CITY AND COUNTY OF SAN FRANCISCO

INDEPENDENT AUDITOR'S REPORTS,
MANAGEMENT'S DISCUSSION AND ANALYSIS,
BASIC FINANCIAL STATEMENTS,
REQUIRED SUPPLEMENTARY INFORMATION, AND
SCHEDULE OF EXPENDITURES OF FEDERAL
AND STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2007

CITY AND COUNTY OF SAN FRANCISCO
BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS
FOR THE YEAR ENDED JUNE 30, 2007

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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 (the City), as of and for the year ended June 30, 2007, 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 Railway, the Parking Garage Corporations, San Francisco Wastewater Enterprise, Port of San Francisco, San Francisco Market Corporation, City and County of San Francisco Finance Corporation, Employees' Retirement System, Health Service System, and the San Francisco Redevelopment Agency, which collectively represent the following percentages of assets, net assets/fund balances and revenues/additions as of and for the year ended June 30, 2007:

Opinion Unit	Assets	Net Assets/ Fund Balances	Revenues/ Additions
Governmental activities	1%	10%	0%
Business-type activities	95%	93%	74%
Discretely presented component units	100%	93%	94%
Municipal Transportation Agency enterprise fund	97%	100%	93%
Aggregate remaining fund information	91%	93%	49%

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 2006 basic financial statements and, in our report dated December 20, 2006, 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 Statements. 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 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 and County of San Francisco, California, as of June 30, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 21, 2007 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 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, 2006, 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 and state 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 reports of other auditors, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Macias Gini & O'Connell LLP
Certified Public Accountants

Walnut Creek, California
December 21, 2007

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, 2007. We encourage readers to consider the information presented here in conjunction with additional information in our transmittal letter. Certain amounts presented as 2005-2006 summarized comparative financial information in the basic financial statements have been reclassified to conform to the presentation in the 2006-2007 basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the fiscal year by approximately \$6.58 billion (net assets). Of this amount, \$552.7 million is unrestricted and may be used to meet the government's ongoing obligations to citizens and creditors.

- The increase in the government's total net assets is \$375.2 million or 6.0 percent during fiscal year 2006-2007 compared to an increase of \$438.5 million or 7.6 percent during fiscal year 2005-2006. This year, there was a 2.8 percent rise in total revenues while overall expenses grew by 4.5 percent.

- Net assets for the City's governmental activities increased by \$76.4 million or 4.3 percent at the end of fiscal year 2006-2007, reflecting the continued growth although at a slower pace than in the prior fiscal year when net assets increased by \$293.5 million or 19.6 percent.

- At June 30, 2007, the City's total ending fund balance for governmental funds was approximately \$1.25 billion. Within this total, \$191.6 million, or 15.3 percent is unreserved and available for spending at the government's discretion within the purposes specified for the City's funds. This reflects a one percent increase in unreserved fund balance over the prior year.

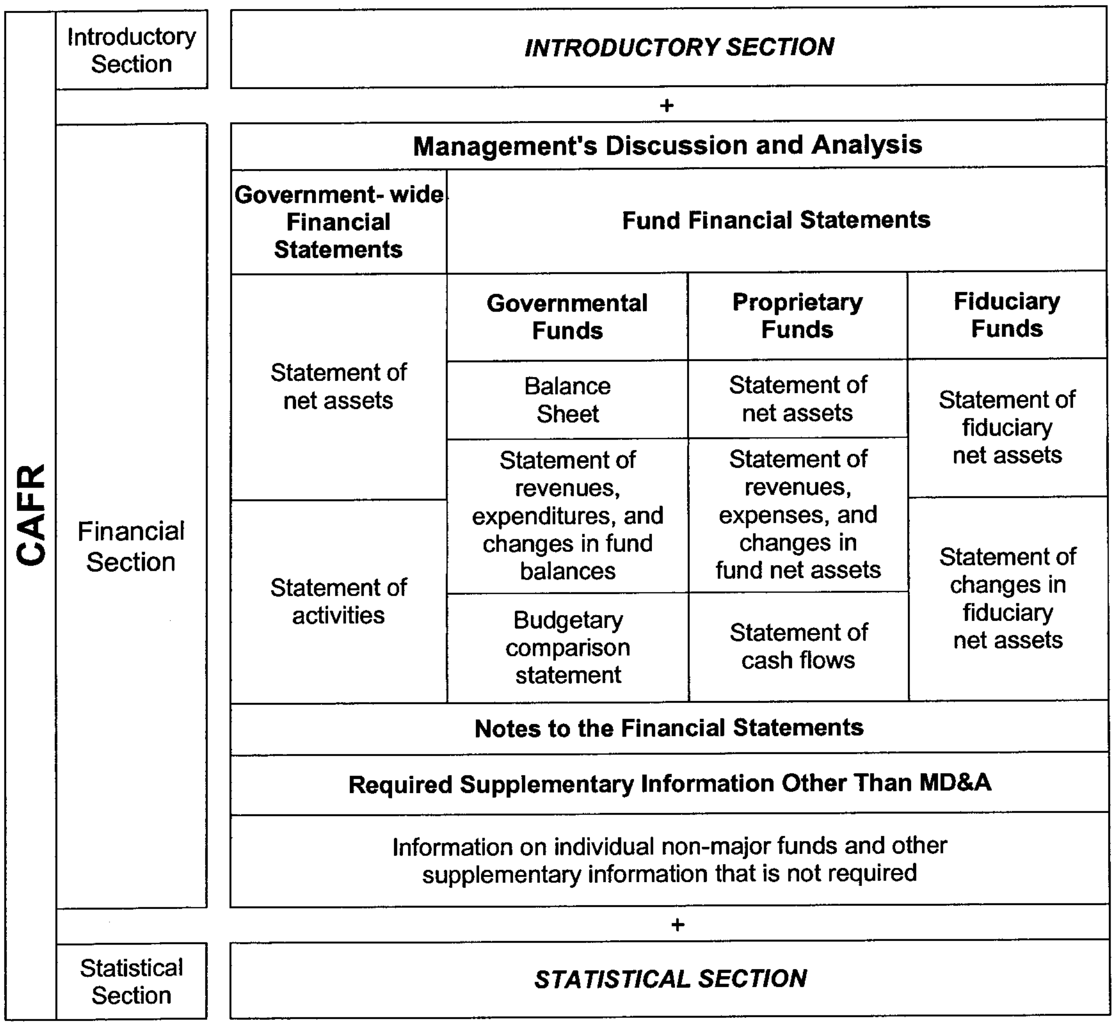
- The City's General Fund had an unreserved fund balance of \$141.0 million on June 30, 2007, a \$2.1 million or 1.5 percent increase over the previous fiscal year. The total fund balance increased by 17.4 percent to \$541.5 million at the same time. This year's improvement was primarily due to a 7.1 percent or \$174.9 million increase in revenues primarily from property taxes, business taxes, other local taxes, interest and investment income. This increase brought the General Fund total revenues to \$2.65 billion compared to total expenditures of approximately \$2.16 billion for the fiscal year. Due to the strong revenue growth, the City increased the General Fund's "rainy day" reserves by \$26.3 million in new deposits less a partially offsetting \$14.7 million withdrawal for eligible one-time expenditures and capital investment. The net effect was an \$11.6 million increase which brought the total to \$133.6 million as of June 30, 2007.

- The City's total long-term debt, including all bonds, loans, commercial paper and capital leases decreased by \$31 million during fiscal year 2006-2007. The City issued \$157.3 million in general obligation refunding bonds and \$153.7 million in certificates of participation for acquisition of two office buildings and improvements work for three office buildings. In addition, this year the San Francisco International Airport and the San Francisco Water Enterprise issued \$453 million and \$48.7 million, respectively, in revenue refunding 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



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 fund balance sheet and the governmental fund 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 fund balance sheet and in the governmental fund 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 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.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets
June 30, 2007 (in thousands)

	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Assets:						
Current and other assets	$ 2,034,379	$ 2,073,433	$ 2,098,272	$ 2,162,036	$ 4,132,651	$ 4,235,469
Capital assets	2,900,769	2,674,862	8,867,534	8,529,054	11,768,303	11,203,916
Total assets	4,935,148	4,748,295	10,965,806	10,691,090	15,900,954	15,439,385
Liabilities:						
Noncurrent liabilities outstanding	2,201,025	2,138,652	5,529,934	5,701,283	7,730,959	7,839,935
Other liabilities	863,112	815,025	724,608	577,374	1,587,720	1,392,399
Total liabilities	3,064,137	2,953,677	6,254,542	6,278,657	9,318,679	9,232,334
Net assets:						
Invested in capital assets, net of related debt	1,454,614	1,438,010	3,795,006	3,438,397	5,249,620	4,876,407
Restricted	430,843	428,646	349,136	437,366	779,979	866,012
Unrestricted (deficit)	(14,446)	(72,038)	567,122	536,670	552,676	464,632
Total net assets	$ 1,871,011	$ 1,794,618	$ 4,711,264	$ 4,412,433	$ 6,582,275	$ 6,207,051

Analysis of Net Assets

Net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $6.58 billion at the close of the fiscal year 2006-2007.

The largest portion of the City's net assets reflects its $5.25 billion (79.8 percent) investment in capital assets (e.g. land, buildings, and equipment), less any related outstanding debt used to acquire those assets. This percentage has remained substantially the same since fiscal year 2005. The City uses capital assets to provide services to citizens; consequently, they are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be liquidated to pay these liabilities.

Another portion of the City's net assets, $780.0 million (11.8 percent) represents resources that are subject to external restrictions as to how they may be used. The remaining balance, unrestricted net assets, $552.7 million (8.4 percent) may be used to meet the government's ongoing obligations to citizens and creditors. Together, these two components of net assets totaled 20.2 percent in fiscal year 2006-2007, comparable to the prior year's percentage.

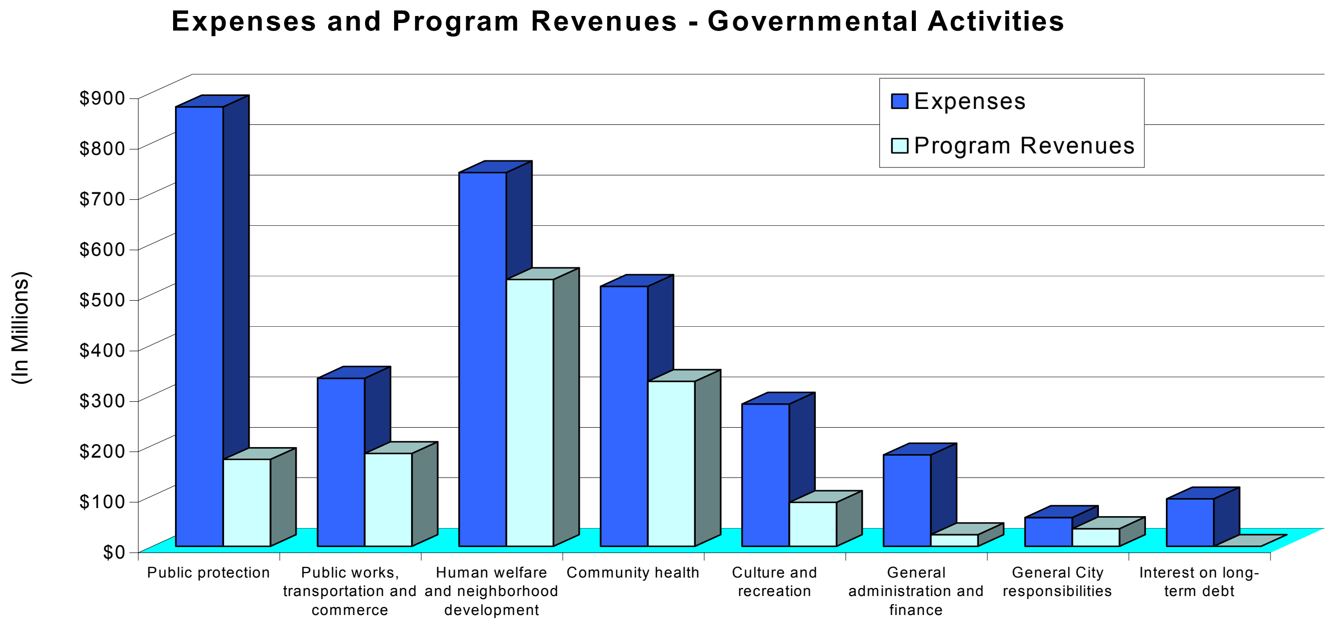
At the end of the fiscal year 2006-2007, the City had positive balances in all three components of net assets for the government as a whole, as well as for the business-type activities. For the governmental activities, unrestricted net assets have a deficit of $14.4 million related primarily to the $114.0 million in debt from general obligation bonds issued by the City for the benefit of the San Francisco Unified School District and San Francisco Community College District, which are recorded on the City's books with no corresponding assets.

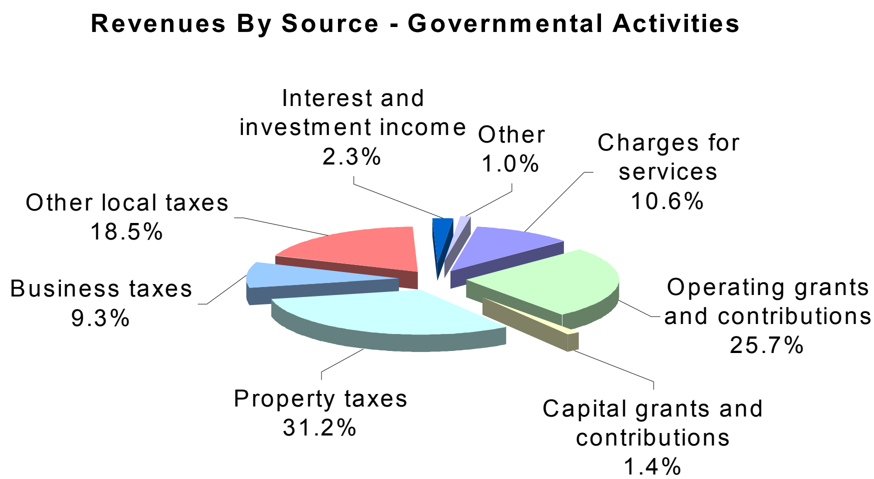
Changes in Net Assets
Year Ended June 30, 2007 (in thousands)

	Governmental activities		Business-type activities		Total	
	2007	2006	2007	2006	2007	2006
Revenues						
Program revenues:						
Charges for services	$ 382,489	$ 399,265	$ 1,822,047	$ 1,714,488	$ 2,204,536	$ 2,113,753
Operating grants and contributions	927,256	859,919	183,301	188,672	1,110,557	1,048,591
Capital grants and contributions	50,479	248,329	150,080	110,403	200,559	358,732
General revenues:						
Property taxes	1,126,992	1,016,220	-	-	1,126,992	1,016,220
Business taxes	337,592	323,153	-	-	337,592	323,153
Other local taxes	668,824	595,664	-	-	668,824	595,664
Interest and investment income	86,233	71,129	85,692	53,161	171,925	124,290
Other	33,046	56,022	218,184	272,873	251,230	328,895
Total revenues	3,612,911	3,569,701	2,459,304	2,339,597	6,072,215	5,909,298
Expenses						
Public protection	870,381	780,642	-	-	870,381	780,642
Public works, transportation and commerce	309,095	272,397	-	-	309,095	272,397
Human welfare and neighborhood development	751,034	858,396	-	-	751,034	858,396
Community health	516,321	478,844	-	-	516,321	478,844
Culture and recreation	290,547	244,423	-	-	290,547	244,423
General administration and finance	185,961	167,490	-	-	185,961	167,490
General City responsibilities	67,948	49,054	-	-	67,948	49,054
Unallocated Interest on long-term debt	94,060	94,923	-	-	94,060	94,923
Airport	-	-	624,832	633,102	624,832	633,102
Transportation	-	-	726,053	695,593	726,053	695,593
Port	-	-	61,937	55,329	61,937	55,329
Water	-	-	236,824	213,584	236,824	213,584
Power	-	-	95,020	119,146	95,020	119,146
Hospitals	-	-	714,349	646,149	714,349	646,149
Sewer	-	-	168,954	160,701	168,954	160,701
Market	-	-	1,061	1,035	1,061	1,035
Total expenses	3,085,347	2,946,169	2,629,030	2,524,639	5,714,377	5,470,808
Increase/(decrease) in net assets before special items and transfers	527,564	623,532	(169,726)	(185,042)	357,838	438,490
Special items	-	-	17,386	-	17,386	-
Transfers	(451,171)	(329,996)	451,171	329,996	-	-
Change in net assets	76,393	293,536	298,831	144,954	375,224	438,490
Net assets at beginning of year	1,794,618	1,501,082	4,412,433	4,267,479	6,207,051	5,768,561
Net assets at end of year	$ 1,871,011	$ 1,794,618	$ 4,711,264	$ 4,412,433	$ 6,582,275	$ 6,207,051

Analysis of Changes in Net Assets

The City's net assets overall increased by $375.2 million during fiscal year 2006-2007, compared to a $438.5 million increase during the prior fiscal year. The governmental activities accounted for $76.4 million of this increase and the business-type activities accounted for $298.8 million. While all business-type activities realized increases to their net assets, approximately 68.1 percent, $203.4 million is due to increases at Laguna Honda Hospital (LHH) and Municipal Transportation Agency (MTA). The LHH increase to net assets was $111.8 million and was primarily due to transfers from the City's governmental funds to support rebuilding of the hospital. The MTA increase of $91.6 million was partially due to increases in capital contributions from state and federal sources. A discussion of these and other changes in both governmental and business-type activities is presented on the following pages.





Governmental activities. Governmental activities increased the City's total net assets by $76.4 million during fiscal year 2006-2007, compared to a $293.5 million increase during fiscal year 2005-2006. Key factors contributing to this year's increase are as follows:

- Overall, governmental activities' revenue increased by approximately $43.2 million while expenses increased by $139.2 million and net transfers out increased by $121.2 million. This resulted in a net asset increase of $76.4 million for governmental activities at the end of fiscal year 2006-2007.

- Expenses for Human Welfare and Neighborhood Development were approximately $107.3 million less in fiscal year 2006-2007 as compared to the prior year. This was partially due to a one-time increase in the allowance for uncollectible loans account last year because of a change in accounting policy for the City's low-income housing program. At the government-wide level, this was approximately $160 million offset by this year's increase in expenses of $53 million for personnel, grants, and other administrative expenses.

- Property tax revenue increased significantly by $110.8 million or 10.9 percent during the fiscal year. Most of this growth is due to a 7.6 percent increase in net assessed valuations in fiscal year 2006-2007 as compared to fiscal year 2005-2006, the expiration of ERAF III (the State is shifting the property taxes from the City to the Educational Revenue Augmentation Fund for Schools), and 1.9 percent increase due to escape billings and supplemental billings.

- Business tax revenue increased $14.4 million or 4.5 percent, due largely to wage growth as well as moderate employment growth. San Francisco had 12,200 more jobs in calendar year 2006 as compared to calendar year 2005, representing an annual growth in jobs of 2.4 percent.

- Revenues from other local taxes, which includes real property transfer tax, hotel, sales, utility users and parking tax, increased by $73.2 million or 12.3 percent. The largest components of growth were hotel tax (up $20.4 million or 11.7 percent), real property transfer tax (up $12.7 million or 9.7 percent), local sales tax (up $9.6 million or 5.5 percent). Factors contributing to this growth include increased hotel occupancy and average daily room rates, increased transfer tax revenues associated with increased property sales activity, increasing sales activity and increased parking tax collections due to higher parking demand and rate increases. On a related note, in fiscal year 2006-2007, the implementation of Ordinance No. 71-07 transferred the 40 percent or $25.9 million parking tax allocation related to public transit (which formerly accrued directly to the MTA) to the General Fund with an associated transfer out to the MTA in lieu of the parking tax.

- Interest and investment income improved by about $15.1 million or 21.2 percent during the year primarily due to higher interest rates during the period. The earned yield on City pooled investments increased nearly 24 percent from 4.2 percent to 5.2 percent. In general, these returns reflect the City's concentration of investments in Treasury Bills and Notes and other short-term investments combined with increasing interest rates from the Federal Reserve. At the fiscal year end, deposits and investments for governmental activities with the City Treasury were $1.35 billion, a 10.7 percent decrease over the previous year.

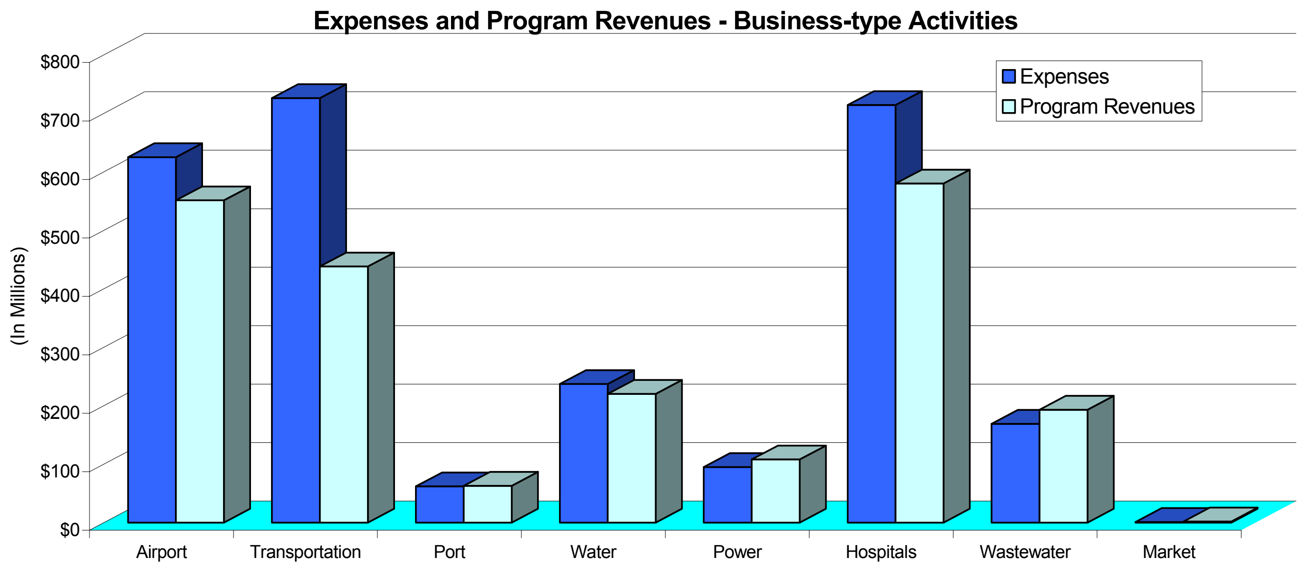
- Operating grants and contributions increased by $67.3 million or 7.8 percent during fiscal year 2006-2007. This included additional Homeland Security funds of close to $12.7 million for public works, transportation and commerce and approximately $3.8 million for public protection. Grant increases to other public protection programs were approximately $7.0 million. Federal grants for community development and housing programs increased by about $14.2 million and state funds for health and welfare programs rose by close to $20.0 million. The City also realized an additional $4.5 million in fiscal year 2006-2007 for state mandated programs, and $5.7 million for election support.

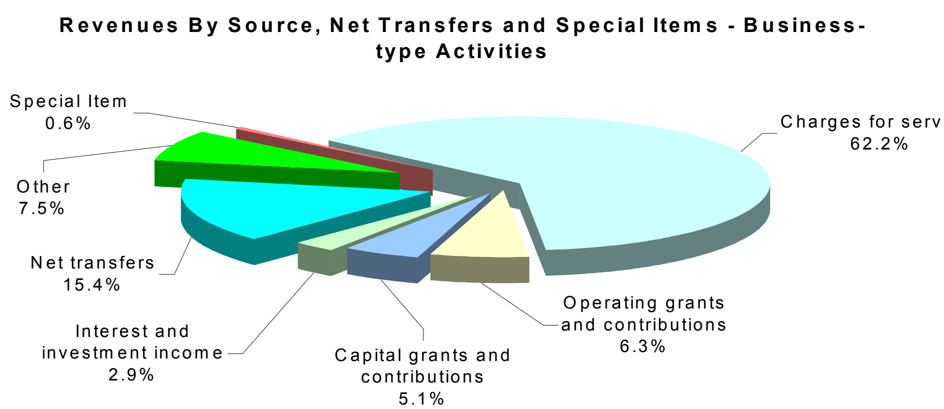
- The capital grants and contributions revenue significant decrease of $197.9 million is primarily due to recognition of the City's newly rebuilt de Young Museum in 2005-2006 which was constructed with private funding through an independent non-profit corporation. Apart from this major contribution change year-over-year, the revenue for fiscal year 2006-2007 was at the same level as the previous fiscal year.

- Net transfers to business-type activities were $451.2 million in fiscal year 2006-2007, a net $121.2 million increase over fiscal year 2005-2006. These transfers included a net increase of $41.7 million and $7.0 million to Laguna Honda Hospital to support for re-construction of the hospital and operating subsidy respectively; a $36.4 million net increase to San Francisco

General Hospital Medical Center related to increased General Fund support; a $35.3 million net increase to MTA, of which $25.9 million was due to the change in parking tax budgeting discussed earlier and the remaining due to higher baseline funding. In addition, there was a net decrease of $1.8 million in Airport transfers, and Water recorded a one-time net transfer of $9.7 million to the Governmental activities for the acquisition of land.

The charts shown previously illustrate the City's governmental expenses and revenues by function, and its revenues by source. As shown, public protection is the largest function in expense (28.2 percent), followed by human welfare and neighborhood development (24.3 percent), and community health (16.7 percent). General revenues such as property, business, and sales taxes are not shown by program, but are used to support program activities citywide. For governmental activities, property taxes were the largest single source of funds (31.2 percent) in fiscal year 2006-2007, as compared to 28.4 percent in fiscal year 2005-2006. In addition, operating grants and contributions were the second largest source of funds (25.7 percent) in fiscal year 2006-2007 slightly increased from 24.1 percent in fiscal year 2005-2006. The ratios for other revenue categories shifted only slightly from the prior fiscal year 2005-2006: business taxes (9.3 percent vs. 9.1 percent in the prior year), other local taxes (18.5 percent versus 16.7 percent in the prior year), and charges for services (10.6 percent versus 11.2 percent in the prior year). The changes in ratios are partly due to the decrease in capital contributions this year which was previously discussed.





Business-type activities increased the City's net assets by $298.8 million. Key factors contributing to this improvement are:

- The Municipal Transportation Agency (MTA) had net assets of $1.89 billion at June 30, 2007, an increase of approximately $91.6 million over the prior fiscal year. The total net assets include $1.84 billion (97.3 percent) for MUNI, the City's municipal railway. The remainder represents the combined net assets of the Department of Parking and Traffic and the Parking Authority. Between the end of fiscal years 2005-2006 and 2006-2007, MUNI's net assets increased by approximately $80.7 million, primarily due to the completion of the first phase, and continued work on the second phase of the Third Street Light Rail Project, funded by federal, state and local capital contributions. During this same period, MUNI's total operating revenues grew by $8.0 million to a total of $149.2 million. This was largely due to the combination of an increase in ridership along with the annualizing of a passenger fare increase which began in September 2005. MUNI also reported a decrease in non-operating revenues of $13.9 million. The primary components of this change were a $9.4 million increase in parking garage revenues and a $25.9 million decrease in parking tax revenues. The decrease in parking tax revenues occurred because of a change in budgeting but was backfilled by a like amount of transfer funding from the General Fund, beginning in fiscal 2006-2007. This year, the City's General Fund total subsidy to MTA was $197.1 million. This included $149.8 million for MUNI, a $31.4 million increase over the prior year mostly due to the aforementioned change in budgeting for parking tax revenue, and $47.3 million for the Department of Parking and Traffic, a $3.8 million increase over the prior year.

- Laguna Honda Hospital, the City's long-term care hospital increased net assets by $111.8 million during fiscal year 2006-2007, or 70.9 percent, reflecting the major capital project underway to rebuild the hospital. The increase included $91.2 million in transfers from the non-major governmental funds which account for the Laguna Honda Hospital General Obligation Bond proceeds and capital project activity. In addition, the hospital received a $45.7 million subsidy transfer and a $1.3 million operating transfer from the City's General Fund and $0.2 million from the San Francisco General Hospital Medical Center. This $138.4 million of inflow was offset by approximately $26.6 million in operating and non-operating losses, compared to last year's loss of $22.5 million.

- Hetch Hetchy, which operates the City's water storage and power generating facilities in the Sierra Nevada Mountains, had net assets of $435.8 million at the end of fiscal year 2006-2007, an increase of $23.8 million or 5.8 percent over the prior fiscal year which realized a $41.7 million increase. This $17.9 million change between the two fiscal years reflects a $42.0 million decrease in total revenues and a $24.1 million reduction in expenses. Total revenues in fiscal year 2006-2007 were $118.8 and total expenses were $95.0 million. Decreased power sales to the Western System Power Pool, Modesto Irrigation District and Turlock Irrigation District account for much this revenue change. At the same time, the decline in expenses is largely due to a $21.8 million reduction in power purchases from Calpine, and a net decrease in general and administrative expenses, in particular litigation and judgment expenses, of approximately $2.2 million.

- The Water Enterprise's net assets were $438.6 million at the end of fiscal year 2006-2007, a $5.5 million, or 1.3 percent, increase over the prior year's net asset balance of $433.1 million. Since 2003 the enterprise has been engaged in a multi-billion dollar, ten-year capital improvement program to rebuild the City's water system. Progress on this massive project during this fiscal year is reflected in the Water Enterprise's $166.5 million increase in net capital assets and the associated use of $158.1 million of current assets, primarily restricted cash, to support this work. This net increase to total assets of $8.4 million was partially offset by a $2.9 million increase in total liabilities. The enterprise's total revenues for fiscal year 2006-2007 were $252.9 million, an increase of $37.6 million or 17.5 percent over the prior year. This included a $13.2 million increase in operating revenue from retail and wholesale water sales which was partially driven by rate increases to retail and wholesale customers of 15 and 19 percent, respectively. It also included a $12.9 million increase in interest and investment income due largely to higher cash balances and higher interest earnings; $3.0 million from a one-time federal grant; and $6.5 million from the sale of capital assets. Total expenses for the enterprise increased by $23.2 million primarily due to increases in personal services, contractual services and depreciation as well as interest expenses. The enterprise also had an increase in transfer of about $9.2 million mainly due to the purchase of a capital asset from the City's governmental activities.

- The City's Wastewater had net assets of $959.3 million at the end fiscal year 2006-2007. This represents a 3.5 percent or $32.9 million increase over the prior year's balance of $926.4 million. Total revenues improved 17.3 percent, increasing from $172.0 million at the end of fiscal year 2005-2006 to $201.9 million at the end of fiscal year 2006-2007, a $29.9 million improvement. Revenue growth included approximately $17.1 million due to rate increases and $11.2 million due to implementation of a capacity charge increase first approved in fiscal year 2004-2005. Total expenses increased about $8.2 million during fiscal year 2006-2007, primarily due to contractual services, general administrative, and the cost of services by other departments.

- The Airport's net assets increased by $1.8 million, or 0.6 percent, for a total of $316.7 million at the end of fiscal year 2006-2007. This is significant as compared to last year's decrease in net assets of $42.7 million, or 11.9 percent. The change is primarily due to an increase of $48.6 million in operating revenues resulting from a $32.9 million increase in aviation revenues, mostly as a result of the growth in passenger traffic, and a $15.7 million increase in concession sales, parking and transportation fees and net sales and services. The Airport's operating expenses decreased by approximately $1.7 million, or 0.4 percent from the prior-year's total of $432.8 million. The transfer from the Airport to the City's General Fund was $23.3 million for fiscal year 2006-2007, an increase of $1.8 million over 2005-2006 .

As shown in the previous charts, the two largest of San Francisco's business-type activities, the Municipal Transportation Agency and the San Francisco International Airport had total expenses of over $700 million and $600 million, respectively for the fiscal year ended 2006-2007. The City's long term and acute care hospitals together also had total expenses over $700 million. Together, these four enterprises make up 78.6 percent of the total expenses for business-type activities. As in prior years, charges for services provided the largest share of revenues, 62.2 percent for all business-type activities.

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

As of the end of the current fiscal year, the City's governmental funds reported combined ending fund balances of approximately $1.25 billion, a decrease of $63.6 million over the end of the prior year. The decrease is due to expenditures increasing at a faster rate than revenue sources, across various city functions, debt service payment and in particular, capital outlay which had increased by $129.9 million or 84.6 percent.

A total of $191.6 million of the fund balance in the governmental funds constitutes unreserved fund balance. This is available for spending at the City's discretion within the purposes specified for the City's funds. The remainder is reserved, an indication that it is not available for new spending because it has already been committed. These commitments include support for: (1) a General Fund "rainy day" reserve ($133.6 million), (2) encumbrances for existing contracts and purchase orders ($349.9 million), (3) funds continued for programs or projects in future fiscal years ($493.4 million), (3) debt service ($51.3 million), and (4) for assets not available for appropriation ($32.1 million).

The General Fund is the chief operating fund of the City and had an unreserved fund balance of $141.0 million at the end of fiscal year 2006-2007, a slight increase of $2.1 million over the fiscal year 2005-2006 unreserved fund balance of $139.0 million. The General Fund's total fund balance was $541.5 million for fiscal year 2006-2007, a 17.4 percent improvement over the prior-year balance of $461.3 million. This increase was mainly due to a total increase in revenues of $174.9 million or 7.1 percent primarily from property, business, other local taxes and interest and investment income which was partially offset by an increase of $193.7 million or 9.8 percent in expenditures. Overall for the fiscal year ended June 30, 2007, the General Fund's revenues exceeding expenditures by $487.3 million, before transfers and other items are considered.

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 fiscal year 2006-2007, the unreserved fund balance of $141.0 million represents 6.5 percent of total General Fund expenditures of $2.16 billion, and the total fund balance represents approximately 25.1 percent of that amount. For the prior fiscal year, 2005-2006, the General Fund's unreserved fund balance of $139.0 million was 7.1 percent of the total expenditures of $1.97 billion, and the total fund balance represented approximately 23.4 percent of expenditures.

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 detail.

At the end of fiscal year 2006-2007, the unrestricted net assets for the Airport were $245.2 million, the Water Enterprise $81.4 million, Hetch Hetchy $157 million, Wastewater $57.0 million, the Port $66.6 million, San Francisco General Hospital Medical Center $9.0 million, and the San Francisco Market Corporation $4 million. Two proprietary funds had a deficit in unrestricted net assets: the Municipal Transportation Agency had a deficit of $38.5 million; and Laguna Honda Hospital $14.7 million. The internal service funds that are used to account for certain governmental activities also had a deficit in unrestricted net assets of $5.6 million.

The total increase in net assets for the enterprise funds was $298.8 million. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities.

The following table shows actual revenues, expenses and results of operations for the current fiscal year in the City's proprietary funds (in thousands):

	Operating Revenues	Operating Expenses	Operating Income (Loss)	Non-Operating Revenues (Expense)	Capital Contributions Special Items, and Others	Interfund Transfers	Change In Net Assets
Airport	$ 503,914	$ 431,059	$ 72,855	$ (94,590)	$ 46,902	$ (23,348)	1,819
Water	216,531	202,498	14,033	1,242	-	(9,763)	5,512
Hetch Hetchy	108,224	95,020	13,204	10,586	-	-	23,790
Municipal Transportation Agency	222,115	722,412	(500,297)	243,020	100,954	247,913	91,590
General Hospital	373,525	527,452	(153,927)	64,752	-	98,031	8,856
Wastewater Enterprise	193,411	151,600	41,811	(8,910)	-	(28)	32,873
Port	61,193	61,140	53	2,268	19,610	-	21,931
Laguna Honda Hospital	141,567	185,420	(43,853)	17,282	-	138,366	111,795
Market Corporation	1,567	1,061	506	159	-	-	665
Total	$ 1,822,047	$ 2,377,662	$ (555,615)	$ 235,809	$ 167,466	$ 451,171	$ 298,831

Fiduciary Funds

The City maintains fiduciary funds for the assets of the San Francisco Employees' Retirement System and Health Service System, and manages the investment of monies held in trust to benefit public services or employees. As of the end of fiscal year 2006-2007, the net assets of the Retirement System and Health Service System totaled $17.0 billion, representing an increase of $2.46 billion in total net assets since June 30, 2006. This 16.9 percent increase is primarily due to a fourth year of improved performance of the Retirement Trust's investments. The Investment Trust Fund's net assets totaled $646.2 million, an increase in net assets of $98.7 million or 18 percent since June 30, 2006 due to the increase in additions over withdrawals and distributions to external participants of the fund.

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 2006-2007, the City approved $88.2 million in General Fund supplemental appropriations for various departments primarily for affordable housing, revenue-supported Baseline funding, revenue-supported Human Services program funding, capital projects and violence prevention initiatives.

During the year, actual revenues and other resources were $115.5 million more than budgeted. While the City realized $156.3 million more revenue than budgeted primarily due to higher property taxes, real property transfer taxes, hotel room taxes, health and welfare realignment subventions, parking taxes, interest and investment income, and business taxes, these increases were partially offset by $40.8 million less revenue than budgeted primarily due to lower Federal and State subvention and grant funding, General Government & Health-related service charges as well as Recreation & Park rental revenues. Overall revenue shortfalls were more than offset by expenditure savings, most notably in Health and Human Service programs. General Fund budgetary comparisons are on shown on pages 31-33.

Differences between the final budget and the actual (budgetary basis) expenditures resulted in $82.9 million in appropriation savings. This is primarily due to the following factors:

- A savings of $18.3 million in the Department of Public Health, due largely to savings related to the Mental Health and Public Health programs. These savings are largely offset by mental and public health-related revenue shortfalls in intergovernmental and service charge revenues noted above.

- A savings of $13.9 million in the Human Services Agency, due largely to lower program costs related to CalWORKS Childcare and Aid, Family & Children's Services, Childcare, Homeless Services, General Assistance Aid, Administrative Support, and Employment & Self-Sufficiency Programs. These savings are partially offset by reductions in Human Service revenues, most notably in federal social service funding discussed above.

- A savings of $14.9 million in transfers to other funds primarily due to higher hospital revenues, which in turn resulted in lower required subsidy transfers for San Francisco General Hospital and Laguna Honda Hospital.

- A close-out savings of $22.9 million in budgetary reserves and designations largely due to unspent General Reserve savings not used for supplemental appropriation or other contingencies during fiscal year 2006-2007.

As a result of the strong revenue growth, the City again made deposits into the Rainy Day Reserves during fiscal year 2006-2007, resulting in an additional $19.6 million into the Economic Stabilization Account and an additional $9.8 million into the One-Time Spending Account. Combined these two Rainy Day Reserve accounts totaled $133.6 million by fiscal year end 2006-2007.

The net effect of the strong revenue growth, expenditure savings and record deposits into the Rainy Day Reserve accounts was a positive budgetary fund balance available for subsequent year appropriation of $131.9 million at the end of fiscal year 2006-2007. The City's fiscal year 2007-2008 Adopted Original Budget assumed an available balance of $118.9 million, so an additional $13.0 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, 2007, increased by $564.4 million, 5.0 percent, to $11.8 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, streets, and bridges. Governmental activities contributed $225.9 million or 2.0 percent to this total while $338.5 million or 3.0 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	
	2007	2006	2007	2006	2007	2006
Land	$ 151,917	$ 143,640	$ 195,722	$ 194,783	$ 347,639	$ 338,423
Facilities and Improvement	2,108,299	1,884,952	6,042,922	5,974,331	8,151,221	7,859,283
Machinery and equipment	53,546	44,782	773,585	799,846	827,131	844,628
Infrastructure	261,179	240,601	725,729	464,477	986,908	705,078
Property held under lease	-	-	2,484	2,607	2,484	2,607
Easements	-	-	72,403	79,358	72,403	79,358
Construction in progress	325,828	360,887	1,054,689	1,013,652	1,380,517	1,374,539
Total	$ 2,900,769	$ 2,674,862	$ 8,867,534	$ 8,529,054	$ 11,768,303	$ 11,203,916

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

- Under governmental activities, net capital assets increased by $225.9 million. This included the purchase and improvement of two office buildings totaling $114.4 million funded by Certificate of Participation Series 2007 A and B. The remaining $111.5 million increase was mainly due to construction-in-progress work at various park and recreational sites (including the Academy of Science and Steinhart Aquarium), branch libraries, as well as various street improvement and traffic signal upgrades, and work at Juvenile Hall. About $190.5 million worth of construction-in-progress work was substantially completed and capitalized as facilities and improvement and infrastructure as appropriate. These include the San Bruno Jail of $134.3 million, various branch libraries and certain public works projects.

- The Water Enterprise's net capital assets increased by $166.5 million. Close to 66.9 percent of the increase in net capital assets, or $111.4 million, reflects the net increase in construction-in-progress on the enterprise's ten-year water system improvement project. This change includes a $216.8 million increase in construction projects offset by $92.6 million in transfers to facilities and improvements, $2.5 million transfers to equipment, and $10.2 million expensed for projects not continued. The increase included Sunset Reservoir Rehabilitation and Upgrade, Bay Division Pipeline Seismic Upgrade and others Water System Improvement Program. The remaining net increase of $55.1 million reflects the increase to facilities, improvements and equipment less increase to depreciation.

- MTA's net capital assets increased by $72.8 million or 3.9 percent. Of the $72.8 million, MUNI's net capital assets increased by $79.5 million or 4.4 percent. Current year additions to construction-in-progress amounted to $161.6 million of which $73.0 million was for the Third Street Phase 1 and 2 projects, a major expansion of the transportation system in the City's southeast neighborhoods. Phase 1 construction was completed, conceptual engineering and the supplemental environmental process for Phase 2 continued. Other significant work in progress included Motor Bus Hybrid Procurement, Trolley Overhead Reconstruction and New Central Subway. Parking and Traffic and the non-profit garages had a net decrease of $5.7 million and $1.0 million in net capital assets due to depreciation expenses exceeding asset acquisition.

- Laguna Honda Hospital's net capital assets increased by $101.4 million due almost entirely to construction-in-progress on the capital project to rebuild the hospital. This work is partially funded by the Laguna Honda General Obligation Bonds.

- The Port's net capital assets increased about 0.8 percent, or $2.2 million. This increase included completion of security projects at the Port's cruise, ferry and cargo facilities, improvements to parking lots and progress on wetlands enhancement, the Illinois Street Intermodal Bridge and others.

- Hetch Hetchy increased net capital assets by $8.7 million or 3.2 percent. This included the completion of a $5.5 million project (the Duct Bank project) and continued work to improve San Francisco electrical reliability power, various solar projects and pipeline works.

- The Airport reported a decrease in net capital assets of $35.8 million or 1.0 percent due largely to the net effect of depreciation against completed projects of the Near Term Master Plan for SFO in recent years. Major capital additions in the current fiscal year included Terminal 1 Airtrain Bridge and Mezzanine, Phased Reconstruction and Overlay Taxiways and improvements to Terminal Upper Level Viaduct and Air Cargo Explosive Detection System Program.

At the end of the year, the City's business-type activities had approximately $316.2 million in commitments for various capital projects. Of this, MTA had approximately $96.4 million, Water Enterprise had $140.5 million, Hetch Hetchy had $21.8 million, Wastewater had $37.5 million, Port had $5.6 million, Laguna Honda Hospital had $6.1 million and the Airport had $8.3 million. In addition, there was approximately $201.1 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 debt outstanding of $7.7 billion. Of this amount, $1.2 billion is general obligation bonds backed by the full faith and credit of the City and $6.5 billion is revenue bonds, loans, certificates of participation, capital leases, and other debts of the City secured solely by specified revenue sources.

As noted previously, the City's total long-term debt including all bonds, loans, commercial papers and capital leases decreased by $31.0 million during fiscal year 2006-2007, primarily due to maturities of existing debt that exceeded the issuance of new debt in the business-type activities.

The City also took advantage of favorable interest rates to reduce debt payments by issuing $659.0 million in refunding bonds. Of this amount, the Airport issued $453.0 million, the Water Enterprise issued $48.7 million in refunding revenue bonds and the City issued a total of $157.3 million in general obligation refunding bonds. The City also made the first borrowing in the amount of $2.0 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. In addition, the City issued $153.7 million in certificates of participation for the purchase and improvement of two office buildings and for the renovation of a City's office building. The City also issued, through the San Francisco Finance Corporation, $11.8 million in lease revenue bonds to finance equipment and $27.0 million to finance the design, construction and renovation of various parks located within the City. In addition, the City entered into a lease purchase transaction in the amount of $2.8 million for the telecommunication and computer equipment to establish the 311 Customer Service Center. The Wastewater issued commercial papers in the amount of $50.0 million.

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 $124.98 billion in value as of the close of the fiscal year. As of June 30, 2007, the City had $1.15 billion in authorized, outstanding property tax–supported general obligation bonds, which is equal to approximately 0.89 percent of gross (0.92 percent of net) taxable assessed value of property. As of June 30, 2007, there were an additional $344.1 million in bonds that were authorized but un-issued. If all of these general obligation bonds were issued and outstanding in full, the total debt burden would be approximately 1.2 percent of gross taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2007 were:

Moody's Investors Service, Inc.	Aa3
Standard and Poor's	AA
Fitch Ratings	AA-

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

The City's enterprise activities maintained their underlying debt ratings this fiscal year. SFO's underlying debt ratings were upheld by Moody's Investors Service, Standard & Poor's, and Fitch Ratings at "A1", "A", and "A", respectively, with a stable rating outlook. With municipal bond insurance purchase for revenue bond issues, Moody's Investors Service, Standard and Poor's and Fitch Ratings have assigned SFO the ratings of "Aaa", "AAA", and "AAA" respectively. The Water Enterprise carried underlying ratings of "A1" and "A+" from Moody's and Standard and Poor's respectively, based on Municipal Bond Insurance Policies issued by MBIA and FSA and XL Capital Assurance, 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

- By the end of fiscal year 2006-2007, San Francisco's economy was the healthiest it has been in several years. While the national downturn in housing prices, and associated credit crunch and macroeconomic uncertainty are genuine causes for concern, San Francisco has relatively less exposure to sub-prime mortgages than other parts of the State, so its property tax base is relatively more stable. Compared with other areas of the state and country, San Francisco is expected to weather any downturn comparatively well.

- Preliminary data indicate that the number of employed residents in San Francisco rose by 9,900 people between June 2006 and June 2007. Final annual employment data indicates that 12,200 new jobs were added in calendar year 2006. Combined with the 5,500 jobs added in 2005, San Francisco has added 17,700 new jobs in the last two years. This reversed four consecutive years of job loss from 2000 to 2004. Annual average unemployment for 2006 fell to 4.2 percent in San Francisco, the lowest point since the peak year of 2000, and the year-to-date average unemployment rate through June 2007 remained at 4 percent.

- Average wages in San Francisco have continued to grow at higher rates than the state or nation. San Francisco's average annual wage, across all industries, grew to $70,825 in calendar year 2006 – a 6.4 percent increase over calendar year 2005. By comparison, average wages nationally grew by only 4.5 percent and by 4.6 percent in California.

- The office market also continued its recovery in 2006-2007, with the vacancy rate declining from 14.8 percent in second quarter 2006 to 11.9 percent in second quarter 2007. During the same period, office rental rates increased 26.2 percent to $42.31 as of second quarter 2007, while the market experienced about 1.9 million square feet of net absorption. Office developers are taking advantage of this strong market: there is currently 1.8 million square feet of commercial space under construction.

- Despite the national housing slump, and relatively high levels of construction since 2004, housing prices have continued to increase at a healthy rate in the past year. The median home sales price was $825,000 in June 2007—a 4.4 percent increase from June 2006. In calendar year 2006, 2,828 housing units were constructed, indicating the continuing strength of San Francisco's housing market in the face of the national downturn. Another 5,025 units were under construction as of first quarter 2007.

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, 7th 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

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Basic Financial Statements

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets

June 30, 2007

(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	$ 1,349,860	$ 809,548	$ 2,159,408	$ -	$ 1,697
Deposits and investments outside City Treasury	109,870	11,351	121,221	234,887	-
Receivables (net of allowance for uncollectible amounts of $72,146 for the primary government):					
Property taxes and penalties	59,678	-	59,678	-	-
Other local taxes	186,183	-	186,183	-	-
Federal and state grants and subventions	161,667	54,141	215,808	-	-
Charges for services	30,596	206,180	236,776	-	-
Interest and other	31,520	41,597	73,117	7,644	43
Loans receivable	-	562	562	-	-
Capital lease receivable from primary government	-	-	-	16,045	
Due from component unit	932	-	932	-	-
Inventories	-	51,147	51,147	-	-
Deferred charges and other assets	10,952	2,592	13,544	-	-
Restricted assets:					
Deposits and investments with City Treasury	-	63,845	63,845	-	-
Deposits and investments outside City Treasury	-	45,251	45,251	68,942	-
Grants and other receivables	-	774	774	761	-
Total current assets	1,941,258	1,286,988	3,228,246	328,279	1,740
Noncurrent assets:					
Loans receivable (net of allowance for uncollectible amounts of $414,545 and $174,687 for the primary government and component units, respectively)	64,504	324	64,828	15,264	-
Advance to component unit	5,733	2,599	8,332	-	-
Capital lease receivable from primary government	-	-	-	166,708	-
Deferred charges and other assets	22,884	65,154	88,038	10,767	-
Restricted assets:					
Deposits and investments with City Treasury	-	448,786	448,786	-	-
Deposits and investments outside City Treasury	-	252,888	252,888	30,853	-
Grants and other receivables	-	41,533	41,533	358	-
Property held for resale	-	-	-	17,419	-
Capital assets:					
Land and other assets not being depreciated	477,745	1,250,411	1,728,156	126,469	-
Facilities, infrastructure, and equipment, net of depreciation	2,423,024	7,617,123	10,040,147	142,365	-
Total capital assets	2,900,769	8,867,534	11,768,303	268,834	-
Total noncurrent assets	2,993,890	9,678,818	12,672,708	510,203	-
Total assets	$ 4,935,148	$ 10,965,806	$ 15,900,954	$ 838,482	$ 1,740

(Continued)

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, 2007
(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	$ 191,652	$ 158,041	$ 349,693	$ 10,896	$ 2,999
Accrued payroll	70,895	54,436	125,331	-	-
Accrued vacation and sick leave pay	70,100	47,728	117,828	1,219	-
Accrued workers' compensation	38,963	30,829	69,792	-	-
Estimated claims payable	52,527	21,486	74,013	-	-
Bonds, loans, capital leases, and other payables	277,827	202,176	480,003	36,514	-
Capital lease payable to component unit	16,045	-	16,045	-	-
Accrued interest payable	8,781	14,185	22,966	25,301	-
Unearned grant and subvention revenues	4,557	-	4,557	-	-
Due to primary government	-	-	-	932	-
Internal balances	8,139	(8,139)	-	-	-
Deferred credits and other liabilities	123,626	108,521	232,147	502	296
Liabilities payable from restricted assets:					
Bonds, loans, capital leases, and other payables	-	19,087	19,087	-	-
Accrued interest payable	-	25,411	25,411	-	-
Other	-	50,847	50,847	-	-
Total current liabilities	863,112	724,608	1,587,720	75,364	3,295
Noncurrent liabilities:					
Accrued vacation and sick leave pay	64,113	37,171	101,284	1,325	-
Accrued workers' compensation	155,726	115,610	271,336	-	-
Estimated claims payable	61,904	57,023	118,927	-	-
Bonds, loans, capital leases, and other payables	1,752,574	5,275,685	7,028,259	748,424	-
Advance from primary government	-	-	-	5,733	2,599
Capital lease payable to component unit	166,708	-	166,708	-	-
Accrued interest payable	-	-	-	60,291	-
Deferred credits and other liabilities	-	44,445	44,445	4,888	-
Total noncurrent liabilities	2,201,025	5,529,934	7,730,959	820,661	2,599
Total liabilities	3,064,137	6,254,542	9,318,679	896,025	5,894
NET ASSETS					
Invested in capital assets, net of related debt	1,454,614	3,795,006	5,249,620	65,487	-
Restricted for:					
Reserve for rainy day	133,622	-	133,622	-	-
Debt service	28,310	249,656	277,966	49,459	-
Capital projects	19,128	75,771	94,899	-	-
Community development	63,043	-	63,043	-	-
Transportation Authority activities	10,390	-	10,390	-	-
Grants and other purposes	176,350	23,709	200,059	17,419	-
Unrestricted (deficit)	(14,446)	567,122	552,676	(189,908)	(4,154)
Total net assets (deficit)	$ 1,871,011	$ 4,711,264	$ 6,582,275	$ (57,543)	$ (4,154)

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, 2007
(In Thousands)

					Net (Expense) Revenue and Changes in Net Assets				
		Program Revenues			Primary Government			Component Units	
Functions/Programs	Expenses	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	$ 870,381	$ 58,979	$ 113,387	$ -	$ (698,015)	$ -	$ (698,015)	$ -	$ -
Public works, transportation and commerce	309,095	111,364	44,488	30,846	(122,397)	-	(122,397)	-	-
Human welfare and neighborhood development	751,034	56,367	472,766	221	(221,680)	-	(221,680)	-	-
Community health	516,321	50,266	276,836	-	(189,219)	-	(189,219)	-	-
Culture and recreation	290,547	65,407	2,396	19,412	(203,332)	-	(203,332)	-	-
General administration and finance	185,961	10,502	12,378	-	(163,081)	-	(163,081)	-	-
General City responsibilities	67,948	29,604	5,005	-	(33,339)	-	(33,339)	-	-
Unallocated Interest on long-term debt	94,060	-	-	-	(94,060)	-	(94,060)	-	-
Total governmental activities	3,085,347	382,489	927,256	50,479	(1,725,123)	-	(1,725,123)	-	-
Business-type activities:									
Airport	624,832	503,914	-	46,902	-	(74,016)	(74,016)	-	-
Transportation	726,053	222,115	115,339	100,954	-	(287,645)	(287,645)	-	-
Port	61,937	61,193	-	2,224	-	1,480	1,480	-	-
Water	236,824	216,531	2,999	-	-	(17,294)	(17,294)	-	-
Power	95,020	108,224	-	-	-	13,204	13,204	-	-
Hospitals	714,349	515,092	64,963	-	-	(134,294)	(134,294)	-	-
Sewer	168,954	193,411	-	-	-	24,457	24,457	-	-
Market	1,061	1,567	-	-	-	506	506	-	-
Total business-type activities	2,629,030	1,822,047	183,301	150,080	-	(473,602)	(473,602)	-	-
Total primary government	$5,714,377	$2,204,536	$ 1,110,557	$ 200,559	(1,725,123)	(473,602)	(2,198,725)	-	-
Component units:									
San Francisco Redevelopment Agency	$ 128,622	$ 26,246	$ 8,964	$ -				(93,412)	-
Treasure Island Development Authority	11,231	8,267	202	-				-	(2,762)
Total component units	$ 139,853	$ 34,513	$ 9,166	$ -				(93,412)	(2,762)
General Revenues:									
Taxes:									
Property taxes					1,126,992	-	1,126,992	74,462	-
Business taxes					337,592	-	337,592	-	-
Other local taxes					668,824	-	668,824	5,478	-
Interest and investment income					86,233	85,692	171,925	16,518	151
Other					33,046	218,184	251,230	11,810	1,056
Special item					-	17,386	17,386	-	-
Transfers - internal activities of primary government					(451,171)	451,171	-	-	-
Total general revenues, special item and transfers					1,801,516	772,433	2,573,949	108,268	1,207
Change in net assets					76,393	298,831	375,224	14,856	(1,555)
Net assets (deficit) - beginning					1,794,618	4,412,433	6,207,051	(72,399)	(2,599)
Net assets (deficit) - ending					$ 1,871,011	$ 4,711,264	$ 6,582,275	$ (57,543)	$ (4,154)

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, 2007
(with comparative financial information as of June 30, 2006)

(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2007	2006	2007	2006	2007	2006
ASSETS						
Deposits and investments with City Treasury	$ 489,610	$ 443,102	$ 849,221	$ 1,060,891	$ 1,338,831	$ 1,503,993
Deposits and investments outside City Treasury	225	1,465	51,518	22,287	51,743	23,752
Receivables:						
Property taxes and penalties	48,348	34,157	11,330	8,429	59,678	42,586
Other local taxes	171,134	154,505	15,049	13,952	186,183	168,457
Federal and state grants and subventions	84,416	63,843	77,251	90,243	161,667	154,086
Charges for services	22,239	17,117	8,357	5,077	30,596	22,194
Interest and other	15,346	6,184	15,041	9,035	30,387	15,219
Due from other funds	30,115	30,859	16,644	3,960	46,759	34,819
Due from component unit	5,707	3,848	958	958	6,665	4,806
Loans receivable (net of allowance for uncollectible amount of $414,545 in 2007; $383,869 in 2006)	-	-	64,504	74,041	64,504	74,041
Deferred charges and other assets	7,823	7,243	1,789	1,729	9,612	8,972
Total assets	$ 874,963	$ 762,323	$ 1,111,662	$ 1,290,602	$ 1,986,625	$ 2,052,925
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 99,151	$ 84,710	$ 82,424	$ 88,151	$ 181,575	$ 172,861
Accrued payroll	56,494	51,792	12,628	10,982	69,122	62,774
Deferred tax, grant and subvention revenues	44,122	33,473	22,899	30,442	67,021	63,915
Due to other funds	1,272	821	49,963	61,964	51,235	62,785
Deferred credits and other liabilities	132,463	130,251	83,270	94,755	215,733	225,006
Bonds, loans, capital leases, and other payables	-	-	150,000	150,000	150,000	150,000
Total liabilities	333,502	301,047	401,184	436,294	734,686	737,341
Fund balances:						
Reserved for rainy day	133,622	121,976	-	-	133,622	121,976
Reserved for assets not available for appropriation	12,665	10,710	19,413	20,202	32,078	30,912
Reserved for debt service	-	-	51,299	57,429	51,299	57,429
Reserved for encumbrances	60,948	38,159	288,948	423,120	349,896	461,279
Reserved for appropriation carryforward	161,127	124,009	292,234	294,340	453,361	418,349
Reserved for subsequent years' budgets	32,062	27,451	8,004	8,004	40,066	35,455
Unreserved (deficit), reported in:						
General fund	141,037	138,971	-	-	141,037	138,971
Special revenue funds	-	-	47,445	35,243	47,445	35,243
Capital project funds	-	-	(373)	13,662	(373)	13,662
Permanent fund	-	-	3,508	2,308	3,508	2,308
Total fund balances	541,461	461,276	710,478	854,308	1,251,939	1,315,584
Total liabilities and fund balances	$ 874,963	$ 762,323	$ 1,111,662	$ 1,290,602	$ 1,986,625	$ 2,052,925

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, 2007

(In Thousands)

Fund balances - total governmental funds	$ 1,251,939
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.	2,895,233
Bond issue costs are not financial resources and, therefore, are not reported in the funds.	17,165
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(2,253,472)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(7,033)
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.	158,203
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.	(191,024)
Net assets of governmental activities	$ 1,871,011

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

CITY AND COUNTY OF SAN FRANCISCO

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

Year ended June 30, 2007 (with comparative financial information for year ended June 30, 2006)

(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2007	2006	2007	2006	2007	2006
Revenues:						
Property taxes	$ 887,690	$ 783,303	$ 220,174	$ 224,848	$ 1,107,864	$ 1,008,151
Business taxes	336,757	322,407	835	746	337,592	323,153
Other local taxes	540,695	480,501	128,129	115,163	668,824	595,664
Licenses, permits and franchises	19,639	20,825	7,789	6,837	27,428	27,662
Fines, forfeitures and penalties	4,720	10,195	4,151	4,254	8,871	14,449
Interest and investment income	30,089	22,496	53,757	47,550	83,846	70,046
Rents and concessions	18,449	20,007	34,044	32,419	52,493	52,426
Intergovernmental:						
Federal	183,573	182,448	198,115	168,537	381,688	350,985
State	479,748	490,187	102,918	75,802	582,666	565,989
Other	-	-	15,689	23,500	15,689	23,500
Charges for services	125,682	126,433	147,375	137,561	273,057	263,994
Other	21,697	15,037	22,387	46,528	44,084	61,565
Total revenues	2,648,739	2,473,839	935,363	883,745	3,584,102	3,357,584
Expenditures:						
Current:						
Public protection	809,075	739,470	56,481	47,928	865,556	787,398
Public works, transportation and commerce	65,184	46,448	215,723	228,221	280,907	274,669
Human welfare and neighborhood development	568,241	524,516	171,930	172,586	740,171	697,102
Community health	410,169	377,226	99,675	94,515	509,844	471,741
Culture and recreation	93,992	80,516	192,143	176,463	286,135	256,979
General administration and finance	157,981	146,567	9,524	14,628	167,505	161,195
General City responsibilities	56,834	53,065	698	698	57,532	53,763
Debt service:						
Principal retirement	-	-	98,169	86,970	98,169	86,970
Interest and fiscal charges	-	-	71,266	75,975	71,266	75,975
Bond issuance costs	-	-	3,683	1,933	3,683	1,933
Capital outlay	-	-	283,370	153,493	283,370	153,493
Total expenditures	2,161,476	1,967,808	1,202,662	1,053,410	3,364,138	3,021,218
Excess (deficiency) of revenues over expenditures	487,263	506,031	(267,299)	(169,665)	219,964	336,366
Other financing sources (uses):						
Transfers in	71,277	62,431	146,021	162,092	217,298	224,523
Transfers out	(486,600)	(420,086)	(182,247)	(135,069)	(668,847)	(555,155)
Issuance of bonds and loans						
Face value of bonds issued	-	-	312,955	219,120	312,955	219,120
Face value of loans issued	-	-	141	5,359	141	5,359
Premium on issuance of bonds	-	-	3,521	10,233	3,521	10,233
Discount on issuance of bonds	-	-	(1,856)	-	(1,856)	-
Payment to refunded bond escrow agent	-	-	(159,610)	-	(159,610)	-
Other financing sources-capital leases	8,245	5,220	4,544	1,662	12,789	6,882
Total other financing sources (uses)	(407,078)	(352,435)	123,469	263,397	(283,609)	(89,038)
Net change in fund balances	80,185	153,596	(143,830)	93,732	(63,645)	247,328
Fund balances at beginning of year	461,276	307,680	854,308	760,576	1,315,584	1,068,256
Fund balances at end of year	$ 541,461	$ 461,276	$ 710,478	$ 854,308	$ 1,251,939	$ 1,315,584

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, 2007

(In Thousands)

Net change in fund balances - total governmental funds	$ (63,645)
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.	224,846
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 decrease 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.	(39,293)
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	19,128
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.	5,783
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.	(30,723)
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 serve 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.	19,700
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.	2,828
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 bond and other debt proceeds exceeded principal retirement in the current period.	(58,099)
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.	(1,665)
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.	(13,229)
The net revenues of certain activities of internal service funds is reported with governmental activities.	10,762
Change in net assets of governmental activities	$ 76,393

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, 2007

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Budgetary Fund Balance, July 1	$ 125,125	$ 478,001	$ 478,001	$ -
Resources (Inflows):				
Property taxes	837,543	837,543	894,825	57,282
Business taxes	332,168	332,168	336,757	4,589
Other local taxes:				
Sales tax	106,236	106,236	107,813	1,577
Hotel room tax	125,907	125,907	143,072	17,165
Utility users tax	79,438	79,438	78,729	(709)
Parking tax	36,052	58,347	64,763	6,416
Real property transfer tax	105,000	105,000	143,976	38,976
Stadium admission tax	2,876	2,876	2,342	(534)
Licenses, permits, and franchises:				
Licenses and permits	7,069	7,069	7,225	156
Franchise tax	13,848	13,848	14,915	1,067
Fines, forfeitures, and penalties	4,899	4,899	4,720	(179)
Interest and investment income	33,989	33,994	40,118	6,124
Rents and concessions:				
Garages - Recreation and Park	9,272	9,272	10,600	1,328
Rents and concessions - Recreation and Park	9,252	9,252	6,090	(3,162)
Other rents and concessions	1,614	1,614	1,759	145
Intergovernmental:				
Federal subventions:				
Health and social service subventions	185,430	175,735	179,696	3,961
Other grants and subventions	8,843	9,155	3,878	(5,277)
State subventions:				
Social service subventions	95,111	100,866	95,654	(5,212)
Health / mental health subventions	107,408	108,035	99,270	(8,765)
Health and welfare realignment	165,199	165,199	172,431	7,232
Public safety sales tax	74,030	74,030	69,286	(4,744)
Motor vehicle in-lieu - county	5,604	5,604	4,672	(932)
Other grants and subventions	22,923	29,059	38,434	9,375
Charges for services:				
General government service charges	43,739	43,739	38,802	(4,937)
Public safety service charges	24,146	24,761	25,648	887
Recreation charges - Recreation and Park	7,076	7,076	6,205	(871)
MediCal, MediCare and health service charges	59,012	57,755	55,027	(2,728)
Other financing sources:				
Transfers from other funds	57,159	62,659	62,233	(426)
Proceeds from issuance of bonds and loans	901	901	-	(901)
Other resources (inflows)	17,948	13,809	12,364	(1,445)
Total amounts available for appropriation	$ 2,704,817	$ 3,083,847	$ 3,199,305	$ 115,458

(Continued)

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, 2007

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Charges to Appropriations (Outflows):				
Public Protection				
Adult Probation	$ 10,800	$ 10,978	$ 10,729	$ 249
District Attorney	29,998	30,430	30,352	78
Emergency Communications	5,216	5,400	5,187	213
Fire Department	222,083	225,585	225,234	351
Juvenile Probation	36,452	34,259	33,902	357
Police Department	301,505	307,766	307,046	720
Public Defender	22,044	21,770	21,637	133
Sheriff	141,531	136,622	136,593	29
Trial Courts	31,256	31,272	31,261	11
Subtotal - Public Protection	800,885	804,082	801,941	2,141
Public Works, Transportation and Commerce				
Board of Appeals	570	579	575	4
Business and Economic Development	4,039	3,187	3,097	90
Clean Water	197	210	188	22
General Services Agency - Public Works	33,928	51,379	50,942	437
Hetch Hetchy	-	29	29	-
Parking and Traffic Commission	-	266	247	19
Public Utilities Commission	-	29	22	7
Subtotal - Public Works, Transportation and Commerce	38,734	55,679	55,100	579
Human Welfare and Neighborhood Development				
Children, Youth and Their Families	23,003	22,056	21,043	1,013
Commission on the Status of Women	2,855	3,695	3,611	84
County Education Office	74	74	74	-
Environment	1,420	1,110	1,036	74
Human Rights Commission	1,120	1,127	1,127	-
Human Services	561,209	550,519	536,636	13,883
Subtotal - Human Welfare and Neighborhood Development	589,681	578,581	563,527	15,054
Public Health	424,786	428,460	410,169	18,291
Culture and Recreation				
Academy of Sciences	2,245	2,245	2,245	-
Art Commission	7,659	7,632	7,630	2
Asian Art Museum	7,136	6,773	6,707	66
Fine Arts Museum	9,551	9,818	9,818	-
Law Library	589	598	597	1
Recreation and Park Commission	71,789	66,025	65,953	72
Subtotal - Culture and Recreation	98,969	93,091	92,950	141

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, 2007

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
General Administration and Finance				
Assessor/Recorder	10,840	11,034	10,959	75
Board of Supervisors	10,833	10,166	10,013	153
City Attorney	10,538	11,094	10,952	142
City Planning	20,534	19,979	19,443	536
Civil Service	590	624	609	15
Controller	18,664	18,976	18,024	952
Elections	8,602	9,872	9,847	25
Ethics Commission	8,416	2,271	1,828	443
General Services Agency - Administrative Services	64,772	46,098	44,764	1,334
General Services Agency - Telecomm. and Info. Services	2,365	4,335	4,196	139
Human Resources	14,031	9,828	9,407	421
Mayor	8,359	12,283	11,693	590
Retirement Services	396	374	374	-
Treasurer/Tax Collector	23,031	21,384	20,583	801
Subtotal - General Administration and Finance	201,971	178,318	172,692	5,626
General City Responsibilities				
General City Responsibilities	60,101	61,834	58,540	3,294
Other financing uses:				
Transfers to other funds	429,313	498,202	483,268	14,934
Budgetary reserves and designations	60,377	22,856	-	22,856
Total charges to appropriations	2,704,817	2,721,103	2,638,187	82,916
Total Sources less Current Year Uses	-	362,744	561,118	198,374
Budgetary Reserves Carried Forward into Subsequent Year		39,340	2,317	(37,023)
New Deposits into Rainy Day Reserves from Current Year				
Economic Stabilization Account		19,646	-	(19,646)
One-Time Spending Account		9,823	-	(9,823)
Budgetary Fund Balance, June 30		$ 431,553	$ 563,435	$ 131,882

Explanation of differences between budgetary inflows and outflows, and GAAP revenues and expenditures:

Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation"	$3,199,305
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	(478,001)
Property tax revenue - Teeter Plan	(7,135)
Unrealized gain/(loss) on investment	189
Interest earnings / charges from other funds being reclassified	(10,216)
Interest earnings from agency funds reclassified as other revenues	9,333
Other budget to GAAP differences	(2,503)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(62,233)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$2,648,739
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations"	$2,638,187
Difference - budget to GAAP:	
Capital asset purchases funded under capital leases with Finance Corporation & Other Vendors	8,245
Other budget to GAAP differences	(236)
Loans to Redevelopment Agency for Visitation Valley & Bay View Hunters Point	(1,452)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(483,268)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$2,161,476

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, 2007
(with comparative financial information as of June 30, 2006)
(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 Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total 2007	Total 2006	Governmental Activities-Internal Service Funds 2007	Governmental Activities-Internal Service Funds 2006
ASSETS													
Current Assets:													
Deposits and investments with City Treasury	$ 263,176	$ 105,730	$146,172	$ 110,650	$ 50,910	$ 52,222	$ 80,688	$ -	$ -	$ 809,548	$ 681,935	$ 11,029	$ 7,943
Deposits and investments outside City Treasury	10	40	10	7,007	10	-	5	1	4,268	11,351	9,758	58,127	25,133
Receivables (net of allowance for uncollectible amounts of $32,789 and $41,774 in 2007 and 2006, respectively):													
Federal and state grants and subventions	-	-	-	49,546	3,024	-	1,571	-	-	54,141	57,707	-	-
Charges for services	37,733	44,287	10,005	7,548	41,371	30,661	5,318	29,245	12	206,180	194,800	-	78
Interest and other	4,425	2,126	3,531	8,921	21,889	705	-	-	-	41,597	43,787	1,133	835
Loans receivable	-	-	132	430	-	-	-	-	-	562	132	23,332	21,855
Due from other funds	-	208	15,033	25,567	-	-	-	-	-	40,808	45,633	-	-
Inventories	60	1,563	270	42,884	3,946	-	1,245	1,179	-	51,147	53,051	-	-
Deferred charges and other assets	1,493	-	-	1,039	-	-	37	-	23	2,592	3,531	-	149
Restricted assets:													
Deposits and investments with City Treasury	15,099	-	-	-	-	-	5,789	42,957	-	63,845	54,218	-	-
Deposits and investments outside City Treasury	40,226	-	-	-	-	-	5,025	-	-	45,251	45,306	-	-
Grants and other receivables	605	-	-	-	-	-	169	-	-	774	36	-	-
Total current assets	362,827	153,954	175,153	253,592	121,150	83,588	99,847	73,382	4,303	1,327,796	1,189,894	93,621	55,993
Noncurrent assets:													
Deferred charges and other assets	49,162	7,627	-	1,568	-	2,893	3,904	-	-	65,154	72,632	3,388	2,551
Loans receivable	-	-	324	-	-	-	-	-	-	324	455	227,865	210,947
Due from component unit	-	-	2,599	-	-	-	-	-	-	2,599	-	-	-
Restricted assets:													
Deposits and investments with City Treasury	127,843	219,521	-	16,417	-	85,005	-	-	-	448,786	617,925	-	-
Deposits and investments outside City Treasury	159,020	56,215	-	34,695	17	15	2,146	780	-	252,888	265,093	-	-
Grants and other receivables	31,307	3,578	-	5,019	-	1,084	-	545	-	41,533	61,670	-	-
Capital assets:													
Land and other assets not being depreciated	70,931	329,375	63,340	323,681	6,262	65,024	155,007	236,791	-	1,250,411	1,208,435	-	-
Facilities, infrastructrure, and equipment, net of depreciation	3,570,010	744,880	215,480	1,638,986	47,970	1,270,446	117,355	7,406	4,590	7,617,123	7,320,619	5,536	4,475
Total capital assets	3,640,941	1,074,255	278,820	1,962,667	54,232	1,335,470	272,362	244,197	4,590	8,867,534	8,529,054	5,536	4,475
Total noncurrent assets	4,008,273	1,361,196	281,743	2,020,366	54,249	1,424,467	278,412	245,522	4,590	9,678,818	9,546,829	236,789	217,973
Total assets	4,371,100	1,515,150	456,896	2,273,958	175,399	1,508,055	378,259	318,904	8,893	11,006,614	10,736,723	330,410	273,966

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
Statement of Net Assets - Proprietary Funds *(Continued)*
June 30, 2007
(with comparative financial information as of June 30, 2006)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco Interna-tional 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 2007	Total 2006	Governmental Activities-Internal Service Funds 2007	Governmental Activities-Internal Service Funds 2006
LIABILITIES													
Current liabilities:													
Accounts payable	37,769	7,659	9,950	64,170	26,254	4,493	4,617	3,008	121	158,041	121,868	10,077	5,904
Accrued payroll	6,625	5,528	1,062	18,808	12,290	2,796	1,063	6,264	-	54,436	46,498	1,773	1,603
Accrued vacation and sick leave pay	6,733	5,761	1,276	15,465	9,334	2,588	1,083	5,488	-	47,728	43,182	1,974	1,869
Accrued workers' compensation	1,141	1,699	428	20,423	3,713	804	478	2,143	-	30,829	35,466	145	216
Estimated claims payable	15	1,652	1,658	15,425	-	2,136	600	-	-	21,486	24,629	-	-
Due to other funds	28	4,815	-	8,121	2,085	-	-	17,620	-	32,669	17,667	3,663	-
Deferred credits and other liabilities	48,769	13,238	366	6,579	35,602	-	3,100	710	157	108,521	91,061	58,535	29,675
Accrued interest payable	-	7,574	-	336	-	6,143	132	-	-	14,185	18,472	1,748	1,305
Bonds, loans, capital leases, and other payables	75,083	19,170	107	8,189	1,183	97,837	88	519	-	202,176	142,119	21,510	20,672
Liabilities payable from restricted assets:													
Bonds, loans, capital leases, and other payables	15,017	-	-	-	-	-	4,070	-	-	19,087	17,393	-	-
Accrued interest payable	25,209	-	-	-	-	-	202	-	-	25,411	26,321	-	-
Other	8,614	29,245	-	1,456	-	4,090	6,428	1,014	-	50,847	38,331	-	-
Total current liabilities	225,003	96,341	14,847	158,972	90,461	120,887	21,861	36,766	278	765,416	623,007	99,425	61,244
Noncurrent liabilities:													
Accrued vacation and sick leave pay	6,102	5,410	1,039	11,045	6,852	2,142	855	3,726	-	37,171	36,381	1,865	2,061
Accrued workers' compensation	3,636	6,647	1,758	73,488	16,047	3,340	2,269	8,425	-	115,610	126,188	609	889
Estimated claims payable	25	5,282	3,124	41,517	-	6,575	500	-	-	57,023	53,154	-	-
Deferred credits and other liabilities	-	1,307	-	31,293	-	9	11,836	-	-	44,445	46,757	-	-
Bonds, loans, capital leases, and other payables	3,819,592	961,589	283	64,351	2,180	415,852	11,240	598	-	5,275,685	5,438,803	228,786	211,008
Total noncurrent liabilities	3,829,355	980,235	6,204	221,694	25,079	427,918	26,700	12,749	-	5,529,934	5,701,283	231,260	213,958
Total liabilities	4,054,358	1,076,576	21,051	380,666	115,540	548,805	48,561	49,515	278	6,295,350	6,324,290	330,685	275,202
NET ASSETS													
Invested in capital assets, net of related debt	(122,134)	300,996	278,820	1,874,735	50,869	901,113	262,937	243,080	4,590	3,795,006	3,438,397	5,335	4,292
Restricted:													
Debt service	159,020	56,196	-	33,333	-	1,107	-	-	-	249,656	256,055	-	-
Capital projects	34,641	-	-	-	-	-	154	40,976	-	75,771	148,957	-	-
Other purposes	-	-	-	23,709	-	-	-	-	-	23,709	32,354	-	-
Unrestricted (deficit)	245,215	81,382	157,025	(38,485)	8,990	57,030	66,607	(14,667)	4,025	567,122	536,670	(5,610)	(5,528)
Total net assets (deficit)	$ 316,742	$ 438,574	$ 435,845	$ 1,893,292	$ 59,859	$959,250	$329,698	$ 269,389	$ 8,615	$4,711,264	$4,412,433	$ (275)	$ (1,236)

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, 2007
(with comparative financial information for year ended June 30, 2006)
(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 Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total 2007	Total 2006	Governmental Activities-Internal Service Funds 2007	Governmental Activities-Internal Service Funds 2006
Operating revenues:													
Aviation	$ 296,368	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 296,368	$ 263,422	$ -	$ -
Water and power service	-	202,787	108,009	-	-	-	-	-	-	310,796	329,230	-	-
Passenger fees	-	-	-	141,518	-	-	-	-	-	141,518	134,553	-	-
Net patient service revenue	-	-	-	-	364,211	-	-	140,843	-	505,054	457,571	-	-
Sewer service	-	-	-	-	-	176,344	-	-	-	176,344	159,281	-	-
Rents and concessions	88,225	9,929	215	32,134	2,464	-	47,781	-	-	180,748	174,621	19	61
Parking and transportation	67,428	-	-	40,470	-	-	10,514	-	-	118,412	104,725	-	-
Other charges for services	-	-	-	2,106	-	-	-	-	1,567	3,673	3,655	111,520	98,943
Other revenues	51,893	3,815	-	5,887	6,850	17,067	2,898	724	-	89,134	87,430	-	-
Total operating revenues	503,914	216,531	108,224	222,115	373,525	193,411	61,193	141,567	1,567	1,822,047	1,714,488	111,539	99,004
Operating expenses:													
Personal services	163,945	87,200	28,992	466,359	307,828	58,789	24,235	157,801	205	1,295,354	1,131,815	46,983	42,648
Contractual services	53,148	12,437	5,711	44,465	132,974	11,536	3,728	6,394	564	270,957	241,085	35,662	30,948
Light, heat and power	18,515	-	24,892	1,065	-	-	1,806	-	-	46,278	69,754	-	-
Materials and supplies	11,016	10,661	2,339	41,957	62,117	9,526	1,510	14,075	2	153,203	134,114	18,404	16,678
Depreciation and amortization	142,807	43,895	10,919	92,942	6,832	36,683	10,253	1,096	282	345,709	366,463	1,700	1,185
General and administrative	8,663	4,523	11,687	32,977	494	4,143	1,757	-	7	64,251	127,660	406	485
Services provided by other departments	12,425	33,242	3,301	41,641	17,197	28,010	11,184	6,054	-	153,054	148,183	5,072	4,834
Other	20,540	10,540	7,179	1,006	10	2,913	6,667	-	1	48,856	51,361	2,698	2,415
Total operating expenses	431,059	202,498	95,020	722,412	527,452	151,600	61,140	185,420	1,061	2,377,662	2,270,435	110,925	99,193
Operating income (loss)	72,855	14,033	13,204	(500,297)	(153,927)	41,811	53	(43,853)	506	(555,615)	(555,947)	614	(189)
Nonoperating revenues (expenses):													
Operating grants:													
Federal	-	2,999	-	6,008	-	-	-	-	-	9,007	24,455	-	-
State / other	-	-	-	109,331	64,963	-	-	-	-	174,294	164,217	-	-
Interest and investment income	36,272	24,547	6,478	6,609	-	5,749	4,223	1,655	159	85,692	53,161	9,362	7,966
Interest expense	(193,773)	(34,326)	-	(3,641)	(211)	(17,354)	(797)	(1,266)	-	(251,368)	(254,204)	(9,565)	(8,200)
Other, net	62,911	8,022	4,108	124,713	-	2,695	(1,158)	16,893	-	218,184	272,873	-	28
Total nonoperating revenues (expenses)	(94,590)	1,242	10,586	243,020	64,752	(8,910)	2,268	17,282	159	235,809	260,502	(203)	(206)
Income (loss) before capital contributions, transfers and special item	(21,735)	15,275	23,790	(257,277)	(89,175)	32,901	2,321	(26,571)	665	(319,806)	(295,445)	411	(395)
Capital contributions	46,902	-	-	100,954	-	-	2,224	-	-	150,080	110,403	-	-
Transfers in	-	-	-	256,196	130,224	-	-	138,366	-	524,786	395,685	550	636
Transfers out	(23,348)	(9,763)	-	(8,283)	(32,193)	(28)	-	-	-	(73,615)	(65,689)	-	-
Net income before special item	1,819	5,512	23,790	91,590	8,856	32,873	4,545	111,795	665	281,445	144,954	961	241
Special item	-	-	-	-	-	-	17,386	-	-	17,386	-	-	-
Change in net assets	1,819	5,512	23,790	91,590	8,856	32,873	21,931	111,795	665	298,831	144,954	961	241
Net assets (deficit) at beginning of year	314,923	433,062	412,055	1,801,702	51,003	926,377	307,767	157,594	7,950	4,412,433	4,267,479	(1,236)	(1,477)
Net assets (deficit) at end of year	$ 316,742	$ 438,574	$ 435,845	$ 1,893,292	$ 59,859	$959,250	$ 329,698	$269,389	$ 8,615	$4,711,264	$4,412,433	$ (275)	$ (1,236)

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, 2007
(with comparative financial information for year ended June 30, 2006)
(In Thousands)

	Business-type Activities - Enterprise Funds											Governmental Activities-Internal Service Funds	
	Major Funds								Other Fund	Total			
	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	2007	2006	2007	2006
Cash flows from operating activities:													
Cash received from customers, including cash deposits	$ 522,919	$ 203,038	$ 119,456	$ 259,403	$ 368,334	$ 187,337	$ 9,076	$ 137,061	$ 1,571	$ 1,808,195	$ 1,685,826	$ 140,277	$ 118,313
Cash received from tenants for rent	-	9,853	215	2,745	2,464	-	51,481	-	-	66,758	62,692	-	-
Cash paid to employees for services	(162,819)	(83,280)	(28,291)	(474,378)	(305,449)	(57,393)	(24,085)	(157,829)	(205)	(1,293,729)	(1,070,451)	(47,253)	(42,268)
Cash paid to suppliers for goods and services	(116,362)	(54,718)	(52,917)	(182,504)	(202,659)	(52,015)	(24,318)	(26,638)	(590)	(712,721)	(844,296)	(65,264)	(59,230)
Cash paid for judgments and claims	-	(5,415)	(2,687)	(10,752)	-	(1,118)	(160)	-	-	(20,132)	(22,081)	-	-
Net cash provided by (used in) operating activities	243,738	69,478	35,776	(405,486)	(137,310)	76,811	11,994	(47,406)	776	(151,629)	(188,310)	27,760	16,815
Cash flows from noncapital financing activities:													
Operating grants	-	2,999	-	244,053	63,868	-	-	-	-	310,920	281,258	-	-
Transfers in	-	-	-	227,150	130,224	-	-	47,116	-	404,490	385,038	550	636
Transfers out	(23,348)	(4,949)	-	(17,728)	(32,193)	(28)	-	-	-	(78,246)	(71,581)	-	-
Transit Impact Development fees received	-	-	-	1,309	-	-	-	-	-	1,309	410	-	-
Claims settlement proceeds	2,293	-	-	-	-	-	-	-	-	2,293	10,642	-	-
Other noncapital financing increases	-	-	4,108	14,072	-	444	-	2,176	-	20,800	38,853	-	-
Other noncapital financing decreases	(3,121)	-	-	-	(208)	-	-	-	-	(3,329)	(908)	-	-
Net cash provided by (used in) noncapital financing activities	(24,176)	(1,950)	4,108	468,856	161,691	416	-	49,292	-	658,237	643,712	550	636
Cash flows from capital and related financing activities:													
Capital grants	67,342	-	-	131,968	-	-	2,079	16,893	-	218,282	121,934	-	-
Transfers in	-	-	-	-	-	-	-	-	-	-	32,132	-	-
Bond sale proceeds and loans received	-	-	-	-	-	-	-	-	-	-	630,135	38,687	19,671
Principal payments on commercial paper borrowings	-	-	-	-	-	-	-	-	-	-	(120,000)	-	-
Proceeds from sale of capital assets	18	6,169	18	29	-	2,410	70	-	-	8,714	81	-	-
Proceeds from commercial paper borrowings	-	-	-	-	-	50,000	-	-	-	50,000	40,000	-	-
Proceeds from passenger facility charges	66,166	-	-	-	-	-	-	-	-	66,166	59,327	-	-
Acquisition of capital assets	(111,643)	(195,208)	(20,005)	(148,870)	(7,096)	(58,833)	(12,877)	(102,460)	(44)	(657,036)	(461,956)	(2,547)	(1,455)
Retirement of capital leases, bonds and loans	(79,415)	(48,955)	-	(10,202)	(437)	(49,875)	(4,059)	(548)	-	(193,491)	(230,056)	(20,533)	(19,321)
Bond issue costs paid	(881)	-	-	-	-	-	-	-	-	(881)	(1,537)	(504)	(319)
Interest paid on debt	(188,274)	(15,684)	-	(3,569)	(211)	(20,968)	(600)	(1,266)	-	(230,572)	(251,130)	(8,708)	(7,575)
Other capital financing increases	-	-	-	7,976	-	-	17,386	91,250	-	116,612	5,906	-	-
Other capital financing decreases	(6,177)	(1,419)	(104)	(25)	-	-	(1,473)	-	-	(9,198)	(7,092)	-	-
Net cash provided by (used in) capital and related financing activities	(252,864)	(255,097)	(20,091)	(22,693)	(7,744)	(77,266)	526	3,869	(44)	(631,404)	(182,256)	6,395	(8,999)
Cash flows from investing activities:													
Purchases of investments with trustees	(1,136,705)	(46,766)	-	-	-	-	-	-	(13,884)	(1,197,355)	(1,465,657)	(56,540)	-
Proceeds from sale of investments with trustees	1,129,585	69,633	-	28,264	-	-	-	-	10,169	1,237,651	1,413,568	21,473	-
Interest and investment income	37,448	22,446	4,450	5,177	-	4,790	3,448	1,655	161	79,575	54,769	1,791	773
Other investing activities	-	1,889	-	-	(5)	-	-	49	-	1,933	551	(416)	(402)
Net cash provided by (used in) investing activities	30,328	47,202	4,450	33,441	(5)	4,790	3,448	1,704	(3,554)	121,804	3,231	(33,692)	371
Net increase (decrease) in cash and cash equivalents	(2,974)	(140,367)	24,243	74,118	16,632	4,751	15,968	7,459	(2,822)	(2,992)	276,377	1,013	8,823
Cash and cash equivalents-beginning of year	406,580	465,658	121,939	93,480	34,288	132,476	75,177	35,499	3,376	1,368,473	1,092,096	33,076	24,253
Cash and cash equivalents-end of year	$ 403,606	$ 325,291	$ 146,182	$ 167,598	$ 50,920	$ 137,227	$ 91,145	$ 42,958	$ 554	$ 1,365,481	$ 1,368,473	$ 34,089	$ 33,076

(Continued)

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Cash Flows *(Continued)*
Proprietary Funds

Year ended June 30, 2007
(with comparative financial information for year ended June 30, 2006)
(In Thousands)

	Business-type Activities - Enterprise Funds											Governmental Activities-Internal Service Funds	
	Major Funds								Other Fund	Total			
	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	2007	2006	2007	2006
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:													
Operating income (loss)	$ 72,855	$ 14,033	$ 13,204	$ (500,297)	$ (153,927)	$ 41,811	$ 53	$ (43,853)	$ 506	$ (555,615)	$ (555,947)	$ 613	$ (189)
Adjustments for non-cash activities:													
Depreciation and amortization	142,807	43,895	10,919	92,942	6,832	36,683	10,253	1,095	282	345,708	366,463	1,700	1,185
Provision for uncollectibles	(2,447)	-	(179)	(96)	-	68	142	-	-	(2,512)	134	-	-
Write-off of capital assets	-	10,193	4,583	-	-	710	-	-	-	15,486	11,172	-	-
Other	7,444	(1,457)	(10)	(3,866)	-	-	(233)	-	-	1,878	34,170	-	28
Changes in assets/liabilities:													
Receivables, net	985	(1,982)	13,539	3,691	(15,651)	(6,074)	(773)	(1,811)	2	(8,074)	(34,533)	20,600	18,513
Due from other funds	-	-	(1,982)	509	-	-	-	-	-	(1,473)	(1,918)	-	24
Inventories	16	175	6	305	1,314	-	(93)	180	-	1,903	(177)	-	-
Deferred charges and other assets	739	-	-	376	-	-	2,098	-	2	3,215	1,115	150	-
Accounts payable	14,749	2,883	(4,045)	8,890	8,819	249	(1,010)	(294)	(19)	30,222	(7,412)	3,561	(429)
Accrued payroll	796	1,488	(353)	2,544	2,334	247	-	651	-	7,707	6,068	171	218
Accrued vacation and sick leave pay	505	776	173	1,799	(953)	414	-	(1,191)	-	1,523	(632)	(92)	208
Accrued workers' compensation	(175)	(373)	248	(12,370)	997	(29)	-	512	-	(11,190)	(10,089)	(351)	(46)
Estimated claims payable	-	1,134	(217)	(2,662)	-	2,732	-	-	-	987	11,582	-	-
Due to other funds	-	(63)	-	-	12,925	-	-	(2,617)	-	10,245	3,672	(177)	-
Deferred credits and other liabilities	5,464	(1,224)	(110)	2,749	-	-	1,557	(78)	3	8,361	(11,978)	1,585	(2,697)
Total adjustments	170,883	55,445	22,572	94,811	16,617	35,000	11,941	(3,553)	270	403,986	367,637	27,147	17,004
Net cash provided by (used in) operating activities	$ 243,738	$ 69,478	$ 35,776	$ (405,486)	$ (137,310)	$ 76,811	$ 11,994	$ (47,406)	$ 776	$ (151,629)	$ (188,310)	$ 27,760	$ 16,815
Reconciliation of cash and cash equivalents to the statement of net assets:													
Deposits and investments with City Treasury:													
Unrestricted	$ 263,176	$ 105,730	$ 146,172	$ 110,651	$ 50,910	$ 52,222	$ 80,688	$ -	$ -	$ 809,549	$ 681,935	$ 11,029	$ 7,943
Restricted	142,942	219,521	-	16,417	-	85,005	5,789	42,957	-	512,631	672,143	-	-
Unrestricted deposits and investments outside City Treasury	10	40	10	7,006	10	-	5	1	554	7,636	9,758	23,060	25,133
Total deposits and investments	406,128	325,291	146,182	134,074	50,920	137,227	86,482	42,958	554	1,329,816	1,363,836	34,089	33,076
Add: Restricted deposits and investments outside City Treasury meeting the definition of cash equivalents	-	-	-	33,524	-	-	4,663	-	-	38,187	5,539	-	-
Less: Investments not meeting the definition of cash equivalents	(2,522)	-	-	-	-	-	-	-	-	(2,522)	(902)	-	-
Cash and cash equivalents at end of year on statement of cash flows	$ 403,606	$ 325,291	$ 146,182	$ 167,598	$ 50,920	$ 137,227	$ 91,145	$ 42,958	$ 554	$ 1,365,481	$ 1,368,473	$ 34,089	$ 33,076

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, 2007

(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Agency Funds
ASSETS			
Deposits and investments with City Treasury	$ 70,167	$ 645,568	$ 60,894
Deposits and investments outside City Treasury:			
Cash and deposits	70,495	105	14
Short term bills and notes	1,426,876	-	-
Debt securities	4,254,683	-	-
Equity securities	8,835,816	-	-
Real estate	1,698,685	-	-
Venture capital	1,604,653	-	-
Foreign currency contracts, net	10,466	-	-
Receivables:			
Employer and employee contributions	27,285	-	40,602
Brokers, general partners and others	853,921	-	-
Interest and other	57,491	9,776	143,626
Invested securities lending collateral	2,220,679	-	-
Deferred charges and other assets	-	-	26,658
Total assets	21,131,217	655,449	$ 271,794
LIABILITIES			
Accounts payable	15,134	9,266	$ 52,105
Estimated claims payable	10,025	-	-
Agency obligations	-	-	219,689
Obligations under fixed coupon dollar reverse repurchase agreements	468,164	-	-
Payable to brokers	1,390,144	-	-
Securities lending collateral	2,220,679	-	-
Deferred credits and other liabilities	31,128	-	-
Total liabilities	4,135,274	9,266	$ 271,794
NET ASSETS			
Held in trust for pension and other employee benefits and external pool participants	$ 16,995,943	$ 646,183	

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, 2007

(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund
Additions:		
Employees' contributions	$ 252,362	$ -
Employer contributions	576,705	-
Contributions to pooled investments	-	2,600,231
Total contributions	829,067	2,600,231
Investment income:		
Interest	241,499	31,395
Dividends	167,408	-
Net increase in fair value of investments	2,424,618	-
Securities lending income	106,208	-
Fixed coupon dollar reverse repurchase agreement income	27,050	-
Total investment income	2,966,783	31,395
Less investment expenses:		
Securities lending borrower rebates and expenses	(98,375)	-
Fixed coupon dollar reverse repurchase finance charges and expenses	(25,129)	-
Other expenses	(44,009)	-
Total investment expenses	(167,513)	-
Total additions, net	3,628,337	2,631,626
Deductions:		
Benefit payments	1,152,949	-
Refunds of contributions	7,645	-
Distribution from pooled investments	-	2,532,885
Administrative expenses	11,362	-
Total deductions	1,171,956	2,532,885
Change in net assets	2,456,381	98,741
Net assets at beginning of year	14,539,562	547,442
Net assets at end of year	$ 16,995,943	$ 646,183

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

(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 (DPT). The DPT consists of five commissioners appointed by the mayor. Upon creation of the DPT, the responsibility to oversee the City's off-street parking operations was transferred from the Parking Authority to the DPT. The staff and fiscal operations of the Parking Authority were also incorporated into the DPT. Beginning on July 1, 2002, the responsibility for overseeing the operations of the DPT 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 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 and as such, the PIDC is reported as a blended component unit of 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, 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, of which both are also excluded from the City's reporting entity.

(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. For the most part, the effect of interfund activity has been removed from these statements. 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.

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.

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 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 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.

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 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.

Generally, new or one-time federal and state grants, other capital projects, and debt issues are budgeted by the Mayor and the Board of Supervisors through a supplemental appropriation.

(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 issuance 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, 2007, involuntary participants accounted for approximately 94 percent of the pool. Voluntary participants accounted for 6 percent of the pool. Further, the school district, community college district, the Trial Courts of the State of California, and the Transbay Joint Powers Authority are external participants of the City's pool. At June 30, 2007, $646.2 million was held on behalf of these external participants. The total percentage share of the City's pool that relates to these four external participants is 19 percent. Internal participants accounted for 81 percent 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

Treasurer's Pool - All investments are carried at fair value. The fair value of pooled investments is determined annually and is based on current market prices. The fair value of participants' position in the pool is the same as the value of the pool shares. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawal. In the event that a certain fund overdraws its share of pooled cash, the overdraft is reported as a due to the General Fund.

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 current exchange rates. Investments that do not have an established market price are reported at estimated fair value. Purchases and sales of investments are recorded on a trade date basis. The fair values of real estate holdings are estimated based primarily on appraisals prepared by third-party appraisers. Such market value estimates involve subjective judgments, and the actual market price of the real estate can only be determined by negotiation between independent third parties in a sales transaction.

The fair values of venture capital investments are estimated based primarily on audited financial statements provided to the individual fund managers. Such market value estimates involve subjective judgments, and the actual market price of the investments can only be determined by negotiation between independent third parties in a sales transaction.

The City Charter and Retirement System Board policies permit the Retirement System to use investments of the Retirement System's Pension Plan (the Plan) to enter into securities lending transactions. These are loans of securities to broker-dealers and other entities for collateral, with a simultaneous agreement to return collateral for the same securities in the future. The collateral may consist of cash or noncash; noncash collateral is generally U.S. treasuries or other U.S. government obligations. The Retirement System's securities custodians are agents in lending the Plan's domestic securities for cash collateral of 102% and international securities for cash collateral of 105%. Contracts with the lending agents 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 if the borrowers 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.

Either the Retirement System or the borrower can terminate all securities loans on demand, although the average term of the loans at June 30, 2007 is eighty-two days. In lending domestic securities, cash collateral is invested in the lending agent's short-term investment pool, which at year-end had a weighted-average maturity of fifty-four days. In lending international securities, cash collateral is invested in a separate short-term investment pool, which at year-end had a weighted-average maturity of thirty-seven days. The relationship between the maturities of the investment pools and the Retirement System's loans is affected by the maturities of the securities loans made by other entities that use the agent's pool, which the Retirement System cannot determine. 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 received as collateral on securities lending transactions is reported as an asset, and liabilities from these transactions are reported in the statement of net assets. Additionally, the costs of securities lending transactions, such as borrower rebates and fees, are recorded as expenses.

The City Charter and Retirement System 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. This credit exposure at June 30, 2007 was approximately $133 thousand.

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), and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) that have a remaining maturity at the time of purchase of one year or less 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, 2007. Money market investments (such as short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and agency obligations) and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) that have a remaining maturity of less than one year at the date of purchase are valued at the amortized cost, which approximates fair value as of June 30, 2007.

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 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, 2007, it was determined that $414.5 million of the $478.7 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 $5,000 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 market 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.

(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, 2009.

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 of 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.

(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 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.

Reserves 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, 2007, the government-wide statement of net assets reported restricted assets of $430.8 million in governmental activities and $349.1 million in business-type activities. For governmental activities, $10.4 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.

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, 2007.

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.

Deficit Net Assets/Fund Balances

The Moscone Convention Center Fund had a $4.3 million deficit as of June 30, 2007. The deficit will be covered as hotel tax revenues are realized.

The Telecommunications and Information Internal Service Fund had a $1.4 million deficit in total net assets as of June 30, 2007. The deficit of total net assets relates to operations and is expected to be reduced in future years through anticipated rate increases or reductions in 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.

(1) 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.

(2) 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.

(n) 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.

(o) 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.

(p) Reclassifications

Certain amounts presented as 2005-2006 Summarized Comparative Financial Information in the basic financial statements have been reclassified for comparative purposes to conform to the presentation in the 2006-2007 basic financial statements.

(q) Effects of New Pronouncements

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

In June 2004, GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which addresses how state and local governments should account for and report their costs and obligations related to postemployment healthcare and other nonpension benefits. Collectively, these benefits are commonly referred to as other postemployment benefits, or OPEB. The statement generally requires that employers account for and report the annual cost of OPEB and the outstanding obligations and commitments related to OPEB in essentially the same manner as they currently do for pensions. Annual OPEB cost for most employers will be based on actuarially determined amounts that, if paid on an ongoing basis, generally would provide sufficient resources to pay benefits as they come due. This statement's provisions may be applied prospectively and do not require governments to fund their OPEB plans. An employer may establish its OPEB liability at zero as of the beginning of the initial year of implementation; however, the unfunded actuarial liability is required to be amortized over future periods. This statement also establishes disclosure requirements for information about the plans in which an employer participates, the funding policy followed, the actuarial valuation process and assumptions, and, for certain employers, the extent to which the plan has been funded over time. This statement is effective for the City's fiscal year ending June 30, 2008.

In December 2006, GASB issued Statement No. 49 *Accounting and Financial Reporting for Pollution Remediation Obligations*. This statement issued a standard that will require state and local governments to provide the public with better information about the financial impact of environmental cleanups. This statement is effective for the City's fiscal year ending June 30, 2009.

(r) 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. In addition, certain grant proceeds are restricted by the granting agency.

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

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

Total fund balances of the City's governmental funds, $1,251,939, differ from net assets of governmental activities, $1,871,011, 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 (in thousands)

	Total Governmental Funds	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	$ 1,338,831	$ -	$ 11,029	$ -	$ 1,349,860
Deposits and investments outside City Treasury	51,743	-	58,127	-	109,870
Receivables, net:					
Property taxes and penalties	59,678	-	-	-	59,678
Other local taxes	186,183	-	-	-	186,183
Federal and state grants and subventions	161,667	-	-	-	161,667
Charges for services	30,596	-	-	-	30,596
Interest and other	30,387	-	1,133	-	31,520
Due from other funds	46,759	-	-	(46,759)	-
Due from/Advance to component unit	6,665	-	-	-	6,665
Loans receivable, net	64,504	-	-	-	64,504
Capital assets, net	-	2,895,233	5,536	-	2,900,769
Deferred charges and other assets	9,612	17,165	7,059	-	33,836
Total assets	$ 1,986,625	$ 2,912,398	$ 82,884	$ (46,759)	$ 4,935,148
Liabilities					
Accounts payable	$ 181,575	$ -	$ 10,077	$ -	$ 191,652
Accrued payroll	69,122	-	1,773	-	70,895
Accrued vacation and sick leave pay	-	130,374	3,839	-	134,213
Accrued workers' compensation	-	193,935	754	-	194,689
Estimated claims payable	-	114,431	-	-	114,431
Accrued interest payable	-	7,033	1,748	-	8,781
Deferred tax, grant and subvention revenues	67,021	(62,464)	-	-	4,557
Due to other funds/internal balances	51,235	-	3,663	(46,759)	8,139
Deferred credits and other liabilities	215,733	(93,865)	1,758	-	123,626
Bonds, loans, capital leases, and other payables	150,000	1,812,858	250,296	-	2,213,154
Total liabilities	734,686	2,102,302	273,908	(46,759)	3,064,137
Fund balances/net assets					
Total fund balances/net assets	1,251,939	810,096	(191,024)	-	1,871,011
Total liabilities and fund balances/net assets	$ 1,986,625	$ 2,912,398	$ 82,884	$ (46,759)	$ 4,935,148

(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	$ 3,650,276
Accumulated depreciation	(755,043)
	$ 2,895,233

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. $ 17,165

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	$ (130,374)
Accrued workers' compensation	(193,935)
Estimated claims payable	(114,431)
Bonds, loans, capital leases, and other payables	(1,812,858)
Deferred credits and other liabilities	(1,874)
	$ (2,253,472)

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid. $ (7,033)

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 revenue	$ 62,464
Deferred credits and other liabilities	95,739
	$ 158,203

(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	(275)
Adjustments for internal balances with San Francisco Finance Corporation:	
Capital lease receivables from other governmental and enterprise funds	(251,197)
Deferred charges and other assets	3,671
Deferred credits and other liabilities	56,777
	$ (191,024)

In addition, intrafund receivables and payables among various internal service funds of $0.1 million are eliminated.

(b) Explanation of certain differences between the governmental fund 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, ($63,645), differs from the change in net assets for governmental activities $76,393, 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 (in thousands)

	Total Governmental Funds	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	$ 1,107,864	$ 19,128	$ -	$ -	$ -	$ 1,126,992
Business taxes	337,592	-	-	-	-	337,592
Other local taxes	668,824	-	-	-	-	668,824
Licenses, permits and franchises	27,428	3,313	-	-	-	30,741
Fines, forfeitures and penalties	8,871	-	-	-	-	8,871
Interest and investment income	83,846	330	-	2,057	-	86,233
Rents and concessions	52,493	257	-	-	-	52,750
Intergovernmental:						
Federal	381,688	-	-	-	-	381,688
State	582,666	1,883	-	-	-	584,549
Other	15,689	-	-	-	-	15,689
Charges for services	273,057	-	-	-	-	273,057
Other revenues	44,084	-	1,841	-	-	45,925
Total revenues	3,584,102	24,911	1,841	2,057	-	3,612,911
Expenditures/Expenses						
Expenditures:						
Public protection	865,556	3,892	5,022	(4,089)	-	870,381
Public works, transportation and commerce	280,907	23,503	15,531	(10,846)	-	309,095
Human welfare and neighborhood development	740,171	10,364	499	-	-	751,034
Community health	509,844	5,560	924	(7)	-	516,321
Culture and recreation	286,135	9,414	25,578	(10,880)	(19,700)	290,547
General administration and finance	167,505	6,681	12,639	(864)	-	185,961
General City responsibilities	57,532	10,602	-	(1,041)	855	67,948
Debt service:						
Principal retirement	98,169	-	-	-	(98,169)	-
Interest and fiscal charges	71,266	-	-	9,565	13,229	94,060
Bond issuance costs	3,683	-	-	-	(3,683)	-
Capital outlay	283,370	-	(283,370)	-	-	-
Total expenditures/expenses	3,364,138	70,016	(223,177)	(18,162)	(107,468)	3,085,347
Other financing sources (uses)/changes in net assets						
Net transfers (to) from other funds	(451,549)	-	(172)	550	-	(451,171)
Issuance of bonds and loans:						
Face value of bonds issued	312,955	-	-	-	(312,955)	-
Face value of loans issued	141	-	-	-	(141)	-
Premium on issuance of bonds	3,521	-	-	-	(3,521)	-
Discount on issuance of bonds	(1,856)	-	-	-	1,856	-
Payment to escrow for refunded debt	(159,610)	-	-	-	159,610	-
Other financing sources - capital leases	12,789	-	-	(10,007)	(2,782)	-
Total other financing sources (uses)/changes in net assets	(283,609)	-	(172)	(9,457)	(157,933)	(451,171)
Net change for the year	$ (63,645)	$ (45,105)	$ 224,846	$ 10,762	$ (50,465)	$ 76,393

(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.	$ 19,128
	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.	5,783
		$ 24,911
	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 decrease in long-term liabilities exceeded expenses reported in the statement of activities that do not require the use of current financial resources.	$ (39,293)
	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.	(30,723)
		$ (70,016)

(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	$ 290,619
Depreciation expense	(67,400)
Loss on disposal of capital assets	(42)
Transfer of asset to enterprise fund	(172)
Capital asset acquired by donation or funded by other revenues	1,841
Difference	$ 224,846

(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.	$ 10,762

(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	$ 19,700

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	$ 3,683
Amortization of bond issuance costs	(855)
Difference	$ 2,828

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	$ (1,665)

Repayment of bond principal is 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 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.

Principal payments made	$ 98,169
Payments to escrow for refunded debt	159,610
	$ 257,779

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	(2,000)
Refunding general obligation bonds	(157,255)
Certificate of participation	(153,700)
Capital lease for equipment	(2,782)
Loans	(141)
	(315,878)
	$ (58,099)

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 which 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	$ (574)
Interest payment on capital lease obligations on the Moscone Convention Center	(12,357)
Amortization of bond premiums, discounts and refunding losses	673
Increase in arbitrage rebate liability	(971)
	$ (13,229)

(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).

The fund balance of the General Fund as of June 30, 2007 on a Budget basis is reconciled to the fund balance on a GAAP basis as follows (in thousands):

	General Fund
Fund Balance - Budget Basis	$ 563,435
Unrealized Gains/(Losses) on Investments	(376)
Cumulative Excess Property Tax Revenues Recognized on a Budget Basis	(30,940)
Repayment from Redevelopment Agency for Jessie Square Garage	(3,323)
Reserved for Assets Not Available for Appropriation	12,665
Fund Balance - GAAP Basis	$ 541,461

General Fund Budget basis fund balance at June 30, 2007 is composed of the following (in thousands):

Reserved for Rainy Day - Economic Stabilization Reserve	$ 117,556	
Reserved for Rainy Day - One-Time Spending Account	16,066	
Reserved for Encumbrances	60,948	
Reserved for Appropriation Carryforward	161,128	
Reserved for Subsequent Years' Budgets:		
Baseline Appropriation Funding Mandates	2,891	
Budget Savings Incentive Program	10,540	
Litigation	6,824	
Salaries and benefits costs (MOU)	11,806	
Total Reserved Fund Balance		$ 387,759
Designated for Litigation and Contingencies	43,794	
Unreserved, Undesignated Fund Balance - Available for Appropriation	131,882	
Total Unreserved Amounts		175,676
Fund Balance, June 30, 2007 - Budget basis		$ 563,435

Of the $131.9 million unreserved, undesignated fund balance – available for appropriation, $118.9 million has been subsequently appropriated as part of the General Fund budget for use in fiscal year 2007-2008.

(5) DEPOSITS AND INVESTMENTS

(a) *Cash, Deposits and Investments Presentation*

Total City cash, deposits and investments, at fair value, are as follows (dollars in thousands):

	Primary Government				Component Units
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	
Deposits and investments with City Treasury	$ 1,349,860 [1]	$ 809,548	$ 776,629 [2]	$ 2,936,037	$ 1,697
Deposits and investments outside City Treasury	109,870 [3]	11,351	17,901,793	18,023,014	234,887
Restricted assets:					
Deposits and investments with City Treasury	-	512,631	-	512,631	-
Deposits and investments outside City Treasury	-	298,139	-	298,139	99,795
Invested securities lending collateral	-	-	2,220,679	2,220,679	-
Total deposits and investments	$ 1,459,730	$ 1,631,669	$ 20,899,101	$ 23,990,500	$ 336,379
Cash and deposits	$ (116,792)	$ 16,524	$ 70,495	$ (29,773)	$ 49,233
Investments	1,576,522	1,615,145	20,828,606	24,020,273	287,146
Total deposits and investments	$ 1,459,730	$ 1,631,669	$ 20,899,101	$ 23,990,500	$ 336,379

[1] Includes deposits and investments with the City Treasury of total governmental funds ($1,338,831) and internal service funds ($11,029).

[2] Includes deposits and investments with the City Treasury of pension and other employee benefit trust funds ($70,167), investment trust fund ($645,568), and agency funds ($60,894).

[3] Includes deposits and investments outside the City Treasury of total governmental funds ($51,743) and internal service funds ($58,127).

(b) *Cash and Deposits*

The City had cash and deposits at June 30, 2007, as follows (in thousands):

	Primary Government						Component Units	
	Governmental Activities		Business-type Activities		Fiduciary Funds			
	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance	Carrying Amount	Bank Balance
Cash on hand	$ 375	$ -	$ 1,244	$ -	$ -	$ -	$ 1	$ -
Federally insured deposits	600	600	280	280	100	100	200	200
Collateralized deposits*	(118,249)	40,090	160	150	19,608	19,608	49,032	52,757
Uninsured and uncollateralized	482	482	14,840	14,840	50,787	50,787	-	-
	$ (116,792)	$ 41,172	$ 16,524	$ 15,270	$ 70,495	$ 70,495	$ 49,233	$ 52,957

* Under the City's cash management policy, investments are converted to cash as checks are presented for payment. At June 30, 2007, the carrying amount of collateralized deposits has been reduced by the amount of outstanding checks and other distribution accounts of approximately $161.3 million. Of the $161.3 million of outstanding checks, $42.8 million relates to the San Francisco Unified School District which has been reflected in an investment trust fund.

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, 2007, $14.8 million and $50.8 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.

(c) Investment Policies

Cash and Cash Equivalents

The City's cash and cash equivalents include all highly liquid investments and are considered to be cash on hand, restricted assets demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

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), 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 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.

Although the California Government Code and the City's investment policy do not limit the amount of City funds that may be invested in treasury bills and treasury notes, purchases of treasury bonds are restricted to a maximum of five percent of the total portfolio at the time of purchase. Further, 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 neither exceed 60 percent of the total portfolio at the time of purchase nor have a weighted average maturity in excess of 270 days. If it exceeds 270 days, the total should not exceed 30 percent of the total par value of the portfolio. The investment policy also limits each type of agency instrument.

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. The investment policy restricts exposure to $100,000 for all savings institutions and requires that each deposit be fully guaranteed by the Federal Deposit Insurance Corporation. 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.

Also, the California State Government Code requires that the Treasurer purchase only domestic commercial paper with maturities not to exceed 270 days and that the issuer must be rated in the highest ranking by at least one of the national rating agencies. However, the Treasurer's investment policy is more restrictive in that it requires that the Treasurer purchase only domestic commercial paper with maturities not to exceed 180 days.

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury Bills	N/A	None	None
U.S. Treasury Notes	N/A	None	None
U.S. Treasury Bonds	N/A	5%	None
U.S. Agency Securities	N/A	60%	None
Commercial Paper Discounts	180 days	40%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Public Time Deposit	1 year	None	None
Public Demand Accounts	N/A	None	None
Bankers Acceptances	180 days	40%	30%
Repurchase Agreements	30 days	None	None
Reverse Repurchase Agreements	45 days	None	$75 million

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; 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 (Code). Investments are restricted to certain types of instruments and certain of these instruments are only allowed within limits. The Code permits 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.

(d) 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 to changes in market interest rates. The following schedule indicates the interest rate risk of the City's investments as of June 30, 2007 (in thousands). The Employees' Retirement System's interest rate risk information begins on page 68.

		Investment Maturities			
	Fair Value	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	$ 24,405	$ 24,405	$ -	$ -	$ -
U.S. Treasury Notes	613,042	538,420	74,622	-	-
U.S. Agencies - Discount	1,915,967	1,915,967	-	-	-
Commercial paper	591,942	591,942	-	-	-
Negotiable certificates of deposits	379,879	379,879	-	-	-
Public time deposits	48,494	48,494	-	-	-
Less: Treasure Island Development Authority					
Investments with City Treasury	(1,697)	(1,697)	-	-	-
Subtotal investments in City Treasury	3,572,032	$ 3,497,410	$ 74,622	$ -	$ -
Investments Outside City Treasury:					
(Governmental and Business-Type)					
U.S. Treasury Notes	1,933	$ -	$ 1,933	$ -	$ -
U.S. Treasury Bills	13,906	13,906	-	-	-
U.S. Agencies - Coupon	17,905	5,484	12,421	-	-
U.S. Agencies - Discount	210,303	210,303	-	-	-
Money market mutual funds	150,800	155,068	-	-	-
Equity securities	780	780	-	-	-
Commercial paper	756	756	-	-	-
Subtotal investments outside City Treasury	396,383	$ 386,297	$ 14,354	$ -	$ -
Employees' Retirement System investments	20,051,858				
Total Primary Government	24,020,273				
Component Units:					
Redevelopment Agency:					
U.S. Agencies - Coupon	73,831	$ 43,245	$ 30,586	$ -	$ -
U.S. Agencies - Discount	15,743	15,743	-	-	-
Bankers' acceptances	12,591	12,591	-	-	-
Commercial paper	8,527	8,527	-	-	-
Certificate of deposit	5,000	5,000	-	-	-
Repurchase agreements	1,047	1,047	-	-	-
State Local Agency Investment Fund	62,994	62,994	-	-	-
Money market mutual funds	55,637	55,637	-	-	-
Guaranteed investment contracts	50,079	-	27,282	-	22,797
Subtotal Redevelopment Agency	285,449	$ 204,784	$ 57,868	$ -	$ 22,797
Treasure Island Development Authority:					
Investments with City Treasury	1,697	$ 1,697	$ -	$ -	$ -
Subtotal Treasure Island Development Authority	1,697	$ 1,697	$ -	$ -	$ -
Total Component Units	287,146				
Total Investments	$ 24,307,419				

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 30% of the Agency's portfolio if average maturity is no more than 31 days or 15% if average maturity is more than 31 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, 2007 for each investment type in the City's Treasury.

Investment Type	Minimum Legal Rating	Standard & Poor's Rating	Total Investment Portfolio
U.S. Treasury Bills	N/A	A-1	1%
U.S. Treasury Notes	N/A	A-1	17%
U.S. Agencies	N/A	A-1	53%
Commercial Paper	A-1	A-1	17%
Negotiable Certificates of Deposits	N/A	A-1	12%

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 or better, and maintaining a portfolio diversified by type and issuer.

Investment Type	Credit Ratings	Total Investment Portfolio
U.S. Agencies - Coupon	AAA	26%
U.S. Agencies - Discount	AAA	5%
Commercial paper	A-1/P-1+	3%
State Local Agency Investment Fund	Not rated	22%
Money market mutual funds	AAAm	20%
Guaranteed investment contracts	AA or Higher	18%
Bankers acceptances	Not rated	4%
Certificates of deposit	N/A	2%

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.

The Agency does not have a formal investment policy for custodial credit risk for investments. As of June 30, 2007, $1 million of the Agency's investments are uninsured and unregistered.

Concentration of Credit Risk

The City diversifies its portfolio by limiting the percentage of the portfolio that can be invested in any one issuer's name. U.S. Treasury and Agency securities are not subject to single issuer limitation. More than 5 percent of the City's investments with the City Treasurer are in the Federal Home Loan Mortgage Corporation, Federal Home Loan Bank, and the Federal National Mortgage Association. These investments represent 19 percent, 15 percent, and 19 percent, respectively, of the City's investments in U.S. Agencies. The City's investments in commercial paper are with Bank of America, JP Morgan Chase & Co., and Union Bank, with Bank of America representing 10 percent of the total 17 percent investment in commercial paper. The City's investments in negotiable certificates of deposit are all with Bank of America.

In addition, 52 percent of Airport's investments with its trustees are in Federal Home Loan Mortgage Corporation and 43 percent in Federal National Mortgage Association. The Finance Corporation's investments with its trustee are held in Federal National Mortgage Association for 83 percent and in Federal Home Loan Bank for 17 percent.

(e) 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, 2007 (in thousands):

Statement of Net Assets	
Net assets held in trust for all pool participants.........	$ 3,450,364
Equity of internal pool participants.........................	2,804,181
Equity of external pool participants........................	646,183
Total equity..	$ 3,450,364
Statement of Changes in Net Assets	
Net assets at July 1, 2006....................................	$ 3,591,164
Net change in investments by pool participants.........	(140,800)
Net assets at June 30, 2007...............................	$ 3,450,364

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2007 (in thousands):

Types of Investment	Rates	Maturities	Par Value	Carrying Value
U.S. government securities...............	2.75% - 5.07%	08/15/07-12/31/08	$ 640,000	$ 637,446
Federal agencies..............................	4.79% - 5.25%	07/02/07-03/31/08	1,979,000	1,915,967
Negotiable certificate of deposits.........	5.24% - 5.32%	08/23/07-12/28/07	380,000	379,879
Commercial paper.............................	5.08% - 5.31%	07/02/07-10/09/07	603,000	591,942
Public time deposits..........................	4.50% - 5.63%	07/16/06-06/07/08	50,200	48,495
			$ 3,652,200	3,573,729
Carrying amount of deposits in Treasurer's Pool....................................				(123,365)
Total cash and investments in Treasurer's Pool....................................				$ 3,450,364

(f) *Retirement System Investments*

The Retirement System's investments as of June 30, 2007 are summarized as follows (in thousands):

Fixed Income Investments:	
Short-term bills and notes	$ 1,522,713
Debt securities:	
U.S. Government and agencies	2,021,509
U.S. Corporate	1,861,859
International government	110,243
International corporate	165,235
Subtotal debt securities	4,158,846
Total fixed income investments	5,681,559
Equity securities:	
Domestic	4,958,204
International	3,877,612
Total equity securities	8,835,816
Real estate holdings	1,698,685
Venture capital	1,604,653
Foreign currency contracts, net	10,466
Investment in lending agent's short-term investment pool	2,220,679
Total Retirement System Investments	$ 20,051,858

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.

Below is a table depicting the segmented time distribution for fixed income investments based upon the expected maturity (in years) as of June 30, 2007 (in thousands):

Investment Type	Fair Value	Less than 1 year	1-6 years	6-10 years	10+ years
Asset Backed Securities	$ 100,973	$ -	$ 47,195	$ 7,301	$ 46,477
Commercial Mortgage-Backed Securities	521,581	-	24,594	73,918	423,069
Corporate Bonds	532,746	32,898	160,762	212,501	126,585
Corporate Convertible Bonds	209,433	600	38,038	12,294	158,501
Government Agencies	184,844	-	21,036	62,507	101,301
Government Bonds	821,545	5,871	485,581	176,048	154,045
Government Mortgage-Backed Securities	234,650	-	-	3,225	231,425
Index Linked Government Bonds	42,448	-	3,920	14,219	24,309
Loans	95,838	-	53,612	42,226	-
Mortgages	175	-	-	175	-
Municipal/Provincial Bonds	13,515	-	5,233	8,282	-
Non-Government Backed Collateralized Mortgage Obligations	156,122	2,597	6,147	2,175	145,203
Short-term Bills and Notes	8,167	8,167	-	-	-
Total	$ 2,922,037	$ 50,133	$ 846,118	$ 614,871	$ 1,410,915

Credit Risk

During the year ended June 30, 2007, the Retirement Board approved a change to investment credit risk from 10% to 5% exposure in any single security; the fixed income investment managers 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 as of June 30, 2007 (amounts in thousands):

Investment Type	Fair Value	AAA	AA	A	BBB	BB	B	C	Not Rated
Asset Backed Securities	$ 100,973	$ 51,581	$ -	$ -	$ 3,760	$ 6,131	$ 728	$ -	$ 38,773
Commercial Mortgage-Backed	521,581	104,944	-	-	19,629	32,609	21,290	767	342,342
Corporate Bonds	1,102,452	3,812	4,528	45,768	108,525	70,525	124,111	37,823	707,360
Corporate Convertible Bonds	209,433	-	4,610	26,320	35,743	23,239	12,833	3,666	103,022
Government Agencies	184,844	178,340	3,120	3,384	-	-	-	-	-
Government Bonds	94,777	20,833	-	6,985	18,674	13,329	3,200	470	31,286
Government Mortgage-Backed Securities	1,069,400	-	-	-	-	-	-	-	1,069,400
Index Linked Government Bonds	3,911	3,911	-	-	-	-	-	-	-
Mortgages	175	-	-	-	-	-	-	-	175
Municipal/Provincial Bonds	13,515	5,615	7,900	-	-	-	-	-	-
Loans	95,838	-	-	-	-	-	-	-	95,838
Unit Trust Bonds	43,987	-	-	-	-	-	-	-	43,987
Non-Government Backed Collateralized Mortgage Obligations	156,120	31,025	1,787	18,158	3,519	5,735	2,223	-	93,673
Other Fixed Income -Commingled Funds	68,844	-	-	-	-	-	-	-	68,844
Short-term bills and notes	8,167	-	-	-	-	-	-	-	8,167
Total	$ 3,674,017	$ 400,061	$ 21,945	$ 100,615	$ 189,850	$ 151,568	$ 164,385	$ 42,726	$ 2,602,867

The ratings are the lower of the ratings by Moody's Investors Service (Moody's) and Standard & Poor's (S&P). Investments not rated by either Moody's or S&P are shown as not rated in the above table.

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, 2007, $54.4 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, 2007, 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 international equity and fixed income investments. The Retirement System's net exposure to foreign currency risk for fiscal year 2006-2007 is as follows (in thousands):

Currency	Cash	Equity	Fixed Income	Venture Capital	Swaps	Total
Argentine peso	$ -	$ -	$ 1,436	$ -	$ -	$ 1,436
Australian dollar	272,390	137,105	5,554	-	-	415,049
Brazilian real	7,611	30,569	4,939	-	17,488	60,607
British pound sterling	(13,437)	577,218	16,129	2,267	2,286	584,463
Canadian dollar	170,834	107,178	2,241	-	-	280,253
Chilean peso	5,548	-	-	-	-	5,548
Chinese yuan renminbi	105,296	-	-	-	-	105,296
Columbian peso	7,421	-	-	-	-	7,421
Czech koruna	11,584	15,705	-	-	-	27,289
Danish krone	1,436	21,330	-	-	-	22,766
Egyptian pound	(82)	12,322	-	-	2,740	14,980
Euro currency	(293,615)	1,111,568	13,929	161,548	-	993,430
Hong Kong dollar	(33,996)	138,602	-	-	-	104,606
Hungarian forint	7,018	24,798	4,568	-	-	36,384
Iceland krona	9,646	-	-	-	-	9,646
Indian rupee	10,216	-	2,199	-	-	12,415
Indonesian rupiah	1,895	3,189	1,413	-	-	6,497
Japanese yen	(105,818)	591,855	7,557	20,993	-	514,587
Kuwaiti dinar	1,098	-	-	-	-	1,098
Malaysian ringgit	8,826	22,210	3,393	-	2,329	36,758
Mexican peso	29,018	23,334	14,932	-	-	67,284
New Israeli shekel	1,830	7,141	-	-	-	8,971
New Taiwan dollar	20,149	766	-	-	-	20,915
New Zealand dollar	(55,497)	2,709	3,911	-	-	(48,877)
Nigerian naira	-	-	-	-	549	549
Norwegian krone	118,027	33,805	-	-	-	151,832
Peruvian nuevo sol	601	-	-	-	-	601
Philippine peso	4,546	989	-	-	-	5,535
Polish zloty	16,372	22,913	-	-	-	39,285
Russian ruble (new)	24,143	-	2,864	-	2,599	29,606
Singapore dollar	29,683	41,729	-	-	-	71,412
Slovak koruna	6,340	-	-	-	-	6,340
South African rand	11,947	30,960	-	-	-	42,907
South Korean won	7,416	132,917	-	-	-	140,333
Swedish krona	43,509	75,880	1,151	-	-	120,540
Swiss franc	65,301	208,111	-	-	-	273,412
Thai baht	-	15,154	-	-	-	15,154
Turkish lira	2,217	18,307	3,078	-	7,943	31,545
Total	$ 499,473	$ 3,408,364	$ 89,294	$ 184,808	$ 35,934	$ 4,217,873

Investments in forward currency contract investments are commitments to purchase or sell stated amounts of foreign currency. Changes in market 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, 2007, the fair value of open contracts is summarized as follows (in thousands):

Purchase contracts	$ 9,939,724
Sales contracts	(9,929,258)
Net fair value	$ 10,466

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 (in thousands):

Contracts used to hedge or to settle trades, net	$ (1,958,748)
Contracts used to increase investment exposure in a foreign currency or to settle trades, net	1,969,214
Net fair value	$ 10,466

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 market value of domestic securities and non-domestic 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 $2.6 billion in securities and received collateral of $0.4 billion and $2.2 billion in securities and cash, respectively, from borrowers. The Retirement System's securities lending transactions as of June 30, 2007, are summarized in the following table (in thousands):

Security Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Non-Cash Collateral
Securities Loaned for Cash Collateral:			
International Equities	$ 597,707	$ 626,777	$ -
International Government Fixed	5,147	5,421	-
U.S. Agencies	211,666	215,666	-
U.S. Corporate Fixed	163,124	166,855	-
U.S. Equities	671,152	687,093	-
U.S. Government Fixed	508,822	518,867	-
Securities Loaned with Non-Cash Collateral:			
International Equities	303,724	-	319,919
International Government Fixed	33,971	-	35,688
International UK Gilt	991	-	1,046
U.S. Corporate Fixed	7,119	-	7,246
U.S. Equities	61,134	-	62,851
U.S. Government Fixed	12,008	-	12,263
Total	$ 2,576,565	$ 2,220,679	$ 439,013

The Retirement System does not have the ability to pledge or sell collateral securities unless a borrower defaults. As of June 30, 2007, 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.

(g) *Supplemental disclosure of non-cash investing, capital and financing activities*

San Francisco International Airport

In November 2006, the San Francisco International Airport (SFO) issued Second Series Revenue Refunding Bonds Issue 32 F/G/H. The $453 million were issued as fixed rate bonds and the proceeds were used to refund certain revenue bonds previously issued.

San Francisco Water Enterprise

During fiscal year 2006-2007, the Water Enterprise issued 2006 Water Revenue Refunding Bonds, Series C in the amount of $48.7 million for the purpose of refunding a portion of the outstanding 1996 Series A Bonds maturing on and after November 2007.

Other Non-Cash Transactions

The following represents the other non-cash transactions as of June 30, 2007 (in thousands):

	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water & Power	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Internal Service Funds	Total 2007
Donated inventory	$ -	$ -	$ -	$ 1,890	$ -	$ -	$ -	$ 1,890
Tenant Improvements	-	-	-	-	-	589	-	589
Acquisition of capital assets on accounts payable and capital leases	16,578	29,071	5,122	786	4,090	920	4,399	60,966
Land acquired through real property exchange	-	354	-	-	-	-	-	354
Total	$ 16,578	$ 29,425	$ 5,122	$ 2,676	$ 4,090	$ 1,509	$ 4,399	$ 63,799

(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 due 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 dates of the underlying transaction.

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 $122 million for the year ended June 30, 2007.

Taxable valuation for the year ended June 30, 2007 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Redevelopment Agency) was approximately $117 billion, an increase of 9.5%. The secured tax rate was $1.135 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 $0.135 for bond debt service. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 2.44% and 3.57%, respectively, of the current year tax levy, for an average delinquency rate of 2.52% 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 County; in return, as the delinquent property taxes and associated penalties and interest are collected, the County 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, 2007 was $13.2 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.

(7) CAPITAL ASSETS

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2007, was as follows (in thousands):

Governmental Activities:

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	$ 143,640	$ 8,291	$ (14)	$ 151,917
Construction in progress	360,887	155,463	(190,522)	325,828
Total capital assets, not being depreciated	504,527	163,754	(190,536)	477,745
Capital assets, being depreciated:				
Facilities and improvements	2,364,110	268,947	(307)	2,632,750
Machinery and equipment	275,424	25,301	(3,050)	297,675
Infrastructure	255,260	27,541	-	282,801
Property held under lease	139	-	-	139
Total capital assets, being depreciated	2,894,933	321,789	(3,357)	3,213,365
Less accumulated depreciation for:				
Facilities and improvements	479,158	45,428	(135)	524,451
Machinery and equipment	230,642	16,496	(3,009)	244,129
Infrastructure	14,659	6,963	-	21,622
Property held under lease	139	-	-	139
Total accumulated depreciation	724,598	68,887	(3,144)	790,341
Total capital assets, being depreciated, net	2,170,335	252,902	(213)	2,423,024
Governmental activities capital assets, net	$ 2,674,862	$ 416,656	$ (190,749)	$ 2,900,769

Business-type Activities:

Capital asset activity of the business enterprises for the year ended June 30, 2007, was as follows (in thousands):

San Francisco International Airport

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	$ 2,316	$ -	$ -	$ 2,316
Construction in progress	68,190	106,009	(105,584)	68,615
Total capital assets, not being depreciated	70,506	106,009	(105,584)	70,931
Capital assets, being depreciated:				
Facilities and improvements	4,817,171	103,743	(685)	4,920,229
Machinery and equipment	68,628	3,084	(8,473)	63,239
Easements	139,367	-	-	139,367
Total capital assets, being depreciated	5,025,166	106,827	(9,158)	5,122,835
Less accumulated depreciation for:				
Facilities and improvements	1,297,599	133,754	(458)	1,430,895
Machinery and equipment	61,293	2,098	(8,425)	54,966
Easements	60,009	6,955	-	66,964
Total accumulated depreciation	1,418,901	142,807	(8,883)	1,552,825
Total capital assets, being depreciated, net	3,606,265	(35,980)	(275)	3,570,010
Capital assets, net	$ 3,676,771	$ 70,029	$ (105,859)	$ 3,640,941

San Francisco Water Enterprise

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	$ 17,929	$ 354	$ (6)	$ 18,277
Construction in progress	199,655	216,788	(105,345)	311,098
Total capital assets, not being depreciated	217,584	217,142	(105,351)	329,375
Capital assets, being depreciated:				
Facilities and improvements	1,074,491	92,636	(1,054)	1,166,073
Machinery and equipment	116,893	5,977	(286)	122,584
Total capital assets, being depreciated	1,191,384	98,613	(1,340)	1,288,657
Less accumulated depreciation for:				
Facilities and improvements	424,816	35,218	(1,053)	458,981
Machinery and equipment	76,398	8,677	(279)	84,796
Total accumulated depreciation	501,214	43,895	(1,332)	543,777
Total capital assets, being depreciated, net	690,170	54,718	(8)	744,880
Capital assets, net	$ 907,754	$ 271,860	$ (105,359)	$ 1,074,255

Hetch Hetchy Water and Power

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	$ 4,215	$ -	$ -	$ 4,215
Construction in progress	53,630	23,536	(18,041)	59,125
Total capital assets, not being depreciated	57,845	23,536	(18,041)	63,340
Capital assets, being depreciated:				
Facilities and improvements	452,785	11,872	-	464,657
Machinery and equipment	40,563	2,307	(106)	42,764
Total capital assets, being depreciated	493,348	14,179	(106)	507,421
Less accumulated depreciation for:				
Facilities and improvements	252,313	9,285	-	261,598
Machinery and equipment	28,807	1,634	(98)	30,343
Total accumulated depreciation	281,120	10,919	(98)	291,941
Total capital assets, being depreciated, net	212,228	3,260	(8)	215,480
Capital assets, net	$ 270,073	$ 26,796	$ (18,049)	$ 278,820

Municipal Transportation Agency

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	$ 26,245	$ -	$ -	$ 26,245
Construction in progress	461,214	161,649	(325,427)	297,436
Total capital assets, not being depreciated	487,459	161,649	(325,427)	323,681
Capital assets, being depreciated:				
Facilities and improvements	387,423	18,910	(517)	405,816
Machinery and equipment	1,081,264	28,158	(10,102)	1,099,320
Infrastructure	719,066	284,128	-	1,003,194
Total capital assets, being depreciated	2,187,753	331,196	(10,619)	2,508,330
Less accumulated depreciation for:				
Facilities and improvements	161,796	8,890	-	170,686
Machinery and equipment	368,952	61,158	(8,917)	421,193
Infrastructure	254,589	22,876	-	277,465
Total accumulated depreciation	785,337	92,924	(8,917)	869,344
Total capital assets, being depreciated, net	1,402,416	238,272	(1,702)	1,638,986
Capital assets, net	$ 1,889,875	$ 399,921	$ (327,129)	$ 1,962,667

San Francisco General Hospital Medical Center

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	$ 542	$ -	$ -	$ 542
Construction in progress	4,429	8,473	(7,182)	5,720
Total capital assets, not being depreciated	4,971	8,473	(7,182)	6,262
Capital assets, being depreciated:				
Facilities and improvements	130,798	3,361	-	134,159
Machinery and equipment	51,674	2,443	-	54,117
Total capital assets, being depreciated	182,472	5,804	-	188,276
Less accumulated depreciation for:				
Facilities and improvements	91,422	3,787	-	95,209
Machinery and equipment	42,052	3,045	-	45,097
Total accumulated depreciation	133,474	6,832	-	140,306
Total capital assets, being depreciated, net	48,998	(1,028)	-	47,970
Capital assets, net	$ 53,969	$ 7,445	$ (7,182)	$ 54,232

San Francisco Wastewater Enterprise

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	$ 22,168	$ -	$ -	$ 22,168
Construction in progress	56,796	57,549	(71,489)	42,856
Total capital assets, not being depreciated	78,964	57,549	(71,489)	65,024
Capital assets, being depreciated:				
Facilities and improvements	1,957,165	61,777	-	2,018,942
Machinery and equipment	34,776	11,490	(42)	46,224
Total capital assets, being depreciated	1,991,941	73,267	(42)	2,065,166
Less accumulated depreciation for:				
Facilities and improvements	735,503	34,940	-	770,443
Machinery and equipment	22,575	1,743	(41)	24,277
Total accumulated depreciation	758,078	36,683	(41)	794,720
Total capital assets, being depreciated, net	1,233,863	36,584	(1)	1,270,446
Capital assets, net	$ 1,312,827	$ 94,133	$ (71,490)	$ 1,335,470

Port of San Francisco

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	$ 120,454	$ 591	$ -	$ 121,045
Construction in progress	35,911	11,474	(13,423)	33,962
Total capital assets, not being depreciated	156,365	12,065	(13,423)	155,007
Capital assets, being depreciated:				
Facilities and improvements	282,503	13,107	-	295,610
Machinery and equipment	14,359	741	(185)	14,915
Total capital assets, being depreciated	296,862	13,848	(185)	310,525
Less accumulated depreciation for:				
Facilities and improvements	173,900	9,239	-	183,139
Machinery and equipment	9,203	1,013	(185)	10,031
Total accumulated depreciation	183,103	10,252	(185)	193,170
Total capital assets, being depreciated, net	113,759	3,596	-	117,355
Capital assets, net	$ 270,124	$ 15,661	$ (13,423)	$ 272,362

Laguna Honda Hospital

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	$ 914	$ -	$ -	$ 914
Construction in progress	133,827	102,050	-	235,877
Total capital assets, not being depreciated	134,741	102,050	-	236,791
Capital assets, being depreciated:				
Facilities and improvements	28,107	-	-	28,107
Machinery and equipment	13,129	409	-	13,538
Property held under lease	2,845	-	-	2,845
Total capital assets, being depreciated	44,081	409	-	44,490
Less accumulated depreciation for:				
Facilities and improvements	23,550	727	-	24,277
Machinery and equipment	12,201	245	-	12,446
Property held under lease	238	123	-	361
Total accumulated depreciation	35,989	1,095	-	37,084
Total capital assets, being depreciated, net	8,092	(686)	-	7,406
Capital assets, net	$ 142,833	$ 101,364	$ -	$ 244,197

Other Fund – San Francisco Market Corporation

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets, being depreciated:				
Facilities and improvements	$ 9,595	$ 43	$ -	$ 9,638
Machinery and equipment	55	1	-	56
Total capital assets, being depreciated	9,650	44	-	9,694
Less accumulated depreciation for:				
Facilities and improvements	4,808	273	-	5,081
Machinery and equipment	14	9	-	23
Total accumulated depreciation	4,822	282	-	5,104
Total capital assets, being depreciated, net	4,828	(238)	-	4,590
Capital assets, net	$ 4,828	$ (238)	$ -	$ 4,590

Total Business-type Activities

	Balance July 1, 2006	Increases*	Decreases*	Balance June 30, 2007
Capital assets, not being depreciated:				
Land	$ 194,783	$ 945	$ (6)	$ 195,722
Construction in progress	1,013,652	687,528	(646,491)	1,054,689
Total capital assets, not being depreciated	1,208,435	688,473	(646,497)	1,250,411
Capital assets, being depreciated:				
Facilities and improvements	9,140,038	305,449	(2,256)	9,443,231
Machinery and equipment	1,421,341	54,610	(19,194)	1,456,757
Infrastructure	719,066	284,128	-	1,003,194
Property held under lease	2,845	-	-	2,845
Easements	139,367	-	-	139,367
Total capital assets, being depreciated	11,422,657	644,187	(21,450)	12,045,394
Less accumulated depreciation for:				
Facilities and improvements	3,165,707	236,113	(1,511)	3,400,309
Machinery and equipment	621,495	79,622	(17,945)	683,172
Infrastructure	254,589	22,876	-	277,465
Property held under lease	238	123	-	361
Easements	60,009	6,955	-	66,964
Total accumulated depreciation	4,102,038	345,689	(19,456)	4,428,271
Total capital assets, being depreciated, net	7,320,619	298,498	(1,994)	7,617,123
Capital assets, net	$ 8,529,054	$ 986,971	$ (648,491)	$ 8,867,534

* The increases and decreases include transfers of categories of capital assets from properties held under lease to facilities and improvements.

Depreciation expense was charged to functions/programs of the primary government as follows (in thousands):

Governmental activities	
Public protection	$ 9,458
Public works, transportation, and commerce	12,611
Human welfare and neighborhood development	503
Community health	948
Culture and recreation	27,605
General administration and finance	16,275
Capital assets held by the City's internal service funds charged to the various functions on a prorated basis	1,487
Total depreciation expense - governmental activities	$ 68,887
Business-type activities:	
Airport	142,807
Water	43,895
Power	10,919
Transportation	92,924
Hospitals	7,927
Sewer	36,683
Port	10,252
Market	282
Total depreciation expense - business-type activities	$ 345,689

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), Laguna Honda Hospital (LHH), 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, building and structures of LHH, and pier substructures of the Port and totaled $1.6 billion as of June 30, 2007. In addition, the Water Enterprise had utility type assets with useful lives over 100 years, which totaled $4.5 million as of June 30, 2007.

In fiscal year 2006-2007, the Airport determined that the original estimates of the useful life of certain fixed assets were too short relative to their economic life. Based on a combined engineering and architectural reevaluation of certain Airport facilities and the 2006 Pavement Survey report, the useful lives of specific fixed assets with a total value of $742 million were extended an additional 5 to 30 years; these fixed assets include drainage, runways, taxiways, roadways, and buildings. Depreciation expenses related to these assets were $32.3 million prior to the adjustment; the adjusted depreciation expense aggregated $15.8 million, a net reduction in annual depreciation of $16.5 million.

During the fiscal year ended June 30, 2007, the City's enterprise funds incurred total interest expense and interest income of approximately $268 million and $85.7 million, respectively. Of these amounts, interest expense of approximately $16.6 million was capitalized, while no interest income was received as part of the cost of constructing proprietary capital assets.

During fiscal year ended June 30, 2007, the Water Enterprise, Hetch Hetchy, and the Wastewater Enterprise expensed $10.2 million, $4.6 million, and $0.7 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 expense in the accompanying financial statements.

Component Unit –Redevelopment Agency

Capital asset activity of the Redevelopment Agency for the year ended June 30, 2007 was as follows (in thousands):

	Balance July 1, 2006	Increases	Decreases	Balance June 30, 2007
Capital assets, not being depreciated:				
Property held under lease	$ 104,968	$ 6,504	$ -	$ 111,472
Construction in progress	14,997	-	-	14,997
Total capital assets, not being depreciated/amortized	119,965	6,504	-	126,469
Capital assets, being depreciated:				
Facilities and improvements	172,325	609	-	172,934
Machinery and equipment	8,068	-	-	8,068
Leasehold improvements	22,202	-	-	22,202
Total capital assets, being depreciated	202,595	609	-	203,204
Less accumulated depreciation and amoritzation for:				
Facilities and improvements	40,071	4,323	-	44,394
Machinery and equipment	7,668	115	-	7,783
Leasehold improvements	8,218	444	-	8,662
Total accumulated depreciation and amoritzation	55,957	4,882	-	60,839
Total capital assets, being depreciated, net	146,638	(4,273)	-	142,365
Redevelopment Agency capital assets, net	$ 266,603	$ 2,231	$ -	$ 268,834

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

Short-Term Obligations

The following is a summary of short-term obligations of the City as of June 30, 2007 (in thousands):

Type of Obligation	Final Maturity Date	Interest Rates	Amount
Governmental activities:			
Commercial paper	2007	3.35 to 3.66%	$ 150,000
Enterprise activities:			
Commercial paper			
San Francisco Wastewater Enterprise	2007	3.59 to 3.7%	$ 50,000

Changes in Short-Term Obligations

The changes in short-term obligations for governmental and enterprise activities for the year ended June 30, 2007, are as follows (in thousands):

	July 1, 2006	Additional Obligations	Current Maturities	June 30, 2007
Governmental activities:				
Commercial paper	$ 150,000	$ 150,000	$ (150,000)	$ 150,000
Governmental activities short-term obligations	$ 150,000	$ 150,000	$ (150,000)	$ 150,000
Enterprise activities:				
Commercial paper				
San Francisco Wastewater Enterprise	$ -	$ 100,000	$ (50,000)	$ 50,000
Business-type activities short-term obligations	$ -	$ 100,000	$ (50,000)	$ 50,000

San Francisco County Transportation Authority Commercial Paper Notes

In March 2004, the San Francisco County Transportation Authority (the Authority) authorized the issuance of an initial tranche of up to $50 million and in August 2004, the Authority authorized 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 an interim source of financing for the Authority's Proposition K Expenditure Plan until a permanent financing plan is finalized and implemented. 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 Letter 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, 2007, $150 million in commercial paper notes was outstanding and maturing within 1 to 120 days after year-end with interest rates ranging from 3.35% to 3.66%.

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. The commercial paper program is supported by a letter of credit issued by BNP Paribas as of February 2007, and through the U.S. Bank Trust N.A., as the agent bank as of February 2007. For the year ended June 30, 2007, the

Wastewater Enterprise had $50 million in commercial paper notes outstanding with interest rates ranging from 3.59% to 3.7%.

Long-Term Obligations

The following is a summary of long-term obligations of the City as of June 30, 2007 (in thousands):

GOVERNMENTAL ACTIVITIES

Type of Obligation and Purpose	Final Maturity Date	Remaining Interest Rates	Amount
GENERAL OBLIGATION BONDS (a):			
Affordable housing	2021	4.0 to 7.05%	$ 64,780
California Academy of Sciences	2025	3.0 to 5.25%	80,995
Laguna Honda Hospital	2030	3.25 to 5.0%*	299,000
Library	2025	2.5 to 5.0%	64,245
Museums	2019	4.625 to 4.875%	2,355
Parks and playgrounds	2024	2.4 to 5.25%	103,920
Schools	2023	2.4 to 5.125%	29,835
Seismic safety loan program	2026	5.69%	1,944
Steinhart Aquarium	2025	3.0 to 5.0%	27,175
Zoo facilities	2025	2.5 to 5.125%	13,500
Refunding	2020	3.5 to 5.5%	468,195
General obligation bonds - governmental activities			1,155,944
LEASE REVENUE BONDS:			
San Francisco Finance Corporation (b) & (e)	2030	2.2 to 5.5%**	249,550
Lease revenue bonds - governmental activities			249,550
OTHER LONG-TERM OBLIGATIONS:			
Certificates of participation (c) & (d)	2040	3.0 to 5.3%	420,620
Loans (c), (d) & (f)	2025	2.0 to 7.498%	11,640
Capital leases payable (c) & (f)	2025	2.5 to 7.05%	185,736
Settlement Obligation Bonds (d)	2011	2.4 to 3.05%	27,095
Accrued vacation and sick leave (d) & (f)			134,213
Accrued workers' compensation (d) & (f)			194,689
Estimated claims payable (d) & (f)			114,431
Other long-term obligations - governmental activities			1,088,424
DEFERRED AMOUNTS:			
Bond issuance premiums			26,997
Bond issuance discounts			(4,107)
Bond refunding			(10,321)
Deferred amounts			12,569
Governmental activities total long-term obligations			$ 2,506,487

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.

* Laguna Honda Hospital General Obligation Bonds Series 2005 A and Series 2005 I are fixed rate bonds. Series 2005 B, C and D are variable rate bonds that reset weekly. The remaining interest rates stated above are for Series 2005 A and Series 2005 I. The average interest rate for the variable rate bonds from issuance date of May 26, 2005 through June 30, 2007 was 3.14%. The rate at June 30, 2007 was 3.62%.

** Includes the Moscone Center West Expansion Project, which was financed with variable rate bonds that reset weekly. The average interest rate from issuance date of November 2, 2000 through June 30, 2007 was 2.05%. The rate at June 30, 2007 was 3.62%.

BUSINESS-TYPE ACTIVITIES

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
San Francisco International Airport:			
Revenue bonds	2032	3.0 to 8.0%*	$ 3,952,300
San Francisco Water Enterprise:			
Revenue bonds	2036	3.125 to 6.25%	966,080
Accreted interest			3,155
Hetch Hetchy Water and Power:			
Notes, loans, and other payables	2010	3.0%	390
Municipal Transportation Agency:			
Parking and Traffic			
Revenue bonds	2020	4.0 to 5.0%	19,090
Lease revenue bonds	2022	3.875 to 5.5%	8,405
Capital leases	2008	2.50%	19
Notes, loans and other payables**	2010	3.0 to 5.25%	11,617
Downtown Parking - parking revenue refunding bonds	2018	4.0 to 5.375%	10,060
Ellis-O'Farrell - parking revenue refunding bonds	2017	3.5 to 4.7%	4,595
Japan Center Garage Corporation - notes, loans and other payables	2008	6.75%	90
Uptown Parking - revenue bonds	2031	4.5 to 6.0%	17,790
San Francisco General Hospital Medical Center:			
Capital leases	2011	4.25%	3,363
San Francisco Wastewater Enterprise:			
Revenue bonds	2025	3.0 to 5.25%	362,825
State of California - Revolving fund loans	2021	2.8 to 3.5%	102,438
Port of San Francisco:			
Revenue bonds	2010	2.25 to 4.0%	12,575
Notes, loans and other payables	2029	4.5%	3,195
Laguna Honda Hospital:			
Capital leases	2009	3.465%	1,117
Accrued vacation and sick leave			84,899
Accrued workers' compensation			146,439
Estimated claims payable			78,509
Deferred Amounts:			
Bond issuance premiums			95,437
Bond issuance discounts			(11,302)
Bond refunding			(116,291)
Business-type activities total long-term obligations			$ 5,756,795

* Includes Second Series Revenue Bonds Issue 31 A / E and 32 A / E, which were issued in an auction mode and Issue 33 initially issued as variable rate bonds in a weekly mode. The average interest rates on the Issue 31 A / E and 32 A / E were 3.557% and 3.527% respectively for the period July 1, 2006 through June 30, 2007. The average interest rate on the Issue 33 bonds from July 1, 2006 through June 30, 2007 was 3.557%.

** Includes an unamortized loan premium of $0.5 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 their respective enterprise funds.

COMPONENT UNIT

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
SAN FRANCISCO REDEVELOPMENT AGENCY AND FINANCING AUTHORITY:			
Lease Revenue Bonds:			
Moscone Convention Center (a)	2025	2.5 to 7.05%	$ 127,499
Hotel Tax Revenue Bonds (b)	2026	4.4 to 6.75%	62,300
Financing Authority Bonds:			
Tax Allocation Revenue Bonds (c)	2037	2.0 to 8.3%	575,994
South Beach Harbor Variable Rate Refunding Bonds (d)	2017	Variable (3.73% at 6/30/07)	7,700
Less deferred amounts:			
Bond issuance premiums			7,908
Bond issuance discounts			(733)
Refunding loss			(3,729)
Sub-total			776,939
California Department of Boating and Waterways Loan (e)	2037	4.5%	7,999
Accreted interest payable			70,041
Accrued vacation and sick leave pay			2,544
Component unit total long-term obligations			$ 857,523

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, 2007, the City's debt limit (3% of valuation subject to taxation) was $3.7 billion. The total amount of debt applicable to the debt limit was $1.1 billion. The resulting legal debt margin was $2.6 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 and has recognized an arbitrage liability of $1.9 million as of June 30, 2007. 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 their lease revenue bonds and a liability of $0.4 million was reported in the deferred credits and other liabilities in the governmental activities and Internal Service Fund as of June 30, 2007. 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, 2007, the aggregate outstanding obligation of such bonds was $85.1 million.

Changes in Long-Term Obligations

The changes in long-term obligations for governmental activities for the year ended June 30, 2007, are as follows (in thousands):

	July 1, 2006	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2007	Amounts Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 1,232,205	$ 159,255	$ (235,516)	$ 1,155,944	$ 89,589
Lease revenue bonds	231,265	38,835	(20,550)	249,550	21,380
Certificates of participation	276,160	153,700	(9,240)	420,620	8,420
Settlement obligation bonds	32,955	-	(5,860)	27,095	6,510
Less deferred amounts:					
For issuance premiums	24,983	3,908	(1,894)	26,997	-
For issuance discounts	(2,341)	(1,856)	90	(4,107)	-
On refunding	(5,092)	(6,285)	1,056	(10,321)	-
Total bonds payable	1,790,135	347,557	(271,914)	1,865,778	125,899
Loans	12,377	141	(878)	11,640	933
Capital leases	190,279	8,805	(13,348)	185,736	17,040
Accrued vacation and sick leave pay	132,524	86,411	(84,722)	134,213	70,100
Accrued workers' compensation	202,481	28,038	(35,830)	194,689	38,963
Estimated claims payable	69,477	64,389	(19,435)	114,431	52,527
Governmental activities long-term obligations	$ 2,397,273	$ 535,341	$ (426,127)	$ 2,506,487	$ 305,462

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, 2007, $250.1

million of lease revenue bonds, $0.2 million of capital leases, $3.8 million of accrued vacation and sick leave pay and $0.8 million of accrued workers' compensation are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2007, are as follows (in thousands):

	July 1, 2006	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2007	Amounts Due Within One Year
San Francisco International Airport					
Bonds payable:					
Revenue bonds	$ 4,048,006	$ 453,000	$ (548,706)	$ 3,952,300	$ 90,100
Less deferred amounts:					
For issuance premiums	16,476	35,888	(3,235)	49,129	-
For issuance discounts	(15,497)	-	4,195	(11,302)	-
On refunding	(66,761)	(20,817)	7,143	(80,435)	-
Total Bonds payable	3,982,224	468,071	(540,603)	3,909,692	90,100
Accrued vacation and sick leave pay	12,330	9,794	(9,289)	12,835	6,733
Accrued workers' compensation	4,952	1,878	(2,053)	4,777	1,141
Estimated claims payable	37	284	(281)	40	15
Long-term obligations	$ 3,999,543	$ 480,027	$ (552,226)	$ 3,927,344	$ 97,989
San Francisco Water Enterprise					
Bonds payable:					
Revenue bonds	$ 981,765	$ 48,730	$ (64,415)	$ 966,080	$ 19,170
Less deferred amounts:					
For issuance premiums	27,487	503	(1,078)	26,912	-
For issuance discounts	(1,268)	-	1,268	-	-
On refunding	(13,559)	(2,861)	1,032	(15,388)	-
Total bonds payable	994,425	46,372	(63,193)	977,604	19,170
Accreted interest payable	2,945	210	-	3,155	-
Accrued vacation and sick leave pay	10,395	8,146	(7,370)	11,171	5,761
Accrued workers' compensation	8,719	1,658	(2,031)	8,346	1,699
Estimated claims payable	5,800	4,518	(3,384)	6,934	1,652
Long-term obligations	$ 1,022,284	$ 60,904	$ (75,978)	$ 1,007,210	$ 28,282
Hetch Hetchy Water and Power					
Notes, loans, and other payables	$ 494	$ -	$ (104)	$ 390	$ 107
Accrued vacation and sick leave pay	2,142	1,445	(1,272)	2,315	1,276
Accrued workers' compensation	1,938	881	(633)	2,186	428
Estimated claims payable	4,999	2,718	(2,935)	4,782	1,658
Long-term obligations	$ 9,573	$ 5,044	$ (4,944)	$ 9,673	$ 3,469
Municipal Transportation Agency					
Bonds payable:					
Revenue bonds	$ 53,985	$ -	$ (2,450)	$ 51,535	$ 2,555
Lease revenue bonds	9,455	-	(1,050)	8,405	1,095
Less deferred amounts:					
For issuance premiums	908	-	(34)	874	-
Total bonds payable	64,348	-	(3,534)	60,814	3,650
Notes, loans, and other payables	16,244	-	(4,537)	11,707 *	4,520
Capital leases	57	-	(38)	19	19
Accrued vacation and sick leave pay	24,711	21,757	(19,958)	26,510	15,465
Accrued workers' compensation	106,280	4,371	(16,740)	93,911	20,423
Estimated claims payable	59,604	8,892	(11,554)	56,942	15,425
Long-term obligations	$ 271,244	$ 35,020	$ (56,361)	$ 249,903	$ 59,502

* Includes an unamortized loan premium of $0.5 million for Parking and Traffic.

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2007, are as follows (in thousands) - continued:

	July 1, 2006	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2007	Amounts Due Within One Year
San Francisco General Hospital Medical Center					
Capital leases	$ 3,800	$ 636	$ (1,073)	$ 3,363	$ 1,183
Accrued vacation and sick leave pay	15,188	12,594	(11,596)	16,186	9,334
Accrued workers' compensation	20,714	4,431	(5,385)	19,760	3,713
Long-term obligations	$ 39,702	$ 17,661	$ (18,054)	$ 39,309	$ 14,230
San Francisco Wastewater Enterprise					
Bonds payable:					
Revenue bonds	$ 396,270	$ -	$ (33,445)	$ 362,825	$ 34,500
Less deferred amounts:					
For issuance premiums	19,375	-	(1,005)	18,370	-
On refunding	(21,670)	-	1,726	(19,944)	-
Total bonds payable	393,975	-	(32,724)	361,251	34,500
State of California - Revolving fund loans	118,868	-	(16,430)	102,438	13,337
Accrued vacation and sick leave pay	4,316	3,093	(2,679)	4,730	2,588
Accrued workers' compensation	4,173	735	(764)	4,144	804
Estimated claims payable	5,979	3,086	(354)	8,711	2,136
Long-term obligations	$ 527,311	$ 6,914	$ (52,951)	$ 481,274	$ 53,365
Port of San Francisco					
Bonds payable:					
Revenue bonds	$ 16,550	$ -	$ (3,975)	$ 12,575	$ 4,070
Less deferred amounts:					
For issuance premiums	227	-	(75)	152	-
On refunding	(786)	262	-	(524)	-
Total bonds payable	15,991	262	(4,050)	12,203	4,070
Notes, loans, and other payables	3,279	-	(84)	3,195	88
Accrued vacation and sick leave pay	1,779	1,684	(1,525)	1,938	1,083
Accrued workers' compensation	3,119	100	(472)	2,747	478
Estimated claims payable	1,364	162	(426)	1,100	600
Long-term obligations	$ 25,532	$ 2,208	$ (6,557)	$ 21,183	$ 6,319
Laguna Honda Hospital					
Capital leases	$ 1,665	$ -	$ (548)	$ 1,117	$ 519
Accrued vacation and sick leave pay	8,702	7,135	(6,623)	9,214	5,488
Accrued workers' compensation	11,759	1,661	(2,852)	10,568	2,143
Long-term obligations	$ 22,126	$ 8,796	$ (10,023)	$ 20,899	$ 8,150

A summary of the changes in long-term obligations for all enterprise funds for the year ended June 30, 2007, is as follows (in thousands):

	July 1, 2006	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2007	Amounts Due Within One Year
Total Business-type Activities:					
Bonds payable:					
Revenue bonds	$ 5,496,576	$ 501,730	$ (652,991)	$ 5,345,315	$ 150,395
Lease revenue bonds	9,455	-	(1,050)	8,405	1,095
Less deferred amounts:					
For issuance premiums	64,473	36,391	(5,427)	95,437	-
For issuance discounts	(16,765)	-	5,463	(11,302)	-
On refunding	(102,776)	(23,416)	9,901	(116,291)	-
Total bonds payable	5,450,963	514,705	(644,104)	5,321,564	151,490
Accreted interest payable	2,945	210	-	3,155	-
State of California - Revolving fund loans	118,868	-	(16,430)	102,438	13,337
Notes, loans, and other payables	20,017	-	(4,725)	15,292	4,715
Capital leases	5,522	636	(1,659)	4,499	1,721
Accrued vacation and sick leave pay	79,563	65,648	(60,312)	84,899	47,728
Accrued workers' compensation	161,654	15,715	(30,930)	146,439	30,829
Estimated claims payable	77,783	19,660	(18,934)	78,509	21,486
Business-type activities long-term obligations	$ 5,917,315	$ 616,574	$ (777,094)	$ 5,756,795	$ 271,306

The changes in long term obligations for the component unit for the year ended June 30, 2007, are as follows (in thousands):

	July 1, 2006	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2007	Amounts Due Within One Year
Component Unit: San Francisco Redevelopment Agency					
Bonds payable:					
Revenue bonds	$ 708,343	$ 85,241	$ (27,791)	$ 765,793	$ 36,507
Refunding bonds	8,500	-	(800)	7,700	-
Less deferred amounts:					
For issuance premiums	8,604	-	(696)	7,908	-
For issuance discounts	(671)	(103)	41	(733)	-
On refunding	(4,043)	-	314	(3,729)	-
Total bonds payable	720,733	85,138	(28,932)	776,939	36,507
Accreted interest payable	74,151	9,465	(13,575)	70,041	9,749 (1)
Notes, loans, and other payables	8,000	-	(1)	7,999	7
Accrued vacation and sick leave pay	2,807	18	(281)	2,544	1,219
Component unit - long-term obligations	$ 805,691	$ 94,621	$ (42,789)	$ 857,523	$ 47,482

(1) This amount is included in accrued interest payable in the accompanying Statement of Net Assets.

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2007, for governmental activities are as follows (in thousands):

Governmental Activities (1) (2)								
Fiscal Year Ending June 30	General Obligation Bonds		Lease Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008............	$ 89,589	$ 53,401	$ 21,380	$ 9,900	$ 15,863	$ 19,371	$ 126,832	$ 82,672
2009............	95,303	49,211	21,605	9,147	18,191	20,199	135,099	78,557
2010............	89,646	44,791	13,580	8,332	19,361	19,547	122,587	72,670
2011............	91,310	40,463	11,675	7,802	20,087	18,811	123,072	67,076
2012............	79,774	36,292	9,345	7,370	13,642	18,003	102,761	61,665
2013-2017......	307,209	131,419	41,605	31,422	69,822	80,830	418,636	243,671
2018-2022......	218,594	67,332	46,080	22,536	62,670	64,827	327,344	154,695
2023-2027......	127,689	25,999	52,380	12,389	69,134	48,792	249,203	87,180
2028-2032......	56,830	4,761	31,900	2,398	83,540	30,584	172,270	37,743
2033-2037......	-	-	-	-	54,940	12,353	54,940	12,353
2038-2042......	-	-	-	-	32,105	2,969	32,105	2,969
Total............	$ 1,155,944	$ 453,669	$ 249,550	$ 111,296	$ 459,355	$ 336,286	$ 1,864,849	$ 901,251

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

(2) Includes the following variable rate demand notes, the Moscone Center Expansion Project Lease Revenue Bonds and Laguna Honda Hospital General Obligation Bonds. Currently, they bear interest at a weekly rate. The rate at June 30, 2007 was 3.62%, together with an ancillary fee of 0.242% and 0.255% for Moscone bonds and Laguna Honda bonds respectively, 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, 2007, for each enterprise fund is as follows (in thousands):

San Francisco International Airport (1)						
Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008............	$ 90,100	$ 182,596	$ -	$ -	$ 90,100	$ 182,596
2009............	102,435	178,945	-	-	102,435	178,945
2010............	114,100	173,554	-	-	114,100	173,554
2011............	140,545	169,081	-	-	140,545	169,081
2012............	151,545	162,064	-	-	151,545	162,064
2013-2017.....	835,360	716,040	-	-	835,360	716,040
2018-2022.....	1,023,310	601,392	-	-	1,023,310	601,392
2023-2027.....	1,063,495	327,600	-	-	1,063,495	327,600
2028-2032.....	431,410	46,091	-	-	431,410	46,091
Total............	$ 3,952,300	$ 2,557,363	$ -	$ -	$ 3,952,300	$ 2,557,363

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

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2007, for each enterprise fund is as follows (in thousands) - continued:

San Francisco Water Enterprise (1)

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2008............	$ 19,170	$ 45,023	$ -	$ -	$ 19,170	$ 45,023
2009............	25,520	44,065	-	-	25,520	44,065
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
2013-2017.....	160,155	179,390	-	-	160,155	179,390
2018-2022.....	150,475	142,805	-	-	150,475	142,805
2023-2027.....	175,790	104,216	-	-	175,790	104,216
2028-2032.....	198,765	59,396	-	-	198,765	59,396
2033-2037.....	152,615	17,509	-	-	152,615	17,509
Total............	$ 966,080	$ 717,580	$ -	$ -	$ 966,080	$ 717,580

Hetch Hetchy Water and Power (1)

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2008............	$ -	$ -	$ 107	$ 11	$ 107	$ 11
2009............	-	-	110	8	110	8
2010............	-	-	115	4	115	4
2011............	-	-	58	1	58	1
Total............	$ -	$ -	$ 390	$ 24	$ 390	$ 24

Municipal Transportation Agency (1) (2)

Fiscal Year Ending June 30	Revenue/Lease Revenue Bonds Principal	Revenue/Lease Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2008............	$ 3,650	$ 2,498	$ 4,520	$ 506	$ 8,170	$ 3,004
2009............	3,810	2,869	6,381	283	10,191	3,152
2010............	3,125	2,726	279	61	3,404	2,787
2011............	3,260	2,587	-	-	3,260	2,587
2012............	3,405	2,438	-	-	3,405	2,438
2013-2017.....	19,705	9,585	-	-	19,705	9,585
2018-2022.....	12,795	4,779	-	-	12,795	4,779
2023-2027.....	4,360	2,564	-	-	4,360	2,564
2028-2032.....	5,830	1,090	-	-	5,830	1,090
Total............	$ 59,940	$ 31,136	$ 11,180	$ 850	$ 71,120	$ 31,986

(1) The specific year for payment of accreted interest payable (San Francisco Water Enterprise), estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.

(2) Unamortized loan premiums of $0.5 million (MTA) are not included in principal payments.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2007, for each enterprise fund is as follows (in thousands) - continued:

San Francisco Wastewater Enterprise (1)						
Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008............	$ 34,500	$ 15,698	$ 13,337	$ 3,168	$ 47,837	$ 18,866
2009............	35,665	14,646	13,761	2,744	49,426	17,390
2010............	37,130	13,183	14,198	2,307	51,328	15,490
2011............	26,320	11,827	14,650	1,855	40,970	13,682
2012............	22,010	10,959	9,594	1,389	31,604	12,348
2013-2017.....	112,525	37,338	30,372	3,264	142,897	40,602
2018-2022.....	70,805	15,400	6,526	480	77,331	15,880
2023-2027.....	23,870	1,470	-	-	23,870	1,470
Total............	$ 362,825	$ 120,521	$ 102,438	$ 15,207	$ 465,263	$ 135,728

Port of San Francisco (1)						
Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008............	$ 4,070	$ 348	$ 88	$ 144	$ 4,158	$ 492
2009............	4,185	222	92	140	4,277	362
2010............	4,320	75	96	136	4,416	211
2011............	-	-	100	131	100	131
2012............	-	-	105	127	105	127
2013-2017.....	-	-	600	559	600	559
2018-2022.....	-	-	748	411	748	411
2023-2027.....	-	-	932	227	932	227
2028-2032.....	-	-	434	29	434	29
Total............	$ 12,575	$ 645	$ 3,195	$ 1,904	$ 15,770	$ 2,549

A summary of the annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2007 for business-type activities is as follows (in thousands):

Total Business-type Activities (1) (2)						
Fiscal Year Ending June 30	Revenue/Lease Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2008............	$ 151,490	$ 246,163	$ 18,051	$ 3,829	$ 169,541	$ 249,992
2009............	171,615	240,747	20,344	3,175	191,959	243,922
2010............	185,280	232,529	14,688	2,508	199,968	235,037
2011............	197,920	225,279	14,808	1,987	212,728	227,266
2012............	206,150	215,862	9,699	1,516	215,849	217,378
2013-2017.....	1,127,745	942,353	30,972	3,823	1,158,717	946,176
2018-2022.....	1,257,385	764,376	7,274	891	1,264,659	765,267
2023-2027.....	1,267,515	435,850	932	227	1,268,447	436,077
2028-2032.....	636,005	106,577	434	29	636,439	106,606
2033-2037.....	152,615	17,509	-	-	152,615	17,509
Total............	$ 5,353,720	$ 3,427,245	$ 117,202	$ 17,985	$ 5,470,922	$ 3,445,230

(1) The specific year for payment of accreted interest payable (San Francisco Water Enterprise), estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.

(2) Unamortized loan premiums of $0.5 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, 2007, for the component unit are as follows (in thousands):

Component Unit: San Francisco Redevelopment Agency (1)

Fiscal Year Ending June 30	Lease Revenue Bonds Principal	Lease Revenue Bonds Interest	Tax Revenue Bonds Principal	Tax Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2008............	$ 5,544	$ 13,027	$ 28,388	$ 26,394	$ 2,582	$ 3,973	$ 36,514	$ 43,394
2009............	5,350	13,289	27,177	26,904	2,652	3,815	35,179	44,008
2010............	5,152	13,565	27,597	25,833	2,799	3,610	35,548	43,008
2011............	5,019	13,776	29,619	24,649	2,877	3,442	37,515	41,867
2012............	4,881	13,992	31,192	22,648	2,962	3,272	39,035	39,912
2013-2017......	50,149	44,692	183,163	78,149	22,133	13,612	255,445	136,453
2018-2022......	42,420	5,658	147,715	41,974	20,660	8,293	210,795	55,925
2023-2027......	8,984	704	44,936	63,458	17,625	3,015	71,545	67,177
2028-2032......	-	-	30,872	29,716	2,018	661	32,890	30,377
2033-2037......	-	-	25,335	26,124	1,691	178	27,026	26,302
Total............	$ 127,499	$ 118,703	$ 575,994	$ 365,849	$ 77,999	$ 43,871	$ 781,492	$ 528,423

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

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, 2007, are as follows (in thousands):

Governmental Activities - General Obligation Bonds
(in thousands)

Authorized and unissued as of June 30, 2006..........	$ 346,065
Bonds issued:	
Seismic Safety Loan Program..........	(2,000)
Net authorized and unissued as of June 30, 2007..........	$ 344,065

There were no new authorizations on general obligation bonds in fiscal year ended June 30, 2007.

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 have been 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. The owners of the 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 borrowing 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 loan account and the below market rate loan account. Debt service payments are funded through ad valorem taxes on property and principal repayments from borrowers of the loan program.

Current Refundings

In October 2006, the City issued the General Obligation Refunding Bonds, Series 2006-R1 (Series 2006-R1 Bonds) in the amount of $90.7 million with interest rates ranging from 4.0% to 5.0% (maturing from June 2007 through June 2020) to refund all or a portion of the City's outstanding General Obligation Bonds as follows:

General Obligation Refunding Bonds, Series R-1
(in thousands)

Description of Bonds	Amount Refunded	Interest Rate	Call Price	Call Date
Series 1997A - Golden Gate Park Improvements, 1992	$ 15,525	4.800% - 5.25%	101.000%	11/30/2006
Series 1997B - School District Facilities Improvements, 1994	13,625	4.800% - 5.25%	101.000%	11/30/2006
Series 1999D - Asian Art Museum Relocation Project, 1994	9,585	5.000% - 5.50%	102.000%	6/15/2007
Series 2000A - Educational Facilities, Community College District, 1997	21,315	5.125% - 5.75%	102.000%	6/15/2008
Series 2000B - Zoo Facilities, 1997	12,555	5.125% - 5.75%	102.000%	6/15/2008
Series 2000C - Neighborhood Recreation & Park Facilities Improvement, 2000	4,455	5.125% - 5.75%	102.000%	6/15/2008
Series 2000D - Affordable Housing, 1996	11,580	4.750% - 5.50%	102.000%	6/15/2008
	$ 88,640			

The net proceeds of $ 93.1 million (including original issue premium of $3.1 million, and after payment of $0.7 million in underwriting fees and other issuance costs) were used to purchase certain direct obligations of the United States of America (the "escrow securities"). The escrow securities were deposited into an escrow account held by the escrow agent. As the refunded bonds become due for interest payment and /or redemption, the escrow agents will transfer to the Treasurer of the City monies held in the escrow account to pay the principal, redemption premium, and interest due on the refunded bonds. The last of the refunded bonds will mature on June 15, 2008.

Although the refunding resulted in the recognition of deferred accounting loss of $4.5 million for the year ended June 30, 2007, the City in effect reduced its aggregate debt service payments by $7 million and obtained a net present value benefit of $5.4 million.

In December 2006, the City issued the General Obligation Refunding Bonds, Series 2006-R2 (Series 2006-R2) in the amount of $66.6 million with interest rates ranging from 3.5% to 4.15% (maturing from June 2007 through June 2019) to refund the outstanding General Obligation Bonds with maturities from June 2009 through June 2019, as follows:

General Obligation Refunding Bonds, Series R-2
(in thousands)

Description of Bonds	Amount Refunded	Interest Rate	Call Price	Call Date
Series 1999A - Educational Facilities, Community College District, 1997	$ 13,490	5.125% - 5.50%	102.000%	6/15/2007
Series 1999B - Educational Facilities, San Francisco Unified School District, 1997	40,045	5.125% - 5.50%	102.000%	6/15/2007
Series 1999C - Zoo Facilities, 1997	11,150	5.125% - 5.50%	102.000%	6/15/2007
	$ 64,685			

The net proceeds of $66.5 million (including original issue premium of $0.4 million, and after payment of $0.5 million in underwriting fees and other issuance costs) were used to purchase certain direct obligations of the United States of America (the "escrow securities"). The escrow securities were deposited into an escrow account held by the escrow agent. The escrow agent withdrew the funds from the escrow funds and transferred to the Treasurer of the City for payment of principal, interest and redemption premium on the refunded bonds on June 15, 2007.

The refunding resulted in the recognition of deferred accounting loss of $1.8 million for the year ended June 30, 2007. However, the City in effect reduced its aggregate debt service payments by $9.4 million and obtained a net present value benefit of $4.7 million.

Certificates of Participation

In May 2007, the City issued $153.7 million Certificates of Participation, City Office Buildings - Multiple Properties Project, composed of Series 2007A for $152.1 million and Taxable Series 2007B for $1.6 million. The Series 2007A and Series 2007B Certificates were issued to provide funds to finance the acquisition of existing office buildings located at One South Van Ness Avenue, San Francisco, California (the "One South Van Ness Property") and 1650 Mission Street, San Francisco, California, (the "Mission Street Property"), to improve portions of the One South Van Ness Property, the Mission Street Property and the existing City-owned property office building located at 30 Van Ness Avenue, San Francisco, California (the "30 Van Ness Property").

The Series 2007A were issued with interest rates ranging from 3.25% to 5.00% and mature from September 2009 through September 2040. The Series 2007B were issued with interest rate of 5.25% and matures in September 2008.

Lease Revenue Bonds

The changes in governmental activities - lease revenue bonds for the year ended June 30, 2007 were as follows:

Governmental Activities - Lease Revenue Bonds
(in thousands)

Authorized and unissued as of June 30, 2006	$ 126,699
Increase in authorization in this fiscal year:	
Current year annual increase in Finance Corporation's equipment program	2,078
Current year maturities in Finance Corporation's equipment program	10,450
Bonds issued:	
Series 2007A, San Francisco Finance Corporation	(11,830)
Net authorized and unissued as of June 30, 2007	$ 127,397

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 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.

(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, 2007, the total authorized amount is $43.7 million. The total accumulated annual authorization since 1990 is $23.7 million, of which $2.1 million is new annual authorization for the fiscal year ended June 30, 2007.

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 $135.4 million in equipment lease revenue bonds since 1991. As of June 30, 2007, $105 million has been repaid, leaving $30.4 million in equipment lease revenue bonds outstanding and $13.2 million available for new issuance.

In June 2007, the Finance Corporation issued its fifteenth Series of equipment lease revenue bonds, Series 2007A in the amount of $11.8 million with interest rates ranging form 3.5% to 4%. The bonds mature from April 2008 to April 2013.

(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 citywide 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, 2007, the amount authorized and unissued 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, 2007, 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. On November 2, 2000, Series 2000-1, 2000-2 and 2000-3 totaling $157.5 million were issued. Each series of bonds may bear interest at a different rate and in a different interest rate mode from other series of bonds. Currently, the bonds bear interest at a weekly rate.

(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.

In November 2006, the Corporation issued Lease Revenue Bonds Series 2006 (Open Space Fund-Various Park Projects) in the amount of $27 million (the "Series 2006 Bonds"). The Series 2006 Bonds will finance the design, construction, renovation and the installation of various park improvements located within the City. Interest rates range from 3.75% to 5.5%. The bonds begin to mature in July 2007 through July 2027.

Fillmore Renaissance Center Project Loan

In July 2005, the City entered into an agreement with the Department of Housing and Urban Development (HUD) for an approved Section 108 Loan in the maximum amount of $5.5 million. The funds were committed to the Fillmore Renaissance Center Project, a mixed-use commercial housing development located in San Francisco Redevelopment Agency's Jazz Preservation District. During the fiscal year 2005-2006, HUD advanced to the City loan funds totaling $5.4 million. In September 2006, the $5.4 million loan was converted to a fixed rate financing and the amount of the loan was increased to $5.5 million. The new loan carries interest rates ranging from 4.96% to 5.74% and matures from August 2007 through August 2025.

311 Call Center Capital Lease

In September 2006, the City entered into an agreement with Wells Fargo Brokerage Services for a Lease Purchase transaction for the telecommunication and computer equipment needed to establish the 311 Call Center for the General Services Agency. The 311 Call Center includes a Customer Relationship Management (CRM) application that will connect all City departments and agencies. It is located at the second floor of One South Van Ness building, San Francisco, California. The lease purchase for the amount of $2.8 million is fully amortized at an interest rate of 4.325% with interest and principal payments starting July 2007. It is payable semi-annually every July and January until fully paid in January 2010.

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

In November 2006, the San Francisco International Airport (SFO or Airport) issued its Second Series Revenue Refunding Bonds Issue 32F/G/H (Issue 32F/G/H Bonds) in the amount of $453 million with interest rates ranging from 4.00% to 5.25%. A portion of the proceeds from the issue 32F/G/H Bonds was deposited into an irrevocable trust with an escrow agent to refund certain of the Airport's Second Series Revenue Bonds as follows (in thousands):

	Amount Refunded	Interest Rate	Redemption Price
Second Series Revenue Bond Issuance:			
Issue 10A	$ 20,975	5.300% - 5.450%	102%
Issue 12A	8,415	5.625%	101%
Issue 13B	2,435	5.400% - 5.500%	101%
Issue 14	3,185	5.400% - 5.500%	101%
Issue 15B	90,820	4.700% - 5.000%	102%
Issue 16B	40,475	5.000% - 5.500%	101%
Issue 17	17,275	5.000% - 5.500%	101%
Issue 18B	84,455	4.750% - 5.250%	101%
Issue 19	20,195	4.750% - 5.250%	101%
Issue 23B	63,680	4.500% - 5.125%	101%
Issue 24B	21,990	5.250% - 5.625%	101%
Issue 26B	21,785	4.875% - 5.000%	101%
Issue 28B	73,605	3.250% - 5.250%	100%
	$ 469,290		

The refunded Second Series Revenue Bonds have final maturity dates ranging from May 1, 2007 to May 1, 2032 and call dates of December 18, 2006 to May 1, 2012.

The Issue 32/F/G/H Bonds were issued as fixed rate bonds. The net proceeds of $483.9 million (after payments of $7.6 million in underwriting fees, insurance and surety bond premiums, and costs of issuance) plus bond premium of $35.9 million and an additional $2.6 million of available funds (consisting of debt service and principal funds) were used to purchase U.S. Treasury Securities - State and Local Government Series. These securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on refunded bonds identified above until their respective redemption dates.

The refunded bonds were considered legally defeased and are no longer considered outstanding under the 1991 Master Bond Resolution and the debt is considered legally satisfied based on certain provisions in the debt instrument, even though most of the refunded bonds have not yet been redeemed. Accordingly, the liability for the refunded bonds has been removed from the accompanying statement of net assets.

Although the refunding resulted in the recognition of a deferred accounting loss of $20.8 million for the year ended June 30, 2007, the Airport in effect reduced its aggregate debt service payments by approximately $22.1 million over the next 26 years and obtained an economic gain (the difference between the present values of the old and new debt service payments) of $19.6 million.

The Airport entered into seven forward-starting interest rate swaps in December 2004, four in connection with the anticipated issuance of its Second Series Variable Rate Revenue Refunding Bonds, Issue 32 Series A through E (Issue 32 Bonds) on February 10, 2005, and three in connection with a portion of its Variable Rate Refunding Bonds, Issue 33 (Issue 33 Bonds), on February 15, 2006. Pursuant to these interest rate swaps, the Airport receives a monthly variable rate payment from each counter-party equal to 63.5% of the USD-LIBOR-BBA, plus 0.29%, times the notional amount of the swap, which is intended to approximate the variable interest rates the Airport pays on the Issue 32 Bonds and the interest rate swap hedged portion of the Issue 33 Bonds. 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 Issue 32 Bonds and the hedged portion of the Issue 33 Bonds.

For the fiscal year ended June 30, 2007, the Airport paid a total of $13.8 million in fixed rate payments to the counterparties and received $15.1 million in floating rate payments in return, resulting in total net swap receipts of $1.3 million from the counterparties. During the same period, the Airport made variable interest rate payments on the related bonds of $14.5 million, resulting in the Airport receiving $0.6 million more from the counterparties than it paid in interest on the related variable rate bonds. The effective synthetic fixed rate on the related bonds was 3.215%.

The four interest rate swaps relating to the Issue 32 Bonds went into effect on February 10, 2005, the date of the issuance of the Issue 32 Bonds, and the first payments commenced on March 1, 2005. The three interest rate swaps relating to the Issue 33 Bonds went into effect on February 15, 2006, the date of issuance of the Issue 33 Bonds, and the first payments commenced on March 1, 2006. All of the interest rate swaps are terminable at any time at the option of the Airport at their market value.

The interest rate swaps relating to the Issue 32 Bonds terminate by their terms on May 1, 2026, the final maturity date for the Issue 32 Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2007 (in thousands):

Counterparty/guarantor	Initial notional amount	Counterparty credit ratings (S&P/Moody's)	Fixed rate payable by Airport	Fair value to Airport
J.P. Morgan Chase Bank, N.A.	$ 70,000	AA/Aaa	3.444%	$ 3,139
Bear Sterns Capital Markets, Inc.	30,000	A+/A1	3.444%	1,345
J.P. Morgan Chase Bank, N.A.	69,930	AA/Aaa	3.445%	3,130
Bear Sterns Capital Markets, Inc.	29,970	A+/A1	3.445%	1,342
(Aggregate notional amount)	$ 199,900			$ 8,956

The interest rate swaps relating to the Issue 33 Bonds terminate by their terms on May 1, 2019, but the final maturity date for the Issue 33 Bonds is May 1, 2026. The following is additional information regarding each swap and counterparty as of June 30, 2007 (in thousands):

Counterparty/guarantor	Initial notional amount	Counterparty credit ratings (S&P/Moody's)	Fixed rate payable by Airport	Fair value to Airport
Lehman Brothers Special Financial Inc.	$ 73,570	A+/A1	3.393%	$ 2,227
Bear Sterns Capital Markets, Inc.	31,530	A+/A1	3.393%	954
Lehman Brothers Special Financial Inc.	100,000	A+/A1	3.379%	3,146
(Aggregate notional amount)	$ 205,100			$ 6,327

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 limited counterparty credit risk by limiting its exposure to any one 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 the 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. There is limited basis risk with respect to the interest rate swaps, as the Airport has chosen a variable rate index designed to closely approximate the variable rates payable on the Issue 32 and 33 Bonds. The Airport has limited termination risk with respect to the interest rate swaps. That risk would arise primarily from certain credit-related 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 payments, including termination payments, due under each interest rate swap from insurers currently rated AAA/Aaa by Moody's and S&P.

Additional termination events under the swap documents with respect to 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 with respect to 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.

San Francisco Water Enterprise

During fiscal year 2006-2007, the San Francisco Water Enterprise issued 2006 Water Revenue Refunding Bonds, Series C (the 2006 Refunding Series C Bonds) in the amount of $48.7 million for the purpose of refunding a portion of the outstanding 1996 Series A Bonds maturing on and after November 2007 (the Refunded 1996 Series A Bonds). A portion of the proceeds on the 2006 Refunding Series C Bonds was deposited with the Trustee, acting as escrow agent under the irrevocable Refunding Instructions, dated August 1, 2006 to refund and legally defeased, on a current basis, the Refunded 1996 Series A Bonds currently outstanding in the principal amount of $48 million. This deposit, together with certain other available moneys was held by the escrow agent under the Refunding Instruction and invested in non-callable Federal Securities consisting of United States Treasury Securities-State and Local Government Series (SLGS). The principal and interest on the deposit with the escrow agent was sufficient to pay the principal redemption price, premium, and interest on the Refunded 1996 Series A Bonds on November 2006 by optional redemption on that date.

The 1996 Series A Bonds maturing on November 2006 in the principal amount of $4.4 million remained outstanding following the issuance of the 2006 Refunding Series C Bonds and was paid by the Water Enterprise at maturity in November 2006. Although the refunding resulted in the recognition of a deferred accounting loss of $2.86 million, the Water Enterprise in effect reduced its aggregate debt service payments by approximately $2.89 million (based on average interest rates of 4.415% and 5.012% for the new debt and old debt, respectively). The economic gain for this refunding based on the net present values was calculated to be $1.6 million.

Hetch Hetchy Water and Power Enterprise

In November 2002, the Hetch Hetchy Water and Power Enterprise (the Hetch Hetchy Enterprise) received a $1 million loan from the California Energy Commission with an annual interest rate of 3%, and semi-annual repayments of $0.74 million beginning in December 2003, with a final maturity date in December 2010. Proceeds from the loan were used to provide funding for an energy conservation project undertaking at San Francisco General Hospital. Under the loan terms, the Enterprise is required to prepare and submit annual energy use reports to the California Energy Commission for three years following the completion of the project. The reports are to demonstrate the cost of energy saved as a result of the project. In August 2003, the California Energy Commission loan was renegotiated and the Enterprise received a $0.2 million grant, which was utilized to pay down the original loan. The loan reduction also reduced the semi-annual payments to $0.59 million from the original $0.74 million.

San Francisco Wastewater Enterprise

The San Francisco Wastewater Enterprise has entered into several contracts (State Revolving Fund Loans) with the State Water Resources Control Board (SWRCB) under which the Wastewater Enterprise borrowed up to prescribed maximum amounts to finance the construction of certain facilities. The amount of loans outstanding as of June 30, 2007 is $102.4 million, with interest rates ranging from 2.8% to 3.5%, and matures from July 2010 through January 2021.

Component Unit Debt – San Francisco Redevelopment Agency

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

(9) EMPLOYEE BENEFIT PROGRAMS

(a) Retirement Plans

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. 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), an agent multiple-employer, public employee pension plan which covers certain employees in public safety functions, the Port, SFO and the Redevelopment Agency.

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 Administrative Code is 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, 2007 was approximately $2.05 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

Membership of the Retirement System at July 1, 2006 the date of the latest actuarial valuation is:

	Police	Fire	Others	Total
Retirees and beneficiaries currently receiving benefits.......	2,091	1,912	16,486	20,489
Active members:				
Vested................................	1,814	1,349	19,721	22,884
Nonvested...........................	305	253	5,984	6,542
Subtotal..........................	2,119	1,602	25,705	29,426
Total.......................................	4,210	3,514	42,191	49,915

As of July 1, 2006 there were 2,901 terminated members entitled to, but not yet receiving benefits.

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 2006-2007 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, 2006 actuarial report, the required employer contribution for fiscal year 2006-2007 was 6.24 percent. In collective bargaining during the year ended June 30, 1994, the City and County agreed to pay a portion of the employee contributions on behalf of employees. From 1994 through June 2003, the City and County 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, 2007, 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, 2006. 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%; (2) inflation element in wage increases of 3.5%; and (3) salary merit increases of 4.5%. 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 a closed 15 year period. Plan amendments are amortized over 20 years.

Three-year trend information is as follows (amounts in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2005	$ 83,664	100%	$ -
6/30/2006	126,533	100%	-
6/30/2007	132,601	100%	-

California Public Employees' Retirement System

Various City public safety, Port, and all Redevelopment Agency employees are eligible to participate in PERS. Disclosures for the 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 2006-2007 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 2006-2007 was equal to the City's required and actual contributions which was determined as part of the June 30, 2004 actuarial valuation using the entry age actuarial cost method.

Three-year payment trend information is as follows (amounts in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2005	$ -	N/A	$ -
6/30/2006	-	N/A	-
6/30/2007	-	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 18.824% because the City is funded at 96.5%. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Safety Plan - cost for PERS for fiscal year 2006-2007 was equal to the City's required and actual contributions which was determined as part of the June 30, 2004 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2004 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. Both (a) and (b) included 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 (amounts in thousands):

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2005	$ 3,689	100%	$ -
6/30/2006	6,736	100%	-
6/30/2007	15,977	100%	-

(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 $444.1 million in fiscal year 2006-2007. 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 $132.2 million to provide post-employment health care benefits for 21,558 retired employees. The City's liability for both current employee and post-employment health care benefits is limited to its annual contribution. 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.

(10) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

The San Francisco County Transportation Authority (the Authority) was established in November 1989 by the voters of the City and County of San Francisco pursuant to State Code Section 131.000. The purpose of the Authority is to administer the voter-approved county-wide transactions and use tax of one-half of one percent to fund essential transportation projects, as set forth in the San Francisco County Transportation Expenditure Plan. The Authority's Expenditure Plan defines a program of prioritized projects to ensure that funding is allocated across major transportation categories. The City accounts for these activities in the other governmental funds.

In November 1990, the Authority was designated under state laws as the Congestion Management Agency for San Francisco, and in that capacity prioritizes State and Federal transportation funds for San Francisco while working with the Metropolitan Transportation Commission. Responsibilities also include preparing a county-wide transportation plan to guide the City's future transportation investments, monitoring traffic congestion levels, measuring transportation performance, and developing a travel demand forecasting model.

In June 2002, the Authority was designated by the Board of Supervisors as the overall program manager for the Local Guarantee share of transportation funds available through the Transportation Fund for Clean Air Program (TFCA), which is administered by the Bay Area Air Quality Management District. The source of funds is a $4.00 surcharge on the vehicle registration fee.

In November 2003, the City voters approved Proposition K by a 74.79% affirmative vote, amending the City Business and Tax Code to continue the existing county-wide one-half of one percent sales tax, and replace the 1989 Proposition B Expenditure Plan with a new 30-year Expenditure Plan. The new Expenditure Plan includes investments in four major categories: Transit, Streets and Traffic Safety (including street resurfacing and bicycle and pedestrian improvements); Paratransit services for seniors and persons with disabilities; and Transportation System Management/Strategic Initiatives to fund neighborhood parking management, land use coordination, and beautification efforts. The major capital projects to be funded by the new Expenditure Plan are development of the Bus Rapid Transit/MUNI Metro Network, construction of the MUNI Central Subway (Third Street Light Rail Project – Phase 2), construction of the Caltrain Downtown Extension to a rebuilt Transbay Terminal and replacement of the South Access to the Golden Gate Bridge (Doyle Drive Replacement Project). The Authority may modify the Expenditure Plan with voter approval, and the county-wide one-half of one percent sales tax would continue as long as a new or modified plan is in effect. Under the current Proposition K legislation, the Authority directs the use of the sales tax and may spend up to $485.2 million per year and issue up to $1.88 billion in bonds, to be repaid from the one-half of one percent sales tax.

The Authority and California Department of Transportation (Caltrans) are working in partnership to implement the Doyle Drive Replacement Project. In April 1988, 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. A Final Environmental Impact Statement/Report is expected in early 2008. A federal Record of Decision and State Notice of Determination are expected by Spring 2008.

(11) DETAILED INFORMATION FOR ENTERPRISE FUNDS

(a) San Francisco International Airport

San Francisco International Airport (SFO), 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 SFO. SFO 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 2006 from the Airports Council International (the ACI), SFO is one of the largest airports in the United States both in terms of passengers (14th) and air cargo (13th). SFO 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 SFO creates a convenient connection between SFO 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 SFO 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.

SFO has developed a revised five-year Capital Plan that better fits the ongoing changes in the aviation industry. The revised Capital Plan was approved in May 2006 and included projects related to improvements to the airfield, groundside activities, utility infrastructure upgrades, terminal upgrades, health, safety and security enhancements, and cost savings and revenue generating enhancements.

In May 1997, SFO authorized the issuance, from time to time, of its Subordinate Commercial Paper Notes in an aggregate principal amount not to exceed the lesser of $400 million or the stated amount of the letter of credit. The subordinate Lien Resolution authorizes a maximum principal amount of notes of $400 million. In May 2006, SFO obtained a direct-pay letter of credit with a maximum stated principal amount of $200 million. There were no commercial borrowings during the year ended June 30, 2007.

In addition to the long-term obligations discussed above, there is $109 million in Special Facilities Lease Revenue Bonds outstanding at June 30, 2007 for SFO Fuel Company LLC (SFO Fuel). SFO Fuel is required to pay facilities rent to SFO 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 SFO. SFO assigned its right to receive the facilities rent to the bond trustee to pay and secure the payment of the bonds. Neither SFO 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.

In July 2001, the Federal Aviation Administration (FAA) approved SFO's first Passenger Facility Charge application (PFC#1) to impose and use a $4.50 Passenger Facility Charge (PFC) per enplaning passenger from October 1, 2001 through June 1, 2003, to pay for approximately $113 million in PFC eligible project development activities and studies associated with the potential runway reconfiguration. In March 2002, the FAA approved SFO's PFC Application Number 2 (PFC#2) to impose and use a $4.50 PFC per enplaning passenger from June 1, 2003 through April 1, 2008, to pay for approximately $224 million in the principal and interest on bonds issued for certain eligible costs relating to the new International Terminal Complex. In January 2004, the FAA approved SFO's amendment to delete PFC#1 as a result of the suspension of the runway reconfiguration project; receipts from PFC#1 were applied to PFC#2. In October 2005, the FAA approved an amendment to PFC #2 charge expiration date to October 6, 2005 due to full collection of the authorized amount. In September 2006, the FAA notified the Airport that the charge expiration date of PFC #2 will be recorded as of November 1, 2005.

In November 2003, the FAA approved SFO's third PFC application (PFC#3) to impose and use a $4.50 PFC per enplaning passenger for approximately $539 million to pay for debt service costs related to the construction of the new international terminal and boarding areas A and G. The collection period for PFC #3, as originally approved, was from November 1, 2008 to November 1, 2018. In January 2004, the collection period was revised to commence January 1, 2006 with a charge expiration date of January 1, 2016. In October 2005, the collection period for PFC #3 was revised to commence October 6, 2005. Subsequently in July 2006, the FAA approved an amendment to PFC #3 increasing the authorized amount by $70 million. In September 2006, the FAA notified the Airport that the revised date for the start of collections for PFC #3 is recorded as of November 1, 2005 with a revised estimated charge expiration date of January 1, 2017.

For the year ended June 30, 2007, SFO reported approximately $64.3 million of PFC revenue, which is included in other nonoperating revenues in the accompanying basic financial statements. SFO designated $58.4 million of PFC revenues as "Revenues" under the 1991 Master Bond Resolution for the purpose of paying debt service in fiscal year 2006-2007.

Due to SFO'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.

Pursuant to an agreement with certain airlines, SFO makes an annual payment to the City's General Fund equal to 15% of concession revenue, but not less than $5 million per fiscal year. The amount transferred to the General Fund during the year ended June 30, 2007 was $23.3 million.

Purchase commitments for construction, material and services as of June 30, 2007 are as follows (in thousands):

Construction..	$ 8,251
Operating...	37,093
Total	$ 45,344

SFO has a Memorandum of Understanding with various surrounding communities to insulate residential and nonresidential structures such as schools, churches and hospitals. The total estimated funding for this program is approximately $154 million funded by bond proceeds, by federal grant reimbursements to the local communities, and by operating and other internally generated funds. As of June 30, 2007, approximately $124.3 million has been disbursed under this program.

SFO leases facilities to the airlines pursuant to the Lease and Use Agreements and to other businesses to operate concessions at SFO. During the year ended June 30, 2007, revenues realized from the following SFO tenants exceeded five percent of SFO's total operating revenues:

United Airlines..	21.1%
AMPCO Parking Systems.........................	9.0%

(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.

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 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 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, 2007, $16.7 million has been appropriated and $1.6 million has been expended for projects under the agreement. The $16.7 million appropriated includes $9.3 million received in 2004 from the sale of a portion of Seawall Lot 330 to a developer. Residual receipts totaling $17.4 million were received through June 30, 2007 and recorded as a special item.

As of June 30, 2007, the Port had purchase commitments for construction-related services, materials and supplies, and other services were $5.6 million for capital projects and $1.8 million for general operations.

Under a 1996 agreement with the City for parking fine revenues collected from Port property, the Port received $1.6 million from the Municipal Transportation Agency (MTA) in 2007. During 2007, the Port and MTA negotiated an amendment to the original agreement for guaranteed estimated payments. Among other things, the amendment effective July 1, 2007 provides for the transfer to the Port of actual parking fines collected on Port property and the reimbursement by the Port of all MTA's costs associated with collecting and processing parking fines issued on Port property.

(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 91,757 million gallons annually, to a total population of approximately 2.4 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 Enterprise, and the San Francisco Wastewater Enterprise (Wastewater Enterprise). 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.

The Water Enterprise purchases water from Hetch Hetchy Enterprise. This amount, totaling approximately $19 million, is included in the charges for services provided by other departments in the accompanying financial statements.

During fiscal year 2006-2007, water sales to suburban resale customers were $108 million. As of June 30, 2007, the suburban resale customers owed the Water Enterprise approximately $11.8 million under the Water Rate Agreement.

As of June 30, 2007, the Water Enterprise had outstanding commitments with third parties of $140.5 million for various capital projects and for materials and supplies.

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 developed a remedial action plan and in August 2001 received the final directive from the

CRWQCB to execute the plan. The cost of cleanup associated with the Plan was estimated to be $22.7 million and was accrued in fiscal year 2000-2001. At June 30, 2007, the outstanding estimated liability is $6.6 million.

(d) Hetch Hetchy Water and Power Enterprise

Hetch Hetchy Water and Power Enterprise (Hetch Hetchy Enterprise) 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 Enterprise 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 one-third of the electricity is used by the City's municipal customers (e.g., the San Francisco Municipal Railway, the Recreation and Parks Department, San Francisco International Airport, the Port of San Francisco, San Francisco County hospitals, street lighting, Moscone Center, and the water and sewer utilities). The balance of the power generated is sold to other publicly owned utilities, such as the Modesto and Turlock Irrigation Districts (the Districts).

Hetch Hetchy Enterprise 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 Enterprise 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 state and federal power matters before the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC). Therefore, Hetch Hetchy Enterprise serves as the City's representative at both CPUC and FERC forums and continues to monitor regulatory proceedings.

Charges for services for the year ended June 30, 2007 include $59.2 million in sales of power by Hetch Hetchy Enterprise to other City Departments. Income from Hetch Hetchy Enterprise is available for certain operations of the City.

As of June 30, 2007, Hetch Hetchy Enterprise had outstanding commitments with third parties of $21.8 million for various capital projects and other purchase agreements for materials and services.

Hetch Hetchy Enterprise facilitates all electric and gas service connections between Pacific Gas and Electric Company (PG&E) and City Departments. In this capacity, Hetch Hetchy Enterprise, as a pass-through agent on behalf of the City departments, coordinates the payment for the service connections that are performed by PG&E. As of June 30, 2007, there were no outstanding amounts from City departments related to this work.

Hetch Hetchy Enterprise receives title to the underlying assets of certain completed projects on behalf of the City and assumes responsibility for their maintenance, repair and replacement following their initial year of operation.

The Commission has contracted with PG&E to provide transmission capacity on PG&E's system where needed to deliver Hetch Hetchy Enterprise's power to its customers. In addition, the PG&E agreement provides backup power and other support services to Hetch Hetchy Enterprise. The PG&E agreement allows PG&E to review past billings paid by Hetch Hetchy Enterprise and to retroactively adjust these payments to actual backup power, transmission, and other charges as finally determined by PG&E. During fiscal year 2006-2007, Hetch Hetchy Enterprise purchased $17 million of transmission services, backup power, 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 Districts in which they would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments of $3.9 million from the City. 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 Enterprise entered into a long-term power sales agreement (the Agreement) with the Districts. The Agreement expires in 2015 and requires that Hetch Hetchy Enterprise provide, as generated, an amount equivalent to the difference between 260 megawatts and the amount required to meet the City's demand. In June 2003, Hetch Hetchy Enterprise 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 existing pricing structure was modified, and Hetch Hetchy Enterprise's firm obligation to provide power to the MID was relaxed. For fiscal year 2006-2007, power sales to the Districts totaled 548,459 MWhrs or $13.9 million.

In December 2002, the City entered into an agreement (the Power Purchase Agreement) with the California Department of Water Resources in anticipation of the settlement and implementation agreements. Under the terms of the Power Purchase Agreement, the California Department of Water Resources has agreed to purchase power and rated capacity.

The City has reached preliminary agreement on terms and conditions, and is in the process of negotiating the final agreement, which is called the Assignment, Construction, Operation, and Reconveyance Agreement.

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 or is to receive (i) four gas turbine generator sets valued at approximately $33 million for use within the City, (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.

Effective January 23, 2003, the City entered into an implementation agreement with the Attorney General of the State of California (the Attorney General), the California Consumer Power and Conservation Financing Authority (the Financing Authority), and the California Department of Water Resources, outlining the terms of execution of the settlement agreement.

In conjunction with the execution of the settlement agreement, the Attorney General has received the first $9.3 million from the defendants, and deposited that amount into the Fund. The City has eligible costs incurred in the development of the facility of about $10 million. As of June 30, 2007, the City has requested and received a total of $9.3 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 in the development of the Facility. As such, the corresponding revenue will be recognized as eligible costs. Hetch Hetchy Enterprise has recognized $2.9 million of revenue from the Fund as of June 30, 2007.

(e) Municipal Transportation Agency

The Municipal Transportation Agency (MTA) is responsible for overseeing the City's public transportation operations, including those of the San Francisco Municipal Railway (MUNI), the San Francisco Municipal Railway Improvement Corporation (SFMRIC), and the Department of Parking and Traffic (DPT), which includes the Parking Authority and its five parking garages operated by separate nonprofit corporations organized by the City. Created in November 1999, with the passage of Proposition E, by the voters, the MTA replaced the San Francisco Public Transportation Commission as the oversight agency for the operations of MUNI and SFMRIC, and effective July 1, 2002, the MTA also assumed responsibility for overseeing the operations of DPT.

The tables below reflect the financial information of MUNI, DPT, and the parking garages that are reported within the MTA (in thousands), net of eliminations for $8.9 million interagency accounts payables and receivables, and revenues and expenses of $18.5 million and transfers of $9.4 million.

	MUNI	DPT	Parking Garages	Eliminations	Total
Assets					
Current assets	$ 215,973	$ 43,293	$ 3,238	$ (8,912)	$ 253,592
Noncurrent assets	1,887,484	31,022	101,860	-	2,020,366
Total assets	2,103,457	74,315	105,098	(8,912)	2,273,958
Liabilities					
Current liabilities	117,783	21,536	27,109	(8,912)	157,516
Liabilities payable from restricted assets	1,456	-	-	-	1,456
Noncurrent liabilities	142,228	47,574	31,892	-	221,694
Total liabilities	261,467	69,110	59,001	(8,912)	380,666
Net assets					
Invested in capital assets, net of related debt	1,846,401	(7,581)	35,915	-	1,874,735
Restricted net assets	23,675	3,562	29,805	-	57,042
Unrestricted net assets (deficit)	(28,086)	9,224	(19,623)	-	(38,485)
Total net assets (deficit)	$ 1,841,990	$ 5,205	$ 46,097	$ -	$ 1,893,292

	MUNI	DPT	Parking Garages	Eliminations	Total
Operating revenues	$ 149,185	$ 30,497	$ 43,215	$ (782)	$ 222,115
Operating expenses	(615,841)	(84,122)	(41,785)	19,336	(722,412)
Net operating income (loss)	(466,656)	(53,625)	1,430	18,554	(500,297)
Nonoperating income (loss)	235,948	26,448	(822)	(18,554)	243,020
Capital contributions	100,954	-	-	-	100,954
Transfers in	214,419	51,222	-	(9,445)	256,196
Transfers out	(3,971)	(13,757)	-	9,445	(8,283)
Change in net assets	80,694	10,288	608	-	91,590
Net assets (deficit) at beginning of year	1,761,296	(5,083)	45,489	-	1,801,702
Net assets (deficit) at end of year	$ 1,841,990	$ 5,205	$ 46,097	$ -	$ 1,893,292

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 MTA was $197.1 million ($149.8 million for MUNI and $47.3 million for DPT).

Municipal Railway

MUNI receives capital grants from various federal, state, and local agencies to finance transit related property and equipment purchases. As of June 30, 2007, MUNI had approved capital grants with unused balances amounting to $391 million. Capital grants receivable as of June 30, 2007 totaled $56.7 million.

MUNI also receives operating assistance from various federal, state, and local sources, including Transit Development Act funds and sales tax allocations. As of June 30, 2007, MUNI had various operating grants receivable of $17.4 million.

These capital grants and operating assistance include funds from the San Francisco Transportation Authority (SFCTA). During the year ended June 30, 2007, the SFCTA approved $35 million in new capital grants and $14.1 million in new operating grants for MUNI. During the same period, MUNI received total payments of $41.7 million for capital grants and $19.5 million in operating grants from the Authority. As of June 30, 2007, MUNI had $23.5 million due from the SFCTA for capital grants and $2.4 million due from the SFCTA for operating grants reported in due from other funds.

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 MUNI from parking revenues and the General Fund.

MUNI has outstanding contract commitments of approximately $96 million with third parties for various capital projects. Grant funding is available for a majority of this amount. MUNI also has outstanding commitments of approximately $14 million for non-capital expenditures. Various local funding sources are used to finance these expenditures. MUNI is committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding. The San Francisco Municipal Railway Improvement Corporation's (SMFRIC) Board of Directors has authorized SMFRIC to extend financial guarantees to MUNI for certain projects totaling $2.5 million.

Given that the proposed Metro East light Rail Vehicle Maintenance and Operating Facility (Metro East) is an integral part of the Third Street Light Rail Project and is vital for relieving overcrowded conditions at MUNI's existing light rail facility, MUNI identified a 17-acre site of the Western Pacific Railroad under the jurisdiction of the Port of San Francisco (Port) as the best location for the Metro East Facility.

In March 2001, MUNI and the Port entered into a Memorandum of Understanding (MOU) under which MUNI may use the Metro East site in perpetuity for rail vehicle maintenance, operations and other operational needs at a cost of $25.7 million. The MOU also required MUNI to pay the Port an additional $4 million to construct the Illinois Street Bridge over Islais Creek. Construction of this bridge will mitigate traffic in the area and improve coordination with MUNI's Metro East and Third Street Light Rail Project. In the event the Port fails to expend the money toward construction of the bridge within three years after the effective date of the MOU, the Port shall return the $4 million to MUNI. Any such return of funds shall have no effect on the rights granted to MUNI as specified in the MOU. The entire $4 million fund has been expended since 2005. The construction of the Illinois Street Bridge which began in May 2005 was substantially completed on October 31, 2006. The remaining work was completed by December 31, 2006.

Leveraged Lease-Leaseback with BREDA Vehicles

Tranche 1

The Municipal Transportation Agency board of directors authorized the Director of Transportation to solicit proposals regarding a leveraged lease-leaseback transaction involving up to 150 BREDA light rail vehicles. The transaction would not involve financing or procurement of any new vehicles. Rather, MUNI's intention was to obtain an upfront economic benefit in return for entering into a lease-leaseback transaction involving the Breda light rail vehicles, without impairing the day-to-day operations of the transit system.

In April 2002, MUNI entered into the leveraged lease-leaseback transaction over 118 Breda light rail vehicles (the Tranche 1 Equipment). The transaction was structured as a head lease of the Tranche 1 Equipment to separate special purpose trusts and a sublease of the Tranche 1 Equipment back from such trusts. The sublease provides MUNI with an option to purchase the Tranche 1 Equipment in approximately 27 years, the scheduled completion date of the sublease. During the term of the sublease, MUNI maintains custody of the Tranche 1 Equipment and is obligated to insure and maintain the Tranche 1 Equipment throughout the life of the sublease.

MUNI received an aggregate of $388.2 million from the equity investors in full prepayment of the head lease. MUNI deposited $352.7 million of this head lease payment into two escrows. One escrow was deposited with a debt payment undertaker whose repayment obligations are guaranteed by Financial Security Assurance, an "Aaa/AAA" rated bond insurance company. The other escrow was invested in U.S. government bonds with maturity dates that match the completion of the sublease. Payments under these escrows are to be made at such times and in such amounts so as to fund MUNI's scheduled payments under the sublease as well as to provide a source of funding for MUNI's purchase option if it chooses to exercise it. Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that the creditworthiness of these escrows is such that they will fund MUNI's obligations under the sublease and that the possibility that MUNI will need to access other monies to make sublease payments is remote. Therefore, the trust assets and the sublease obligations are not recorded on the financial statements of MUNI as of June 30, 2007.

As a result of the cash transactions above, MUNI recorded deferred revenue in fiscal year 2001-2002 of $35.5 million for the difference between the amount received of $388.2 million and the amount paid to the escrows of $352.7 million. The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized amounts were $1.3 million for fiscal year 2006-2007.

As of June 30, 2007, the outstanding payments to be made on the sublease through 2027 are $238.7 million and the payments to be made on the purchase option of the Tranche 1 Equipment would be $643.1 million, if exercised. All of these payments are to be funded from the amounts in escrow. 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.

Tranche 2

In September 2003, after obtaining final approval from the Municipal Transportation Agency's Board of Directors and the City's Board of Supervisors, MUNI entered into a second leveraged lease-leaseback transaction over 21 BREDA light rail vehicles (the Equipment). The transaction was structured as a head lease of the Equipment to one separate special purpose trust (formed on behalf of a certain equity investor) and a sublease of the Equipment back from such trust. The sublease provides MUNI with an option to purchase the Equipment in approximately 26 years, the scheduled completion date of the sublease. During the term of the sublease, MUNI maintains custody of the Equipment and is obligated to insure and maintain the Equipment throughout the life of the sublease.

MUNI received an aggregate of $72.6 million from the equity investors in full prepayment of the head lease. MUNI deposited approximately $67.5 million of this head lease payment into two escrows. One escrow was deposited with a debt payment undertaker whose repayment obligations are guaranteed by Financial Security Assurance, an "Aaa/AAA" rated bond insurance company. The other escrow was invested in U.S. government bonds with maturity dates that match the completion of the sublease. Payments under these escrows are to be made at such times and in such amounts so as to fund MUNI's scheduled payments under the sublease as well as to provide a source of funding for MUNI's purchase option if it chooses to exercise it. Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that the creditworthiness of these escrows is such that they will fund MUNI's obligations under the sublease and that the possibility that MUNI will need to access other monies to make sublease payments is remote.

As a result of the cash transactions above, MUNI recorded deferred revenue in fiscal year 2003-2004 of $4.4 million for the difference between the amount received of $72.6 million and the amount paid to the escrows of $67.5 million (minus $0.7 million for certain transaction expenses). The deferred revenue amortized in fiscal year 2006-2007 amounted to $168 thousand.

As of June 30, 2007, the outstanding payments to be made on the sublease through 2029 are $55.5 million and the payments to be made on the purchase option of the Equipment would be $198.5 million, if exercised. All of these payments are to be funded from the amounts in escrow. 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.

The data below reflect the operations of the five parking garages operated by separate nonprofit corporations organized by the City, which are under the Parking Authority. Information about these nonprofit corporations for the year ended April 30, 2007 follows (in thousands), including $8.9 million accounts payable to MUNI:

	Downtown Parking	Uptown Parking	Japan Center Garage	Ellis - O'Farrell Parking	Portsmouth Plaza Parking	Total
Operating revenues	$ 15,303	$ 16,629	$ 2,596	$ 5,294	$ 3,393	$ 43,215
Depreciation	804	1,078	224	354	141	2,601
Net operating income	1,004	883	(39)	(474)	56	1,430
Interest and other nonoperating revenues (expenses)	(77)	(723)	-	(59)	37	(822)
Change in net assets	927	160	(39)	(533)	93	608
Capital assets, additions	1,664	190	90	135	49	2,128
Capital assets, deletions	(530)	-	-	-	-	(530)
Net working capital (deficit)	(10,587)	(11,624)	193	(2,993)	1,140	(23,871)
Total assets	32,313	51,070	2,876	15,509	3,330	105,098
Total liabilities	20,859	29,995	462	7,301	384	59,001
Net assets	11,454	21,075	2,414	8,208	2,946	46,097
Total debt outstanding	$ 10,251	$ 18,434	$ 90	$ 4,601	$ -	$ 33,376

(f) Laguna Honda Hospital

General Fund Subsidy

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, 2007, the subsidy for LHH was approximately $46.9 million.

Net Patient Services Revenue

Net patient services revenues are recorded at the estimated net realizable amounts from patients, third-party payors 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 payors. 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 contractuals, bad debt, and administrative write-offs. These allowances are based on closed account history.

Third Party Payor Agreements

LHH has agreements with third-party payors 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 payors. Medicare and Medi-Cal are the major third-party payors 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 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, 2007, LHH's patient receivables and charges for services were as follows:

Patient Receivables, net	Medi-Cal	Medicare	Other	Total
Gross Accounts Receivable	$ 50,284	$ 3,369	$ 132	$ 53,785
Less:				
Provision for Contractual Allowances	(23,736)	(1,066)	(92)	(24,894)
Recovery for Bad Debt	354	-	-	354
Total, net	$ 26,902	$ 2,303	$ 40	$ 29,245

Net Patient Service Revenue	Medi-Cal	Medicare	Other	Total
Gross Patient Service Revenue	$ 208,344	$ 13,423	$ 482	$ 222,249
Less:				
Provision for Contractual Allowances	(77,619)	(3,486)	(245)	(81,350)
Provision for Bad Debt	(56)	-	-	(56)
Total, net	$ 130,669	$ 9,937	$ 237	$ 140,843

Deferred Credits and Other Liabilities

As of June 30, 2007, LHH recorded approximately $710,000 in deferred credits and other liabilities, which was comprised of $652,000 in third party settlements payable and $58,000 in deferred revenue.

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, 2007, General Obligation Bonds in the amount of $299 million have been sold to fund the Replacement Project. During the fiscal year ended June 30, 2007, LHH recognized $16.8 million in tobacco settlement revenues.

As of June 30, 2007, LHH has entered into various purchase contracts totaling approximately $6.1 million that are related to future construction for the Replacement Project.

Environmental Remediation

LHH received a report initiated by the California Integrated Waste Management Board declaring an old dumpsite on hospital property a "hazardous waste site" under California hazardous waste statute. The San Francisco Department of Public Health, as the local enforcement agency, has been designated to oversee and certify the future abatement of the dumpsite. LHH management has subsequently received a number of estimates to remedy this situation, ranging from approximately $0.8 million to $2.5 million. LHH and the San Francisco Department of Public Health are evaluating the bids submitted. The State has mentioned that this particular hazardous waste site is classified as a low priority considering the other more hazardous waste sites within the State. The specific site has been contained and secured for the safety of the general public.

(g) San Francisco General Hospital Medical Center

General Fund Subsidy

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, 2007, the subsidy for SFGH was $130 million.

Net Patient Services Revenue

Net patient services revenues are recorded at the estimated net realizable amounts from patients, third-party payors 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 payors. 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 contractuals, bad debt, and administrative write-offs. These allowances are based on closed account history.

Third Party Payor Agreements

SFGH has agreements with third-party payors 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 payors. Major third-party payors 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, 2007, SFGH's patient receivables and charges for services were as follows:

Patient Receivables, net	Medi-Cal	Medicare	Other	Total
Gross Accounts Receivable	$ 111,653	$ 39,805	$ 65,408	$ 216,866
Less:				
Provision for Contractual Allowances	(100,161)	(32,619)	(26,997)	(159,777)
Provision for Bad Debt	-	-	(15,718)	(15,718)
Total, net	$ 11,492	$ 7,186	$ 22,693	$ 41,371

Net Patient Service Revenue	Medi-Cal	Medicare	Other	Total
Gross Patient Service Revenue	$ 549,327	$ 238,782	$ 485,946	$ 1,274,055
Less:				
Contractual Allowances	(415,124)	(160,232)	(288,563)	(863,919)
Bad Debt Allowance	-	-	(45,925)	(45,925)
Total, net	$ 134,203	$ 78,550	$ 151,458	$ 364,211

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 newly created pool of federal funding for uninsured care, known as the Safety Net Care Pool. 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 $103 million for the fiscal year ended June 30, 2007.

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, 2007, reimbursement under the Short-Doyle Program amounted to approximately $5.8 million and is included in other operating revenue.

Deferred Credits and Other Liabilities

As of June 30, 2007, SFGH recorded approximately $35.6 million in deferred credits and other liabilities, which was comprised of $19.5 million in deferred credits and $16.1 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 $233 million and estimated costs and expenses to provide charity care were $106 million in fiscal year 2006-2007.

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 $58.2 million as other non-operating revenue for the year ended June 30, 2007, 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. Proposition 99 funds allocated to SFGH for the year ended June 30, 2007, amounted to $0.9 million and is included in other non-operating revenue.

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, 2007, was approximately $91.8 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 Portrero 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 this fiscal year.

(h) San Francisco Wastewater Enterprise

The San Francisco Wastewater Enterprise (Wastewater Enterprise) was established in 1977 pursuant to bond resolutions to account for the City's municipal sewage treatment and disposal system.

Wastewater Enterprise's revenue, which consists mainly of sewer service charges, is pledged for the payment of principal and interest on various outstanding Sewer Revenue Bonds.

As of June 30, 2007, Wastewater Enterprise had outstanding commitments with third parties for capital projects and for materials and services totaling $37.5 million.

(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.

(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. Feasibility studies are underway for the Visitation Valley and Bayview Hunters Point Survey Areas designated by the Board of Supervisors.

The Agency acts as the lead Agency for the City in administering the Housing Opportunities for Persons with AIDS (HOPWA) program, which is a program funded by a grant from the U.S. Department of Housing and Urban Development.

In 1998, the Board of Supervisors approved ordinances and resolutions adopting the Mission Bay North and South Redevelopment Plans, Interagency Cooperation Agreements, Tax Allocation Agreements, and related ordinances and resolutions. The two project areas total 303 acres. In June 2005, the Board of Supervisors approved ordinance to adopt the Transbay project area as a new redevelopment area which consists of 40 acres and is located south of the San Francisco financial district. The project area is bounded by Mission Street in the north, Main Street in the east, Folsom Street in the south and Second Street in the west. The future development of a new transit terminal and a concept plan which includes high-density, transit-oriented residential development are the highlights of this project.

In May 2006, the Board of Supervisors approved an amendment to the Hunters Point Redevelopment Project Area to include two distinct geographic areas: the existing Hunters Point Redevelopment Area and an additional 1361 acres. The new project name is now "Bayview Hunters Point Redevelopment Area". The Redevelopment Plan became effective September 2006.

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 $74.5 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 XL 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, 2007, 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.

In August 2006, the Authority issued $50.7 million in Taxable Tax Allocation Revenue Bonds Series 2006 Series A (2006 Series A Bonds); and $34.5 million in Tax Allocation Revenue Bonds Series B (2006 Series B Bonds). These bonds are secured by a pledge of the Agency's share of certain property tax revenue derived from related project areas.

The 2006 Series A Bonds consist of $19.9 million in serial bonds that mature through August 1, 2036 with interest rates ranging from 5.618% to 6.185% and $30.8 million in capital appreciation bonds that mature through August 1, 2036 with interest rates ranging from 5.93% to 6.06%. The net proceeds from the 2006 Series A Bonds will be used to finance the construction, rehabilitation and preservation of low-income housing and for general redevelopment purposes.

The net proceeds from the 2006 Series B Bonds, will be used to finance certain public infrastructure improvements and other redevelopment activities in the Mission Bay North Project Area. These bonds mature through August 1, 2036 with interest rates ranging from 4% to 5%.

In order to facilitate construction and rehabilitation in the City, various construction loan notes, promissory notes, community district facility bonds and mortgage revenue bonds with an aggregate outstanding balance of approximately $644 million as of June 30, 2007 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.

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 a Low and Moderate Income Housing Fund to account for this commitment and has reserved $427 million for such expenditures since its inception. The Agency has expended $310 million for low- and moderate-income housing since its inception.

The Agency had commitments under contracts for capital improvements of approximately $62.6 million as of June 30, 2007.

(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 1,000 housing units; and overseeing the U.S. Navy's toxic remediation activities on the former naval base.

During fiscal year 2002-2003, TIDA received Navy agreement to initiate the process of early transfer and entered an exclusive negotiating agreement with a private developer for the redevelopment of the former naval base. TIDA completed an Environmental Impact Report (EIR) for the transfer in June 2006.

(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. The composition of interfund balances as of June 30, 2007, is as follows (in thousands):

Due to/from other funds (in thousands):

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental Funds	$ 7,678
	San Francisco International Airport	2
	Water Enterprise	4,815
	Laguna Honda Hospital	17,620
		30,115
Nonmajor Governmental Funds	Nonmajor Governmental Funds	5,066
	Internal Service Funds	3,576
	Municipal Transportation Agency	7,976
	San Francisco International Airport	26
		16,644
San Francisco Water Enterprise	Nonmajor Governmental Funds	63
	Municipal Transportation Agency	145
		208
Hetch Hetchy Water and Power Enterprise	General Fund	1,247
	Nonmajor Governmental Funds	11,701
	General Hospital Medical Center	2,085
		15,033
Municipal Transportation Agency	General Fund	25
	Nonmajor Governmental Funds	25,455
	Internal Service Funds	87
		25,567
Total		$ 87,567

Due to/from primary government and component units:

Receivable Entity	Payable Entity	Amount
Primary government - governmental	Component Unit - San Francisco Redevelopment Agency	$ 6,665
Hetch Hetchy Water and Power Enterprise	Component Unit - Treasure Island Development Authority	$ 2,599

Transfers In (in thousands):

Transfers Out: Funds	Funds: General Fund	Nonmajor Governmental	Internal Service Funds	Governmental Activities	Municipal Transportation Agency	San Francisco General Hospital Medical Center	Laguna Honda Hospital	Total
General Fund	$ -	$ 111,839	$ 550	$ -	$ 197,064	$ 130,224	$ 46,923	$ 486,600
Nonmajor governmental funds	6,029	25,836	-	-	59,132	-	91,250	182,247
San Francisco International Airport	23,348	-	-	-	-	-	-	23,348
San Francisco Water Enterprise	9,900	35	-	(172)	-	-	-	9,763
Municipal Transportation Agency	-	8,283	-	-	-	-	-	8,283
San Francisco General Hospital Medical Center	32,000	-	-	-	-	-	193	32,193
San Francisco Wastewater Enterprise	-	28	-	-	-	-	-	28
Total transfers out	$ 71,277	$ 146,021	$ 550	$ (172)	$ 256,196	$ 130,224	$ 138,366	$ 742,462

The $486.6 million General Fund transfer out includes a total of $374.2 million in operating subsidies to the Municipal Transportation Agency, San Francisco General Hospital Medical Center, and Laguna Honda Hospital (note 11). The transfers of $111.8 million from the General Fund to the nonmajor governmental funds are to provide support to various City programs such as the Public Library and the Children and Families Fund, as well as to provide resources for the payments 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.

The General Fund received transfers in of $32 million from the San Francisco General Hospital Medical Center for the SB 855 matching program reimbursement (note 11(g)), and $23.3 million from the San Francisco International Airport, representing a portion of concession revenue (note 11 (a)). The $59.1 million transferred to Municipal Transportation Agency from nonmajor governmental funds represented capital and operating transfers from the San Francisco Transportation Authority. The $91.2 million transfer from nonmajor governmental funds to Laguna Honda Hospital is for capital transfers funded by the Laguna Honda Hospital General Obligation Bond in the City Facilities Improvement Fund.

In fiscal year 2006-2007, a building with a net book value of $0.2 million was transferred from governmental activities to the Water Enterprise.

(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.

(b) Operating Leases

The City has noncancellable operating leases for certain buildings and data processing equipment, which require the following minimum annual payments (in thousands):

Primary Government

Governmental Activities

Fiscal Years	
2008	$ 23,094
2009	16,705
2010	15,071
2011	10,558
2012	8,615
2013-2017	4,104
Total	$ 78,147

Operating lease expense incurred for fiscal year 2006-2007 was approximately $26.7 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
2008	$ 5,639	$ 3,105	$ 6,402	$ 6,797	$ 21,943
2009	4,559	3,105	6,333	2,989	16,986
2010	79	3,105	6,319	2,682	12,185
2011	75	3,105	6,367	1,237	10,784
2012	75	3,105	6,492	380	10,052
2013-2017	-	15,301	34,856	-	50,157
2018-2022	-	14,730	39,514	-	54,244
2023-2027	-	14,730	45,387	-	60,117
2028-2032	-	14,730	52,807	-	67,537
2033-2037	-	14,730	-	-	14,730
2038-2042	-	14,730	-	-	14,730
2043-2047	-	14,730	-	-	14,730
2048-2052	-	6,138	-	-	6,138
Total	$ 10,427	$ 125,344	$ 204,477	$ 14,085	$ 354,333

Operating lease expense incurred for the Airport, Port, MTA, and SFGH for fiscal year 2006-2007 was $5.3 million, $3.0 million, $5.6 million, and $4.4 million, respectively.

Component Unit – San Francisco Redevelopment Agency

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

Fiscal Years		
2008............	$	1,797
2009.............		1,797
2010.............		1,775
2011..............		1,775
2012...............		1,775
2013-2017........		8,876
2018-2022........		4,515
2023-2027........		4,119
2028-2032........		4,119
2033-2037........		4,119
2038-2042........		4,119
2043-2047........		4,119
2048-2052........		2,677
Total...............	$	45,582

Rent payments totaling $1.7 million are included in the Agency's financial statements for the year ended June 30, 2007.

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

Primary Government

Governmental Activities

Fiscal Years		
2008............	$	1,414
2009............		1,339
2010..............		1,127
2011..............		702
2012...............		598
2013-2017.........		2,090
2018-2022.........		710
2023-2027.........		210
Total..............	$	8,190

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	San Francisco General Hospital Medical Center	Municipal Transportation Agency	Market Corp	Total Business-type Activities
2008	$ 77,829	$ 27,550	$ 1,518	$ 2,496	$ 842	$ 110,235
2009	68,103	24,964	1,579	2,391	820	97,857
2010	53,676	21,900	1,642	2,222	781	80,221
2011	37,528	18,894	1,708	1,819	764	60,713
2012	17,919	18,262	1,776	1,371	753	40,081
2013-2017	-	79,933	1,847	3,321	861	85,962
2018-2022	-	67,936	-	-	-	67,936
2023-2027	-	54,743	-	-	-	54,743
2028-2032	-	49,331	-	-	-	49,331
2033-2037	-	44,740	-	-	-	44,740
2038-2042	-	30,310	-	-	-	30,310
2043-2047	-	21,821	-	-	-	21,821
2048-2052	-	14,992	-	-	-	14,992
2053-2057	-	7,900	-	-	-	7,900
2058-2062	-	7,023	-	-	-	7,023
2063-2067	-	6,709	-	-	-	6,709
2068-2072	-	4	-	-	-	4
Total	$ 255,055	$ 497,012	$ 10,070	$ 13,620	$ 4,821	$ 780,578

Certain of the Airport's rental agreements with concessionaires 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 were approximately $14.9 million in fiscal year 2006-2007.

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 (in thousands):

Fiscal Years	
2008	$ 4,548
2009	4,583
2010	4,633
2011	4,662
2012	4,485
2013-2017	22,474
2018-2022	21,917
2023-2027	21,666
2028-2032	23,392
2033-2037	22,578
2038-2042	20,775
2043-2047	18,843
2048-2052	2,302
2053-2057	470
2058-2062	400
2063-2067	385
2068-2072	257
2073-2077	218
2078-2082	150
2083-2087	150
2088-2092	150
2093-2097	150
2098-2102	8
Total	$ 179,196

(c) Other Lease Commitments

The City is making lease payments to the Agency for the Moscone Convention Center in the amount of approximately $19 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 (in thousands):

Fiscal Years	Moscone Convention Center	Other	Total
2008	$ 18,571	$ 1,147	$ 19,718
2009	18,640	1,084	19,724
2010	18,717	1,011	19,728
2011	18,794	-	18,794
2012	18,873	-	18,873
2013-2017	94,841	-	94,841
2018-2022	48,078	-	48,078
2023-2027	9,689	-	9,689
Total minimum lease payments	246,203	3,242	249,445
Less amounts representing interest	(63,450)	(259)	(63,709)
Present value of maximum lease payments	$ 182,753	$ 2,983	$ 185,736

(d) Other Commitments

The Retirement System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $1.2 billion at June 30, 2007.

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, is responsible for 11.6% of the net operating costs and administrative expenses of the PCJPB for operating and capital needs. During the fiscal year ended June 30, 2007, the City contributed approximately $6.8 million to the PCJPB. This is paid by MTA from the subsidy transfer it receives from the City.

The San Francisco Redevelopment Agency (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 $48.6 million. As of June 30, 2007, management has designated $4.9 million for standby payment agreements. It is management's intent to designate 10% of the estimated maximum obligation.

(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 Municipal 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 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 $10,000 per single occurrence and commercial property insurance coverage for full replacement value on all facilities owned by the Airport subject to a deductible of $0.5 million 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 SFO does not carry insurance for losses due to 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 $100,000 per single occurrence for each wrongful act other than employment practices' violations, and $200,000 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. Additionally, limited insurance coverage is maintained by the City for the Moscone Convention Center property, personal liability, and for art at City-owned museums.

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 $20 million per occurrence and a deductible of $50,000 self-insurance retention per occurrence.

Any claims relating to the construction of the Moscone Convention Center are indemnified by the City under an agreement between the Redevelopment 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, 2007 has been actuarially determined and includes an estimate of incurred but not reported losses.

Changes in the reported estimated claims payable since June 30, 2005, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2005-2006	$ 152,255	$ 38,053	$ (43,048)	$ 147,260
2006-2007	147,260	84,049	(38,369)	192,940

Breakdown of the estimated claims payable at June 30, 2007 is as follows (in thousands):

Governmental Activities:	
Current portion of estimated claims payables..........................	$ 52,527
Long-term portion of estimated claims payable........................	61,904
Business-type activities:	
Current portion of estimated claims payables..........................	21,486
Long-term portion of estimated claims payable........................	57,023
Total..	$ 192,940

During the year ended June 30, 2007, the Retirement System was involved in one class action type lawsuit filed by the Veteran Police Officers Association (VPOA). This lawsuit involves issues related to "final compensation" as defined by the Plan. The VPOA lawsuit alleges that the Retirement System should include Police Officer Standard Training (POST) pay in pension calculations for those police officers who retired prior to the creation of the POST ranks. The Retirement System was successful in defending the VPOA lawsuit in the trial court and on appeal. The California Supreme Court did not rule on VPOA's Petition for Review before June 30, 2007; its denial was issued thereafter.

The Retirement System was a plaintiff in three securities fraud cases. The first lawsuit, against Enron Corporation, its officers and its accountants, was resolved during the year ended June 30, 2007. The Retirement System was unsuccessful in recovering on its claims. In the second case, the Retirement System joined a coalition of government pension funds in a securities fraud suit against various investment banks for losses relating to WorldCom bonds. The third securities fraud is an "opt out" case against Qwest Corporation. The WorldCom and Qwest cases are still in the preliminary stage and it is premature to determine the amount of recovery for the Retirement System in these matters.

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 and County's required annual contributions.

Workers' Compensation

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2007 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, 2007 was $341.1 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, 2005, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2005-2006	$ 391,428	$ 44,863	$ (72,156)	$ 364,135
2006-2007	364,135	43,753	(66,760)	341,128

Breakdown of the accrued workers' compensation liability at June 30, 2007 is as follows (in thousands):

Governmental Activities:	
Current portion of accrued workers' compensation liability.........	$ 38,963
Long-term portion of accrued workers' compensation liability.....	155,726
Business-type activities:	
Current portion of accrued workers' compensation liability.........	30,829
Long-term portion of accrued worker's compensation liability.....	115,610
Total..	$ 341,128

(17) SUBSEQUENT EVENTS

Long-term Debt

As of August 2007, the Uptown Parking Corporation (the Corporation) learned that a lawsuit had been brought against them by a group who states that the Union Square Garage design discriminates against people with disabilities. This matter has been directed to the Corporation's attorneys. While it is too early to ascertain whether a probable outcome would be in the Corporation's favor or not, there is a possibility that the Corporation would have to redesign the facilities at Union Square Garage to better serve the disabled.

In October 2007, the San Francisco Finance Corporation issued Lease Revenue Bonds Series 2007 (Open Space Fund -Various Park Projects) in the amount of $42.4 million. The proceeds of the bonds will be used to finance the design, construction and renovation of the various parks of the City. Interest rates ranges from 3.75% to 5.875%. The bonds begin to mature in July 2008 through July 2029.

In October 2007, the City initiated the second borrowing from the Credit Agreement with Bank of America, N.A. in the amount of $3.8 million under the Seismic Safety Loan Program. The borrowing was authorized by Resolution No. 65-07 by the Board of Supervisors. 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 $350 million aggregate principal amount of general obligation bonds to provide funds for loans to finance the seismic strengthening of unreinforced masonry buildings within the City. The second borrowing is for below market rate loan accounts and bears interest of 5.83% with principal amortizing from June 2008 to June 2027. Debt service payments are funded through ad valorem taxes on property.

In November 2007, the San Francisco Redevelopment Agency issued $118.3 million in 2007 Series A Taxable Tax Allocation Revenue Bonds (2007 A Bonds) and $94.1 million in 2007 Series B Tax Allocation Revenue Refunding Bonds (2007 B Bonds). The proceeds from the 2007 A Bonds will be used for general redevelopment purposes, including financing the development, rehabilitation and preservation of low and moderate income housing.

The 2007 Series B Bonds were issued for the purpose of refunding the entire 1999 Series A and 1999 Series B Tax Allocation Revenue Refunding Bonds, as well as the 2000 Series A and 2001 Series A Tax Allocation Revenue Bonds.

Elections

On November 6, 2007, the San Francisco voters approved the following propositions that will have a fiscal impact on the City:

Measure A: Charter amendment that continues the existing service and performance standards for Muni, and expands MTA's authority over its operations and additional funding. Various Charter amendments will be made to MTA in regards to Funding/Budget, Governing Authority, Labor and Personnel, Parking and Traffic, and Greenhouse Gas Emissions Reduction.

Fiscal impact: The cost of government beginning in fiscal year 2008-2009 would direct approximately $26 million from the General Fund to the MTA. This amount is a share of the General Fund measured by 40% of the revenue from the City's parking tax, and would be added to an equal amount that the MTA already receives. Future revenue growth from changes in parking policies and parking fine amounts will be dedicated to the MTA.

Measure F: Authorizes the Board of Supervisors to amend the contract with CalPERS to allow police department employees who served as airport police officers before December 27, 1997, to end their participation in CalPERS and move their service credit to SFERS even if it costs the City additional money.

Fiscal impact: The cost of government is estimated to increase by $670 thousand, due to allowing the Board of Supervisors to enter into a contract between the City and CalPERS at a cost of the City of up to $670 thousand. A majority of the cost would likely be borne by the Airport, and any cost above that limit would have to be paid by the employees themselves.

Measure G: Establishes a Golden Gate Park Stables Matching Fund to be used for renovation, repair and maintenance of the Golden Gate Park stables and provide up to $750 thousand in matching funds toward this Fund.

Fiscal impact: The cost of government is estimated to increase by $750 thousand total over the period between April 1, 2008 and March 31, 2009.

Measure I: Establishes the Office of Small Business as a City Department. The Office would assist businesses with 100 or fewer full-time employees by providing information on requirements, bidding on government contracts, compliance with applicable laws and regulations, and adoption of "green" and sustainable business practices.

Fiscal impact: The cost of government is estimated to increase by $750 thousand in fiscal year 2007-2008 to fund a proposed City Office of Small Business and Small Business Assistance Center beginning in January 2008.

Required Supplementary Information

Photo by Bob Ecker, San Francisco Convention & Visitors Bureau

CITY AND COUNTY OF SAN FRANCISCO
Required Supplementary Information - Historical Pension Data (Unaudited)

Employees' Retirement System - Analysis of Funding Progress

Historical trend information is presented.

Schedule of funding progress for the Employees' Retirement System (In thousands):

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
7/1/2004	$ 11,299,997	$ 10,885,455	$ 414,542	103.8%	$ 2,155,252	19.2%
7/1/2005	12,659,698	11,765,737	893,961	107.6%	2,052,862	43.5%
7/1/2006	13,597,646	12,515,463	1,082,183	108.7%	2,161,261	50.1%

California Public Employees' Retirement System - Analysis of Funding Progress

Historical trend information is presented.

Schedule of funding progress for PERS (In thousands):

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	Over (Under) funded AAL (OAAL)	Funded Ratio	Covered Payroll	OAAL as a % of Covered Payroll
06/30/02:						
Misc.	$ 31,897	$ 21,889	$ 10,008	145.7%	$ 1,150	870.3%
Safety	430,019	417,394	12,625	103.0%	71,716	17.6%
Total	$ 461,916	$ 439,283	$ 22,633	105.2%	$ 72,866	31.1%
06/30/03: [1]						
Safety	$ 442,850	$ 458,152	$ (15,302)	96.7%	$ 79,093	-19.3%
06/30/04: [1]						
Safety	$ 476,176	$ 493,373	$ (17,197)	96.5%	$ 79,634	-21.6%

NOTES:

(1) There is a new pooled report format for the Miscellaneous First Tier Plan of the City and County of San Francisco for Miscellaneous 2% at 55 Risk Pool. Since this plan had less than 199 active members as of June 30, 2003, PERS changed the plan from an agent multiple employer plan to a cost-sharing multiple-employer plan. As such, funding status is no longer required to be disclosed.

REQUIRED SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Federal Expenditures	Amount Provided to Subrecipients	State Expenditures for Certain HHS Programs
U.S. DEPARTMENT OF AGRICULTURE				
Direct Programs:				
Child and Adult Care Food Program	10.558	$ 5,995	$ -	$ -
Food Stamp Program Outreach Grants	10.580	68,000	-	-
Sub-Total of Direct Programs		73,995	-	-
Pass-Through Program, Girls 2000:				
Community Food Projects	10.225	27,120	-	-
Pass-Through Programs, State of California, Department of Social Services:				
Food Stamp Cluster:				
Food Stamps	10.551	39,482,323	-	-
State Administrative Matching Grants for Food Stamp Program	10.561	21,820,381	12,692,345	-
Sub-Total of Food Stamp Cluster		61,302,704	12,692,345	-
Pass-Through Program, State of California, Department of Health and Human Services:				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	2,101,443	862	-
Pass-Through Program, State of California, Department of Education:				
Summer Food Service Program for Children	10.559	559,807	130,716	-
Sub-Total of Pass-Through Programs		63,963,954	12,823,923	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE		64,065,069	12,823,923	-
U.S. DEPARTMENT OF COMMERCE				
Direct Program:				
Economic Adjustment Assistance	11.307	133,426	-	-
TOTAL U.S. DEPARTMENT OF COMMERCE		133,426	-	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs:				
Community Development Block Grants/Entitlement Grants	14.218	24,825,167	18,717,229	-
Emergency Shelter Grants Program	14.231	911,295	833,550	-
Supportive Housing Program	14.235	8,295,176	7,118,207	-
Shelter Plus Care	14.238	4,352,243	4,320,894	-
Home Investment Partnerships Program	14.239	85,441,170	13,910,921	-
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	990,000	990,000	-
Community Development Block Grants-Section 108 Loan Guarantees	14.248	27,852	-	-
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	361,463	-	-
Lead Based Paint Hazard Control In Privately-Owned Housing	14.900	2,501,886	-	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		127,706,252	45,890,801	-
U.S. DEPARTMENT OF INTERIOR				
Direct Program:				
Urban Park and Recreation Recovery Program	15.919	500,000	-	-
Pass-Through Programs, State of California, Department of Boating and Waterways:				
Clean Vessel Act Grant	15.616	34,298	-	-
Pass-Through Programs, State of California, State Agency of California State Parks:				
Outdoor Recreation Acquisition, Development, and Planning	15.916	80,000	-	-
Sub-Total of Pass-Through Programs		114,298	-	-
TOTAL U.S. DEPARTMENT OF INTERIOR		614,298	-	-
U.S. DEPARTMENT OF JUSTICE				
Direct Programs:				
Comprehensive Approaches to Sex Offender Management Discretionary Grant (CASOM)	16.203	42,399	9,572	-
Supervised Visitations, Safe Havens for Children	16.527	74,837	74,837	-
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	125,054	-	-
Missing Children's Assistance	16.543	102,454	76,610	-
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	285,889	-	-
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	814,117	496,896	-
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	213,808	106,892	-
Community Capacity Development Office	16.595	89,477	50,000	-
State Criminal Alien Assistance Program	16.606	1,212,624	-	-
Bulletproof Vest Partnership Grant	16.607	4,671	-	-
Community Prosecution and Project Safe Neighborhoods	16.609	207,072	-	-
Public Safety Partnership and Community Policing Grants	16.710	6,117,074	-	-
Gang Resistance Education and Training	16.737	142,805	38,102	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	418,835	64,003	-
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	56,451	-	-
Sub-Total of Direct Programs		9,907,567	916,912	-

See accompanying notes to the Schedule of Expenditures of Federal and State Awards.

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Federal Expenditures	Amount Provided to Subrecipients	State Expenditures for Certain HHS Programs
U.S. DEPARTMENT OF JUSTICE (Continued)				
Pass-Through Programs, State of California, Office of Emergency Services:				
Crime Victim Assistance	16.575	486,671	-	-
Violence Against Women Formula Grants	16.588	351,950	-	-
Community Prosecution and Project Safe Neighborhoods	16.609	64,271	20,000	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	256,418	-	-
Anti Gang Initiative	16.744	29,901	-	-
Pass-Through Programs, State of California, State Correction and Standards Authority:				
Juvenile Accountability Incentive Block Grants	16.523	108,305	-	-
Juvenile Justice and Delinquency Prevention	16.540	199,660	190,000	-
Pass-Through Programs, University of California San Francisco:				
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	143,838	20,000	-
Sub-Total of Pass-Through Programs		1,641,014	230,000	-
TOTAL U.S. DEPARTMENT OF JUSTICE		11,548,581	1,146,912	-
U.S. DEPARTMENT OF TRANSPORTATION				
Direct Programs:				
Airport Improvement Program	20.106	36,402,680	-	-
Federal Transit Cluster:				
Federal Transit-Capital Investment Grants	20.500	21,590,004	-	-
Federal Transit-Formula Grants	20.507	54,400,412	-	-
Sub-Total of Federal Transit Cluster		75,990,416	-	-
Transportation, Planning, Research and Education	20.931	28,567	-	-
Sub-Total of Direct Programs		112,421,663	-	-
Pass-Through Program, State of California, Department of Transportation:				
Highway Planning and Construction	20.205	9,970,848	-	-
State Planning and Research	20.515	25,855	-	-
Pass-Through Program, Transbay Joint Powers Authority:				
Federal Transit-Formula Grants	20.507	1,349,318	-	-
Pass-Through Program, State of California, Office of Traffic Safety:				
State and Community Highway Safety	20.600	1,003,920	239,959	-
Sub-Total of Pass-Through Programs		12,349,941	239,959	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		124,771,604	239,959	-
NATIONAL FOUNDATION ON THE ARTS & HUMANITIES				
Pass-Through Program, California State Library				
Grants to States	45.310	9,632	-	-
TOTAL NATIONAL FOUNDATION ON THE ARTS & HUMANITIES		9,632	-	-
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Direct Programs:				
Surveys, Studies, Investigations, Demonstrations and Special Purpose Activities Relating to the Clean Air Act	66.034	15,200	-	-
Beach Monitoring and Notification Program Implementation Grants	66.472	22,989	-	-
Environmental Justice Small Grant Program	66.604	18,068	-	-
Protection of Children and Older Adults (Elderly) from Environmental Health Risks	66.609	3,892	1,730	-
Source Reduction Assistance	66.717	20,972	-	-
Sub-Total of Direct Program		81,121	1,730	-
Pass-Through Programs, State of California, State Water Control Resources Board:				
Leaking Underground Storage Tank Trust Fund Program	66.805	423,415	-	-
Solid Waste Management Assistance	66.808	7,423	-	-
Sub-Total of Pass-Through Programs		430,838	-	-
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY		511,959	1,730	-
U.S. DEPARTMENT OF ENERGY				
Pass-Through Programs, State of California, Office of Emergency Services:				
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	70,116	-	-
TOTAL U.S. DEPARTMENT OF ENERGY		70,116	-	-
U.S. DEPARTMENT OF EDUCATION				
Direct Program:				
Literacy Programs for Prisoners	84.255	312,929	234,594	-
TOTAL U.S. DEPARTMENT OF EDUCATION		312,929	234,594	-

See accompanying notes to the Schedule of Expenditures of Federal and State Awards.

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Federal Expenditures	Amount Provided to Subrecipients	State Expenditures for Certain HHS Programs
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Programs:				
Injury Prevention and Control Research and State and Community Based Programs	93.136	7,147	-	-
Consolidated Knowledge Development and Application (KD&A) Program	93.230	432,085	214,189	-
Mental Health Research Grants	93.242	246,174	76,824	-
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	1,625,405	528,550	-
Occupational Safety and Health Research Projects	93.262	166,458	91,997	-
Drug Free Communities Support Program	93.276	58,146	13,535	-
Drug Abuse Research Programs	93.279	177,623	-	-
Center for Disease Control and Prevention-Investigations and Technical Assistance	93.283	1,380,344	201,274	-
Child Support Enforcement Demonstration and Special Projects	93.601	743	-	-
Centers for Medicare Services, Research, and Medicaid Services (CMS), Research, Demonstration and Evaluation	93.779	509,561	422,052	-
Child Health and Human Development Extramural Research	93.865	28,687	-	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	521,381	37,546	-
HIV Prevention Activities - Health Department Based	93.940	9,109,117	5,579,053	-
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	2,053,958	414,838	-
Sub-Total of Direct Programs		16,316,829	7,579,858	-
Pass-Through Program, US Conference of Mayors:				
Acquired Immunodeficiency Syndrome (AIDS) Activity	93.118	1,243	-	-
Pass-Through Program, San Francisco Community Clinic Consortium:				
Voting Access for Individuals with Disabilities - Grants to States	93.617	98,510	-	-
Pass-Through Program, Secretary of State:				
Community Health Centers	93.224	796,670	-	-
Pass-Through Programs, State of California, Department of Aging:				
State and Territorial & Technical Assistance Capacity Development - Minority HIV/AIDS Demonstration Program	93.006	239,998	63,402	-
Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect and Exploitation	93.041	15,309	15,309	686
Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals	93.042	31,593	31,593	3,951
Special Programs for the Aging Title III, Part D-Disease Prevention and Health Promotion Services	93.043	64,379	64,379	2,866
Special Programs for the Aging Cluster:				
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	1,090,119	610,713	123,695
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	1,375,797	1,375,797	966,809
Nutritional Services Incentive Program	93.053	1,032,155	1,032,155	-
Sub-Total of Special Programs for the Aging Cluster		3,498,071	3,018,665	1,090,504
National Family Caregiver Support	93.052	441,484	401,706	-
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	1,799,219	834,665	-
Centers for Medicare Services, Research, and Medicaid Services (CMS), Research, Demonstration and Evaluation	93.779	66,479	66,479	238,089
Pass-Through Programs, State of California, Department of Health and Human Services:				
Public Health and Social Services Emergency Fund	93.003	626,870	-	-
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	2,984,785	1,449,352	-
Projects for Assistance in Transition from Homelessness (PATH)	93.150	525,451	230,644	-
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	104,009	-	-
Childhood Lead Poisoning Prevention Projects - State and Local Childhood Lead Poisoning Prevention and Surveillance of Blood Lead Levels in Children	93.197	209,848	-	-
Immunization Grants	93.268	473,126	196,652	-
Medical Assistance Program	93.778	35,023,293	1,106,428	-
National Bioterrorism Hospital Preparedness Program	93.889	406,823	-	-
HIV Emergency Relief Project Grants	93.914	28,755,430	24,320,412	-
HIV Care Formula Grants	93.917	1,242,313	597,639	-
Special Project of National Significance	93.928	83,595	-	-
HIV Demonstration, Research, Public and Professional Education Projects	93.941	204,433	164,567	-
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	575,046	37,368	-
Assistance Programs for Chronic Disease Prevention and Control	93.945	749,047	391,908	-
Preventive Health Services- Sexually Transmitted Diseases Control Grants	93.977	1,894,096	361,794	-
Preventive Health and Health Services Block Grant	93.991	2,046,590	-	-
Maternal and Child Health Services Block Grant to the States	93.994	1,765,796	408,781	-

See accompanying notes to the Schedule of Expenditures of Federal and State Awards.

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2007

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Federal Expenditures	Amount Provided to Subrecipients	State Expenditures for Certain HHS Programs
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)				
Pass-Through Programs, State of California, Department of Social Services:				
Promoting Safe and Stable Families	93.556	398,354	398,354	-
Temporary Assistance for Needy Families	93.558	49,689,558	12,392,466	-
Child Support Enforcement	93.563	9,577,338	-	-
Refugee and Entrant Assistance-State Administered Programs	93.566	307,549	132,448	-
Child Care and Development Cluster:				
Child Care and Development Block Grant	93.575	7,021,370	7,021,370	-
Child Care Mandatory and Matching Fund	93.596	110,693	110,693	-
Sub-Total of Child Care and Development Cluster		7,132,063	7,132,063	-
Refugee and Entrant Assistance-Discretionary Grants	93.576	211,713	127,746	-
Refugee and Entrant Assistance-Targeted Assistance Grants	93.584	10,595	10,595	-
Child Welfare Services-State Grants	93.645	8,315,438	-	-
Foster Care-Title IV-E	93.658	40,008,455	1,171,899	-
Adoption Assistance	93.659	8,340,783	367,007	-
Chafee Foster Care Independent Living	93.674	685,614	445,243	-
Pass-Through Program, State of California, Department of Mental Health:				
Block Grants for Community Mental Health Services	93.958	2,895,464	660,249	-
Pass-Through Program, State of California, Department of Alcohol and Drug Programs:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	10,330,033	10,330,033	-
Pass-Through Program, California Family Planning Council:				
Family Planning Services	93.217	378,154	-	-
Pass-Through Program, University of California, San Francisco:				
Microbiology and Infectious Diseases Research	93.856	739,494	-	-
Pass-Through Program, Public Health Foundation Enterprise:				
Allergy, Immunology and Transplantation Research	93.855	64,270	-	-
Sub-Total of Pass-Through Programs		223,808,381	66,929,846	1,336,096
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		240,125,210	74,509,704	1,336,096
CORPORATION FOR NATIONAL AND COMMUNITY SERVICES				
Direct Program:				
Retired and Senior Volunteer Programs	94.002	49,704	-	-
TOTAL CORPORATION FOR NATIONAL AND COMMUNITY SERVICES		49,704	-	-
SOCIAL SECURITY ADMINISTRATION				
Direct Program:				
Social Security Research and Demonstration	96.007	98,457	62,458	-
TOTAL SOCIAL SECURITY ADMINISTRATION		98,457	62,458	-
U.S. DEPARTMENT OF HOMELAND SECURITY				
Direct Programs:				
Urban Areas Security Initiative	97.008	1,980,748	4,810,328	-
Assistance to Firefighters Grant	97.044	331,395	40,000	-
Metropolitan Medical Response System	97.071	120,161	-	-
National Explosive Detection Canine Team Program	97.072	27,503	-	-
Sub-Total of Direct Programs		2,459,807	4,850,328	-
Pass-Through Programs, State of California, Governor's Office of Homeland Security:				
Homeland Security Cluster:				
State Domestic Preparedness Equipment Support Program	97.004	2,127,700	-	-
Homeland Security Grant Program	97.067	9,078,268	853,278	-
Sub-Total of Homeland Security Cluster		11,205,968	853,278	-
Urban Areas Security Initiative	97.008	25,315,066	-	-
Pre-Disaster Mitigation (PDM) Competitive Grants	97.017	3,869,525	-	-
Hazard Mitigation Grant Program	97.039	1,041,889	-	-
Rail and Transit Security Grant Program	97.075	544,332	-	-
Buffer Zone Protection Plan	97.078	18,773	-	-
Pass-Through Program, UC Lawrence Livermore National Laboratory:				
Pilot Demonstration or Earmarked Projects	97.001	7,789,319	-	-
Pass-Through Programs, State of California, Governor's Office of Emergency Services:				
Emergency Management Performance Grants	97.042	119,278	-	-
Pass-Through Program, California Department of Boating and Waterways:				
Boating Safety Financial Assistance	97.012	1,552	-	-
Sub-Total of Pass-Through Programs		49,905,702	853,278	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY		52,365,509	5,703,606	-
TOTAL EXPENDITURES OF FEDERAL AWARDS		$ 622,382,746	$ 140,613,687	$ 1,336,096

See accompanying notes to the Schedule of Expenditures of Federal and State Awards.

1. GENERAL

The schedule of expenditures of federal and state awards (Schedule) includes the federal grant activity and certain state grant expenditures 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 (Medical) and Medicare Hospital Insurance (Medicare) (see Note 5). In addition, the Schedule includes state awards related to the grants passed through by the State of California, Department of Aging, as required by the grant agreements.

The basic financial statements include the operations of the San Francisco Redevelopment Agency (Agency), which expended $8,491,933, in federal awards that are not included in the accompanying Schedule for the year ended June 30, 2007. The Agency issued a separate single audit report.

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 Partnership 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. MEDICAL AND MEDICARE

Direct Medical 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 Medical and Medicare services through City-owned facilities. Administrative costs related to Medical and Medicare are, however, included in the Schedule under the Medical Assistance Program (Federal CFDA number 93.778).

6. FOOD COUPONS

The City issued food coupons valued at $39,482,323 for the year ended June 30, 2007, which are included in the accompanying Schedule. This amount is for information only as receipts and issuances of food coupons are not recorded in the City's financial records.

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 Partnership Program (HOME). During the fiscal year ended June 30, 2007, the City expended $15,841,974 for new loans under this program. As of June 30, 2007, the total amount of HOME loans outstanding was $85,441,170, which is included in the Schedule (Federal CFDA number 14.239.)

8. SAN FRANCISCO MUNICIPAL RAILWAY

The San Francisco Municipal Railway (MUNI) federal expenditures were separately audited by other auditors. Expenditures for the programs of the MUNI listed below are taken from the separately issued single audit report. MUNI's federal programs are as follows:

Program Title	CFDA Number	Federal Expenditures
Federal Transit Cluster:		
Federal Transit-Capital Investment Grants	20.500	$ 21,590,004
Federal Transit-Formula Grants	20.507	55,749,730
Subtotal Federal Transit Cluster		$ 77,339,734

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 Code	GRDTL	CFDA No.	Expenditures State	 Federal
U.S. Department of Health & Human Services					
Passed through CA Department of Aging					
Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect and Exploitation	AGELAB	07	93.041	$ 686	$ 15,309
Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals	AGSUPP	077A	93.042	3,951	31,593
Special Programs for the Aging Title III, Part D-Disease Prevention and Health Promotion Services	AGNUTR	073D	93.043	2,866	64,379
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	AGSUPP	073B	93.044	123,695	1,090,119
Special Programs for the Aging-Title III, Part C-Nutrition Services	AGNUTR	07C1	93.045	363,693	890,664
Special Programs for the Aging-Title III, Part C-Nutrition Services	AGNUTR	07C2	93.045	603,116	485,133
Centers for Medicare Services, Research, and Medicaid Services (CMS), Research, Demonstration and Evaluation	AGCBSP	07HI	93.779	170,830	19,900
Centers for Medicare Services, Research, and Medicaid Services (CMS), Research, Demonstration and Evaluation	AGCBSP	07MM	93.779	67,259	46,579
Subtotal				1,336,096	$ 2,643,676
State Awards - California Department of Aging:					
Alzheimer's	AGCBSP	07AL	n/a	206,269	
CBSP - Brown Bag	AGCBSP	07BB	n/a	23,337	
CBSP - Linkages	AGCBSP	07LI	n/a	237,411	
Senior Companion FY 06-07	AGCBSP	07SC	n/a	24,585	
Medicaid Penalty Citations Ombudsman	AGOBMC	07	n/a	39,841	
Total Expenditures of CDA Awards				$ 1,867,539	

10. PROGRAM TOTALS

The schedule of expenditures of federal awards does not summarize programs that receive funding from various funding sources. The following table summarizes these programs by CFDA numbers.

Program Title / Federal Grantor or Pass-Through Grantor	Federal Expenditures
(a) CFDA number 16.541 - Part E - Developing, Testing and Demonstrating Promising New Programs	
U.S. Department of Justice	$ 125,054
University of California San Francisco	143,838
Program Total	$ 268,892
(b) CFDA number 16.609 - Community Prosecution and Project Safe Neighborhoods	
U.S. Department of Justice	$ 207,072
State of California, Office of Emergency Services	64,271
Program Total	$ 271,343
(c) CFDA number 16.738 - Edward Byrne Memorial Justice Assistance Grant Program	
U.S. Department of Justice	$ 418,835
State of California, Office of Emergency Services	256,418
Program Total	$ 675,253
(d) CFDA numbers 20.500 and 20.507 - Federal Transit Cluster	
20.500 - U.S. Department of Transportation	$ 21,590,004
20.507 - U.S. Department of Transportation	54,400,412
20.507 - Transbay Joint Powers Authority	1,349,318
Program Total	$ 77,339,734
(e) CFDA number 93.779 - Centers for Medicare Services, Research, and Medicaid Services (CMS), Research, Demonstration and Evaluation	
U.S. Department of Health and Human Services	$ 509,561
State of California, Department of Aging	66,479
Program Total	$ 576,040
(f) CFDA number 97.008 - Urban Areas Security Initiative	
U.S. Department of Homeland Security	$ 1,980,748
State of California, Governor's Office of Homeland Security	25,315,066
Program Total	$ 27,295,814

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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 (the City), as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. Our report was modified to include a reference to other auditors. 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. Other auditors audited the financial statements of the San Francisco International Airport, San Francisco Water Enterprise, Hetch Hetchy Water and Power, San Francisco Municipal Railway, the Parking Garage Corporations, San Francisco Wastewater Enterprise, Port of San Francisco, San Francisco Market Corporation, City and County of San Francisco Finance Corporation, Employees' Retirement System, Health Service System, and the San Francisco Redevelopment Agency, 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A *control deficiency* 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 misstatements on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiency described in the accompanying schedule of findings and questioned costs as finding 2007-A, to be a significant deficiency in internal control over financial reporting.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe the significant deficiency above is not a material weakness.

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 21, 2007.

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 response and, accordingly, we express no opinion on it.

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.

Macias Gini & O'Connell LLP
Certified Public Accountants

Walnut Creek, California
December 21, 2007

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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 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, 2007. 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 Redevelopment Agency (Agency) and the San Francisco Municipal Railway (MUNI), which expended $8,491,933 and $77,339,734, respectively, in federal awards. The expenditures of the Agency are not included in the schedule of expenditures of federal and state awards for the year ended June 30, 2007. MUNI's expenditures are included in the schedule of federal and state awards for the year ended June 30, 2007. Our audit, described below, did not include the operations of the Agency and MUNI because the Agency and the MUNI engaged other auditors to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. MUNI'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 the MUNI, 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 and the report of other auditors of MUNI provide a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

As described in item 2007-04 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding site reviews that are applicable to its Summer Food Services Program for Children (CFDA number 10.559). Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, except for the noncompliance described in the preceding paragraph, 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, 2007. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2007-01 through 2007-03 and 2007-05.

Internal Control Over Compliance

The 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, 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.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in the City's internal control that might be significant deficiencies or material weaknesses as defined below. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies and others that we consider to be material weaknesses.

A *control deficiency* in an entity's 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 *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2007-01 and 2007-03 through 2007-05 to be significant deficiencies.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. Of the significant deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider items 2007-04 and 2007-05 to be material weaknesses.

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 response and, accordingly, we express no opinion on it.

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.

Macias Gini & O'Connell LLP

Certified Public Accountants

Walnut Creek, California
February 29, 2008, except for the expenditures
of federal awards of the San Francisco Municipal
Railway, which is dated November 26, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FINDINGS RELATED TO FINANCIAL STATEMENTS
FINDINGS AND QUESTIONED COSTS RELATED TO FEDERAL AWARDS

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

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?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs	Qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes

Identification of major programs:

Summer Food Services Program for Children	10.559
Supportive Housing Program	14.235
Shelter Plus Care	14.238
Supportive Housing for the Elderly (Section 202)	14.246
Lead Based Paint Hazard Control Program	14.900
Urban Park and Recreation Recovery	15.919
Highway Planning and Construction	20.205
Federal Transit Cluster	20.500/20.507
Comprehensive Community Mental Health Services	93.104
Temporary Assistance to Needy Families	93.558
Child Support Enforcement	93.563
Adoption Assistance	93.659
HIV/AIDS Virus Surveillance	93.944
Assistance Programs for Chronic Disease Prevention and Control	93.945
Substance Abuse Prevention and Treatment Block Grant	93.959
Pre-Disaster Mitigation (PDM) Competitive Grants	97.017

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:	Yes

Section II – Financial Statement Findings

Finding No. 2007-A Fund Financial Statements Revenue Recognition Procedures under Modified Accrual Basis of Accounting

Criteria:
Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recognized when they are "susceptible to accrual", that is when they are both measurable and available to finance expenditures of the fiscal period. As disclosed in Note 2 (b) to the City's basic financial statements, it is the City's policy to recognize revenues other than property tax revenues when available, which is defined as "generally" collected within 120 days after year-end. Governmental accounting principles generally accepted in the U.S. (GAAP) require property taxes to be recognized as revenue if collected within a 60-day availability period, and allows longer availability periods for other revenue sources. Under GAAP, "available" means collectible within the current period or soon enough thereafter to be used to pay the City's liabilities of the current period. Application of the "susceptibility to accrual" criterion requires judgment, consideration of the materiality of the item in question, and due regard for the practicality of accrual, as well as consistency in application.

Observation:
During our audit, we noted that certain departments did not consistently follow the City's 120-day availability revenue recognition policy under the modified accrual basis of accounting. Also, we noted that the City does not have an efficient process to evaluate the collectibility of receivable balances to properly recognize related revenue. We and staff in the Controller's Office's Systems and Reporting Unit spent considerable time and effort reconciling departmental detailed schedules to the general ledger because departments did not consistently follow the City's revenue recognition policies. The results of the final year-end analysis indicated that the City should defer $8.2M in general fund revenues and $15.5M in nonmajor governmental fund revenues for fiscal year 2007. In addition, the analysis indicated that there were errors in the prior year analysis, in which $17.2M in general fund revenues and $1.8M in other nonmajor governmental fund revenues should have been deferred in fiscal year 2006. These errors were not corrected in the fiscal year 2007 financial statements because they were deemed to be immaterial by management. However, there is still more than a remote likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected in the future.

Recommendation:
We recommend that the Controller's Office continue training departments on the application of the availability criterion for financial reporting purposes and emphasize the importance of consistent treatment. The training should emphasize that GAAP financial reporting is separate and distinct from budgetary reporting. Management should also consider re-evaluating the current policy of the 120-day availability period for reasonableness in relation to GAAP guidance. Such consideration may include using a single availability period for all revenue sources for financial reporting and should be determined independent of budgetary reporting. In addition, the Controller's Office should establish a review process at the end of the availability period to compare significant governmental year-end revenue accruals with remittances received to date. Departments that show significant variances in collections of receivables should provide documentation supporting the validity and propriety of the revenue recorded in accordance with the City's policy.

Section II – Financial Statement Findings (Continued)

Finding No. 2007-A (Continued)

Management Response:
We believe that the City follows its established policy, but that it may need to be clarified with departments to ensure the consistency of its application. Clearly defined, the City's revenue recognition policy defines available as "generally" collected within 120 days after year-end, in that a significant portion of our revenues are collected within the 120 days and the remaining uncollected amounts are very insignificant in relation to the total revenues of the City's general fund of $2.6 billion in fiscal year 2007, and $2.5 billion in fiscal year 2006. We plan to clarify our policy with departments by enforcing the strict 120-day availability periods for governmental revenues other than property taxes, with the exception of delays in collections due to highly unusual circumstances for which recognition would be allowed after the 120 days.

Section III – Federal Award Findings and Questioned Costs

Finding No. 2007-01 – U.S. Department of Health and Human Services
Temporary Assistance for Needy Families (TANF) (CFDA# 93.558)
Adoption Assistance (CFDA# 93.659)
Passed Through the State of California, Department of Social Services
Allowable Costs/Cost Principles

Criteria:
Federal and State guidelines require equitable distribution of costs among programs such that all programs pay their fair share of applicable administrative costs. The State requires all California counties to submit the County Expense Claim (CEC) quarterly, which summarizes and allocates administrative costs incurred by counties for various social service programs. County employees are required to prepare time studies quarterly which are used as the basis of allocating costs to the various programs claimed. If a program benefits from a cost factor (e.g. caseworker, space, supplies, telephones, computer systems, etc.), that program is allocated a proportionate share of those costs via the ratios created in the CEC from the employee time study hours. Time studies are required to be reviewed and signed by a supervisor.

Condition:
During our audit of the CEC, we selected 40 Time Study Sheets and noted 8 errors related to the accurate capture of time study hours:

- 6 time studies were not recorded correctly in the City's time study summary spreadsheet
- 2 time studies were not signed by a supervisor

Effect:
Mathematical and data entry errors result in incorrect allocation of administrative costs to the programs claimed. Missing supervisor signatures indicates of lack of review of allocations, which could result in incorrect allocation of costs.

Questioned Costs:
Indeterminable. The State of California Department of Social Services, as the pass-through grantor, reviews the CEC and determines the final funding allocation.

Recommendation:
We recommend that the Human Services Agency review control procedures over the CEC process and educate supervisors on the importance of reviewing time studies for mathematical accuracy prior to approving and signing all time studies for employees in their charge. In addition, the Time Study Coordinator should verify the mathematical accuracy of the time studies and review them for supervisor signature prior to inputting data in the summary spreadsheet. Finally, the summary spreadsheet should be reviewed in detail for data entry errors prior to input into the CEC.

Management Response and Corrective Action Plan:
The Human Services Agency (HSA) concurs with the finding. For the errors found in the sample, HSA included the corrections in the adjustment claim that was submitted in January 2008. For the future, HSA will remind their supervisors quarterly to stress the importance of signing the time study forms. Additionally, the HSA Revenue Manager will conduct and document a spot check of at least 2% of the time studies received each quarter for data entry accuracy and signatures on forms. These processes will be included in the Revenue Management Unit Procedures Manual.

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding No. 2007-02 – U.S. Department of Health and Human Services
Temporary Assistance for Needy Families (TANF) (CFDA# 93.558)
Passed Through the State of California, Department of Social Services
Special Provision – Child Support Non-Cooperation

Criteria:
In accordance with Code of Federal Regulations, Title 45 sections 264.30 and 264.31, the City is responsible for applying sanctions to individuals who do not comply with the child support non-cooperation requirement. Specifically, the City is required to terminate or reduce assistance by at least 25 percent for participants who do not cooperate with child support services and do not qualify for good cause.

On November 1, 2005, the City's Human Services Agency (HSA) implemented the CalWIN (CalWORKs Welfare Information Network) welfare case management system. CalWIN is a computerized information system that automates eligibility determination and case maintenance functions for specific City-administered social services programs in the State of California, including CalWORKs, Food Stamps, Medi-Cal, Cash Assistance Program for Immigrants (CAPI), General Assistance, and Foster Care. The system has been configured to the business processes and reference information specific to HSA.

HSA has established policies and procedures to send out a notice of action (NOA) form to participants who do not cooperate with child support before the effective date of the sanction of the participants' benefits. CalWIN was designed to automatically generate the NOA forms when information in the system indicates that participants are not complying with program requirements. The NOA forms are required to be sent to the participants 10 days prior to sanction to allow the participant to either correct their non-compliance or prove they qualify for a waiver of the requirement for good cause.

Condition:
During our audit of the TANF program, we noted 3 out of 30 cases selected for review, from a population of 106 for the child support non-cooperation requirement, in which the participant was not provided a notice of action for the benefit reductions. However, we were able to verify benefits for these individuals were properly reduced by at least the required percentage. Through our discussions with management, HSA experienced many challenges during the implementation of CalWIN and is still actively addressing some these issues, including the function of properly generating NOA forms.

Effect:
The City is at risk of erroneously reducing benefits when participants are not notified in advance of an intended benefit sanction due to noncompliance. Advance notice allows that participant to either correct their non-compliance or prove they qualify for a waiver of the requirement for good cause.

Questioned Costs:
None.

Recommendation:
We recommend that the HSA continue to evaluate and design effective control procedures over the sanction notification process to ensure that Notice of Action forms are sent to the program participants in a timely manner.

Management Response and Corrective Action Plan:
The three cases cited, where the required notices of action (NOAs) were not provided to the program participants, occurred in late summer or fall of 2006 due to a CalWIN system glitch. As the system glitch was gradually uncovered, a temporary work-around was implemented in October 2006. As of January 2007, CalWIN has been fixed and has been providing the required NOAs on a regular basis. HSA will continue to monitor the system to ensure that required NOAs are sent to program participants in a timely manner.

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding No. 2007-03 – U.S. Department of Housing and Urban Development
Shelter Plus Care (CFDA# 14.238)
Reporting

Criteria:
In accordance with 24 CFR section 582.300 (d), the HUD-40118 *Annual Progress Report (OMB No. 2506-0145)* is due from each grantee (and separately for each component funded) within 90 days after the end of its operating year.

Condition:
Out of 14 Annual Progress Reports selected for testing, 2 Annual Progress Reports (APR) were filed with HUD after the 90-day timeframe.

Effect:
Timely submissions of required reports to grantors are essential so that accurate financial and programmatic information is collected for analysis and determination of future funding levels.

Questioned Costs:
None.

Recommendation:
We recommend the Human Services Agency (HSA) evaluate and strengthen controls over reporting to ensure timely submissions of required reports. Adequate controls should include mechanisms to identify and track report due dates ensuring that required information is readily available. Also, procedures should be implemented to obtain approved deadline extensions for instances when reports are expected to be submitted late. The approved extensions should be documented within the reporting files of HSA for auditor review.

Management Response and Corrective Action Plan:
The Human Services Agency concurs with the finding. In order to ensure annual progress reports are submitted on time (90 days after the end of the operating period), the Homeless Division has developed and will enforce a new tracking system immediately. At the end of each operating period, the division will contact the subcontractors to remind them to submit the annual progress reports within 45 days before the report due date. At 45 days, the division will follow up with the subcontractors, if reports were still not submitted, and work with the subcontractors to ensure that the report will be certified and submitted to Housing and Urban Development (HUD) by the 90th day. Additionally, the department will conduct annual training for all subcontractors.

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding No. 2007-04 – U.S. Department of Agriculture
Summer Food Service Program for Children (CFDA# 10.559)
Passed through the State of California, Department of Education
Other – Fourth Week Site Reviews

Criteria:
In accordance with Code of Federal Regulations, Title 7, Section 225.15(d)(3) and the 2007 Administrative Guidance for Sponsors published by the U.S. Department of Agriculture, the City as the primary grant recipient must review all sites at least once during the first four weeks of program operations. After this initial period, sponsors must conduct a reasonable level of monitoring. If a site operates less than four weeks, the sponsor must still conduct a review.

To accomplish this, a site monitor must observe a complete meal service from beginning to end, which includes delivery or preparation of meals, the meal service, and clean up after meals. The USDA has developed sample site review forms to assist grantees with their efforts to maintain the appropriate supporting documentation as evidence of site reviews.

Condition:
During our audit, we selected 30 site reviews for testing and noted the following:

- 8 site reviews were conducted after the first 4 weeks of program operations. Late reviews range from 3 to 24 days late; and
- 5 site reviews were not on file and thus unavailable for review.
- 7 site reviews had incomplete information. The 7 site review forms are categorized as follows:
  - 3 review forms did not record the site monitor’s arrival and departure times;
  - 3 review forms had unanswered questions; and
  - 1 review form was not signed by the site monitor. In addition, the monitor left the site before meal time.

Effect:
Timely site reviews are essential to ensure sponsor sites comply with program regulations and for effective program operations. Records of site reviews help Department of Children, Youth, and Families (DCYF) assess the operation of its sites. Incomplete review forms may suggest inadequate site monitoring, the site monitor’s lack of program knowledge, or the site monitor’s misunderstanding of his/her responsibilities. Furthermore, failure to maintain adequate site or sponsor records may affect the amount of reimbursement the DCYF will receive.

Questioned Costs:
None.

Recommendation:
We recommend the DCYF evaluate controls over site reviews to ensure timely performance and adequate documentation of site reviews. Adequate controls should include mechanisms to identify and track site review due dates ensuring that site reviews are scheduled with the site sponsors to allow sufficient time for the reviews. The DCYF may also establish a procedure of secondary review by a supervisor to certify site reviews are performed in accordance with program requirements. Site monitors may attend annual trainings provided by the USDA to ensure the quality of site review documentation.

Procedures should be implemented to obtain approved deadline extensions for instances when reviews are expected to be submitted late due to staffing constraints. The approved extensions should be documented within DCYF’s site monitoring files to demonstrate compliance.

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding No. 2007-04 (Continued)

Management Response and Corrective Action Plan:
The Department of Children, Youth and Their Families (DCYF) concurs with the finding. The delay in site reviews was due to changes in staffing and communication of timing and schedules to program staff. The Child Nutrition Coordinator will improve the process by providing proper training to all staff and monitoring the schedules of all site visits.

During the summer program in 2007, the DCYF has implemented additional monitoring procedures. Starting June 1, 2007, the department began using a checklist to ensure all the documents were completed and filed by the monitors. The DCYF also instituted weekly Friday meetings in which monitors were trained to provide the appropriate information. These additional methods began on June 1 and continued throughout the summer program until September 1, 2007.

In the upcoming summer, starting June 1, 2008, the DCYF intends to institute further rigor in the process through the following:

1) Add two monitors to lessen amount of sites per monitor; the department will have 10 sites per monitor instead of 12 sites per monitor.
2) Use a tracking spreadsheet to ensure site reviews are made in the first four weeks of the program.
3) Fiscal Manager or Budget Director will review tracking spreadsheet weekly to ensure site monitoring is on target, and all site review forms are being filed.

The department will utilize this procedure for the upcoming summer program starting June 1 through September 1, 2008.

Section III – Federal Award Findings and Questioned Costs (Continued)

Finding No. 2007-05 - U.S. Department of Homeland Security
Pre-Disaster Mitigation (PDM) Competitive Grants (CFDA# 97.017)
Passed through the State of California, Governor's Office of Emergency Services
Reporting

Criteria:
In accordance with the FY 2005 Pre-Disaster Mitigation Program guidance published by the Federal Emergency Management Agency (FEMA) of the U.S. Department of Homeland Security. The Grantee must submit performance/progress reports for each grant award to the FEMA Regional Office within 30 days from the end of the first federal quarter following the initial grant award. The Regional Director may waive the initial report. The Grantee shall submit quarterly performance/progress reports thereafter until the grant ends. Reports are due on January 30, April 30, July 30, and October 30.

***Condition*:**
During our testing of internal controls and compliance over the reporting requirements related to the PDM program, we noted that out of 4 quarterly progress reports tested, 1 was not signed nor dated to indicate the date of report review and approval for submission; and 3 were not submitted within the required timeframe. Late reports range from 2 to 32 days, as shown below.

Report Period	Submission Deadline	No. of Days Past Due
10/1/06 - 12/31/06	1/30/07	29
1/1/07 - 3/31/07	4/30/07	32
4/1/07 - 6/30/07	7/30/07	2

Effect:
Timely submissions of required reports to the grantor are essential so that accurate financial and programmatic information is collected for analysis and determination of future funding levels.

Questioned costs:
None.

Recommendation:
We recommend the Pubic Utilities Commission evaluate existing procedures over reporting to ensure timely submissions of required reports. Adequate controls should include mechanisms to identify and track report due dates ensuring that required information is readily available to allow sufficient time for report preparation. Also, procedures should be implemented to obtain approved deadline extensions for instances when reports are expected to be submitted late due to staffing constraints or system problems. The approved extensions should be documented within the reporting files of the grant.

Management Response and Corrective Action Plan:
The department concurs. The reporting requirement was not met in a timely manner as a result of turnover in a Project Manager position. In the future, the Grants Writer plans to update the written procedures to emphasize the reporting requirements, which will include keeping signed copies of reports, and verify that every Project Manager receives a copy of the procedures. The Grants Writer will also maintain a schedule of due dates to remind staff and track completion dates.

CITY AND COUNTY OF SAN FRANCISCO
STATUS OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007

Reference Number:	**2006-01**
Federal Catalog Number/ Program Title	**93.558 Temporary Assistance for Needy Families (TANF)**
Audit Finding:	Eligibility – Out of 40 files tested, 2 files did not have a signed Income and Eligibility Verification System (IEVS) form; 1 had an unsigned SAWS-2 Form; 1 had a SAWS-2 form with no indication on whether the applicant was convicted of fraudulent statement; and 1 file did not contain complete documentation supporting the relocation of the participant and child.
Status of Corrective Finding:	Corrected.

Reference Number:	**2006-02**
Federal Catalog Number/ Program Title	**93.558 Temporary Assistance for Needy Families (TANF)**
Audit Finding:	Reporting – All of the 12 performance reports tested were submitted to the State after the required due date. Late submission ranged from 4 days to 62 days.
Status of Corrective Finding:	Corrected.

Reference Number:	**2006-03**
Federal Catalog Number/ Program Title	**20.205 Highway Planning and Construction**
Audit Finding:	Davis Bacon Act – Out of 40 certified payrolls selected, 8 were not available for review.
Status of Corrective Finding:	Corrected.

Reference Number:	**2006-04**
Federal Catalog Number/ Program Number	**93.563 Child Support Enforcement**
Audit Finding:	Allowable Costs/Cost Principles – Out of a sample size of 40, 2 employees did not have an approving signature from the department supervisor on the time cards.
Status of Corrective Finding:	Corrected.

Reference Number:	**2006-05**
Federal Catalog Number/ Program Title	**93.959 Substance Abuse Prevention & Treatment (SAPT)**
Audit Finding:	Reporting – The Annual Cost Report for fiscal year 2005-06 was submitted 15 days after the required due date.
Status of Corrective Finding:	Corrected.