	\$ 2,739,415	\$ 395,648	\$ 154,379	\$ 5,235,151	\$ 2,893,794

(1) The specific year for payment of estimated claims payable, accrued vacation and sick leave pay, accrued workers' compensation and other postemployment benefits obligation is not practicable to determine.

(2) Unamortized loan premiums of \$0.1 million (MTA) are not included in principal payments.

The annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2009, for the component unit are as follows:

Component Unit - San Francisco Redevelopment Agency ⁽³⁾

Fiscal Year Ending June 30	Lease Revenue		Tax Revenue		Other Long-Term		Total	
	Bonds		Bonds		Obligations			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2010.....	\$ 5,152	\$ 13,565	\$ 28,586	\$ 31,148	\$ 2,905	\$ 3,345	\$ 36,643	\$ 48,058
2011.....	5,019	13,776	30,664	30,099	3,019	3,177	38,702	47,052
2012.....	4,881	13,992	32,312	28,256	2,996	3,007	40,189	45,255
2013.....	4,791	14,155	34,383	26,112	4,899	2,813	44,073	43,080
2014.....	4,731	14,296	36,151	24,584	4,414	2,659	45,296	41,539
2015-2019.....	75,116	19,819	213,125	84,721	21,144	10,807	309,385	115,347
2020-2024.....	14,035	2,709	90,699	86,458	20,215	6,112	124,949	95,279
2025-2029.....	2,880	76	55,585	66,208	10,329	1,464	68,794	67,748
2030-2034.....	-	-	61,277	43,945	2,204	475	63,481	44,420
2035-2039.....	-	-	51,932	19,654	751	46	52,683	19,700
Total.....	\$ 116,605	\$ 92,388	\$ 634,714	\$ 441,185	\$ 72,876	\$ 33,905	\$ 824,195	\$ 567,478

(3) The specific year for payment of estimated accreted interest payable and accrued vacation and sick leave is not practicable to determine.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements
June 30, 2009
(Dollars in Thousands)

Governmental Activities Long-term Liabilities

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition or improvement of real property and construction of affordable housing. General obligation bonds have been issued for both governmental and business-type activities. The net authorized and unissued governmental activities general obligation bonds for the fiscal year ended June 30, 2009, are as follows:

Governmental Activities - General Obligation Bonds

Authorized and unissued as of June 30, 2008	\$ 490,305
Increases in authorization this fiscal year	
2008 San Francisco General Hospital Improvement Bonds	887,400
Bonds issued:	
2008 San Francisco General Hospital Improvement Bonds S2009A	(131,650)
2008 Clean and Safe Neighborhood Parks S2008B	(42,520)
Seismic Safety Loan Program (4th draw)	<u>(1,300)</u>
Net authorized and unissued as of June 30, 2009	<u>\$ 1,202,235</u>

The increase in authorized amount of \$887.4 million of General Obligation Bonds 2008 San Francisco General Hospital Improvement Bonds was approved by at least two-third votes voting on Proposition A at an election held on November 4, 2008, to provide funds to finance the building and/or rebuilding San Francisco General Hospital (SFGH) to improve earthquake safety. The bond proceeds will primarily fund the construction of a new building on the current SFGH site. The building as described in the City’s environmental impact report, will meet the state’s new higher standards for earthquake safety for acute care hospitals. It will provide 284 beds for acute care treatments and will house the SFGH emergency department, operating rooms, obstetrics, pediatrics, intensive care and nursing units.

In March 2009, the City issued General Obligation Bonds, San Francisco General Hospital Improvement Bonds, Series 2009A in the amount of \$131.7 million. Interest rates range from 4.0% to 5.25%. The bonds mature from December 2009 through June 2029. The proceeds of the bonds will be used to finance the building or rebuilding and improving the earthquake safety of the San Francisco General Hospital and Trauma Center and to pay certain cost related to the issuance of the Bonds.

In August 2008, the City issued the General Obligation Bonds (Clean and Safe Neighborhood Parks Bonds 2008) Series 2008B (“the Bonds”) in the amount of \$42.5 million to finance the construction, reconstruction, purchase and/or improvement of park and recreation facilities under the jurisdiction of the Recreation and Park Commission and the Port Commission, and all other structures, improvements and related costs necessary or convenient for those purposes. The Bonds constitute the first series of bonds to be issued from an aggregate authorized amount of \$185 million, duly approved by at least two-thirds of the voters voting on Proposition A at an election held on February 5, 2008. Interest rates range from 3% to 5% and mature from June 2009 through 2028. The general obligation bonds are payable by pledged revenues from ad valorem property taxes payable by the City. Future pledged revenues equal the total debt service requirement remaining on the general obligation bonds of \$1.6 billion payable through June 15, 2030. For the fiscal year ended June 30, 2009, the property taxes recognized for debt service was \$158.2 million, and principal and interest payments made by the City totaled \$107.4 million and \$52.1 million, respectively. The rest of the debt service payment was supplemented with interest earnings on unused debt service funds.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

Seismic Safety Loan Program Government Obligation Bonds

The Seismic Safety Loan Program was approved by the voters of the City and County of San Francisco by Proposition A in November 1992 which authorized the issuance of up to a total of \$350 million aggregate principal amount of government obligation bonds to provide funds for loans for the seismic strengthening of privately-owned unreinforced masonry buildings within the City for affordable housing and market-rate residential, commercial and institutional purposes and for related administrative costs. Approximately 2,200 privately-owned unreinforced masonry buildings were identified by the City. These buildings are located throughout San Francisco, but are concentrated in Chinatown, the Tenderloin and south of Market Street. In July 1992, the Board of Supervisors passed legislation mandating that these buildings be seismically strengthened within specified periods of time. Most of the buildings have now been seismically retrofitted. The owners of the existing unreinforced masonry buildings are eligible to apply for loans under the Loan Program to finance the required seismic strengthening work and certain other legally-required work.

In February 2007 the Board of Supervisors approved Resolution No. 65-07 which authorized the issuance of indebtedness under Proposition A in the amount not to exceed \$35 million. Such issuance was achieved pursuant to the terms of a Credit Agreement with Bank of America, N.A. In March 2007, the City made the first draw under the Credit Agreement (Seismic Safety Loan Program, 1992) Series 2007A in the amount of \$2 million. The first borrowing bears an interest rate of 5.69% with principal amortizing from June 2007 through June 2026. Within the first loan account are two loan sub-accounts, the market rate loan account and the below market rate loan account.

In October 2007 and January 2008, the City made the second and third draws in the amount of \$3.8 million and \$3.9 million respectively. The second borrowing bears an interest rate of 5.83% with principal amortizing from June 2008 through June 2027. The third borrowing bears interest rate of 5.09% with principal amortizing from June 2008 through June 2027. Both borrowings are for below market rate loan accounts.

In November 2008, the City made the fourth borrowing in the amount of \$1.3 million. This draw bears an interest rate of 4.35% with principal amortizing from June 2009 through June 2028 and for below market rate loan account.

Debt service payments of the Seismic Safety Loan Program Government Obligation Bonds are funded through ad valorem taxes on property and principal repayments from borrowers of the loan program.

Current Refundings

In July 2008, the City issued the General Obligation Refunding Bonds (Laguna Honda Hospital), Series 2008-R3 (Series 2008-R3 Bonds) in the amount of \$118.1 million with interest rates ranging from 4.625% to 5.0% (maturing from June 2022 through June 2030). The Series 2008-R3 Bonds were issued to refund a certain outstanding general obligation bonds of the City originally issued as variable rate obligations to finance improvements to Laguna Honda Hospital (the "Prior Bonds") and to pay certain costs associated with the issuance of the Series 2008-R3 Bonds. The Prior Bonds were approved by the voters of the City by the passage of Proposition A at the election held in November 1999 and issued in 3 series in 2005 as "City and County of San Francisco General Obligation Bonds (Laguna Honda Hospital, 1999,)" Series 2005B, 2005C and 2005D. The issuance of the Series 2008-R3 and the "Declaration of Trust" under which they were issued were authorized and approved by Ordinance No. 100-08 (the "Ordinance"), adopted by the Board of Supervisors on June 3, 2008 and approved by the Mayor on June 11, 2008. Under Section 9.109 of the Charter, no voter approval is required for the authorization, issuance and sale of refunding bonds which are expected to result in net debt service savings to the City on a present value basis. The Ordinance finds that refunding the Prior Bonds to a fixed rate of interest will result in net debt service savings to the City on a present value basis, considering that the Prior Bonds could under their terms, bear interest at rates of up to 12.0% per year to maturity.

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The refunding resulted in the recognition of accounting loss of \$1.8 million for the year ended June 30, 2009. However, the City in effect, reduced its aggregate estimated debt service payments by \$15.5 million and obtained a net present value savings of \$11.3 million.

General Obligation Refunding Bonds, Series R-3

Description of Bonds	Amount Refunded	Interest Rate	Call Price	Call Date
Laguna Honda Hospital S2005B, C & D	\$120,000	Variable	100.0%	7/30/2008

Certificates of Participation

In May 2009, the City issued \$163.3 million Certificates of Participation, Capital Improvement Projects, Series 2009A. The Certificates were issued to 1) finance a portion of the costs of acquisition, demolition, construction, reconstruction, installation, equipping, improvement or rehabilitation of the Laguna Honda Hospital and related property owned by the City located at 375 Laguna Honda Boulevard; 2) fund capitalized interest payable with respect to the Certificates on each due date through April 1, 2010; 3) fund the 2009A Reserve Account of the Reserve Fund for the Certificates established under the Trust Agreement for the Certificates and 4) pay costs of execution and the delivery of the Certificates.

The Certificates were issued in pursuant to a Trust Agreement between the City and U.S. Bank National Association as Trustee. The City conveyed the real property to the Trustee under a property lease in exchange for the proceeds of the sale of the Certificates. The Trustee has leased the property back to the City and the City is obligated under the Project Lease to pay the Base Rental in consideration of the use and occupancy of the land and facilities subject to the Project Lease.

The Series 2009A were issued with interest rates ranging from 1.95% to 5.25% and matures from April 2011 through April 2031. The certificates of participation are payable by pledged revenues from the base rental payments payable by the City, pursuant to a Project Lease between the City and the Trustee. Total debt service payments remaining on the certificates of participation are \$969.1 million payable through September 1, 2040. For the fiscal year ended June 30, 2009, principal and interest paid by the City totaled \$10.3 million and \$19.1 million, respectively.

Lease Revenue Bonds

The changes in governmental activities – lease revenue bonds for the year ended June 30, 2009 were as follows:

Governmental Activities - Lease Revenue Bonds

Authorized and unissued as of June 30, 2008	\$ 127,740
Increases in authorization this fiscal year	
Current year annual increase in Finance Corporation's equipment program	2,292
Current year maturities in Finance Corporation's equipment program	10,860
Net authorized and unissued as of June 30, 2009	<u>\$ 140,892</u>

Finance Corporation

The purpose of the Finance Corporation is to provide a means to publicly finance, through lease financings, the acquisition, construction and installation of facilities, equipment and other tangible real and personal property for the City's general governmental purposes.

The Finance Corporation uses lease revenue bonds to finance the purchase or construction of property and equipment, which are in turn leased to the City under the terms of an Indenture and Equipment Lease Agreement. These assets are then recorded in the basic financial statements of the City. Since the sole purpose of the bond proceeds is to provide lease financing to the City, any

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

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amounts that are not applied towards the acquisition or construction of real and personal property such as unapplied acquisition funds, bond issue costs, amounts withheld pursuant to reserve fund requirements, and amounts designated for capitalized interest are recorded as deferred credits until such time as they are used for their intended purposes.

The lease revenue bonds are payable by pledged revenues from the base rental payments payable by the City, pursuant to a Master Lease Agreement between the City and San Francisco Finance Corporation for the use of equipment and facilities acquired, constructed and improved by the Finance Corporation. The total debt service requirement remaining on the lease revenue bonds is \$385.6 million payable through June 15, 2034. For the fiscal year ended June 30, 2009, principal and interest paid by the Corporation and the total lease payments made by the City totaled \$23.5 million and \$9.5 million, respectively.

(a) Equipment Lease Program

In the June 5, 1990 election, the voters of the City approved Proposition C, which amended the City Charter to allow the City to lease-purchase up to \$20 million of equipment through a non-profit corporation using tax-exempt obligations. Beginning July 1, 1991, the Finance Corporation was authorized to issue lease revenue bonds up to \$20 million in aggregate principal amount outstanding plus 5% annual adjustment each July 1. As of June 30, 2009, the total authorized amount is \$48.1 million. The total accumulated annual authorization since 1990 is \$28.1 million of which \$2.3 million is new annual authorization for the fiscal year ended June 30, 2009.

The equipment lease program functions as a revolving bond authorization fund. That is, for each dollar in bond principal that is repaid, a new dollar can be issued. The Finance Corporation has issued \$147.3 million in equipment lease revenue bonds since 1991. As of June 30, 2009, \$125.9 million has been repaid leaving \$21.4 million in equipment lease revenue bonds outstanding and \$26.7 million available for new issuance.

(b) City-wide Communication System

In 1993, the voters approved the issuance of up to \$50 million in lease revenue bonds to finance the acquisition and construction of a city-wide emergency radio communication system (800 MHz). The Finance Corporation issued two series in January 1998 and February 1999 for \$31.3 million and \$18.7 million, respectively. As of June 30, 2009, the amount authorized and unissued for the city-wide emergency radio communication system was \$0.1 million. Further, in 1994, the voters approved the issuance of up to \$60 million in lease revenue bonds to finance the acquisition and construction of a combined emergency communication center to house the City's 911-emergency communication system. The Finance Corporation issued two series in June 1997 and in July 1998 for \$22.6 million and \$23.3 million, respectively. As of June 30, 2009, the amount authorized and unissued was \$14.1 million.

(c) Moscone Center West Expansion Project

In 1996, the voters approved the issuance of up to \$157.5 million in lease revenue bonds for the purpose of financing a portion of the costs of acquiring, constructing, and improving a free-standing expansion to the City's Moscone Convention Center located on the northwest corner of Howard and Fourth Street in the City. On November 2, 2000, Series 2000-1, 2000-2 and 2000-3 totaling \$157.5 million (the "2000 Bonds") were issued. Each series of the bonds bear interest at a weekly rate and may bear interest at a different rate and in a different rate mode from other series of bonds.

In September 2008, the San Francisco Finance Corporation issued Lease Revenue Refunding Bonds (Moscone Center Expansion Project) Series 2008-1 and Series 2008-2 for a total of \$145.3 million (the "Refunding Moscone Bonds") to provide funds, together with other available monies to the refund the 2000 Bonds with outstanding amount of \$144.3 million to address the concerns regarding the

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credit provided by the bond insurer. A portion of the proceeds of the Refunding Bonds were also used to pay the cost of issuing the Bonds.

The Bonds are limited obligations of the Corporation payable from revenues which consist of base rental payments to be made by the City, and other amounts held in certain funds and accounts, established under an indenture of trust. The payment of the principal of and interest on each series of the Bonds and the purchase price of each series of the Bonds upon the optional or mandatory tender thereof will initially be supported by separate irrevocable direct-pay letters of credit issued by Bank of America, N.A. for Series 2008-1 and by State Street Bank and Trust Company for Series 2008-2. The Bonds were issued pursuant to Ordinance No. 203-08 adopted by the Board of Supervisors on August 12, 2008. The proceeds of the Bonds were used to provide funds, together with other City monies, to fully refinance a portion of the costs of acquiring, constructing and improving an expansion to the City's George R. Moscone Convention Center.

Owners of the 2000 Bonds may elect to have their 2000 Bonds, or portions of their 2000 Bonds, purchased at a purchase price equal to the principal amount of such Bonds (or portions thereof), plus accrued interest, if any, payable in immediately available funds, upon not less than seven (7) calendar days' irrevocable written notice. E.J. De La Rosa & Co., Inc. is the exclusive remarketing agent for the 2008-1 Bonds. Banc of America Securities LLC is the exclusive remarketing agent for the 2008-2 Bonds. The remarketing agents have agreed to use their best efforts to remarket the Bonds and have agreed to purchase for their own accounts Bonds tendered but not remarketed under certain conditions specified in remarketing agreements, at a price equal to 100 percent of the principal amount thereof plus accrued interest to the Tender Date.

Under irrevocable direct pay letters of credit issued by Bank of America, N.A. for Series 2008-1 and State Street Bank and Trust Company for Series 2008-2, the trustee is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The letters of credit are effective through September 9, 2011 or such later date or dates as may be extended, and to the extent there is a unreimbursed draw of the letter(s) of credit, carries a fluctuating rate per annum: (A) for any day prior to the date that is 31 days from and including the date of the draw the higher of (i) the Federal Funds Rate plus 2% and (ii) the Prime Rate plus 1% (the "Base Rate"), (B) on any day on or after the date that is 31 days from and including the date of the draw and prior to the date that is 61 from and including the date of the draw, a fluctuating rate of interest equal to the Base Rate plus 1%, (C) on any day on or after the date that is 61 days from and including the date of the draw, a fluctuating rate of interest equal to the Base Rate plus 2%, and (D) on any day after the maturity date for the draw, a fluctuating rate of interest equal to the Base Rate in effect on such date plus 3%.

If the remarketing agent is unable to resell any Bonds that are "tendered" within the six month anniversary of the "tender" date, the City has a reimbursement agreement with Bank of America, N.A. for Series 2008-1 and State Street Bank and Trust Company for Series 2008-2 to convert the bonds to an installment loan payable in six (6) equal semiannual installments, commencing on the six month anniversary of the date of the "tender" date and bearing a fluctuating interest rate equal to the Draw Rate. The reimbursement agreement expires September 9, 2011 or such later date or dates as extended by mutual agreement. If the reimbursement agreement were to be exercised because the entire outstanding balance of \$141.6 million of demand bonds were "tendered" and not resold, the City would be required to pay an amount not to exceed the fair rental value per annum of the leased asset per year for three (3) years under the reimbursement agreement at a rate per annum equal to the Draw Rate.

The City is required to pay to Bank of America, N.A. for Series 2008-1 and State Street Bank and Trust Company for Series 2008-2 an annual commitment fee for the letter of credit of 0.75 percent per annum of the outstanding principal amount of the Bonds, payable quarterly in arrears. For fiscal year 2009-10, the City will pay a commitment fee of \$0.5 million each to Bank of America, N.A. for Series 2008-1 and State Street Bank and Trust Company for Series 2008-2. In addition, the remarketing agent receives an annual fee of 0.0725 percent of the outstanding principal amount of the Bonds,

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payable quarterly in arrears. For fiscal year 2009-10, the City will pay a remarketing fee of \$0.05 million each to E.J. De La Rosa & Co., Inc. for Series 2008-1 and Banc of America Securities LLC for Series 2008-2.

The Refunding Moscone Bonds mature from April 2009 to April 2030. As of end of June 30, 2009, the bonds bear interest at a weekly rate. Interest rate as of June 30, 2009 for both series was 0.25%.

The refunding resulted in an accounting loss of \$1.7 million for the year ended June 30, 2009. The City however, in effect reduced its aggregate debt service payments by \$43 million or a net present value savings of \$32.7 million.

(d) Open Space Fund

In 2000, the voters of the City adopted Proposition C amending the Charter by repealing the then existing Park and Office Space Fund, authorizing the creation of a new Park, Recreation and Open Space Fund to purchase open space, acquire property for recreation facilities and develop, and maintain these facilities and authorizing the issuance of revenue bonds for such purpose. A set aside of 2.5% of the City's general 1% property tax is required by the Charter to be deposited in the Open Space Fund.

The Corporation issued Lease Revenue Bonds (Open Space Fund-Variou Fund Projects) Series S2006 for \$27 million in November 2006 and Series S2007 for \$42.4 million in October 2007 to finance the design, construction, renovation and the installation of various park improvements located within the City. Interest rates for the Series 2006 bonds range from 3.75% to 5.5% and the bonds mature from July 2007 through July 2027. Interest rates for the Series 2007 bonds range from 3.75% to 5.875% with principal amortizing from July 2008 through July 2029.

(e) Library Preservation Fund

At an election held in November 2007, the voters of the City adopted Proposition D, amending the Charter by repealing the then existing Library Preservation Fund, renewing the Library Preservation Fund for 15 years to provide library services and to construct, maintain and operate library facilities and authorizing the issuance of debt for such purpose. The Library Preservation Fund is administered by the Library Department as directed by the Library Commission. A set-aside from the City's share of the city-wide 1% property tax levy in an amount equal to two and one-half cents (\$0.025) for each \$100 assessed valuation is required by the Charter to be deposited in the Library Preservation Fund. The authorization to set aside these taxes in the Library Preservation Fund commences in fiscal year 2009 and extends through July 2024.

In April 2009, the Corporation issued Lease Revenue Bonds Series 2009A (Branch Library Improvement Program) in the amount of \$34.3 million (the "Series 2009A Bonds"). The Series 2009A Bonds were issued to finance the acquisition, construction, reconstruction, rehabilitation and /or improvement of real property and/or facilities that will be operated by the San Francisco Public Library for Library purposes and for the purchase of equipment relating to such real property and /or facilities, to fund the Reserve Fund and to pay costs associated with the issuance of the Series 2009A bonds. Interest rates range from 3.0% to 5.75% and the bonds mature from December 2009 to June 2034.

Business-Type Activities Long-Term Liabilities

The following provides a brief description of the current year additions to the long-term debt of the business-type activities.

San Francisco International Airport

During fiscal year 2009, turmoil in the global financial markets continued to affect the Airport's financing considerations. Moody's, Standard and Poor's and Fitch (collectively, the Rating Agencies) each downgraded the claims paying ability and financial strength ratings of most of the nation's

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monoline municipal bond insurance companies and many other financial institutions, including several that provided credit enhancement, liquidity support and other financial products relating to the Airport's Bonds. While the Airport had relatively limited exposure to Lehman Brothers Holdings Inc. (LBH), LBH's filing for Chapter 11 bankruptcy on September 15, 2008, in tandem with other market developments, collectively resulted in significant disruption to the floating interest rate on the Airport's second series variable rate revenue refunding bonds. Furthermore, LBH's subsidiary, Lehman Brothers Special Financing Inc. (LBSF), was the counterparty on \$173.6 million of interest rate swaps hedging the Airport's Issue 37A bonds. The bankruptcy of LBH constituted an event of default with LBSF and created an optional termination right for the Airport. Accordingly, to help stabilize its variable interest expense, and reduce exposure to LBSF, the Airport issued \$314.9 million of second series revenue notes Series 2008A and 2008B (2008A/B Notes) on October 30, 2008 and December 3, 2008, respectively. The 2008A/B Notes refunded Issues 37A/B and paid for the termination payments of three swaps (including two with LBH) that had hedged Issue 37A.

The Airport converted the tax status of \$266.7 million of Issue 36A/B/C and 37C second series variable rate revenue refunding bonds, from Alternative Minimum Tax (AMT) to Non-AMT on June 2, 2009. The conversions were permitted under tax provisions within the American Recovery and Reinvestment Act of 2009 (ARRA), the economic stimulus package enacted by Congress and signed into law by President Obama on February 17, 2009. The conversions required existing bondholders to surrender the bonds to remarketing agents, who remarketed the converted bonds to new investors. Due to the more favorable tax implications for investors, Non-AMT bonds typically have lower interest rates than AMT bonds and appeal to a wider investor base.

A series of refunding bonds (the Issue 35 Bonds) may be issued on or about February 1, 2010, for debt service savings. While the Airport has not issued long-term new money bonds since 2002, the Airport expects to finance approximately \$648 million in infrastructure projects during fiscal years 2010 and 2011 with long-term bonds.

In October 2008, the Airport Commission issued its Second Series Revenue Refunding Notes Series 2008A in the amount of \$226.7 million to refund the Issue 37A variable rate demand bonds. The Series 2008A Notes are subject to mandatory tender on May 1, 2010 (2008A-1 and 2008A-2), May 1, 2011 (2008A-3) and May 1, 2012 (2008A-4.). The fixed interest rates on the Notes vary by tender date, ranging between 5.50% and 6.75%. The final maturity of the Series 2008A Notes is May 1, 2019.

The net proceeds of the 2008A Notes in the amount of \$212.4 million (after payment of \$24.6 million in reserve fund contributions, underwriting fees, and other costs of issuance), plus \$10.2 million (in prior debt service fund, premium and available debt service funds) were deposited in irrevocable escrows with the bond trustee to provide debt service payments on the refunded bonds described below until such bonds were redeemed. The swap termination payments totaled \$6.9 million and have been included in interest expense in the Airport's statement of revenues, expenses, and changes in net assets.

	<u>Amount Refunded</u>	<u>Interest Rate</u>	<u>Call Price</u>
Second Series Revenue Bond Issue: Issue 37A	\$205,100	Variable	100.0%

In December 2008, the Airport Commission issued its Second Series Revenue Refunding Notes Series 2008B in the amount of \$88.2 million to refund the Issue 37B variable rate demand bonds. The Series 2008B Notes are subject to mandatory tender on December 1, 2009. The interest rate on the 2008B Notes is 3%. The final maturity of the Series 2008B Notes is May 1, 2029.

The net proceeds of the Series 2008B Notes in the amount of \$80 million (after payment of \$9.7 million in reserve fund contributions, underwriting fees and other costs of issuance), plus \$1.5

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million (in premium and available debt service funds) were deposited in an irrevocable escrow with the bond trustee to provide debt service payments on the refunded bonds described below until the bonds were redeemed.

	<u>Amount Refunded</u>	<u>Interest Rate</u>	<u>Call Price</u>
Second Series Revenue Bond Issue:			
Issue 37B	\$79,720	Variable	100.0%

In December 2004, the Airport entered into seven forward-starting interest rate swaps (the 2004 swaps) in connection with the anticipated issuance of its Second Series Variable Rate Revenue Refunding Bonds, Issue 32A-E on February 10, 2005, and a portion of its Variable Rate Revenue Refunding Bonds, Issue 33 on February 15, 2006. On July 26, 2007, the Airport entered into four additional forward-starting interest rate swaps (the 2007 swaps), in connection with the anticipated issuance of its San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issue 37B/C, on May 15, 2008, and its Variable Rate Revenue Refunding Bonds, Issue 35, on February 1, 2010. Pursuant to these interest rate swaps, the Airport receives a monthly variable rate payment from each counterparty equal to 63.5% of USD-LIBOR-BBA, plus 0.29%, for the 2004 swaps and 61.85% of USD-LIBOR-BBA, plus 0.34% for the 2007 swaps, times the notional amount of the swap, which is intended to approximate the variable interest rates on the underlying bonds hedged by the swaps. The Airport makes a monthly fixed rate payment to the counterparties as set forth below. The objective of the swaps is to achieve a synthetic fixed rate with respect to the hedged bonds.

Following the refunding of Issue 37A on October 30, 2008, the three interest rate swaps in the aggregate notional amount of \$205.1 million hedging these bonds were terminated in the aggregate notional amount of \$205.1 million. The Airport paid a settlement amount in connection with the termination of the interest rate swaps in the aggregating amount of \$6.7 million from proceeds of the 2008A Notes. The settlement agreements were paid to Lehman Brothers Special Financing and to J.P. Morgan Chase & Co. (as successor to Bear Stearns Capital Markets Inc.) the parent company of J.P. Morgan Securities.

For the fiscal year ended June 30, 2009, the Airport paid a total of \$15.8 million in fixed rate payments to the swap counterparties and received \$6.3 million in floating rate payments in return, resulting in total net swap payments of \$9.5 million to the counterparties. During the same period, the Airport made variable interest rate payments on the related bonds of \$10.6 million, resulting in the Airport paying \$4.3 million more in interest on the related variable rate bonds than swap receipts from the counterparties. The effective synthetic fixed rate on the related bonds was 4.59% for the year ended June 30, 2009.

The four 2004 swaps now hedging the Issue 36 Bonds went into effect on February 10, 2005, the date of issuance of the refunded Issue 32 Bonds, and the first payments commenced on March 1, 2005. The three 2004 swaps now hedging the Issue 37A Bonds went into effect on February 15, 2006, the date of issuance of the refunded Issue 33 Bonds, and the first payments commenced on March 1, 2006. The two 2007 swaps hedging the Issue 37B/C Bonds went into effect on May 15, 2008, the date of issuance of Issue 37B/C Bonds, and the first payments commenced on June 2, 2008. The two 2007 swaps relating to the Issue 35 Bonds are expected to go into effect on February 1, 2010, the anticipated date of issuance of the Issue 35 Bonds, and the first payments will commence on March 1, 2010. All of the interest rate swaps are terminable at their market value at any time at the option of the Airport. The swaps with counterparty Bear Stearns have been acquired, transferred to and assumed by JP Morgan as part of the JP Morgan/Bear Stearns merger in 2008. The Bear Stearns swaps terms and conditions on the swap remain the same under JP Morgan.

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The swaps relating to the Issue 35 Bonds terminate by their terms on May 1, 2030, the anticipated final maturity date for the Issue 35 Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2009:

Counterparty/guarantor	Initial notional amount	Counterparty credit rating (S&P/Moody's)	Fixed rate payable by Airport	Fair Value to Airport
Depfa Bank PLC, New York	\$ 71,793	BBB/A3	3.925%	\$ 8,495
Goldman Sachs Capital Markets	143,947	A/Aa3	3.925%	16,989
Aggregate notional amount	<u>\$ 215,740</u>			<u>\$ 25,484</u>

The swaps hedging the Issue 36 Bonds terminate by their terms on May 1, 2026, the final maturity date for the Issue 36 Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2009:

Counterparty/guarantor	Initial notional amount	Counterparty credit rating (S&P/Moody's)	Fixed rate payable by Airport	Fair Value to Airport
J.P. Morgan Chase Bank, N.A.	\$ 70,000	AA-/Aa1	3.444%	\$ 5,106
Bear Sterns Capital Markets, Inc.	30,000	A+/Aa3	3.444%	2,189
J.P. Morgan Chase Bank, N.A.	69,930	AA-/Aa1	3.445%	5,108
Bear Sterns Capital Markets, Inc.	29,970	A+/Aa3	3.445%	2,189
Aggregate notional amount	<u>\$ 199,900</u>			<u>\$ 14,592</u>

The swaps hedging the Series 2008B Notes/Issue 37C Bonds terminate by their terms on May 1, 2029, the final maturity date of the Issue 37C Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2009:

Counterparty/guarantor	Initial notional amount	Counterparty credit rating (S&P/Moody's)	Fixed rate payable by Airport	Fair Value to Airport
Merrill Lynch Capital Services	\$ 79,684	A/A2	3.898%	\$ 10,593
Bear Sterns Capital Markets, Inc.	89,856	A+/Aa3	3.898%	11,945
Aggregate notional amount	<u>\$ 169,540</u>			<u>\$ 22,538</u>

Risks Disclosure

The aggregate market value to the Airport from time to time, if any, of the interest rate swaps with any single counterparty is the maximum amount of credit exposure the Airport will have to that counterparty. The Airport has attempted to limit counterparty credit risk by limiting its exposure to any single counterparty. Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities for the market value of a swap that exceeds specified thresholds which are linked to the counterparty's credit ratings. Any such collateral will be held by the Airport's custodial bank. Although the Airport attempted to limit basis risk with respect to the interest rate swaps by choosing a variable rate indexes designed to closely approximate the variable rates payable on the related bonds, the chosen variable rate indexes and the actual variable rates on the related bonds diverged substantially for a period of time in fiscal year 2009 due to the turmoil in the financial markets. The Airport has attempted to limit termination risk with respect to the interest rate swaps. That risk would arise primarily from certain credit-related

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events or events of default on the part of the Airport, the municipal swap insurer, or the counterparty. The Airport has secured municipal swap insurance for its regular payments and some termination payments due under the interest rate swaps from the following insurers:

<u>Related Swap</u>	<u>Swap Insurer</u>	<u>Insurer Credit Ratings (S&P/Moody's)</u>
Issue 36C	FSA	AAA/Aa3
Issue 36AB	FGIC/MBIA IL	A/Baa1
Issue 36D	FSA	AAA/Aa3
Issue 37C	FSA	AAA/Aa3
Series 2009AB	FSA	AAA/Aa3
Issue 35	Ambac	BBB/Ba3

Additional Termination Events under the swap documents in respect of the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer ratings downgrades or specified insurer non-payment defaults combined with a termination event or event of default on the part of the Airport or a ratings downgrade of the Airport below investment grade.

Additional Termination Events under the swap documents in respect of a counterparty include a ratings downgrade below investment grade followed by a failure of the counterparty to assign its rights and obligations under the swap documents to another entity acceptable to the applicable insurer within 15 business days.

Hetch Hetchy Water and Power

Hetch Hetchy issued \$6.3 million in Clean Renewable Energy Bonds (CREBs) on November 7, 2008 to finance the installation of solar energy equipment on selected City-owned facilities. CREBs provide the San Francisco Public Utilities Commission with low-cost access to capital to further its green power objectives.

Hetch Hetchy began making principal payments in the amount of \$0.4 million on December 15, 2008 and will continue annual payments for fifteen years until December 15, 2022. Funding for these payments will be guaranteed by Hetch Hetchy net revenues. Interest payments are not required, since the effective equivalent of interest on the bonds is paid in the form of federal tax credits in lieu of interest paid by the issuer.

Component Unit Debt – San Francisco Redevelopment Agency

The current year debt activities of the Redevelopment Agency are discussed in note 12.

(9) EMPLOYEE BENEFIT PROGRAMS

(a) Retirement Plan

The City maintains a single-employer, defined benefit pension plan (the Plan) which covers substantially all of its employees, and certain classified and certified employees of the San Francisco Community College District and Unified School District, and San Francisco Trial Court employees other than judges, which are not significant to the Plan. The Plan is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). Some City employees participate in the California Public Employees Retirement System (PERS), agent or cost-sharing multiple-employer, public employee pension plans which cover certain employees in public safety functions, the Port, the Airport, the San Francisco County Transportation Authority and the Redevelopment Agency.

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Employees' Retirement System

Plan Description – Substantially all full-time employees of the City participate in the Plan. The Plan provides basic service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and the Administrative Code are the authority which establishes and amends the benefit provisions and employer obligations of the Plan. The retirement related payroll for employees covered by the Retirement System for the year ended June 30, 2009 was approximately \$2.38 billion. 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 Avenue, Suite 3000, San Francisco, CA 94102 or by calling (415) 487-7020.

Membership of the Retirement System consisted of the following as of June 30, 2009:

	<u>Police</u>	<u>Fire</u>	<u>Miscellaneous</u>	<u>Total</u>
Retirees and beneficiaries				
currently receiving benefits	2,169	2,028	18,086	22,283
Active members	2,246	1,459	26,205	29,910
Terminated members				
entitled to but not yet				
receiving benefits	124	60	4,620	4,804
Total	4,539	3,547	48,911	56,997

Plan member contributions are recognized in the period in which the contributions are due. Benefits and refunds are recognized when due and payable in accordance with the terms of the Plan.

Funding Policy – Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory. Employee contribution rates for fiscal year 2008-2009 varied from 7% to 8% as a percentage of gross salary. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2007 actuarial report, the required employer contribution for fiscal year 2008-2009 was 4.99%. In collective bargaining during the year ended June 30, 1994, the City agreed to pay a portion of the employee contributions on behalf of employees. From 1994 through June 2003, the City portion of these contributions has been negotiated through the various unions on a member group basis, and did not exceed 8% of base salary. For fiscal year ended June 30, 2009, most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis.

Employer contributions and member contributions made by the employer to the Plan are recognized when due and the employer has made a formal commitment to provide the contributions.

Annual Pension Cost – The annual required contribution for the current year was determined as part of an actuarial valuation performed as of July 1, 2007. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 8.0%; (2) cost of living adjustments of 2% to 4.5%; and (3) salary merit increases of 4.5%. The actuarial value of Retirement System assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 5-year period. Unfunded liabilities are amortized using the level percentage of payroll method. Changes in actuarial gains and loss assumptions and purchasable services are amortized as a level percentage of pay over an open 15-year period. Plan amendments are amortized over a closed 20-year period.

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Three-year trend information is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2007	\$ 132,601	100%	\$ -
6/30/2008	134,060	100%	-
6/30/2009	119,750	100%	-

Funded Status and Funding Progress – As of July 1, 2008, the most recent actuarial valuation date, the actuarial value of assets was \$15.9 billion; the actuarial accrued liability was \$15.4 billion; the total overfunded actuarial accrued liability was \$583 million; the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 103.8%; the annual covered payroll was \$2.5 billion; and the ratio of the overfunded actuarial liability to annual covered payroll was 23.7%. The actuarial assumptions used were the same as described in the Annual Pension Cost section above, except the investment rate of return has been reduced to 7.75%. In addition, the results of the actuarial valuation dated July 1, 2008 reflect benefit changes passed in June 2008 under Proposition B. Significant changes include increased retirement accrual factors for miscellaneous plan members (resulting in an additional change in retirement rates to recognize the increased benefits) and basic COLA for all new plan members (police, fire, and miscellaneous) changed from a 2.0% simple COLA to a 2.0% compound COLA. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

California Public Employees’ Retirement System

Various City public safety, Port, and all Redevelopment Agency and San Francisco County Transportation Authority employees are eligible to participate in PERS. Disclosures for the San Francisco County Transportation Authority and Redevelopment Agency are included in the separately issued financial statements.

Plan Description – The City contributes to PERS, an agent multiple-employer public employee defined benefit pension plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. Effective with the PERS June 30, 2003 actuarial valuation, PERS mandated that the City’s miscellaneous members plan be included in a cost-sharing multiple-employer plan consisting of various government entities with plan memberships of less than 199 active members. 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 City ordinance. Copies of PERS’ annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814. A separate report for the City’s plan within PERS is not available.

Miscellaneous Plan

Funding Policy – Miscellaneous plan – Participants are required to contribute 7% of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the miscellaneous plan, the fiscal year 2008-2009 contribution rate is 0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Miscellaneous plan – Cost for PERS for fiscal year 2008-2009 was equal to the City’s required and actual contributions which was determined as part of the June 30, 2006 actuarial valuation using the entry age actuarial cost method.

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Three-year payment trend information is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2007	\$ -	N/A	\$ -
6/30/2008	-	N/A	-
6/30/2009	-	N/A	-

Safety Plan

Funding Policy – Safety plan – Participants are required to contribute 9% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate. For the safety plan, the fiscal year contribution rate is 17.481% because the City is funded at 100.5%. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Safety Plan – The cost for PERS for fiscal year 2008-2009 was equal to the City’s required and actual contributions which was determined as part of the June 30, 2006 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2006 actuarial valuation were: (a) 7.75% investment rate of return (net of administrative expenses), (b) 3.25% to 13.15% projected annual salary increases that vary by age, service and type of employment, and (c) 3.25% per year cost-of-living adjustments. The cost-of-living adjustment includes an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. Changes in unfunded liability/(excess assets) due to changes in actuarial methods or assumptions or changes in plan benefits are amortized over as a level percentage of pay over a closed 20 year period. Actuarial gains and losses are first offset against one another and then 6% of the net unamortized gain/loss is recognized.

Three-year trend information is as follows:

<u>Fiscal Year Ended</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
6/30/2007	\$ 15,977	100%	\$ -
6/30/2008	15,982	100%	-
6/30/2009	14,351	100%	-

Funded Status and Funding Progress – As of June 30, 2008, the most recent actuarial valuation date, the actuarial value of assets was \$673.3 million; the actuarial accrued liability was \$685.2 million; the total unfunded actuarial accrued liability was \$11.9 million; the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 98.3%; the annual covered payroll was \$89.0 million; and the ratio of the unfunded actuarial liability to annual covered payroll was 13.3%. The actuarial assumptions used were the same as described in the Annual Pension Cost – Safety Plan section above. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

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(b) Deferred Compensation Plan

The City 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 City has no administrative involvement and does not perform the investing function. The City 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) Health Service System

The Health Service System was established in 1937. Health care benefits of employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the Health Service System. The employers' contribution, which includes the San Francisco Community College District, San Francisco Unified School District and the San Francisco Superior Court, amounted to approximately \$517.5 million in fiscal year 2008-2009. The employers' contribution is mandated and determined by Charter provision based on similar contributions made by the ten most populous counties in California. Included in this amount is \$153.7 million to provide postemployment health care benefits for 22,576 retired participants, of which \$120.0 million related to the City employees. The City's liability for both current employee and postemployment health care benefits is enumerated below. The City's contribution is paid out of current available resources and funded on a pay-as-you-go basis. The Health Service System issues a publicly available financial report that includes financial statements and required supplementary information for the health care benefits. That report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Suite 200, San Francisco, CA 94103 or by calling (800) 541-2266.

(d) Postemployment Health Care Benefits

City (excluding the San Francisco County Transportation Authority and the San Francisco Redevelopment Agency)

Plan Description – The City provides health care benefits to employees, retired employees, and surviving spouses, through the City's Health Service System outlined above. Health care benefits are provided to members of the Health Service System through four plan choices: City Health Plan, Kaiser, Blue Shield, and PacifiCare.

Funding Policy – The contribution requirements of plan members and the City are based on a pay-as-you-go basis. For fiscal year ended June 30, 2009, the City paid approximately \$120.0 million on behalf of its retirees.

Annual OPEB Cost and Net OPEB Obligation – The City's annual other postemployment benefits (OPEB) expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excess) amortized over thirty years.

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The net OPEB obligations are reflected in the statements of net assets of the governmental activities, business-type activities, and fiduciary funds. The following table shows the components of the City's annual OPEB cost for the year, the amount contributed to the plan, and changes in the City's net OPEB obligation:

Annual required contribution	\$ 427,489
Interest on Net OPEB obligation	13,250
Adjustment to annual required contribution	<u>(9,815)</u>
Annual OPEB cost	430,924
Contribution made	<u>(119,967)</u>
Increase in net OPEB obligation	310,957
Net OPEB obligation - beginning of year	<u>294,440</u>
Net OPEB obligation - end of year	<u><u>\$ 605,397</u></u>

The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and prior year are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	\$ 409,080	28.0%	\$ 294,440
6/30/2009	430,924	28.0%	605,397

Funded Status and Funding Progress – The unfunded actuarial accrued liability is being amortized as a level percentage of expected payroll over a thirty year period, beginning July 1, 2007. As of July 1, 2006, the most recent actuarial valuation date, the funded status of the Retiree Health Care Benefits was 0%. The actuarial accrued liability for benefits was \$4 billion, and the actuarial value of assets was \$0, resulting in an unfunded actuarial accrued liability (UAAL) of \$4 billion. The covered payroll (annual payroll of active employees covered by the plan) was \$2.1 billion and the ratio of the UAAL to the covered payroll was 195.3%.

Actuarial Methods and Assumptions – Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contribution of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multi-year trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the actuarial valuation as of July 1, 2006, the entry age normal cost method was used. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percent of expected salary for each year of employment between entry age (age at hire) and assumed exit (maximum retirement age). The actuarial assumptions included a 4.5% investment rate of return on investment; an annual blended healthcare cost trend

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rate of 9% in the fiscal year ended June 30, 2007, reduced by 0.5% each year to an ultimate rate of 5% in the tenth year and beyond; annual vision cost trend rate of 3%; annual administrative cost trend rate of 4.5%; and a 4.5% annual increase in projected payroll.

San Francisco County Transportation Authority

The San Francisco County Transportation Authority (the Authority) maintains a separate OPEB plan and reported a net OPEB obligation of \$0 as of June 30, 2009. The Authority's most recent actuarial valuation was performed as of January 1, 2008, covering the fiscal year ended June 30, 2008, and June 30, 2009. The Authority's OPEB plan was for retiree healthcare benefits and was 0% funded and the unfunded actuarial accrued liability was \$0.2 million. Details of the Authority's OPEB plan may be found in its financial statements for the fiscal year ended June 30, 2009. Financial Statements for the Authority can be obtained from their finance and administrative offices at 100 Van Ness Avenue, 26th Floor, San Francisco, CA 94102.

As of June 30, 2009, the Authority's annual OPEB expense of \$86 was equal to the ARC. The following table represents annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the net OPEB obligation.

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	\$ 84	100%	\$ -
6/30/2009	86	100%	-

San Francisco Redevelopment Agency

The San Francisco Redevelopment Agency (the Agency) maintains a separate OPEB plan and reported a net OPEB obligation of \$0.6 million as of June 30, 2009. The Agency's most recent actuarial valuation was performed as of June 30, 2007, covering the fiscal year ended June 30, 2008. The Agency's OPEB plan was for retiree healthcare benefits and was 0% funded and the unfunded actuarial accrued liability was \$13.8 million. Details of the Agency's OPEB plan may be found in its financial statements for the fiscal year ended June 30, 2009. Financial Statements for the Agency can be obtained from their finance and administrative offices at 1 South Van Ness Avenue, 5th Floor, San Francisco, CA 94102.

The following table shows the components of the Agency's annual OPEB cost for the year, the amount contributed to the plan, and changes in its net OPEB obligation:

Annual required contribution	\$ 1,307
Interest on Net OPEB obligation	38
Adjustment to annual required contribution	(47)
Annual OPEB cost	1,298
Contribution made	(1,239)
Increase in net OPEB obligation	59
Net OPEB obligation - beginning of year	493
Net OPEB obligation - end of year	<u>\$ 552</u>

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The Agency's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for the current and prior year are as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	\$ 1,216	59.0%	\$ 493
6/30/2009	1,298	95.0%	552

The Agency intends to fund the current year ending net OPEB obligations with expendable available financial resources for fiscal year 2009. The net OPEB obligation of \$552 as of June 30, 2009 was recorded as other liabilities on the Agency's financial statements.

Proposition B – A City Charter Amendment Changing Qualifications for Retiree Health and Pension Benefits and Establishing a Retiree Health Care Trust Fund

Proposition B was passed by voters on June 3, 2008, and increased the years of service required to qualify for employer-funded retiree health benefits for City employees and certain employees of the San Francisco Unified School District, San Francisco Community College District, and the San Francisco Superior Court who retire under the San Francisco Employees Retirement System and were hired on or after January 10, 2009. Employees hired before January 10, 2009, became eligible to participate in the retirement health care system after 5 years of service and the employer paid 100% of the contribution. Now it states that between 5-10 years of service, there is no employer contribution, at 10-15 years there is a 50% contribution, between 15-20 years there is 75% contribution and only after 20 years of service will the employer pay 100% of the contribution.

Proposition B also stated that a separate Retiree Health Care Trust Fund would be created to pay for the City's future costs related to retiree health care. This trust fund will be funded by employer and employee contributions for employees hired on or after January 10, 2009. These new employees would contribute up to 2% of their pre-tax pay and employers would contribute 1%. The San Francisco Community College District and San Francisco Unified School District have the option to participate in and contribute to this trust fund if approved by their governing boards.

The trust fund is administered by a Retiree Health Care Board of Administration governed by five trustees, one selected by the City Controller, one by the City Treasurer, one by the Executive Director of the San Francisco Employees Retirement System, and two elected by the active and retired members of the City's Health Service System. The Board is in the process of establishing trust documentation.

(10) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

The San Francisco County Transportation Authority (the Authority) was created in 1989 by a vote of the San Francisco electorate. The vote approved Proposition B, which imposed a sales tax of one-half of one percent (0.5%), for a period not to exceed 20 years, to fund essential transportation projects. The types of projects to be funded with the proceeds from the sales tax are set forth in the San Francisco County Transportation Expenditure Plan (the Plan), which was approved as part of Proposition B. The Authority was organized pursuant to Sections 131000 et seq. of the Public Utilities Code. Collection of the voter-approved sales tax began on April 1, 1990.

In November, 1990, the Authority was designated under State law as the Congestion Management Agency (CMA) for the City. Responsibilities resulting from this designation include developing a Congestion Management Program, which provides evidence of the integration of land use, transportation programming and air quality goals; preparing a long-range countywide transportation plan to guide the City's future transportation investment decisions; monitoring and measuring traffic congestion levels in the City; measuring the performance of all modes of transportation; and

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developing a computerized travel demand forecasting model and supporting databases. As the CMA, the Authority is responsible for establishing the City's priorities for state and federal transportation funds and works with the Metropolitan Transportation Commission (MTC) to program those funds to San Francisco projects.

Major programs under the CMA include:

- Surface Transportation Program (STP) – In September 1992, the MTC began programming Federal Surface Transportation Program (STP) to CMAs in the Bay Area. In turn, the Authority is responsible for certain planning and programming activities, work tasks and products, that support MTC's overall work program.
- South Approach to the Golden Gate Bridge: Doyle Drive Replacement Project – The Authority and California Department of Transportation (Caltrans) are working in partnership to implement the Doyle Drive Replacement Project. In April 1998, the Authority and Caltrans signed a Memorandum of Understanding designating the Authority as the lead agency for the environmental study. The Doyle Drive Draft Environmental Impact Statement/Report (DEIS/R) was completed and circulated for public comment in December 2005. On September 1, 2006, Caltrans gave the Authority an authorization to proceed with preliminary engineering for the Doyle Drive Replacement Project. On September 26, 2006, through Resolution 07-17, the Authority selected Alternative 5 (Presidio Parkway) with specified design options, as the Preferred Alternative to be identified in the Final Environmental Impact Statement/Report for the Doyle Drive Replacement Project. The Final Environmental Impact Statement/Report and State Notice of Determination were approved in December 2008. The federal Record of Decision was issued in January 2009. Construction contracts are being procured and awarded in the fall of 2009, with major construction scheduled to start in November 2009.
- Countywide Transportation Plan – As the CMA, the Authority is responsible for preparing a Countywide Transportation Plan to guide transportation system development and investment over the next 30 years. The Plan is consistent with the broader policy framework of the City and County of San Francisco's General Plan and particularly its Transportation Element. The Countywide Transportation Plan further develops and implements General Plan principles, by identifying needed transportation system improvements based on technical review of system performance; extensive public input on key issues and needs; and analysis of financial opportunities and constraints.

In June 2002, the Authority was designated to act as the overall program manager for the local guarantee (40%) share of transportation funds available through the Transportation Fund for Clean Air (TFCA) program. Funds from this program, administered by the Bay Area Air Quality Management District (BAAQMD) come from a \$4 vehicle registration fee on automobiles registered in the Bay Area. Through this program, the Authority recommends projects that benefit air quality by reducing motor vehicle emissions.

In November, 2003, the San Francisco voters approved Proposition K with a 74.7% affirmative vote, amending the City Business and Tax Code to extend the county-wide one-half of one percent sales tax, and to replace the 1989 Proposition B Plan with a new 30-year Expenditure Plan. The new Expenditure Plan includes investments in four major categories: 1) Transit; 2) Streets and Traffic Safety (including street resurfacing, and bicycle and pedestrian improvements); 3) Paratransit services for seniors and disabled people; and 4) Transportation System Management/Strategic Initiatives (including funds for neighborhood parking management, transportation/land use coordination, and travel demand management efforts). Major capital projects to be funded by the Proposition K Expenditure Plan include: A) development of the Bus Rapid Transit and MUNI Metro Network; B) construction of the MUNI Central Subway (Third Street Light Rail Project–Phase 2); C) construction of the Caltrain Downtown Extension to a rebuilt Transbay Terminal; and D) replacement of the South Access to the Golden Gate Bridge (Doyle Drive). Within 20 years of the effective date of

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the adoption of the Proposition K Expenditure Plan, the Authority may modify the Expenditure Plan with voter approval. Pursuant to the provisions of Division 12.5 of the California Public Utilities Code, the Authority Board may adopt an updated Expenditure Plan anytime after 20 years from the effective date of adoption of the Proposition K Expenditure Plan but no later than the last general election in which the Proposition K Expenditure Plan is in effect. The Sales Tax would continue as long as a new or modified plan is in effect. Under Proposition K legislation, the Authority directs the use of the Sales Tax and may spend up to \$485.2 million per year and may issue up to \$1.88 billion in bonds secured by the Sales Tax.

(11) DETAILED INFORMATION FOR ENTERPRISE FUNDS

(a) San Francisco International Airport

San Francisco International Airport (Airport), which is owned and operated by the City, is the principal commercial service airport for the San Francisco Bay Area. A five-member Commission is responsible for the operation and management of the Airport. The Airport is located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County between the Bayshore Freeway (U.S. Highway 101) and the San Francisco Bay. According to final data for calendar year 2008 from the Airports Council International (ACI), the Airport is one of the largest airports in the United States both in terms of passengers (10th) and air cargo (14th). The Airport is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic.

The San Francisco Bay Area Rapid Transit District (BART) extension to the Airport creates a convenient connection between the Airport and the greater San Francisco Bay Area. An intermodal station in the City of Millbrae provides a direct link to Caltrain, offering additional transit options and connections to the southern parts of the Bay Area. Access from the BART station throughout the Airport is enhanced by the AirTrain system, a shuttle train that connects airport terminals. The AirTrain system provides transit service over a "terminal loop" to serve the terminal complex and over a "north corridor loop" to serve the rental car facility and other locations situated north of the terminal complex.

The Airport has revised its five-year Capital Plan, which was approved in May 2009 and included airfield and groundside improvements, utility infrastructure upgrades, terminal upgrades, health, safety and security enhancements, and cost savings and revenue generating enhancements.

Passenger Facility Charges – The Airport, as authorized by the Federal Aviation Administration (FAA) pursuant to the Aviation Safety and Capacity Expansion Act of 1990 (the Act), as amended, imposes a Passenger Facility Charge (PFC) of \$4.50 for each enplaning passenger at the Airport. Under the Act, air carriers are responsible for the collection of PFC charges and are required to remit PFC revenues to the Airport in the following month after they are recorded by the air carrier. The Airport's most recent application amendment of \$609 million was approved by the FAA in September 2006. The current authority to impose PFCs is estimated to end January 1, 2017.

For the year ended June 30, 2009, the Airport reported approximately \$68.8 million of PFC revenue, which is included in other nonoperating revenues in the accompanying basic financial statements. The Airport designated \$51.0 million of PFC revenues as "Revenues" under the 1991 Master Bond Resolution for the purpose of paying debt service in fiscal year 2008-2009.

Commitments and Contingencies – In addition to the long-term obligations discussed in Note 8, there was \$102.4 million of Special Facilities Lease Revenue Bonds outstanding at June 30, 2009 which financed improvements to the Airport's aviation fuel storage and delivery system that is leased to SFO Fuel Company LLC (SFO Fuel). SFO Fuel is required to pay facilities rent to the Airport in an amount equal to debt service payments and required bond reserve account deposits on the bonds. The principal and interest on the bonds will be paid solely from the facilities rent payable by SFO Fuel to the Airport. The Airport assigned its right to receive the facilities rent to the bond trustee to pay and

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secure the payment of the bonds. Neither the Airport nor the City is obligated in any manner for the repayment of these obligations, and as such, they are not reported in the accompanying financial statements.

Purchase commitments for construction, material and services as of June 30, 2009 are as follows:

Construction	\$ 39,043
Operating.....	11,763
Total	<u>\$ 50,806</u>

Due to the Airport's noise mitigation efforts, significant progress has been made in reducing the impact of aircraft noise on the communities surrounding the Airport through the implementation of (1) noise abatement flight procedures, (2) an aircraft noise insulation program, (3) community outreach through the Airport Community Roundtable, and (4) requests that certain surrounding communities adopt ordinances to protect new purchasers of homes within their community.

The Airport has entered into a Memorandum of Understanding and supplemental funding agreement with various surrounding communities to insulate residential and nonresidential structures such as schools, churches, and hospitals. This program was funded by bond proceeds, by federal grant reimbursements to the local communities, and by operating and other internally generated funds. In fiscal year 2008, this program was finalized and the Airport received a reimbursement of \$0.4 million from the County of San Mateo. In addition, the Airport made a final disbursement of \$0.2 million to close the last phase for the City of San Bruno. As of June 30, 2009, approximately \$121.1 million has been disbursed under this program.

Pursuant to the Lease and Use Agreement between the Airport and most of the airlines operating at the Airport, the Airport makes an annual service payment to the City's General Fund equal to 15% of concession revenue, but not less than \$5 million per fiscal year, in order to compensate the City for all indirect services provided to the Airport. The annual service payment for the year ended June 30, 2009 was \$26.8 million. In addition, the Airport compensates the City's General Fund for the cost of certain direct services provided by the City to the Airport, including those provided by the Police Department, the Fire Department, the City Attorney, the City Treasurer, the City Controller, the City Purchasing Agent and other City departments. The cost of direct services paid for by the Airport for the year ended June 30, 2009 was \$101.3 million.

In addition to the Lease and Use Agreements with the airlines, the Airport leases facilities to other businesses to operate concessions at the Airport. During the year ended June 30, 2009, revenues realized from the following the Airport tenants exceeded five percent of the Airport's total operating revenues:

United Airlines	14.8%
New South Parking	11.8%

(b) Port of San Francisco

A five-member Port Commission is responsible for the operation, development, and maintenance activities of the Port of San Francisco (Port). In February 1969, the Port was transferred in trust to the City under the terms and conditions of State legislation ("Burton Act") ratified by the electorate of the City. Prior to 1969, the Port was owned and operated by the State of California. The State retains the right to amend, modify or revoke the transfer of lands in trust provided that it assumes all lawful obligations related to such lands.

Pledged Revenues – The Port's revenues, derived primarily from property rentals to commercial and industrial enterprises and from maritime operations which include cargo, ship repair, fishing, harbor services, cruise and other maritime activities, are held in a separate enterprise fund and appropriated for expenditure pursuant to the budget and fiscal provisions of the City Charter, consistent with trust

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requirements. Under public trust doctrine, the Burton Act, and the transfer agreement between the City and the State, Port revenues may be spent only for uses and purposes of the public trust.

The Port pledged future net revenues to repay the \$19.9 million in Revenue Bonds issued in 2004. The final annual principal and interest payments on the bonds required less than 45% of net pledged revenues as calculated in accordance with the bond indenture. For the year ended June 30, 2009, principal and interest payments were \$4.4 million and net pledged revenues were \$9.9 million. The bonds were fully repaid on the final maturity date of July 1, 2009.

Commitments and Contingencies – The Port is presently planning various development projects that involve a commitment to expend significant funds. Under an agreement with the San Francisco Bay Conservation and Development Commission (BCDC), the Port is committed to fund and expend up to \$30 million over a 20-year period for pier removal, parks and plazas, and other public access improvements. As of June 30, 2009, \$16.7 million of Port funds has been appropriated and \$2.0 million has been expended for projects under the agreement. The \$16.7 million appropriated includes \$9.0 million received in 2004 from the sale of a portion of Seawall Lot 330 to a developer. After expiration of the original development agreement in 2006, the land sales proceeds of \$9.0 million remain designated for the design and construction of a public plaza (Brannan Street Wharf) as required by the San Francisco Waterfront Special Area Plan.

A City general obligation bond, 2008 Clean and Safe Neighborhood Parks, included \$33.5 million for open space projects on Port property. As of June 30, 2009, \$3.6 million has been appropriated and \$0.3 million has been expended from the first issuance of these park bonds. A future issuance will provide additional funding of \$2.9 million for the Brannan Street Wharf project.

As of June 30, 2009, the Port had purchase commitments for construction-related services, materials and supplies, and other services were \$7.2 million for capital projects and \$2.6 million for general operations.

In November 2002, a maritime vessel known as Drydock #1 broke free from its moorings at Pier 70 and went adrift in very high winds, finally running aground on Yerba Buena Island. The recovered drydock is currently moored at a safer harbor location. The Port continues to evaluate options for the final disposition of this surplus vessel. Engineering consultants have assessed requirements for hazardous materials abatement, including potential remediation of lead-based paints, heavy-metal contaminated sediments, and asbestos. The consulting engineers also performed a preliminary structural assessment and condition survey to assess the viability of towing the vessel from its present location to a location for ultimate disposal. Based on its poor condition, the drydock is most likely only salvageable for scrap metal. Based on the information from various consultants and internal engineering estimates, \$2.8 million was accrued in 2008 for the drydock's final disposition, including the remediation of identified hazardous materials. The Port is also pursuing federal financial assistance towards the final disposition cost of Drydock #1. This accrual is included in other noncurrent liabilities.

Pollution Remediation Obligations – The Port's financial statements include liabilities, established and adjusted periodically, based on new information, in accordance with applicable generally accepted accounting principles in the United States of America, for the estimated costs of compliance with environmental laws and regulations and remediation of known contamination. As future development planning is undertaken, the Port evaluates its overall provisions for environmental liabilities in conjunction with the nature of future activities contemplated for each site and accrues a liability, if necessary. It is, therefore, reasonably possible that in future reporting periods current estimates of environmental liabilities could materially change.

Port lands are subject to environmental risk elements typical of sites with a mix of light industrial activities dominated by transportation, transportation-related and warehousing activities. Due to the historical placement of fill of varying quality, and widespread use of aboveground and underground

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tanks and pipelines containing and transporting fuel, elevated levels of petroleum hydrocarbons and lead are commonly found on Port properties. Consequently, any significant construction, excavation or other activity that disturbs soil or fill material may encounter hazardous materials and/or generate hazardous waste.

The Port has been conducting a public planning process to produce a preferred master plan for an underutilized 65-acre area commonly known as "Pier 70". A long history of heavy industrial use has turned this area into a "brownfield" – an underutilized property area where reuse is hindered by actual or suspected contamination. The 65-acre site has been used for over 150 years for iron and steel works, ship building and repair, and other heavy industrial operations. Much of the site was owned and/or occupied by the U.S. Navy or its contractors for at least 60 years. Fifteen acres remain occupied by an on-going ship repair facility. Environmental conditions exist that require investigation and remediation prior to any rehabilitation or development for adaptive reuse. The lack of adequate information about environmental conditions has hindered previous development proposals for Pier 70.

Since early 2007, the Port has been engaged in a community-based master planning process to produce a plan to rehabilitate and reuse many of the historic buildings, enable new development, create parks, open space and other public amenities, complete environmental remediation where required, and preserve existing ship repair facilities. In 2007, the Port completed a site investigation of a small portion of Pier 70: an approximately 17-acre area along the northeast shoreline. This investigation found that soil and sediment are contaminated with metals, petroleum hydrocarbons and PCBs at concentrations that do not pose a hazard to human health or the environment under existing conditions, but will require removal or capping of surface soil before development of the area for public access and recreation.

With funding from a federal grant, the Port proceeded in fiscal 2008-2009 with a \$1.2 million contract to investigate soil and groundwater conditions throughout the site, including the fifteen-acre portion leased to the Port's ship repair tenant; survey many of the historic buildings for hazardous building materials, such as lead and asbestos; and abate hazardous materials in select building or buildings to the extent that funding is available. The contractor's sampling work will be conducted between August and November 2009. Environmental conditions that require remediation, for which the Port and/or other responsible parties would be required to address, may be discovered. Depending on the results of the investigation, remediation may range from removal of "hot spots" and subsequent implementation of risk management measures, to design, install and operate an active remediation system, such as groundwater and/or vapor extraction and treatment. In many cases, site remediation or mitigation is most efficiently and effectively conducted in conjunction with site development. Federal grant reimbursements are recorded as the qualifying grant-funded expenditures are incurred by the Port.

Earlier in 2009, the contractor prepared a report describing potential remediation scenarios for Pier 70 site and probability of certain contamination being encountered in soil, soil vapor or groundwater, and various degrees of remediation that would be required. The model calculation estimated that soil, groundwater, and soil vapor remediation and/or management (excluding hazardous building materials such as asbestos or lead-based paint) would cost between \$15.0 million and \$50.0 million, with a most likely probability-weighted estimated cost of \$27.5 million. Port management believes the environmental consultant's model calculation is a reasonable estimate of an existing brownfield pollution remediation obligation. The \$27.5 million is recorded as a noncurrent pollution remediation obligation as of July 1, 2008 (see Note 2(s)).

The above mentioned risk assessment and feasibility study will be completed in fiscal 2009-10; and it will more thoroughly inform pollution remediation activities and adaptive re-use of the Pier 70 project area. Additionally, hazardous building materials, such as lead-based paint, asbestos, and mercury and/or PCBs in certain electrical equipment, will have to be abated during the course of rehabilitation of any historic building. Hazardous building materials abatement is very roughly estimated to be 20% of the total construction cost of building rehabilitation.

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In addition to the Pier 70 issue, the Port has identified and accrued certain environmental issues related to Port property, including asbestos removal, fuel tank removal and oil contamination in the amount of \$0.5 million at June 30, 2009. The Port may be required to perform certain clean-up work if it intends to develop or lease the property, or at such time as required by the City or State. There are sites where groundwater contamination may be later identified, where the Port has primary or secondary responsibility. The potential liability for such risk cannot be reasonably made at this time.

A summary of environmental liabilities, included in noncurrent liabilities, at June 30 2009, is as follows:

	Environmental Remediation	Monitoring and Compliance	Total
Environmental liabilities at July 1, 2008 (as restated)	\$ 27,630	\$ 250	\$ 27,880
Current year claims and changes in estimates	-	244	244
Vendor payments	<u>(130)</u>	<u>-</u>	<u>(130)</u>
Environmental liabilities at June 30, 2009	<u>\$ 27,500</u>	<u>\$ 494</u>	<u>\$ 27,994</u>

(c) San Francisco Water Enterprise

The San Francisco Water Enterprise (Water Enterprise) was established in 1930. The Water Enterprise, which consists of a system of reservoirs, storage tanks, water treatment plants, pump stations, and pipelines, is engaged in the collection, transmission and distribution of water to the City and certain suburban areas. The Water Enterprise delivers water, approximately 86,986 million gallons annually, to a total population of approximately 2.5 million people who reside primarily in four Bay Area counties (San Francisco, San Mateo, Santa Clara and Alameda).

The San Francisco Public Utilities Commission (the Commission), established in 1932, provides the operational oversight for the Water Enterprise, Hetch Hetchy Water and Power (Hetch Hetchy), and the San Francisco Wastewater Enterprise. Until August 1, 2008, the Commission consists of five members appointed by the Mayor who are responsible for determining such matters as the rates and charges for services, approval of contracts, and organizational policy. Proposition E, the City's Charter Amendment approved by the voters in the June 3, 2008 elections, terminated the terms of the existing Commission members, changed the process of appointing new members and set qualifications for all members. Under the amended Charter, the Mayor continues to nominate candidates to the Commission, but nominees do not take office until the Board of Supervisors votes to approve their appointments by a majority (at least 6 members).

Pledged Revenues – The Water Enterprise has pledged future revenues to repay various bonds. Proceeds from the revenue bonds provided financing for various capital construction projects and to refund previously issued bonds. These bonds are payable solely from revenues of the Water Enterprise and are payable through the year ending 2036. Annual principal and interest payments on the bonds are expected to require less than 56% of future revenues through the year 2036.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2009 and applicable revenues for 2009 are as follows:

Bonds issued with revenue pledge	\$ 1,108,500
Principal and interest remaining due at the end of the year	1,549,883
Principal and interest paid during the year	69,585
Net revenue for the year ended June 30, 2009	82,978

During fiscal year 2008-2009, water sales to suburban resale customers were \$131.8 million. As of June 30, 2009, the suburban resale customers owed the Water Enterprise approximately \$27.6 million under the Water Rate Agreement.

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Commitments and Contingencies – As of June 30, 2009, the Water Enterprise had outstanding commitments with third parties of \$303.4 million for various capital projects and for materials and supplies.

Pollution Remediation Obligation – In July 1999, the California Regional Water Quality Control Board (CRWQCB) issued a directive instructing the Water Enterprise to develop a remedial action plan (Plan) that addresses environmental contamination at certain real property owned by the Water Enterprise. In response to the directive, the Commission completed a remedial action plan and in August 2001 received the final directive from the CRWQCB to execute the plan. This environmental issue, along with the Water Enterprise's complete review of GASB Statement No. 49 pronouncement resulted in the reporting of \$3.3 million in fiscal year 2009. The Water Enterprise paid \$1.1 million in fiscal year 2009 in accordance with the remedial action plan.

Transactions with Other Funds – During the fiscal year ended June 30, 2009, \$1.1 million was transferred to other City departments, including \$0.9 million, representing a percentage of construction contracts to the Art Commission and \$0.2 million to the Fire Department for a water reclamation study.

The Water Enterprise purchases water from Hetch Hetchy. This amount, totaling approximately \$23 million, is included in the charges for services provided by other departments in the Water Enterprise's financial statements.

(d) Hetch Hetchy Water and Power Enterprise

Hetch Hetchy Water and Power (Hetch Hetchy) was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park to the City. Hetch Hetchy is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity from that resource. Approximately 79% of the electricity is used by the City's municipal customers (e.g., the San Francisco Municipal Railway, the Recreation and Parks Department, the Port of San Francisco, San Francisco General Hospital, street lighting, Moscone Center, and the San Francisco Public Utilities Commission Water and Wastewater enterprises). Also a result of the 1913 Raker Act, energy produced above the City's Municipal Load is sold first to Modesto and Turlock Irrigation Districts (the Districts) to cover their pumping municipal load needs and any remaining energy either sold to other Municipalities and/or Government Agencies (not for resale) or deposited into an account under the City's agreement with PG&E.

Hetch Hetchy consists of a system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines. This system carries water and power more than 165 miles from the Sierra Nevada Mountains to customers in the City and portions of the surrounding San Francisco Bay Area.

Hetch Hetchy also purchases wholesale electric power from various energy providers that are used in conjunction with owned hydro resources to meet the power requirements of its customers. Operations and business decisions can be greatly influenced by market conditions, state and federal power matters before the California Public Utilities Commission (CPUC), the California Independent System Operator (CAISO) and the Federal Energy Regulatory Commission (FERC). Therefore, Hetch Hetchy serves as the City's representative at CPUC, CAISO and FERC forums and continues to monitor regulatory proceedings.

Pledged Revenues – Hetch Hetchy has pledged future revenues to repay Clean Renewable Energy Bonds which were issued in fiscal year 2009. Proceeds from the bonds provided financing for various capital construction projects. These bonds are payable solely from net power revenues of Hetch Hetchy and are payable through the year ending 2022. Annual principal and interest payments on the bonds are expected to require less than 1% of future revenues through the year 2022.

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The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2009 and applicable revenues for 2009 are as follows:

Bonds issued with revenue pledge	\$	6,325
Principal and interest remaining due at the end of the year		5,903
Principal and interest paid during the year		422
Net revenue for the year ended June 30, 2009		53,241

Commitments and Contingencies – As of June 30, 2009, Hetch Hetchy had outstanding commitments with third parties of \$22.3 million for various capital projects and other purchase agreements for materials and services.

Charges for services for the year ended June 30, 2009 include \$61.1 million in sales of power by Hetch Hetchy to other City Departments. Income from Hetch Hetchy is available for certain operations of the City.

Effective September 2007, the City renegotiated the Interconnection Agreement (agreement) with PG&E to provide transmission and distribution services on PG&E's system where needed to deliver the Hetch Hetchy's power to its customers. In addition, the PG&E agreement provides supplemental power and energy banking and other support services to Hetch Hetchy. The PG&E agreement provides audit rights to allows PG&E to review past billings paid by Hetch Hetchy and to retroactively (up to two years) adjust these payments as determined necessary. During fiscal year 2009, Hetch Hetchy purchased \$13.3 million of transmission, distribution services, and other support services from PG&E under the terms of the agreement.

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Modesto and Turlock Irrigation Districts (the Districts) in which they would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments from the City. Total payments were \$4.3 million in fiscal year 2009. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries in the lower Tuolumne River for the duration of the license. A maximum monitoring expense of \$1.4 million is to be shared between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52% and the Districts are responsible for 48% of the costs.

In April 1988, Hetch Hetchy entered into a long-term power sales agreement (the Agreement) with the Districts. In June 2003, Hetch Hetchy amended the terms of the Agreement with the Modesto Irrigation District (MID). Under the terms of the amended and restated long-term power sales agreement, which became effective on January 1, 2003, the expiration date was shortened to December 31, 2007. The renegotiated agreement with MID became effective January 1, 2008, removed Hetch Hetchy's obligation to provide firm power, and eliminated MID's rights to excess energy from the Project. This agreement expires June 30, 2015. In April 2005, Hetch Hetchy amended the terms of the agreement with Turlock Irrigation District (TID). The settlement agreement between Hetch Hetchy and TID restates and amends the power sales agreement and terminates Hetch Hetchy's obligation to provide firm power at below market costs to TID to the end of the agreements term on June 30, 2015. Hetch Hetchy will continue to comply with the Raker Act by making water system generated hydropower available at cost to MID and TID for its agricultural pumping and municipal loads as energy is available. For fiscal year 2009, energy sales to the Districts totaled 258,268 MWhrs or \$6.5 million.

On January 21, 2003, the City's Board of Supervisors authorized the settlement of a lawsuit filed in January 2001 by the City, on behalf of the people of the State of California (the State), against certain energy companies. Under the terms of the settlement, the City received (i) four gas turbine generator sets valued at approximately \$33 million for use at two power plants, one within the City and one at

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the San Francisco International Airport, (ii) future funding from a State administered fund (the Fund) to assist with the costs of sitting and developing electric generating equipment in the City, and (iii) payment to the City of \$0.5 million for attorney's fees and other expenses of litigation.

In conjunction with the execution of the settlement agreement, the Attorney General has received the first \$10.8 million from the defendants, and deposited that amount into the Fund. No receipts have been received subsequent to June 30, 2008. The City has actual costs incurred in the development of the facility of about \$18.2 million as of June 30, 2009. Also as of June 30, 2009, the City has requested and received a total of \$14.1 million for reimbursement from the Fund. Under the terms of the Agreement, the City only has claim to the proceeds held by the Fund to the extent that eligible costs are incurred and limited to reimbursement schedule. As such, the corresponding revenue will be recognized as eligible costs are incurred.

The City has no plans to complete the project and has submitted a proposal to the State for disposal of the combustion turbines, which is currently pending approval. Payments are past due from the State, pending an auditing of prior expenditures. The State will either approve or disallow expenditures and the sales plan to dispose of the combustion turbines.

Also in preparation of the combustion turbines for sale in fiscal year 2010, some entities have shown interest in modifying steam heating plants in San Francisco to cogenerate electricity for local consumption. The Commission is instructed to analyze the feasibility of these local cogeneration projects. If any of these projects demonstrate initial feasibility and environmental benefit, and requires purchase from the City a combustion turbine unit, the Commission is instructed to report to the Mayor and Board of Supervisors on what actions would allow for consideration of these projects.

(e) Municipal Transportation Agency

The San Francisco Municipal Transportation Agency (SFMTA) is governed by the SFMTA Board of Directors. It is composed of the San Francisco Municipal Railway (MUNI), the San Francisco Municipal Railway Improvement Corporation (SFMRIC), and the Department of Parking and Traffic (DPT), and includes its five nonprofit garage corporations. Proposition E passed by the San Francisco voters in November 1999 amended the City Charter, calling for the creation of the SFMTA by consolidating MUNI and DPT by July 1, 2002. The incorporations are intended to support the City's *TransitFirst* Policy. MUNI is one of America's oldest public transit agencies, the seventh largest system in the United States. The DPT operations manage 40 City-owned garages and metered parking lots as well as all traffic engineering functions within the City. SFMRIC is a nonprofit corporation established to provide capital financial assistance on behalf of the City for the modernization of Muni by purchasing equipment and improving facilities.

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The tables below reflect the financial information of MUNI, DPT, and the parking garages that are reported within the SFMTA, net of eliminations for \$20.1 million receivable, restricted cash and payables, and revenues of \$18.8 million and transfers in of \$141.3 million.

	<u>MUNI</u>	<u>DPT</u>	<u>Parking Garages</u>	<u>Eliminations</u>	<u>Total</u>
Assets					
Current assets.....	\$ 248,574	\$ 39,632	\$ 2,941	\$ (1,553)	\$ 289,594
Noncurrent assets.....	<u>1,893,492</u>	<u>28,045</u>	<u>96,360</u>	<u>(18,567)</u>	<u>1,999,330</u>
Total assets.....	<u>2,142,066</u>	<u>67,677</u>	<u>99,301</u>	<u>(20,120)</u>	<u>2,288,924</u>
Liabilities					
Current liabilities.....	162,920	19,160	24,646	(20,120)	186,606
Current liabilities payable					
from restricted assets.....	6,667	-	-	-	6,667
Noncurrent liabilities.....	<u>187,057</u>	<u>50,533</u>	<u>28,723</u>	<u>-</u>	<u>266,313</u>
Total liabilities.....	<u>356,644</u>	<u>69,693</u>	<u>53,369</u>	<u>(20,120)</u>	<u>459,586</u>
Net assets					
Invested in capital assets,					
net of related debt.....	1,864,522	2,532	35,805	-	1,902,859
Restricted net assets.....	22,303	723	9,948	-	32,974
Unrestricted net assets (deficit).....	<u>(101,403)</u>	<u>(5,271)</u>	<u>179</u>	<u>-</u>	<u>(106,495)</u>
Total net assets (deficit).....	<u>\$ 1,785,422</u>	<u>\$ (2,016)</u>	<u>\$ 45,932</u>	<u>\$ -</u>	<u>\$ 1,829,338</u>
Operating Results					
	<u>MUNI</u>	<u>DPT</u>	<u>Parking Garages</u>	<u>Eliminations/ Reclassifications</u>	<u>Total</u>
Operating revenues.....	\$ 166,299	\$ 66,326	\$ 43,328	\$ (18,870)	\$ 257,083
Operating expenses.....	<u>738,720</u>	<u>102,825</u>	<u>18,926</u>	<u>-</u>	<u>860,471</u>
Net operating income (loss).....	<u>(572,421)</u>	<u>(36,499)</u>	<u>24,402</u>	<u>(18,870)</u>	<u>(603,388)</u>
Nonoperating income (loss).....	112,310	128,685	(1,490)	(3,933)	235,572
Capital contributions.....	62,605	-	-	(6,690)	55,915
Transfers in.....	331,021	53,271	-	(134,681)	249,611
Transfers out.....	<u>(4,413)</u>	<u>(148,687)</u>	<u>(22,803)</u>	<u>164,174</u>	<u>(11,729)</u>
Change in net assets.....	<u>(70,898)</u>	<u>(3,230)</u>	<u>109</u>	<u>-</u>	<u>(74,019)</u>
Net assets at beginning of year.....	<u>1,856,320</u>	<u>1,214</u>	<u>45,823</u>	<u>-</u>	<u>1,903,357</u>
Net assets (deficit) at end of year.....	<u>\$ 1,785,422</u>	<u>\$ (2,016)</u>	<u>\$ 45,932</u>	<u>\$ -</u>	<u>\$ 1,829,338</u>

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The data below reflect the operations of the parking garages operated by separate nonprofit corporations managed by SFMTA. Information about these nonprofit corporations for the year ended June 30, 2009 is as follows:

	Downtown Parking	Uptown Parking	Japan Center Garage	Ellis - O'Farrell Parking	Portsmouth Plaza Parking	Elimination	Total
Operating revenues	\$ 15,486	\$ 15,895	\$ 3,008	\$ 5,497	\$ 3,442	\$ -	\$ 43,328
Depreciation	690	1,085	185	365	157	-	2,482
Operating income	10,396	10,023	1,106	1,594	1,283	-	24,402
Interest and other non-operating revenues (expenses)	(383)	(967)	-	(168)	28	-	(1,490)
Change in net assets	805	(754)	116	(127)	69	-	109
Capital assets, additions	684	61	-	35	202	-	982
Capital assets, deletions	(16)	-	-	(10)	-	-	(26)
Net working capital (deficit)	(1,371)	(1,118)	225	(2,226)	1,353	(18,568)	(21,705)
Total assets	21,980	38,296	2,894	14,087	3,476	18,568	99,301
Total liabilities	9,572	18,708	304	5,838	379	18,568	53,369
Net assets	12,408	19,588	2,590	8,249	3,097	-	45,932
Total debt outstanding	\$ 8,725	\$ 17,696	\$ -	\$ 3,825	\$ -	\$ -	\$ 30,246

Operating and Capital Grants and Subsidies – The City’s Annual Appropriation Ordinance provides funds to subsidize the operating deficits of MUNI and DPT determined by the City’s budgetary accounting procedures, subject to the appropriation process. The amount of General Fund subsidy to the SFMTA was \$229.7 million.

The SFMTA receives capital grants from various federal, state, and local agencies to finance transit-related property and equipment purchases. As of June 30, 2009, MUNI had approved capital grants with unused balances amounting to \$468.5 million. Capital grants receivable as of June 30, 2009 totaled \$13.9 million.

The SFMTA also receives operating assistance from various federal, state, and local sources, including Transit Development Act funds and sales tax allocations. As of June 30, 2009, MUNI had various operating grants receivable of \$23.5 million. In fiscal year 2009, the SFMTA’s operating assistance also includes BART American Disability Act (ADA) revenues of \$1.3 million and other federal, state and local grants of \$20 million to fund project expenses that are operating in nature.

The capital grants and operating assistance identified above include funds received and due from the San Francisco County Transportation Authority (SFCTA). During the fiscal year 2009, the SFCTA approved \$18.7 million in new capital grants and \$17.6 million in new operating grants for SFMTA. During the same period, SFMTA received total payments of \$8.7 million for capital grants and \$21.0 million in operating grants from the Authority. As of June 30, 2009, MUNI had \$0.6 million due from the SFCTA for capital grants and \$2.0 million due from the SFCTA for operating grants reported in due from other funds.

Proposition 1B is a ten-year \$20 billion transportation infrastructure bond that was approved by voters in November 2006. The bond measure was composed of several funding programs including the Public Transportation Modernization, Improvement and Service Enhancement Account program (PTMISEA) that is funding solely for public transit projects. MUNI received \$50 million in FY2008 for eight different projects and \$7 million in FY2009 for transit security-related projects. Proposition 1B funds do not require matching funds. These funds must be obligated within three years. The eligibility requirements for the PTMISEA program include rehabilitation of infrastructure, procurement of

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equipment and rolling stock, and investment in expansion projects. During fiscal year 2009, \$8.3 million drawdowns were made from these funds for the various eligible project costs.

The State Public Utilities Code requires that fare revenues must equal or exceed 33% of operating costs in order to qualify for an allocation of certain sales tax revenues available for public transit. Transit operators may add local support to fare revenues in order to calculate the fare recovery ratio. The City provides significant local support to SFMTA from parking revenues and the General Fund.

Commitments and Contingencies – The SFMTA has outstanding contract commitments of approximately \$68.4 million with third parties for various capital projects. Grant funding is available for a majority of this amount. The SFMTA also has outstanding commitments of approximately \$16.3 million with third parties for non-capital expenditures. Various local funding sources are used to finance these expenditures. The SFMTA is also committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding. The SFMTRIC board of directors has authorized SFMTRIC to extend financial guarantees to the SFMTA for certain projects totaling \$2.2 million.

Leveraged Lease-Leaseback of BRED A Vehicles – Tranches 1 and 2

In April 2002 and in September 2003, following the approval of the Federal Transit Administration, SFMTA Board of Directors and the City's Board of Supervisors, MUNI entered into the leveraged lease-leaseback transactions for over 118 and 21, respectively, Breda light rail vehicles (the Tranche 1 and Tranche 2 Equipment). Each transaction also referred to as "sale in lease out" or "SILO", was structured as a head lease of the Equipment to separate special purpose trusts and a sublease of the Equipment back from such trusts. Under the respective sublease, MUNI may exercise an option to purchase the Tranche 1 Equipment on specified dates between November 2026 through January 2030 and Tranche 2 Equipment in January 2030, in each case, following the scheduled expiration dates of the subleases. During the terms of the subleases, MUNI maintains custody of the Tranche 1 and Tranche 2 Equipment and is obligated to insure and maintain the Tranche 1 and Tranche 2 Equipment throughout the life of each sublease.

MUNI received an aggregate of \$388.2 million and \$72.6 million, respectively in 2002 and 2003, from the equity investors in full prepayment of the head lease. MUNI deposited a portion of the prepaid head lease payments into an escrow and deposited a portion with a debt payment undertaker whose repayment obligations are guaranteed by Financial Security Assurance (FSA), a bond insurance company that is currently rated "AAA" by Standard & Poor's and "Aa3" by Moody's Investor Services. The terms of the SILO documents require MUNI replace FSA as guarantor of debt payment undertaker if its ratings are downgraded below BBB+/Baa1 by Standard & Poor's and Moody's, respectively. FSA's current ratings satisfy this requirement. In addition, FSA provided a surety policy with respect to each SILO to guarantee potential payments in the event such transaction is terminated in whole or in part prior to the sublease expiration date. The terms of the SILO documents require the City to replace FSA as surety provider if FSA's ratings are downgraded below "AA-/Aa3 by Standard & Poor's and Moody's, respectively." FSA's current ratings satisfy this requirement. Although S&P has placed FSA on "credit watch with negative implications," and Moody's indicated that FSA's outlook is "developing," it is not known whether or to what level downgrades, if any, may occur. Failure of the City to replace FSA following a downgrade within a specified period of time could allow the investors, in effect, to issue a default notice to MUNI. Because replacement of FSA in either of its roles as a debt payment undertaker guarantor or surety may not be practicable, MUNI could be liable to pay a termination cost as provided in certain schedules of the SILO transaction documents. These early termination costs are in the nature of liquidated damages. The scheduled termination costs as of June 30, 2009, after giving effect to the market value of the securities in the escrow account, would approximate \$108.1 million. The scheduled termination costs increase over the next several years.

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The escrows were invested in U.S. agency securities with maturity dates that correspond to the purchase option dates in each sublease. Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that these transactions are structured in such a way that it is not probable that MUNI will need to access other monies to make sublease payments. Therefore, the assets and sublease obligations are not recorded on the financial statements of the SFMTA as of June 30, 2009.

As a result of the cash transactions above, MUNI recorded deferred revenue of \$35.5 million and \$4.4 million in fiscal years 2002 and 2003, respectively, for the difference between the amounts received of \$388.2 million and \$72.6 million, respectively, and the amounts paid to the escrows and the debt payment undertaker of \$352.7 million and \$67.5 million. The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized amounts were \$1.3 million and \$0.2 million in fiscal year 2009.

As of June 30, 2009, the outstanding payments to be made on the sublease through the end of the sublease term are \$84.8 million and \$51.4 million, for Tranche 1 and Tranche 2, respectively, and the payments to be made on the purchase option, if exercised, would be \$680.8 million and \$154.2 million. These payments are to be funded from the amounts in escrow and by the payment undertaker. If MUNI does not exercise the purchase option, MUNI would be required to either: 1) pay service and maintenance costs related to the continued operation and use of the vehicles beyond the term of the sublease; or 2) arrange for another party to be the "service recipient," under a "service contract," and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

(f) Laguna Honda Hospital

The Laguna Honda Hospital (LHH) is a skilled nursing facility which specializes in serving elderly and disabled residents. The operations of LHH are subsidized by the City's General Fund. It is the City's policy to fund operating deficits of the enterprise on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the fiscal year ended June 30, 2009, the subsidy for LHH was approximately \$55.5 million.

Net Patient Services Revenue – Net patient services revenues are recorded at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including a provision for doubtful accounts and estimated retroactive adjustments under reimbursement agreements with federal and state government programs and other third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Patient accounts receivable are recorded net of estimated allowances, which include allowances for contractals, bad debt, and administrative write-offs. These allowances are based on closed account history.

Third Party Payer Agreements – LHH has agreements with third-party payers that provide for reimbursement to LHH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the hospital's established rate for services and amounts reimbursed by third-party payers. Medicare and Medi-Cal are the major third-party payers with whom such agreements have been established. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. LHH believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to

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future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medi-Cal programs.

During the fiscal year ended June 30, 2009, LHH's patient receivables and charges for services were as follows:

	Patient Receivables, net			
	Medi-Cal	Medicare	Other	Total
Gross Accounts Receivable	\$ 39,605	\$ 2,155	\$ 309	\$ 42,069
Less:				
Provision for Contractual Allowances	(13,286)	(723)	(104)	(14,113)
Total, net	<u>\$ 26,319</u>	<u>\$ 1,432</u>	<u>\$ 205</u>	<u>\$ 27,956</u>

	Net Patient Service Revenue			
	Medi-Cal	Medicare	Other	Total
Gross Revenue	\$ 204,375	\$ 11,120	\$ 1,593	\$ 217,088
Less:				
Provision for Contractual Allowances	(92,159)	(4,753)	(802)	(97,714)
Provision for Bad Debt	(743)	-	-	(743)
Total, net	<u>\$ 111,473</u>	<u>\$ 6,367</u>	<u>\$ 791</u>	<u>\$ 118,631</u>

Because Medi-Cal reimbursement rates are less than LHH's established charges rates, LHH is eligible to receive supplemental federal funding. During fiscal year ended June 30, 2009, LHH accrued approximately \$15 million revenue as a result of matching federal funds to local funds.

Replacement Project – The California Hospital Facilities Safety Act (SB 1953) specifies certain requirements that must be met at various dates in order to increase the probability that LHH could maintain uninterrupted operations following major earthquakes. By January 1, 2008, all general acute care buildings must be life safe. By January 1, 2030, all general acute care inpatient buildings must be operational after an earthquake. In December 2001, LHH finalized and submitted a plan to the State of California indicating that the Laguna Honda Hospital Replacement Project will be fully operational by 2013 and thereby in full compliance with the 2030 requirements. A five-year extension for the January 2008 deadline was requested and granted, postponing the deadline to 2013.

In November 1999, San Francisco voters approved Proposition A, a ballot measure authorizing the City to issue general obligation bonds to finance the acquisition, improvement, construction and/or reconstruction of a new health care, assisted living and/or other type of continuing care facility or facilities to replace Laguna Honda Hospital (the Replacement Project). Proposition A requires an increase in property taxes to pay for the bonds. In addition, Proposition A stipulates that \$100 million of tobacco settlement funds received by the City, excluding \$1 million set aside each year for smoking education and prevention programs, may be used to pay for some construction of the Replacement Project, as well as to offset the cost to property owners of repaying the bonds. As of June 30, 2009, general obligation bonds in the amount of \$299 million have been sold to fund the Replacement Project. During fiscal year ended June 30, 2009, LHH recognized \$19.8 million in tobacco settlement revenues as other non-operating revenues.

As of June 30, 2009, LHH has entered into various purchase contracts totaling approximately \$53.7 million that are related to future construction for the Replacement Project.

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(g) San Francisco General Hospital Medical Center

San Francisco General Hospital Medical Center (SFGH) is an acute care hospital. The operations of SFGH are subsidized by the City's General Fund. It is the City's policy to fully fund enterprise operations on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the year ended June 30, 2009, the subsidy for SFGH was \$116 million.

Net Patient Services Revenue – Net patient services revenues are recorded at the estimated net realizable amounts from patients, third-party payers and others for services rendered, including a provision for doubtful accounts and estimated retroactive adjustments under reimbursement agreements with federal and state government programs and other third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined.

Patient accounts receivable are recorded net of estimated allowances, which include allowances for contractuels, bad debt, and administrative write-offs. These allowances are based on closed account history.

Third Party Payer Agreements – SFGH has agreements with third-party payers that provide for reimbursement to SFGH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between SFGH's established rates and amounts reimbursed by third-party payers. Major third-party payers with whom such agreements have been established are Medicare, Medi-Cal, and the State of California through the Medi-Cal Hospital/Uninsured Care Demonstration Project and Short-Doyle mental health programs. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. SFGH believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medi-Cal programs.

During the fiscal year ended June 30, 2009, SFGH's patient receivables and charges for services were as follows:

	Patient Receivables, net			
	Medi-Cal	Medicare	Other	Total
Gross Accounts Receivable	\$ 140,170	\$ 56,166	\$ 69,877	\$ 266,213
Less:				
Provision for Contractual Allowances	(108,931)	(43,648)	(54,304)	(206,883)
Provision for Bad Debt	-	-	(15,361)	(15,361)
Total, net	<u>\$ 31,239</u>	<u>\$ 12,518</u>	<u>\$ 212</u>	<u>\$ 43,969</u>

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Net Patient Service Revenue				
	Medi-Cal	Medicare	Other	Total
Gross Revenue	\$ 622,816	\$ 283,215	\$ 664,886	\$ 1,570,917
Less:				
Provision for Contractual Allowances	(547,296)	(167,475)	(361,419)	(1,076,190)
Provision for Bad Debt	-	-	(56,888)	(56,888)
Total, net	<u>\$ 75,520</u>	<u>\$ 115,740</u>	<u>\$ 246,579</u>	<u>\$ 437,839</u>

California's Medi-Cal Hospital/Uninsured Care Demonstration Project (Demonstration) is a new system for paying selected hospitals for hospital care provided to Medi-Cal and uninsured patients and replaces funding previously provided through California State Senate Bills 855 and 1255. The Demonstration was negotiated between the State of California's Department of Health Services and the Federal Centers for Medicare and Medicaid Services last year, and covers the period from July 1, 2005 to June 30, 2010. Under the Demonstration, payments for public hospitals are comprised of: 1) fee-for-service cost-based reimbursement for inpatient hospital services; 2) Disproportionate Share Hospital payments; and 3) distribution from a pool of federal funding for uninsured care, known as the Safety Net Care Pool (SNCP). The nonfederal share of these three payments will be provided by the public hospitals, primarily through certified public expenditures, whereby the hospital would expend its local funding for services to draw down the federal financial participation. Revenues recognized under the Demonstration approximated \$114 million for the fiscal year ended June 30, 2009. Beginning in fiscal year 2008, the State created the Health Care Coverage Initiative (HCCI), allowable under the Demonstration, to expand healthcare coverage for eligible low-income, uninsured individuals using an annual allotment of federal funds from the SNCP. On September 1, 2007, the City entered in to a contract with the State to participate in HCCI and was allocated \$73.1 million over 3 years. As of June 30, 2009, SFGH has accrued and recognized \$24.6 million. The HCCI covers a subset of the Healthy San Francisco population, primarily those individuals at or below 200% of the federal poverty level and who meet citizenship requirements. Refer to the Healthy San Francisco Program footnote.

In addition, SFGH was reimbursed by the State of California, under the Short-Doyle Program, for mental health services provided to qualifying residents based on an established rate per unit of service not to exceed an annual negotiated contract amount. During the year ended June 30, 2009, reimbursement under the Short-Doyle Program amounted to approximately \$5.3 million and is included in other operating revenue.

Deferred Credits and Other Liabilities – As of June 30, 2009, SFGH recorded approximately \$52.4 million in deferred credits and other liabilities, which was comprised of \$34.7 million in deferred credits and \$17.7 million in Third Party Settlements Payable.

Charity Care – SFGH provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Charges foregone based on established rates were \$155 million and estimated costs and expenses to provide charity care were \$64 million in fiscal year 2008-2009.

Other Non-Operating Revenues – The State of California provides support to SFGH through a realignment of funding provided from vehicle license fees and sales tax allocated to California's counties. SFGH recognized \$52.8 million as other non-operating revenue for the year ended June 30, 2009, for realignment funding.

State of California Proposition 99, the Tobacco Tax Initiative, allocates funds to counties for health care services to indigent persons and others who are unable to pay for health care services. Allocation for Proposition 99 funds was eliminated by the State of California in FY08-09.

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Contract with the University of California San Francisco – The City contracts on a year-to-year basis on behalf of SFGH with the University of California (UC). Under the contract, SFGH serves as a teaching facility for UC professional staff, medical students, residents, and interns who, in return, provide medical and surgical specialty services to SFGH's patients. The total amount for services rendered under the contract for the year ended June 30, 2009, was approximately \$91.6 million.

SFGH Rebuild – In 1996, California passed Senate Bill 1953, mandating that all California acute care hospitals meet new seismic safety standards by 2013. In January 2001, the San Francisco Health Commission approved a resolution to support a rebuild effort for the hospitals, and the Department of Public Health conducted a series of planning meetings to review its options. It became evident that rebuilding rather than retrofitting was required, and that rebuilding SFGH presented a unique opportunity for the Department of Public Health to make system-wide as well as structural improvements in its delivery of care for patients in 2013 and beyond.

In October 2005, the San Francisco Health Commission accepted the Mayor's Blue Ribbon Committee recommendation to rebuild the hospital at its current Potrero Avenue location. A site feasibility study was concluded in September 2006 and showed a compliant hospital can be built on the west lawn without demolishing the historic buildings or other buildings. An institutional master plan, a hazardous materials assessment, a geotechnical analysis and rebuild space program have all been completed in fiscal year 2006-2007. Schematic design of the new building is complete and the project cost is estimated at \$887.4 million.

Majority of the funding will be through issuance of bonds. In November 2008, San Francisco voters approved Proposition A, a ballot measure that authorized the City to issue general obligation bonds for the rebuild of the hospital. As of June 30, 2009, General Obligation Bonds in the amount of \$131.7 million have been sold to fund the hospital rebuild. The General Obligation Bonds proceeds are recorded in the City's Governmental Capital Projects Funds.

As of June 30, 2009, SFGH has entered into various purchase contracts totaling approximately \$2.2 million that are related to future construction for the Replacement Project.

HEALTHY SAN FRANCISCO Program – In July 2007, the City and County of San Francisco Department of Public Health implemented Healthy San Francisco (HSF). HSF is a program to provide health care for the uninsured residents using a medical home model, with an emphasis on wellness and preventive care. Persons between the ages of 18-64 are eligible and persons whose income is at or below 500% of the federal poverty level are eligible for a subsidy.

As of June 30, 2009, over 43,000 participants have enrolled in the program, representing 72% of the estimated 60,000 potential population.

(h) San Francisco Wastewater Enterprise

The San Francisco Wastewater Enterprise (Wastewater Enterprise), formerly known as the San Francisco Clean Water Program, was established in 1977 following the transfer of all sewage-system-related assets and liabilities of the City to the Wastewater Enterprise pursuant to bond resolution to account for the City's municipal sewage treatment and disposal system.

The Wastewater Enterprise collects, transmits, treats, and discharges sanitary and stormwater flows generated within the City for the protection of public health and environmental safety. In addition, the Wastewater Enterprise serves on a contractual basis certain municipal customers located outside of the City limits, including the North San Mateo County Sanitation District No. 3, Bayshore Sanitary District, and the City of Brisbane. The Wastewater Enterprise recovers cost of service through user fees based on the volume and strength of sanitary flow. The Wastewater Enterprise serves approximately 150,000 residential accounts, which discharge about 19.0 million units of sanitary flow

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per year (measured in hundreds of cubic feet, or ccf) and approximately 22,000 non-residential accounts, which discharge about 9.2 million units of sanitary flow per year.

Pledged Revenues – Wastewater Enterprise’s revenue, which consists mainly of sewer service charges, is pledged for the payment of principal and interest on various revenue bonds. Proceeds from the bonds provided financing for various capital construction projects and to refund previously issued bonds. These bonds are payable solely from net power revenues of Wastewater Enterprise and are payable through the year ending 2026. Annual principal and interest payments on the bonds are expected to require less than 27% of future revenues through the year 2026.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2009 and applicable revenues for 2009 are as follows:

Bonds issued with revenue pledge	\$ 396,270
Principal and interest remaining due at the end of the year	382,837
Principal and interest paid during the year	50,311
Net revenue for the year ended June 30, 2009	71,130

Commitments and Contingencies – As of June 30, 2009, Wastewater Enterprise had outstanding commitments with third parties for capital projects and for materials and services totaling \$23.8 million.

Pollution Remediation Obligations – The City and the Enterprise have been listed as potentially responsible parties in the clean-up effort of Yosemite Creek due to the Enterprise’s role in conveying contaminated flows to the receiving waters through the sewerage system. Yosemite Creek has been identified as having toxic sediments, primarily polychlorinated biphenyls. The U.S. Environmental Protection Agency is moving forward with a clean-up plan for these sediments. Contaminated flows emanating from a local industrial discharger in the drainage areas to Yosemite Creek is the likely responsible source of the contamination. As of June 30, 2009, the environmental liability reported in the accompanying statements of net assets is \$375, based on estimated contractual costs.

Transactions with Other Funds – The Wastewater Enterprise purchases electricity from Hetch Hetchy at market rates. The amount was \$8.6 million for the year ended June 30, 2009, and has been included in services provided by other departments.

The City’s Department of Public Works provides certain engineering and other services to the Wastewater Enterprise and charges amounts designed to recover its costs. These services are primarily related to street cleaning, engineering, building repair, and sewer repair. This amount charged was approximately \$16.0 million for the year ended June 30, 2009 and has been included in services provided by other departments.

A variety of other City departments provide services such as purchasing, legal, data processing, telecommunications, and human resources to the Wastewater Enterprise and charge amounts designed to recover those departments’ costs. These charges total approximately \$7.0 million for the year ended June 30, 2009 and have been included in services provided by other departments.

(i) San Francisco Market Corporation

The San Francisco Market Corporation is a non-profit corporation organized to acquire, construct, finance, and operate a produce market. The information about this non-profit corporation is presented in the financial statements of the proprietary funds as a non-major fund.

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(12) SAN FRANCISCO REDEVELOPMENT AGENCY

The Redevelopment Agency of the City and County of San Francisco (the Agency) is a public body, corporate and politic, organized and existing under the Community Redevelopment Law of the State of California. Since the organization of the Agency in 1948, the Agency has completed four redevelopment project areas and twelve redevelopment areas are now underway. In addition, the Agency has completed a feasibility study on the Mid Market Survey Area and the redevelopment plan has been submitted to the Board of Supervisors for review. A feasibility study is underway for Bayview Hunters Point Survey Area designated by the Board of Supervisors.

The Agency has no direct taxing power and does not have the power to pledge the general credit or taxing power of the City, the State of California or any political subdivision thereof. However, California's Health and Safety Code allows redevelopment agencies with appropriate approvals of the local legislative bodies to recover costs of financing public improvements from increased tax revenues (tax increment) associated with increased property values of individual project areas. During the year, the Agency's revenue from property tax increment was \$86.7 million.

The Public Initiatives Development Corporation (PIDC) was formed in May of 2002 to develop affordable housing on the Agency's behalf. On November 12, 2004, PIDC and Wincopin Circle, LLLP formed a limited partnership, Plaza Apartments Associates, L.P. (the Partnership). PIDC is the managing general partner and owns a 0.01% interest in the partnership. Wincopin Circle, LLLP is a limited partner and owns a 99.99% interest. Wincopin Circle, LLLP transferred its interest in the Partnership to the Housing Outreach Fund XI Limited Partnership, effective December 24, 2004. The Partnership completed construction of a 106-unit affordable housing project in the South of Market project area in January 2006. As of June 30, 2008, 100% of the units were leased. The Agency reports the investment in the Partnership under the equity method, based on the value of the assets and liabilities transferred to the Partnership.

California Health and Safety Code Section 33334.3 requires the Agency to set aside 20% of the proceeds from its incremental property tax revenues for expenditures for low and moderate income housing. Related interest earned on these funds must also be set aside for such purposes. The Agency established the City-wide Housing Capital Project Account to account for this commitment and has budgeted \$579 million for such expenditures since its inception. The Agency has expended \$429 million for low- and moderate-income housing since its inception.

Pledged Revenues for Bonds – The Agency's Tax Allocation Bonds are equally and ratably secured by the pledge and lien of the Agency's tax increment revenue. These revenues have been pledged until the year 2038, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately \$1.1 billion. The tax increment revenue recognized during the year ended June 30, 2009 was \$89.1 million as against the total debt service payment of \$60.8 million.

The Agency's Moscone Convention Center Lease Revenue Bonds are secured by the pledge of the capital lease revenue received by the Agency from the City. These revenues have been pledged until the year 2025, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately \$209.0 million. The lease revenue recognized during the year ended June 30, 2009 was \$18.6 million as against the total debt service payment of \$18.6 million.

The Agency's Hotel Tax Lease Revenue Bonds are secured by the pledge and lien of the hotel tax revenue received by the Agency from the City. These revenues have been pledged until the year 2026, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately \$84.6 million. The tax increment revenue recognized during the fiscal year ended June 30, 2009 was \$5.3 million as against the total debt service payment of \$5.6 million.

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Commitments and Contingencies – The Agency had commitments under contracts for capital improvements of approximately \$53.8 million as of June 30, 2009.

In order to facilitate construction and rehabilitation in the City, various community district facility bonds and mortgage revenue bonds with an aggregate outstanding balance of approximately \$637 million as of June 30, 2009 have been issued by the Agency on behalf of various developer and property owners who retain full responsibility for the repayment of the debt. When these obligations are issued, they are secured by the related mortgage indebtedness and special assessment taxes, and, in the opinion of management, are not considered obligations of the Agency or the City and are therefore not included in the accompanying financial statements. Debt service payments will be made by developers or property owners.

The Agency provides standby payment agreements in conjunction with its issuance of Mortgage Revenue Bonds wherein the Department of Housing and Urban Development (HUD) guarantees Housing Assistance Payments (HAP) subsidized under Section 8 for multifamily residential facilities. If the HAP contract expires and is not renewed or is substantially reduced, the Agency will be required to pay the difference. The estimated maximum obligation until June 30, 2019 over the terms of all standby payment agreements is \$43.3 million. As of June 30, 2009, management has designated \$4.3 million for standby payment agreements. It is management's intent to designate 10% of the estimated maximum obligation.

(13) TREASURE ISLAND DEVELOPMENT AUTHORITY

The Treasure Island Development Authority (TIDA) is a nonprofit public benefit corporation. The TIDA was authorized in accordance with the Treasure Island Conversion Act of 1997 and designated as a redevelopment agency pursuant to Community Redevelopment Law of the State of California. The TIDA is governed by seven commissioners who are appointed by the Mayor, subject to confirmation by the City's Board of Supervisors. The specific purpose of the TIDA is to promote the planning, redevelopment, reconstruction, rehabilitation, reuse and conversion of the property known as Naval Station Treasure Island for the public interest, convenience, welfare and common benefit of the inhabitants of the City.

The mission of TIDA is to redevelop the former Naval Station Treasure Island and to manage its integration with the City in compliance with federal, state and City guidelines (including the California Tidelands Trust) to maximize revenues to the City's General Fund; to create new job opportunities for San Francisco residents, including assuring job opportunities for homeless and economically disadvantaged residents; to increase recreational and bay access venues for San Francisco and Bay Area residents; and to promote the welfare and well being of the citizens of San Francisco.

The services provided by TIDA include negotiating the acquisition of former Naval Station Treasure Island with the U.S. Navy and establishing the Treasure Island Redevelopment Project; renting Treasure Island facilities leased from the U.S. Navy to generate revenues sufficient to cover operating costs; maintaining Treasure Island facilities owned by the U.S. Navy which are not leased to the TIDA or the City; providing facilities for special events, film production and other commercial business uses; providing approximately 800 housing units; and overseeing the U.S. Navy's toxic remediation activities on the former naval base.

In early 2000, TIDA initiated a master developer selection process, culminating in the selection of Treasure Island Community Development, LLC (TICD) in March 2003. TIDA and TICD entered into an Exclusive Negotiating Agreement in 2003, and began work on the Development Plan and Term Sheet for the Redevelopment of Naval Station Treasure Island (Development Plan). The Development Plan represented the culmination of nearly seven years of extensive public discourse about the future of Treasure Island, and was the product of the most extensive public review process for a large development project in the City's History. The Development Plan was endorsed by the TIDA Board and the San Francisco Board of Supervisors in December 2006.

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The 2006 endorsement of the Development Plan marked a very important milestone in the project, as it has very specifically guided the enormous efforts undertaken since then to make the ambitious redevelopment plans for Treasure Island a reality.

(14) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

“Due to” and “due from” balances have primarily been recorded when funds overdraw their share of pooled cash or when there are transactions between entities where one or both entities do not participate in the City’s pooled cash or when there are short-term loans between funds. The composition of interfund balances as of June 30, 2009, is as follows:

Due to/from other funds:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General	Nonmajor Governmental Funds	\$ 7,536
	Internal Service Funds	285
	Municipal Transportation Agency	170
	San Francisco Water Enterprise	23
	Laguna Honda Hospital	16,373
		<u>24,387</u>
Nonmajor Governmental Funds	Nonmajor Governmental Funds	351
	Internal Service Funds	2,823
	Municipal Transportation Agency	1,000
	<u>4,174</u>	
Laguna Honda Hospital	Nonmajor Governmental Funds	22,464
	Internal Service Funds	33
	<u>22,497</u>	
San Francisco Water Enterprise	Nonmajor Governmental Funds	52
	Municipal Transportation Agency	145
	<u>197</u>	
Hetch Hetchy Water and Power Enterprise	General Fund	1,003
	Nonmajor Governmental Funds	10,718
	Port of San Francisco	736
	General Hospital Medical Center	1,645
	San Francisco Wastewater Enterprise	556
	<u>14,658</u>	
Municipal Transportation Agency	Nonmajor Governmental Funds	2,705
	<u>2,705</u>	
San Francisco Wastewater Enterprise	Nonmajor Governmental Funds	31
	<u>31</u>	
Total		<u>\$ 68,649</u>

Interfund transactions between the primary government and component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>
Primary government - governmental fund	Component unit - San Francisco Redevelopment Agency	\$ 9,466
Hetch Hetchy Water and Power Enterprise	Component unit - Treasure Island Development Authority	\$ 4,427
Primary government - governmental fund	Component unit - Treasure Island Development Authority	\$ 2,272

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Transfers Out: Funds	Transfers In: Funds							Total
	General Fund	Nonmajor Governmental	Internal Service Funds	Municipal Transportation Agency	General Hospital Medical Center	Port	Laguna Honda Hospital	
General Fund.....	\$ -	\$ 148,341	\$ 132	\$ 229,691	\$ 116,862	\$ -	\$ 55,884	\$ 550,910
Nonmajor governmental funds	21,501	52,441	123	19,920	-	3,644	97,639	195,268
Internal service funds	29	-	-	-	-	-	-	29
San Francisco International Airport.....	26,849	-	-	-	-	-	-	26,849
Water Enterprise	214	929	-	-	-	-	-	1,143
Hetch Hetchy Water and Power Enterprise.....	244	58	-	-	-	-	-	302
Municipal Transportation Agency.....	-	11,729	-	-	-	-	-	11,729
San Francisco General Hospital Medical Center....	61,497	-	-	-	-	-	210	61,707
Laguna Honda Hospital	25,861	3,000	-	-	-	-	-	28,861
Total transfers out.....	<u>\$ 136,195</u>	<u>\$ 216,498</u>	<u>\$ 255</u>	<u>\$ 249,611</u>	<u>\$ 116,862</u>	<u>\$ 3,644</u>	<u>\$ 153,733</u>	<u>\$ 876,798</u>

The \$550.9 million General Fund transfer out includes a total of \$401.2 million in operating subsidies to Municipal Transportation Agency, San Francisco General Hospital Medical Center (SFGH), and Laguna Honda Hospital (note 11). The transfer of \$148.3 million from the General Fund to the nonmajor governmental funds is to provide support to various City programs such as the Public Library and Children and Families Fund, as well as to provide resources for the payment of debt service. The transfers between the nonmajor governmental funds are to provide support for various City programs and to provide resources for the payment of debt service.

San Francisco International Airport transferred \$26.8 million to the General Fund, representing a portion of concession revenue (note 11(a)). The General Fund received transfers in of \$36.5 million from SFGH for the SB 855 matching program reimbursement (note 11(g)) and \$25.0 million to reimburse the General Fund for expenditures related to the SFGH rebuild project. In addition, Laguna Honda Hospital transferred \$25.9 million to reimburse the General Fund for expenditures related to Laguna Honda Hospital's capital activities.

The \$19.9 million transferred to the Municipal Transportation Agency from a nonmajor governmental fund represented capital and operating transfers from San Francisco County Transportation Authority. The \$75.2 million transfer from nonmajor governmental funds to Laguna Honda Hospital for capital projects was funded by the Laguna Honda Hospital General Obligation Bonds in the City Facilities Improvement Fund. The \$22.4 million transfer from nonmajor governmental funds to Laguna Honda Hospital for capital projects was funded by the Laguna Honda Hospital Certificate of Participation Bonds in the City Facilities Improvement Fund. The \$3.6 million transfer from nonmajor governmental funds to the Port of San Francisco is for a capital transfer funded by the 2008 Clean & Safe Park Bond in the Capital Facilities Improvement Fund.

(15) COMMITMENTS AND CONTINGENT LIABILITIES

(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. The City believes that no significant liabilities will result.

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(b) Operating Leases

The City has noncancelable operating leases for certain buildings and data processing equipment, which require the following minimum annual payments:

Primary Government

Governmental Activities

Fiscal Years	
2010.....	\$ 23,231
2011.....	21,921
2012.....	19,554
2013.....	13,146
2014.....	8,570
2015-2019.....	15,486
Total.....	\$ 101,908

Operating lease expense incurred for fiscal year 2008-2009 was approximately \$24.5 million.

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	Municipal Transportation Agency (MTA)	San Francisco General Hospital Medical Center (SFGH)	Total Business-type Activities
2010.....	\$ 183	\$ 3,157	\$ 9,658	\$ 1,142	\$ 14,140
2011.....	188	3,157	7,300	793	11,438
2012.....	116	3,157	7,236	388	10,897
2013.....	118	3,157	7,242	199	10,716
2014.....	85	3,157	7,202	-	10,444
2015-2019.....	5	15,240	36,388	-	51,633
2020-2024.....	-	14,988	39,966	-	54,954
2025-2029.....	-	14,987	44,023	-	59,010
2030-2034.....	-	14,987	48,462	-	63,449
2035-2039.....	-	14,987	-	-	14,987
2040-2044.....	-	14,987	-	-	14,987
2045-2049.....	-	14,987	-	-	14,987
2050-2054.....	-	250	-	-	250
Total.....	\$ 695	\$ 121,198	\$ 207,477	\$ 2,522	\$ 331,892

Operating lease expense incurred for the Airport, Port, MTA, and SFGH for fiscal year 2008-2009 was \$5.2 million, \$3.1 million, \$12.1 million, and \$5.4 million, respectively.

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Component Unit – San Francisco Redevelopment Agency

The San Francisco Redevelopment Agency (The Agency) has noncancelable operating leases for its office sites, which require the following minimum annual payments:

<u>Fiscal Years</u>		
2010.....	\$	1,799
2011.....		1,799
2012.....		1,792
2013.....		1,775
2014.....		1,775
2015-2019.....		7,369
2020-2024.....		4,119
2025-2029.....		4,119
2030-2034.....		4,119
2035-2039.....		4,119
2040-2044.....		4,119
2045-2049.....		4,119
2050-2054.....		1,029
Total.....	\$	<u>42,052</u>

Rent payments totaling \$1.3 million are included in the Agency’s financial statements for the year ended June 30, 2009.

Several City departments lease land and various facilities to tenants and concessionaires who will provide the following minimum annual payments:

Primary Government

Governmental Activities

<u>Fiscal Years</u>		
2010.....	\$	2,814
2011.....		2,385
2012.....		2,014
2013.....		1,761
2014.....		1,463
2015-2019.....		5,294
2020-2024.....		332
2025-2029.....		100
Total.....	\$	<u>16,163</u>

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Business-type Activities

Fiscal Years	San Francisco					Total Business-type Activities
	International Airport	Port of San Francisco	General Hospital Medical Center	Municipal Transportation Agency	Market Corp	
2010.....	\$ 79,189	\$ 29,573	\$ 618	\$ 4,145	\$ 958	\$ 114,483
2011.....	61,030	26,241	547	3,665	972	92,455
2012.....	47,431	24,299	475	3,480	976	76,661
2013.....	44,737	21,073	481	2,794	937	70,022
2014.....	38,962	18,878	488	3,970	75	62,373
2015-2019.....	-	79,981	494	4,010	-	84,485
2020-2024.....	-	66,364	-	4,000	-	70,364
2025-2029.....	-	52,460	-	4,000	-	56,460
2030-2034.....	-	48,917	-	4,000	-	52,917
2035-2039.....	-	41,021	-	4,000	-	45,021
2040-2044.....	-	26,300	-	4,000	-	30,300
2045-2049.....	-	21,648	-	4,000	-	25,648
2050-2054.....	-	10,266	-	4,000	-	14,266
2055-2059.....	-	8,633	-	4,000	-	12,633
2060-2064.....	-	8,561	-	4,000	-	12,561
2065-2069.....	-	5,472	-	800	-	6,272
2070-2074.....	-	1,568	-	-	-	1,568
2075-2079.....	-	313	-	-	-	313
Total.....	<u>\$ 271,349</u>	<u>\$ 491,568</u>	<u>\$ 3,103</u>	<u>\$ 58,864</u>	<u>\$ 3,918</u>	<u>\$ 828,802</u>

The Airport and Port have certain rental agreements with concessionaires, which specify that rental payments are to be based on a percentage of tenant sales, subject to a minimum amount. Concession percentage rents in excess of minimum guarantees for the Airport and Port were approximately \$13.1 million and \$11.1 million, respectively, in fiscal year 2008-2009.

Component Unit – San Francisco Redevelopment Agency

The Agency leases various facilities within the Yerba Buena Center, Western Addition and Hunters Point areas. The minimum annual payments are as follows:

Fiscal Years		Fiscal Years	
2010.....	\$ 4,700	2045-2049.....	\$ 12,384
2011.....	4,605	2050-2054.....	1,589
2012.....	4,575	2055-2059.....	843
2013.....	4,605	2060-2064.....	650
2014.....	4,556	2065-2069.....	556
2015-2019.....	23,080	2070-2074.....	315
2020-2024.....	21,740	2075-2079.....	178
2025-2029.....	22,632	2080-2084.....	150
2030-2034.....	24,409	2085-2089.....	150
2035-2039.....	20,998	2090-2094.....	150
2040-2044.....	21,509	2095-2099.....	98
		Total.....	<u>\$ 174,472</u>

For the year ended June 30, 2009, operating lease rental income for noncancelable operating leases was \$11.0 million.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

(c) Other Lease Commitments

The City is making lease payments to the Agency for the Moscone Convention Center in the amount of approximately \$18.6 million per year through July 1, 2024. The lease payments are intended to approximate the debt service requirements of the corresponding lease revenue bonds that were issued by the Agency to finance the construction and expansion of the Moscone Convention Center which are recorded as a long term obligation of the Agency. Together with financing from the City through appropriation of a portion of the hotel tax and through the issuance of lease revenue bonds by the Finance Corporation, the total cost of approximately \$371.4 million was included in the City's asset class of facilities and improvements.

The City is also making lease payments to outside lessors for various telecommunication and information equipment through an internal service fund.

Amounts to be provided for capital leases are as follows:

Fiscal Years	Moscone Convention Center	Other	Total
2010.....	\$ 18,717	\$ 1,285	\$ 20,002
2011.....	18,794	205	18,999
2012.....	18,873	138	19,011
2013.....	18,946	138	19,084
2014.....	19,028	30	19,058
2015-2019.....	94,934	-	94,934
2020-2024.....	16,744	-	16,744
2025-2029.....	2,956	-	2,956
Total minimum lease payments.....	208,992	1,796	210,788
Less amounts representing interest.....	(46,299)	(105)	(46,404)
Present value of maximum lease payments.....	<u>\$ 162,693</u>	<u>\$ 1,691</u>	<u>\$ 164,384</u>

(d) Other Commitments

The Retirement System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately \$1.4 billion at June 30, 2009.

The City is a participant in the Peninsula Corridor Joint Powers Board (PCJPB), which was formed in 1991 to plan, administer, and operate the Peninsula CalTrain rail service. The City, on behalf of MUNI, contributes to the net operating costs and administrative expenses of the PCJPB for operating and capital needs. During the fiscal year ended June 30, 2009, the City contributed approximately \$7.3 million to the PCJPB. This is paid by MTA from the subsidy transfer it receives from the City.

(16) Risk Management

Risk Retention Program Description

The City is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; automobile liability and accident claims (primarily for Muni Railway); medical malpractice; natural disasters; employee health benefit claim payments for direct provider care (collectively referred to herein as estimated claims payable); and injuries to employees (workers' compensation). With certain exceptions, it is the policy of the City not to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the City believes it is more economical to manage its risks internally and set aside funds as needed for

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

estimated current claim settlements and unfavorable judgments through annual appropriations and supplemental appropriations.

The Airport carries general liability insurance coverage of \$750 million, subject to a deductible of \$10 per single occurrence and commercial property insurance coverage for full replacement value on all facilities at SFO owned by the Airport subject to a deductible of \$500 per single occurrence. Additionally, tenants and contractors on all contracts are required to carry commercial general liability insurance in various amounts naming the Airport as additional insured. The Airport does not carry insurance for losses due to land movement or seismic activity and losses for war, terrorism and hijacking. The Airport carries public official liability and employer's liability coverage of \$5 million, subject to deductible of \$100 per single occurrence for each wrongful act other than employment practices' violations, and \$200 per each occurrence for employment practices' violation. The Airport also carries insurance for public employee dishonesty, fine arts, electronic data processing equipment and watercraft liability for Airport fire and rescue vessels.

The Port carries commercial insurance for all risks of loss except workers' compensation, property damage to Port-owned vehicles and employee health and accident. The Port's property insurance does not cover losses due to seismic events.

The San Francisco Redevelopment Agency is a member of the Bay Cities Joint Powers Authority which provides coverage for its general liability, automobile liability, and public officials' errors and omissions risks with combined single limits of \$29 million per occurrence and a deductible of \$50 self-insurance retention per occurrence. Claims relating to the construction of the Moscone Convention Center are indemnified by the City under an agreement between the Agency and the City.

Settled claims have not exceeded commercial insurance coverage in any of the past three fiscal years.

Expenditures and liabilities for all workers' compensation claims and other estimated claims payable are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. These losses include an estimate of claims that have been incurred but not reported. Because actual claim liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claim liabilities does not necessarily result in an exact amount. Claim liabilities are re-evaluated periodically to take into consideration recently settled claims, the frequency of claims, and other legal and economic factors. The recorded liabilities have not been discounted.

Estimated Claims Payable

Numerous lawsuits related to the governmental fund types are pending or threatened against the City. The City's liability as of June 30, 2009 has been actuarially determined and includes an estimate of incurred but not reported losses.

Changes in the reported estimated claims payable since June 30, 2007, resulted from the following activity:

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2007-2008	\$ 192,940	\$ 67,092	\$ (53,090)	\$ 206,942
2008-2009	206,942	71,752	(54,945)	223,749

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

Breakdown of the estimated claims payable at June 30, 2009 is as follows:

<u>Governmental activities:</u>	
Current portion of estimated claims payable	\$ 43,798
Long-term portion of estimated claims payable	101,208
Total	<u>\$ 145,006</u>
<u>Business-type activities:</u>	
Current portion of estimated claims payable	\$ 26,634
Long-term portion of estimated claims payable	52,109
Total	<u>\$ 78,743</u>

In June 2007, a jury from the San Mateo County Superior Court rendered a verdict finding the Airport in breach of the covenant of good faith and fair dealing and awarded the plaintiffs \$1.1 million in damages. In February 2008, the Court vacated the judgment against the Airport and ordered that judgment be entered in the Airport's favor. The ruling renders the \$1.1 million verdict against the Airport null and void. It also nullifies the Airport's liability for up to \$0.5 million in expenses and \$5 million in attorneys' fees that plaintiffs were seeking. In April 2008, the Court awarded the Airport \$3.4 million in attorney fees and costs associated with successfully litigating the case. Plaintiffs appealed the judgment and the award of fees and costs. The appeal is pending.

In July 2004, the San Francisco Superior Court granted summary judgment to the plaintiff in a case involving a contractor who claimed the City's minority and women-owned business program violates the California Constitution. The City appealed the Superior Court's decision and prevailed in the Court of Appeals. Plaintiff, however, petitioned the California Supreme Court for review and the Supreme Court agreed to hear the case. If the decision is reversed by the Supreme Court, the plaintiff would be entitled to recover reasonable attorney's fees, which could approximate \$3.5 million. The Airport, which is one of two City departments sued in the case, would be responsible for 50% of any attorney's fees award.

The Retirement System is involved in various other petitions, lawsuits, and threatened lawsuits relating to individuals' benefits due under the Retirement System which management does not expect to have a material impact on the net assets available for pension benefits. The results of such actions are included in the Retirement System's experience factors used in its actuarial valuations and accordingly, are eventually considered in establishing the City's required annual contributions.

Workers' Compensation

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2009 has been actuarially determined and includes an estimate of incurred but not reported losses. The total amount estimated to be payable for claims incurred as of June 30, 2009 was \$358.9 million which is reported in the appropriate individual funds in accordance with the City's accounting policies (note 2).

Changes in the reported accrued workers' compensation since June 30, 2007, resulted from the following activity:

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2007-2008	\$ 341,128	\$ 82,447	\$ (71,969)	\$ 351,606
2008-2009	351,606	75,169	(67,883)	358,892

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements
June 30, 2009
(Dollars in Thousands)

Breakdown of the accrued workers' compensation liability at June 30, 2009 is as follows:

<u>Governmental activities:</u>	
Current portion of accrued workers' compensation liability	\$ 39,799
Long-term portion of accrued workers' compensation liability	173,082
Total	<u>\$ 212,881</u>
 <u>Business-type activities:</u>	
Current portion of accrued workers' compensation liability	\$ 26,899
Long-term portion of accrued workers' compensation liability	119,112
Total	<u>\$ 146,011</u>

(17) SUBSEQUENT EVENTS

(a) Long-term Debt Issuance

The San Francisco Public Utilities Commission issued \$412 million in 2009 Series A Bonds in August 2009 and \$412 million in 2009 Series B Bonds in September 2009. The bonds were issued to finance a portion of the design, acquisition and construction of various capital projects of the Water System Improvement Program (WSIP), fund the capitalized interest accounts of the 2009 Series A and B for approximately five Indentures and to pay for the costs of issuances. A portion of the 2009 Series A will also be used to refund the San Francisco Utilities Commission's (SFPUC) Commercial Paper Notes issued to fund a portion of the WSIP. Interest rates for the 2009 Series A bonds range from 4% to 5.25% and mature from November 2011 through November 2039. The 2009 Series B bonds bear interest ranging from 4% to 5% and mature from November 2011 to 2039.

In September 2009, the San Francisco International Airport issued its Second Series Revenue Refunding Bonds, Series 2009A in the principal amount of \$92.5 million and Series B in the principal amount of \$82.5 million to purchase and hold in a trust established by the Airport all of the \$175 million outstanding principal amount of Airport's Second Series Variable Rate Revenue Refunding Bonds (Issue 34 A/B) previously issued by the Airport. The proceeds were also used to pay for the cost of issuance and to fund the Reserve Account for each series of the 2009 bonds. Both bond series are not subject to the Alternative Minimum Tax and have a mandatory tender date of September 15, 2010. The Series 2009A and Series 2009B bonds bear interest of 0.75% and mature in May, 2029. Interest on both series are payable in May and November of each year, commencing May 1, 2010.

In September 2009, the City issued the Certificates of Participation (Multiple Capital Improvement Projects) Series 2009B in the amount of \$37.9 million to provide funds to pay a portion of the costs of the acquisition, construction and installation of certain improvements to various City streets, fund capitalized interest payable with respect to the 2009B Certificates, to fund the Reserve Fund established under the Trust Agreement and to pay the cost of execution and delivery of the 2009B Certificates. The Series 2009B Certificates were issued with interest rates ranging from 3.0% to 5.0% and mature from April 2011 through April 2035. The 2009B Certificates represent and are payable solely from Base Rental payments made by the City and amounts held in the 2009B Reserve Account pursuant to the Project Lease as supplemented and amended by that certain First Supplement to Project Lease and the Trust Agreement, as supplemented and amended by the First Supplement to the Trust Agreement for the 2009B Certificates.

In October 2009, the San Francisco Public Utilities Commission issued Certificates of Participation (525 Golden Gate Avenue – San Francisco Public Utilities Commission Office Project) (Tax Exempt) Series 2009C in the amount of \$38.1 million and Certificates of Participation (525 Golden Gate Avenue – San Francisco Public Utilities Commission Office Project) (Federally Taxable – Build

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

America Bonds – Direct Payment) Series 2009D in the amount of \$129.6 million to provide funds to pay a portion of the costs of the acquisition, demolition, improvement, installation, equipping, rehabilitation, construction and/or reconstruction of an office building for the San Francisco Public Utilities Commission and related property owned by the City and located at 525 Golden Gate Avenue; fund a portion of the capitalized interest payable with respect to the 2009C and 2009D Certificates; fund the Reserve Fund established under the Trust Agreement for the 2009C and 2009D Certificates; and pay the cost of execution and delivery of the 2009C and 2009D Certificates. The Series 2009C and 2009D Certificates were issued with interest rates ranging from 2.0% to 6.487% and mature from November 2012 through November 2041. The 2009C and 2009D Certificates represent and are payable solely from Base Rental payments made by the City and amounts held in the 2009C and 2009D Reserve Accounts pursuant to the Project Lease and Trust Agreement for the 2009C and 2009D Certificates.

The Board of Supervisors authorized the settlement of the two lawsuits filed by United States of America on behalf of the U.S. Forest Service related to fires that occurred in proximity to San Francisco Public Utilities Commission (SFPUC) power lines. By Ordinance No. 200-09, adopted August 18, 2009, the Board approved the payment of \$7 million, in settlement of both actions. The settlement agreement did not concede SFPUC liability nor establish legal precedent with respect to future incidents.

On September 3, 2009, the San Francisco Redevelopment Financing Authority (SFRFA) issued \$75 million in 2009 Series A Taxable Tax Allocation Revenue Bonds, \$17.6 million in 2009 Series B Tax-Exempt Tax Allocation Bonds, \$25.7 million in 2009 Series C Tax-Exempt Tax Allocation Revenue Bonds and \$49.8 million in 2009 Series D Tax-Exempt Tax Allocation Revenue Bonds. The proceeds from the Series A Bonds will be used primarily to fund the construction of affordable housing. Additionally, proceeds from the sale of the 2009 Series A Bonds deposited into the Load Proceeds Account may be used to make required payments to the Supplemental Educational Revenue Augmentation Fund. The proceeds from the 2009 Series B Bonds will be used to fund various public works projects in the Bay View Hunters Point (Area B), South of Market, Transbay and Yerba Buena Center project areas. The proceeds from the 2009 Series C Bonds will be used to fund the Agency's obligation to finance certain infrastructure required pursuant to the Mission Bay North Owner Participation Agreement. The proceeds from the 2009 Series D Bonds will be used to fund the Agency's obligation to finance certain infrastructure required pursuant to the Mission Bay South Owner Participation Agreement.

(b) Elections

On November 3, 2009, the San Francisco voters approved the Proposition A that will have a fiscal impact on the City:

Proposition A – Charter amendment to make changes to the City's budget and financial processes which are likely to stabilize spending through requiring multi-year budgeting and financial planning. The amendment makes four significant changes to the City's financial processes and policies: 1) Specifies a two-year (biennial) budget, replacing the current annual budget; 2) Requires a five-year financial plan which forecasts revenues and expenses and summarizes expected public service levels and funding requirements for that period; 3) Charges the Controller's Office with proposing to the Mayor and the Board of Supervisors financial policies addressing reserves, use of volatile revenues, debt, and financial measures in the case of disaster recovery, whereby the City would be required to adopt budgets consistent with these policies once approved; and 4) Standardizes the processes and deadlines for the City to submit labor agreements for all public employee unions on May 15.

Overall, the proposed changes will cause the City to budget less in some years and to fund the budget with reserved funds or new revenues in other years, but the total amount of the City revenue or expenditure would not be directly affected.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2009

(Dollars in Thousands)

(c) Borrowing of Property Tax Revenue

Proposition 1A passed by California voters in 2004 was to ensure local property tax and sales tax revenues remain with local government, thereby safeguarding funding for public safety, health, libraries, parks and other local services. Under the Proposition, the State is allowed to borrow an amount up to 8% of local governments' tax allocations. As part of the 2009-2010 budget package, the California Legislature suspended the local agency protections of the Proposition and passed a provision to withhold more than \$2 billion of property tax revenue for cities, counties and special district. The California Statewide Communities Development Authority (California Communities) was appointed to offer a program to purchase the receivables due to local governments from the State.

On October 27, 2009, the Board of Supervisors passed a resolution authorizing the sale of the City's Proposition 1A Receivable. On November 19, 2009, California Communities issued \$1.9 billion in securitization bonds. All cost of issuance and interest incurred will be paid by the State, allowing participating agencies to maintain 100 percent of their receivables. The City will receive one half of the total cash proceeds of \$89.2 million from the program in January 15, 2010 and May 3, 2010, respectively.

(d) Educational Revenue Augmentation Funds

On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4X, which requires redevelopment agencies statewide to deposit a total of \$2.05 billion of property tax increment in county Supplemental Educational Revenue Augmentation Funds (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The SERAF revenue shift of \$2.05 billion will be made over two years, \$1.7 billion in fiscal year 2009-2010 and \$350 million in fiscal year 2010-2011. The SERAF would then be paid to school districts and the county offices of education, which have students residing in redevelopment project areas, or residing in affordable housing projects financially assisted by a redevelopment agency, thereby relieving the State of payments to those schools. The Agency's share of this revenue shift is approximately \$28.7 million in fiscal year 2009-2010 and \$5.9 million in fiscal year 2010-2011. Payments are to be made by May 10 of each respective fiscal year.

On October 20, 2009, the California Redevelopment Association (CRA) together with two redevelopment agencies filed a lawsuit in Sacramento Superior Court challenging the constitutionality of AB 26 4X. The lawsuit asserted that the transfer of property tax increment to the SERAF is not permitted under Article XVI, Section 16 of the California Constitution. The complaint also asserted impairment of contract and gift of public funds arguments.

(e) Treasure Island Development Authority

The Treasure Island Development Authority (TIDA) successfully negotiated the terms of a conveyance agreement with the Navy in December 2009 for the transfer of Treasure Island from the Navy to the City. Having agreed on the terms of a property conveyance agreement with the Navy, TIDA will resume finalizing its development plans, including negotiating the terms of a Disposition and Development Agreement (DDA) with TICD, and engaging multiple agencies and stakeholders to implement the many components of the Development Plan. Key priorities for 2010 include completing an environmental review under CEQA and adopting a Redevelopment Plan under California Redevelopment Law. Final project approvals from the TIDA Board and the Board of Supervisors are anticipated in late 2010, with the first phase of construction expected to begin in early 2011. The build-out of the redevelopment project is anticipated to occur over 10-15 years.



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Required Supplementary Information



CITY AND COUNTY OF SAN FRANCISCO

Required Supplementary Information –
Schedules of Funding Progress (Unaudited)
June 30, 2009
(Dollars in Thousands)

The schedules of funding progress presented below provide consolidated snapshots of the entity's ability to meet current and future liabilities with plan assets. Of particular interest to most is the funded status ratio. This ratio conveys a plan's level of assets to liabilities, an important indicator to determine the financial health of the pension or OPEB plans. The closer the plan is to a 100% funded status, the better position it will be in to meet all of its future liabilities.

Employees' Retirement System – Pension Plan

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	Over-funded AAL (OAAL)	Funded Ratio	Covered Payroll	OAAL as a % of Covered Payroll
07/01/06	\$ 13,597,646	\$ 12,515,463	\$ 1,082,183	108.6%	\$ 2,161,261	50.1%
07/01/07	14,929,287	13,541,388	1,387,899	110.2%	2,376,221	58.4%
07/01/08	15,941,390	15,358,824	582,566	103.8%	2,457,196	23.7%

California Public Employees' Retirement System – Pension Plan (Safety Members)

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	Over (Under) funded AAL (O/U AAL)	Funded Ratio	Covered Payroll	O/U AAL as a % of Covered Payroll
06/30/06	\$ 568,027	\$ 565,483	\$ 2,544	100.5%	\$ 77,419	3.3%
06/30/07	622,866	627,675	(4,809)	99.2%	85,508	-5.6%
06/30/08	673,275	685,150	(11,875)	98.3%	89,009	-13.3%

City and County of San Francisco – Postemployment Health Care Benefits

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
07/01/06	\$ -	\$ 4,036,324	\$ (4,036,324)	0.0%	\$ 2,066,866	-195.3%

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

**CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE				
Direct Program:				
Supplemental Nutrition Assistance Program, Outreach/Participation Program	10.580	--	\$ 599,907	\$ -
SNAP Cluster:				
Supplemental Nutrition Assistance Program (SNAP)				
Passed through State of California, Department of Social Services	10.551	--	53,058,282	-
State Administrative Matching Grants for the SNAP				
Passed through State of California, Department of Social Services	10.561	--	18,533,007	4,087,372
Passed through State of California, Department of Health and Human Services	10.561	07-65311, 08-85151	197,745	-
Sub-Total of State Administrative Matching Grants for the SNAP			<u>18,730,752</u>	<u>4,087,372</u>
Sub-Total of SNAP Cluster			<u>71,789,034</u>	<u>4,087,372</u>
Pass-Through Program, State of California, Department of Health and Human Services: Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	05-45791, 08-85416	2,450,005	-
Pass-Through Program, State of California, Department of Aging: Senior Farmers Market Nutrition Program	10.576	--	30,000	-
Pass-Through Programs, State of California, Department of Education:				
Child Nutrition Cluster				
School Breakfast Program	10.553	--	82,039	-
National School Lunch Program	10.555	--	125,724	-
Summer Food Service Program for Children	10.559	38-8380-0V, 38-8380-OW	763,411	-
Sub-Total of Child Nutrition Cluster			<u>971,174</u>	<u>-</u>
Pass-Through Program, Girls 2000: Community Food Projects	10.225	CSREES 2006-33800-17694	22,357	-
Sub-Total of Pass-Through Programs			<u>75,262,570</u>	<u>4,087,372</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>75,862,477</u>	<u>4,087,372</u>
U.S. DEPARTMENT OF COMMERCE				
Direct Program:				
Economic Adjustment Assistance	11.307	--	22,375	-
Pass-Through Program, California Emergency Management Agency: Public Safety Interoperable Communications Grant Program	11.555	2007-2008	177,559	-
TOTAL U.S. DEPARTMENT OF COMMERCE			<u>199,934</u>	<u>-</u>
U.S. DEPARTMENT OF DEFENSE				
Direct Program:				
U.S. Navy Treasure Island Cooperative Agreement	12.unknown	--	1,167,843	-
TOTAL U.S. DEPARTMENT OF DEFENSE			<u>1,167,843</u>	<u>-</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs:				
Community Development Block Grants/Entitlement Grants	14.218	--	23,489,898	16,936,550
Emergency Shelter Grants Program	14.231	--	926,939	879,694
Supportive Housing Program	14.235	--	6,884,162	6,251,554
Shelter Plus Care	14.238	--	6,473,768	-
Home Investment Partnerships Program	14.239	--	100,816,086	14,684,442
Renewal Community and Empowerment Zone Programs	14.244	--	4,783	4,783
Community Development Block Grants-Section 108 Loan Guarantees	14.248	--	466,719	-
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	--	633,223	587,299
Lead Based Paint Hazard Control In Privately-Owned Housing	14.900	--	2,182,088	-
ARRA - Lead Based Paint Hazard Control In Privately-Owned Housing	14.907	--	5,644	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>141,883,310</u>	<u>39,344,322</u>
U.S. DEPARTMENT OF INTERIOR				
Direct Programs:				
Water Conservation Field Services Program	15.530	--	4,725	-
Clean Vessel Act	15.616	05-107-716	702	-
TOTAL U.S. DEPARTMENT OF INTERIOR			<u>5,427</u>	<u>-</u>
U.S. DEPARTMENT OF JUSTICE				
Direct Programs:				
Federal Narcotics Forfeiture and Asset Seizure	16.unknown	--	408,299	-
Supervised Visitations, Safe Havens for Children	16.527	--	36,204	33,059
Enhanced Training and Services to End Violence and Abuse of Women Later in Life	16.528	--	45,433	39,686
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	--	452,138	25,000
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	--	302,295	-
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	--	2,127,347	417,467
Community Capacity Development Office	16.595	--	156,387	115,412
State Criminal Alien Assistance Program	16.606	--	837,450	-
Bulletproof Vest Partnership Program	16.607	--	97,487	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF JUSTICE (Continued)				
Direct Programs (continued):				
Public Safety Partnership and Community Policing Grants	16.710	--	813,327	237,635
Gang Resistance Education and Training	16.737	--	128,267	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	--	416,383	-
Forensic DNA Backlog Reduction Program	16.741	--	1,971	-
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	--	31,540	9,620
Congressionally Recommended Awards	16.753	--	430,337	98,380
Sub-Total of Direct Programs			<u>6,284,865</u>	<u>976,259</u>
Pass-Through Programs, State of California, Emergency Management Agency:				
Crime Victim Assistance	16.575	SE08110380, SE08150380, VV08270380	405,486	-
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	CQ05040380, CQ07050380	55,424	-
Violence Against Women Formula Grants	16.588	LE06040380, LE07050380, TM06040380, TM07050380, VV07030380	253,286	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DC08110380	302,909	-
Anti-Gang Initiative	16.744	AG07020380	37,182	-
Pass-Through Program, State of California, State Correction and Standards Authority:				
Juvenile Accountability Block Grants	16.523	170-08	284,421	173,838
Pass-Through Program, Asian Women's Shelter:				
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	16.589	--	2,849	-
Sub-Total of Pass-Through Programs			<u>1,341,557</u>	<u>173,838</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>7,626,422</u>	<u>1,150,097</u>
U.S. DEPARTMENT OF LABOR				
Direct Program:				
Disability Employment Policy Development	17.720	--	161,920	132,406
Pass-Through Programs, California Employment Development Department:				
Workforce Investment Act (WIA) Cluster:				
WIA Adult Program	17.258	R970567, R865484	2,443,262	1,009,805
WIA Youth Activities	17.259	R970567, R865484	1,514,770	901,037
WIA Dislocated Workers	17.260	R970567, R865484	1,862,278	830,775
Sub-Total of Workforce Investment Act Cluster			<u>5,820,310</u>	<u>2,741,617</u>
TOTAL U.S. DEPARTMENT OF LABOR			<u>5,982,230</u>	<u>2,874,023</u>
U.S. DEPARTMENT OF TRANSPORTATION				
Direct Programs:				
Airport Improvement Program	20.106	--	22,027,693	-
ARRA - Airport Improvement Program	20.106	--	1,811,335	-
Federal Transit Cluster:				
Federal Transit-Capital Investment Grants	20.500	--	14,866,650	-
Federal Transit-Formula Grants	20.507	--	25,727,575	364,859
ARRA - Federal Transit-Formula Grants	20.507	--	7,688,882	-
Sub-Total of Federal Transit Cluster			<u>48,283,107</u>	<u>364,859</u>
Clean Fuels	20.519	--	126,696	-
Sub-Total of Direct Programs			<u>72,248,831</u>	<u>364,859</u>
Pass-Through Program, State of California, Department of Transportation:				
Highway Research and Development Program	20.200	--	109,127	-
Highway Planning and Construction	20.205	04-5934, 04-6097, 04-6169, 04-6328, C001546, C001924	10,106,095	82,665
Pass-Through Program, Metropolitan Transportation Commission:				
Job Access_Reverse Commute	20.516	CA-37-X076	703,125	-
Transportation Planning, Research and Education	20.931	--	26,573	-
Pass-Through Program, State of California, Office of Traffic Safety:				
State and Community Highway Safety	20.600	AL0664, AL0825, AL0990, CT08368, OP0809, PS0705, SC09368	519,168	-
Sub-Total of Pass-Through Programs			<u>11,464,088</u>	<u>82,665</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>83,712,919</u>	<u>447,524</u>
U.S. GENERAL SERVICES ADMINISTRATION				
Direct Program:				
Radio Communication System Replacement	39.unknown	--	562,198	-
TOTAL U.S. GENERAL SERVICES ADMINISTRATION			<u>562,198</u>	<u>-</u>
NATIONAL FOUNDATION ON THE ARTS & HUMANITIES				
Pass-Through Program, California State Library:				
Grants to States	45.310	40-7049, IMLS#LS00-08-0005-08, 40- 7208; IMLS# LS-00-08-0005-08	12,951	-
TOTAL NATIONAL FOUNDATION ON THE ARTS & HUMANITIES			<u>12,951</u>	<u>-</u>

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Direct Programs:				
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	--	120,242	14,000
Water Security Training and Technical Assistance and Water Security Initiative Contamination Warning System Pilots	66.478	--	1,622,571	-
Sub-Total of Direct Programs			1,742,813	14,000
Pass-Through Program, State of California, State Water Control Resources Board:				
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	--	20,923	-
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	08-011-250	420,298	-
Beach Monitoring and Notification Program Implementation Grants	66.472	07-65563, 08-85537	25,544	-
Sub-Total of Pass-Through Programs			466,765	-
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			2,209,578	14,000
U.S. DEPARTMENT OF ENERGY				
Direct Program:				
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	--	111,319	-
TOTAL U.S. DEPARTMENT OF ENERGY			111,319	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Programs:				
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	--	81,756	25,390
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	--	1,100,385	1,058,889
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	--	2,988,731	1,509,242
Consolidated Knowledge Development and Application Program	93.230	--	149,685	117,109
Mental Health Research Grants	93.242	--	412,674	236,604
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	--	220,526	42,016
Occupational Safety and Health Program	93.262	--	40,526	1,198
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	--	1,227,144	1,120,263
National Bioterrorism Hospital Preparedness Program	93.889	--	710,257	579,104
HIV Emergency Relief Project Grants	93.914	--	23,233,574	18,457,436
HIV Prevention Activities - Health Department Based	93.940	--	9,783,470	5,700,622
HIV Demonstration, Research, Public and Professional Education Projects	93.941	--	115,043	90,581
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	--	2,169,009	697,042
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	--	1,879,342	377,085
Sub-Total of Direct Programs			44,112,122	30,012,581
Pass-Through Program, National Association of County and City Health Officials:				
Center for Disease Control and Prevention - Investigations and Technical Assistance	93.283	2009-040703	23,437	-
Pass-Through Program, U.S. Conference of Mayors:				
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	U62/CCU300609-22-1	31,723	-
Pass-Through Program, San Francisco Community Clinic Consortium:				
Consolidated Health Centers	93.224	5H80CS00049-07, 5H80CS0049-08	680,767	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	2H76HA00163-16, 2H76HA00163-17	169,362	-
Pass-Through Program, Sage Project Inc.:				
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	--	5,558	-
Pass-Through Program, Stanford University:				
Geriatric Education Centers	93.969	1 D31HP08825-01	9,000	-
Pass-Through Programs, State of California, Department of Aging:				
Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect and Exploitation	93.041	AP-0809-06	15,255	15,255
Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals	93.042	AP-0809-06	28,975	28,975
Special Programs for the Aging Title III, Part D-Disease Prevention and Health Promotion Services	93.043	AP-0809-06	64,013	64,013
Special Programs for the Aging Title IV and Title II Discretionary Projects	93.048	CT-0809-06	78,670	78,670
National Family Caregiver Support Title III, Part E	93.052	AP-0809-06	480,345	441,968
Aging Cluster:				
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	AP-0809-06	1,073,389	464,371
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	AP-0809-06	1,521,090	1,521,090
Nutritional Services Incentive Program	93.053	AP-0809-06	1,051,876	1,051,876
Sub-Total of the Aging Cluster			3,646,355	3,037,337
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations				
	93.779	HI-0809-06	90,655	81,598

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)				
Pass-Through Programs, State of California, Department of Health and Human Services:				
Immunization Grants	93.268	07-65244, 08-85317	484,644	215,318
Center for Disease Control and Prevention - Investigations and Technical Assistance	93.283	07-38	1,174,530	114,659
Medical Assistance Program	93.778	--	1,884,699	-
National Bioterrorism Hospital Preparedness Program	93.889	EPO06-38, EPO08-38, EPO HPP07-38	277,051	-
Maternal and Child Health Services Block Grant to the States	93.994	200838	1,453,723	271,036
Pass-Through Programs, State of California, Department of Social Services:				
Promoting Safe and Stable Families	93.556	--	299,086	260,374
Temporary Assistance for Needy Families	93.558	--	59,613,135	17,268,612
Refugee and Entrant Assistance-State Administered Programs	93.566	RESS0508, RESS0607, RESS0707, RESS0807	492,538	190,119
Refugee and Entrant Assistance-Discretionary Grants	93.576	TARL0808, TARL0708	36,915	-
Child Welfare Services-State Grants	93.645	--	1,530,448	-
Foster Care -Title IV-E	93.658	--	33,009,379	1,306,584
ARRA - Foster Care -Title IV-E	93.658	--	1,193,069	-
Adoption Assistance	93.659	--	9,332,494	267,806
ARRA - Adoption Assistance	93.659	--	710,941	-
Chafee Foster Care Independent Living	93.674	--	568,317	449,692
Medical Assistance Program	93.778	05-45164	40,995,206	799,554
Pass-Through Program, State of California, Department of Public Health:				
Injury Prevention and Control Research and State and Community Based Programs	93.136	04-36060	12,192	-
Center for Disease Control and Prevention - Investigations and Technical Assistance	93.283	--	142,714	-
Temporary Assistance for Needy Families	93.558	05-45322	126,909	31,121
Refugee and Entrant Assistance State Administered Programs	93.566	07-90-90840-1, 08-90-90840-1	195,594	55,472
Refugee and Entrant Assistance Discretionary Grants	93.576	08-90-90841-01	87,336	61,800
Medical Assistance Program	93.778	08-85085	147,185	-
HIV Care Formula Grants	93.917	06-55770, 07-65077	1,758,133	839,730
HIV Prevention Activities Health Department Based	93.940	07-65871	238,565	230,101
Pass-Through Program, State of California, Department of Child Support Services:				
Child Support Enforcement	93.563	--	8,229,618	-
ARRA - Child Support Enforcement	93.563	--	1,104,515	-
Pass-Through Programs, State of California, Department of Education:				
CCDF Cluster:				
Child Care and Development Block Grant	93.575	C2AP-8054, CLPC8036	279,138	-
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CAPP-8060	119,771	-
Sub-Total of CCDF Cluster			<u>398,909</u>	<u>-</u>
Pass-Through Programs, State of California, Department of Mental Health:				
Project for Assistance in Transition from Homelessness (PATH)	93.150	--	485,900	213,793
Block Grants for Community Mental Health Services	93.958	--	2,561,161	828,898
Pass-Through Program, State of California, Department of Alcohol and Drug Programs:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	--	9,870,797	-
Pass-Through Program, California Family Planning Council:				
Family Planning Services	93.217	380-5320-71209-08, 380-5320-71209-09	168,936	-
Pass-Through Programs, University of California, San Francisco:				
Global AIDS	93.067	3148SC	214,074	-
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	4899SC	99,990	-
Mental Health Research Grants	93.242	3078SC, 4227SC, 4336SC, 4857SC, 4945SC	319,018	86,557
Occupational Safety and Health Program	93.262	SA5776-11825, PO 1408077	10,400	-
Drug Abuse and Addiction Research Programs	93.279	5122SC	26,868	-
Allergy, Immunology and Transplantation Research	93.855	5030SC	7,082	-
Child Health and Human Development Extramural Research	93.865	5U01HD040506-08, 5U01HD040506-09	26,980	-
Special Projects of National Significance	93.928	3861SC	95,963	-
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	3148SC, 434.005	17,999	-
Pass-Through Program, Larkin Street Youth Services:				
Coordinated Services and Access to Research for Women, Infants Children, and Youth	93.153	6H12HA00101-11-01 6H23HA00101-10-02	17,996	-
Pass-Through Programs, Tenderloin Health Inc:				
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	3H76HA08883-02-01, 5H76HA08883-03-00	171,178	-
Special Projects of National Significance	93.928	5H97HA08763-02-00, 7H97HA08763-01-00	221,949	-
Pass-Through Programs, Public Health Foundation Enterprise:				
Drug Abuse and Addiction Research Programs	93.279	2127.003, 2131.002, 2131.003, 2192.001	91,431	-
Center for Disease Control and Prevention - Investigations and Technical Assistance	93.283	235.010.908	306,012	-
Allergy, Immunology and Transplantation Research	93.855	0325.008, 0325.009, 2278.001	140,591	-
Microbiology and Infectious Diseases Research	93.856	0475.005, 0475.006, 461.005	96,728	-
HIV Demonstration, Research, Public and Professional Education Projects	93.941	2186.001, 2186.002	18,377	-

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)				
Pass-Through Program, Fred Hutchinson Cancer Center: Allergy, Immunology and Transplantation Research	93.855	0000656035, 0000656044	250,775	-
Sub-Total of Pass-Through Programs			186,042,165	27,239,042
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			230,154,287	57,251,623
U.S. DEPARTMENT OF HOMELAND SECURITY				
Direct Programs:				
Assistance to Firefighters Grant	97.044	--	632,875	-
National Explosive Detection Canine Team Program	97.072	--	108,889	-
Airport Checked Baggage Screening Program	97.100	--	2,300,000	2,300,000
ARRA - TSA Airport Checked Baggage Inspection System Program	97.117	--	228,607	-
Sub-Total of Direct Programs			3,270,371	2,300,000
Pass-Through Programs, State of California, Department of Boating and Waterways:				
Boating Safety Financial Assistance	97.012	07-204-786	59,587	-
Pass-Through Programs, State of California, Emergency Management Agency:				
Homeland Security Cluster:				
State Domestic Preparedness Equipment Support Program	97.004	2004-0045	10,879	-
Homeland Security Grant Program	97.067	2005-0015, 2006-0071, 2007-0008, 2008-0006	15,870,106	8,141,761
Sub-Total of Homeland Security Cluster			15,880,985	8,141,761
Hazard Mitigation Grant	97.039	FEMA Project#: HMGP 1628-001-001R	36,651	-
Emergency Management Performance Grants	97.042	2008-0008	129,274	-
Interoperable Communications Equipment	97.055	2008-IO-T8-0015	58,026	-
Rail and Transit Security Grant Program	97.075	2005-GB-T5-0002, 2006-RL-T6-0001	424,530	-
Buffer Zone Protection Plan	97.078	2006-BZ-T6-0045	950,000	-
Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111	2008-CP-T8-0081	772,955	173,802
Sub-Total of Pass-Through Programs			18,312,008	8,315,563
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			21,582,379	10,615,563
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 571,073,274	\$ 115,784,524

See accompanying notes to the Schedule of Expenditures of Federal Awards.

**CITY AND COUNTY OF SAN FRANCISCO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2009**

1. GENERAL

The schedule of expenditures of federal awards (Schedule) includes the federal grant activity of the City and County of San Francisco (the City). All federal awards received directly from federal agencies as well as federal awards passed through other governmental and educational agencies are included in this Schedule except for assistance related to Medical Assistance (Medi-Cal) and Medicare Hospital Insurance (Medicare) (see Note 5). Expenditures funded by the American Recovery and Reinvestment Act of 2009 are denoted by the prefix "ARRA" in the federal or pass-through grantor title.

The City's basic financial statements include the operations of the San Francisco County Transportation Authority (Authority), the San Francisco Redevelopment Agency (Agency), and the San Francisco Municipal Transportation Agency (MTA), which expended \$15,290,586, \$9,531,353, and \$50,760,915, respectively, in federal awards. The expenditures of the Authority and the Agency, component units of the City, are not included in the schedule of expenditures of federal awards for the year ended June 30, 2009. MTA's expenditures are included in the schedule of federal awards for the year ended June 30, 2009 (see Note 8).

2. BASIS OF ACCOUNTING

The accompanying Schedule is presented using the modified accrual basis of accounting for program expenditures accounted for in the governmental funds and the accrual basis of accounting for program expenditures accounted for in the proprietary funds as described in Note 2(b) of the City's basic financial statements, with the exception of the HOME Investment Partnerships Program (see Note 7).

3. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS

Amounts reported in the accompanying Schedule agree or can be reconciled with amounts reported in the related federal award reports.

4. RELATIONSHIP TO BASIC FINANCIAL STATEMENTS

Federal award expenditures agree or can be reconciled with the amounts reported in the City's basic financial statements.

5. MEDI-CAL AND MEDICARE

Direct Medi-Cal and Medicare expenditures are excluded from the Schedule. These expenditures represent fees for services and are not included in the Schedule or in determining major programs. The City assists the State in determining eligibility and provides Medi-Cal and Medicare services through City-owned facilities. Administrative costs related to Medi-Cal and Medicare are, however, included in the Schedule under the Medical Assistance Program (federal CFDA number 93.778).

6. SUPPLEMENTAL NUTRITION ASSISTANCE PROGRAM BENEFITS

The City issued food stamp benefits valued at \$53,058,282 for the year ended June 30, 2009, which are included in the accompanying Schedule (federal CFDA number 10.551). This amount is for information only as receipts and issuances of food stamp benefits are not recorded in the City's financial records.

**CITY AND COUNTY OF SAN FRANCISCO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009**

7. LOANS OUTSTANDING

The City participates in certain federal award programs that sponsor revolving loan programs, which are administered by the City. These programs maintain servicing and trust arrangements with the City to collect loan repayments. The funds are returned to the programs upon repayment of the principal and interest. The federal government has imposed certain continuing compliance requirements with respect to the loans rendered under the Home Investment Partnerships Program (HOME). During the year ended June 30, 2009, the City incurred \$13,702,331 in expenditures related to new loans under this program. As of June 30, 2009, the total amount of HOME loans outstanding was \$99,833,975, which is included as expenditures in the Schedule under the HOME Program (federal CFDA number 14.239).

8. SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

The San Francisco Municipal Transportation Agency (MTA) federal expenditures were separately audited by other auditors. Expenditures for the programs of MTA listed below are taken from the separately issued single audit report. MTA's federal programs are as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Federal Expenditures</u>
Highway Research and Development Program	20.200	\$ 109,127
Highway Planning and Construction	20.205	328,710
Federal Transit Cluster:		
Federal Transit-Capital Investment Grants	20.500	14,866,650
Federal Transit-Formula Grants	20.507	25,727,575
ARRA - Federal Transit-Formula Grants	20.507	7,688,882
Sub-Total of Federal Transit Cluster		<u>48,283,107</u>
Job Access - Reverse Commute	20.516	703,125
Alternative Fuel Consortium	20.519	126,696
State and Community Highway Safety	20.600	87,960
Transportation Planning, Research and Education	20.931	26,573
Radio System Replacement Project	39.unknown	562,198
National Explosives Detection Canine Team Program	97.072	108,889
Rail and Transit Security Grant Program	97.075	424,530
		<u>\$ 50,760,915</u>

**CITY AND COUNTY OF SAN FRANCISCO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009**

**9. CALIFORNIA DEPARTMENT OF AGING (CDA) SINGLE AUDIT
REPORTING REQUIREMENTS**

The terms and conditions of agency contracts with CDA require agencies to display state-funded expenditures discretely along with the related federal expenditures. CDA grant expenditures that involve federal funding have been presented in the Schedule. For state grants not involving federal funding, the amounts are to be displayed separately. The following schedule is presented to comply with these requirements.

Federal Grantor Pass-through Grantor Program Title	Grant / Contract No.	CFDA No.	Expenditures	
			State	Federal
U.S. Department of Agriculture				
<i>Passed through State of California, Department of Aging:</i>				
Senior Farmers Market Nutrition Program	None	10.576	\$ -	\$ 30,000
U.S. Department of Health & Human Services				
<i>Passed through State of California, Department of Aging:</i>				
Special Programs for the Aging-Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect and Exploitation	AP-0809-06	93.041	-	15,255
Special Programs for the Aging-Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	AP-0809-06	93.042	-	28,975
Special Programs for the Aging Title III, Part D - Disease Prevention and Health Promotion Services	AP-0809-06	93.043	-	64,013
Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers	AP-0809-06	93.044	-	1,073,389
Special Programs for the Aging-Title III, Part C - Nutrition Services	AP-0809-06	93.045	846,025	1,521,090
Special Programs for the Aging-Title IV, and Title II, Discretionary Projects	CT-0809-06	93.048	-	78,670
National Family Caregiver Support	AP-0809-06	93.052	-	480,345
Nutritional Services Incentive Program	AP-0809-06	93.053	-	1,051,876
Centers for Medicare Services, Research, and Medicaid Services (CMS), Research, Demonstration and Evaluation	HI-0809-06	93.779	234,260	90,655
			<u>1,080,285</u>	<u>\$ 4,434,268</u>
State Awards - California Department of Aging:				
State Community-Based Services Program	AP-0809-06		489,143	
Medicaid Penalty Citations Ombudsman	AP-0809-06		40,932	
Total Expenditures of CDA Awards			<u>\$ 1,610,360</u>	

**CITY AND COUNTY OF SAN FRANCISCO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009**

10. PROGRAM TOTALS

The following table summarizes programs funded by various sources or grants whose totals are not shown on the Schedule. Expenditures funded by the American Recovery and Reinvestment Act of 2009 are denoted by the prefix "ARRA" in the federal or pass-through grantor title.

CFDA no. / Program Title / Federal Grantor or Pass-Through Grantor	Federal Expenditures
(1) CFDA no. 10.561 - State Administrative Matching Grants for SNAP	
State of California, Department of Social Services	\$ 18,533,007
State of California, Department of Health and Human Services	197,745
Program Total	<u>\$ 18,730,752</u>
(2) CFDA no. 16.560 - National Institute of Justice Research, Evaluation and Development Project Grants	
U.S. Department of Justice	\$ 302,295
State of California, Emergency Management Agency	55,424
Program Total	<u>\$ 357,719</u>
(3) CFDA no. 16.738 - Edward Byrne Memorial Justice Assistance Grant Program	
U.S. Department of Justice	\$ 416,383
State of California, Emergency Management Agency	302,909
Program Total	<u>\$ 719,292</u>
(4) CFDA no. 20.106 - Airport Improvement Program	
U.S. Department of Transportation	\$ 22,027,693
ARRA - U.S. Department of Transportation	1,811,335
Program Total	<u>\$ 23,839,028</u>
(5) CFDA no. 20.507 - Federal Transit-Formula Grants	
U.S. Department of Transportation	\$ 25,727,575
ARRA - U.S. Department of Transportation	7,688,882
Program Total	<u>\$ 33,416,457</u>
(6) CFDA no. 66.034 - Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	
U.S. Environmental Protection Agency	\$ 120,242
State of California, State Water Control Resources Board	20,923
Program Total	<u>\$ 141,165</u>
(7) CFDA no. 93.153 - Coordinated Services and Access to Research for Women, Infants, Children, and Youth	
Larkin Street Youth Services	\$ 17,996
University of California, San Francisco	99,990
Program Total	<u>\$ 117,986</u>
(8) CFDA no. 93.242 - Mental Health Research Grants	
U.S. Department of Health and Human Services	\$ 412,674
University of California, San Francisco	319,018
Program Total	<u>\$ 731,692</u>
(9) CFDA no. 93.243 - Substance Abuse and Mental Health Services-Projects of Regional and National Significance	
U.S. Department of Health and Human Services	\$ 220,526
Sage Project Inc.	5,558
Program Total	<u>\$ 226,084</u>

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009

10. PROGRAM TOTALS (Continued)

CFDA no. / Program Title / Federal Grantor or Pass-Through Grantor	Federal Expenditures
(10) CFDA no. 93.262 - Occupational Safety and Health Research Projects	
U.S. Department of Health and Human Services	\$ 40,526
University of California, San Francisco	10,400
Program Total	<u>\$ 50,926</u>
(11) CFDA no. 93.279 - Drug Abuse and Addiction Research Programs	
Public Health Foundation Enterprise	\$ 91,431
University of California San Francisco	26,868
Program Total	<u>\$ 118,299</u>
(12) CFDA no. 93.283 - Center for Disease Control and Prevention-Investigations and Technical Assistance	
State of California, Department of Health and Human Services	\$ 1,174,530
State of California, Department of Public Health	142,714
National Association of County and City Health Officials	23,437
Public Health Foundation Enterprise	306,012
Program Total	<u>\$ 1,646,693</u>
(13) CFDA no. 93.558 - Temporary Assistance for Needy Families	
State of California, Department of Public Health	\$ 126,909
State of California, Department of Social Services	59,613,135
Program Total	<u>\$ 59,740,044</u>
(14) CFDA no. 93.563 - Child Support Enforcement	
State of California, Department of Child Support Services	\$ 8,229,618
ARRA - State of California, Department of Child Support Services	1,104,515
Program Total	<u>\$ 9,334,133</u>
(15) CFDA no. 93.566 - Refugee and Entrant Assistance-State Administered Programs	
State of California, Department of Social Services	\$ 492,538
State of California, Department of Public Health	195,594
Program Total	<u>\$ 688,132</u>
(16) CFDA no. 93.576 - Refugee and Entrant Assistance-Discretionary Grants	
State of California, Department of Social Services	\$ 36,915
State of California, Department of Public Health	87,336
Program Total	<u>\$ 124,251</u>
(17) CFDA no. 93.658 - Foster Care -Title IV-E	
State of California, Department of Social Services	\$ 33,009,379
ARRA - State of California, Department of Social Services	1,193,069
Program Total	<u>\$ 34,202,448</u>
(18) CFDA no 93.659 - Adoption Assistance	
State of California, Department of Social Services	\$ 9,332,494
ARRA - State of California, Department of Social Services	710,941
Program Total	<u>\$ 10,043,435</u>
(19) CFDA no. 93.778 - Medical Assistance Program	
State of California, Department of Public Health	\$ 147,185
State of California, Department of Health and Human Services	1,884,699
State of California, Department of Social Services	40,995,206
Program Total	<u>\$ 43,027,090</u>

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2009

10. PROGRAM TOTALS (Continued)

CFDA no. / Program Title / Federal Grantor or Pass-Through Grantor	Federal Expenditures
(20) CFDA no. 93.779 - Centers for Medicare Services, Research, and Medicaid Services (CMS), Research, Demonstration and Evaluation	
U.S. Department of Health and Human Services	\$ 1,227,144
State of California, Department of Aging	90,655
Program Total	<u>\$ 1,317,799</u>
(21) CFDA no. 93.855 - Allergy, Immunology and Transplantation Research	
University of California, San Francisco	\$ 7,082
Public Health Foundation Enterprise	140,591
Fred Hutchinson Cancer Center	250,775
Program Total	<u>\$ 398,448</u>
(22) CFDA no. 93.889 - National Bioterrorism Hospital Preparedness Program	
U.S. Department of Health and Human Services	\$ 710,257
State of California, Department of Health and Human Services	277,051
Program Total	<u>\$ 987,308</u>
(23) CFDA no. 93.918 - Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	
San Francisco Community Clinic Consortium	\$ 169,362
Tenderloin Health Inc.	171,178
Program Total	<u>\$ 340,540</u>
(24) CFDA no. 93.928 - Special Projects of National Significance	
University of California, San Francisco	\$ 95,963
Tenderloin Health Inc.	221,949
Program Total	<u>\$ 317,912</u>
(25) CFDA no. 93.940 - HIV Prevention Activities - Health Department Based	
U.S. Department of Health and Human Services	\$ 9,783,470
State of California, Department of Public Health	238,565
Program Total	<u>\$ 10,022,035</u>
(26) CFDA no. 93.941 - HIV Demonstration, Research, Public and Professional Education Projects	
U.S. Department of Health and Human Services	\$ 115,043
Public Health Foundation Enterprise	18,377
Program Total	<u>\$ 133,420</u>



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SACRAMENTO

OAKLAND

LOS ANGELES

NEWPORT BEACH

SAN DIEGO

The Honorable Mayor Gavin Newsom
The Honorable Members of the Board of Supervisors
City and County of San Francisco, California

**Independent Auditor's Report on Internal Control Over Financial Reporting and
on Compliance and Other Matters Based on an Audit of Financial Statements
Performed in Accordance with Government Auditing Standards**

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City and County of San Francisco, California (City), as of and for the year ended June 30, 2009, which collectively comprise the City's basic financial statements as listed in the table of contents and have issued our report thereon dated December 23, 2009. Our report includes a reference to other auditors. Our report also includes an explanatory paragraph indicating that the City adopted the provisions of Governmental Accounting Standards Board Statement No. 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. 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. Other auditors audited the financial statements of the San Francisco International Airport, San Francisco Water Enterprise, Hetch Hetchy Water and Power, San Francisco Municipal Transportation Agency, San Francisco Wastewater Enterprise, San Francisco Market Corporation, the City and County of San Francisco Finance Corporation, and the Health Service System, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material

weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings and questioned costs as items 2009-A through 2009-D that we consider to be significant deficiencies in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated December 23, 2009.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Supervisors, City management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

Walnut Creek, California
December 23, 2009



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SAN DIEGO

The Honorable Mayor Gavin Newsom
The Honorable Members of the Board of Supervisors
City and County of San Francisco, California

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control Over
Compliance in Accordance With OMB Circular A-133**

Compliance

We have audited the compliance of the City and County of San Francisco, California (City) with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2009. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the San Francisco County Transportation Authority (Authority), the San Francisco Redevelopment Agency (Agency), and the San Francisco Municipal Transportation Agency (MTA), which expended \$15,290,586, \$9,531,353, and \$50,760,915, respectively, in federal awards. The expenditures of the Authority and the Agency, component units of the City, are not included in the schedule of expenditures of federal awards for the year ended June 30, 2009. Our audit as described below did not include the operations of the Authority and Agency because we were engaged to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and report on the results separately to those organizations. MTA's expenditures are included in the schedule of federal awards for the year ended June 30, 2009. Our audit, described below, did not include the operations of MTA because MTA engaged other auditors to perform an audit in accordance with OMB Circular A-133. MTA's expenditures were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for MTA, is based on the report of the other auditors.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, based on our audit and the report of other auditors, the City complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in the City's internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Supervisors, City management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.


Certified Public Accountants

Walnut Creek, California
March 22, 2010, except for the expenditures of
federal awards of the San Francisco Municipal
Transportation Agency, which is dated
November 24, 2009

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2009**

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses	Yes
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses	No
Type of auditor’s report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	No
Dollar threshold used to distinguish between Types A and B programs	\$3,000,000
Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133	No

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number(s)
Supplemental Nutrition Assistance Program (SNAP) Cluster.....	10.551/10.561
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants	16.580
Airport Improvement Program.....	20.106
Federal Transit Cluster.....	20.500/20.507
Center for Disease Control and Prevention Investigations and Technical Assistance.....	93.283
Temporary Assistance for Needy Families	93.558
Child Support Enforcement.....	93.563
Foster Care – Title IV-E	93.658
Adoption Assistance.....	93.659
Medical Assistance Program.....	93.778
HIV Emergency Relief Project Grants	93.914
HIV Prevention Activities - Health Department Based.....	93.940
Block Grants for Community Mental Health Services.....	93.958
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977
Homeland Security Cluster	97.004/97.067
Airport Checked Baggage Screening Program.....	97.100

**CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

Section II – Financial Statement Findings

San Francisco Redevelopment Agency (Agency)

2009-A Inadequate Segregation of Duties Over Accounting Journal Entries

Significant Deficiency

During our audit of the Agency, we noted a lack of segregation of duties over the recording of financial journal entries. The Agency does not have a process in place to review the journal entries prepared by the Agency's accounting supervisor. A lack of segregation of duties in this area increases the risk that improper recording of accounting transactions and financial activity can be disguised in accounting entries in the Agency's financial system. We recommend that the Agency segregate the duties of preparing journal entries from recording within the financial reporting process to minimize the risk of improper or erroneous accounting transactions.

Management Response:

In the past, the Agency had insufficient staffing in the Accounting Division and continues to address challenges due to turnover of employees who have been with the Agency for over 10-20 years. The Agency has added additional staff in the past year and will implement the necessary changes to ensure proper internal controls. The Agency will train the recently added Accountant III staff to prepare and reconcile the journal entries and the Accounting Supervisor will review and approve thereafter.

Port of San Francisco (Port)

2009-B Disaster Recovery Plan – Information Systems and Business Continuity

Significant Deficiency

Controls over information systems are necessary due to reliance on these systems to process financial transactions. Among other things, general controls over data center operations include backup and recovery procedures and disaster recovery planning. A control deficiency exists when a necessary control objective is missing. A significant deficiency exists if it is important enough to merit attention by those charged with governance.

The Port does not have well defined, written disaster recovery procedures. Personnel should be aware of their responsibilities in the event of an emergency situation that precludes the use of the existing facilities at Pier 1. In addition, critical documents and agreements should be inventoried and digitized to ensure these agreements can be accessed in the event of physical destruction of the original agreements and Port records at Pier 1.

We suggest that management develop a disaster recovery plan that includes, but is not limited to, the following matters:

- Responsibilities of various personnel in an emergency.
- Identification of a physical location with similar or compatible equipment to allow management to re-establish administration and management.
- Location of, and access to, off-site storage of electronic data.
- A listing of all data files that would have to be obtained from the off-site storage location.
- Priority of critical applications and reporting requirements during the emergency period.

We understand that the Port's Information Systems Department is currently pursuing possible funding sources to provide the necessary resources to properly design and document a disaster recovery plan. We recommend that preliminary documentation and plan development occur presently.

**CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

Section II – Financial Statement Findings (Continued)

2009-B Disaster Recovery Plan – Information Systems and Business Continuity (Continued)

Management Response:

We agree. While Port staff has devoted substantial time on emergency operations planning and disaster recovery from an asset management perspective, we do not have a comprehensive recovery plan covering our information systems and other elements that provide for continuity of key internal business processes. The Port's Director of Homeland Security is leading an effort to develop a Continuity of Operations Plan ("COOP Plan"). The COOP plan will identify major items (e.g. communications, computers and records) that different Port divisions will require to set up operations at an alternate location.

The Port applied for funding in the 2008 round of the federal Port Security Grant Program to complete an information technology security and disaster recovery plan. The application has been approved at the local level and forwarded to the Federal Emergency Management Agency for final consideration. The scope of work for the proposed project will include a vulnerability assessment, business continuity plan and recovery plan. The disaster recovery plan will provide for resumption or continuity of Port business which depends upon software applications, data, hardware, communications (such as networking) and other technology infrastructure. The plan will provide a recovery point objective and a recovery time objective, identifying how much data loss could be tolerated, and how long the Port could sustain an outage. An infrastructure hot site strategy will also be key deliverable.

2009-C Physical Inventory of Capital Assets and Maintenance of Capital Assets Records

Significant Deficiency

Controls over information and the procedures surrounding capital asset transactions and historical records are essential to the ability to accurately process financial activity and maintain capital asset records. The severity of a deficiency is dependent on the magnitude of the potential or actual misstatement and the possibility that the entity's controls will fail to prevent, or detect and correct a misstatement of an account balance or disclosure.

Our review of the Port's capital asset records revealed that there may be assets that have not been correctly recorded in the Port's records and/or there may be assets recorded on the Port's records that are no longer in use. In addition, a prior period restatement in the amount of \$12.3 million was required to properly state accumulated depreciation on land improvements that were not previously depreciated in accordance with generally accepted accounting principles and the capital asset policies of the City. A restatement of \$3.2 million was required to write off assets no longer in service. We also noted that the information captured in the capital asset records was in some cases not sufficient to determine the exact nature of the asset.

We believe that these conditions indicate the need for the Port to perform a complete physical inventory of its capital assets to properly identify items included in its capital asset records. This process will allow the Port to develop procedures whereby the asset listing provides sufficient detail so that the assets can be identified based on the records. This will ensure an accurate accounting for assets.

The listing should include the following data:

- Description of the asset
- Cost, vendor name
- Date placed in service, physical location of the asset
- Estimated useful life

Complete capital asset information such as the above would provide an effective control for the safeguarding of these assets and the means to properly identify and dispose of property and equipment no longer in use.

**CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

Section II – Financial Statement Findings (Continued)

2009-C Physical Inventory of Capital Assets and Maintenance of Capital Assets Records
(Continued)

Management Response:

We agree in concept but do not have the resources to perform a single, comprehensive physical inventory count and reconciliation of all capital assets, given the considerable long history and nature of these assets. As an alternative, we propose a phased approach to verifying and improving the capital asset records. After we update the Port's capital asset accounting policy and procedures to be consistent with the City's, we will give first priority to evaluating the land and land improvement accounts which have not been subjected to much review until the current restatement adjustment, which largely centered around street and other land improvements that were historically recorded as permanent assets and not depreciated.

While we believe that the restatement adjustment recorded in 2009 substantially corrects the situation at the financial statement level, additional work is required to improve the more detailed asset listings and the documented data for each asset. Equipment assets are already subject to regular evaluation and periodic physical count observation. Building and improvement assets were the subject of a scheduled five-year property observation project completed in 2004.

General City

2009-D Capital Asset Database

Significant Deficiency

The City's *Fixed Assets Definitions and Guidelines* ("Guidelines") establish policies and guidelines for the accounting and tracking of the City's capital assets. These Guidelines require all City departments to use the standard capitalization thresholds for capitalizing each major class of assets. The capitalization thresholds are \$100,000 for infrastructure, \$100,000 for buildings and improvements, and \$5,000 for equipment. Justification for any deviation from these thresholds must be documented on the fixed asset change form to be maintained on file by the departmental property managers. Furthermore, all assets that are retired or disposed of in any way should be updated in the City's capital asset system (FAACS) on a regular basis to reflect all assets disposals that occurred.

As a result of our audit procedures over capital assets, we noted the following as of June 30, 2009:

- Capital assets totaling \$4.9 million (net of \$11.8 million in accumulated depreciation) in FAACS have original costs below the City's specified capitalization thresholds.
- Three demolished capital assets totaling \$0.25 million (net of \$1.8 million in accumulated depreciation) were not removed from FAACS.

Certain departments use FAACS to track grant-funded assets. Because FAACS is used as the basis for the capital asset balances in the City's financial statements, assets that are below the capitalization thresholds are also reported. Furthermore, a complete physical inventory of the City's capital assets has not been performed since fiscal year 2001.

We recommend the City establish procedures to exclude assets below the capitalization thresholds for financial reporting purposes. Furthermore, management should emphasize the timely removal of demolished or disposed assets from the capital asset listing. The City should also periodically conduct a complete physical inventory of its capital assets.

Management Response:

The Controller's Office will continue to provide guidance to departments regarding the City's capitalization thresholds and the process for retiring assets upon disposal or demolition. We will also work with departments to determine alternate means of tracking grant-funded capital assets that are less than the City's capitalization thresholds. Also, the Controller's Office will work with City departments to determine an approach for performing a physical inventory of fixed assets given our limited resources.

**CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS (CONTINUED)
FOR THE YEAR ENDED JUNE 30, 2009**

Section III – Federal Award Findings and Questioned Costs

None.

**CITY AND COUNTY OF SAN FRANCISCO
STATUS OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2009**

Reference Number:	2008-01
Federal Catalog Number/ Program Title	10.551/10.561 Food Stamp Cluster
Audit Finding:	Allowable Costs/Cost Principles – Both of the FSN-209 reports tested were submitted after the due dates.
Status of Corrective Action:	Appears corrected based on testing of the major program in the current year.