CITY AND COUNTY OF SAN FRANCISCO

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

FOR THE FISCAL YEAR ENDED JUNE 30, 2004

CITY AND COUNTY OF SAN FRANCISCO
BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

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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, 2004, 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, Water Department, Hetch Hetchy Water and Power, San Francisco Municipal Railway, the Parking Garage Corporations, Clean Water Program, Port of San Francisco, City of 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 as of and for the year ended June 30, 2004:

Opinion Unit	Assets	Net Assets/ Fund Balances	Revenues
Governmental activities	0.8%	16.6%	-
Business-type activities	97.5%	97.6%	73.4%
Discretely presented component units	99.7%	100.0%	93.0%
Municipal Transportation Agency enterprise fund	96.7%	100.0%	91.5%
Aggregate remaining fund information	90.8%	94.4%	43.2%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors. The prior year partial and summarized comparative information has been derived from the City's 2003 basic financial statements and the report of other auditors dated January 30, 2004, expressed unqualified opinions on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2004, and the respective changes in financial position and cash flows, where applicable, 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.

The financial statements include partial or summarized prior year comparative information. Such prior year information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended June 30, 2003, from which such partial or summarized information was derived.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 30, 2004 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 management's discussion and analysis and schedules of funding progress listed in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we and the other auditors did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The accompanying schedule of expenditures of federal awards (Schedule) 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.

As discussed in Note 7 to the Schedule, subsequent to the issuance of the June 30, 2004 single audit reports, the City determined that the Violent Offender Incarceration and Truth in Sentencing Incentive Grant (CFDA number 16.586) with expenditures of $12,059,985 was not included in the original Schedule. Accordingly, the Schedule has been restated to reflect the correction of this error.

Macias Gini & O'Connell LLP

Certified Public Accountants

Walnut Creek, California
November 30, 2004, except for Note 7 to the
schedule of expenditures of federal
awards, which is dated April 24, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of the City and County of San Francisco's (the City) Comprehensive Annual Financial Report presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2004. We encourage readers to consider the information presented here in conjunction with additional information that we have furnished in our letter of transmittal. Certain amounts presented as 2003 summarized comparative financial information in the basic financial statements have been reclassified to conform with the presentation in the 2004 basic financial statements.

FINANCIAL HIGHLIGHTS

- The assets of the City exceeded its liabilities at the close of the most recent fiscal year by $5.62 billion (net assets). Of this amount, $140 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

- The government's total net assets increased during fiscal year 2004 by $8 million, a significant improvement over the previous year's net asset decrease of $93 million (1.6 percent). This year's increase is due, in part, to improvements in property and other local taxes revenues, expenditure reductions in governmental activities, use of revenues and other resources on capital expenditures and scheduled retirement of certain long-term debt of enterprise activities.

- Total revenues for governmental funds were approximately $2.88 billion for the current fiscal year, an increase of approximately 2.6 percent over the prior fiscal year. Expenditures for governmental funds totaled $2.86 billion, a decrease of approximately 5.2 percent from the same period. Overall, governmental funds revenues exceeded expenditures by approximately $25.9 million, or .9 percent for fiscal year 2004, compared to an expenditure to revenue shortfall of $204 million or 7.3 percent at the end of the prior fiscal year.

- As of June 30, 2004, the City's governmental funds reported combined ending fund balances of $718 million. Approximately 13.4 percent of this total amount, $96 million, is unreserved fund balance available for spending at the government's discretion within the purposes specified for the City's funds. Unreserved fund balance for governmental funds has decreased by approximately 39 percent from the prior year amount of $157 million due to decreases in business taxes, state revenues, investment earnings and the City's related use of fund balances.

- At the end of the fiscal year, unreserved fund balance for the general fund was $63.7 million, 3.3 percent of total general fund expenditures of $1.93 billion. The general fund's unreserved fund balance increased by approximately 42 percent from the prior year amount of $44.7 million. Significant contributing factors were increases in property and local tax revenues, receipt of one-time tobacco settlement funds, and reduced operating expenses due to measures taken by City management to meet revenue shortfalls, particularly from the State.

- The City's total long-term debt including all bonds, loans, and commercial paper decreased by $115.9 million, approximately 1.6 percent, since the end of the last fiscal year. Key factors were scheduled retirement of general obligation and lease revenue bond debt, refunding of current debt, and minimal issuance of new obligations. The City issued $331.3 million in refunding bonds during the year to take advantage of favorable interest rates. A significant majority of this, $265.1 million, was issued by the Airport to refund revenue bonds, $21.9 million was issued by the City to refund General Obligation Bonds, and $44.3 million was also issued by the City to refund Settlement Obligation Bonds related to settlement of business tax litigation in a prior fiscal year. This fiscal year, the City also issued general obligation bonds of $20.9 million for improvements to recreation and park facilities and $29.5 million for improvements to San Francisco Unified School District facilities.

- The City's revenues from local tax sources including property, hotel, and utility taxes in fiscal year 2004 were greater than budget estimates, reflecting the gradual improvement in some sectors of the City's economy. Citywide, charges for services revenue also increased and included increases from Airport concession fees, MUNI passenger fares, and net patient revenues at the San Francisco General Hospital (SFGH), the City's acute care hospital. Investment and interest earnings, however, reported a decline for the third straight year as low interest rates and lower cash balances continued. In addition, state revenue cuts continued this year and City management included those anticipated shortfalls in developing the general fund budget for fiscal year 2004.

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

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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 and current financial resources measurement 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 (RDA) 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 (Airport), Port of San Francisco (Port), Water Department (Water), Hetch Hetchy Water and Power (Hetch Hetchy), Municipal Transportation Agency, Laguna Honda Hospital, General Hospital Medical Center, and Clean Water Program (Clean Water), 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 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

Since fiscal year 2001, the City has presented its financial statements under the new reporting model required by the Governmental Accounting Standards Board Statement No. 34 (GASB 34), Basic Financial Statements – and Management's Discussion and Analysis (MD&A) – for State and Local Governments. Two years of financial information in the GASB 34 format are presented.

Net Assets
June 30, 2004 (in thousands)

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Assets:						
Current and other assets..................	$ 1,445,923	$ 1,535,643	$ 1,823,724	$ 1,975,760	$ 3,269,647	$ 3,511,403
Capital assets..................................	2,314,563	2,208,191	8,483,325	8,421,571	10,797,888	10,629,762
Total assets.............................	3,760,486	3,743,834	10,307,049	10,397,331	14,067,535	14,141,165
Liabilities:						
Long-term liabilities outstanding.......	1,820,415	1,824,809	5,426,655	5,551,011	7,247,070	7,375,820
Other liabilities.................................	633,330	606,203	567,417	547,507	1,200,747	1,153,710
Total liabilities.........................	2,453,745	2,431,012	5,994,072	6,098,518	8,447,817	8,529,530
Net assets:						
Invested in capital assets, net of related debt........................	1,096,834	983,834	3,416,154	3,331,481	4,512,988	4,315,315
Restricted...	535,054	594,938	432,165	484,377	967,219	1,079,315
Unrestricted.....................................	(325,147)	(265,950)	464,658	482,955	139,511	217,005
Total net assets.......................	$ 1,306,741	$ 1,312,822	$ 4,312,977	$ 4,298,813	$ 5,619,718	$ 5,611,635

Analysis of Net Assets

As noted earlier, net assets may serve as a useful indicator of a government's financial position. For the City, assets exceeded liabilities by $5.62 billion at the close of the fiscal year 2004.

The largest portion of the City's net assets reflects its $4.51 billion (80 percent) investment in capital assets (e.g. land, buildings, and equipment), less any related outstanding debt used to acquire those assets. The City uses these capital assets to provide services to citizens; consequently, these assets 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 for these liabilities.

Another portion of the City's net assets, $967 million (17 percent) represents resources that are subject to external restrictions on how they may be used. The remaining balance, unrestricted net assets, $140 million (3 percent) may be used to meet the government's ongoing obligations to citizens and creditors. Together, these two categories of net assets totaled 20 percent which reflects a drop from the prior year's total of 23 percent.

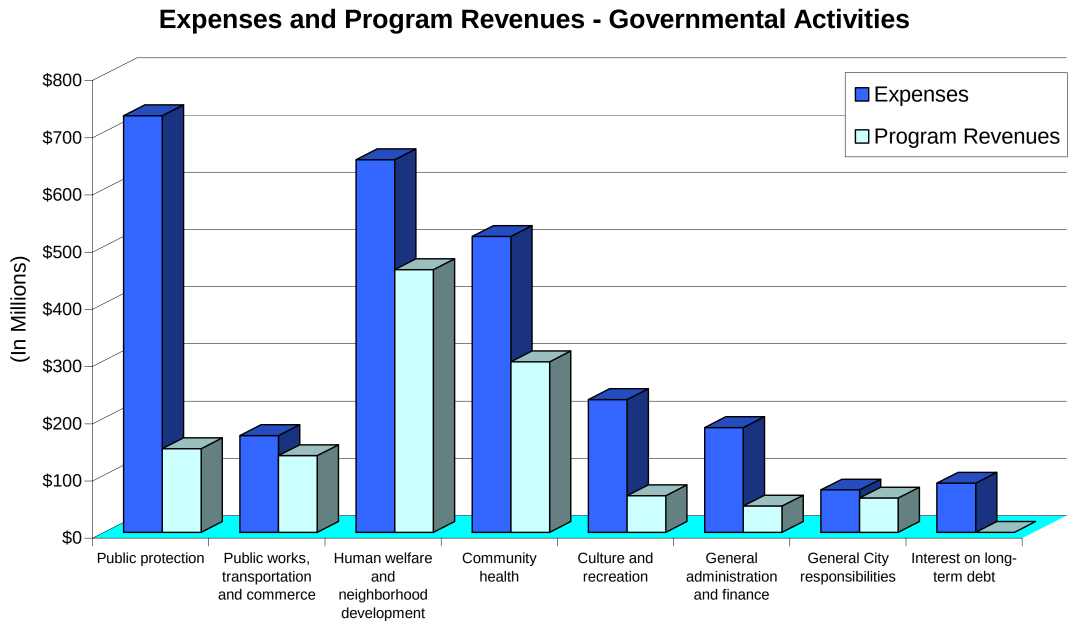
At the end of the current fiscal year, the City is able to report positive balances in all three categories of net assets for the government as a whole, as well as for the business-type activities. For the governmental activities, unrestricted net assets have a deficit of $325 million related in part to $140 million in debt from general obligation bonds for the San Francisco Unified School District, which is recorded with no corresponding assets.

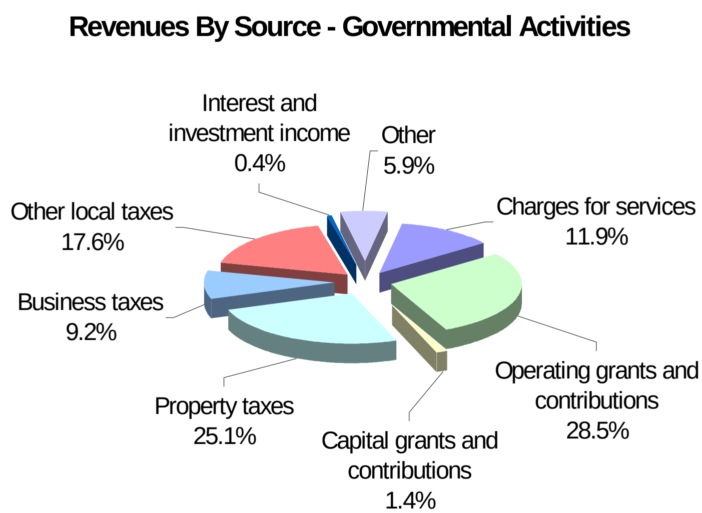
Changes in Net Assets
June 30, 2004 (in thousands)

	Governmental activities		Business-type activities		Total	
	2004	2003	2004	2003	2004	2003
Revenues						
Program revenues:						
Charges for services	$ 342,952	$ 318,880	$ 1,614,784	$ 1,577,851	$ 1,957,736	$ 1,896,731
Operating grants and contributions	823,784	809,670	169,767	164,257	993,551	973,927
Capital grants and contributions	39,209	46,029	94,818	135,482	134,027	181,511
General revenues:						
Property taxes	723,786	686,858	-	-	723,786	686,858
Business taxes	264,832	276,651	-	-	264,832	276,651
Other local taxes	509,455	450,677	-	-	509,455	450,677
Interest and investment income	11,856	26,332	17,620	50,215	29,476	76,547
Other	170,163	196,496	237,692	188,446	407,855	384,942
Total revenues	2,886,037	2,811,593	2,134,681	2,116,251	5,020,718	4,927,844
Expenses						
Public protection	727,580	778,710	-	-	727,580	778,710
Public works, transportation and commerce	169,179	218,641	-	-	169,179	218,641
Human welfare and neighborhood development	651,250	626,306	-	-	651,250	626,306
Community health	517,066	542,480	-	-	517,066	542,480
Culture and recreation	232,187	242,398	-	-	232,187	242,398
General administration and finance	183,258	186,144	-	-	183,258	186,144
General City responsibilities	73,530	53,026	-	-	73,530	53,026
Unallocated Interest on long-term debt	86,131	77,827	-	-	86,131	77,827
Airport	-	-	618,301	641,036	618,301	641,036
Transportation	-	-	660,650	628,180	660,650	628,180
Port	-	-	61,185	61,074	61,185	61,074
Water	-	-	206,211	186,579	206,211	186,579
Power	-	-	121,629	95,427	121,629	95,427
Hospitals	-	-	562,188	561,673	562,188	561,673
Sewer	-	-	150,586	153,845	150,586	153,845
Market	-	-	949	894	949	894
Total expenses	2,640,181	2,725,532	2,381,699	2,328,708	5,021,880	5,054,240
Increase/(decrease) in net assets before special items and transfers	245,856	86,061	(247,018)	(212,457)	(1,162)	(126,396)
Special items	-	-	9,245	33,000	9,245	33,000
Transfers	(251,937)	(248,260)	251,937	248,260	-	-
Change in net assets	(6,081)	(162,199)	14,164	68,803	8,083	(93,396)
Net assets at beginning of year	1,312,822	1,475,021	4,298,813	4,230,010	5,611,635	5,705,031
Net assets at end of year	$ 1,306,741	$ 1,312,822	$ 4,312,977	$ 4,298,813	$ 5,619,718	$ 5,611,635

Analysis of Changes in Net Assets

The City's net assets overall increased by $8 million during fiscal year 2004, compared to a $93 million decrease last fiscal year. The governmental activities component of this change was a $6 million decrease, a significantly smaller decrease than in the prior year. Business-type activities' aggregate increase of $14.2 million over last year was less of an increase than in fiscal year 2003, primarily because of one-time expenses. Major reasons for this improvement are noted in the government and business-type activities discussion below.





Governmental activities. Governmental activities decreased the City's total net assets by $6 million during fiscal year 2004, $156 million less than the decrease in fiscal year 2003. Key factors contributing to this year's change are as follows:

- Overall, governmental activities' revenues increased by approximately $74.4 million while expenses decreased by about $85.4 million and the transfers to business-type activities decreased slightly by a net $3.6 million for a total improvement of $156 million over last year. Within the transfers, the subsidy transfers to MUNI and the City's hospitals declined by $30 million this year.

- Property tax revenue, which was essentially flat in fiscal year 2003, increased by approximately $36.9 million, or 5.4 percent during this fiscal year reflecting, in part, the continued rise in San Francisco's property values over time. Assessed valuation rose approximately 5.73 percent in fiscal year 2004 and the City continues to improve its ability to issue supplemental tax bills within a shorter time period following the sale of a property. The City also increased its estimated assessment appeals reserve in response to increases in assessment appeals that largely began in fiscal year 2001.

- Revenues from other local taxes, including hotel, parking and sales tax increased by approximately $59 million or 13 percent. This reflects, in part, this year's improvements in hotel occupancy and room rates which had been flat or down in the previous two fiscal years. In addition, fees and service charges increased by approximately $24 million this fiscal year. This amount includes this year's portion of tobacco fine settlement proceeds of $17 million and additional revenues from rental fees and various administrative processing charges.

- Interest and investment income dropped by approximately $14.5 million or 55 percent during the year primarily due to a decrease in the average yield of City pooled investments from 2.77 percent to 1.86 percent. In general, these returns reflect the City's concentration of investments in Treasury Bills and Notes and other short-term investments combined with the continued low interest rates maintained by the Federal Reserve. At fiscal year end, deposits and investments for governmental activities with the City Treasury were approximately $729.7 million, a 2.2 percent increase over the previous year.

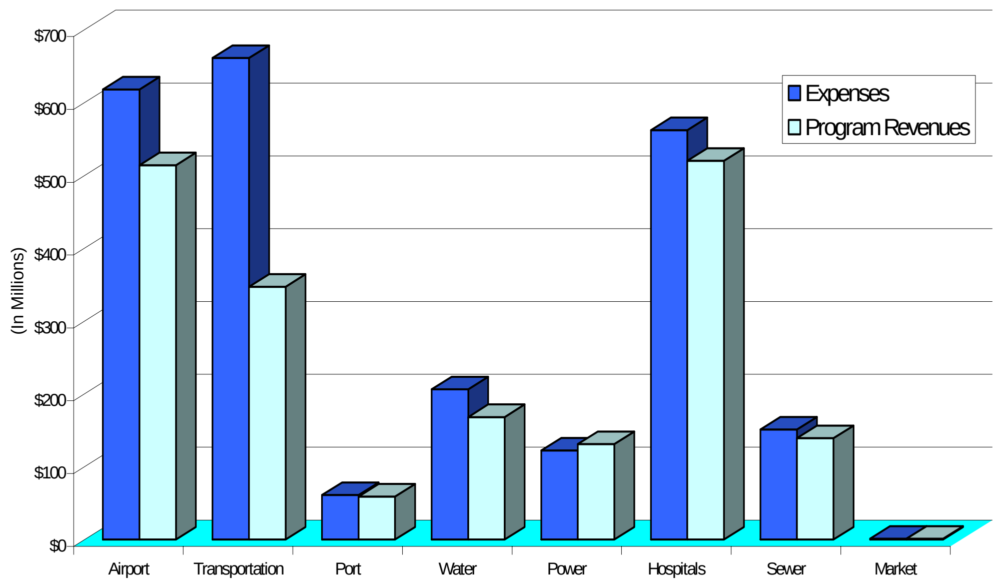
- Operating grants and contributions increased by $14 million, or approximately two percent largely due to increases in federal grants for human welfare and neighborhood development, community health and public protection which included homeland security funds.

As noted above, total governmental activities' actual expenses decreased during fiscal year 2004 by approximately $85.4 million or three percent. Generally, this reflects reductions made during the annual budget process across program areas including Public Protection, Community Health, Public Works, Transportation and Commerce, and Culture and Recreation to respond to projected revenue shortfalls, especially in state funding and business taxes. These reductions incorporated the projected savings from the labor agreements made by many San Francisco public employees' unions to contribute 7.5 percent of salary to fund the cost of pension benefits.

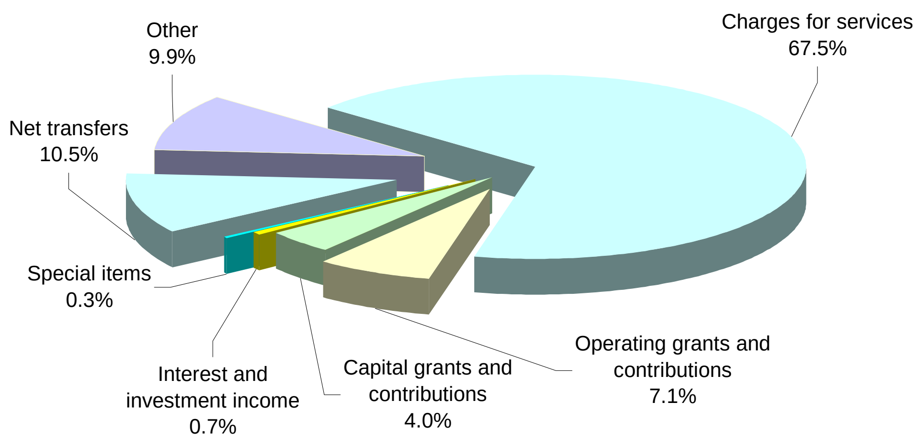
The City's General Fund subsidy transfer to the Municipal Transportation Agency also decreased from $143 million in 2003 to $134 million in 2004, a 6 percent reduction. In addition, the transfers made to the City's two hospitals declined in total by 19 percent, decreasing to $96 million in 2004 from $119 million in 2003. Both hospitals experienced increases in the proportion of patients covered by Medicare, Medi-Cal or other insurers, and/or improvement in reimbursement rates which allowed them to recover a higher share of their costs of service. Although expenses for General City Responsibilities increased by a net $21 million, this included the one time appropriation of $29 million in bond funds to the San Francisco Unified School District. There is a corresponding increase in bond proceeds that offsets this.

The charts on the previous page 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 percent), followed by human welfare and neighborhood development (25 percent) and community health (20 percent). General revenues such as property, business, and sales taxes are not shown by program, but are effectively used to support program activities citywide. For governmental activities overall, without regard to program, operating grants and contributions are the largest single source of funds (28.5 percent), followed by property taxes (25.1 percent), other local taxes (17.6 percent), and charges for services (11.9 percent). These ratios are substantially similar to last year with the exception of other local taxes which increased primarily due to hotel, parking and sales taxes, as noted above.

Expenses and Program Revenues - Business-type Activities



Revenues By Source - Business-type Activities



Business-type activities. Business-type activities increased the City's net assets by $14.2 million, bringing the government-wide increase in net assets to $9.2 million. Key factors of this increase are as follows:

- The Municipal Transportation Agency's net assets increased this year by $84 million largely or 5 percent primarily due to use of current year federal and state capital contributions and governmental transfers, mainly from the San Francisco Transportation Authority, to support MUNI's capital program. MUNI's acquired 108 electrical trolley coaches and 2 light rail vehicles and the completion of capital improvements on the K light rail line and at MUNI's Presidio Feeder Yard. MUNI's operating revenues rose by approximately $18 million or 16 percent during the year due to increased fare revenues resulting from a passenger fare increase during the year. MUNI's non operating revenues, which include federal and state operating grants and parking related revenues increased by $11 million or 5 percent over fiscal year 2003 and its capital contributions from federal, state and local grants increased by $13 million. The City's General Fund subsidy to MTA for this year was $99.6 million for MUNI and $34.4 million for DPT, a total of $13 million less than last year.

- Hetch Hetchy, which operates the City's water storage and power generating facilities in the Sierra Nevada Mountains, increased total net assets by $13.4 million. This was largely due to a $8.6 million increase in non operating revenues which included approximately $6 million in state grants funds for disaster relief reimbursements and energy projects, including the solar energy project at Moscone Convention Center. Hetchy also reported a $26.2 million or 27.5 percent increase in total expenses since the end of fiscal year 2003. Of this, $16.4 million is attributable to an increase in the purchase of power in the spot market due to increased demand.

- The Water Department had an operating loss of $19 million this year and a decrease to net assets of $9.4 million. Water's total net assets was $439 million at year end. Expenses associated with new or expanded water treatment and supply projects increased by about $14 million and the department expensed $4.8 million more in previously capitalized costs than last year. At the same time, income from service charges and other operations remained relatively unchanged. The resulting operating loss was partially offset by a net increase of $9.7 from non-operating activity which included an $18 million gain from a land sale. Additionally, Water also funded a $42.8 million increase to net capital assets through proceeds from the sale of $25 million of commercial paper and other existing resources.

- San Francisco International Airport's net assets decreased by $55 million to $456.6 million, a 10.7 percent decline since the end of fiscal year 2003. The Airport's interest expense increased by $24 million, its depreciation increased by $13 million and its investment income was reduced by $26 million. These first two are related to the Airport's recent capitalization of the new terminal and related projects. On the revenue side, total operating revenues decreased by approximately $14 million, mainly due to a $23 million decline in aviation revenues offset by a $9 million increase in revenues from concessions and parking fees. Airport operating expenses decreased by $46.4 million due to reductions in contractual services and recognition in the prior fiscal year of $37 million in previously capitalized runway expenses. The transfer from the Airport to the City's General Fund was $18.2 million, a slight increase over fiscal year 2003.

As shown in the charts on the previous page, the two largest of San Francisco's business-type activities—the San Francisco International Airport and the Municipal Transportation Agency each had total expenses over $600 million in fiscal year 2004. The City's long-term and acute care hospitals together recorded expenses of over $550 million. Together, these four enterprises make up almost 76 percent of the total business activities. As in prior years, charges for services provide the largest share of revenues, 67.5 percent, for business type activities. The overall proportion of business-type activities' revenues attributable to net transfers decreased in 2004 to 6.2 percent from 7.5 percent in 2003. As noted above, this is due to decreases in the General Fund subsidy to MUNI, DPT and the City's hospitals.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

The focus of the City's governmental funds 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 $717.6 million, a decrease of $165.8 million over the end of the prior year. The decrease reflects the City's budgetary use of reserves in both general and special revenue funds, liquidation of encumbrances, and reductions in carry-forward funds in fiscal year 2004.

Approximately $96 million of the total ending 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: (1) to support a general fund "rainy day" reserve ($55.1 million), (2) to liquidate existing contracts and purchase orders ($185.3 million), (3) to fund continued programs or projects in future fiscal periods ($337.7 million), (3) to pay debt service ($18.8 million), and (4) for a limited number of other purposes ($24.6 million).

The general fund is the chief operating fund of the City. At the end of the current fiscal year, the unreserved fund balance of the general fund was $63.7 million, while total fund balance was $210.4 million, an increase of $14.1 million over the prior year. This was mainly due to increases in property and local taxes, a one-time use of tobacco tax settlement proceeds along with controls placed by management on general fund expenditures during the fiscal year. Overall, the general fund's performance resulted in revenues in excess of expenditures in the fiscal year ended June 30, 2004 of $134 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 2004, the unreserved fund balance of $63.7 million represents three percent of total general fund expenditures of $1.93 billion, and the total fund balance represents approximately 11 percent of that amount. For 2003, the general fund's unreserved fund balance of $44.7 million was approximately two percent of the total expenditures of $1.95 billion, and the total fund balance represented approximately ten percent of expenditures.

Proprietary funds

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

At the end of fiscal year 2004, the unrestricted net assets for the San Francisco International Airport were $284.2 million, the Water Department $124.6 million, the Hetch Hetchy Project $87.7 million, the Clean Water Program $50 million, the Port of San Francisco $40.4 million, and the San Francisco Market Corporation $7 million. Three proprietary funds had deficits in unrestricted net assets: the Municipal Transportation Agency had a deficit of $94.8 million, and Laguna Honda Hospital and San Francisco General Hospital had deficits in unrestricted net assets of $19.4 million and $15.1 million respectively. The internal service funds that are used to account for certain governmental activities also had a deficit in unrestricted net assets of $3.9 million.

The total growth in net assets for the enterprise funds was $14.2 million. Factors concerning the finances of these funds have been addressed previously in the discussion of the City's business-type activities. As in the previous years, the Airport's $55 million decrease in net assets is related to its major capital assets being depreciated on a straight-line basis over an average of 30 years and to lower operating revenues due to the continued restructuring in the airline industry.

The following table shows actual revenues, expenses and results of operations (excluding capital contributions and expenses) 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 and Special Items	Interfund Transfers	Change In Net Assets
Airport	$ 486,132	$ 400,596	$ 85,536	$ (149,772)	$ 27,404	$ (18,161)	$ (54,993)
Water	168,260	187,378	(19,118)	9,692	-	-	(9,426)
Hetch Hetchy	124,474	121,629	2,845	11,072	-	(489)	13,428
Municipal Transportation Agency	186,390	655,757	(469,367)	235,425	64,669	253,043	83,770
General Hospital	339,012	412,083	(73,071)	74,918	-	(6,593)	(4,746)
Clean Water	137,806	129,916	7,890	(19,510)	-	(143)	(11,763)
Port	56,702	59,254	(2,552)	(1,550)	11,990	-	7,888
Laguna Honda Hospital	114,595	149,126	(34,531)	(222)	-	24,280	(10,473)
Market Corporation	1,413	948	465	14	-	-	479
Total	$ 1,614,784	$ 2,116,687	$ (501,903)	$ 160,067	$ 104,063	$ 251,937	$ 14,164

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 2004, the net assets of the Retirement System and Health Service System totaled $11.9 billion, representing an increase of $1.38 billion in total net assets since June 30, 2003. This 13% increase is primarily due to the Retirement Trust's investments improved performance this fiscal year, after declines in two of the previous three years. The Investment Trust Fund's net assets totaled $205.1 million, a decrease in net assets of $28.8 million since June 30, 2003 due to 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 2004, supplemental appropriations were approved for the Fire Department ($3.1 million) and Sheriff's Department ($3.2 million) for overtime personnel costs. The Department of Elections received an additional $3.4 million in appropriations for the special gubernatorial recall election in October 2003. Appropriations were also increased for the Trial Courts ($.5 million) for the indigent defense program, and the final budget for the General City Responsibilities function increased to appropriate approximately $29 million in general obligation bond proceeds for improvements to San Francisco Unified School District facilities.

During the year, actual revenues and other resources were $19.8 million less that budgeted estimates. While the City realized $53.9 million more revenue than budgeted for property, hotel, utility, and real estate transfer taxes, this was partially offset because the City received $36.5 million less than budgeted shortfall in business, sales and parking taxes, interest and investment income, fines and concession revenues. In addition, transfers to the General Fund were approximately $29 million less than estimated, due to a reduction in the funds transferred from the San Francisco General Hospital Fund for the City's participation in the State cost-sharing program among county hospitals. There is no net loss to the General Fund as a result of the hospital transaction since expenses were also reduced.

Differences between the final budget and the actual (budgetary basis) resulted in an $86.8 million decrease in total charges to appropriations. This is primarily due to the following factors:

- A decrease in expenditures by the Department of Public Health of approximately $31.5 million, primarily associated with a reduction in the local match requirement for the State hospital cost-sharing program noted above (SB 855 Medi-Cal disproportionate share program). This decrease is non-program related and does not result in service reductions.

- A decrease in expenditures by the Human Services Department of approximately $16.4 million related to reduced costs under programs such as wage augmentation programs and childcare subsidies. These expense reductions are partly offset by decreases in the Federal and State funds that the City is able to claim under these programs.

- A decrease in expenditures of approximately $2 million in the Adult and Aging Services Department, $1 million in the Recreation and Parks Department and $2 million in the Emergency Communications Department due to reductions in operating and personnel cost.

- The General Fund was able to reduce its transfers to other funds by $17.1 million from budget, primarily through improved revenue performance at the City's Hospitals.

- Budgetary reserves of $9.3 million for various programs and payments that had been anticipated and included in the budget were not used due to management restrictions on spending and were able to be liquidated at the close of the fiscal year.

The net effect of the under-utilization of appropriations, the receipt of some actual revenues greater than estimates, and a $11.9 million increase in budgetary designation for litigation and contingencies resulted in a positive budgetary fund balance variance of $55 million at the end of the fiscal year.

In creating its budget for the fiscal year ending June 30, 2005, the City used an estimated budgetary fund balance of $26.2 million (see Note 4 to the Basic Financial Statements).

Capital Assets and Debt Administration

Capital Assets

The City's capital assets for its governmental and business type activities as of June 30, 2004, amount to $10.8 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, streets, and bridges. The total increase in the City's capital assets for the current fiscal year was four percent (an eight percent increase for governmental activities and a three percent increase for business-type activities) as shown in the table below.

Capital Assets , Net of Accumulated Depreciation
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2004	2003	2004	2003	2004	2003
Land	$ 143,640	$ 141,608	$ 193,781	$ 194,024	$ 337,421	$ 335,632
Facilities and Improvement	1,695,198	1,656,169	6,149,996	6,171,196	7,845,194	7,827,365
Machinery and equipment	52,674	62,899	912,707	911,497	965,381	974,396
Infrastructure	176,838	131,321	494,671	506,495	671,509	637,816
Property held under lease	536	536	2,248	103	2,784	639
Easements	-	-	89,153	92,053	89,153	92,053
Construction in progress	245,677	215,658	640,769	546,203	886,446	761,861
Total	$ 2,314,563	$ 2,208,191	$ 8,483,325	$ 8,421,571	$ 10,797,888	$ 10,629,762

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

- The Municipal Transportation Agency's net capital assets increased by $85.8 million this fiscal year. This was primarily due to the acquisition 108 electric trolleys and 2 light rail vehicles, completion of Presidio Yard, Utah Shop and K-line rail improvement projects, and ongoing construction work on the Third Street Rail project, a major expansion of the MUNI Metro system in the City's southeast neighborhoods. During this year, MUNI amortized $1.3 million of a $35.5 million deferred gain recorded in April 2002 when the agency entered into a lease transaction involving 118 Breda light rail vehicles. In September 2003 MUNI entered into a second lease transaction involving another 21 Breda vehicles, resulting in a $4.4 million deferred gain. Under these leasing transactions, equity investors hold title to the vehicles to take advantage of tax benefits not available to public entities. MUNI maintains custody and use of the vehicles, and is obligated to insure and maintain them during the term of the lease.

- The Water Department's net capital assets increased by $42.8 million. This included improvements at the Pulgas Temple, Harry Tracy and Sunol Valley Water Treatment Plants totaling approximately $58.7 million, completion of the Sutro Reservoir improvement project for $11.8 million, and completion and capitalization of other smaller projects across the City's water treatment and distribution system.

- Hetch Hetchy Water and Power increased net capital assets by $9.5 million. This included completion of a $14.3 million project on the Priest Reservoir By-pass near Yosemite National Park and completion of the $3.3 million renewable energy generation project at the Southeast Plant.

- The Airport reported an overall decrease in capital assets of $70.4 million or 1.8% for fiscal year 2004 due largely to the net effect of depreciation against completed projects of the Near Term Master Plan for SFO in recent years. This plan includes the new International Terminal (completed in 2001), the Bay Area Rapid Transit (BART) Station at SFO and Air Train people mover (completed in 2003) and new parking facilities, roadways, runway improvements, and other Airport facilities. Capitalizations in fiscal year 2004 included a wastewater treatment plant, and boarding area reconstruction.

- Under governmental activities, net capital assets increased by $106 million. This included completion of Conservatory of Flowers reconstruction, the African Savanna exhibit at the San Francisco Zoo, an upgrade at the City's Asphalt Plant and improvements at a City libraries, parks, and recreation facilities.

At the end of the year, the City's business type activities had approximately $200 million in commitments for various capital projects. Of this, MTA had approximately $77 million, Water Department had $60 million, Hetch Hetchy and Cleanwater had $48 million, and the Airport had $28 million. In addition, there was had approximately $ 66 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 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 2002, newly completed projects were capitalized and ongoing infrastructure projects were 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, San Francisco had total long-term debt outstanding of $7 billion. Of this amount, $844.7 million is general obligation bonds (including $0.4 million in general obligation bonds issued on behalf of the Port of San Francisco) backed by the full faith and credit of the City and $6.2 billion is revenue bonds, loans, certificates of participation, leases, and other debts of the City secured solely by specified revenue sources.

As noted previously, San Francisco's total long-term debt including all bonds, loans, commercial paper and capital leases decreased by $115.9 million during fiscal year 2004 primarily due to retirement of bonded debt in the enterprise activities.

The City also took advantage of favorable interest rates to reduce debt payments by issuing $331.3 million in refunding bonds. Of this, the Airport issued $265.1 million in refunding revenue bonds; the City issued the remaining $66.2 million to refund general obligation and settlement obligation bonds. The City also issued $20.9 million in general obligation bonds for improvements to the City's recreation and park facilities, and $29.5 million in general obligation bonds for San Francisco Unified School District facilities. Lease-revenue bonds for $9.5 million were issued to finance equipment acquisition through the San Francisco Finance Corporation.

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 $100 billion in value (net of unreimbursable exemptions) as of the close of the fiscal year. As of June 30, 2004, the City had $844.7 million in authorized, outstanding property tax–supported general obligation bonds, which is equal to approximately 0.81 percent of gross (.88 percent of net) taxable assessed value of property. As of June 30, 2004, there were an additional $872 million in bonds that were authorized but un-issued. If all of these bonds were issued and outstanding in full, the total debt burden would be approximately 1.7 percent of the taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2004 were:

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

During the fiscal year, Moody's Investors Service and Standard and Poor's affirmed their ratings and negative outlook on San Francisco's outstanding general obligation bonds as noted above. Fitch Ratings downgraded its rating to AA- from AA and changed their rating outlook to stable from negative. Fitch Ratings cited continued weak economic performance; reduced financial reserves and reduced tax revenue mitigated somewhat by the expectation that the City's statutory financial requirements and solid management acumen will restore financial balance. Moody's and Standard & Poor's also noted the continued weak economy in addition to state budget uncertainty and the challenges the City faced in balancing the fiscal 2005 budget. Their concerns were mitigated somewhat by strong management practices as evidenced by revenue monitoring and spending reductions to minimize financial decline.

The City's enterprise activities maintained their underlying debt ratings this fiscal year. The Airport's underlying bond ratings were upheld by Moody's, Standard & Poor's, and Fitch at A1, A, and A, respectively. And, the rating outlook issued by all three remained negative due to the weak economy, war with Iraq and the SARS outbreak that decreased travel between Asia and the United States in spring 2003.

Moody's and Standard & Poor's also affirmed their A2 and A ratings with stable outlooks, respectively, for Clean Water Program's outstanding revenue and refunding bonds.

Since the close of the 2004 fiscal year, the City has issued additional debt of $76.9 million in general obligation bonds for improvements to neighborhood recreation and park facilities, and the California Academy of Sciences. In addition, $39.4 million refunding certificates of participation were issued to refund outstanding certificates for the San Francisco Courthouse Project at 400 McAllister Street.

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

- San Francisco faced a projected General Fund shortfall of over $299 million at the beginning of its fiscal 2005 annual budget process. As a result, significant spending cuts were made across General Fund functions and two new taxes were proposed. In addition, most San Francisco public employees' unions agreed in labor contracts to continue to contribute 7.5 percent of salary to fund the employee cost of pension benefits. The City was able to appropriate $62.8 million in estimated available fund balance and liquidated reserves in the General Fund budget for fiscal year 2005. The use of one-time sources, including the use of fund balance and prior year reserves, meant that the City was able to avoid making even further reductions in public safety, health and human services, and many other critical programs in the budget year.

- As noted in our transmittal letter, San Francisco's unemployment rate has gradually improved over the last two years, dropping to 5.9 percent in June 2004 after a peak of 7.9 percent in July 2002. While the unemployment rate has decreased, this is generally attributed to two factors: 1) that unemployed workers have moved to less expensive areas to live, or 2) that they are no longer included in the California Economic Development Department's count because they are not actively seeking new employment. Employers have been slow to expand their employee ranks given the lagging recovery in our region; however, the reduced unemployment rate is one sign that improvements are emerging.

- During the fiscal 2005 budget cycle, the State negotiated a two-year agreement with local governments to close the State's budgetary shortfall. This entailed shifting various revenue sources including vehicle license fees and sales taxes for property taxes, in part. Voters then reaffirmed the intent of those agreements by passing State Proposition 1A in November 2004. Proposition 1A further protects San Francisco and all other local California governments from the

State balancing their budget by taking additional local revenues. This will have a positive impact on future year revenue stability. In developing the City's fiscal year 2005 budget, policy makers included $32.7 million in revenue reductions to cover State revenue shifts and funding reductions. City management continues to closely monitor all State funding.

- An economic strengthening started in some local taxes, including hotel room, sales, parking and real property transfer taxes. After a near three-plus year downturn, these signs are encouraging news. Weakness is still present in payroll taxes as employers have been reluctant to hire.

- While the above factors were considered in preparing the City's budget for fiscal year 2005, voters rejected the proposed ¼ percent increase to sales tax (Proposition J) and the four-year, 0.1 percent gross receipts tax (Proposition K) in November 2004. The Mayor's Office has already implemented mid-year spending reductions to cover this shortfall, which include the using $15 million of the City's $30 million General Reserve in the fiscal year 2005 budget.

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

San Francisco Water Department
Hetch Hetchy Water and Power
San Francisco Clean Water Program
1155 Market Street, 5th Floor
San Francisco, CA 94103

Municipal Transportation Agency
MUNI Finance and Administration
875 Stevenson Street, Room 260
San Francisco, CA 94103

San Francisco General Hospital Medical Center
Chief Financial Officer
2789 – 25th Street
San Francisco, CA 94110

Port of San Francisco
Fiscal Officer
Pier 1
San Francisco, CA 94111

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

Health Service System
Department of Human Resources
44 Gough Street
San Francisco, CA 94103

San Francisco Employees'
Retirement System
Finance Department
30 Van Ness Avenue, Suite 3000
San Francisco, CA 94102

Component Unit Financial Statements

San Francisco Redevelopment Agency
Finance Department
770 Golden Gate Avenue, Third Floor
San Francisco, CA 94102

Blended Component Units Financial Statements

San Francisco County Transportation Authority
100 Van Ness Avenue, 25th Floor
San Francisco, CA 94102

San Francisco Finance
Corporation
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, 2004

(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	$ 729,748	$ 674,887	$ 1,404,635	$ -	$ 2,096
Deposits and investments outside City Treasury	100,151	8,295	108,446	179,127	-
Receivables (net of allowance for uncollectible amounts of $40,342 for the primary government):					
Property taxes and penalties	34,595	-	34,595	-	-
Other local taxes	163,017	-	163,017	-	-
Federal and state grants and subventions	161,842	47,026	208,868	-	-
Charges for services	13,731	139,538	153,269	-	618
Interest and other	4,730	45,815	50,545	8,312	3
Loans receivable	-	85	85	21	-
Capital lease receivable from primary government	-	-	-	1,424	
Due from component unit	849	-	849	-	-
Inventories	-	47,864	47,864	-	-
Deferred charges and other assets	9,309	17,615	26,924	-	-
Restricted assets:					
Deposits and investments with City Treasury	-	15,732	15,732	-	-
Deposits and investments outside City Treasury	-	47,121	47,121	199,351	-
Grants and other receivables	-	740	740	937	-
Total current assets	1,217,972	1,044,718	2,262,690	389,172	2,717
Noncurrent assets:					
Loans (net of allowance for uncollectible amounts of $173,367 and $116,168 for the primary government and component units, respectively) receivable	214,650	768	215,418	5,777	-
Capital lease receivable from primary government	-	-	-	192,294	-
Deferred charges and other assets	13,301	69,069	82,370	9,044	-
Restricted assets:					
Deposits and investments with City Treasury	-	407,740	407,740	-	-
Deposits and investments outside City Treasury	-	278,665	278,665	36,670	-
Grants and other receivables	-	22,764	22,764	-	-
Property held for resale	-	-	-	13,986	-
Capital assets:					
Land and other assets not being depreciated	389,317	834,550	1,223,867	114,260	-
Facilities, infrastructure, and equipment, net of depreciation	1,925,246	7,648,775	9,574,021	119,730	-
Total capital assets	2,314,563	8,483,325	10,797,888	233,990	-
Total noncurrent assets	2,542,514	9,262,331	11,804,845	491,761	-
Total assets	$ 3,760,486	$ 10,307,049	$ 14,067,535	$ 880,933	$ 2,717

(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, 2004

(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	$ 148,294	$ 128,728	$ 277,022	$ 8,306	$ 703
Accrued payroll	42,611	35,024	77,635	-	19
Accrued vacation and sick leave pay	63,682	40,694	104,376	1,168	-
Accrued workers' compensation	45,138	40,108	85,246	-	-
Estimated claims payable	19,881	15,463	35,344	-	-
Bonds, loans, capital leases, and other payables	146,646	128,851	275,497	53,367	-
Capital lease payable to component unit	1,424	-	1,424	-	-
Accrued interest payable	7,185	11,756	18,941	92,507	-
Unearned grant and subvention revenues	5,286	-	5,286	5,287	-
Due to primary government	-	-	-	849	-
Internal balances	32,419	(32,419)	-	-	-
Deferred credits and other liabilities	120,764	117,002	237,766	1,861	-
Total current liabilities	633,330	485,207	1,118,537	163,345	722
Liabilities payable from restricted assets:					
Bonds, loans, capital leases, and other payables	-	17,013	17,013	-	-
Accrued interest payable	-	34,807	34,807	-	-
Other	-	30,390	30,390	-	-
Total liabilities payable from restricted assets	-	82,210	82,210	-	-
Noncurrent liabilities:					
Accrued vacation and sick leave pay	64,735	33,196	97,931	1,565	-
Accrued workers' compensation	168,492	143,388	311,880	-	-
Estimated claims payable	59,924	32,168	92,092	-	-
Bonds, loans, capital leases, and other payables	1,334,970	5,171,501	6,506,471	700,224	-
Capital lease payable to component unit	192,294	-	192,294	-	-
Accrued interest payable	-	-	-	68,013	-
Deferred credits and other liabilities	-	46,402	46,402	-	-
Total noncurrent liabilities	1,820,415	5,426,655	7,247,070	769,802	-
Total liabilities	2,453,745	5,994,072	8,447,817	933,147	722
NET ASSETS					
Invested in capital assets, net of related debt	1,096,834	3,416,154	4,512,988	43,199	-
Restricted for:					
Cash and emergencies requirements by Charter	55,139	-	55,139	-	-
Debt service	9,996	242,537	252,533	139,969	-
Capital projects	48,313	128,387	176,700	-	-
Community development	163,875	-	163,875	-	-
Transportation Authority activities	135,466	-	135,466	-	-
Other purposes	122,265	61,241	183,506	13,986	1,995
Unrestricted (deficit)	(325,147)	464,658	139,511	(249,368)	-
Total net assets (deficit)	$ 1,306,741	$ 4,312,977	$ 5,619,718	$ (52,214)	$ 1,995

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, 2004
(In Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets — 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	$ 727,580	$ 40,349	$ 105,315	$ -	$ (581,916)	$ -	$ (581,916)	$ -	$ -
Public works, transportation and commerce	169,179	83,176	20,244	30,134	(35,625)	-	(35,625)	-	-
Human welfare and neighborhood development	651,250	23,931	434,980	-	(192,339)	-	(192,339)	-	-
Community health	517,066	38,933	259,164	-	(218,969)	-	(218,969)	-	-
Culture and recreation	232,187	53,369	1,301	9,075	(168,442)	-	(168,442)	-	-
General administration and finance	183,258	43,585	2,116	-	(137,557)	-	(137,557)	-	-
General City responsibilities	73,530	59,609	664	-	(13,257)	-	(13,257)	-	-
Unallocated Interest on long-term debt	86,131	-	-	-	(86,131)	-	(86,131)	-	-
Total governmental activities	2,640,181	342,952	823,784	39,209	(1,434,236)	-	(1,434,236)	-	-
Business-type activities:									
Airport	618,301	486,132	-	27,404	-	(104,765)	(104,765)	-	-
Transportation	660,650	186,390	95,698	64,669	-	(313,893)	(313,893)	-	-
Port	61,185	56,702	-	2,745	-	(1,738)	(1,738)	-	-
Water	206,211	168,260	-	-	-	(37,951)	(37,951)	-	-
Power	121,629	124,474	6,123	-	-	8,968	8,968	-	-
Hospitals	562,188	453,607	66,620	-	-	(41,961)	(41,961)	-	-
Sewer	150,586	137,806	1,326	-	-	(11,454)	(11,454)	-	-
Market	949	1,413	-	-	-	464	464	-	-
Total business-type activities	2,381,699	1,614,784	169,767	94,818	-	(502,330)	(502,330)	-	-
Total primary government	$ 5,021,880	$ 1,957,736	$ 993,551	$ 134,027	(1,434,236)	(502,330)	(1,936,566)	-	-
Component units:									
San Francisco Redevelopment Agency	$ 117,264	$ 22,133	$ 14,271	$ -				(80,860)	-
Treasure Island Development Authority	11,035	8,270	-	-				-	(2,765)
Total component units	$ 128,299	$ 30,403	$ 14,271	$ -				(80,860)	(2,765)
General Revenues:									
Taxes:									
Property taxes					723,786	-	723,786	40,157	-
Business taxes					264,832	-	264,832	-	-
Other local taxes					509,455	-	509,455	5,794	-
Interest and investment income					11,856	17,620	29,476	9,690	-
Other					170,163	237,692	407,855	17,119	-
Special item					-	9,245	9,245	-	-
Transfers - internal activities of primary government					(251,937)	251,937	-	-	-
Total general revenues, special item, and transfers					1,428,155	516,494	1,944,649	72,760	-
Change in net assets					(6,081)	14,164	8,083	(8,100)	(2,765)
Net assets (deficit) - beginning					1,312,822	4,298,813	5,611,635	(44,114)	4,760
Net assets (deficit) - ending					$ 1,306,741	$ 4,312,977	$ 5,619,718	$ (52,214)	$ 1,995

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, 2004
(with comparative financial information as of June 30, 2003)

(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2004	2003	2004	2003	2004	2003
ASSETS						
Deposits and investments with City Treasury	$ 158,248	$ 137,738	$ 564,795	$ 567,264	$ 723,043	$ 705,002
Deposits and investments outside City Treasury	361	4,149	74,065	126,034	74,426	130,183
Receivables:						
Property taxes and penalties	28,020	25,455	6,575	5,294	34,595	30,749
Other local taxes	150,856	149,138	12,161	11,277	163,017	160,415
Federal and state grants and subventions	63,002	50,119	98,840	169,963	161,842	220,082
Charges for services	7,568	11,356	6,163	6,685	13,731	18,041
Interest and other	2,230	4,469	1,917	3,201	4,147	7,670
Due from other funds	52,917	72,730	5,384	9,665	58,301	82,395
Due from component unit	849	444	-	11,276	849	11,720
Loans receivable (net of allowance for uncollectible amount of $173,367 in 2004; $183,424 in 2003)	1,221	1,043	213,429	197,923	214,650	198,966
Deferred charges and other assets	6,598	6,224	1,625	1,832	8,223	8,056
Total assets	$ 471,870	$ 462,865	$ 984,954	$ 1,110,414	$ 1,456,824	$ 1,573,279
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 83,934	$ 70,157	$ 58,894	$ 61,628	$ 142,828	$ 131,785
Accrued payroll	34,278	70,902	7,068	14,998	41,346	85,900
Deferred tax, grant and subvention revenues	30,151	28,622	31,620	11,743	61,771	40,365
Due to other funds	892	700	88,969	115,105	89,861	115,805
Agency obligations	-	-	138	40	138	40
Deferred credits and other liabilities	112,180	96,172	241,126	219,874	353,306	316,046
Bonds, loans, capital leases, and other payables	-	-	50,000	-	50,000	-
Total liabilities	261,435	266,553	477,815	423,388	739,250	689,941
Fund balances:						
Reserved for cash requirements	-	55,139	-	-	-	55,139
Reserved for rainy day	55,139	-	-	-	55,139	-
Reserved for emergencies	-	4,198	-	-	-	4,198
Reserved for assets not available for appropriation	7,142	6,768	17,443	25,906	24,585	32,674
Reserved for debt service	-	-	18,800	33,866	18,800	33,866
Reserved for encumbrances	42,501	43,195	142,784	278,656	185,285	321,851
Reserved for appropriation carryforward	35,754	26,880	287,690	227,818	323,444	254,698
Reserved for subsequent years' budgets	6,242	15,414	8,005	8,004	14,247	23,418
Unreserved (deficit), reported in:						
General fund	63,657	44,718	-	-	63,657	44,718
Special revenue funds	-	-	19,043	67,988	19,043	67,988
Capital project funds	-	-	10,048	40,561	10,048	40,561
Permanent fund	-	-	3,326	4,227	3,326	4,227
Total fund balances	210,435	196,312	507,139	687,026	717,574	883,338
Total liabilities and fund balances	$ 471,870	$ 462,865	$ 984,954	$ 1,110,414	$ 1,456,824	$ 1,573,279

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, 2004

(In Thousands)

Fund balances - total governmental funds	$ 717,574
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.	2,311,608
Bond issue costs are not financial resources and, therefore, are not reported in the funds.	8,909
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(1,796,201)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(6,199)
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.	290,556
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.	(219,506)
Net assets of governmental activities	$ 1,306,741

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, 2004 (with comparative financial information for the year ended June 30, 2003)

(In Thousands)

	General Fund 2004	General Fund 2003	Other Governmental Funds 2004	Other Governmental Funds 2003	Total Governmental Funds 2004	Total Governmental Funds 2003
Revenues:						
Property taxes	$ 547,819	$ 516,955	$ 173,618	$ 169,199	$ 721,437	$ 686,154
Business taxes	264,351	276,126	481	525	264,832	276,651
Other local taxes	403,549	345,735	105,906	104,942	509,455	450,677
Licenses, permits and franchises	17,501	16,217	6,287	5,431	23,788	21,648
Fines, forfeitures and penalties	22,158	5,595	3,025	3,405	25,183	9,000
Interest and investment income	3,222	7,798	8,408	17,772	11,630	25,570
Rents and concessions	17,497	17,576	41,482	37,793	58,979	55,369
Intergovernmental:						
Federal	163,047	151,790	181,108	168,464	344,155	320,254
State	497,196	515,382	133,757	174,889	630,953	690,271
Other	-	-	18,259	24,623	18,259	24,623
Charges for services	95,951	93,840	121,696	128,043	217,647	221,883
Other	29,564	11,880	27,580	15,212	57,144	27,092
Total revenues	2,061,855	1,958,894	821,607	850,298	2,883,462	2,809,192
Expenditures:						
Current:						
Public protection	670,729	695,693	36,029	39,118	706,758	734,811
Public works, transportation and commerce	58,711	57,458	106,844	140,307	165,555	197,765
Human welfare and neighborhood development	489,001	492,083	173,947	178,587	662,948	670,670
Community health	413,725	424,302	99,189	100,469	512,914	524,771
Culture and recreation	92,978	96,959	180,185	155,518	273,163	252,477
General administration and finance	128,135	130,786	25,574	32,962	153,709	163,748
General City responsibilities	74,257	52,308	366	1,015	74,623	53,323
Debt service:						
Principal retirement	-	-	78,831	100,902	78,831	100,902
Interest and fiscal charges	-	-	61,886	64,243	61,886	64,243
Bond issuance costs	374	-	976	1,646	1,350	1,646
Capital outlay	-	-	165,872	248,928	165,872	248,928
Total expenditures	1,927,910	1,949,589	929,699	1,063,695	2,857,609	3,013,284
Excess (deficiency) of revenues over expenditures	133,945	9,305	(108,092)	(213,397)	25,853	(204,092)
Other financing sources (uses):						
Transfers in	121,491	105,211	83,169	121,309	204,660	226,520
Transfers out	(277,316)	(303,216)	(179,536)	(189,989)	(456,852)	(493,205)
Issuance of bonds and loans						
Face value of bonds issued	29,480	-	87,165	71,310	116,645	71,310
Face value of loans issued	-	-	2,156	-	2,156	-
Premium on issuance of bonds	358	-	1,053	323	1,411	323
Payment to refunded bond escrow agent	-	-	(65,802)	-	(65,802)	-
Other financing sources-capital leases	6,165	3,686	-	28,899	6,165	32,585
Other	-	935	-	-	-	935
Total other financing sources (uses)	(119,822)	(193,384)	(71,795)	31,852	(191,617)	(161,532)
Net change in fund balances	14,123	(184,079)	(179,887)	(181,545)	(165,764)	(365,624)
Fund balances at beginning of year	196,312	380,391	687,026	868,571	883,338	1,248,962
Fund balances at end of year	$ 210,435	$ 196,312	$ 507,139	$ 687,026	$ 717,574	$ 883,338

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, 2004

(In Thousands)

Net change in fund balances - total governmental funds	$ (165,764)
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.	106,037
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the increase in certain liabilities reported in the statement of net assets of the previous year exceeded expenses reported in the statement of activities that do not require the use of current financial resources.	(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.	2,349
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.	37,657
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 in the current period.	35,734
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.	913
The issuance of long-term debt and capital leases provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and capital leases consume the current financial resources of governmental funds. These transactions, however, have no effect on net assets. This is the amount by which principal retirement in the current period exceeded bond and other debt proceeds.	25,832
Bond premiums and discounts are expended in the governmental funds when the bonds are issued, and are capitalized and amortized in the statement of net assets. This is the net amount of bond premiums capitalized during the current period.	(1,411)
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.	(18,778)
The net revenues of certain activities of internal service funds is reported with governmental activities.	10,643
Changes in net assets of governmental activities	$ (6,081)

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, 2004
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Budgetary fund balance, July 1	$ 58,483	$ 207,167	$ 207,167	$ -
Resources (inflows):				
Property taxes	527,744	527,767	546,812	19,045
Business taxes	288,619	288,619	264,351	(24,268)
Other local taxes:				
Sales tax	122,510	122,510	120,642	(1,868)
Hotel room tax	90,052	90,052	98,457	8,405
Utility users tax	68,360	68,360	70,938	2,578
Parking tax	32,655	32,655	31,994	(661)
Other local taxes	57,674	57,674	81,518	23,844
Licenses, permits, and franchises:				
Licenses and permits	6,054	6,054	5,408	(646)
Franchise tax	11,020	11,020	12,093	1,073
Fines, forfeitures, and penalties	31,681	31,843	29,731	(2,112)
Interest and investment income	12,511	12,579	7,593	(4,986)
Rents and concessions:				
Garages - Recreation and Park	7,744	7,044	6,978	(66)
Rents and concessions - Recreation and Park	11,949	11,949	10,199	(1,750)
Other rents and concessions	322	323	320	(3)
Intergovernmental:				
Federal subventions:				
Health and social service subventions	154,137	156,847	153,352	(3,495)
Other grants and subventions	2,777	2,989	9,695	6,706
State subventions:				
Social service subventions	101,616	104,374	97,684	(6,690)
Health and welfare realignment	94,324	95,338	95,987	649
Health/mental health subventions	132,558	132,558	137,701	5,143
Public safety sales tax	65,320	65,320	64,158	(1,162)
Motor vehicle in-lieu - county	82,610	82,610	84,627	2,017
Other grants & subventions	23,872	23,961	17,039	(6,922)
Charges for services:				
General government service charges	35,274	35,853	35,276	(577)
Public safety service charges	15,935	16,146	15,066	(1,080)
Recreation charges - Recreation and Park	5,365	5,366	5,446	80
MediCal, MediCare and health service charges	49,990	50,482	39,818	(10,664)
Other financing sources:				
Transfers from other funds	142,728	150,354	121,513	(28,841)
Proceeds from issuance of bonds and loans	1,625	31,207	30,486	(721)
Other resources (inflows)	19,251	19,296	26,464	7,168
Total amounts available for appropriation	$ 2,254,760	$ 2,448,317	$ 2,428,513	$ (19,804)

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement - General Fund *(Continued)*

Year ended June 30, 2004

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Charges to appropriations (outflows):				
Public Protection				
Administrative Services - Animal Care and Control	$ 2,999	$ 3,105	$ 3,105	$ -
Administrative Services - Consumer Assurance	1,405	1,409	1,409	-
Administrative Services - Medical Examiner	4,140	4,162	4,162	-
Adult Probation	8,863	9,023	9,023	-
District Attorney	23,244	24,112	24,073	39
Fire Department	196,077	199,369	198,274	1,095
Juvenile Probation	28,732	29,472	29,447	25
Mayor - Office of the Emergency Services	-	57	57	-
Police Department	245,979	253,826	253,816	10
Public Defender	15,455	15,451	15,262	189
Sheriff	92,449	94,605	94,239	366
Trial Courts	33,887	34,281	34,267	14
Public Works Transportation and Commerce				
Board of Appeals	455	456	418	38
Business and Economic Development	1,366	1,622	1,586	36
Clean Water	196	279	212	67
Department of Public Works	28,841	30,933	30,211	722
Emergency Communications	26,252	25,487	23,550	1,937
Telecommunications and Information Services	1,746	1,690	1,487	203
Human Welfare and Neighborhood Development				
Adult and Aging Services	21,542	22,305	20,274	2,031
Children, Youth and Their Families	10,636	11,148	11,058	90
Commission on the Status of Women	2,415	2,401	2,341	60
Environment	454	2,831	2,713	118
Human Rights Commission	1,572	1,730	1,670	60
Human Services	471,802	467,323	450,944	16,379
Rent Arbitration Board	-	2	2	-
Public Health	444,849	445,236	413,699	31,537
Culture and Recreation				
Academy of Sciences	1,899	1,899	1,856	43
Art Commission	6,122	5,843	5,807	36
Asian Art Museum	6,106	6,027	6,027	-
County Education Office	68	68	68	-
Fine Arts Museum	4,565	4,616	4,616	-
Law Library	513	510	489	21
Administrative Services - Grants for the Arts	14,322	14,073	14,060	13
Recreation and Park Commission	60,563	59,981	58,828	1,153
General Administration and Finance				
Administrative Services	11,929	12,349	12,349	-
Assessor/Recorder	8,988	8,976	8,308	668
Board of Supervisors	9,224	8,743	8,743	-

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement - General Fund *(Continued)*

Year ended June 30, 2004

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
City Attorney	7,139	8,228	8,228	-
City Planning	11,939	13,649	12,274	1,375
Civil Service	524	543	543	-
Controller	19,828	19,722	19,569	153
Elections	13,444	16,152	15,205	947
Ethics Commission	910	902	867	35
Human Resources	16,271	17,164	17,164	-
Mayor	6,395	7,027	6,891	136
Retirement Services	385	392	392	-
Treasurer/Tax Collector	17,792	18,112	17,476	636
General City Responsibilities				
General City Responsibilities	46,642	83,212	83,200	12
Other financing uses:				
Debt Service	218	194	109	85
Transfers to other funds	285,206	292,664	275,534	17,130
Budgetary reserves and designations	38,412	9,301	-	9,301
Total charges to appropriations	2,254,760	2,292,662	2,205,902	86,760
Available before designations	$ -	$ 155,655	$ 222,611	66,956
Increase to designations				(11,950)
Budgetary fund balance available for appropriation, June 30				$ 55,006

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

Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation"	$ 2,428,513
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	(207,167)
Property tax revenue - Teeter Plan	1,007
Unrealized loss on investment	(4,371)
Interest reclassified as transfers from other funds	2,188
Proceeds from issuance of bonds and loans	(30,486)
Operating transfers out greater under GAAP	1,782
Other budget to GAAP differences	(8,098)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(121,513)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 2,061,855
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations"	$ 2,205,902
Difference - budget to GAAP:	
Capital asset purchases funded under capital leases with Finance Corporation	(6,165)
Other budget to GAAP differences	(1,467)
Operating transfers in greater under GAAP	8,551
Pension reimbursement and others	8,573
Change recognized in budget basis reserves	(11,950)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(275,534)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - governmental funds	$ 1,927,910

CITY AND COUNTY OF SAN FRANCISCO
Statement of Net Assets - Proprietary Funds
June 30, 2004
(with summarized financial information as of June 30, 2003)
(In Thousands)

	Business-type Activities - Enterprise Funds											Governmental Activities-Internal Service Funds	
	Major Funds								Other Fund	Total			
	San Francisco Interna-tional Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Market Corporation	2004	2003	2004	2003
ASSETS													
Current Assets:													
Deposits and investments with City Treasury	$ 271,219	$ 168,417	$ 94,853	$ 30,687	$ -	$ 48,934	$ 60,777	$ -	$ -	$ 674,887	$ 656,155	$ 6,705	$ 9,105
Deposits and investments outside City Treasury	10	40	10	6,231	10	-	5	2	1,987	8,295	8,008	25,725	23,155
Receivables (net of allowance for uncollectible amounts of $18,185 and $23,093 in 2004 and 2003, respectively):													
Federal and state grants and subventions	-	-	2,483	42,949	1,414	180	-	-	-	47,026	45,700	-	-
Charges for services	33,034	27,002	7,704	5,519	27,953	19,268	4,618	14,432	8	139,538	149,538	-	-
Interest and other	493	2,439	1,453	62	41,277	91	-	-	-	45,815	62,111	583	461
Loans receivable	-	-	85	-	-	-	-	-	-	85	85	19,046	16,980
Due from other funds	-	2,221	14,305	43,975	-	-	-	-	-	60,501	67,312	-	-
Inventories	100	1,560	263	39,153	4,140	-	1,270	1,378	-	47,864	45,014	-	-
Deferred charges and other assets	1,285	-	-	15,608	-	-	697	-	25	17,615	8,534	149	294
Restricted assets:													
Deposits and investments with City Treasury	15,732	-	-	-	-	-	-	-	-	15,732	-	-	-
Deposits and investments outside City Treasury	47,121	-	-	-	-	-	-	-	-	47,121	-	-	-
Grants and other receivables	740	-	-	-	-	-	-	-	-	740	-	-	-
Total current assets	369,734	201,679	121,156	184,184	74,794	68,473	67,367	15,812	2,020	1,105,219	1,042,457	52,208	49,995
Noncurrent assets:													
Deferred charges and other assets	52,173	4,036	-	4,689	-	2,641	5,530	-	-	69,069	65,441	2,592	2,510
Loans receivable	-	-	768	-	-	-	-	-	-	768	767	227,766	236,263
Restricted assets:													
Deposits and investments with City Treasury	175,417	84,139	-	37,462	-	78,328	4,142	28,252	-	407,740	554,302	-	-
Deposits and investments outside City Treasury	193,226	13,841	-	27,385	8	32,533	10,802	870	-	278,665	354,896	-	-
Grants and other receivables	16,878	150	-	5,548	-	136	-	52	-	22,764	25,209	-	-
Capital assets:													
Land and other assets not being depreciated	128,890	103,684	55,312	309,024	4,097	44,547	131,508	57,488	-	834,550	740,227	-	-
Facilities, Infrastructrure, and equipment, net of depreciation	3,772,015	648,483	204,949	1,579,312	51,839	1,264,615	113,937	8,369	5,256	7,648,775	7,681,344	2,955	2,620
Total capital assets	3,900,905	752,167	260,261	1,888,336	55,936	1,309,162	245,445	65,857	5,256	8,483,325	8,421,571	2,955	2,620
Total noncurrent assets	4,338,599	854,333	261,029	1,963,420	55,944	1,422,800	265,919	95,031	5,256	9,262,331	9,422,186	233,313	241,393
Total assets	4,708,333	1,056,012	382,185	2,147,604	130,738	1,491,273	333,286	110,843	7,276	10,367,550	10,464,643	285,521	291,388

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
Statement of Net Assets - Proprietary Funds *(Continued)*
June 30, 2004
(with summarized financial information as of June 30, 2003)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco Interna-tional Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Market Corporation	Total 2004	Total 2003	Governmental Activities-Internal Service Funds 2004	Governmental Activities-Internal Service Funds 2003
LIABILITIES													
Current liabilities:													
Accounts payable	11,254	8,320	25,316	59,023	15,665	3,266	2,770	2,978	136	128,728	104,540	5,466	4,713
Accrued payroll	4,121	3,466	637	13,556	6,989	1,187	698	4,370	-	35,024	66,791	1,265	2,464
Accrued vacation and sick leave pay	5,802	4,529	967	13,851	7,736	2,019	990	4,800	-	40,694	39,566	1,808	1,833
Accrued workers' compensation	1,186	2,393	455	26,535	4,928	1,006	650	2,955	-	40,108	37,946	263	244
Estimated claims payable	209	1,349	38	11,736	-	1,044	1,087	-	-	15,463	13,786	-	-
Due to other funds	1,052	1,903	528	2,911	15,981	-	598	5,109	-	28,082	33,854	859	48
Deferred credits and other liabilities	48,954	36,381	2,834	4,377	14,668	-	7,419	2,341	28	117,002	110,542	27,205	28,772
Accrued interest payable	-	4,067	-	483	-	7,062	144	-	-	11,756	15,146	986	1,095
Bonds, loans, capital leases, and other payables	65,462	39,055	98	7,299	630	15,413	500	394	-	128,851	95,467	18,910	17,931
Total current liabilities	138,040	101,463	30,873	139,771	66,597	30,997	14,856	22,947	164	545,708	517,638	56,762	57,100
Liabilities payable from restricted assets:													
Bonds, loans, capital leases, and other payables	13,093	-	-	-	-	-	3,920	-	-	17,013	15,367	-	-
Accrued interest payable	34,028	-	-	-	-	-	779	-	-	34,807	37,977	-	-
Other	16,472	6,921	-	941	8	653	4,393	1,002	-	30,390	43,837	-	-
Total liabilities payable from restricted assets	63,593	6,921	-	941	8	653	9,092	1,002	-	82,210	97,181	-	-
Noncurrent liabilities:													
Accrued vacation and sick leave pay	5,774	4,601	831	10,368	5,828	1,737	849	3,208	-	33,196	31,063	1,875	1,754
Accrued workers' compensation	3,969	9,302	1,821	92,905	18,065	3,794	2,463	11,069	-	143,388	131,210	953	835
Estimated claims payable	250	4,762	131	22,108	-	3,717	1,200	-	-	32,168	21,185	-	-
Deferred credits and other liabilities	-	3,666	-	39,687	-	8	2,904	-	137	46,402	44,036	-	-
Bonds, loans, capital leases, and other payables	4,040,096	485,875	595	88,375	1,575	527,315	25,962	1,708	-	5,171,501	5,323,517	228,360	236,828
Total noncurrent liabilities	4,050,089	508,206	3,378	253,443	25,468	536,571	33,378	15,985	137	5,426,655	5,551,011	231,188	239,417
Total liabilities	4,251,722	616,590	34,251	394,155	92,073	568,221	57,326	39,934	301	6,054,573	6,165,830	287,950	296,517
NET ASSETS													
Invested in capital assets, net of related debt	(30,535)	279,085	260,261	1,796,064	53,730	769,386	224,407	63,756	-	3,416,154	3,331,481	1,511	2,620
Restricted:													
Debt service	191,808	14,976	-	2,509	-	33,244	-	-	-	242,537	275,068	-	-
Capital projects	9,721	20,724	-	3,162	-	70,410	-	24,370	-	128,387	147,693	-	-
Other purposes	1,419	-	-	46,484	8	-	11,190	2,140	-	61,241	61,616	-	-
Unrestricted (deficit)	284,198	124,637	87,673	(94,770)	(15,073)	50,012	40,363	(19,357)	6,975	464,658	482,955	(3,940)	(7,749)
Total net assets (deficit)	$ 456,611	$ 439,422	$ 347,934	$ 1,753,449	$ 38,665	$923,052	$275,960	$ 70,909	$ 6,975	$4,312,977	$4,298,813	$ (2,429)	$ (5,129)

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, 2004
(with summarized financial information for the year ended June 30, 2003)
(In Thousands)

	Business-type Activities - Enterprise Funds											Governmental Activities-Internal Service Funds	
	Major Funds								Other Fund	Total			
	San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Market Corporation	2004	2003	2004	2003
Operating revenues:													
Aviation	$ 325,256	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 325,256	$ 347,998	$ -	$ -
Water and power service	-	156,660	124,243	-	-	-	-	-	-	280,903	289,690	-	-
Passenger fees	-	-	-	114,232	-	-	-	-	-	114,232	97,764	-	-
Net patient service revenue	-	-	-	-	323,815	-	-	114,292	-	438,107	413,405	-	-
Sewer service	-	-	-	-	-	133,160	-	-	-	133,160	130,013	-	-
Rents and concessions	69,329	8,451	231	24,429	3,165	-	45,259	-	-	150,864	132,783	-	8
Parking and transportation	51,742	-	-	33,855	-	-	8,154	-	-	93,751	86,636	-	-
Charges for services	-	-	-	571	-	-	-	-	-	571	668	97,416	96,334
Other revenues	39,805	3,149	-	13,303	12,032	4,646	3,289	303	1,413	77,940	78,894	-	-
Total operating revenues	486,132	168,260	124,474	186,390	339,012	137,806	56,702	114,595	1,413	1,614,784	1,577,851	97,416	96,342
Operating expenses:													
Personal services	141,249	54,627	20,217	422,836	230,380	37,221	49,707	126,135	174	1,082,546	1,109,455	40,643	42,030
Contractual services	44,789	5,438	4,477	36,650	101,893	5,802	-	4,976	401	204,426	211,283	32,596	33,010
Light, heat and power	20,303	-	59,556	661	-	-	-	-	79	80,599	65,404	-	-
Materials and supplies	6,157	8,124	1,535	27,063	46,663	7,142	-	11,333	2	108,019	97,925	14,958	15,100
Depreciation and amortization	161,112	35,110	9,865	89,999	6,634	38,094	9,547	1,211	282	351,854	313,616	1,218	1,438
General and administrative	991	28,863	15,364	48,656	274	20,294	-	-	7	114,449	81,935	537	889
Services provided by other departments	12,314	31,561	2,749	29,892	26,239	20,572	-	5,320	-	128,647	112,293	3,598	2,832
Other	13,681	23,655	7,866	-	-	791	-	151	3	46,147	89,146	1,294	1,888
Total operating expenses	400,596	187,378	121,629	655,757	412,083	129,916	59,254	149,126	948	2,116,687	2,081,057	94,844	97,187
Operating income (loss)	85,536	(19,118)	2,845	(469,367)	(73,071)	7,890	(2,552)	(34,531)	465	(501,903)	(503,206)	2,572	(845)
Nonoperating revenues (expenses):													
Operating grants:													
Federal	-	-	156	18,714	-	-	-	-	-	18,870	19,462	-	-
State / other	-	-	5,967	76,984	66,620	1,326	-	-	-	150,897	144,795	-	-
Interest and investment income	7,550	6,268	438	1,151	82	1,036	1,080	-	15	17,620	50,215	5,340	4,258
Interest expense	(217,705)	(18,833)	-	(4,893)	(679)	(20,670)	(1,931)	(300)	(1)	(265,012)	(247,651)	(5,467)	(4,333)
Other, net	60,383	22,257	4,511	143,469	8,895	(1,202)	(699)	78	-	237,692	188,446	-	-
Total nonoperating revenues (expenses)	(149,772)	9,692	11,072	235,425	74,918	(19,510)	(1,550)	(222)	14	160,067	155,267	(127)	(75)
Income (loss) before capital contributions, transfers and special items	(64,236)	(9,426)	13,917	(233,942)	1,847	(11,620)	(4,102)	(34,753)	479	(341,836)	(347,939)	2,445	(920)
Capital Contributions	27,404	-	-	64,669	-	-	2,745	-	-	94,818	135,482	-	-
Transfers in	-	-	-	253,389	63,950	-	-	31,853	-	349,192	452,781	255	197
Transfers out	(18,161)	-	(489)	(346)	(70,543)	(143)	-	(7,573)	-	(97,255)	(204,521)	-	-
Net income (loss) before special item	(54,993)	(9,426)	13,428	83,770	(4,746)	(11,763)	(1,357)	(10,473)	479	4,919	35,803	2,700	(723)
Special item	-	-	-	-	-	-	9,245	-	-	9,245	33,000	-	-
Change in net assets	(54,993)	(9,426)	13,428	83,770	(4,746)	(11,763)	7,888	(10,473)	479	14,164	68,803	2,700	(723)
Net assets (deficit) at beginning of year	511,604	448,848	334,506	1,669,679	43,411	934,815	268,072	81,382	6,496	4,298,813	4,230,010	(5,129)	(4,406)
Net assets (deficit) at end of year	$ 456,611	$ 439,422	$ 347,934	$ 1,753,449	$ 38,665	$ 923,052	$ 275,960	$ 70,909	$ 6,975	$ 4,312,977	$ 4,298,813	$ (2,429)	$ (5,129)

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, 2004
(with summarized financial information for the year ended June 30, 2003)
(In Thousands)

	Business-type Activities - Enterprise Funds											Governmental Activities-Internal Service Funds	
	Major Funds								Other Fund				
	San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Market Corporation	Total 2004	Total 2003	2004	2003
Cash flows from operating activities:													
Cash received from customers, including cash deposits	$ 513,963	$ 156,826	$ 126,394	$ 204,823	$ 336,630	$ 139,580	$ 8,334	$ 120,845	$ 1,433	$ 1,608,828	$ 1,510,065	$ 113,158	$ 111,900
Cash received from tenants for rent	-	8,451	231	1,948	3,165	-	45,887	-	-	59,682	72,990	-	-
Cash paid to employees for services	(146,136)	(47,694)	(19,062)	(422,549)	(236,377)	(36,462)	(20,582)	(129,094)	(174)	(1,058,130)	(1,037,599)	(41,609)	(41,043)
Cash paid to suppliers for goods and services	(107,431)	(103,508)	(83,558)	(142,148)	(171,239)	(51,157)	(23,095)	(22,028)	(522)	(704,686)	(652,472)	(57,248)	(95,268)
Cash paid for judgements and claims	-	(4,695)	(1,198)	(6,212)	-	(1,229)	-	-	-	(13,334)	(14,557)	-	-
Net cash provided by (used in) operating activities	260,396	9,380	22,807	(364,138)	(67,821)	50,732	10,544	(30,277)	737	(107,640)	(121,573)	14,301	(24,411)
Cash flows from noncapital financing activities:													
Operating grants	163	-	3,672	226,765	68,681	1,181	-	-	-	300,462	251,637	-	-
Transfers in	-	-	-	151,135	63,949	-	-	31,704	-	246,788	321,846	255	197
Transfers out	(18,161)	-	(489)	(1,338)	(70,543)	(143)	-	(7,711)	-	(98,385)	(146,527)	-	-
Transit Impact Development fees received	-	-	-	559	-	-	-	-	-	559	3,199	-	-
Other noncapital increases	-	-	-	1,880	8,895	-	-	-	-	10,775	6,190	-	-
Other noncapital decreases	-	-	-	(2,332)	-	-	-	(772)	-	(3,104)	(171)	-	-
Net cash provided by (used in) noncapital financing activities	(17,998)	-	3,183	376,669	70,982	1,038	-	23,221	-	457,095	436,174	255	197
Cash flows from capital financing activities:													
Capital grants	27,967	18,139	-	81,297	-	-	2,427	-	-	129,830	87,759	-	-
Transfers in	-	-	-	103,246	-	-	-	-	-	103,246	69,269	-	-
Bond sale proceeds and loans received	-	-	-	1,643	-	-	-	-	-	1,643	265,878	9,530	11,070
Proceeds from sale of capital assets	8	-	-	-	-	-	9,025	-	-	9,033	1,874	-	-
Loss from disposition of fixed assets	-	-	-	-	-	-	-	-	-	-	(69)	-	-
Proceeds from commercial paper borrowings	-	25,000	-	-	-	-	-	-	-	25,000	-	-	-
Loans received	-	-	-	-	-	-	-	-	-	-	-	-	2,091
Proceeds from passenger facility charges	56,326	-	-	-	-	-	-	-	-	56,326	53,435	-	-
Acquisition of capital assets	(100,310)	(76,100)	(19,328)	(175,142)	(3,438)	(20,718)	(7,706)	(16,264)	(31)	(419,037)	(537,081)	(188)	(339)
Retirement of capital leases, bonds and loans	(108,090)	(13,345)	-	(6,911)	-	(14,929)	(4,103)	(222)	-	(147,600)	(142,459)	(18,289)	(16,869)
Retirement of commercial paper borrowings	-	-	-	-	-	-	-	-	-	-	(90,000)	-	-
Bond issue costs paid	(717)	(141)	-	(130)	-	-	-	-	-	(988)	(736)	(112)	(264)
Interest paid on long term debt	(205,618)	(24,056)	-	(4,883)	(679)	(23,709)	(1,930)	(13)	-	(260,888)	(267,822)	(5,320)	(6,129)
Other capital financing increases	-	-	-	72,555	-	-	429	-	-	72,984	21,072	-	-
Other capital financing decreases	(12,414)	-	(295)	(68,635)	-	-	(2,307)	-	-	(83,651)	(12,976)	-	-
Net cash provided by (used in) capital financing activities	(342,848)	(70,503)	(19,623)	3,040	(4,117)	(59,356)	(4,165)	(16,499)	(31)	(514,102)	(551,856)	(14,379)	(10,440)
Cash flows from investing activities:													
Purchases of investments with trustees	(1,630,490)	(38,247)	-	(5,794)	-	(20,361)	-	-	102	(1,694,790)	(2,421,897)	-	-
Proceeds from sale of investments with trustees	1,659,792	37,910	-	1,900	-	20,477	-	-	-	1,720,079	2,449,993	-	-
Purchases of restricted deposits and investments	-	-	-	-	-	-	-	-	-	-	(119,357)	-	-
Proceeds from sale of restricted deposits and investments	19,933	-	-	-	-	-	-	-	-	19,933	324,859	-	-
Interest income received	12,051	7,676	658	1,496	82	1,571	1,834	150	14	25,532	50,359	(7)	789
Other investing activities	-	4,301	4,511	(322)	-	(1,202)	-	1,018	-	8,306	12,282	-	(106)
Net cash provided by investing activities	61,286	11,640	5,169	(2,720)	82	485	1,834	1,168	116	79,060	296,239	(7)	683
Net increase (decrease) in cash and cash equivalents	(39,164)	(49,483)	11,536	12,851	(874)	(7,101)	8,213	(22,387)	822	(85,587)	58,984	170	(33,971)
Cash and cash equivalents-beginning of year	500,263	302,079	83,327	61,751	884	134,363	66,718	50,641	1,164	1,201,190	1,142,204	32,260	66,231
Cash and cash equivalents-end of year	$ 461,099	$ 252,596	$ 94,863	$ 74,602	$ 10	$ 127,262	$ 74,931	$ 28,254	$ 1,986	$ 1,115,603	$ 1,201,188	$ 32,430	$ 32,260

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, 2004
(with summarized financial information for the year ended June 30, 2003)
(In Thousands)

	Business-type Activities - Enterprise Funds											Governmental Activities-Internal Service Funds	
	Major Funds								Other Fund	Total			
	San Francisco International Airport	Water Department	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Clean Water Program	Port of San Francisco	Laguna Honda Hospital	Market Corporation	2004	2003	2004	2003
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:													
Operating income (loss)	$ 85,536	$ (19,118)	$ 2,845	$ (469,173)	$ (73,071)	$ 7,890	$ (2,552)	$ (34,531)	$ 465	$ (501,709)	$ (503,206)	$ 2,572	$ (845)
Adjustments for non-cash activities:													
Depreciation and amortization	164,831	35,110	9,865	89,869	6,634	38,094	9,547	1,211	282	355,443	316,656	1,218	1,438
Provision for uncollectibles	-	-	(1,065)	(11)	31,008	91	(966)	-	-	29,057	73,042	-	-
Write off of capital assets	-	187	-	-	-	-	-	-	-	187	4,076	-	-
Other	-	(4,422)	-	10,932	-	119	(661)	-	-	5,968	(1,407)	-	-
Changes in assets/liabilities:													
Receivables, net	2,040	(1,237)	4,247	(3,050)	(18,547)	1,564	284	4,093	20	(10,586)	(26,340)	15,741	13,937
Due from other funds	-	-	(7,437)	(2,903)	48	-	-	-	-	(10,292)	(5,909)	-	-
Inventories	714	127	(26)	-	472	-	(77)	(464)	-	746	(6,878)	-	-
Deferred charges and other assets	-	-	-	1,014	(3,686)	-	5,056	-	(5)	2,379	3,855	146	(95)
Accounts payable	79	(399)	13,893	2,909	2,790	(805)	(384)	216	(32)	18,267	(7,455)	236	(2,101)
Accrued payroll	(4,703)	(3,042)	(665)	(10,286)	(6,722)	(1,111)	765	(3,862)	-	(29,626)	5,967	(1,199)	149
Accrued vacation and sick leave pay	419	1,313	213	185	725	133	51	325	-	3,364	4,659	96	771
Accrued workers' compensation	(604)	1,874	383	10,387	570	970	182	579	-	14,341	41,395	137	67
Estimated claims payable	-	2,288	26	6,172	(995)	3,787	387	-	-	11,665	(5,135)	-	-
Due to other funds	732	(1,361)	528	2,221	(7,029)	-	(1,402)	2,156	-	(4,155)	(10,459)	-	-
Deferred credits and other liabilities	11,352	(1,940)	-	(2,404)	(18)	-	314	-	7	7,311	(4,434)	(4,646)	(37,732)
Total adjustments	174,860	28,498	19,962	105,035	5,250	42,842	13,096	4,254	272	394,069	381,633	11,729	(23,566)
Net cash provided by (used in) operating activities	$ 260,396	$ 9,380	$ 22,807	$ (364,138)	$ (67,821)	$ 50,732	$ 10,544	$ (30,277)	$ 737	$ (107,640)	$ (121,573)	$ 14,301	$ (24,411)
Reconciliation of cash and cash equivalents to the statement of net assets:													
Deposits and investments with City Treasury:													
Unrestricted	$ 271,219	$ 168,417	$ 94,853	$ 30,687	$ -	$ 48,934	$ 60,777	$ 2	$ -	$ 674,889	$ 656,155	$ 6,705	$ 9,105
Restricted	190,251	84,139	-	37,462	-	78,328	4,142	28,252	-	422,574	554,302	-	-
Unrestricted deposits and investments outside City Treasury	10	40	10	6,233	10	-	5	-	1,986	8,294	8,008	25,725	23,155
Total deposits and investments	461,480	252,596	94,863	74,382	10	127,262	64,924	28,254	1,986	1,105,757	1,218,465	32,430	32,260
Add: Restricted deposits and investments outside City Treasury meeting the definition of cash equivalents	-	-	-	220	-	-	10,060	-	-	10,280	10,828	-	-
Less: Investments not meeting the definition of cash equivalents	(381)	-	-	-	-	-	(53)	-	-	(434)	(28,105)	-	-
Cash and cash equivalents at end of year on statement of cash flows	$ 461,099	$ 252,596	$ 94,863	$ 74,602	$ 10	$ 127,262	$ 74,931	$ 28,254	$ 1,986	$ 1,115,603	$ 1,201,188	$ 32,430	$ 32,260

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, 2004

(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Agency Funds
ASSETS			
Deposits and investments with City Treasury	$ 87,187	$ 206,091	$ 99,307
Deposits and investments outside City Treasury	12,421,630	-	-
Receivables:			
Payroll contribution	8,533	-	25,461
Interest and other	139,216	472	90,284
Invested securities lending collateral	1,356,618	-	-
Deferred charges and other assets	584	-	25,658
Total assets	14,013,768	206,563	$ 240,710
Liabilities			
Accounts payable	17,077	1,446	43,224
Estimated claims payable	14,547	-	-
Agency obligations	-	-	197,486
Obligations under fixed coupon dollar reverse repurchase agreements	199,000	-	-
Payable to brokers	446,432	-	-
Securities lending collateral	1,356,618	-	-
Deferred credits and other liabilities	31,360	-	-
Total liabilities	2,065,034	1,446	$ 240,710
Net Assets			
Held in trust for pension and other employee benefits and external pool participants	$ 11,948,734	$ 205,117	

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, 2004

(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund
Additions:		
Employees' contributions	$ 227,659	$ -
Employer contributions	345,381	-
Contributions to pooled investments	-	2,086,500
Total contributions	573,040	2,086,500
Investment income:		
Interest	162,377	1,728
Dividends	95,691	-
Net increase in fair value of investments	1,469,998	-
Securities lending income	15,391	-
Fixed coupon dollar reverse repurchase agreement income	3,083	-
Total investment income	1,746,540	1,728
Less investment expenses:		
Securities lending borrower rebates and expenses	(8,786)	-
Fixed coupon dollar reverse repurchase finance charges and exper	(1,928)	-
Other expenses	(24,700)	-
Total investment expenses	(35,414)	-
Total additions, net	2,284,166	2,088,228
Deductions:		
Benefit payments	887,970	-
Refunds of contributions	7,935	-
Distribution from pooled investments	-	2,117,068
Administrative expenses	10,710	-
Total deductions	906,615	2,117,068
Change in net assets	1,377,551	(28,840)
Net assets at beginning of year	10,571,183	233,957
Net assets at end of year	$ 11,948,734	$ 205,117

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 (Authority) - The Authority was created in 1989 by the voters of the City to impose a voter-approved sales and use tax of one-half of one percent to fund essential traffic and transportation projects. A Board consisting of the eleven members of the City's Board of Supervisors serving ex officio governs the Authority. The operations of the Authority are reported within other governmental funds. Financial statements for the Authority can be obtained from the Authority's administrative offices at 100 Van Ness Avenue, San Francisco, CA 94102.

San Francisco Finance Corporation (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 reported as an internal service fund. Financial statements for the Finance Corporation can be obtained from the Finance Corporation's administrative offices at City Hall, Room 336, #1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

San Francisco Parking Authority (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 Parking Authority's administrative offices at 25 Van Ness Avenue, San Francisco, CA 94102.

Discretely Presented Component Units

San Francisco Redevelopment Agency (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 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 Fiscal Year 2002, the Public Initiatives Development Corporation (PIDC) was formed to develop affordable housing on the Agency's behalf. The Board of PIDC is comprised of management of the Agency and other appointed individuals. Future funding will be dependent on the Agency and as such, PIDC is reported as a blended component unit of the Agency. Activities during the year are predevelopment activities including design and financing of a 106 affordable units mixed-use development.

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 administrative offices at 770 Golden Gate Avenue, San Francisco, CA 94102.

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 the TIDA 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 the TIDA administrative offices at 410 Palm Avenue, Building 1, Room 223, Treasure Island, San Francisco, CA 94130.

In accordance with Governmental Accounting Standards Board Statement No. 39, *Determining Whether Certain Organizations Are Component Units*, the City evaluated potential component units and determined that none of the potential component units were individually significant to the City's reporting entity.

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 (BART) and the Bay Area Air Quality Management District (BAAQM), which 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. 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 ***Water Department Fund*** accounts for the activities of the San Francisco Water Department. The department is engaged in the distribution of water to the City and certain suburban areas.

The ***Hetch Hetchy Water and Power 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 beginning on July 1, 2002 the operations of the Parking and Traffic Commission (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 later 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 ***General Hospital Medical Center Fund*** accounts for the activities of the San Francisco General Hospital Medical Center, a City-owned acute care hospital.

The ***Clean Water Program Fund*** accounts for the activities of the Clean Water Program (CWP). It 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 activities of the Port of San Francisco. 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 other agencies.

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. 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 Department 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 non-operating 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 non-operating 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, San Francisco Community College District, and the Trial Courts of the State of California are voluntary participants in the City's investment pool. As of June 30, 2004, $205 million was held on behalf of these voluntary participants. The total percentage share of the Treasurer's pool that relates to these three external participants is 9.23%. The deposits held for these entities are included in the Investment Trust Fund. The City has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2004 to support the value of shares in 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 – Substantially 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. Certain U.S. government securities that have a remaining maturity at time of purchase of one year or less are carried at amortized cost, which approximates market value.

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

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 market values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 2004, the fair value of open purchase contracts was $839.2 million, offset by the fair value of open sales contracts of ($842.7) million for a net fair value of ($3.5) million. The Retirement System utilized contracts netting to $320.6 million to hedge (or decrease) the currency risk of foreign investments or to settle trades, and contracts netting to $317.1 million 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 City Charter and Retirement System Board (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 Retirement System's securities custodians are agents in lending the Plan's securities for cash collateral of 102% for domestic securities and 105% for international securities. Securities on loan at year-end are presented as "non-categorized" in the schedule of custodial risk (note 5). As of June 30, 2004, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes the borrowers exceed the amounts the borrowers owe the Retirement System. 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 is fifty-three 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 thirty-nine 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 eighteen 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 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 buy back price, the Retirement System could suffer an economic loss if the securities have to be purchased in the open market at a price higher than the agreed-upon buy back price. This credit exposure at June 30, 2004 was approximately $2.3 million.

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 market 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 - Investments are stated at fair value except for money market investments with maturities of one year or less which have been stated at amortized cost. The fair value of investments has been obtained by using market quotes as of June 30, 2004.

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 Funds, and 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 governmental 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

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.

The Mayor's Office of Housing administers several housing programs and issues loans to qualified applicants. Many of these loans may be forgiven if certain terms and conditions of the loans are met. They are accounted for in the other governmental funds as long-term loans receivable with an allowance for forgivable loans, and an offsetting 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. An exception is the CWP which accounts for materials and supplies using the purchase method. This method records items as expenses when they are acquired. The governmental fund types also use the purchase method to account for supply inventories, which are not material.

(g) Redevelopment Agency Property Held for Resale

Property held for resale is 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.

(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 this MOUs and the labor contracts, the Program is in effect from July 1, 2002 to at least June 30, 2005.
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. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest 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.

Reserves for cash requirements and emergencies - The City's Charter was amended in November 2003 and replaced the requirements for a cash requirement reserve and an emergency reserve with the rainy day reserve.

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.

- *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, 2004.

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 Telecommunications and Information Internal Service Fund had a $2.1 million deficit total net assets as of June 30, 2004. Approximately $0.05 million of this deficit is due to depreciation that is not funded and will result in continuing deficits. The remaining portion of 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 Central Shops Internal Service Fund had a $0.8 million deficit as of June 30, 2004. The deficit is due to depreciation and certain non-current accrued expenses that are not funded and will result in continuing deficits in future years.

The Culture and Recreation Fund had a $8.3 million deficit as of June 30, 2004. It is due to incurring costs for grant programs before receiving grant resources. It will be eliminated once the resources become available.

The Moscone Convention Center Fund had a $3.8 million deficit as of June 30, 2004. The deficit will be covered as budgeted hotel tax revenues are realized.

(I) 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 2003 Summarized Comparative Financial Information in the basic financial statements have been reclassified for comparative purposes to conform with the presentation in the 2004 basic financial statements.

(q) Effects of New Pronouncements

In March 2003, GASB issued Statement No. 40, *Deposit and Investment Risk Disclosures – an amendment of GASB Statement No. 3.* This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risk identified in this statement also should be disclosed. The City will implement the new reporting requirements in the fiscal year 2004-05 financial statements.

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

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* This statement establishes accounting and financial reporting standards for impairment of capital assets. A capital asset is considered impaired when its service utility has declined significantly and unexpectedly. This statement also clarifies and establishes accounting requirements for insurance recoveries. This statement is effective for the City's fiscal year ending June 30, 2006.

In April 2004, GASB issued Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans.* This statement establishes uniform financial reporting standards for other postemployment benefits (OPEB) plans. The approach followed in this statement generally is consistent with the approach adopted for defined benefit pension plans with modifications to reflect differences between pension plans and OPEB plans. The statement applies for OPEB trust funds included in the financial reports of plan sponsors or employers, as well as for the stand-alone financial reports of OPEB plans or the public employee retirement systems, or other third parties, that administer them. This statement also provides requirements for reporting of OPEB funds by administrators of multiple-employer

OPEB plans, when the fund used to accumulate assets and pay benefits or premiums when due is not a trust fund. This statement is effective for the City's fiscal year ending June 30, 2007.

In May 2004, GASB issued Statement No. 44, *Economic Condition Reporting: The Statistical Section—an amendment of NCGA Statement 1.* This statement amends the portions of NCGA Statement 1, *Governmental Accounting and Financial Reporting Principles*, that guide the preparation of the statistical section. The statistical section presents detailed information, typically in ten-year trends, that assists users in utilizing the basic financial statements, notes to basic financial statements, and required supplementary information to assess the economic condition of a government. This statement adds new information that financial statement users have identified as important and eliminates certain previous requirements. This statement is effective for the City's fiscal year ending June 30, 2006.

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.

(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 balance sheets 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, $717,574, differs from net assets of governmental activities, $1,306,741, 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 fund 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	$ 723,043	$ -	$ 6,705	$ -	$ 729,748
Deposits and investments outside City Treasury	74,426	-	25,725	-	100,151
Receivables, net:					
Property taxes and penalties	34,595	-	-	-	34,595
Other local taxes	163,017	-	-	-	163,017
Federal and state grants and subventions	161,842	-	-	-	161,842
Charges for services	13,731	-	-	-	13,731
Interest and other	4,147	-	583	-	4,730
Due from other funds	58,301	-	-	(58,301)	-
Due from component unit	849	-	-	-	849
Loans receivable, net	214,650	-	-	-	214,650
Capital assets, net	-	2,311,608	2,955	-	2,314,563
Deferred charges and other assets	8,223	8,909	5,478	-	22,610
Total assets	1,456,824	2,320,517	41,446	(58,301)	3,760,486
Liabilities					
Accounts payable	142,828	-	5,466	-	148,294
Accrued payroll	41,346	-	1,265	-	42,611
Accrued vacation and sick leave pay	-	124,734	3,683	-	128,417
Accrued workers' compensation	-	212,414	1,216	-	213,630
Estimated claims payable	-	79,805	-	-	79,805
Accrued interest payable	-	6,199	986	-	7,185
Deferred tax, grant and subvention revenues	61,771	(56,485)	-	-	5,286
Due to other funds/internal balances	89,861	-	859	(58,301)	32,419
Deferred credits and other liabilities	353,444	(232,887)	207	-	120,764
Bonds, loans, capital leases, and other payables	50,000	1,378,064	247,270	-	1,675,334
Total Liabilities	739,250	1,511,844	260,952	(58,301)	2,453,745
Fund balances/net assets					
Total fund balances/net assets	717,574	808,673	(219,506)	-	1,306,741
Total liabilities and fund balances/net assets	$ 1,456,824	$ 2,320,517	$ 41,446	$ (58,301)	$ 3,760,486

(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	$ 2,876,826
Accumulated depreciation	(565,218)
	$ 2,311,608

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.	$ 8,909

Long-term liabilties 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	$ (124,734)
Accrued workers' compensation	(212,414)
Estimated claims payable	(79,805)
Bonds, loans, capital leases, and other payables	(1,378,064)
Deferred credits and other liabilities	(1,184)
	$ (1,796,201)

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid.	$ (6,199)

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	$ 56,485
Deferred credits and other liabilities	234,071
	$ 290,556

(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 assets before adjustments	(2,429)
Adjustments for internal balances with San Francisco Finance Corporation:	
Capital lease receivables from other governmental and enterprise funds	(246,812)
Deferred charges and other assets	2,737
Deferred credits and other liabilities	26,998
	$ (219,506)

(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, ($165,764), differs from the change in net assets for governmental activities ($6,081), 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.

	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	$ 721,437	$ 2,349	$ -	$ -	$ -	$ 723,786
Business taxes	264,832	-	-	-	-	264,832
Other local taxes	509,455	-	-	-	-	509,455
Licenses, permits and franchises	23,788	-	-	-	-	23,788
Fines, forfeitures and penalties	25,183	-	-	-	-	25,183
Interest and investment income	11,630	-	-	226	-	11,856
Rents and concessions	58,979	-	-	-	-	58,979
Intergovernmental:						-
Federal	344,155	-	-	-	-	344,155
State	630,953	-	-	-	-	630,953
Other	18,259	-	-	-	-	18,259
Charges for services	217,647	-	-	-	-	217,647
Other revenues	57,144	-	-	-	-	57,144
Total revenues	2,883,462	2,349	-	226	-	2,886,037
Expenditures/Expenses						
Current:						
Public protection	706,758	15,337	10,019	(4,534)	-	727,580
Public works, transportation and commerce	165,555	(2,617)	14,924	(8,683)	-	169,179
Human welfare and neighborhood development	662,948	(12,103)	524	(119)	-	651,250
Community health	512,914	4,089	820	(757)	-	517,066
Culture and recreation	273,163	(17,583)	17,686	(5,345)	(35,734)	232,187
General administration and finance	153,709	13,765	15,862	(78)	-	183,258
General City responsibilities	74,623	748		(2,278)	437	73,530
Debt service:						
Principal retirement	78,831	-	-	-	(78,831)	-
Interest and fiscal charges	61,886	-	-	5,467	18,778	86,131
Payments to refunded bond escrow agent	-	-	-	-	-	-
Bond issuance costs	1,350	-	-	-	(1,350)	-
Capital oulay	165,872	-	(165,872)	-	-	-
Total expenditures/expenses	2,857,609	1,636	(106,037)	(16,327)	(96,700)	2,640,181
Other financing sources (uses)/changes in net assets						
Net transfers (to) from other funds	(252,192)	-	-	255	-	(251,937)
Issuance of bonds and loans:						
Face value of bonds issued	116,645	-	-	-	(116,645)	-
Premium on issuance of bonds	2,156	-	-	-	(2,156)	-
Discount on issuance of bonds	1,411	-	-	-	(1,411)	-
Payment to bond refunding escrow agent	(65,802)	-	-		65,802	
Other Financing sources - capital leases	6,165	-	-	(6,165)	-	-
Total other financing sources (uses)/changes in net assets	(191,617)	-	-	(5,910)	(54,410)	(251,937)
Net change for the year	$ (165,764)	$ 713	$ 106,037	$ 10,643	$ 42,290	$ (6,081)

(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........ $ 2,349

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 liabilties reported in the prior year statement of net assets were paid during the current period resulting in expenditures in the governmental funds. This is the amount by which the increase in long term liabilities exceeded 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 activities........ 37,657

$ (1,636)

(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, and the loss on disposal of capital assets.

Capital expenditures	$ 176,174
Depreciation expense	(63,343)
Loss on disposal of capital assets	(44)
Expense of CIP	(6,750)
Difference	$ 106,037

(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 fund's costs for the year........ $ 10,643

(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	$ 35,734

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	$ 1,350
Amortization of bond issuance costs	(437)
Difference	$ 913

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........ $ (1,411)

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	$ 78,831
Payments to escrow for refunded debt	65,802
	$ 144,633

Bond 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 and entering into capital lease arrangments increase long-term liabilities in the statement of net assets and do not affect the statement of activities. Proceeds were received from:

General obligation bonds	$ (50,440)
Refunding general obligation bonds and refunding settlement obligation bonds	(66,205)
Loans	(2,156)
	(118,801)
	$ 25,832

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 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.

Interest payment on capital lease obligations on the Moscone Convention Center	(18,849)
Amortization of bond premiums, discounts and refunding losses	(327)
Reduction in arbitrage rebate liability	398
	$ (18,778)

(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 GAAP basis. 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, 2004 on a Budget basis is reconciled to the fund balance on a GAAP basis as follows (in thousands):

	General Fund
Fund balance - Budget basis	$ 222,611
Unrealized gain on investments	277
Deferred charges and assets not available for appropriation	7,142
Cumulative excess property tax revenues recognized on a Budget basis	(19,882)
Other	287
Fund balance - GAAP basis	$ 210,435

General Fund Budget basis fund balance at June 30, 2004 is composed of the following (in thousands):

Reserved for rainy day	$ 55,139	
Reserved for encumbrances	42,501	
Reserved for appropriation carryforward	32,813	
Reserved for subsequent years' budgets:		
Reserved for budget incentive program	2,588	
Reserved for salaries and benefits (MOU)	3,654	
Reserved for litigation	2,940	
Total reserved amounts		$ 139,635
Designated for litigation and contingencies	27,970	
Unreserved - available for appropriation	55,006	
Total unreserved amounts		82,976
Fund Balance, June 30, 2004 - Budget basis		$ 222,611

Of the $55.0 million unreserved-available for appropriation, $26.3 million has been subsequently appropriated as part of the General Fund budget for fiscal year 2005.

(5) DEPOSITS AND INVESTMENTS

The City's deposits and investments are invested pursuant to investment policy guidelines established by the City Treasurer subject to review by the Treasury Oversight Committee. The Treasury Oversight Committee established under California Government Code Sections 27130 to 27137 is composed of various City officials and representatives of agencies with large cash balances. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The 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. Investments permitted by the City's investment policy include the following:

- Public Time Deposits
- Public Demand Accounts
- Negotiable Certificates of Deposit
- U.S. Government Securities
    - Treasury Bills
    - Treasury Bonds
    - Treasury Notes
- Federal Agencies
    - Federal Home Loan Bank
    - Federal Farm Credit Bank
    - Federal National Mortgage Association
    - Federal Mortgage Corporation
    - Student Loan Marketing Association
- Money Market Instruments
    - Commercial Paper
    - Bankers' Acceptances
    - Repurchase Agreements
    - Reverse Repurchase Agreements

The City's investment policy identifies certain restrictions related to the above investments. Investments held by the City Treasurer during the year did not include repurchase agreements or reverse repurchase agreements.

Other deposits and investments maintained outside the City Treasury are invested pursuant to governing bond covenants or California Government Code provisions. The following provides a brief description of the nature of these investments.

Employees' Retirement System

The Retirement System's funds are invested pursuant to policy guidelines established by the Retirement System's Board. The objective of the investment policy is to maximize the expected return of the fund at an agreed upon level of risk. The Retirement Board has established percentage guidelines for types of investments to ensure the portfolio is diversified. As of June 30, 2004, the Retirement System had no investments in any one organization that represented 5% or more of plan net assets. Investments held by the Retirement System during the year did not include reverse repurchase agreements.

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.

Component Units

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.

The funds of the TIDA are invested solely in the City Treasury.

Deposits and investments

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

	Primary Government				Component Units
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	
Deposits and investments with City Treasury	$ 729,748 [1]	$ 674,887	$ 392,585 [2]	$ 1,797,220	$ 2,096
Deposits and investments outside City Treasury	100,151 [3]	8,295	12,421,630	12,530,076	179,127
Restricted assets:					
Deposits and investments with City Treasury	-	423,472	-	423,472	-
Deposits and investments outside City Treasury	-	325,786	-	325,786	236,021
Invested securities lending collateral			1,356,618	1,356,618	-
Total deposits and investments	$ 829,899	$ 1,432,440	$ 14,170,833	$ 16,433,172	$ 417,244
Deposits	$ 14,579	$ 4,674	$ 13,867	$ 33,120	$ 65,467
Investments	815,320	1,427,766	14,156,966	16,400,052	351,777
Total deposits and investments	$ 829,899	$ 1,432,440	$ 14,170,833	$ 16,433,172	$ 417,244

[1] Includes deposits and investments with the City Treasury of total governmental funds ($723,043) and internal service funds ($6,705).

[2] Includes deposits and investments with the City Treasury of pension and other employee benefit trust funds ($87,187), investment trust fund ($206,091) and agency funds ($99,307).

[3] Includes deposits and investments outside the City Treasury of total governmental funds ($74,426) and internal service funds ($25,725).

Cash and Deposits

The City had cash and deposits at June 30, 2004, 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..................	$ 147	$ -	$ 617	$ -	$ -	$ -	$ 1	$ -
Federally insured deposits....	600	600	1,353	1,352	-	-	26	1,527
Collateralized deposits*........	13,832	101,500	170	60	-	-	65,440	65,439
Uninsured and uncollateralized...............	-	-	2,534	2,428	13,867	13,867	-	-
	$ 14,579	$ 102,100	$ 4,674	$ 3,840	$ 13,867	$ 13,867	$ 65,467	$ 66,966

* Under the City's cash management policy, investments are converted to cash as checks are presented for payment. At June 30, 2004, the carrying amount of collateralized deposits has been reduced by the amount of outstanding checks of approximately $88.4 million. Of the $88.4 million of outstanding checks, $38.7 million relates to the San Francisco Unified School District and Community College District which have been reflected in an investment trust fund.

The California Government Code requires California banks and savings and loan associations to secure the City's deposits not covered by Federal depository insurance by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of the City's deposits or 150% of mortgage backed collateral. The collateral must be held at the pledging bank's trust department or other bank, acting as the pledging bank's agent, in the City's name.

The $16.4 million of uninsured and uncollateralized cash outlined above consists of $13.9 million of cash held on behalf of the Employees' Retirement System by a third party trustee, $0.17 million, $2.1 million, $0.08 million, $0.22 million, $0.01 million, of cash held on behalf of Port Commission, Parking Garages, San Francisco General Hospital, Municipal Railway, and Parking and Traffic, respectively, by third party trustees.

Investments

Investments of the City are summarized below. The investments that are represented by specific identifiable investment securities are classified as to custodial credit risk by three categories. They are as follows:

Category 1 - includes investments that are insured or registered or securities held by the City or its agent in the City's name;

Category 2 - includes uninsured and unregistered investments, with the securities held by counterparty's trust department or agent in the City's name;

Category 3 - includes uninsured and unregistered investments, with the securities held by the counterparty, or by its trust department or agent but not in the City's name.

At June 30, 2004, investments included the following (in thousands):

Type of Investment	Category 1	Category 2	Category 3	Carrying value
Primary Government including Pension and investment Trust Funds				
Investments in City Treasury:				
U.S. government securities	$ 1,181,984	$ -	$ -	$ 1,181,984
Federal agencies	175,333	-	-	175,333
Commercial Paper	565,269	-	-	565,269
Negotiable certificates of deposit	289,955	-	-	289,955
Public time deposit	100	-	-	100
Total Investments in City Treasury	2,212,641	-	-	2,212,641
Employees' Retirement System (ERS):				
U.S. government securities	285,866	-	2,026	287,892
Short term bills and notes	16,989	-	33,987	50,976
Debt securities	1,046,155	-	75,912	1,122,067
Equity securities	4,770,379	-	6,902	4,777,281
Total categorized investments	6,119,389	-	118,827	6,238,216
Non-categorized investments:				
Mortgage backed securities				554,065
Fixed interest mutual funds				551,627
Equity investments, including mutual funds				711,151
Real estate				958,368
Venture capital				1,311,960
Money market mutual funds				757,205
Investment in lending agents' short-term Investment pool				1,356,618
Investments lent to broker-dealers				1,325,171
Total non-categorized investments				7,526,165
Total Employees' Retirement System				13,764,381
Other Funds:				
U.S. governmental securities	56,434	4195	327,951	388,580
Equity Securities	770	-	-	770
Total categorized investments	57,204	4,195	327,951	389,350
Non-categorized investments:				
Commercial Paper				722
Money market mutual funds				32,958
Total non-categorized investments				33,680
Total Other Funds				423,030
Total Primary Government including Pension and Investment Trust Funds	$ 8,389,234	$ 4,195	$ 446,778	$ 16,400,052
Component Units - Redevelopment Agency				
U.S. government securities and Federal agencies	$ 9,638	$ 43,600	$ 54,007	107,245
Bankers' acceptances	-	6,470	-	6,470
Commercial paper	-	7,626	-	7,626
Corporate medium term notes	-	2,003	-	2,003
Repurchase agreements	-	-	1,802	1,802
Total categorized investments	9,638	59,699	55,809	125,146
Non-categorized investments:				
Guaranteed investment contracts				23,119
Local agency investment fund				108,018
Money market mutual funds				93,398
Total non-categorized investments				224,535
Total Redevelopment Agency				349,681
Treasure Island Development Authority				
Investments in City Treasury:				
U.S. government securities	2,096	-	-	2,096
Total Treasure Island Development Authority	2,096	-	-	2,096
Total Component Units	$ 11,734	$ 59,699	$ 55,809	$ 351,777

The types of investments made during the year were substantially the same as those held as of June 30, 2004. Fair value fluctuates with interest rates, and increasing rates could cause fair value to decline below original cost. City management believes the liquidity in the portfolio is sufficient to meet cash flow requirements and to preclude the City from having to sell investments below original cost for that purpose. The interest and net investment gain is comprised of the following at June 30, 2004 (in thousands):

Interest and dividends, net of amounts capitalized	$ 336,004
Net increase in the fair value of investments	1,421,130
Total investment gain	$ 1,757,134

The net increase in the fair value of investments takes into account all changes in fair value (including purchases and sales) that occurred during the year. The primary component of this figure is the net increase in fair value of pension investments.

The earned yield, which includes net gains on investments sold, on all investments held by the City Treasurer for the fiscal year ended June 30, 2004 was 1.860%.

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2004 (in thousands):

Statement of Net Assets	
Net assets held in trust for all pool participants........	$ 2,222,788
Equity of internal pool participants........................	2,017,671
Equity of external pool participants........................	205,117
Total Equity..	$ 2,222,788
Statement of Changes in Net Assets	
Net assets at July 1, 2003..................................	$ 2,315,169
Net change in investments by pool participants.......	(92,381)
Net assets at June 30, 2004...........................	$ 2,222,788

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2004 (in thousands):

Types of Investment	Rates	Maturities	Par Value	Carrying Value
U.S. government securities..............	0.89% - 3.53%	07/01/04-08/15/08	$ 1,188,000	$ 1,184,080
Federal agencies..........................	1.00% - 1.42%	07/07/04-09/29/04	176,000	175,333
Negotiable certificate of deposits........	1.03% - 1.26%	07/08/04-08/24/04	290,000	289,955
Commercial paper..........................	1.03% - 1.15%	07/02/04-08/30/04	567,000	565,269
Public time deposits......................	1.20%	07/17/04	100	100
			$ 2,221,100	2,214,737
Carrying amount of deposits in Treasurer's Pool..				8,051
Total cash and investments in Treasurer's Pool..				$ 2,222,788

Supplemental disclosure of non-cash investing and financing activities

San Francisco International Airport

During the fiscal year 2004, the San Francisco International Airport (SFO) issued Second Series Revenue Bonds Issue 30 and Issue 31 to refund previously issued debt. The $35.8 million in proceeds from Issue 30 and the $224.0 million in proceeds from Issue 31 were deposited immediately into irrevocable trusts for the defeasance of $259.8 million of Second Series Refunding Bonds.

Bond issuance costs of $7.6 million that were deducted from the proceeds of the Second Series Revenue Bonds were capitalized and will be amortized over the debt repayment period.

Other Non Cash Transactions (in thousands):

	General Hospital Medical Center	Port of San Francisco	Laguna Honda Hospital	Internal Service Funds	Total 2004	Total 2003
Loss on abandonment of property and equipment.......	$ -	$ 39	$ -	$ -	$ 39	$ 119
Acquisition of capital assets on accounts payable and capital leases..................	48	363	2,102	1,237	3,750	1,616
	$ 48	$ 402	$ 2,102	$ 1,237	$ 3,789	$ 1,735

(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 1978-79, general property taxes are based either on a flat 1% rate applied to the 1975-76 full value of the property or on 1% of the sales price of the property on sales transactions or construction value added after the 1975-76 valuation. Taxable values on properties (exclusive of increases related to sales and construction) can rise 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 $101.2 million for the year ended June 30, 2004, of which $2.7 million was for the San Francisco Community College District (CCD).

Taxable valuation for the year ended June 30, 2004 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Redevelopment Agency) was approximately $95.4 billion, an increase of 5.8%. The secured tax rate was $1.107 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, $0.107, for bond debt service, and $0.35 for the San Francisco Unified School District, CCD, the Bay Area Air Quality Management District, and the Bay Area Rapid Transit District. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 1.81% and 3.78%, respectively, of the current year tax levy, for an average delinquency rate of 1.96% 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 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, 2004 was $8.9 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, 2004, was as follows (in thousands):

Governmental Activities:

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 141,608	$ 2,032	$ -	$ 143,640
Construction in progress	215,658	166,478	(136,459)	245,677
Total capital assets, not being depreciated	357,266	168,510	(136,459)	389,317
Capital assets, being depreciated:				
Facilities and improvements	2,015,981	76,401	-	2,092,382
Machinery and equipment	232,463	13,229	(1,573)	244,119
Infrastructure	131,808	49,168	-	180,976
Property held under lease	4,816	-	-	4,816
Total capital assets, being depreciated	2,385,068	138,798	(1,573)	2,522,293
Less accumulated depreciation for:				
Facilities and improvements	359,812	37,372	-	397,184
Machinery and equipment	169,564	23,410	(1,529)	191,445
Infrastructure	487	3,651	-	4,138
Property held under lease	4,280	-	-	4,280
Total accumulated depreciation	534,143	64,433	(1,529)	597,047
Total capital assets, being depreciated, net	1,850,925	74,365	(44)	1,925,246
Governmental activities capital assets, net	$ 2,208,191	$ 242,875	$ (136,503)	$ 2,314,563

Business-type Activities:

San Francisco International Airport

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 2,316	$ -	$ -	$ 2,316
Construction in progress	106,967	90,164	(70,557)	126,574
Total capital assets, not being depreciated	109,283	90,164	(70,557)	128,890
Capital assets, being depreciated:				
Facilities and improvements	4,604,727	66,137	-	4,670,864
Machinery and equipment	70,240	1,241	(1,274)	70,207
Easements	131,848	3,750	-	135,598
Total capital assets, being depreciated	4,806,815	71,128	(1,274)	4,876,669
Less accumulated depreciation for:				
Facilities and improvements	850,011	148,496	-	998,507
Machinery and equipment	54,953	5,966	(1,217)	59,702
Easements	39,795	6,650	-	46,445
Total accumulated depreciation	944,759	161,112	(1,217)	1,104,654
Total capital assets, being depreciated, net	3,862,056	(89,984)	(57)	3,772,015
Capital assets, net	$ 3,971,339	$ 180	$ (70,614)	$ 3,900,905

Water Department

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 18,112	$ -	$ (183)	$ 17,929
Construction in progress	117,313	101,027	(132,585)	85,755
Total capital assets, not being depreciated	135,425	101,027	(132,768)	103,684
Capital assets, being depreciated:				
Facilities and improvements	863,745	104,757	-	968,502
Machinery and equipment	95,681	4,951	(727)	99,905
Total capital assets, being depreciated	959,426	109,708	(727)	1,068,407
Less accumulated depreciation for:				
Facilities and improvements	331,830	27,288	-	359,118
Machinery and equipment	53,684	7,822	(700)	60,806
Total accumulated depreciation	385,514	35,110	(700)	419,924
Total capital assets, being depreciated, net	573,912	74,598	(27)	648,483
Capital assets, net	$ 709,337	$ 175,625	$ (132,795)	$ 752,167

Hetch Hetchy Water and Power

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 4,215	$ -	$ -	$ 4,215
Construction in progress	57,664	24,090	(30,657)	51,097
Total capital assets, not being depreciated	61,879	24,090	(30,657)	55,312
Capital assets, being depreciated:				
Facilities and improvements	402,153	24,512	-	426,665
Machinery and equipment	36,912	1,388	(144)	38,156
Total capital assets, being depreciated	439,065	25,900	(144)	464,821
Less accumulated depreciation for:				
Facilities and improvements	225,796	8,270	-	234,066
Machinery and equipment	24,350	1,595	(139)	25,806
Total accumulated depreciation	250,146	9,865	(139)	259,872
Total capital assets, being depreciated, net	188,919	16,035	(5)	204,949
Capital assets, net	$ 250,798	$ 40,125	$ (30,662)	$ 260,261

Municipal Transportation Agency

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 26,245	$ -	$ -	$ 26,245
Construction in progress	190,189	172,858	(80,268)	282,779
Total capital assets, not being depreciated	216,434	172,858	(80,268)	309,024
Capital assets, being depreciated:				
Facilities and improvements	374,938	1,960	(47)	376,851
Machinery and equipment	1,042,893	71,136	(25,392)	1,088,637
Infrastrucuture	693,029	10,644	-	703,673
Total capital assets, being depreciated	2,110,860	83,740	(25,439)	2,169,161
Less accumulated depreciation for:				
Facilities and improvements	115,207	8,234	(45)	123,396
Machinery and equipment	222,982	59,127	(24,659)	257,450
Infrastructure	186,534	22,469	-	209,003
Total accumulated depreciation	524,723	89,830	(24,704)	589,849
Total capital assets, being depreciated, net	1,586,137	(6,090)	(735)	1,579,312
Capital assets, net	$ 1,802,571	$ 166,768	$ (81,003)	$ 1,888,336

General Hospital Medical Center

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 542	$ -	$ -	$ 542
Construction in progress	2,327	1,228	-	3,555
Total capital assets, not being depreciated	2,869	1,228	-	4,097
Capital assets, being depreciated:				
Facilities and improvements	124,664	1,239	-	125,903
Machinery and equipment	45,531	399	-	45,930
Total capital assets, being depreciated	170,195	1,638	-	171,833
Less accumulated depreciation for:				
Facilities and improvements	79,109	4,260	-	83,369
Machinery and equipment	34,251	2,374	-	36,625
Total accumulated depreciation	113,360	6,634	-	119,994
Total capital assets, being depreciated, net	56,835	(4,996)	-	51,839
Capital assets, net	$ 59,704	$ (3,768)	$ -	$ 55,936

Clean Water Program

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 22,168	$ -	$ -	$ 22,168
Construction in progress	8,524	23,070	(9,215)	22,379
Total capital assets, not being depreciated	30,692	23,070	(9,215)	44,547
Capital assets, being depreciated:				
Facilities and improvements	1,916,830	6,685	-	1,923,515
Machinery and equipment	23,444	759	-	24,203
Total capital assets, being depreciated	1,940,274	7,444	-	1,947,718
Less accumulated depreciation for:				
Facilities and improvements	625,397	37,535	-	662,932
Machinery and equipment	19,612	559	-	20,171
Total accumulated depreciation	645,009	38,094	-	683,103
Total capital assets, being depreciated, net	1,295,265	(30,650)	-	1,264,615
Capital assets, net	$ 1,325,957	$ (7,580)	$ (9,215)	$ 1,309,162

Port of San Francisco

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 119,512	$ 19	$ (79)	$ 119,452
Construction in progress	22,709	7,567	(18,220)	12,056
Total capital assets, not being depreciated	142,221	7,586	(18,299)	131,508
Capital assets, being depreciated:				
Facilities and improvements	250,121	17,105	(1,400)	265,826
Machinery and equipment	12,877	1,125	(634)	13,368
Total capital assets, being depreciated	262,998	18,230	(2,034)	279,194
Less accumulated depreciation for:				
Facilities and improvements	150,323	8,348	(1,371)	157,300
Machinery and equipment	7,241	1,199	(483)	7,957
Total accumulated depreciation	157,564	9,547	(1,854)	165,257
Total capital assets, being depreciated, net	105,434	8,683	(180)	113,937
Capital assets, net	$ 247,655	$ 16,269	$ (18,479)	$ 245,445

Laguna Honda Hospital

	Balance July 1, 2003	Increases *	Decreases *	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 914	$ -	$ -	$ 914
Construction in progress	40,510	16,064	-	56,574
Total capital assets, not being depreciated	41,424	16,064	-	57,488
Capital assets, being depreciated:				
Facilities and improvements	26,564	824	-	27,388
Machinery and equipment	12,611	8	-	12,619
Property held under lease	824	2,294	(824)	2,294
Total capital assets, being depreciated	39,999	3,126	(824)	42,301
Less accumulated depreciation for:				
Facilities and improvements	20,355	1,701	-	22,056
Machinery and equipment	11,644	206	(20)	11,830
Property held under lease	721	46	(721)	46
Total accumulated depreciation	32,720	1,953	(741)	33,932
Total capital assets, being depreciated, net	7,279	1,173	(83)	8,369
Capital assets, net	$ 48,703	$ 17,237	$ (83)	$ 65,857

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

Other Fund - San Francisco Market Corporation

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Construction in progress	$ -	$ -	$ -	$ -
Total capital assets, not being depreciated	-	-	-	-
Capital assets, being depreciated:				
Facilities and improvements	9,472	11	-	9,483
Machinery and equipment	25	4	-	29
Total capital assets, being depreciated	9,497	15	-	9,512
Less accumulated depreciation for:				
Facilities and improvements	3,990	266	-	4,256
Machinery and equipment	-	-	-	-
Total accumulated depreciation	3,990	266	-	4,256
Total capital assets, being depreciated, net	5,507	(251)	-	5,256
Capital assets, net	$ 5,507	$ (251)	$ -	$ 5,256

Total Business-type Activities

	Balance July 1, 2003	Increases *	Decreases *	Balance June 30, 2004
Capital assets, not being depreciated:				
Land	$ 194,024	$ 19	$ (262)	$ 193,781
Construction in progress	546,203	436,068	(341,502)	640,769
Total capital assets, not being depreciated	740,227	436,087	(341,764)	834,550
Capital assets, being depreciated:				
Facilities and improvements	8,573,214	223,231	(1,448)	8,794,997
Machinery and equipment	1,340,214	81,011	(28,171)	1,393,054
Infrastructure	693,029	10,644	-	703,673
Property held under lease	824	2,294	(824)	2,294
Easements	131,848	3,750	-	135,598
Total capital assets, being depreciated	10,739,129	320,930	(30,443)	11,029,616
Less accumulated depreciation for:				
Facilities and improvements	2,402,018	244,399	(1,416)	2,645,001
Machinery and equipment	428,717	78,848	(27,218)	480,347
Infrastructure	186,534	22,468	-	209,002
Property held under lease	721	46	(721)	46
Easements	39,795	6,650	-	46,445
Total accumulated depreciation	3,057,785	352,411	(29,355)	3,380,841
Total capital assets, being depreciated, net	7,681,344	(31,481)	(1,088)	7,648,775
Capital assets, net	$ 8,421,571	$ 404,606	$ (342,852)	$ 8,483,325

* The increases and decreases include transfers of categories of fixed 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	$ 10,692
Public works transportation and commerece	15,268
Human welfare and neighborhood development	534
Community Health	884
Culture and recreation	22,431
General administration and finance	13,533
Capital assets held by the City's internal service funds charged to the various functions on a prorated basis based on their usage of the assets	1,091
Total depreciation expense - governmental activities	$ 64,433
Business-type activities:	
Airport	$ 161,112
Water	35,110
Power	9,865
Transit	89,830
Hospitals	8,587
Sewer	38,094
Port	9,547
Market	266
Total depreciation expense - business-type activities	$ 352,411

Equipment is generally estimated to have useful lives of 2 to 40 years, except for certain equipment of the Water Department 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 Department and Hetch Hetchy Water and Power (Hetch Hetchy), the CWP, 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 $1.5 billion as of June 30, 2004. In addition, the Hetch Hetchy had utility type assets with useful lives over 100 years which totaled $4.5 million at June 30, 2004.

During the fiscal year ended June 30, 2004, the City's enterprise funds incurred total interest expense and interest income of approximately $274 million and $17.6 million, respectively. Of these amounts, interest expense and interest income of approximately $8.8 million and $0 million respectively, was capitalized as part of the cost of constructing proprietary capital assets. The net amount of approximately $8.8 million was capitalized into capital assets.

During fiscal year ended June 30, 2004, Water, Hetch Hetchy, and CWP expensed $27 million, $7.8 million, $2.5 million respectively, related to capitalized design and planning costs on certain projects which 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, 2004 was as follows (in thousands):

	Balance July 1, 2003	Increases	Decreases	Balance June 30, 2004
Capital assets, not being depreciated:				
Property held under lease	$ 77,612	$ 5,080	$ -	$ 82,692
Construction in progress	7,572	23,996	-	31,568
Total capital assets, not being depreciated/amortized	85,184	29,076	-	114,260
Capital assets, being depreciated:				
Facilities and improvements	137,212	-	-	137,212
Leasehold improvements	21,602	-	-	21,602
Machinery and equipment	7,727	32	-	7,759
Total capital assets, being depreciated	166,541	32	-	166,573
Less accumulated depreciation and amortization for:				
Facilities and improvements	28,902	3,430	-	32,332
Leasehold improvements	6,922	432	-	7,354
Machinery and equipment	6,763	394	-	7,157
Total accumulated depreciation and amortization	42,587	4,256	-	46,843
Total capital assets, being depreciated, net	123,954	(4,224)	-	119,730
Redevelopment Agency capital assets, net	$ 209,138	$ 24,852	$ -	$ 233,990

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

The following is a summary of long-term obligations of the City as of June 30, 2004 (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 7.375%	$ 87,540
City hall improvement project	2005	5.0%	2,810
Fire protection	2005	5.2%	630
Library	2022	2.5 to 6.8%	37,495
Museums	2019	4.5 to 5.5%	15,100
Parks and playgrounds	2023	2.0 to 6.5%	72,295
Public safety improvements	2005	5.2%	335
Schools	2023	2.0 to 6.5%	139,925
Zoo facilities	2022	2.5 to 6.0%	35,065
Refunding	2016	3.0 to 5.75%	453,155
General obligation bonds - governmental activities			844,350
LEASE REVENUE BONDS:			
San Francisco Finance Corporation* (b) & (e)	2030	2.0 to 5.5%	245,680
Lease revenue bonds - governmental activities			245,680
OTHER LONG-TERM OBLIGATIONS:			
Certificates of participation (c) & (d)	2034	3.0 to 5.875%	290,635
Commercial Paper (c)	2005	1.02 to 1.05%	50,000
Loans (c), (d) & (f)	2014	4.3 to 6.7%	9,515
Capital leases payable (c) & (f)	2024	1.5 to 7.05%	194,815
Settlement Obligation Bonds (d)	2011	2.0 to 3.05%	44,275
Accrued vacation and sick leave (d) & (f)			128,417
Accrued workers' compensation (d) & (f)			213,630
Estimated claims payable (d) & (f)			79,805
Other long-term obligations - governmental activities			1,011,092
DEFERRED AMOUNTS:			
Bond issuance premiums			4,912
Bond issuance discounts			(2,509)
Bond refunding			(6,339)
Deferred amounts			(3,936)
Governmental activities total long-term obligations			$ 2,097,186

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

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

*Includes the Moscone Center West Expansion Project which was financed with variable rate bonds that reset weekly. The average interest rate from issuance date of November 2, 2000 through June 30, 2004 was 1.5% The rate at June 30, 2004 was 1%.

BUSINESS-TYPE ACTIVITIES

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
San Francisco International Airport:			
Revenue bonds	2032	1.55 to 8.0%*	$ 4,173,170
Water Department:			
Revenue bonds	2032	2.5 to 6.5%	501,025
Commercial paper	2005	1.05%	25,000
Accreted interest			2,567
Hetch Hetchy Water and Power:			
Notes, loans and other payables	2010	3%	693
Municipal Transportation Agency:			
Municipal Railway			
Capital leases	2005	3.43%	168
Parking and Traffic			
Revenue bonds	2020	4.0 to 6.75%	22,135
Lease revenue bonds	2022	3.7 to 6.0%	11,425
Capital leases	2006	3.41 to 3.5%	393
Notes, loans and other payables**	2010	3.0 to 5.25%	24,299
Downtown Parking - parking revenue refunding bonds	2018	3.0 to 5.375%	12,100
Ellis-O'Farrell - parking revenue refunding bonds	2017	3.5 to 4.7%	5,465
Uptown Parking - revenue bonds	2031	4.5 to 6.0%	18,720
General Hospital Medical Center:			
Capital leases	2009	5.7 to 8.5%	2,205
Clean Water Program:			
Revenue bonds	2025	3.0 to 5.25%	396,270
State of California - Revolving fund loans	2021	2.8 to 3.5%	150,196
Port of San Francisco:			
General Obligation Bonds -			
City and County of San Francisco	2005	6.30%	400
Revenue bonds	2010	5.5 to 9.0%	27,095
Notes, loans and other payables	2029	4.50%	3,436
Capital leases	2005	6.31%	23
Laguna Honda Hospital:			
Capital leases	2009	3.465%	2,102
Accrued vacation and sick leave			73,890
Accrued workers' compensation			183,496
Estimated claims payable			47,631
Deferred Amounts:			
Bond issuance premiums			47,047
Bond issuance discounts			(21,768)
Bond refunding			(86,801)
Business-type activities total long-term obligations			$ 5,622,382

*Includes Second Series Revenue Bonds Issue 31 which were issued in an auction mode. The average interest rate for the period March 25, 2004 through June 30, 2004 was 1.065%.
**Includes an unamortized loan premium of $1.1 million for Parking and Traffic.

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

COMPONENT UNIT

Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
SAN FRANCISCO REDEVELOPMENT AGENCY AND FINANCING AUTHORITY:			
Lease Revenue Bonds:			
Moscone Convention Center (a)	2024	2.0 to 8.5%	$ 171,651
Hotel Tax Revenue Bonds (b)	2025	4.1 to 6.75%	70,165
Financing Authority Bonds:			
Tax Allocation Revenue Bonds (c)	2030	1.8 to 8.3%	485,897
South Beach Harbor Variable Rate Refunding Bonds (d)	2017	Variable (1.08% at 6/30/04)	11,500
Less deferred amounts:			
Bond issuance premiums			9,641
Refunding loss			(3,263)
Sub-total			745,591
California Department of Boating and Waterways Loan (e)	2037	4.50%	8,000
Accreted Interest payable			142,388
Accrued vacation and sick leave pay			2,733
Component unit total long-term obligations			$ 898,712

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, 2004, the City's debt limit (3% of valuation subject to taxation) was $3.0 billion. The total amount of debt applicable to the debt limit was $0.8 billion, net of certain assets in other non-major governmental funds, and other deductions allowed by law. The resulting legal debt margin was $2.2 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 has recognized an arbitrage liability of $1.7 million as of June 30, 2004. 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 $0.2 million was reported in the deferred credits and other liabilities in the Internal Service Fund as of June 30, 2004. 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, 2004, the aggregate outstanding obligation of such bonds was $132.5 million.

Changes in Long-Term Obligations

The changes in long-term obligations for governmental activities for the year ended June 30, 2004, are as follows (in thousands):

	July 1, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 859,625	$ 72,370	$ (87,645)	$ 844,350	$ 62,300
Lease revenue bonds	252,035	9,530	(15,885)	245,680	18,060
Certificates of participation	296,135	-	(5,500)	290,635	8,005
Settlement obligation bond	49,470	44,275	(49,470)	44,275	5,605
Less deferred amounts:					
For issuance premiums	3,852	1,464	(404)	4,912	-
For issuance discounts	(2,737)	-	228	(2,509)	-
On Refunding	(6,077)	(889)	627	(6,339)	-
Total Bonds payable	1,452,303	126,750	(158,049)	1,421,004	93,970
Commercial Paper	-	50,000	-	50,000	50,000
Loans	9,278	2,156	(1,919)	9,515	2,054
Capital leases	212,649	41,022	(58,856)	194,815	2,046
Accrued vacation and sick leave pay	128,893	72,209	(72,685)	128,417	63,682
Accrued workers' compensation	195,100	54,797	(36,267)	213,630	45,138
Estimated claims payable	58,333	44,064	(22,592)	79,805	19,881
Governmental activities long-term obligations	$ 2,056,556	$ 390,998	$ (350,368)	$ 2,097,186	$ 276,771

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, 2004, $245.8 million of lease revenue bonds, $1.1 million of capital leases, $0.3 million of loans, $3.7 million of accrued vacation and sick leave pay and $1.2 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, 2004, are as follows (in thousands):

	July 1, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
San Francisco International Airport					
Bonds payable:					
Revenue bonds	$ 4,270,600	$ 265,145	$ (362,575)	$ 4,173,170	$ 78,555
Less deferred amounts:					
For issuance premiums	15,489	2,269	(214)	17,544	-
For issuance discounts	(19,946)	-	887	(19,059)	-
On refunding	(41,193)	(16,408)	4,597	(53,004)	-
Total bonds payable	4,224,950	251,006	(357,305)	4,118,651	78,555
Accrued vacation and sick leave pay	11,157	8,183	(7,764)	11,576	5,802
Accrued workers' compensation	5,759	1,822	(2,426)	5,155	1,186
Estimated claims payable	459	178	(178)	459	209
Long-term obligations	$ 4,242,325	$ 261,189	$ (367,673)	$ 4,135,841	$ 85,752

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2004, are as follows (in thousands) - continued:

	July 1, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
Water Department					
Bonds payable:					
Revenue bonds	$ 514,370	$ -	$ (13,345)	$ 501,025	$ 14,055
Less deferred amounts:					
For issuance premiums	7,178	-	(246)	6,932	-
For issuance discounts	(2,633)	-	(76)	(2,709)	-
On refunding	(8,365)	-	480	(7,885)	-
Total bonds payable	510,550	-	(13,187)	497,363	14,055
Accreted interest payable	2,396	171	-	2,567	-
Commercial paper	-	25,000	-	25,000	25,000
Accrued vacation and sick leave pay	7,817	6,686	(5,373)	9,130	4,529
Accrued workers' compensation	9,821	3,968	(2,094)	11,695	2,393
Estimated claims payable	3,823	4,889	(2,601)	6,111	1,349
Long-term obligations	$ 534,407	$ 40,714	$ (23,255)	$ 551,866	$ 47,326
Hetch Hetchy Water and Power					
Notes, loans, and other payables	$ 971	$ -	$ (278)	$ 693	$ 98
Accrued vacation and sick leave pay	1,585	984	(771)	1,798	967
Accrued workers' compensation	1,893	809	(426)	2,276	455
Estimated claims payable	143	1,224	(1,198)	169	38
Long-term obligations	$ 4,592	$ 3,017	$ (2,673)	$ 4,936	$ 1,558
Municipal Transportation Agency					
Bonds payable:					
Revenue bonds	$ 60,250	$ -	$ (1,830)	$ 58,420	$ 2,070
Lease revenue bonds	12,355	-	(930)	11,425	960
Less deferred amounts:					
For issuance premiums	908	87	(26)	969	-
Total bonds payable	73,513	87	(2,786)	70,814	3,030
Notes, loans, and other payables	26,511	1,600	(3,812)	24,299 *	3,827
Capital leases	1,141	23	(603)	561	442
Accrued vacation and sick leave pay	24,034	18,539	(18,354)	24,219	13,851
Accrued workers' compensation	109,053	34,109	(23,722)	119,440	26,535
Estimated claims payable	27,672	15,098	(8,926)	33,844	11,736
Long-term obligations	$ 261,924	$ 69,456	$ (58,203)	$ 273,177	$ 59,421
General Hospital Medical Center					
Capital leases	$ 2,779	$ 242	$ (816)	$ 2,205	$ 630
Accrued vacation and sick leave pay	12,839	10,157	(9,432)	13,564	7,736
Accrued workers' compensation	22,425	4,653	(4,085)	22,993	4,928
Long-term obligations	$ 38,043	$ 15,052	$ (14,333)	$ 38,762	$ 13,294

* Includes an unamortized loan premium of $1.1 million for Parking and Traffic.

The changes in long-term obligations for all enterprise funds for the year ended June 30, 2004, are as follows (in thousands) – continued:

	July 1, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
Clean Water Program					
Bonds payable:					
Revenue bonds	$ 396,270	$ -	$ -	$ 396,270	$ -
Less deferred amounts:					
For issuance premiums	22,391	-	(1,005)	21,386	-
On refunding	(26,850)	-	1,726	(25,124)	-
Total bonds payable	391,811	-	721	392,532	-
State of California - Revolving fund loans	165,125	-	(14,929)	150,196	15,413
Accrued vacation and sick leave pay	3,623	2,091	(1,958)	3,756	2,019
Accrued workers' compensation	3,830	1,737	(767)	4,800	1,006
Estimated claims payable	974	4,249	(462)	4,761	1,044
Long-term obligations	$ 565,363	$ 8,077	$ (17,395)	$ 556,045	$ 19,482
Port of San Francisco					
Bonds payable:					
General obligation bonds	$ 800	$ -	$ (400)	$ 400	$ 400
Revenue bonds	30,690	-	(3,595)	27,095	3,920
Less deferred amounts:					
For issuance premiums	260	-	(44)	216	-
On refunding	(946)	-	158	(788)	-
Total bonds payable	30,804	-	(3,881)	26,923	4,320
Notes, loans, and other payables	3,510	-	(74)	3,436	77
Capital leases	68	-	(45)	23	23
Accrued vacation and sick leave pay	1,890	1,295	(1,346)	1,839	990
Accrued workers' compensation	2,931	1,122	(940)	3,113	650
Estimated claims payable	1,900	2,265	(1,878)	2,287	1,087
Long-term obligations	$ 41,103	$ 4,682	$ (8,164)	$ 37,621	$ 7,147
Laguna Honda Hospital					
Capital leases	$ 222	$ 2,102	$ (222)	$ 2,102	$ 394
Accrued vacation and sick leave pay	7,684	6,038	(5,714)	8,008	4,800
Accrued workers' compensation	13,444	5,160	(4,580)	14,024	2,955
Long-term obligations	$ 21,350	$ 13,300	$ (10,516)	$ 24,134	$ 8,149

A summary of the changes in long-term obligations for all enterprise funds for the year ended June 30, 2004, are as follows (in thousands):

	July 1, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year
Total Business-type Activities:					
Bonds payable:					
General obligation bonds	$ 800	$ -	$ (400)	$ 400	$ 400
Revenue bonds	5,272,180	265,145	(381,345)	5,155,980	98,600
Lease revenue bonds	12,355	-	(930)	11,425	960
Less deferred amounts:					
For issuance premiums	46,226	2,356	(1,535)	47,047	-
For issuance discounts	(22,579)	-	811	(21,768)	-
On refunding	(77,354)	(16,408)	6,961	(86,801)	-
Total bonds payable	5,231,628	251,093	(376,438)	5,106,283	99,960
Accreted interest payable	2,396	171	-	2,567	-
Commercial paper	-	25,000	-	25,000	25,000
State of California - Revolving fund loans	165,125	-	(14,929)	150,196	15,413
Notes, loans, and other payables	30,992	1,600	(4,164)	28,428	4,002
Capital leases	4,210	2,367	(1,686)	4,891	1,489
Accrued vacation and sick leave pay	70,629	53,973	(50,712)	73,890	40,694
Accrued workers' compensation	169,156	53,380	(39,040)	183,496	40,108
Estimated claims payable	34,971	27,903	(15,243)	47,631	15,463
Business-type activities long term obligations	$ 5,709,107	$ 415,487	$ (502,212)	$ 5,622,382	$ 242,129

The changes in long term obligations for the component unit for the year ended June 30, 2004, are as follows (in thousands):

	July 1, 2003	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2004	Amounts Due Within One Year	
Component Unit:						
Redevelopment Agency						
Bonds payable:						
Revenue bonds	$ 698,261	$ 174,615	$ (145,163)	$ 727,713	$ 52,667	
Refunding bonds	11,500	-	-	11,500	700	
Less deferred amounts:						
For issuance premiums	8,232	1,958	(549)	9,641	-	
On refunding	(213)	(3,064)	14	(3,263)	-	
Total bonds payable	717,780	173,509	(145,698)	745,591	53,367	
Accreted interest payable	159,478	9,407	(26,497)	142,388	75,171	(1)
Notes, loans, and other payables	8,000	-	-	8,000	-	
Accrued vacation and sick leave pay	2,900	21	(188)	2,733	1,168	
Component unit - long term obligations	$ 888,158	$ 182,937	$ (172,383)	$ 898,712	$ 129,706	

(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, 2004, for governmental activities are as follows (in thousands):

Governmental Activities (1)(2)(3)								
Fiscal Year Ending June 30,	General Obligation Bonds		Lease Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005.........	$ 62,300	$ 41,864	$ 18,060	$ 5,176	$ 15,664	$ 16,011	$ 96,024	$ 63,051
2006.........	65,155	39,043	17,780	4,665	15,898	15,428	98,833	59,136
2007.........	68,070	35,874	15,805	4,159	15,483	14,802	99,358	54,835
2008.........	69,065	32,481	13,955	3,712	15,403	14,221	98,423	50,414
2009.........	72,355	29,084	12,265	3,307	16,007	13,623	100,627	46,014
2010-2014..	306,500	93,586	35,800	12,761	65,235	58,725	407,535	165,072
2015-2019..	162,570	33,188	35,670	8,724	50,150	44,933	248,390	86,845
2020-2024..	38,335	3,374	41,445	5,095	43,825	32,972	123,605	41,441
2025-2029..	-	-	44,700	1,978	49,135	21,395	93,835	23,373
2030-2034..	-	-	10,200	115	57,625	7,604	67,825	7,719
Total.........	$ 844,350	$ 308,494	$ 245,680	$ 49,692	$ 344,425	$ 239,714	$ 1,434,455	$ 597,900

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2004, for each enterprise fund is as follows (in thousands):

San Francisco International Airport (1)								
Fiscal Year Ending June 30,	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005.........	$ -	$ -	$ 78,555	$ 210,893	$ -	$ -	$ 78,555	$ 210,893
2006.........	-	-	82,700	207,071	-	-	82,700	207,071
2007.........	-	-	90,340	203,796	-	-	90,340	203,796
2008.........	-	-	107,400	198,479	-	-	107,400	198,479
2009.........	-	-	112,810	193,874	-	-	112,810	193,874
2010-2014..	-	-	706,660	874,968	-	-	706,660	874,968
2015-2019..	-	-	880,230	681,003	-	-	880,230	681,003
2020-2024..	-	-	1,080,360	434,965	-	-	1,080,360	434,965
2025-2029..	-	-	892,840	159,363	-	-	892,840	159,363
2030-2034..	-	-	141,275	10,964	-	-	141,275	10,964
Total.........	$ -	$ -	$ 4,173,170	$ 3,175,376	$ -	$ -	$ 4,173,170	$ 3,175,376

(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) The payment stream for principal and interest on commercial paper is not practicable to determine because the timing of the issuance and payment is based on project expenditures.
(3) Includes the Moscone Center Expansion Project Lease Revenue Bonds with variable rate bonds currently reset weekly.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2004, for each enterprise fund is as follows (in thousands) – continued:

Water Department (1) (2)

Fiscal Year Ending June 30,	General Obligation Bonds Principal	General Obligation Bonds Interest	Revenue Bonds Principal	Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2005..........	$ -	$ -	$ 14,055	$ 23,939	$ -	$ -	$ 14,055	$ 23,939
2006..........	-	-	14,790	23,315	-	-	14,790	23,315
2007..........	-	-	15,450	22,666	-	-	15,450	22,666
2008..........	-	-	16,225	21,921	-	-	16,225	21,921
2009..........	-	-	17,035	21,131	-	-	17,035	21,131
2010-2014...	-	-	97,905	92,969	-	-	97,905	92,969
2015-2019...	-	-	92,120	68,489	-	-	92,120	68,489
2020-2024...	-	-	82,935	47,860	-	-	82,935	47,860
2025-2029...	-	-	86,645	26,502	-	-	86,645	26,502
2030-2034...	-	-	63,865	5,911	-	-	63,865	5,911
Total..........	$ -	$ -	$ 501,025	$ 354,703	$ -	$ -	$ 501,025	$ 354,703

Hetch Hetchy Water and Power (1)

Fiscal Year Ending June 30,	General Obligation Bonds Principal	General Obligation Bonds Interest	Revenue Bonds Principal	Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2005..........	$ -	$ -	$ -	$ -	$ 98	$ 20	$ 98	$ 20
2006..........	-	-	-	-	101	17	101	17
2007..........	-	-	-	-	104	14	104	14
2008..........	-	-	-	-	107	11	107	11
2009..........	-	-	-	-	110	8	110	8
2010-2014...	-	-	-	-	173	5	173	5
Total..........	$ -	$ -	$ -	$ -	$ 693	$ 75	$ 693	$ 75

Municipal Transportation Agency (1)(3)

Fiscal Year Ending June 30,	General Obligation Bonds Principal	General Obligation Bonds Interest	Revenue and Lease Revenue Bonds Principal	Revenue and Lease Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2005..........	$ -	$ -	$ 3,030	$ 3,422	$ 3,827	$ 1,104	$ 6,857	$ 4,526
2006..........	-	-	3,375	3,281	4,017	913	7,392	4,194
2007..........	-	-	3,500	3,147	4,218	713	7,718	3,860
2008..........	-	-	3,650	3,003	4,429	502	8,079	3,505
2009..........	-	-	3,810	2,851	6,381	283	10,191	3,134
2010-2014...	-	-	15,400	12,025	279	61	15,679	12,086
2015-2019...	-	-	19,340	7,430	-	-	19,340	7,430
2020-2024...	-	-	6,820	3,343	-	-	6,820	3,343
2025-2029...	-	-	-	1,831	-	-	-	1,831
2030-2034...	-	-	10,920	230	-	-	10,920	230
Total..........	$ -	$ -	$ 69,845	$ 40,563	$ 23,151	$ 3,576	$ 92,996	$ 44,139

(1) The specific year for payment of accreted interest payable (Water Department), estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.
(2) The payment stream for principal and interest on commercial paper is not practicable to determine because the timing of the issuance and payment is based on project expenditures.
(3) Unamortized loan premiums of $1.1 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, 2004, for each enterprise fund is as follows (in thousands) – continued:

Clean Water Program [1]

Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005..........	$ -	$ -	$ -	$ 17,219	$ 15,413	$ 4,718	$ 15,413	$ 21,937
2006..........	-	-	-	17,219	15,915	4,218	15,915	21,437
2007..........	-	-	33,445	16,718	16,430	3,701	49,875	20,419
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
2010-2014...	-	-	132,950	54,664	54,956	7,499	187,906	62,163
2015-2019...	-	-	90,925	27,001	17,028	1,650	107,953	28,651
2020-2024...	-	-	62,530	8,197	3,356	147	65,886	8,344
2025-2029...	-	-	6,255	315	-	-	6,255	315
Total..........	$ -	$ -	$ 396,270	$ 171,677	$ 150,196	$ 27,845	$ 546,466	$ 199,522

Port of San Francisco [1]

Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005..........	$ 400	$ 25	$ 3,920	$ 1,449	$ 77	$ 155	$ 4,397	$ 1,629
2006..........	-	-	4,135	1,226	81	151	4,216	1,377
2007..........	-	-	4,370	985	84	148	4,454	1,133
2008..........	-	-	4,615	727	88	144	4,703	871
2009..........	-	-	4,885	449	92	140	4,977	589
2010-2014...	-	-	5,170	153	525	633	5,695	786
2015-2019...	-	-	-	-	656	503	656	503
2020-2024...	-	-	-	-	816	342	816	342
2025-2029...	-	-	-	-	1,017	141	1,017	141
Total..........	$ 400	$ 25	$ 27,095	$ 4,989	$ 3,436	$ 2,357	$ 30,931	$ 7,371

A summary of the annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2004, for business type activities follows (in thousands):

Total Business-type Activities [1][2][3]

Fiscal Year Ending	General Obligation Bonds		Revenue Bonds		Other Long-Term Obligations		Total	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005..........	$ 400	$ 25	$ 99,560	$ 256,922	$ 19,415	$ 5,997	$ 119,375	$ 262,944
2006..........	-	-	105,000	252,112	20,114	5,299	125,114	257,411
2007..........	-	-	147,105	247,312	20,836	4,576	167,941	251,888
2008..........	-	-	166,390	239,828	17,961	3,825	184,351	243,653
2009..........	-	-	174,205	232,951	20,344	3,175	194,549	236,126
2010-2014....	-	-	958,085	1,034,779	55,933	8,198	1,014,018	1,042,977
2015-2019....	-	-	1,082,615	783,923	17,684	2,153	1,100,299	786,076
2020-2024....	-	-	1,232,645	494,365	4,172	489	1,236,817	494,854
2025-2029....	-	-	985,740	188,011	1,017	141	986,757	188,152
2030-2034....	-	-	216,060	17,105	-	-	216,060	17,105
Total..........	$ 400	$ 25	$ 5,167,405	$ 3,747,308	$ 177,476	$ 33,853	$ 5,345,281	$ 3,781,186

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

(2) The payment stream for principal and interest on commercial paper is not practicable to determine because the timing of the issuance and payment is based on project expenditures.

(3) Unamortized loan premiums of $1.1 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, 2004, for the component unit are as follows (in thousands):

Component Unit: 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
2005..........	$ 33,496	$ 82,435	$ 19,170	$ 26,872	$ 700	$ 697	$ 53,366	$ 110,004
2006..........	5,510	12,361	25,137	27,880	-	697	30,647	40,938
2007..........	5,146	12,728	24,745	26,959	776	696	30,667	40,383
2008..........	5,544	13,027	27,118	24,166	907	678	33,569	37,871
2009..........	5,350	13,289	26,327	24,652	1,107	665	32,784	38,606
2010-2014...	24,574	69,784	152,906	100,436	7,202	2,399	184,682	172,619
2015-2019...	75,116	19,819	187,157	51,683	2,664	1,564	264,937	73,066
2020-2024...	14,035	2,709	70,374	34,849	1,420	1,260	85,829	38,818
2025-2029...	2,880	76	21,253	13,777	1,769	910	25,902	14,763
2030-2034...	-	-	1,875	221	2,204	475	4,079	696
2035-2037...	-	-	-	-	751	46	751	46
Total..........	$ 171,651	$ 226,228	$ 556,062	$ 331,495	$ 19,500	$ 10,087	$ 747,213	$ 567,810

(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; however, general obligation bonds have not been issued for business-type activities since 1979. The net authorized and unissued governmental activities general obligation bonds for the year ended June 30, 2004, are as follows (in thousands):

Governmental Activities - General Obligation Bonds
(in thousands)

Authorized and unissued as of June 30, 2003..	$ 922,500
Bonds issued:	
Series 2003A, Neighborhood Recreation and Park Facilities Improvement Bonds..	(20,960)
Series 2003B, Educational Facilities Bonds, San Francisco Unified School District..	(29,480)
Net authorized and unissued as of June 30, 2004..	$ 872,060

There were no new authorizations on general obligation bonds in the year ended June 30, 2004.

In July 2003, the City issued General Obligation Bonds, Neighborhood Recreation and Park Facilities Improvement Bonds, Series 2003A in the amount of $20.9 million. Interest rates range from 2.0% to 5.0%. The bonds mature from June 2004 through June 2023. The bonds were issued to provide funds to finance the acquisition, construction and/or reconstruction of certain improvements to recreation and park facilities in the City, and all other works, property and structures necessary or convenient for these purposes. Debt service payments are funded through ad valorem taxes on property.

In July 2003, the City issued General Obligation Bonds, Educational Facilities Bonds, Series 2003B in the amount of $29.5 million. Interest rates range from 2.0% to 5.0%. The bonds mature from June 2004 through June 2023. The bonds were issued to provide funds to finance the acquisition, construction, installation, equipping and/or reconstruction or completion of educational facilities and other related improvements to be used by the San Francisco Unified School District. Debt service payments are funded through ad valorem taxes on property.

The Port of San Francisco is the only business-type activity that has General Obligation Bonds outstanding which amount to $0.4 million as of June 30, 2004. The bonds were issued in 1971 for the improvement of the San Francisco harbor area. The final maturity is in fiscal year 2004-2005. Debt service payments are funded from Port's revenues.

Current Refundings

In June 2004, the City issued $21.9 million of General Obligation Refunding Bonds, Series 2004-R1 with interest rates ranging from 3.0% to 4.0% (maturing from June 2005 through June 2014) to refund all or a portion of the City's outstanding General Obligation Bonds as follows:

General Obligation Refunding Bonds
(in thousands)

Description of Refunded Bonds	Amount Refunded	Average Interest Rate
Series 1995A – Public Safety Improvement Projects, 1990	$4,560	5.25%
Series 1995B – Golden Gate Park Improvements, 1992	6,755	5.25%
Series 1996A – City Hall Improvement Project	6,055	5.11%
Series 1996B – Public Safety Improvement Projects, 1989	355	5.30%
Series 1996C – Fire Department Facilities Project, 1992	660	5.30%
Series 1996D – School District Facilities Improvements, 1994	1,960	5.30%
Series 1996E – Asian Art Museum Relocation Project	1,160	5.30%
Total	$21,525	

The net proceeds of $21.9 million (including original issue premium of $0.3 million, and after payment of $0.4 million in underwriting fees and other issuance costs) were used to purchase certain direct obligations of the United States of America. These securities were deposited into an escrow account held by the Treasurer. The Treasurer applied the principal of and interest on the escrow securities to the redemption of the respective refunded bonds on June 25, 2004.

Although the refunding resulted in the recognition of an accounting loss of $0.3 million for the year ended June 20, 2004, the City in effect reduced its aggregate debt service payments by $1 million over the next 10 years, and obtained an economic gain (difference between preset value of the old and new debt service payments) of $0.9 million.

Lease Revenue Bonds

The changes in governmental activities - lease revenue bonds for the year ended June 30, 2004 were as follows:

Governmental Activities - Lease Revenue Bonds
(in thousands)

Authorized and unissued as of June 30, 2003	$ 126,107
Increase in authorization in this fiscal year:	
Current year annual increase in Finance Corporation's equipment program	1,796
Current year maturities in Finance Corporation's equipment program	6,845
Bonds issued:	
Series 2004A, San Francisco Finance Corporation	(9,530)
Net authorized and unissued as of June 30, 2004	$ 125,218

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, 2004, the total authorized amount is $37.7 million. The total accumulated annual authorization since 1990 is $17.7 million of which $1.8 million is new annual authorization for the fiscal year ended June 30, 2004.

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 $104 million in equipment lease revenue bonds since 1991. As of June 30, 2004, $77.4 million has been repaid leaving $26.6 million in equipment lease revenue bonds outstanding and $11 million available for new issuance.

In June 2004, the Finance Corporation issued its twelfth Series of equipment lease revenue bonds Series 2004A in the amount of $9.5 million with interest rates ranging from 2.3% to 3.1%. The bonds mature from April 2005 through October 2009.

(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 January 1999 for $31.2 million and $18.7 million, respectively. As of June 30, 2004, 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 June 1998 for $22.6 million and $23.3 million, respectively. As of June 30, 2004, 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.

Refunding Settlement Obligation Bonds

In December 2003, the City issued $44.3 million of Refunding Settlement Obligation Bonds, Series 2003-R1 with interest rates ranging from 2.0% to 3.05% (maturing from March 2005 through March 2011) to refund a portion of the $49.5 million outstanding principal amount of the Settlement Obligation Bonds, Series 2001 (Business Tax Judgment). The Series 2001 Bonds were issued in August 2001 to refund certain obligations resulting from settlement of business tax litigation against the City.

The net proceeds of $44.4 million (including original issue premium of $0.5 million, and after payment of $0.4 million in underwriting fees, and other issuance costs) were used to refund a portion of the Series 2001 Bonds.

Although the refunding resulted in the recognition of an accounting loss of $0.6 million for the year ended June 30, 2004, the City in effect reduced its aggregate debt service payments by $2 million over the next seven years, and obtained an economic gain of $1.9 million.

Asphalt Plant Expansion Loan

In September 2003, the City entered into a loan agreement of $2.2 million through the State of California's Alpha Plan for installment purchases of two, one hundred fifty ton asphalt storage silos. The project will allow the City's asphalt plant to serve larger projects than currently possible, and will extend the life of other plant equipment. The loan has an interest rate of 4.3% and semi-annual loan repayments began in April 2004 through October 2013.

San Francisco County Transportation Authority Commercial Paper Notes

In March 2004, the San Francisco County Transportation Authority authorized the issuance of an initial tranche of up to $50 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 New Transportation 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, with an expiration date of April 14, 2007. The commercial paper notes are secured by a first lien gross pledge of the Authority's ability to levy a half-cent sales tax collected by the California State Board of Equalization. The principal and interest on the commercial paper notes will be payable at each maturity.

As of June 30, 2004, $50 million in commercial paper notes was outstanding and maturing within 21 to 43 days after year-end with interest rates ranging from 1.02% to 1.05%.

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 February 2004, the San Francisco International Airport (SFO) issued Second Series Revenue Bond Issue 30 (issue 30) in the amount of $34.8 million with interest rates ranging from 3.6% to 5.25%. Proceeds from issue 30 were deposited into an irrevocable trust with an escrow agent to advance refund certain of the SFO's Second Series Revenue Bonds as follows (in thousands):

San Francisco International Airport Refunding Bonds
(in thousands)

	Amount Refunded	Interest Rate	Call Price
Second Series Revenue Bond Issuance:			
Issue 8	$ 545	5.10%	$ 101.000
Issue 9	1,700	5.0%	101.000
Issue 11	1,725	5.75%	101.000
Issue 15	9,670	4.0 - 4.1%	
Issue 16	1,270	5.0%	
Issue 18	2,925	5.0%	
Issue 21	290	5.0%	
Issue 23	4,625	4.0 - 4.5%	
Issue 24	950	5.0%	
Issue 26	2,475	5.0%	
Issue 28	8,190	3.0%	
	$ 34,365		

The refunded Second Series Revenue Bonds have final maturity dates ranging from May 1, 2005 to May 1, 2007 and call dates of May 1, 2004 and May 1, 2005.

The net proceeds of $35.8 million (including original issue premium of $2.3 million, and after payment of $1.3 million in underwriting fees, insurance, surety premium, and other issuance costs) plus an additional $0.5 million of available debt service 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 the refunded bonds identified above until redeemed on May 1, 2004 through May 1, 2007.

The refunded bonds are considered legally defeased where the debt is legally satisfied based on certain provisions in the debt instrument even though the debt is still outstanding. Accordingly, the liability for the refunded bonds has been removed from the Statement of Net Assets.

The issue 30 refunding was structured to achieve maximum cash flow savings in fiscal years 2005, 2006, and 2007. Beginning in fiscal year 2008 and through fiscal year 2018, the final bond maturity date, the SFO's net debt service payments will increase resulting in a net incremental debt service cost of $17.5 million over the next 15 years and an economic loss (the difference between the present values of the old and new debt service payments) of $2.7 million. The refunding also resulted in the recognition of a deferred accounting loss of $2.4 million.

In March 2004, SFO issued Second Series Variable Rate Revenue Refunding Bonds Issue 31 (issue 31) in the amount of $230.3 million. The issue 31 bonds were initially issued in an Auction Mode, subject to conversion by the Commission to another interest rate mode. The initial interest rate was established by the Airport Commission for the interest rate period commencing March 25, 2004 for each series of issue 31 bonds.

Each series of issue 31 bonds may bear a different auction rate and be subject to a different auction period. As of June 30, 2004, series issue 31A, 31B, 31C, 31D, and 31E were in 343 days, 35 days, 35 days, 35 days, and 7 days auction periods, respectively. For the period March 25, 2004 through June 30, 2004, the average interest rate on the issue 31 bonds was 1.065%.

Proceeds of the issue 31 bonds were deposited into an irrevocable trust with an escrow agent to advance refund certain of SFO's Second Series Revenue Bonds as follows (in thousands):

	Amount Refunded	Interest Rate	Call Price
Second Series Revenue Bond Issuance:			
Issue 5	$ 71,005	6.0% - 6.5%	$ 102.000
Issue 6	74,935	5.9% - 6.6%	102.000
Issue 7	21,675	5.4% - 6.15%	102.000
Issue 8	52,505	5.4% - 6.3%	101.000
	$ 220,120		

The net proceeds of $224 million (after payment of $6.3 million in underwriting fees, insurance, surety premium, and cost of issuance account) plus an additional $6.7 million of available debt service 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 the refunded bonds identified above until called on May 1, 2004.

The refunded bonds are considered legally defeased where the debt is legally satisfied based on certain provisions in the debt instrument even though the debt is still outstanding. Accordingly, the liability for the refunded bonds has been removed from the Statement of Net Assets.

Although the advance refunding resulted in the recognition of a deferred accounting loss of $14 million for the year ended June 30, 2004, SFO in effect reduced its aggregate debt service payments by approximately $33.2 million (based on an assumed interest rate of 3.52% plus 10 basis points for AMT Bonds) over the next 23 years and obtained an economic gain (the difference between the present values of the old and new debt service payments) of $39.8 million.

Water Department

In November 1997, the voters approved Propositions A and B, authorizing up to $304 million in Water Revenue Bonds to fund capital improvements for the Water Enterprise. In May and June 1999, the San Francisco Public Utilities Commission (the Commission) and the Board of Supervisors, respectively, approved a commercial paper program to provide short-term financing for capital improvement projects funded under the $304 million Water Revenue Bond Program. In October 2000, the Commission and the Board of Supervisors approved the expansion of the commercial paper program to up to $250 million.

In March and May 2003, the Commission and the Board of Supervisors, respectively, approved the reestablishment of the commercial paper program in an amount not to exceed $250 million. As of June 30, 2004, the program had $25 million in commercial paper notes outstanding.

On November 5, 2002, the San Francisco voters passed Proposition A, which provides for the issuance of revenue bonds and/or other forms of revenue financing by the Commission in a principal amount not to exceed $1.6 billion to finance the acquisition and construction of improvements to the City's Water System. As of June 30, 2004, no bonds had been issued pursuant to this authorization.

Laguna Honda Hospital

The Department of Public Health, for the Laguna Honda Hospital, entered into a capital lease agreement for laundry equipment, at a current rate of 3.465%, maturing in January 2009. Also the Department of Public Health, for the facilities, entered into several capital leases for various pieces of equipment at different interest rates and maturity period up to five years. The total new capital lease obligations for the hospital as of June 30, 2004 was $2.1 million.

Component Unit Debt - Redevelopment Agency

The current year debt activities of the 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. 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, 2004 was $2.1 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, Suite 3000, San Francisco, CA 94102 or by calling (415) 487-7020.

Membership

Membership of the Retirement System at July 1, 2003, the date of the latest actuarial valuation is:

	Police	Fire	Others	Total
Retirees and beneficiaries currently receiving benefits....	2,006	1,804	14,680	18,490
Active members:				
Vested..............................	1,853	1,333	20,095	23,281
Nonvested.........................	384	435	8,021	8,840
Subtotal.........................	2,237	1,768	28,116	32,121
Total....................................	4,243	3,572	42,796	50,611

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 2003-04 varied from 7.00% to 8.00% as a percentage of gross salary. The City is required to contribute at an actuarially determined rate. Based on the actuarial report, there were no required employer contributions for fiscal year 2003-04 because the Plan is funded at 109% of liability. 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 8.0% of base salary. For fiscal year ended June 30, 2004, 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, 2003. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 8.00%; (2) inflation element in wage increase of 3.50%; and (3) salary merit increases of 4.50%. 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
6/30/2002	$ -	N/A	$ -
6/30/2003	$ -	N/A	$ -
6/30/2004	$ -	N/A	$ -

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 and County of San Francisco contributes to PERS, an agent multiple-employer public employee defined benefit pension plan. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and city ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814.

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 2003-04 contribution rate is 0% of annual covered payroll because the City is funded at 148.8%. 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 2003-04 was equal to the City's required and actual contributions which was determined as part of the June 30, 2001 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2001 actuarial valuation were: (a) 8.25% investment rate of return (net of administrative expenses), (b) 3.75% to 14.20% projected annual salary increases that vary by age, service, and type of employment, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.50%. 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, as a level percentage of pay, over a closed 20 year period. Actuarial gains and losses are first offset against one another and then 10% 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
6/30/2002	$ -	N/A	$ -
6/30/2003	$ -	N/A	$ -
6/30/2004	$ -	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 6.431% because the City is funded at 124.1%. 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 2003-04 was equal to the City's required and actual contributions which was determined as part of the June 30, 2001 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2001 actuarial valuation were: (a) 8.25% investment rate of return (net of administrative expenses), (b) 4.27% to 11.59% projected annual salary increases that vary by age, service and type of employment, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. 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 10% 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
6/30/2002	$ -	N/A	$ -
6/30/2003	$ -	N/A	$ -
6/30/2004	$ 5,606	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 and Unified School District, amounted to approximately $345.4 million in fiscal year 2004. 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 $96 million to provide post-retirement health care benefits for 19,216 retired employees. The City's liability for both current employee and post-retirement 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, 2nd Floor, San Francisco, CA 94103 or by calling (415) 554-1700.

(10) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

The San Francisco County Transportation Authority (the Authority) was established in 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 impose the voter-approved transactions and use tax of one-half of one percent to fund essential traffic and transportation projects, as set forth in the San Francisco County Transportation Expenditure Plan, for a period not to exceed 20 years. The principal focus of the Authority's Expenditure Plan is to define 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 June 1992, 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 (AB 434) 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.

The Authority serves as the Congestion Management Agency under state laws, and in that capacity prioritizes state and federal transportation funds for San Francisco. The funding is administered by the Metropolitan Transportation Commission in accordance with the Federal Surface Transportation Program for congestion management activities.

In April 1998, the Authority signed a memorandum of understanding with the State of California Department of Transportation (Caltrans) to serve as the lead agency for the environmental impact research and study and the preliminary design for the Doyle Drive Replacement Project for which Caltrans was awarded $6 million in federal grant funds.

Following is a summary of the Authority's financial position and changes in financial position as of and for the year ended June 30, 2004 (in thousands):

ASSETS	
Deposits and investments	$ 220,519
Receivables	15,431
Total assets	$ 235,950
LIABILITIES AND FUND BALANCE	
Due to other funds	$ 47,144
Other liabilities	53,340
Total liabilities	100,484
Fund balance:	
Reserved for debt service	318
Reserved for encumbrances	4,517
Reserved for appropriation carryforward	126,596
Unreserved	4,035
Total fund balance	135,466
Total liabilities and fund balance	$ 235,950

OPERATIONS	
Revenues:	
Sales tax	$ 61,925
Interest and investment income	1,002
Intergovernmental	58,663
Other	3,038
	124,628
Expenditures and other financing uses:	
Public works, transportation, and commerce	21,374
Transfer to other funds	116,875
	138,249
Deficiency of revenues under expenditures and other financing uses	(13,621)
Fund balance at the beginning of year	149,087
Fund balance at end of year	$ 135,466

(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 the 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 2003 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 opened for full operation on June 22, 2003. The extension creates a convenient connection between SFO and the greater San Francisco Bay Area that is served by BART. An intermodal station in the City of Millbrae provides a direct link to Caltrain offering additional transit options and connection 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, which opened for full operation on March 24, 2003, 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 Capital Plan to better fit the changes in the aviation industry. The Capital Plan was completed in the Fall of 2003 and included projects related to improvements to the airfield, groundside activities and customer service functions, environmental mitigation, utilities infrastructure upgrades, seismic retrofit of certain facilities, health, safety and security enhancements, and cost savings and revenue generating enhancements.

SFO currently has outstanding $4.2 billion in aggregate principal amount of Second Series Revenue Bonds. SFO has issued $1.5 billion in Bonds to refund previously outstanding Bonds and Commercial Paper Notes of the Commission, $432.9 million in Bonds for noise mitigation and other capital projects, $60 million in Bonds to finance a portion of the construction costs of the BART extension to SFO.

On July 27, 2001, the Federal Aviation Administration (FAA) approved the 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. On March 21, 2002, the FAA approved the 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.

On March 25, 2003, as a result of decrease in enplanement, SFO notified PFC collecting carriers of the intent to extend the PFC#1 collection, thereby revising the current PFC#1 charge expiration date from June 1, 2003 to January 1, 2004. With the PFC#1 collection period extension in place, the PFC#2 effective date changes from June 1, 2003 to January 1, 2004. Automatically, the PFC#2 expiration date changes from April 1, 2008 to November 1, 2008. During the extended collection period, the PFC is maintained at $4.50.

For the year ended June 30, 2004, SFO reported approximately $57.5 million of PFC revenue, which is included in other non-operating revenues in the accompanying basic financial statements. SFO designated $48.1 million of PFC revenues as "Revenues" under the 1991 Master Bond Resolution for the purpose of paying debt service in fiscal year 2004. In addition, during the year ended June 30, 2004, SFO did not designate any PFC revenues as "Revenues" for the purpose of paying debt service in fiscal year 2005, as required in the 1991 Master Bond Resolution.

Due to the 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, 2004 was $18.2 million.

Purchase commitments for construction, material and services as of June 30, 2004 are as follows (in thousands):

Construction	$ 28,336
Operating	3,854
Total	$ 32,190

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, 2004, approximately $121 million has been disbursed under this program.

SFO maintains a capital plan which included in particular, the Near Term Master Plan (NTMP) program. All projects included in the NTMP have been completed as of June 30, 2003. The total master plan funding is $2.85 billion. In addition to the NTMP projects, SFO's capital program also includes infrastructure projects. The current budget for capital projects is $393 million. SFO spent $97 million for these projects as of June 30, 2004.

In May 2002, SFO obtained a standby letter of credit with a maximum stated principal amount of $200 million. The subordinate Lien Resolution authorizes a maximum authorized principal amount of notes of $400 million. There were no commercial borrowings during the year ended June 30, 2004.

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, 2004, revenues realized from the following SFO tenants exceeded five percent of SFO's total operating revenues:

United Airlines	25.5%
AMPCO Parking Systems	8.9%
American Airlines	5.4%

(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). Prior to 1969, the Port was owned by the State of California. At that time the Port was transferred in trust to the City under the terms and conditions of legislation as ratified by the electorate of the City. 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.

In 1996, the Department of Parking and Traffic (DPT) entered into an Annual Payment Agreement with the Port to resolve a dispute concerning the City's collection of parking fine revenues from Port property. Among other things, DPT agreed to pay the Port a guaranteed annual payment of $1.2 million for twenty years commencing on July 1, 1997, for parking fine revenues collected from Port property. Thereafter, amounts remitted to the Port are based on actual ticket collections, net of administrative costs.

In connection with a mixed-use cruise terminal development project at Piers 30-32, and as approved by state legislation in 2001 (Assembly Bill No. 1389), a portion of Seawall Lot No. 330 was sold to a developer in 2004. The land was sold for $9.3 million, slightly above its appraised fair value. Certain proceeds from the land sale ($9 million) are restricted for the construction of a public plaza area called Brannan Street Wharf. The remainder of the proceeds from the land sale, together with certain residual receipts from the future sale of residential condominium units built on the land sold, is restricted for the construction of the cruise terminal.

The Port is presently planning various development projects that involve a commitment to expend significant funds. Purchase commitments at June 30, 2004 were $5.3 million for capital projects and $1.5 million for general operating costs. 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, 2004, $14.3 million has been appropriated and $1.6 million has been expended for projects under the agreement.

(c) Water Department

The Water Department was established in 1930. The Water Department, 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 Department delivers water, approximately 95,265 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 Commission, established in 1932, provides the operational oversight for the Water Department, Hetch Hetchy, and the Clean Water Program. 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 Department purchases water from Hetch Hetchy. This amount, totaling approximately $19.0 million, is included in the charges for services provided by other departments in the accompanying financial statements.

During fiscal year 2004, water sales to suburban resale customers were $82.3 million. As of June 30, 2004, the Water Department owed suburban resale customers approximately $19.8 million under the Suburban Water Rate Agreement.

As of June 30, 2004, the Water Department had outstanding commitments with third parties of $60.1 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 Department to develop a remedial action plan (Plan) that addresses environmental contamination at certain real property owned by the Water Department. 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 by middle of 2004. The Commission appropriated funding for pre-work and the award of Phase I of the plan during fiscal year 2002. The cost of cleanup associated with the Plan was estimated to be $22.7 million and was accrued in fiscal year 2001. At June 30, 2004, the outstanding estimated liability is $15.8 million.

(d) Hetch Hetchy Water and Power

Hetch Hetchy was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park to the City. Hetch Hetchy is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity from that resource. Approximately 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, 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 consists of a system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines. This system carries water and power more than 165 miles from the Sierra Nevada Mountains to customers in the City and portions of the surrounding San Francisco Bay Area.

Hetch Hetchy also purchases wholesale electric power from various energy providers that are used in conjunction with owned hydro resources to meet the power requirements of its customers. Operations and business decisions can be greatly influenced by state and federal power matters before the California Public Utilities Commission (CPUC) and the Federal Energy Regulatory Commission (FERC). Therefore, Hetch Hetchy 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, 2004 include $63.1 million in sales of power by Hetch Hetchy to other City Departments. Income from Hetch Hetchy is available for certain operations of the City.

As of June 30, 2004, Hetch Hetchy had outstanding commitments with third parties of $19.6 million for various capital projects and other purchase agreements for materials and services.

Hetch Hetchy facilitates all electric and gas service connections between Pacific Gas and Electric Company (PG&E) and City Departments. In this capacity, Hetch Hetchy, 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, 2004, there were no outstanding amounts from City departments related to this work.

Hetch Hetchy 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's power to its customers. In addition, the PG&E agreement provides backup power and other support services to Hetch Hetchy. The PG&E agreement allows PG&E to review past billings paid by Hetch Hetchy and to retroactively adjust these payments to actual backup power, transmission, and other charges as finally determined by PG&E. During fiscal year 2004, Hetch Hetchy purchased $30.5 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 $3.5 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 entered into a long-term power sales agreement (the Agreement) with the Districts. The Agreement expires in 2015 and requires that Hetch Hetchy 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 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 2007, the existing pricing structure was modified, and Hetch Hetchy's firm obligation to provide power to the MID was relaxed. For fiscal year 2004, power sales to the Districts totaled 828,918 MWhrs or $24.3 million.

On May 9, 2001, Hetch Hetchy entered into a fixed price, forward contract (the Contract) to purchase 2.19 million MWhrs of electric energy from a third party energy provider with scheduled future delivery over a five-year period beginning July 1, 2001. Effective March 9, 2003, Hetch Hetchy executed an amended and restated transaction confirmation with the third party energy provider to amend and retroactively restate the terms of the original agreement entered into on May 9, 2001 in its entirety, to settle any pending disputes brought forth by Hetch Hetchy. Under this amended take or pay contract, Hetch Hetchy is obligated to pay for a minimum amount of electricity even if the electricity is not required for operations. Commitments related to this contract total $86.1 million from July 1, 2003 through June 30, 2006. Expenses under this contract totaled $29 million in fiscal year 2004.

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 from the City at rates that will essentially provide for the full recovery of the City's costs incurred in the construction of a power generating facility (The Facility) over a ten year period from the date in which the California Department of Water Resources accepts the City's certification that the Facility meets all requirements of commercial operation as set forth in the Power Purchase Agreement (Commercial Operation Date).

The City may terminate the Power Purchase Agreement at any time from and after the fifth anniversary of the Commercial Operation Date upon providing a one-year notice to the California Department of Water Resources, and the California Department of Water Resources may terminate the Power Purchase Agreement at such time that there is no longer a debt service component within the capacity payment.

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 $5.3 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 $2.5 million. As of June 30, 2004, the City has requested and received a total of $1.9 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 has recognized $1.9 million of revenue from the Fund as of June 30, 2004.

(e) Municipal Transportation Agency

The MTA is responsible for overseeing the City's public transportation operations, including those of MUNI, SFMRIC, and the 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 the DPT.

The tables below reflect the financial information of MUNI, the DPT (excluding the parking garages) and the parking garages that are reported within the MTA (in thousands), net of $0.6 million interagency accounts payables and receivables and interfund transfers of $1 million:

	MUNI	DPT	Parking Garages	Total
Assets				
Current Assets	$ 158,873	$ 21,433	$ 4,470	$ 184,776
Noncurrent Assets	1,796,824	49,429	117,167	1,963,420
Total Assets	1,955,697	70,862	121,637	2,148,196
Liabilities				
Current liabilities	102,724	16,759	20,880	140,363
Liabilities payable from restricted assets	941	-	-	941
Noncurrent liabilities	151,480	65,853	36,110	253,443
Total liabilities	255,145	82,612	56,990	394,747
Net assets				
Invested in capital assets, net of related debt	1,745,231	(6,892)	57,725	1,796,064
Restricted net assets	46,484	3,845	1,826	52,155
Unrestricted net assets (deficit)	(91,163)	(8,703)	5,096	(94,770)
Total net assets (deficit)	$ 1,700,552	$ (11,750)	$ 64,647	$ 1,753,449

	MUNI	DPT	Parking Garages	Total
Operating Revenues	$ 127,317	$ 23,054	$ 36,019	$ 186,390
Operating Expenses	553,121	69,773	32,863	655,757
Net Operating Income (Loss)	(425,804)	(46,719)	3,156	(469,367)
Nonoperating Income (Loss)	221,113	16,201	(1,889)	235,425
Capital Contributions	64,669	-	-	64,669
Transfers In	218,943	34,446	-	253,389
Transfers Out	-	(346)	-	(346)
Change in Net Assets	78,921	3,582	1,267	83,770
Net Assets at Beginning of Year	1,620,639	(14,340)	63,380	1,669,679
Net Assets (Deficit) at End of Year	$ 1,699,560	$ (10,758)	$ 64,647	$ 1,753,449

The City's Annual Appropriation Ordinance provides funds to subsidize the operating deficits of MUNI and the DPT determined by the City's budgetary accounting procedures, subject to the appropriation process. The amount of General Fund subsidy to the MTA was $133.7 million ($99.3 million for MUNI and $34.4 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, 2004, MUNI had approved capital grants with unused balances amounting to $232 million. Capital grants receivable as of June 30, 2004 totaled $55 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, 2004, MUNI had various operating grants receivable of $27.9 million.

These capital grants and operating assistance include funds from the San Francisco Transportation Authority (SFCTA). During the year ended June 30, 2004, the SFCTA approved $62.5 million in new capital grants and $15.8 million in new operating grants for MUNI. During the same period, MUNI received total payments of $116.4 million for capital grants and $12.8 million in operating grants from the Authority. As of June 30, 2004, MUNI had $35.8 million due from the SFCTA for capital grants and $5.09 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 $77 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 $8 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. SMFRIC's Board of Directors has authorized SMFRIC to extend financial guarantees to MUNI for certain projects totaling $2.5 million.

In March 2001, MUNI and the Port entered in to 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. MUNI received a capital contribution from the Authority for this. As part of this MOU, MUNI paid the Port an additional $4 million in fiscal year 2002 to construct the Illinois Street Bridge over Islais Creek that will mitigate traffic in the area and improve coordination with MUNI's Metro East and Third Street Light Rail Project. MUNI has agreed to reasonably extend this deadline up to March 2005 provided the Port has procured the design and construction contract and has issued direction to proceed with Phase II to build the Illinois Street Bridge. The construction is expected to be completed in early 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, 2004.

As a result of the cash transactions above, MUNI recorded deferred revenue in fiscal year 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 in fiscal year 2004 amounted to $1.3 million.

As of June 30, 2004, the outstanding payments to be made on the sublease through 2027 are $308.2 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 board of directors and the City's board of supervisors, MUNI entered into a second leveraged lease-lease back 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 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 for certain transaction expenses). The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized in fiscal year 2004 amounted to $0.1 million.

As of June 30, 2004, the outstanding payments to be made on the sublease through 2029 are $59.7 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; 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 reflects 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 June 30, 2004 follows (in thousands), including $0.6 million accounts payable to MUNI:

	Downtown Parking	Uptown Parking	Japan Center Garage	Ellis-O'Farrell Parking	Portsmouth Plaza Parking	Total
Operating revenues	$ 11,083	$ 14,772	$ 2,407	$ 4,509	$ 3,248	$ 36,019
Depreciation	727	1,077	-	-	127	1,931
Operating income	791	1,117	270	879	99	3,156
Interest and other non-operating revenues (expenses)	(673)	(1,013)	-	(214)	11	(1,889)
Change in net assets	118	104	270	665	110	1,267
Capital assets, increases	104	57	56	26	189	432
Capital assets, decreases	-	-	(32)	-	-	(32)
Net working capial (deficit)	(6,843)	(9,618)	239	(1,138)	(9,824)	(27,184)
Total assets	29,317	61,947	7,594	19,657	3,122	121,637
Total liabilities	19,449	30,341	250	6,487	463	56,990
Net assets	9,868	31,606	7,344	13,170	2,659	64,647
Total debt outstanding	$ 12,343	$ 19,399	$ -	$ 5,473	$ -	$ 37,215

(f) Laguna Honda Hospital

The Laguna Honda Hospital (LHH) is a skilled nursing facility which specializes in serving elderly and disabled residents. The operations of LHH are subsidized by the City. 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. Accordingly, depreciation and certain non-current accrued expenses are not funded, resulting in continuing deficits on a budget basis. In those circumstances, the City allows the enterprise to show a deficit on a budget basis. For the fiscal year ended June 30, 2004, the subsidy for LHH was $32 million.

	(in thousands)
Changes in net assets of LHH on a GAAP basis	$ (10,473)
Transfer to General Fund*	7,562
Net loss on specific/donor restricted funds	(79)
Operating subsidy from City General Fund	(31,853)
Net loss on LHH on a GAAP basis before operating subsidy	(34,843)
Expenses which require budgetary funding but are not GAAP basis expenses:	
Capitalized services and other asset purchases	(2,455)
Change in encumbrances and appropriation carryforward	3,181
Expenses which do not require budgetary funding but are GAAP basis expenses:	
Depreciation and other expenses	2,264
Net loss of LHH requiring General Fund subsidy on a budget basis	$ (31,853)

* During the fiscal year ended June 30, 2004, LHH transferred approximately ($7.6) million of the tobacco settlement funds. In addition, LHH received approximately $0.6 million in income from investments, which is included in the net loss on specific/donor restricted funds calculation. As a result, LHH's net assets on a GAAP basis do not show a deficit.

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. During the fiscal year ended June 30, 2004, Medicare and Medi-Cal charges for services amounted to approximately $4 million and $107 million, respectively. As of June 30, 2004, LHH had net patient receivables from Medicare of $0.3 million and net patient receivables from Medi-Cal of $14 million.

During fiscal year ended June 30, 2004, LHH received approximately $16 million in payments as a result of matching federal funds to local funds which provided a Medi-Cal supplemental in the form of quarterly payments effective August 1, 2001.

In November 1999, San Francisco voters approved Proposition A, a ballot measure authorizing the City 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. 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 construction of a replacement facility for LHH. As of June 30, 2004, no bonds have been sold. LHH is actively involved in the planning and design phase for new facilities to replace Laguna Honda Hospital.

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.

LLH 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 $0.7 million to $2.5 million. The hospital and the S.F. 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.

As of June 30, 2004, LHH has entered into various purchase contracts totaling approximately $9.9 million that are related to future construction for the Hospital Replacement Project.

(g) General Hospital Medical Center

The San Francisco General Hospital Medical Center (SFGH) is an acute care hospital. The operations of SFGH are subsidized by the City. 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. Accordingly, depreciation and certain non-current accrued expenses are not funded, resulting in continuing deficits on a budget basis. In those circumstances, the City allows the enterprise to show a deficit on a budget basis. For the year ended June 30, 2004, the subsidy for SFGH was $62 million.

	(in thousands)
Income before transfers of SFGH on a GAAP basis	$ 1,847
Reimbursement to City General Fund for SB 855 matching program	(69,384)
Transfers from City General Fund to support SFGH on:	
Other Program Support	1,329
Interest expense on the over draft funds with the City Treasury	464
Transfers from SFGH to City facility projects	1,159
Expenses which require budgetary funding but are not GAAP basis expenses:	
Capitalized services and other asset purchases	(2,865)
Change in encumbrances and appropriation carryforwards	(1,252)
Other expenses	(88)
Expenses which do not require budgetary funding but are GAAP basis expenses:	
Depreciation expense	6,634
Net loss of SFGH requiring General Fund subsidy on a Budget basis	$ (62,156)

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, the State of California through Senate Bills 855 and 1255 and the Short-Doyle mental health program, the federal Medi-Cal Medical Education Program and Administrative Claiming System, and a managed care agreement signed with a health maintenance organization (HMO).

During the year ended June 30, 2004, Medicare and Medi-Cal revenue accounted for $53 million and $52 million of net patient service revenue respectively. As of June 30, 2004, SFGH had net patient receivables from Medicare of $7.8 million and net patient receivables from Medi-Cal of $15.7 million.

State of California Senate Bill 855 (SB-855) was passed by the state legislature in July 1991 to provide additional funding to hospitals which provide a significant portion of their services to Medi-Cal recipients. In order to receive additional funds, the City must transfer funds to the State Medi-Cal program so that the funds may be matched by federal funds. Gross patient revenue recorded by SFGH for SB-855 totaled $100.4 million for the year ended June 30, 2004. This revenue was offset by a reduction in the General Fund operating subsidy of $69.4 million for net SB 855 revenues of $31 million for the year ended June 30, 2004.

In addition, SFGH receives funding from the State of California under Senate Bill 1255 (SB-1255) which establishes a funding pool through public and private sector contributions with matching federal participation. For the year ended June 30, 2004, SFGH recognized gross patient revenue in the amount of $63.5 million offset by a reduction in the contribution provided by the City of $35 million for net SB 1255 revenues of $28.5 million.

Under the Medi-Cal Medical Education program, SFGH is reimbursed for medical education costs incurred for services rendered to Medi-Cal beneficiaries. For the year ended June 30, 2004, SFGH recognized net patient service revenue in the amount of $1.8 million pertaining to this program.

As of June 30, 2004, SFGH had Medi-Cal supplemental reimbursement receivables for SB-855, SB-1255, and other federal and state settlement payments of approximately $33.8 million.

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 $61.1 million as other operating revenue for the year ended June 30, 2004, from realignment funding.

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, 2004, reimbursement under the Short-Doyle program amounted to approximately $5 million and is included in transfers in.

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, 2004, amounted to $1.3 million and are included in other operating revenue.

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 $191 million and estimated costs and expenses to provide charity care were $103 million in fiscal year 2004.

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, 2004, was approximately $62.5 million.

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 to make system-wide as well as structural improvements in its delivery of care for patients in 2013 and beyond. As of June 30, 2004, SFGH was studying available options, including co-location opportunities with UCSF Medical Center. The total funding required to rebuild the hospital is unknown at this time.

(h) Clean Water Program

The Clean Water Program (CWP) was established in 1977 pursuant to bond resolutions to account for the City's municipal sewage treatment and disposal system.

CWP'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, 2004, the CWP had outstanding commitments with third parties for capital projects and for materials and services totaling $28.7 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 project areas are now underway. In addition, the Agency is undertaking feasibility studies for two potential redevelopment areas designated by the Board of Supervisors of the City and proposed expansion to two existing project areas.

The Agency acts as the lead Agency in administering the Housing Opportunities for Persons with AIDS (HOPWA) program, which is funded by a grant from the U.S. Department of Housing and Urban Development. The Agency applied for and was awarded a "Special Projects of National Significance" grant under the HOPWA program to provide partial rent subsidies and back to work job training.

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. Mission Bay North consists of approximately 65 acres adjacent to the Pacific Bell Park. Mission Bay South includes approximately 238 acres of land. The Agency has entered into an Owner Participation Agreement with the owner/developer to provide for development of the project areas. The proposed development in the north includes 3,000 housing units, 20% of which will be affordable units, 350,000 square feet of urban entertainment retail space, 100,000 square feet of City-serving retail space, 55,000 square feet of neighborhood-serving retail space and six acres of public open space. The proposed development in the south will include 3,090 housing units, 20% of which will be affordable units, a 43-acre University of California San Francisco (UCSF) research campus, a 500 room hotel, 210,000 square feet of City-serving and neighborhood-serving retail space, five million square feet of commercial industrial space, a new fire and police station and a 500-student public school on land to be donated by UCSF. Mission Bay is expected to create over 31,000 new permanent jobs. The Mission Bay development will take place over 20 to 30 years and will require investment of over $145 million in new public infrastructure. Total development costs for the two project areas are expected to exceed $4 billion.

As of June 30, 2004, 1,079 residential units, including 148 affordable units, 24,000 square feet of office space, and 72,650 square feet of neighborhood retail space have been completed in Mission Bay North. A commercial office building totaling 285,000 square feet and two UCSF research buildings of 550,000 square feet have been completed in Mission Bay South.

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 $40.1 million.

The Public Initiatives Development Corporation (PIDC), was formed in May of 2002 to develop affordable housing on the Agency's behalf. The Board of PIDC is comprised of management of the Agency and other appointed individuals. Funding is dependent on the Agency and PIDC is reflected as a blended component unit in the Agency's financial statements. Activities during the year are relocating tenants, demolishing the building and starting construction of a 106 affordable units mixed-use development at the corner of 6th and Howard Streets.

In May 2004, the Agency issued $33.6 million in Moscone Convention Center Lease Revenue Refunding Bonds, Series 2004. These bonds mature through July 1, 2024 with varying interest rates from 3% to 5.375%. A portion of the proceeds from the sale of the Series 2004 Moscone Refunding Bonds was used to establish an irrevocable escrow fund to refund the entire $38.4 million principal amount of the Agency's outstanding Moscone Convention Center Lease Revenue Bonds, Series 1994. The net proceeds of $40.5 million (including original issue premium of $0.6 million, $4.0 million from the Series 1994 Moscone Bonds reserve fund, and $8.7 million from the City; and after (1) depositing $3.4 million in a reserve fund; (2) depositing $2.1 million in an additions and betterment fund; and (3) payment of $0.9 million in underwriting fees, insurance and other costs) were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds identified above until called and redeemed. The Series 94 Moscone Bonds will be called and redeemed on July 1, 2004. Although the advance refunding resulted in the recognition of a deferred accounting loss of $2.1 million for the fiscal year ended June 30, 2004, the Agency in effect reduced its aggregate debt service payments by approximately $15.9 million over the next 21 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $4.2 million.

In March 2004, the Authority issued $83 million in 2004 Series A Tax Allocation Refunding and Capital Improvement Revenue Bonds (San Francisco Redevelopment Projects) (2004 Series A Refunding Bonds). The 2004 Series A Refunding Bonds are secured by a pledge of the Agency's share of certain property tax revenues derived from related project areas. These bonds mature through August 1, 2021 with varying interest rates from 2.0% to 5.0%. The net proceeds were used to refund a portion of the 1993 Series B Tax Allocation Refunding Bonds (1993 Series B Refunding Bonds), in the amount of $50 million, and all of the 1993 Series C Tax Allocation Revenue Bonds (1993 Series C Bonds), in the amount of $25.7 million. In addition, the Agency intends to use approximately $11.5 million of the proceeds to aid construction, rehabilitation, and preservation of low and moderate-income housing in the City. The net proceeds of $78.9 million (including original issue premium of $2.1 million; and $7.2 million from the 1993 Series B Refunding Bonds and 1993 Series C Bonds reserve funds; and after (1) depositing $0.2 million in a revenue fund; (2) depositing $11.5 million in the low and moderate income housing fund; and (3) payment of $1.9 million in underwriting fees, insurance and other costs) were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds identified above until called and redeemed.

The refunded 1993 Series B Refunding Bonds and the 1993 Series C Bonds were called and redeemed on May 20, 2004, and the liability for these bonds has been removed from the statement of net assets. Although the advance refunding resulted in the recognition of a deferred accounting loss of $3.0 million for the fiscal year ended June 30, 2004, the Agency in effect reduced its aggregate debt service payments by approximately $17.8 million over the next 18 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $6.5 million.

In March 2004, the Authority issued $4.4 million in 2004 Series B Taxable Tax Allocation Refunding Revenue Bonds (San Francisco Redevelopment Projects) (2004 Series B Refunding Bonds). The net proceeds of the 2004 Series B Refunding Bonds were used to refund all of the 1996 Series C Taxable Tax Allocation Revenue Bonds (1996 Series C Bonds), in the amount of $4.9 million. The net proceeds of $5.0 million (including original issue premium of $52.8 thousand; and $0.6 million from the 1993 Series B Refunding Bonds; and after payment of $79.7 thousand in underwriting fees, insurance and other costs) were used to purchase U.S. Government Securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds identified above until called and redeemed. The refunded 1996 Series C Bonds were called and redeemed on May 20, 2004, and the liability for these bonds has been removed from accompanying statement of net assets. Although the advance refunding resulted in the recognition of a deferred accounting loss of $97.1 thousand for the fiscal year ended June 30, 2004, the Agency in effect reduced its aggregate debt service payments by approximately $0.8 million over the next 4 years and obtained an economic gain (difference between the present values of the old and new debt service payments) of $0.2 million. The 2004 Series B Refunding Bonds are secured by a pledge of the Agency's share of certain property tax revenues derived from related project areas. These bonds mature through August 1, 2007 with interest rates of 2.0% and 3.0%.

In June 2004, the Authority issued $7.8 million in 2004 Series C Tax Allocation Revenue Bonds (Rincon Point-South Beach Redevelopment Project) (2004 Series C Bonds) and $45.9 million in 2004 Series D Taxable Tax Allocation Revenue Bonds (San Francisco Redevelopment Projects) (2004 Series D Bonds). These bonds are secured by a pledge of the Agency's share of certain property tax revenues derived from related Project Areas. The 2004 Series C Bonds mature through August 1, 2030 with varying interest rates of 3.4% to 5.0%. The 2004 Series D Bonds mature through August 1, 2018 with varying interest rates of 5.0% to 5.85%. The net proceeds from the 2004 Series C Bonds will be used to finance the construction of an office building at the Agency owned and operated small craft harbor and improvements to an adjacent pier in the Rincon Point South Beach Project Area. The major portion of the net proceeds from the 2004 Series D Bonds will be used to finance the construction, rehabilitation, and preservation of low-income housing and to complete a parking garage in the Yerba Buena Center Project Area. The remaining proceeds will be used to fund improvements and economic development activities in various Project Areas.

Outstanding bond issues had cumulative interest accretion of approximately $142.4 million as of June 30, 2004. Interest accretion is included in the accrued interest payable balance in the basic financial statements.

In order to facilitate construction and rehabilitation within the project areas, various construction loan notes, promissory notes and mortgage revenue bonds with an aggregate outstanding balance of approximately $701 million at June 30, 2004, have been issued. When these obligations are issued, they are secured by the related mortgage indebtedness and, in the opinion of management, are not considered obligations of the Agency or the City and therefore not included in the basic 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 must also be set aside for such purposes. The Agency established a Low and Moderate Income Housing Fund to account for this commitment.

The Agency had commitments under contracts for capital improvements of approximately $36 million at June 30, 2004.

(13) TREASURE ISLAND DEVELOPMENT AUTHORITY

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. 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 2004, TIDA's primary source of revenues included facility and housing rents. During fiscal year 2003, TIDA received Navy agreement to initiate the process of early transfer, including competitive selection of a contractor to complete the Navy's Treasure Island Remediation Program with Navy funding but under TIDA direction and supervision; entered an exclusive negotiating agreement with a private developer for the redevelopment of the former naval base; and completed a draft Environmental Impact Report (EIR) for the transfer. TIDA assisted with the opening of a new childcare center for Treasure Island residents and employees, and funded an extensive new program of recreation services for Island residents.

(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, 2004, is as follows (in thousands):

Due to/from other funds (in thousands):

Receivable Fund	Payable Fund	Amount
General	Nonmajor Governmental Funds	$ 28,894
	Internal Service Funds	859
	San Francisco International Airport	1,052
	Hetch Hetchy Water and Power	528
	Municipal Transportation Agency	589
	General Hospital Medical Center	15,288
	Port of San Francisco	598
	Laguna Honda Hospital	5,109
		52,917
Nonmajor Governmental Funds	Nonmajor Governmental Funds	5,384
		5,384
Water Department	Municipal Transportation Agency	2,221
		2,221
Hetch Hetchy Water and Power	General Fund	892
	Nonmajor Governmental Funds	12,619
	Municipal Transportation Agency	101
	General Hospital Medical Center	693
		14,305
Municipal Transportation Agency	Nonmajor Governmental Funds	42,072
	Water Department Fund	1,903
		43,975
Total		$ 118,802

Due to/from primary government and component units:

Receivable Entity	Payable Entity	Amount
Primary government - governmental	Component unit - SF Redevelopment Agency	$ 849

Transfers In (in thousands):

Transfers Out: Funds	General Fund	Nonmajor Governmental	Internal Service Funds	Muncipal Transportation Agency	San Francisco General Hospital	Laguna Honda Hospital	Total
General fund	$ -	$ 47,236	$ 255	$ 134,022	$ 63,950	$ 31,853	$ 277,316
Nonmajor governmental funds	26,372	33,797	-	119,367	-	-	179,536
San Francisco International Airport	18,161	-	-	-	-	-	18,161
Hetch Hetchy	-	489	-	-	-	-	489
Municipal Transportation Agency	-	346	-	-	-	-	346
San Francisco General Hospital	69,385	1,158	-	-	-	-	70,543
Clean Water	-	143	-	-	-	-	143
Laguna Honda Hospital	7,573	-	-	-	-	-	7,573
Total transfers out	$ 121,491	$ 83,169	$ 255	$ 253,389	$ 63,950	$ 31,853	$ 554,107

The $277.3 million General Fund transfer out includes a total of $229.8 million in operating subsidies to Municipal Railway, General Hospital Medical Center, and Laguna Honda Hospital (note 11). The transfers of $47.2 million from the General Fund to the nonmajor governmental funds is to provide support to various City programs such as the public library and community health services. 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 $69.4 million from General Hospital Medical Center as reimbursement for the SB 855 matching program (note 11(g)), $18.2 million from the San Francisco International Airport, representing a portion of concession revenue (note 11(a)), and $7.6 million transferred from Laguna Honda Hospital for prior year Tobacco Tax reimbursement.

(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	
2005	$ 28,363
2006	24,735
2007	20,659
2008	17,425
2009	8,263
2010-2014	11,293
Total	$ 110,738

Business-type Activities

Fiscal Years	San Francisco International Airport	Municipal Transportation Agency	General Hospital Medical Center	Total Business-type Activities
2005	$ 5,237	$ 4,228	$ 3,763	$ 13,228
2006	5,512	1,651	1,718	8,881
2007	5,741	1,027	1,036	7,804
2008	5,741	802	340	6,883
2009	4,631	803	180	5,614
2010-2014	-	334	-	334
2015-2019	-	177	-	177
2020-2024	-	147	-	147
2025-2029	-	121	-	121
2030-2034	-	36	-	36
Total	$ 26,862	$ 9,326	$ 7,037	$ 43,225

Component Unit - Redevelopment Agency

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

Fiscal Years	
2005...............	$ 2,280
2006...............	1,197
2007...............	838
2008...............	846
2009...............	854
2010-2014........	4,267
2015-2019........	4,267
2020-2024........	4,267
2025-2029........	4,267
2030-2034........	4,267
2035-2039........	4,267
2040-2044........	4,267
2045-2049........	4,267
2050...............	854
Total...............	$ 41,005

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	
2005...............	$ 1,206
2006...............	1,057
2007...............	725
2008...............	476
2009...............	445
2010-2014........	2,360
2015-2019........	2,281
2020-2024........	340
2025-2029........	130
2030-2034........	25
Total...............	$ 9,045

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	General Hospital Medical Center	Municipal Transportation Agency	Market Corp	Total Business-type Activities
2005........	$ 63,713	$ 27,311	$ 1,884	$ 2,674	$ 891	$ 96,473
2006........	57,266	23,530	1,950	2,390	856	85,992
2007........	50,856	21,173	1,991	2,147	774	76,941
2008........	50,095	19,719	2,033	1,891	475	74,213
2009........	26,925	17,941	2,077	1,747	379	49,069
2010-2014	36,099	73,136	2,123	4,010	1,707	117,075
2015-2019	-	59,672	-	-	-	59,672
2020-2024	-	51,155	-	-	-	51,155
2025-2029	-	44,404	-	-	-	44,404
2030-2034	-	41,916	-	-	-	41,916
2035-2039	-	34,583	-	-	-	34,583
2040-2044	-	21,007	-	-	-	21,007
2045-2049	-	17,437	-	-	-	17,437
2050-2054	-	8,020	-	-	-	8,020
2055-2059	-	7,023	-	-	-	7,023
2060-2064	-	7,023	-	-	-	7,023
2065-2069	-	3,903	-	-	-	3,903
Total........	$ 284,954	$ 478,953	$ 12,058	$ 14,859	$ 5,082	$ 795,906

Component Unit - 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	
2005................	$ 3,016
2006................	2,900
2007................	2,839
2008................	2,839
2009................	2,843
2010-2014.........	14,753
2015-2019.........	15,368
2020-2024.........	14,454
2025-2029.........	14,982
2030-2034.........	16,029
2035-2039.........	17,151
2040-2044.........	18,427
2045-2049.........	9,160
2050-2054.........	555
2055-2059.........	365
2060-2064.........	325
2065-2069.........	302
2070-2074.........	250
2075-2079.........	178
2080-2084.........	150
2085-2089.........	150
2090-2094.........	150
2095-2097.........	98
Total................	$ 137,284

(c) Other Lease Commitments

The City is making lease payments to the Agency for the Moscone Convention Center in the amount of approximately $14 million per year through July 1, 2025. 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. 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
2005	$ 6,758	$ 645	$ 7,403
2006	18,741	424	19,165
2007	18,744	65	18,809
2008	19,441	-	19,441
2009	19,510	-	19,510
2010-2014	98,708	-	98,708
2015-2019	98,414	-	98,414
2020-2024	16,744	-	16,744
2025-2026	2,956	-	2,956
Total minimum lease payments	300,016	1,134	301,150
Less amounts representing interest	(106,298)	(37)	(106,335)
Present value of maximum lease payments	$ 193,718	$ 1,097	$ 194,815

(d) Other Commitments

The Retirement System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $904 million at June 30, 2004.

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, 2004, the City contributed approximately $8.6 million to the PCJPB. This is paid by MTA from the subsidy transfer it receives from the City.

(16) RISK MANAGEMENT

Risk Retention Program Description

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

The City maintains limited excess coverage for certain facilities. The SFO carries liability insurance coverage of $750 million and commercial property insurance coverage for full replacement value on all facilities owned by the SFO. The SFO does not carry insurance for losses due to seismic activity. The

SFO is self-insured for general liability up to the first $10,000 and the SFO carries liability insurance for any amounts in excess of $10,000. The Port carries commercial insurance for all general liability, property and casualty risks of loss. 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 $15 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 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, 2004 has been actuarially determined and includes an estimate of incurred but not reported losses. In addition, various businesses in the City had filed suit in California Superior Court challenging the constitutionality of the City Gross Receipts and Payroll Expense Tax Ordinances. The majority of these suits have been settled for approximately $63 million. The City has issued debt to pay off this liability over 10 years. A few remaining unsettled claims may be settled over the next 12 months and funds are included in the City's estimated claims payable to cover these expected expenses.

Changes in the reported estimated claims payable since June 30, 2002, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2002-2003	$ 86,731	$ 35,793	$ (29,220)	$ 93,304
2003-2004	$ 93,304	$ 71,967	$ (37,835)	$ 127,436

Breakdown of the estimated claims payable at June 30, 2004 is as follows (in thousands):

Governmental activities:	
Current portion of estimated claims payables	$ 19,881
Long-term portion of estimated claims payable	59,924
Business-type activities:	
Current portion of estimated claims payables	15,463
Long-term portion of estimated claims payable	32,168
Total	$ 127,436

The Retirement System is involved in two class action type lawsuits which are collectively referred to as "Final Compensation" cases. These lawsuits allege that the Retirement System should include additional "pay types" in pension calculations. The most significant pay types common to all members of the Retirement System are lump sum payments after termination of employment for sick leave and vacation. The police, fire, and transit employees have additional claims for special pay types specific to those employee groups. There is also a new lawsuit against the Retirement System by the Veteran Police Officers Association (VPOA) that alleges that the Retirement System should include Police Officers' Standards Training (POST) pay in pension calculations for those police officers who retired prior to the creation of the POST ranks. These cases are being vigorously contested. The City Attorney has sought outside counsel to help defend the claims. The possible loss to the Retirement System, should these cases be successful, while difficult to estimate, could range between $500 million and $750 million. The actual loss could exceed this range. No liability has been accrued by the City relating to these lawsuits as of June 30, 2004.

Workers' Compensation

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2004 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, 2004 was $397.1 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, 2002, resulted from the following activity (in thousands):

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2002-2003	$ 304,181	$ 127,008	$ (66,933)	$ 364,256
2003-2004	$ 364,256	$ 108,177	$ (75,307)	$ 397,126

Breakdown of the accrued workers' compensation liability at June 30, 2004 is as follows (in thousands):

Governmental activities:	
Current portion of accrued workers' compensation liability	$ 45,138
Long-term portion of accrued worker's compensation liability	168,492
Business-type activities:	
Current portion of accrued workers' compensation liability	40,108
Long-term portion of accrued worker's compensation liability	143,388
Total	$ 397,126

(17) SUBSEQUENT EVENTS (UNAUDITED)

Short-term Debt

In August 2004, the Water Department issued an additional $25 million of commercial paper notes to fund capital projects associated with Proposition A, which passed in November 2002 to support the renovation of the water system. As of that date, the commercial paper program had a weighted average interest rate of 1.2% and a weighted average term of 112 days.

In September 2004, the San Francisco County Transportation Authority issued the second tranche of $100 million of the programmed $200 million aggregate principal amount of Commercial Paper Notes (Limited Tax Bonds), Series A and B. In September 2004, the Authority entered into a loan agreement with MUNI in the amount of $22.6 million and authorized a draw against the loan of $12 million for reimbursement of construction costs for the Metro East Maintenance Facility of the Third Street Light Rail Project.

Long-term Debt

In July 2004, the City issued Refunding Certificates of Participation, Series 2004-R1 (San Francisco Courthouse Project) in the amount of $39.4 million. The Series 2004-R1 were issued to provide funds to refinance an existing City courthouse building located at 400 McAllister Street in the City by refunding in whole a series of certificates of participation executed and delivered to finance the construction, furnishing and equipping of said building, $40.6 million of which are currently outstanding. The Series 2004-R1 bonds have interest rates ranging from 3.0% to 4.5% and mature April 2007 through April 2021. The refunding resulted in gross debt service savings of $7.4 million.

In August 2004, the Port issued Refunding Revenue Bonds, Series 2004 in the amount of $19.9 million. The 2004 Bonds were issued to provide funds to refund and redeem all $23.2 million in aggregate principal amount of the Port's outstanding Refunding Revenue Bonds, Series 1994. The Series 2004 Bonds have interest rates ranging from 2.25% to 4.0% and mature July 2005 through July 2009. The Series 2004 Bonds are secured by revenues of the Port. The refunding resulted in gross debt service savings of $5.2 million.

In October 2004, the City issued a total of $76.9 million in General Obligation Bonds. They consist of the following two bonds: $68.8 million Neighborhood Recreation and Park Facilities Improvement Bonds, Series 2004A and $8.1 million California Academy of Sciences Improvement Bonds, Series 2004B. The 2004A Bonds will finance the acquisition, construction, and reconstruction of certain improvements to recreation and park facilities. The 2004B will finance the acquisition, construction, and reconstruction of certain improvements to the California Academy of Sciences.

Elections

On November 2, 2004 the San Francisco voters approved the following propositions that will have fiscal impact on the City:

Proposition C – Health Service System This Charter amendment removes the Health Service System from the Department of Human Resources and makes it a separate City department. There is no immediate fiscal impact on the City. However, the amendment may affect costs in that it changes the composition of the Health Service Board, which oversees City employee and retiree health benefits, from a majority of members who are appointed by City officers to a majority of members who are elected from among the beneficiaries of the system.

Proposition E – Police Fire Survivor Benefits This Charter amendment provides that when a police officer or firefighter dies in the line of duty, his or her survivor receives 100% of the retirement benefits, regardless of when the officer or firefighter was hired. Formerly, if the police officer or firefighter was hired after 1976, the survivor received 75% of the retirement benefits. The cost to the City and County will increase, as estimated by the Retirement System Actuary, by approximately $1.0 million per year, approximately .05% of payroll at current rates, for the next 20 years.

Proposition G – Health Plans for City Residents This Charter amendment authorizes the Health Service Board, by a two-thirds vote of its members, to establish medical and dental plans for City residents, in addition to the other plans currently available to City employees and retirees. This measure does not require the City to pay any portion of the cost of these plans. However, the cost to research, establish and fund any health plan that would offer coverage to City residents could be significant.

Proposition I – Economic Analysis of Legislation This ordinance creates an Office of Economic Analysis that would employ two staff economists. This Office would analyze proposed City legislation and report on the likely impact of the legislation on the City's ability to attract and retain businesses, create and retain jobs, and other matters affecting the overall economic health of the City. The salary and fringe benefit cost of staff economists can be expected to be approximately $250,000 annually depending on the qualifications desired. It is also estimated that the cost of preparing a required economic development plan and funding for survey and research work can be at least an additional $250,000 per year.

Proposition AA – Bart Earthquake Safety Bond This authorizes the San Francisco Bay Area Rapid Transit District to issue bonds not to exceed $980 million dollars to make earthquake safety improvements to BART facilities in Contra Costa, San Francisco and Alameda Counties, including strengthening tunnels, bridges, overhead tracks and the underwater Transbay tube, and establish an independent citizens' oversight committee to verify bond revenues are spent as promised.

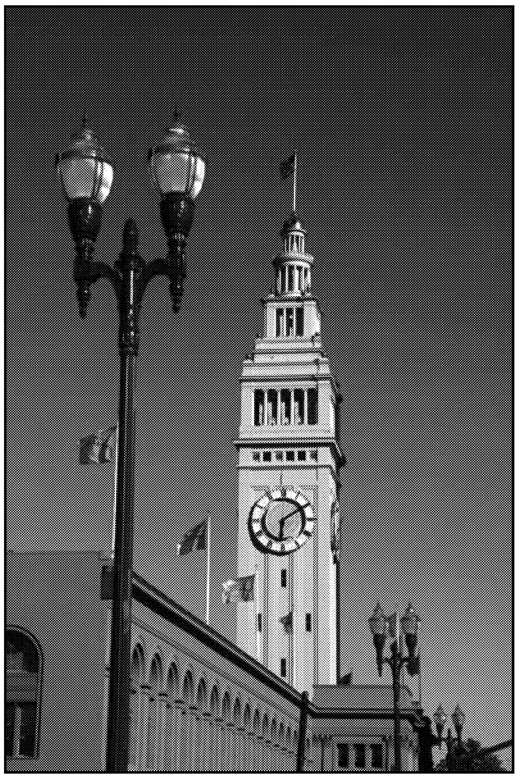
On November 2, 2004 the San Francisco voters did not approve the following propositions that would have allowed the City to increase taxes to minimize budget shortfalls and maintain City Services.

Proposition J – Sales Tax Increase This was an ordinance that would have allowed the City to increase the local sales tax by ¼% (one-quarter-of-one percent) to 8 ¾%. The City would have controlled the additional tax funds and could have spent them for any public purpose. This proposed ordinance would have generated additional sales tax revenue for the City of approximately $8 million in the fiscal year which began of July 1, 2004, and total revenues of approximately $33.6 million annually beginning in fiscal year 2005-06, the first full fiscal year that the new tax rate would have been effective. Although Proposition J failed to pass, the Mayor's

Office has already begun to implement an 18-month plan to cover the funding shortfall and the Controller is controlling expenditures to ensure that no structural shortfall occurs.

Proposition K – Business Tax This was an ordinance that would have created a temporary four-year "gross receipts" tax on certain companies and individuals doing business with the City. In 2005, the City would have collected 0.1% (one-tenth-of-one percent) of gross receipts from companies and individuals doing business in the City. The gross receipts tax funds would have been used by the City for any public purpose. This proposed ordinance would have generated business tax revenues for the City of approximately $17 million in the fiscal year which began on July 1, 2004, and total revenues of approximately $43 million annually beginning in fiscal year 2005-06, the first fiscal year that the new tax rate would have been effective. Although Proposition K failed to pass, the Mayor's Office has already begun to implement an 18-month plan to cover the funding shortfall and the Controller is controlling expenditures to ensure that no structural shortfall occurs.

Required Supplementary Information



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 (amounts 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
7/1/98	7,945,707	6,351,397	1,594,310	125.1%	1,474,007	108.2%
7/1/99	8,862,168	6,430,740	2,431,428	137.8%	1,591,240	152.8%
7/1/00	10,076,469	7,258,394	2,818,075	138.8%	1,727,127	163.2%
7/1/01	10,797,024	8,371,843	2,425,181	129.0%	1,858,565	130.5%
7/1/02	11,102,516	9,415,905	1,686,611	117.9%	2,019,097	83.5%
7/1/03	11,173,636	10,249,896	923,740	109.0%	2,130,071	43.4%

California Public Employees' Retirement System - Analysis of Funding Progress

Historical trend information is presented.

Schedule of funding progress for PERS (amounts 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
06/30/96:						
Misc.	$ 20,901	$ 19,615	$ 1,286	106.6%	$ 1,171	109.8%
Safety	214,416	196,124	18,292	109.3%	54,673	33.5%
Total	$ 235,317	$ 215,739	$ 19,578	109.1%	$ 55,844	35.1%
06/30/97:						
Misc.	$ 25,017	$ 19,882	$ 5,135	125.8%	$ 1,119	458.9%
Safety	275,556	219,726	55,830	125.4%	54,708	102.1%
Total	$ 300,573	$ 239,608	$ 60,965	125.4%	$ 55,827	109.2%
06/30/98:						
Misc.	$ 28,215	$ 20,914	$ 7,301	134.9%	$ 1,149	635.4%
Safety	337,060	260,893	76,167	129.2%	57,834	131.7%
Total	$ 365,275	$ 281,807	$ 83,468	129.6%	$ 58,983	141.5%
06/30/99:						
Misc.	$ 30,355	$ 21,042	$ 9,313	144.3%	$ 1,123	829.3%
Safety	381,063	290,509	90,554	131.2%	55,633	162.8%
Total	$ 411,418	$ 311,551	$ 99,867	132.1%	$ 56,756	176.0%
06/30/00:						
Misc.	$ 32,572	$ 22,430	$ 10,142	145.2%	$ 1,079	939.9%
Safety	423,369	330,118	93,251	128.2%	58,775	158.7%
Total	$ 455,941	$ 352,548	$ 103,393	129.3%	$ 59,854	172.7%
06/30/01:						
Misc.	$ 32,773	$ 22,031	$ 10,742	148.8%	$ 1,087	988.2%
Safety	445,005	358,626	86,379	124.1%	63,581	135.9%
Total	$ 477,778	$ 380,657	$ 97,121	125.5%	$ 64,668	150.2%

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Restated)

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE			
Direct Program:			
Summer Food Service Program for Children	10.559	$ 628,621	$ -
Sub-Total of Direct Program		628,621	-
Pass-Through Program, State Department of Aging:			
Nutrition Services Incentive	10.570	564,974	564,974
Pass-Through Programs, State of California, Department of Social Services:			
Food Stamp Cluster:			
Food Stamps	10.551	32,653,522	-
State Administrative Matching Grants for Food Stamp Program	10.561	16,774,152	2,384,111
Sub-Total of Food Stamps Cluster		49,427,674	2,384,111
Pass-Through Program, State of California, Department of Health and Human Services:			
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	2,050,039	-
Sub-Total of Pass-Through Programs		52,042,687	2,949,085
TOTAL U.S. DEPARTMENT OF AGRICULTURE		52,671,308	2,949,085
U.S. DEPARTMENT OF COMMERCE			
Direct Programs:			
Economic Adjustment Assistance	11.307	131,000	-
Coastal Zone Management Administration Awards	11.419	102,500	-
Technology Opportunities Program	11.552	251,352	-
Sub-Total of Direct Programs		484,852	-
TOTAAL U.S. DEPARTMENT OF COMMERCE		484,852	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct Programs:			
Community Development Block Grants/Entitlement Grants	14.218	26,440,493	14,597,805
Emergency Shelter Grants Program	14.231	856,012	821,368
Supportive Housing Program	14.235	8,450,233	7,134,337
Shelter Plus Care	14.238	3,828,491	3,523,858
HOME Investment Partnerships Program	14.239	6,897,223	219,990
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	19,000	-
Community Development Block Grants-Section 108 Loan Guarantees	14.248	2,297,853	-
Resident Opportunity and Supportive Services	14.870	98,550	98,550
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	366,614	-
Sub-Total of Direct Programs		49,254,469	26,395,908
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT		49,254,469	26,395,908

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

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Restated)

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF JUSTICE			
Direct Programs:			
Juvenile Accountability Incentive Block Grants	16.523	473,936	
Supervised Visitation, Safe Havens for Children	16.527	257,896	-
Missing Children's Assistance	16.543	841,370	-
Gang-Free Schools and Communities-Community-Based Gang Intervention	16.544	42,135	-
Local Law Enforcement Block Grants Program	16.592	1,850,200	786,827
Executive Office for Weed and Seed	16.595	62,064	-
State Criminal Alien Assistance Program	16.606	1,268,857	-
Bulletproof Vest Partnership Program	16.607	5,297	-
Community Prosecution and Project Safe Neighborhoods	16.609	115,493	-
Public Safety Partnership and Community Policing Grants	16.710	2,988,822	-
Sub-Total of Direct Programs		7,906,070	786,827
Pass-Through Programs, State of California, Office of Criminal Justice Planning:			
Developing, Testing and Demonstrating Promising New Programs	16.541	5,264	-
Crime Victim Assistance	16.575	213,897	-
Violent Offender Incarceration and Truth in Sentencing Incentive Grant	16.586	12,059,985	-
Violence Against Women Formula Grants	16.588	208,662	-
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	345,159	-
Forfeiture Assets	Not Available	586,990	-
Sub-Total of Pass-Through Programs		13,419,957	-
TOTAL U.S. DEPARTMENT OF JUSTICE		21,326,027	786,827
U.S. DEPARTMENT OF LABOR			
Pass-Through Programs, State of California, Employment Development Department:			
Welfare-to-Work Grants to States and Localities	17.253	170,503	-
Workforce Investment Act (WIA) Cluster:			
WIA Adult Program	17.258	169,796	56,568
WIA Youth Activities	17.259	154,814	62,042
WIA Dislocated Workers	17.260	174,790	63,867
Sub-Total of Workforce Investment Act Cluster		499,400	182,477
Employment & Training Administration Pilots, Demonstrations, and Research Projects	17.261	651,161	565,898
Youth Opportunity Grants	17.263	200,670	-
Sub-Total of Pass-Through Programs		1,521,734	748,375
TOTAL U.S. DEPARTMENT OF LABOR		1,521,734	748,375
U.S. DEPARTMENT OF TRANSPORTATION			
Direct Programs:			
Airport Improvement Program	20.106	26,605,813	-
Federal Transit Cluster:			
Federal Transit-Capital Investment Grants	20.500	21,072,292	-
Federal Transit-Formula Grants	20.507	71,536,898	2,486,403
Sub-Total of Federal Transit Cluster:		92,609,190	2,486,403
Job Access-Reverse Commute	20.516	229,953	-
Maritime Security Fleet Program	20.813	98,915	-
Sub-Total of Direct Programs		119,543,871	2,486,403

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

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Restated)

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF TRANSPORTATION (Continued)			
Pass-Through Program, State of California, Department of Transportation:			
Highway Planning and Construction	20.205	8,596,568	-
Pass-Through Program, State of California, Office of Traffic Safety:			
State and Community Highway Safety	20.600	360,216	-
Sub-Total of Pass-Through Programs		8,956,784	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION		128,500,655	2,486,403
U.S. ENVIRONMENTAL PROTECTION AGENCY			
Direct Program:			
Beach Monitoring and Notification Program Implementation Grants	66.472	48,677	-
Sub-Total of Direct Program		48,677	-
Pass-Through Programs, State of California, State Water Control Resources Board:			
Leaking Underground Storage Tank Trust Fund Program	66.805	453,162	-
Solid Waste Management Assistance	66.808	11,513	-
Sub-Total of Pass-Through Programs		464,675	-
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY		513,352	-
OFFICE OF ENERGY EFFICIENCY AND RENEWABLE ENERGY, U.S. DEPARTMENT OF ENERGY			
Pass-Through Program, State Office of Emergency Services:			
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	96,796	-
TOTAL OFFICE OF ENERGY EFFICIENCY AND RENEWABLE ENERGY, U.S. DEPARTMENT OF ENERGY		96,796	-
U.S. DEPARTMENT OF EDUCATION			
Direct Program:			
Literacy Programs for Prisoners	84.255	391,156	-
TOTAL U.S. DEPARTMENT OF EDUCATION		391,156	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Programs:			
Special Programs for the Aging-Title III, Part D-Disease Prevention and Health Promotion Services	93.043	55,421	-
National Family Caregiver Support	93.052	416,838	416,838
Injury Prevention and Control Research and State and Community Based Programs	93.136	25,458	-
Consolidated Knowledge Development and Application (KD&A) Program	93.230	3,091,397	2,758,914
Mental Health Research Grants	93.242	19,297	-
Substance Abuse and Mental Health Services-Projects of Regional and National Significance	93.243	2,025,690	611,980
Occupational Safety and Health Research Projects	93.262	3,457	-
Alcohol Research Programs	93.273	38,542	-
Drug Abuse Research Programs	93.279	322,260	91,905

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (Continued)			
Centers for Disease Control and Prevention-Investigations and Technical Assistance	93.283	1,863,991	-
Adoption Opportunities	93.652	212,316	163,985
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	22,585	22,585
Child Health and Human Development Extramural Research	93.865	19,800	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	95,725	-
HIV Prevention Activities-Health Department Based	93.940	10,745,064	5,418,396
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	1,573,086	142,808
Preventive Health Services-Sexually Transmitted Diseases Research, Demonstrations, and Public Information and Education Grants	93.978	77,662	-
Sub-Total of Direct Programs		20,608,589	9,627,411
Pass-Through Programs, State of California, Department of Aging:			
State and Territorial and Technical Assistance Capacity Development Minority HIV/AIDS Demonstration Program	93.006	569,765	517,806
Special Programs for the Aging-Title VII, Chapter 3-Programs for Prevention of Elder Abuse, Neglect and Exploitation	93.041	6,284	5,616
Special Programs for the Aging-Title VII, Chapter 2-Long Term Care Ombudsman Services for Older Individuals	93.042	287,812	30,171
Special Programs for the Aging Cluster:			
Special Programs for the Aging-Title III, Part B-Grants for Supportive Services and Senior Centers	93.044	1,036,951	1,036,951
Special Programs for the Aging-Title III, Part C-Nutrition Services	93.045	1,645,083	1,645,083
Sub-Total of Special Programs for the Aging Cluster		2,682,034	2,682,034
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	543,981	129,650
Pass-Through Programs, State of California, Department of Health and Human Services:			
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	4,321,983	1,979,858
Oral Diseases and Disorders Research	93.121	1,137	-
Community Programs to Improve Minority Health Grant Program	93.137	641,619	232,922
Projects for Assistance in Transition from Homelessness (PATH)	93.150	244,365	-
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	80,138	-
Immunization Grants	93.268	488,680	153,282
Grants to States for Access and Visitation Programs	93.597	86,997	-
Medical Assistance Program	93.778	26,082,985	671,779
Aging Research	93.866	54,480	-
HIV Emergency Relief Project Grants	93.914	33,993,959	26,920,505
HIV Care Formula Grants	93.917	1,432,092	236,107
HIV Demonstration, Research, Public and Professional Education Projects	93.941	310,466	266,982
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	293,437	-
Assistance Programs for Chronic Disease Prevention and Control	93.945	1,302,973	810,502
Preventive Health Services- Sexually Transmitted Diseases Control Grants	93.977	2,743,842	612,283
Preventive Health and Health Services Block Grant	93.991	2,368,191	-
Maternal and Child Health Services Block Grant to the States	93.994	1,736,986	453,174

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)
FOR THE FISCAL YEAR ENDED JUNE 30, 2004
(Restated)

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Federal Expenditures	Amount Provided to Subrecipients
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	475,469	475,469
Temporary Assistance for Needy Families	93.558	61,308,539	19,300,767
Child Support Enforcement	93.563	19,454,208	-
Refugee and Entrant Assistance-State Administered Programs	93.566	454,540	454,540
Child Care and Development Block Grant	93.575	9,177,971	9,177,971
Refugee and Entrant Assistance-Discretionary Grants	93.576	210,279	210,279
Refugee and Entrant Assistance-Targeted Assistance Grants	93.584	409,546	409,546
Community-Based Family Resource and Support Grants	93.590	17,669	17,669
Adoption Incentive Payments	93.603	126,031	126,031
Child Welfare Services-State Grants	93.645	525,659	-
Foster Care-Title IV-E	93.658	35,714,917	159,170
Adoption Assistance	93.659	6,782,587	233,794
Social Services Block Grant	93.667	992,101	-
Chafee Foster Care Independent Living	93.674	747,805	605,304
Pass-Through Programs, State of California, Department of Alcohol and Drug Programs:			
Drug-Free Communities Support Program Grants	93.276	74,256	-
Block Grants for Community Mental Health Services	93.958	4,177,554	1,986,076
Pass-Through Program, State of California, Department of Mental Health:			
Block Grants for Prevention and Treatment of Substance Abuse	93.959	10,468,212	10,053,264
Pass-Through Programs, San Francisco Community Clinic Consortium:			
Consolidated Health Centers Cluster:			
Health Center Grants for Homeless Populations	93.151	561,511	-
Community Health Centers	93.224	13,070	-
Sub-Total of Consolidated Heatlh Centers Cluster		574,581	-
Pass-Through Programs, California Family Planning Council			
Family Planning Services	93.217	460,952	8,749
Family Violence Prevention and Services/Grants for Battered Women's Shelters-Grants to States and Indian Tribes	93.671	4,819	-
Pass-Through Program, University of California, San Francisco:			
Microbiology and Infectious Diseases Research	93.856	1,096,288	382,956
Sub-Total of Pass-Through Programs		233,528,189	79,304,256
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES		254,136,778	88,931,667
U.S. DEPARTMENT OF HOMELAND SECURITY			
Direct Programs:			
One-Time Projects	97.001	147,043	-
Urban Areas Security Initiative	97.008	14,908	-
Assistance to Firefighters Grant	97.044	244,022	-
Port Security Grant Program for Critical National Seaports	97.056	238,219	-
Sub-Total of Direct Programs		644,192	-
Pass-Through Programs, State of California, Governor's Office of Emergency Services:			
State Domestic Preparedness Equipment Support Program	97.004	442,145	-
State and Local Homeland Security Training Program	97.005	12,883	-
Public Assistance Grants	97.036	218,151	-
State and Local All Hazard Emergency Operations Planning	97.051	40,518	-
Citizens Corps	97.053	1,247	-
Sub-Total of Pass-Through Programs		714,944	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY		1,359,136	-
TOTAL EXPENDITURES OF FEDERAL AWARDS		$ 510,256,263	$ 122,298,265

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

SINGLE AUDIT REPORTS

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE FISCAL YEAR ENDED JUNE 30, 2004

1. GENERAL

The schedule of expenditures of federal awards (Schedule) includes the federal grant activity of the City and County of San Francisco (the City). All federal awards received directly from federal agencies as well as federal awards passed through other governmental and educational agencies are included in this Schedule except for assistance related to Medical Assistance (Medical) and Medicare Hospital Insurance (Medicare) (Note 5).

The basic financial statements include the operations of the San Francisco Redevelopment Agency (Agency) and the San Francisco County Transportation Authority, which expended $10,106,058 and $458,774, respectively, in federal awards that are not included in the accompanying Schedule for the fiscal year ended June 30, 2004. 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.

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 $32,653,522the fiscal year ended June 30, 2004, 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. RESTATEMENT

The City inadvertently excluded $12,059,985 of expenditures related to the Violent Offender Incarceration and Truth in Sentencing Incentive Grant (CFDA number 16.586) from the original Schedule. The Schedule has been restated to include such expenditures.

8. 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 programs. The schedule below reports the outstanding balance of loans from previous years that have continuing compliance requirements as of June 30, 2004 along with the value of total outstanding and new loans made during the current year.

The following is a summary of the loan programs maintained by the City and their balances at June 30, 2004:

Program Title	CFDA Number	Amount Outstanding	Prior year loans with continuing compliance requirements	New Loans
Economic Adjustment Assistance	11.307	$ 850,003	$ 719,003	$ 131,000
Community Development Block Grants/ Entitlement Grants	14.218	108,696,964	104,735,503	3,961,461
Community Development Block Grant/Technical Assistance Program	14.227	5,467,792	5,467,792	-
Home Investment Partnerships Program	14.239	61,153,927	56,124,692	5,029,235
Community Development Block Grants – Section 108 Loan Guarantees	14.248	8,358,740	8,224,472	134,268
		$184,527,426	$175,271,462	$9,255,964

Included in the loan receivable amount outstanding are expenditures related to new loans issued during fiscal year 2003-04. The City incurred $9,255,964 in expenditures related to new loans under the programs mentioned above.

9. 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-Capital Investment Grants	20.500	$ 21,072,292
Federal Transit-Formula Grants	20.507	71,536,898
Job Access-Reverse Commute	20.516	229,953
State and Local Homeland Security Training Program	97.005	12,883
		$ 92,852,026

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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 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, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 30, 2004, except for Note 7 to the schedule of expenditures of federal awards, which is dated April 24, 2008. We did not audit the financial statements of the San Francisco International Airport, Water Department, Hetch Hetchy Water and Power, San Francisco Municipal Railway, the Parking Garage Corporations, Clean Water Program, Port of San Francisco, City of 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 as of and for the year ended June 30, 2004:

Opinion Unit	Assets	Net Assets/ Fund Balances	Revenues
Governmental activities	0.8%	16.6%	-
Business-type activities	97.5%	97.6%	73.4%
Discretely presented component units	99.7%	100.0%	93.0%
Municipal Transportation Agency enterprise fund	96.7%	100.0%	91.5%
Aggregate remaining fund information	90.8%	94.4%	43.2%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinion, insofar as it relates to the amounts included for those entities, is based on the reports of the other auditors. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving internal control over financial reporting, which we have reported to management of the City in a separate letter dated November 30, 2004.

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.*

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
November 30, 2004

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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 (the City) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 *Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2004. 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), San Francisco Municipal Railway (MUNI), and the San Francisco County Transportation Authority (Authority), which expended $10,106,058, $92,852,026 and $458,774, respectively, in federal awards. The expenditures of the Agency and the Authority are not included in the schedule of expenditures of federal awards for the fiscal year ended June 30, 2004. MUNI's expenditures are included in the schedule of federal awards for the fiscal year ended June 30, 2004. Our audit, described below, did not include the operations of the Agency, MUNI, and the Authority 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*, and we reported on the Authority as a separate engagement. 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 on the City's compliance with those requirements.

As described in item 2004-01, in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding airport revenue diversion special test and provision that is applicable to its Airport Improvement Program (CFDA No. 20.106). Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

In our opinion, based on our audit and the report of other auditors, 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 fiscal year ended June 30, 2004. The results of our auditing procedures also disclosed 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 2004-02, 2004-03, 2004-04, 2004-05, 2004-06, 2004-07, 2004-08 and 2004-09.

Internal Control Over Compliance

The management of the City is responsible for establishing and maintaining effective internal control over compliance with 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 requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 2004-01, 2004-02, 2004-03, 2004-06, 2004-07 and 2004-09.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of law, regulations, contracts, and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Of the reportable conditions in internal control over compliance described in the accompanying schedule of findings and questioned costs, we consider item 2004-09 to be a material weakness.

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
January 21, 2005, except for the expenditures of federal awards of the San Francisco Municipal Railway, which is dated March 15, 2005 and the expenditures of the Violent Offender Incarceration and Truth in Sentencing Incentive Grant (CFDA number 16.586), which is dated April 24, 2008

SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
SUMMARY OF AUDITOR’S RESULTS
FINDINGS RELATED TO FINANCIAL STATEMENTS
FINDINGS AND QUESTIONED COSTS RELATED TO FEDEARL AWARDS

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
• Reportable conditions identified that are not considered to be material weaknesses	No
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	Yes
• Reportable conditions 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:

Food Stamp Cluster	10.551 & 10.561
Community Development Block Grants/Entitlement Grants	14.218
Supportive Housing Program	14.235
Shelter Plus Care	14.238
State Criminal Alien Assistance Program	16.606
Violent Offender Incarceration and Truth-In Sentencing Grant	16.586
Airport Improvement Program	20.106
Federal Transit Cluster	20.500 & 20.507
Centers for Disease Control and Prevention – Investigations and Technical Assistance	93.283
Temporary Assistance for Needy Families	93.558
Foster Care – Title IV-E	93.658
Adoption Assistance	93.659
Social Services Block Grant	93.667
Chafee Foster Care Independent Living	93.674
Medical Assistance Program	93.778
HIV Emergency Relief Project Grants	93.914
HIV Prevention Activities – Health Department Based	93.940
Block Grants for Prevention and Treatment of Substance Abuse	93.959

Dollar threshold used to distinguish between Types A and B programs:	$3,000,000
Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133:	No

Section II – Financial Statement Findings

No matters were reported.

Section III – Federal Award Findings and Questioned Costs

Finding No. 2004-01 – Airport Improvement Program (20.106)
Special Tests and Provisions

Criteria:

In accordance with OMB Circular A-133, Airport Improvement Program Special Tests and Provisions and *Polices and Procedures Concerning the Generation and Use of Airport Revenue* (FAA Guidelines), revenues generated by a public airport must be expended for the capital or operating costs of the airport, the local airport system, or other local facilities which are owned or operated by the owner or operator of the airport and are directly and substantially related to the actual air transportation of passengers or property. Pursuant to Section VI (A) of the FAA Guidelines,

> *Revenue diversion is the use of airport revenue for purposes other than capital or operating costs of the airport, the local airport system, or other local facilities owned or operated by the airport owner or operator and directly and substantially related to the air transportation of passengers or property, unless that use is grandfathered under 49 USC § 47107(b)(2) and the use does not exceed the limits of the "grandfather" clause. When such use is so grandfathered, it is known as lawful revenue diversion. Unless the revenue diversion is grandfathered, the diversion is unlawful and prohibited by the revenue-use restrictions.*

In addition, documentary evidence to support direct and indirect charges to the airport must show the amounts claimed were actually expended and budgeted estimates are not sufficient to establish a claim for reimbursement.

Condition:

In 1981, the City executed a Lease and Use/Settlement Agreement (the Settlement Agreement) with the airlines which provides for continuing annual service payments from the San Francisco International Airport (the Airport) to the City equal to 15% of concession revenues (net of certain adjustments) or $6 million per year from 1982 through 1985 and $5 million per year thereafter, whichever is greater. These payments are meant as reimbursement to the City for certain allowable indirect services provided to the Airport. The Agreement also provides for the payment for certain direct services provided by the City to the Airport. The direct services permitted under the Agreement are illustrated in the terms and conditions of the Agreement.

Since the Agreement was entered into prior to the enactment of the Airport and Airway Improvement Act of 1982 (the Act), which established the FAA's policies regarding the use of airport revenues, it is considered to be grandfathered under the revenue use requirement of the Act. During the fiscal year ended June 30, 2004, the Office of Inspector General (OIG) of the U.S. Department of Transportation initiated a review of the City's compliance with the FAA Guidelines with regards to revenue diversion. In August 2004, the City responded to the OIG review in an effort to resolve this matter. The resolution of this matter will assist in clarifying whether the City is allowed to bill for indirect costs of direct services. For example, during our testing, we noted that certain City departments (Controller's Office and Department of Public Works) charged approximately $24,149 of departmental indirect costs. These indirect costs include professional development and leave allocations and bureau overhead allocations associated with the direct services rendered. Currently, the OIG finds that the Settlement Agreement only allows the City to charge the Airport the *direct costs* of providing *direct services* versus the City's view that if the City service qualifies as "direct" within the meaning of the Settlement Agreement, *all* of its costs may be charged to the Airport if they otherwise meet the requirements of the 1981 Settlement Agreement.

Finding No. 2004-01 (Continued)

In addition, during our testing of revenue diversion transactions during the current year, we noted the following:

- Reimbursements for City-wide information and technology services should be made on actual expenditures of $130,176 rather than budgeted amounts of $155,675, resulting in a difference of $25,498.
- Advance payments of $13,000 were made to the Mayor's Office for youth interns scheduled to render service primarily in fiscal year 2005.

Questioned costs:

$62,647

Recommendation:

We recommend the City continue to work with the OIG and FAA to reach an agreement on the application of the Agreement to indirect costs charged to the Airport. In addition, the Airport should improve its controls over its review of interdepartmental charges to ensure that they are for goods or services actually incurred and are supported. Furthermore, the City departments should provide the Airport with documentation to support actual costs incurred and the Airport should adjust payments to the City based on the actual costs.

Management Response and Corrective Action Plan:

The City intends to continue working with the OIG and FAA with regard to the application of the City's 1981 Settlement Agreement with the Airlines, which was grandfathered in its entirety under the FAA's Final Policy in 1999.

The City disputes the OIG finding that, as a general matter, the City may only use charging methods consistent with the FAA's Final Policy. Instead the City relies upon the 1981 Settlement Agreement to determine charging methods, which include charging for the *costs* of providing direct services.

Regarding the Department of Public Works (DPW) questioned costs, it should be noted that unlike many municipal departments, the DPW receives no appropriation from the General Fund to cover its general operating costs. Instead, the DPW charges overhead to all departments it serves, to fully recover all operating costs. The 1981 Settlement Agreement permits the Airport to pay the DPW for the actual costs, and the overhead charges have been well documented as part of the costs of providing direct services.

Beginning immediately, expenditures for the City-wide information and technology services will be adjusted from budgeted to actual on a bi-annual basis to ensure that the year end charges reflect actual costs. Further, the Airport will review bills from Mayor's Office to ensure that scheduled services are not paid in advance.

As of July 2004, the Airport and the Controller's Office have developed new written procedures and an approval process for all work orders between City departments and the Airport. These procedures include a requirement for Airport staff and performing departments to reconcile all payments made to actual costs incurred, and also require written Memorandums of Understanding with detailed description of services to be provided. The Controller's Office will conduct periodic audits to assure that all payments are in accordance with the FAA regulations.

**Finding No. 2004-02 – Foster Care Title IV-E (93.658)
Eligibility**

Criteria:

In accordance with OMB A-133, a grantee is responsible for documenting eligibility determinations. Under the eligibility requirements of this grant, all forms used for eligibility determination should be properly re-evaluated and approved. Foster Care maintenance payments are allowable only if the foster child was removed from his or her home by means of a judicial determination or pursuant to a voluntary placement agreement, as defined in 42 USC 672(f) (42 USC 672(a) and 45 CFR section 1356.21).

Under the Foster Care guidelines, recipient eligibility should be re-certified using the following forms:

- FC 2 (Determination Form) - This process must be reviewed every six months at the time of judicial review to determine if individuals are eligible for benefits.
- Judicial Determination - This process must begin on the date the child is considered to have entered Foster Care and at least once every 12 months thereafter while the child is in Foster Care.

Condition:

During our testing of 40 participant files for compliance with eligibility requirements, we noted the following:

- One participant did not have the appropriate renewed FC 2 eligibility documentation reassessed within six months.
- One participant did not have the appropriate reassessment of the judicial determination form.
- Seven FC 2 forms did not have the required signatures from both the eligibility worker and the social worker documenting controls over eligibility determinations.

Effect:

Untimely re-determinations and missing approvals may result in inadequate determinations, thus benefits could be disbursed to ineligible participants.

Questioned Costs:

$3,810

Recommendation:

We recommend that the City strengthen its monitoring controls over the eligibility re-determination process to ensure the timely completion and maintenance of required documentation. Program staff should be held responsible for filing documentation and supervisors should review and monitor the process of adequately documenting re-determinations.

Management Response and Corrective Action Plan:

The Department of Human Services is working to fill two staff vacancies to help keep redeterminations up to date. Supervisors have been instructed to continue monitoring the monthly reports of due and overdue re-determinations with staff in their unit and individual meetings.

Regarding the one case that did not have appropriate reassessment of judicial determination form, this has been treated as a training issue, and staff have been reminded of the importance of rechecking judicial determination dates on new cases after 12 months. Staff have also been instructed to ensure all required signatures are on FC-2 forms.

Finding No. 2004-03 – Medical Assistance Program (93.778)
Eligibility

Criteria:

In accordance with OMB A-133, a grantee is responsible for documenting eligibility determinations. Under the eligibility requirements of this grant, all forms used for eligibility determination should be properly completed, approved and maintained.

Condition:

During our testing of 40 participant files for compliance with eligibility requirements, we noted the following:

- Two files were missing the Income and Eligibility Verification System (IEVS) reports,
- Three files were either missing or contained an incomplete determination, and
- Six files were missing the proper approving signatures on the applicable eligibility determination form (Form SOC 310, MC 120RV, MC 13, or MC 210).

Effect:

Incomplete and missing documentation and/or missing approvals may result in improper determinations, thus benefits could be disbursed to ineligible participants.

Questioned Costs:

Not applicable.

Recommendation:

We recommend that the City strengthen its monitoring controls over the eligibility determination process to ensure that proper eligibility has been determined and forms are completed in accordance with program guidelines. The City should obtain the appropriate documentation for the participants identified in our sample.

Management Response and Corrective Action Plan:

To strengthen quality control of the In-Home Support Services Program eligibility unit, the Department of Human Services is merging it into the Medical eligibility program structure beginning March 2005. This will provide more consistent training and management oversight that is focused on and knowledgeable about Medical program requirements.

Finding No. 2004-04 – Temporary Assistance for Needed Families (93.558)
Special Tests and Provisions

Criteria:

If the State agency responsible for administering the State plan approved under Title IV-D of the Social Security Act determines an individual is not cooperating with the State in establishing paternity, or in establishing, modifying, or enforcing a support order with respect to a child of the individual, and reports that information to the State agency responsible for Temporary Assistance for Needy Families (TANF), the State TANF agency must (1) deduct an amount equal to not less than 25% from the TANF assistance that would otherwise be provided to the family of the individual, and (2) may deny the family any TANF assistance. The U.S. Department of Health and Human Services (HHS) may penalize a State for up to 5% of the State Family Assistance Grant (SFAG) for failure to substantially comply with the required State child support program (42 USC 608(a)(2) and 609(a)(8); 45 CFR Sections 264.30 and 264.31).

Finding No. 2004-04 (Continued)

The State agency must reduce or terminate the assistance payable to the family for refusal to work subject to any good cause or other exemptions established by the State. HHS may penalize the State by an amount not less than 1% and not more than 5% of the SFAG for violation for this provision (42 USC 609(a)(14); 45 CFR Sections 261.14, 261.16, and 261.54).

Before reduction or termination of assistance occurs, the City requires that a notice of action form be sent to all participants that refuse to work or do not cooperate with child support inquiries at least 10 days before the effective date of reduction or termination.

Condition:

During the performance of our testwork over these federal compliance requirements, we noted the following:

- Out of a sample of 15 cases tested for child support non-cooperation, a notice of action form was not sent to the participants for 1 case within the required 10 days notice period.

- Out of a sample of 40 cases where benefits were reduced or terminated as a result of “Penalty for refusal to work”, 2 case files did not have notice of action forms.

Effect:

Missing or incomplete documentation may result in improper benefit determinations.

Questioned Costs:

Not applicable.

Recommendation:

We recommend the City strengthen its oversight controls over the administration of the TANF program with respect to maintaining adequate documentation of enforcing the federal requirements governing the recipient’s responsibility (1) to cooperate in establishing paternity, or in establishing, modifying, or enforcing a support order with respect to a child of the individual and (2) when making eligibility determinations and adhering to standardized formats and procedures in exchanging information.

Management Response and Corrective Action Plan:

To strengthen oversight controls, the Department of Human Services instituted an additional level of second-party case reviews in September 2004. Supervisors conduct at least 15 full-case reviews each month (out of an average 356 cases per supervisor). Further, the program quality assurance staff randomly selects three reviews per supervisor for an additional review each month.

Findings are forwarded to the Section Managers each month. The Section Managers meets with unit supervisors to address any shortcomings or patterns that have emerged.

In addition, a long-standing separate process of quality control reviews is conducted by a specialized independent unit of our Investigations Program. The results of these reviews are also forwarded to Section Managers and discussed with supervisors on a monthly basis.

**Finding No. 2004-05 – HIV Prevention Activities Health Department Based (93.940)
Federal Transit-Formula Grants (20.507)
Subrecipient Monitoring**

Criteria:

Under the requirements of the Single Audit Act and OMB Circular A-133, subrecipients of federal awards must be monitored by the primary recipient to determine whether the subrecipient has expended the awards in accordance with applicable laws and regulations. Furthermore, OMB Circular A-133 provides that, in such instances, the primary recipient should, among other things:

1. Determine whether the subrecipient has met the audit requirements of OMB Circular A-133, if applicable;
2. Determine whether the subrecipient spent federal awards provided in accordance with applicable laws and regulations; and
3. Consider various risk factors in developing subrecipient monitoring procedures such as:
    a. relative size and complexity of the federal awards administered by the subrecipient,
    b. prior experience with each subrecipient, and
    c. cost-effectiveness of various monitoring procedures.

The primary recipient's responsibilities may be discharged for subrecipients receiving federal awards of $500,000 or more by relying upon independent audits of the subrecipients, performed in accordance with OMB Circular A-133. For those subrecipients that are required to obtain single audit reports in accordance with OMB Circular A-133, the City, as the primary recipient, is also required to ensure that the audits are performed, and must follow-up on the resolution of all reported findings and questioned costs.

The primary recipient's responsibilities may be discharged for subrecipients receiving federal awards less than $500,000 by performing a combination of the following procedures:

1. Relying on appropriate procedures performed by the primary recipient's internal audit department or program management personnel through on-site visits;
2. Reviewing documentation in support of amounts claimed for reimbursement; and
3. Applying certain agreed-upon procedures.

Condition:

One of the ten HIV Prevention Activities Health Department Based grant files selected for testing did not note that the City followed up on the subrecipient's corrective action plan or on findings.

Even though neither the Transbay Terminal Project nor the Translink Procurement Project were direct and material to MUNI's major program, it came to the auditors' attention that MUNI had not requested nor reviewed the A-133 audit reports from the subrecipients for pass-through grants Section 9-FY01-02 CA-90-0124 and Section 9-FY 02/03 CA-90-0212. However, MUNI management has informed their auditors that MUNI representatives review each invoice billed from the subrecipients to ensure that the invoices are approved appropriately and that the expenditures are reasonable in relation to the grant allowable costs.

Finding No. 2004-05 (Continued)

Effect:

Without reviewing the City's subrecipient single audit reports for findings and questioned costs, the City did not issue a management decision on audit findings within six months after receipt of the subrecipient's audit report and did not ensure that the subrecipient takes appropriate and timely corrective action and consider whether subrecipient audits necessitate adjustment of the City's own records as required under OMB Circular A-133 § Subpart D.400. If questioned costs at the subrecipient level are found to be unallowable by the City, the City may require the pass-through entity to adjust its financial records and its federal expenditure reports. As part of the City's finding-resolution process, the City should estimate the total unallowable costs that are associated with each subrecipient finding and consider the need to adjust financial records and federal expenditure reports.

Questioned Costs:

$302,670 – HIV Prevention Activities Health Department Based
None – Federal Transit-Formula Grants

Recommendation:

We recommend that the City develop and implement policies requiring the review and resolution of subrecipient findings and questioned costs. The City should obtain and review the subrecipient A-133 audit reports and ensure that the subrecipients have taken the appropriate and timely corrective action on any findings.

Management Response and Corrective Action Plan:

The City concurs that in the case noted there was no follow up on the subrecipient's single audit findings or corrective action plan. However, the Department of Public Health (DPH) conducts its own audit of the subrecipient's financial activities. DPH found the subrecipient's records and follow through on all past years corrective actions to be very complete. DPH also conducts annual program monitoring of the subrecipient, that includes the review of units of service and other program objectives.

During FY 2003-04, DPH revised procedures to centralized audit functions for the department. Beginning in fiscal year 2005, audit functions for DPH will be performed by the Controller's Internal Audit Division. Controller's Internal Audit will be responsible for reviewing subrecipient's compliance with OMB Circular A-133. This review will include follow up on subrecipient's corrective action plan or other findings.

MUNI will request the 2004 A-133 report from the Transbay Terminal Project when it becomes available in 2005, and will request both the 2003 and 2004 A-133 reports for the Translink Procurement Project from the Metropolitan Transportation Commission and review the audit findings, if any.

**Finding No. 2004-06 – State Criminal Alien Assistance Program (16.606)
Chafee Foster Care Independent Living (93.674)
Reporting**

Criteria:

Under the requirements of the Single Audit Act and OMB Circular A-133, the underlying data of performance and special reports must be accumulated and summarized in accordance with the required or stated criteria and methodology. Furthermore, the data should be accurate and complete.

In addition, pursuant to the State Criminal Alien Assistance Program fiscal year 2004 guidelines "Excluded and prohibited costs include employee benefits and overtime, except where as obligations require posting staffing minimums, etc. OMB Circular A-87 provides general guidance on how benefits are defined for units of general government."

Condition:

During the SOC 405a performance report testing for the Chafee Foster Care Independent Living Program (ILP), we noted one out of the four report items tested contained duplicate youth participants. In addition, we noted that the SOC 405a Performance Report was due on November 15, 2004, but was submitted on December 21, 2004 to the State.

During our testing of the State Criminal Alien Assistance Program (SCAAP), we noted the following:

- Discrepancies between the Sheriff's Office daily count sheets and what was reported on the grant application's total number of days for all inmates (legal aliens, illegal aliens, unknowns and U.S. citizens) housed during the fiscal year 2003.
- Employee benefits costs were inappropriately included as part of total correctional officers earnings in the grant application.

***Effect*:**

Reported numbers may be incomplete, incorrect or not representative of performance results or applicable data elements, which could result in incorrect grantor funding determinations and performance evaluations.

Questioned Costs:

Not applicable.

Recommendation:

The City should review its reporting process, improve training on reporting documentation requirements and prepare a manual describing how the information required in the reports should be completed. Supporting documentation should also be maintained to meet the federal record retention requirements.

Finding No. 2004-06 (Continued)

Management Response and Corrective Action Plan:

The Department of Human Services concurs with the finding related to the Chafee Foster Care Independent Living Program (ILP) and agrees to address the issues as follows:

a. Duplicate youth participants: The City will create a new database for ILP statistics. Effective April 1, 2005, a staff member will be assigned to enter information in the database. The database will enable ILP to better track participants and avoid duplication.

b. Late SOC405a Performance Report: ILP management has had the annual November 15^{th} deadline for the ILP noted in their work plan, and has been instructed to submit the report within the required time frame.

The Sheriff Department concurs with the finding and agrees to develop and train staff on appropriate documentation procedures with respect to State Criminal Alien Assistance Program (SCAAP). Since the 2002-03 fiscal year, the Department has restructured the accounting of its financial data to enable more accurate reporting of expenditures by cost center and function. The Department has reviewed the current year data, and confirmed its accuracy.

Beginning April 1, 2005, the Sheriff Department's Fiscal Division will maintain a master grant application file including all source documentation used to submit the online application. The file will also contain a written procedural document explaining how the claim is calculated. This file will be maintained for a minimum of three years from the point of receipt of funding. With regard to discrepancies in the daily count sheets, the Department agrees to use the same time of day to report daily counts to ensure that all data is systematically collected.

**Finding No. 2004-07 – Chafee Foster Care Independent Living (93.674)
Eligibility**

Criteria:

Pursuant to the State Department of Social Services regulations over the Chafee Foster Care Independent Living Program (ILP), the City is required to determine the eligibility of program participants before disbursements of assistance. In order to document eligibility, the City social workers/probation officers should prepare and approve the Transitional Independent Living Plan (TILP) document available from the Child Welfare Services Case Management Services (CWS/CMS). In addition, pursuant to section 31-236 of the regulations the social worker/probation officer shall ensure that the initial TILP and each update is signed and dated by the social worker/probation officer and the youth.

Condition:

During our audit, we noted 29 out of 43 TILPs selected for testing did not include indication of social worker's/probation officer's and/or the youth's approval.

In addition, the program does not have a central database system to maintain an accurate count and pertinent statistics of the youth participants and their activities.

Effect:

Incomplete documentation and missing approvals may result in inadequate eligibility determinations, thus benefits could be provided to ineligible participants.

Questioned Costs:

Not applicable.

Finding No. 2004-07 (Continued)

Recommendation:

We recommend that the City ensure proper approvals on all TILP forms and improve its participant data collection system to track data necessary for timeliness and completeness. Program staff should be held responsible for filing documentation and supervisors should review and monitor the process of adequately documenting the TILP.

Management Response and Corrective Action Plan:

The Department of Human Services concurs that there were cases where social worker/probation officer/youth approvals were not documented on some plans. To correct these problems, we have reviewed our operating procedures and will do the following:

a. The Department will issue a memo by March 31, to remind staff that they will be held accountable for documenting approval on TILP forms as a performance issue. Workers are required to give their supervisors monthly compliance reports identifying when TILPs were completed. Supervisors will monitor for compliance and timeliness on a monthly basis.

b. The Department will secure a database for the ILS program, and expects to have it operational by June 30, 2005.

Finding No. 2004-08 – Federal Transit-Formula Grants (20.507)
Matching, Level of Effort, Earmarking

Criteria:

Per the Section 9-FY01/02 – CA-90-0124 grant document, the billing to the federal grant should only be up to 80% of allowable costs.

Condition:

During our testwork, we noted that San Francisco Municipal Railway (MUNI) billed the Federal Transit Administration $69,594 more than the 80% of allowable costs for the afore-mentioned grant. The difference should have been billed to local matched funds. In discussing the finding with MUNI officials, a miscalculation in the percentage of allowable costs to be billed to the federal funds was not found through internal review.

Effect:

The allowable costs billed to the federal funds were overstated by $69,594.

Questioned Costs:

$69,594

Recommendation:

We recommend that MUNI perform an internal review of all allowable costs to be billed to federal funds to ensure that any potential calculation errors are found and corrected before the billing is made. MUNI has informed us that they reduced future billings to this grant by the $69,594 after June 30, 2004.

Management Response and Corrective Action Plan:

MUNI reduced future billings to this grant by the $69,594 after June 30, 2004 and will review future billings to ensure that the percentage of allowable costs is properly calculated.

Finding No. 2004-09 – Violent Offender Incarceration and Truth-In Sentencing Grant (CFDA 16.586)

Criteria:

The U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* (OMB Circular A-133), requires that the City prepare a schedule showing total expenditures for the fiscal year for each federal program. This schedule is used by the City's auditor to plan the City's single audit in accordance with OMB Circular A-133.

Condition:

The Mayor's Office of Criminal Justice (MOCJ) did not properly identify the expenditure of the Violent Offender Incarceration and Truth in Sentencing Incentive Grant (CFDA 16.586) in the City's accounting records as federally funded. This error resulted in the City excluding approximately $12 million in federally funded expenditures from the fiscal year 2004 schedule of expenditures of federal awards (SEFA). This program should have been considered a high-risk Type A program and tested as part of the fiscal year 2004 single audit.

Effect:

The City's SEFA was understated by the amount of federal expenditures for the Violent Offender Incarceration and Truth in Sentencing Incentive Grant (CFDA 16.586). Because this program was excluded from the SEFA, a complete risk assessment of the City's federal awards was not performed. As a result, a type A program was not assessed and tested as required by OMB Circular A-133.

Questioned Cost:

Not applicable.

Recommendation:

We recommend that MOCJ develop procedures to reconcile federal intergovernmental revenues as reported in the financial statements to the SEFA. This reconciliation should identify and capture federal expenditures that may have been excluded from the SEFA. In addition, the Controller's Office should provide additional training to departments regarding the identification of program funding sources to ensure that all federal expenditures are captured in the SEFA.

Management Response:

The Major's Office of Criminal Justice (MOCJ) concurs with the finding. The Mayor's Office is taking the following corrective actions immediately to properly identify the funding sources of all grants:

1. During the grant application process, the Grants Program Officer reviews Request for Proposals to identify funding source and label funding source in all grant tracking databases. The information will be reviewed by both the Mayor's Office of Community Development (MOCD) Financial Officer and the MOCJ Financial Officer.
2. During the contract process, the Grants Program Officer, the MOCD Financial Officer, and the MOCJ Financial Officer will be responsible for reviewing contract to confirm funding source.
3. After the grant is approved, the Fiscal Accountant will confirm with the granting agency the correct funding source. The Mayor's Office will identify and capture federal expenditures with correct CFDA number(s).
4. The Fiscal Accountant prepares quarterly reconciliations to properly identify and capture federal expenditures. The reconciliations will be reviewed by MOCD Financial Officer and MOCJ Financial Officer.
5. Mayor's Office staff has attended a Controller's Office training on the proper administration of federal grants in November 2007. MOCJ staff will continue to refer to the Controller's Office Grant Administration Manual and will also attend relevant training opportunities in the future.