CITY AND COUNTY OF SAN FRANCISCO

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

FOR THE YEAR ENDED JUNE 30, 2010

CITY AND COUNTY OF SAN FRANCISCO
BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS
FOR THE YEAR ENDED JUNE 30, 2010

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The Honorable Mayor Edwin Lee
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 City and County of San Francisco, California (City), as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the San Francisco International Airport, San Francisco Water Enterprise, Hetch Hetchy Water and Power, San Francisco Municipal Transportation Agency, San Francisco Wastewater Enterprise, San Francisco Market Corporation, and the Health Service System, which collectively represent the following percentages of assets and deferred outflows, net assets/fund balances and revenues/additions as of and for the year ended June 30, 2010.

Opinion Unit	Assets and Deferred Outflows	Net Assets/ Fund Balances	Revenues/ Additions
Business-type activities	91%	84%	72%
Aggregate remaining fund information	1%	0%	10%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. The prior year partial and summarized comparative information has been derived from the City's 2009 basic financial statements and, in our report dated December 23, 2009, we expressed unqualified opinions, based on our audit and the reports of other auditors, on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the reports of the other auditors provide a reasonable basis for our opinions.

In our opinion, based on our audit and the reports of the 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, 2010, 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.

As discussed in Note 2(r) to the basic financial statements, effective July 1, 2009, the City adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.*

In accordance with *Government Auditing Standards*, we have also issued our report dated January 28, 2011 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The financial statements include partial or summarized prior year comparative information. Such prior year information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's basic financial statements for the year ended June 30, 2009, from which such partial or summarized information was derived.

The management's discussion and analysis and schedules of funding progress listed in the accompanying table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We and the other auditors have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and the 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 schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Macias Gini & O'Connell LLP

Certified Public Accountants

Walnut Creek, California
January 28, 2011

This section of the City and County of San Francisco's (the City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the fiscal year ended June 30, 2010. We encourage readers to consider the information presented here in conjunction with additional information in our transmittal letter. Certain amounts presented as 2008-2009 summarized comparative financial information in the basic financial statements have been reclassified to conform to the presentation in the 2009-2010 basic financial statements.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at the end of the fiscal year by approximately $5.97 billion (net assets). Of this balance, $5.70 billion represents the City's investment in capital assets net of related debt and $647.5 million represents restricted net assets. This is offset by a deficit in unrestricted net assets of $377.6 million. The City's total net assets decreased by $96.5 million or 1.6 percent over the previous fiscal year. Of this amount, total capital assets net of related debt and restricted assets increased by $113.0 million and were offset by a $209.5 million decrease in unrestricted net assets. The decrease in unrestricted net assets is primarily due to recognition of $239.5 million other postemployment benefit expense in the fiscal year.

The City's governmental funds reported total revenues of $3.79 billion, a $109.9 million or 3.0 percent increase over the prior year. Within this, revenues from property taxes, other local taxes, and intergovernmental grants grew by approximately $59.6 million, $68.1 million and $55.4 million respectively. At the same time, there was a decline in revenues from charges for services, business taxes and hotel room taxes. Governmental funds expenditures totaled $3.77 billion for this period, a $121.4 million or 3.3 percent increase, reflecting increases in demand for governmental services of $51.0 million, debt service payments of $40.4 million and capital outlay of $30.0 million.

At the end of the fiscal year, the City's General Fund unreserved fund balance decreased from the prior year's $28.2 million by $30.2 million to a deficit of $2.0 million. The primary cause of this decrease was the increasing unavailable amounts from delays in cash receipts of state intergovernmental reimbursements.

The City's total long-term debt, including all bonds, loans, commercial paper and capital leases increased by $2.06 billion during this fiscal year. The City issued a total of $3.90 billion in debt this year. Of this amount, a total of $355.1 million in general obligation bonds were issued for improvements for the San Francisco General Hospital and neighborhood parks. In addition, $37.9 million in certificates of participation were issued for multiple street improvement projects. The San Francisco International Airport issued a total of $1.72 billion Revenue Bonds. Of this, $485.8 million was for renovation and other capital plans and $1.23 billion was for bond refunding and restructuring of long-term debt to take advantage of lower interest rates. The San Francisco Water Enterprise issued $1.31 billion in revenue bonds to retire commercial paper notes and certain outstanding revenue bonds, and to provide new money for capital projects of the massive Water System Improvement Program. The San Francisco Wastewater Enterprise issued $239.6 million in revenue bonds to retire commercial paper notes and provide funding for Wastewater Enterprise capital improvement projects. The City issued $167.7 million in Certificates of Participation to fund the construction of the future headquarters of the San Francisco Public Utilities Commission at 525 Golden Gate Avenue.

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 accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus; except agency funds do not have measurement focus
Type of asset and liability information	All assets and liabilities, both financial and capital, short-term and long-term	Current assets and liabilities that come due during the year or soon thereafter	All assets and liabilities, both financial and capital, short-term and long-term	All assets held in a trustee or agency capacity for others
Type of inflow and outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during the year or soon thereafter; expenditures when goods or services have been received and the related liability is due and payable	All revenues and expenses during year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Financial Statements

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

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

The **statement of activities** presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods, such as revenues pertaining to uncollected taxes and expenses pertaining to earned but unused vacation and sick leave.

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

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

Fund Financial Statements

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

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

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

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

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

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

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the San Francisco International Airport (SFO or Airport), Port of San Francisco (Port), San Francisco Water Enterprise (Water), Hetch Hetchy Water and Power (Hetch Hetchy), Municipal Transportation Agency (MTA), Laguna Honda Hospital, San Francisco General Hospital Medical Center, and the San Francisco Wastewater Enterprise (Wastewater), all of which are considered to be major funds of the City.

- **Internal Service funds** are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, management information services, printing and mail services, and for lease-purchases of equipment by the San Francisco Finance Corporation. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

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

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

Combining Statements and Schedules

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets
June 30, 2010
(in thousands)

	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Assets and deferred outflows:						
Current and other assets	$ 2,165,396	$ 1,982,121	$ 3,638,011	$ 2,106,943	$ 5,803,407	$ 4,089,064
Capital assets	3,177,822	3,028,915	10,056,170	9,460,894	13,233,992	12,489,809
Deferred outflows	-	-	89,505	57,157	89,505	57,157
Total assets and deferred outflows	5,343,218	5,011,036	13,783,686	11,624,994	19,126,904	16,636,030
Liabilities:						
Current liabilities	1,087,991	955,509	1,139,045	1,248,969	2,227,036	2,204,478
Noncurrent liabilities	3,102,242	2,750,324	7,828,747	5,615,879	10,930,989	8,366,203
Total liabilities	4,190,233	3,705,833	8,967,792	6,864,848	13,158,025	10,570,681
Net assets:						
Invested in capital assets, net of related debt *	1,833,733	1,725,203	4,240,971	4,204,644	5,699,016	5,630,550
Restricted *	382,070	371,831	278,084	231,107	647,460	602,938
Unrestricted (deficit) *	(1,062,818)	(791,831)	296,839	324,395	(377,597)	(168,139)
Total net assets	$ 1,152,985	$ 1,305,203	$ 4,815,894	$ 4,760,146	$ 5,968,879	$ 6,065,349

* See note 2(k)

Analysis of Net Assets

Net assets may serve as a useful indicator of the government's financial position. As noted earlier, at the end of fiscal year 2009-2010, the City's total net assets exceeded liabilities by $5.97 billion.

The largest portion of the net assets reflects the City's $5.70 billion investment in capital assets (e.g. land, buildings, and equipment) less any outstanding debt related to the acquisition of these assets. This is 95.5 percent of the City's total net assets, a 1.2 percent increase over the prior year, and is largely due to growth in net capital assets in the governmental activities as well as at Laguna Honda Hospital, MTA and Port which are business-type activities of the City. Since the government uses capital assets to provide services, these assets are not available for future spending. Further, the resources required to pay the debt related to these assets must come from other sources since the capital assets themselves cannot be liquated to pay that liability.

Another portion of the City's net assets, $647.5 million (10.9 percent) represents restricted resources that are subject to external limitations regarding their use. The governmental activities have a $1.06 billion deficit in the unrestricted net assets component, due largely to an increase in transfers to business-type activities and the continual recognition of other postemployment benefit expense, in conformance with GASB Statement No. 45 requirements. Another contribution to the governmental activities deficit unrestricted net assets is a total of $388.4 million of long-term bonds used for the rebuilding and improving Laguna Honda Hospital and to fund certain park facilities projects at the Port (see Note 2(k)). The business-type activities reported positive balances in all categories of net assets at the end of this fiscal year.

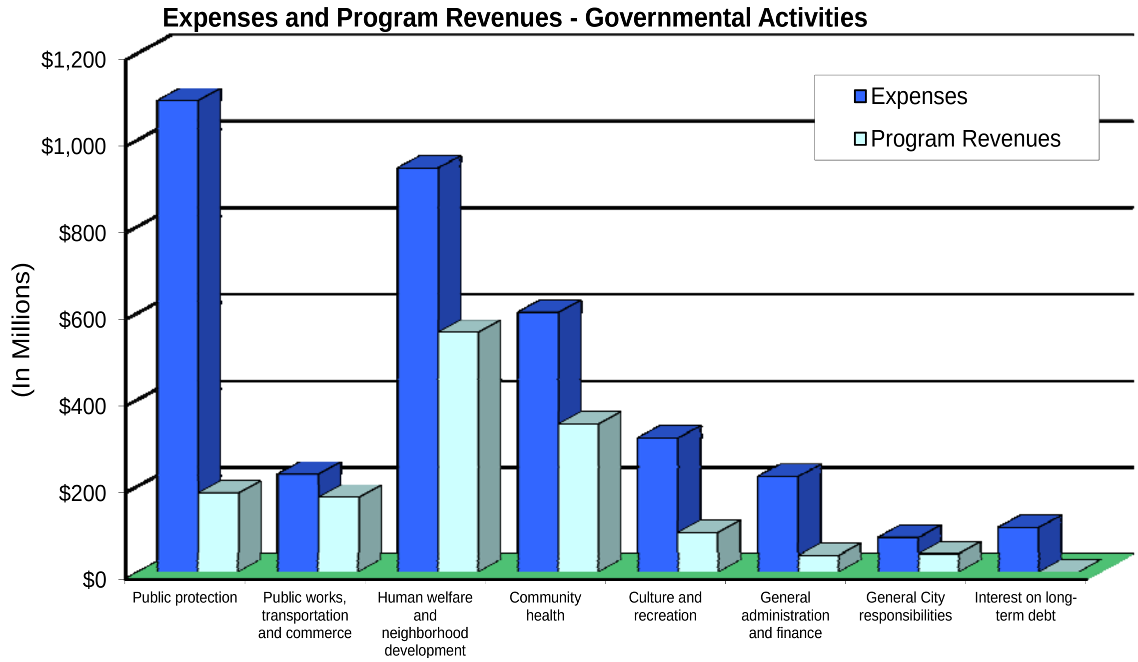
Changes in Net Assets
Year Ended June 30, 2010
(in thousands)

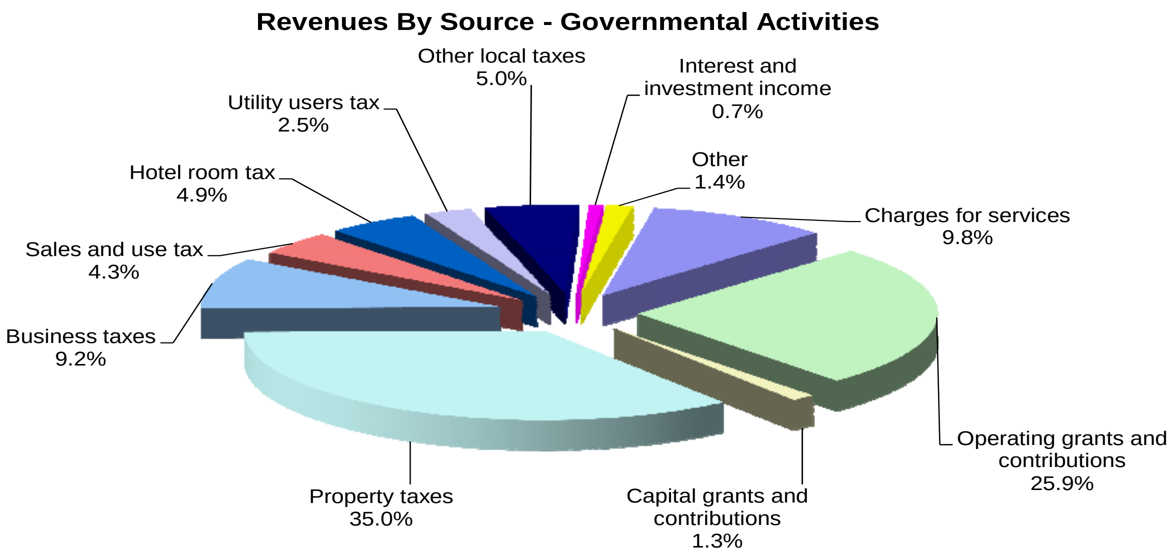
	Governmental activities		Business-type activities		Total	
	2010	2009	2010	2009	2010	2009
Revenues						
Program revenues:						
Charges for services	$ 376,688	$ 392,411	$ 2,158,042	$ 2,034,269	$ 2,534,730	$ 2,426,680
Operating grants and contributions	997,091	909,695	182,572	186,805	1,179,663	1,096,500
Capital grants and contributions	50,349	44,048	180,253	107,118	230,602	151,166
General revenues:						
Property taxes	1,345,040	1,302,071	-	-	1,345,040	1,302,071
Business taxes	354,019	388,653	-	-	354,019	388,653
Sales and use tax	164,769	172,794	-	-	164,769	172,794
Hotel room tax	186,849	214,460	-	-	186,849	214,460
Utility users tax	94,537	89,801	-	-	94,537	89,801
Other local taxes	194,070	126,017	-	-	194,070	126,017
Interest and investment income	27,877	35,434	44,471	49,691	72,348	85,125
Other	54,410	44,086	176,064	181,759	230,474	225,845
Total revenues	3,845,699	3,719,470	2,741,402	2,559,642	6,587,101	6,279,112
Expenses						
Public protection	1,089,309	1,109,311	-	-	1,089,309	1,109,311
Public works, transportation and commerce	225,589	254,955	-	-	225,589	254,955
Human welfare and neighborhood development	933,039	908,449	-	-	933,039	908,449
Community health	599,741	608,733	-	-	599,741	608,733
Culture and recreation	310,063	319,994	-	-	310,063	319,994
General administration and finance	221,471	238,601	-	-	221,471	238,601
General City responsibilities	80,246	72,634	-	-	80,246	72,634
Unallocated Interest on long-term debt	102,635	93,387	-	-	102,635	93,387
Airport	-	-	661,044	683,335	661,044	683,335
Transportation	-	-	897,500	863,218	897,500	863,218
Port	-	-	73,573	71,778	73,573	71,778
Water	-	-	325,242	277,162	325,242	277,162
Power	-	-	119,109	96,228	119,109	96,228
Hospitals	-	-	842,488	820,236	842,488	820,236
Sewer	-	-	201,403	184,977	201,403	184,977
Market	-	-	1,119	1,144	1,119	1,144
Total expenses	3,562,093	3,606,064	3,121,478	2,998,078	6,683,571	6,604,142
Increase/(decrease) in net assets before transfers	283,606	113,406	(380,076)	(438,436)	(96,470)	(325,030)
Transfers	(435,824)	(393,259)	435,824	393,259	-	-
Change in net assets	(152,218)	(279,853)	55,748	(45,177)	(96,470)	(325,030)
Net assets at beginning of year	1,305,203	1,585,056	4,760,146	4,805,323	6,065,349	6,390,379
Net assets at end of year	$ 1,152,985	$ 1,305,203	$ 4,815,894	$ 4,760,146	$ 5,968,879	$ 6,065,349

Analysis of Changes in Net Assets

The City's total net assets decreased by $96.5 million during fiscal year 2009-2010. The governmental activities had a net assets decrease of $152.2 million whereas the business-type activities realized an increase of $55.7 million. With the exception of San Francisco Water Enterprise and General Hospital, all of the City's business type activities contributed to this growth. The former enterprises had decreases in net assets totaling $72.4 million while the others, including Airport, Hetch Hetchy, Laguna Honda, MTA, Wastewater Enterprise and Port reported a total growth of $128.1 million in net assets. Laguna Honda, with a $66.5 million increase in net assets accounted for 51.9% of this improvement.

The City's governmental activities experienced a $126.2 million or 3.4 percent growth in total revenues. This included a $87.4 million growth in operating grants and contributions, a $68.1 million rise in other local tax and a $43.0 million increase in property tax with a slight growth in capital grants, utility user taxes, and other revenues. These improvements were partly offset by a decline in other revenue sources including a $34.6 million decrease in business taxes, a $27.6 million drop in hotel room tax and a $15.7 million reduction in charges for services. The City's governmental activities expenses reported a moderate reduction of $44.0 million or 1.2 percent this fiscal year. The combined net revenue growth and expenditure reduction were largely offset by the increase of $42.6 million in net transfer to business-type activities. A discussion of these and other changes is presented in the governmental activities and business-type activities sections that follow.





Governmental activities. Governmental activities decreased the City's total net assets by approximately $152.2 million. Key factors contributing to this year's change are discussed below.

Overall, total revenues from governmental activities were $3.85 billion, a $126.2 million or 3.4 percent increase over the prior year. For the same period, expenses totaled $3.56 billion before transfers of $435.8 million, resulting in a total net assets decrease of $152.2 million by June 30, 2010.

Property taxes revenue grew moderately, by $43.0 million or 3.3 percent. Other local taxes revenue grew by $68.1 million, of which $34.7 million were from Property Transfer Tax due to the passage of Proposition N in November 2008. Proposition N increased the transfer tax rate from 0.75% to 1.5% for all transactions valued over $5 million. That, coupled with an increase in very large commercial transactions during the fiscal year, significantly contributed to the revenue growth. There was also a $31.1 million revenue increase from the Access Line Tax, due, in part, to fiscal 2009-2010 being the first full year for this revenue source. Proposition O was passed by voters in November 2008 with an effective date of April 2009. This Proposition eliminated the 911 Emergency Response Fee and replaced it with a per-line Access Line Tax of the same amount.

The operating and capital grants and contributions reported a growth of $93.7 million. This was largely due to the increases from federal sources, including $66.9 million for human welfare programs, $23.1 million for public protection and $25.3 million for public works. These were partly reduced by a combined decrease of $21.6 million in other governmental activities.

Revenues from business, hotel, and sale taxes totaled approximately $705.6 million, which represents a $70.3 million decrease over the prior year. This was due primarily to the decrease in business taxes by $34.6 million, 8.9 percent, and the decrease in sales and use taxes by $8.0 million, 4.6 percent. The continued recession was a significant factor in both cases. In addition, hotel room taxes decreased by $27.6 million, 12.9 percent, reflecting a drop in hotel room charges per night from $172 per room-night to $155 per room-night.

Total charges for services revenues dropped this year by $15.7 million, or 4.0 percent. Within this, there was an increase of $11.6 million in litigation settlements and about $7.8 million in rents and concessions and parking revenues. These increases were partially offset by a drop of $37.0 million from 911 fees because that revenue source was replaced by the Access Line Tax in this fiscal year.

Interest and investment income revenue decreased by $7.6 million, or 21.3 percent, primarily due to declining interest rates on the City's pooled investments. Those dropped from an estimated 2.56 percent to 1.38 percent over the year. In general, these returns reflect the City's concentration of investments in Treasury Bills and Notes and other government agencies short-term investments. As interest rates fell and stayed low for short term investments, the City added investments with longer maturities that had higher interest yields. As of June 30, 2010, 80.5% of the pooled investments will mature within 1 to 5 years compared to 54.4% last fiscal year. At the end of this fiscal year, deposits and investments with the City Treasury grew by $1.25 billion, or 41.8%, of which $203.0 million was for unspent general obligation bond proceeds issued in the fiscal year to fund the General Hospital rebuild project and $1.05 billion represented the unspent proceeds from revenue bonds issued by business-type activities in the fiscal year to fund various major capital improvement projects.

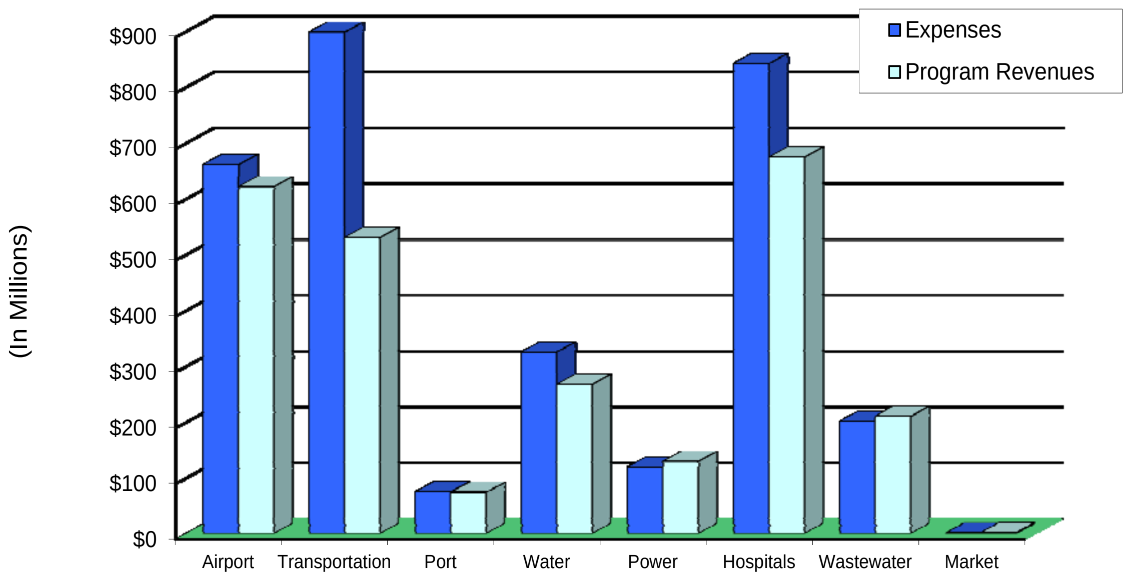
Net transfers to business-type activities were $435.8 million, a 10.8 percent or $42.6 million increase over the prior fiscal year. The net increase was mainly due to a decrease of transfers to the General Fund by the City's hospitals. In this fiscal year, Laguna Honda Hospital reimbursed the General Fund for $2.1 million capital expenditures compared to its $50.9 million expenditure reimbursement in the prior year. The General Fund's operating subsidies to MTA, General Hospital and Laguna Honda Hospital were about $402.9 million this fiscal year, substantially the same as last year's total of $401.2 million.

The decrease in total governmental expenses of $44.0 million or 1.2 percent was primarily due to a reduction in net other postemployment benefits (OPEB) costs as discussed in Note 9(d).

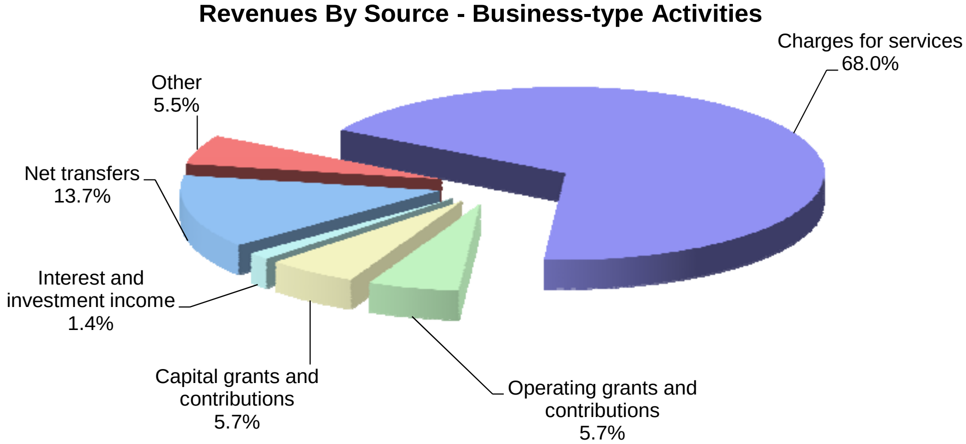
There was a total decrease of $85.4 million in expenses for public protection, public works, community health, culture and recreation and general administration and finance reflecting a reduction in personnel costs. These decreases were partly offset by an increase of $24.6 million in the human welfare and neighborhood services functions due to growth in social services and community-based programs. In addition, interest expense increased $9.2 million correlating with increases in debt obligations.

The charts on the previous page illustrate expenses and program revenues by functional area, and all revenues by source. As shown, public protection is the largest function (30.6 percent), followed by human welfare and neighborhood development (26.2 percent) and community health (16.8 percent). General revenues are not shown by program or function because they are used to support activities citywide. The distribution of these revenues shows property tax (35.0 percent) as the single largest funding source, followed by operating grants and contributions (25.9 percent), charges for services (9.8 percent), and business taxes (9.2 percent). This relative ranking is equivalent to the prior fiscal year and the actual percentage distributions showed only small differences.

Expenses and Program Revenues - Business-Type Activities



Revenues By Source - Business-type Activities



Business-type activities increased the City's net assets by $55.7 million. Key factors contributing to this increase are:

- The Municipal Transportation Agency (MTA) had net assets of $1.83 billion at the end of this fiscal year, essentially unchanged from the prior year, reflecting only a modest increase in assets of $4.1 million. The increase is attributable to growth in operating revenues, capital contributions and net transfers, offset by a rise in operating expenses and a decrease in nonoperating revenues. The largest portion of the MTA's net assets reflects its investment in capital assets, which totaled $3.12 billion, offset by accumulated depreciation of $1.16 billion and related debt of $50.1 million which nets to $1.92 billion reported as net assets invested in capital assets, net of related debt. The remainder of the MTA's net assets is composed of restricted net assets including deposits and investments with the City and receivables. Finally, the MTA has an unrestricted deficit net asset balance of $105.6 million, which is slightly improved over the prior year's deficit balance of $106.5 million.

- Laguna Honda Hospital, the City's skilled nursing care hospital, increased net assets by $66.5 million or 14.4 percent this year, reflecting continued progress on construction of the new hospital complex. This increase is primarily related to $68.7 million of transfers from the non-major governmental funds for the hospital's capital activities, which are supported by general obligation bonds and certificates of participation. The increase is partially offset by a transfer of $2.1 million from Laguna Honda Hospital to the General Fund to reimburse the General Fund for certain hospital capital outlay. Laguna Honda Hospital also received $16.4 million of capital contributions from Tobacco Settlement Funds to fund construction, and a $37.1 million subsidy transfer from the General Fund offset by $61.4 million in losses this year as compared to $47.9 million in losses in the prior year. The other transfers that it received came from San Francisco General Hospital for $6.1 million to fund its budgetary cost overruns and from Hetch Hetchy Water and Power for $1.7 million for energy savings reimbursements.

- General Hospital, the City's acute care hospital, ended the fiscal year with a net asset deficit of $41.9 million. Contributing to the General Hospital's change in net assets is the following: (1) An overall increase in operating revenues of approximately 8 percent primarily attributable to a 10 percent increase in Medicare billing rate in FY2010; (2) offset by rising operating expenses due primarily to escalating personnel retirement and benefit costs; and (3) increases in net transfers. Transfers in and out will vary from year to year based upon the City's budget.

- Hetch Hetchy Water and Power is composed of two segments: 1) Hetch Hetchy Water upcountry operations and water system and 2) Hetch Hetchy Power, also referred to as the Power Enterprise. A number of the facilities are joint assets and are used for both water and power operations. Hetch Hetchy Water's net assets decreased by $0.1 million from the prior year, while Hetch Hetchy Power's net assets increased by $12.1 million or 3.7 percent during the year. Contributing to this combined net increase of $12.0 million was an increase in Hetch Hetchy Power's total revenue by $9.2 million or 9.6 percent over the prior year primarily due to increased electricity sales of $5.2 million and third party sales to other municipalities and governmental agencies under Western System Power Pool agreements. Additionally, other nonoperating revenues increased by $3.8 million or 140.1 percent, which is mostly due to a $2.9 million settlement with the State Department of Water Resources (DWR) related to the Combustion Turbine project. The increased revenues were offset by increases in expenses due to increases in general liability expenses of $1.8 million and write-off of development costs of $10.2 million related to the DWR settlement mentioned above. Also, there was $11.7 million of non-capitalizable construction related activities and $2.9 million of solar incentive program expenses.

- The City's Water Enterprise is the third largest municipal water agency in California. For the fiscal year 2009-2010, it reported net assets of $415.7 million, a decrease of $46.6 million or 10.1 percent from the prior year. The primary reason for the decrease was an increase in expenses of $49.1 million or 17.7 percent, offset by an increase in revenue of $3.4 million or 3.2 percent. The latter was due to an average 15 percent increase in retail rates partially offset by a reduction in consumption. Operating expenses increased by $29.7 million due to a combination of increases in judgments and claims for$23.0 million, increased services provided by other departments for $7.5 million, and depreciation of $3.5 million. These were offset by a reduction in other operating expenses of

$5.0 million for non-capitalized project expenses and capital project write-offs. In addition, interest expense increased by $18.4 million attributable to an increase of $1.31 billion of revenue bonds.

- The City's Wastewater Enterprise had total net assets of $1.03 billion at the end of fiscal year 2009-2010. This total increased from the prior year by $14.7 million or 1.5 percent. This was primarily due to an increase in revenues of $4.5 million or 2.1 percent, $3.0 million of which was due to a rate increase offset by a reduction of other operating revenues of $1.8 and a $0.1 million reduction in interest and investment earnings due to falling interest rates and reduced cash balances. Total expenses also increased by $16.4 million or 8.9 percent due to an increase in operating expenses of $9.8 million of non-capitalized project expenses and capital project write-offs, $4.1 million of materials and supplies, $1.9 million of additional depreciation, $1.9 million increase in personal services, mainly related to retirement costs, and $0.7 million in services provided by other departments. These increased operating costs were partially offset by decreases in other operating costs of $1.8 million of contractual services for engineering and inspection services. During fiscal year 2009-2010, revenues exceeded expenses by $14.7 million. While net assets did increase, this change in net assets was less than the previous year's increase in net assets by $12.0 million or 44.8 percent.

- The Port is responsible for a seven and one-half mile stretch of waterfront land and its revenue is derived primarily from property rentals to commercial and industrial enterprises and a diverse mix of maritime operations. The Port's net assets increased by $11.1 million in the 2009-2010 fiscal year. This was mainly due to $10.6 million in capital contributions from the City's general obligation bond proceeds for park and open space improvements.

- The Airport's net assets increased by $19.1 million or 7.1 percent during the current year. This is an increase of $63.1 million over the prior year's loss of $44.0 million. The increase is primarily the result of $25.5 million or 4.6 percent of additional aviation revenues, concession revenues, parking revenues, and net sales and service revenues due to increased passenger traffic. The Airport also realized decreases in the operating expenses of $4.4 million, 0.9 percent, and decreases in nonoperating expenses of $19.3 million mostly due to a decrease of $17.9 million in interest expense because the Airport refunded and restructured a large portion of its long-term debt. Also, as of June 30, 2010, the Airport's net assets invested in capital assets, net of related debt were a negative $71.2 million because of the residual effect of the Airport depreciating its assets faster than the repayment of its bonded debt.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

The focus of the City's governmental funds statements is to provide information on near-term inflows, outflows, and balances of resources available for future spending. Such information is useful in assessing the City's financing requirements. The unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year. Types of governmental funds reported by the City include the General Fund, Special Revenue Funds, Debt Service Funds, Capital Project Funds, and the Permanent Fund.

At the end of the current fiscal year, the City reported combined ending governmental fund balances of $999.1 million, an increase of $14.1 million or 1.4 percent over the prior year. The City realized a growth in total governmental funds revenues, including growth in property tax revenues, other local taxes and the combined federal and state revenues for a total of $190.8 million. These increases were partly offset by a decline in other taxes, including business, hotel room tax, sale and use taxes, as well as interest and investment income as discussed earlier, leaving a net increase of $109.9 million in revenues at the end of the fiscal year. In addition, charges for services decreased by $37.3 million primarily due to Proposition O replacing the 911 Emergency Response Fee, a charge for services, with a new Access Line local tax.

Within the governmental funds, the Special Revenue and Capital Projects funds had unreserved deficits of $134.2 million and $43.8 million, respectively, while the General Fund had a slight deficit of $2.0 million, offset by the Permanent Funds positive balance of $2.0 million. Combined the governmental funds total unreserved fund balance had a deficit of $178.0 million. The remainder of the fund balances in governmental funds is reserved, a measure of the fund resources already committed and not available for new spending. These commitments include support for (1) a General Fund "rainy day" reserve ($39.6 million), (2) encumbrances for existing contracts and purchase orders ($279.6 million), (3) funds continued for programs or projects in future fiscal years ($745.5 million), (4) debt service ($68.5 million) and (5) assets not available for appropriation ($43.9 million).

The General Fund is the chief operating fund of the City and had a total fund balance of $191.8 million at the end of the fiscal year. This included a reserved fund balance of $193.8 million and an unreserved deficit of $2.0 million, which reflects, in part, the delays in cash receipts for intergovernmental revenue sources. For the year, the General Fund's total revenues exceeded expenditures by $351.5 million, before transfers and other items of $461.4 million. In the aggregate, the resulting total fund balance decreased by $109.9 million for the fiscal year ended June 30, 2010. Overall, the slightly better than projected revenues, particularly in real estate property transfer taxes and hotel room taxes were offset by an increased rate of expenditure growth due to growing demand for services and personnel costs across City functions and a reduction of reimbursement of prior year capital project costs paid for the two hospital rebuild projects. The decline in total fund balance includes the effects of drawing upon the City's Rainy Day Reserves consistent with Charter provisions, with $34.2 million provided to the General Fund and $24.5 million provided to the San Francisco Unified School District.

Proprietary Funds

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

At the end of the current fiscal year, the unrestricted net assets for the Airport were $224.1 million, the Water Enterprise $80.2 million, the Hetch Hetchy Water and Power were $173.7 million, the Wastewater Enterprise Program were $30.5 million, the Port were $32.0 million and the Market Corporation were $4.8 million. In addition, the MTA, the San Francisco General Hospital and Laguna Honda Hospital had deficits in unrestricted net assets of $105.6 million, $92.0 million and $50.8 million, respectively.

The following table shows actual revenues, expenses and results of operations for the current fiscal year in the City's proprietary funds (in thousands). As seen here, the total net assets for these funds increased by approximately $55.7 million due to current year operations. Reasons for this change are discussed in the previous section on the City's business-type activities.

	Operating Revenues	Operating Expenses	Operating Income (Loss)	Non-Operating Revenues (Expense)	Capital Contributions and Others	Interfund Transfers, Net	Change In Net Assets
Airport	$ 576,738	$ 474,206	$ 102,532	$ (99,490)	$ 44,204	$ (28,100)	19,146
Water	265,218	277,970	(12,752)	(33,371)	-	(493)	(46,616)
Hetch Hetchy	128,590	118,387	10,203	3,190	-	(1,400)	11,993
Municipal Transportation Agency	303,117	894,931	(591,814)	219,120	114,133	262,704	4,143
General Hospital	482,448	653,864	(171,416)	64,622	-	80,993	(25,801)
Wastewater Enterprise	209,843	185,512	24,331	(9,599)	-	-	14,732
Port	66,579	72,517	(5,938)	876	5,518	10,616	11,072
Laguna Honda Hospital	123,828	188,181	(64,353)	2,957	16,398	111,504	66,506
Market Corporation	1,681	1,119	562	11	-	-	573
Total	$ 2,158,042	$ 2,866,687	$ (708,645)	$ 148,316	$ 180,253	$ 435,824	$ 55,748

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 service employees. At the end of the current fiscal year, the net assets of the Retirement System and Health Services System combined totaled $13.2 billion, representing a $1.25 billion increase over the prior year, a 10.5 percent change. This increase is primarily a result of market increases and the net difference between contributions received by the funds and benefit payments made from the funds. The Investment Trust Fund's net assets were $582.6 million at year's end, compared to $565.4 million at the end of the previous fiscal year. This 3.0 percent increase represents the increase in additions over withdrawals or distributions to external participants of the funds in the current year.

General Fund Budgetary Highlights

The City's final budget differs from the original budget in that it contains carry-forward appropriations for various programs and projects, and supplemental appropriations approved during the fiscal year.

During the year, actual revenues and other resources were $55.3 million more than budgeted. The City realized $39.3 million, $37.3 million, $19.0 million, $7.6 million and $5.6 million more revenue than budgeted in property taxes, real property transfer tax, hotel room tax, utility users tax and fines, forfeitures, and penalties, respectively. These increases were partly offset by $53.5 million shortfall of actual revenue compared to budgeted revenue in other categories, namely, business taxes, federal grants and subventions, charges for services and other resources.

Differences between the final budget and the actual (budgetary basis) expenditures resulted in $83.5 million in expenditure savings. Major factors include:

- $24.2 million savings in the Human Services Agency, due largely to lower than budgeted client assistance and aid as well as other operating costs.

- $13.4 million in savings on general administration and finance and other general city responsibilities from salary-related expenditures and non-personnel service.

- $16.7 million in savings due to close-out of unspent General Reserve not used for supplemental appropriation or other contingencies during fiscal year 2009-2010.

- $7.8 million savings mainly in Police, Emergency Communication and Fire departments from salary and benefit related expenditures.

- $8.5 million in savings due to non-personnel services costs in the Department of Public Health. In addition, the General Services Agency – Department of Public Works and Business and Economic Development had a combined savings of $4.2 million primarily from capital projects.

The net effect of moderate revenue increases, savings in expenditures and reduction in reserve balances was a positive unreserved budgetary fund balance available for subsequent year appropriation of $105.3 million at the end of fiscal year 2009-2010. The City's fiscal year 2010-2011 Adopted Original Budget assumed an available balance of $79.9 million, so an additional $25.4 million remains available. (See also Note 4 to the Basic Financial Statements for additional fund balance details).

Capital Assets and Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2010, increased by $744.2 million, 6.0 percent, to $13.23 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, streets, bridges and intangible assets. Governmental activities contributed $148.9 million or 1.2 percent to this total while $595.3 million or 4.8 percent was from business-type activities. Details are shown in the table below.

	Governmental Activities		Business-type Activities		Total	
	2010	2009	2010	2009	2010	2009
Land	$ 155,512	$ 155,512	$ 179,652	$ 180,919	$ 335,164	$ 336,431
Construction in progress	313,127	187,133	1,953,226	1,328,692	2,266,353	1,515,825
Facilities and Improvement	2,324,634	2,337,478	6,249,690	6,306,617	8,574,324	8,644,095
Machinery and equipment	52,504	58,648	809,949	785,888	862,453	844,536
Infrastructure	315,906	290,144	770,195	793,866	1,086,101	1,084,010
Property held under lease	-	-	24	2,218	24	2,218
Intangible assets	16,139	-	93,434	62,694	109,573	62,694
Total	$ 3,177,822	$ 3,028,915	$ 10,056,170	$ 9,460,894	$ 13,233,992	$ 12,489,809

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

- Under governmental activities, net capital assets increased by $148.9 million mainly due to the increase in construction in progress and completed assets at various park and recreational sites, branch libraries, various street improvement and traffic signal upgrades. Among the various city-wide parks, libraries, public works and traffic signal projects and building improvement projects, the General Hospital Rebuild Project which is funded with General Obligations Bonds proceeds and recorded in governmental activities grew by $86.1 million during the fiscal year. About $83.9 million worth of construction-in-progress work was substantially completed and capitalized as facilities and improvement and infrastructure. Of the completed projects, about $10.5 million in public library improvements and approximately $36.7 million is for various parks and recreation centers such as Hamilton Pool, Sunnyside Clubhouse, and various park improvement projects including the Golden Gate Park. The remaining completed projects include public works and traffic signal projects.

- The Water Enterprise's net capital assets increased by $363.1 million or 24.2 percent. Close to $240.1 million, or 66.1 percent, of the change reflects the net increase in construction-in-progress on the enterprise's ten-year capital plan, including the Water System Improvement Program. Major additions to construction work included Tesla Treatment Facility, New Crystal Springs Bypass Tunnel, Bay Division Pipeline Reliability Upgrade, Irvington Tunnel alternatives, and other Water System Improvement Program (WSIP). The total estimated cost for the WSIP is $4.6 billion, including $4.1 billion for capital projects and $0.5 billion for net financing costs. The program is on target to meet an overall completion date of December 2015. During the fiscal year, there is an increase of $123.7 million or 8.7 percent in structures, buildings, equipment and intangible assets, and a decrease of $0.7 million in land and rights-of-way due to reclassification to intangible assets. The Water Enterprise has incurred 73 percent share or $28.2 million in development costs for an office building located at 525 Golden Gate Avenue. Construction started in January 2010 with an expected completion date of February 2012, with an expected occupancy date of April 2012.

- MTA's net capital assets increased by $11.3 million or 0.6 percent, compared to the previous year, which was attributed to an increase in construction work for new and existing projects with a corresponding increase in depreciation expense for existing assets. Phase II of the Third Street Light Rail Project, the "Central Subway" Project proceeded with detail design. This project will link the existing 5.2 mile Phase I T-Line, beginning at Caltrain and 4th Street and King Streets, to BART, Union Square and Chinatown to the north. The rail replacement project and reconstruction work on overhead replacement programs are part of the ongoing program to keep the system in good repair and to replace aging parts of the track network. MTA also incurred acquisition and design costs to refurbish and modernize the farebox collection system in the subway stations, to replace the radio communication system on the fleets, light rail wheel truing machines, an on-board camera project and the renovation and rehabilitation of streetcars. Construction costs of $17.5 million was also incurred for maintenance facility projects.

- Laguna Honda Hospital's net capital assets increased by $77.6 million or 18.0 percent due primarily to construction-in-progress on the capital project to rebuild the hospital. This work is principally funded by the Laguna Honda General Obligation Bonds and the Certificates of Participation issued by the City.

- General Hospital's net capital assets decreased by $1.5 million or 2.9 percent, primarily because the rate of depreciation expense is higher than the increase in minor improvement projects. The hospital rebuild project was managed and financed by governmental activities with the second and third series of general obligation bonds totaling $294.7 million issued in the current fiscal year. The total amount approved by the voters for the rebuilt project is $887.4 million and total issued amount as of June 30, 2010 was $426.3 million.

- The Wastewater Enterprise's net capital assets reported a slight increase of $2.7 million or 0.2 percent mainly in construction activities. These include the Channel Pump Station Improvements Phase 2, Southeast Water Pollution and Odor Control Improvements, Sewer Spot Replacements and other capital projects throughout the system. The Wastewater Enterprise has incurred 15 percent share or $5.8 million in development costs for the office building at 525 Golden Gate Avenue.

- Hetch Hetchy net capital assets increased by $12.1 million or 4.4 percent during the year. Contributing to this net increase was acquisition of machinery and equipment and facilities improvements. The enterprise has a reclassification of $30 million in intangible assets of water rights and emission reduction credits from facilities and improvements asset class during the year.

- The Airport's net capital assets increased $127.4 million or 3.6 percent largely due to major capital additions including Terminal 2 Boarding Area D Renovations, Building 575 Improvements, and various other capital improvements.

- The Port's net capital assets increased by $2.3 million or 0.9 percent mainly in construction activities that include the Pier 27 shoreside electrical power, Pier 80 security improvements and other improvement projects.

At the end of the year, the City's business-type activities had approximately $1.33 billion in commitments for various capital projects. Of this, Water Enterprise had an estimated $913.6 million, MTA had $175.8 million, Wastewater had $27.1 million, Airport had $109.5 million, Hetch Hetchy had $29.7 million, Port had $7.1 million, Laguna Honda Hospital had $61.3 million and the General Hospital had $1.9 million. In addition, there was approximately $80.3 million reserved for encumbrances in capital project funds for the general government projects.

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

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

Debt Administration

At the end of the current fiscal year, the City had total long-term and commercial paper debt outstanding of $10.10 billion. Of this amount, $1.39 billion is general obligation bonds backed by the full faith and credit of the City and $8.71 billion is revenue bonds, loans, certificates of participation, capital leases, and other debts of the City secured solely by specified revenue sources.

As noted previously, the City's total long-term debt including all bonds, loans, commercial paper notes and capital leases increased by $2.06 billion during fiscal year 2009-2010, due to the issuance of new debt in the governmental and business-type activities. The net increase in obligations due to issuance of new debt in governmental activities was $117.5 million. For the business-type activities, the net increase in obligations was $1.94 billion primarily due to the issuance of revenue bonds by almost all enterprises, except MTA, Laguna Honda, and Market Corporation, to fund various capital projects and acquisition of equipment.

The business-type activities issued a combined total of $3.31 billion revenue bonds, of which $1.23 billion was for refunding and restructuring Airport's long term debt for debt service and cash flow saving through five refunding bond transactions during the fiscal year. A number of which were made possible by the tax provisions of the American Recovery and Reinvestment Act of 2009, the economic stimulus package enacted by Congress. Several series of Airport's revenue bonds that were traded at distressed levels due to the credit rating downgrade of the liquidity facility provided by the financial institution because of the global financial crisis and those that were subject to the AMT tender were refunded during these transactions. The Airport also issued $485.8 million of revenue bonds to fund new capital projects for the first time in about a decade. The San Francisco Water enterprise also issued a total of $1.31 billion of revenue bonds, to refund $229.6 million commercial paper notes and $14.4 million outstanding revenue bonds as well as to provide new money for the WSIP capital projects and the Advanced Meter Infrastructure project. The San Francisco Wastewater enterprise issued a total of $239.6 million revenue bonds to redeem approximately $103.5 million commercial paper notes and to fund the Sewer System Improvement Program capital projects. In addition, the City's Public Utilities Commission issued $167.7 million certificates of participation to fund construction of the future headquarters building of the San Francisco Public Utilities Commission (PUC) at 525 Golden Gate Avenue. Each of the three enterprises has an ownership interest in the building equal to their projected usage of space and each is responsible for a portion of the annual debt service payments based on their ownership percentages less contributed equity which is as follows: Water Enterprise (71.4%), Wastewater Enterprise (18.9%), and Hetch Hetchy Water and Power Enterprise (9.7%). The Port Commission issued $36.5 million in revenue bonds to provide funds for the design, construction, reconstruction and improvements to various Port facilities during the fiscal year. The City also issued $22.5 million in certificates of participation to finance the replacement of the back-up generator for the San Francisco General Hospital.

The City issued a total of $355.1 million in general obligation bonds, of which $294.7 million and $60.4 million are to fund the General Hospital rebuild project and for various park and neighborhood facilities improvement projects, respectively. Lease revenue bonds for $10.3 million were issued through the City and County of San Francisco Finance Corporation to finance equipment purchase. The City issued an additional $37.9 million in certificates of participation for the acquisition and construction of improvements to various City streets.

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 $161.79 billion in value as of the close of the fiscal year. As of June 30, 2010, the City had $1.39 billion in authorized, outstanding property tax-supported general obligation bonds at par, which is equal to approximately 0.82 percent of gross (0.86 percent of net) taxable assessed value of property. As of June 30, 2010, there were an additional $847.1 million in bonds that were authorized but unissued. If all of these general obligation bonds were issued and outstanding in full, the total debt burden would be approximately 1.33 percent of gross (1.38 percent of net) taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2010 were:

Moody's Investors Service, Inc.	Aa1
Standard & Poor's	AA
Fitch Ratings	AA

During the fiscal year, Moody's Investors Service (Moody's) and Fitch Ratings recalibrated the City's ratings to Aa1 and AA from Aa2 and AA-, respectively. Fitch Ratings assigned their negative rating outlook on all the City's outstanding bonds in February 2010. Moody's revised the rating outlook from stable to negative in June 30, 2010. Standard & Poor's affirmed their ratings with a stable outlook.

In November 2010, Moody's downgraded to Aa2 from Aa1 the rating on the City's general obligation bonds. Moody's also downgraded by one notch their ratings on the City's various general fund obligations, including its abatement leases and settlement obligation bonds. The outlook on the City's ratings has been revised to stable.

The City's enterprise activities maintained their underlying debt ratings this fiscal year. Fitch upgraded the Airport's long-term credit rating from "A" with a Positive Rating Outlook to "A+" with a Stable Rating Outlook. Moody's Investors Services and Standard & Poor's maintained their long-term rating of "A1" and "A" respectively. The San Francisco Water Enterprise carried underlying ratings of "Aa2" and "AA-" from Moody's and Standard & Poor's, respectively. The San Francisco Waste Water Enterprise carried underlying ratings of "Aa3" and "AA-" from Moody's and Standard & Poor's respectively.

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

<u>Economic factors and next year's budget and rates</u>

The City, like the State, is expected to continue to face economic challenges over the next few years. The following economic factors were considered in the City's fiscal year 2010-2011 budget.

- San Francisco's economy has not yet recovered from the effects of the recession throughout fiscal year 2009-2010, and continues to experience high unemployment rates. In addition, housing prices, residential and commercial rent, hotel revenues, industry employment, and retail sales all remained significantly below their pre-recession peaks.
- Unemployment in San Francisco began the fiscal year in July 2009 at 9.6% and closed the fiscal year at the same rate.
- The wage and salary employment base of San Francisco fell by 2,800 jobs between June 2009 and June 2010, a decline of 0.5%. This decline compares with a 4.9% drop in employment during FY 2008-2009, and suggests that San Francisco's employment picture has stabilized, but not recovered, in the past year.
- Although there was a 1.8% increase in jobs in the leisure and hospitality sector in San Francisco and California in fiscal year 2009-2010, it did not translate into growth for the hotel sector, which is a key barometer of San Francisco tourism. Hotel room occupancy did rise, but revenue per available hotel room declined significantly.
- Tax revenue declines resulted in the need for mid-year budget corrections to maintain a Charter-required balanced budget. These pressures on the City's General Fund budget are expected to continue into FY 2010-2011.
- In June 2010, the Controller's Office estimated that the FY 2011-2012 budget year would face a shortfall approaching or exceeding $400 million to fund current service and staffing levels, due to the anticipated loss of one-time revenues included in the FY 2010-2011 budget coupled with likely increases in employee benefit and other costs.

CITY AND COUNTY OF SAN FRANCISCO

REQUESTS FOR INFORMATION

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

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

Individual Department Financial Statements

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

Port of San Francisco
Public Information Officer
Pier 1, The Embarcadero
San Francisco, CA 94111

San Francisco Water Enterprise
Hetch Hetchy Water and Power
San Francisco Wastewater Enterprise
Chief Financial Officer
1155 Market Street, 4th Floor
San Francisco, CA 94103

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

Municipal Transportation Agency
SFMTA Finance and Information Technology Services
1 South Van Ness Avenue, 8th Floor
San Francisco, CA 94103

Health Service System
Executive Director
1145 Market Street, Suite 200
San Francisco, CA 94103

San Francisco General Hospital Medical Center
Chief Financial Officer
1001 Potrero Avenue, Suite 2A7
San Francisco, CA 94110

San Francisco Employees' Retirement System
Executive Director
30 Van Ness Avenue, Suite 3000
San Francisco, CA 94102

Component Unit Financial Statement

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

Blended Component Units Financial Statements

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

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

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Basic Financial Statements

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets
June 30, 2010
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelopment Agency	Treasure Island Development Authority
ASSETS AND DEFERRED OUTFLOWS					
Assets:					
Current assets:					
Deposits and investments with City Treasury	$ 1,187,714	$ 1,042,117	$ 2,229,831	$ -	$ 1,452
Deposits and investments outside City Treasury	144,989	9,247	154,236	275,850	-
Receivables (net of allowance for uncollectible amounts of $104,838 for the primary government):					
Property taxes and penalties	66,324	-	66,324	4,813	-
Other local taxes	184,587	-	184,587	-	-
Federal and state grants and subventions	279,967	56,398	336,365	-	-
Charges for services	48,382	235,701	284,083	-	1,128
Interest and other	33,521	49,392	82,913	1,593	2
Capital lease receivable from primary government	-	-	-	22,023	-
Due from component unit	5,764	-	5,764	-	-
Inventories	-	65,522	65,522	-	-
Deferred charges and other assets	10,237	8,278	18,515	1,031	-
Restricted assets:					
Deposits and investments with City Treasury	-	170,352	170,352	-	-
Deposits and investments outside City Treasury	-	113,186	113,186	150,839	-
Grants and other receivables	-	9,175	9,175	1,698	-
Total current assets	1,961,485	1,759,368	3,720,853	457,847	2,582
Noncurrent assets:					
Loans receivable (net of allowance for uncollectible amounts of $519,720 and $295,621 for the primary government and component unit, respectively)	72,294	-	72,294	4,603	-
Advance to component units	17,923	4,227	22,150	-	-
Capital lease receivable from primary government	-	-	-	129,776	-
Deferred charges and other assets	24,141	63,389	87,530	13,418	-
Restricted assets:					
Deposits and investments with City Treasury	-	1,123,195	1,123,195	-	-
Deposits and investments outside City Treasury	89,553	661,888	751,441	4,141	-
Grants and other receivables	-	25,944	25,944	-	-
Property held for resale	-	-	-	3,633	-
Capital assets:					
Land and other assets not being depreciated	484,686	2,136,147	2,620,833	166,188	-
Facilities, infrastructure, and equipment, net of depreciation	2,693,136	7,920,023	10,613,159	132,341	-
Total capital assets	3,177,822	10,056,170	13,233,992	298,529	-
Total noncurrent assets	3,381,733	11,934,813	15,316,546	454,100	-
Total assets	5,343,218	13,694,181	19,037,399	911,947	2,582
Deferred outflows on derivative instruments	-	89,505	89,505	-	-
Total assets and deferred outflows	$ 5,343,218	$ 13,783,686	$ 19,126,904	$ 911,947	$ 2,582

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, 2010
(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	$ 260,269	$ 167,718	$ 427,987	$ 8,390	$ 383
Accrued payroll	95,946	75,003	170,949	127	-
Accrued vacation and sick leave pay	76,591	52,177	128,768	1,137	-
Accrued workers' compensation	39,582	25,533	65,115	-	-
Estimated claims payable	47,754	42,243	89,997	-	-
Bonds, loans, capital leases, and other payables	321,492	220,030	541,522	44,552	-
Capital lease payable to component unit	22,023	-	22,023	-	.
Accrued interest payable	12,680	22,982	35,662	36,004	-
Unearned grant and subvention revenues	13,346	-	13,346	-	-
Due to primary government	-	-	-	5,764	-
Internal balances	9,103	(9,103)	-	-	-
Deferred credits and other liabilities	189,205	214,922	404,127	1,469	544
Liabilities payable from restricted assets:					
Bonds, loans, capital leases, and other payables	-	159,877	159,877	-	-
Accrued interest payable	-	29,406	29,406	-	-
Other	-	138,257	138,257	-	-
Total current liabilities	1,087,991	1,139,045	2,227,036	97,443	927
Noncurrent liabilities:					
Accrued vacation and sick leave pay	66,113	38,473	104,586	1,116	-
Accrued workers' compensation	177,117	122,747	299,864	-	-
Other postemployment benefits obligation	477,633	348,287	825,920	643	-
Estimated claims payable	92,091	58,491	150,582	-	-
Bonds, loans, capital leases, and other payables	2,157,736	7,088,228	9,245,964	992,928	-
Advance from primary government	-	-	-	10,856	11,294
Capital lease payable to component unit	129,776	-	129,776	-	-
Accrued interest payable	-	-	-	50,146	-
Deferred credits and other liabilities	1,776	77,683	79,459	2,988	-
Derivative instruments liabilities	-	94,838	94,838	-	-
Total noncurrent liabilities	3,102,242	7,828,747	10,930,989	1,058,677	11,294
Total liabilities	4,190,233	8,967,792	13,158,025	1,156,120	12,221
NET ASSETS					
Invested in capital assets, net of related debt, Note 2(k)	1,833,733	4,240,971	5,699,016	157,347	-
Restricted for:					
Reserve for rainy day	39,582	-	39,582	-	-
Debt service	34,308	71,128	105,436	61,205	-
Capital projects, Note 2(k)	63,323	188,102	238,731	-	-
Community development	66,251	-	66,251	-	-
Transportation Authority activities	1,966	-	1,966	-	-
Building inspection programs	21,837	-	21,837	-	-
Children and families activities	40,886	-	40,886	-	-
Grants and other purposes	113,917	18,854	132,771	-	-
Unrestricted (deficit), Note 2(k)	(1,062,818)	296,839	(377,597)	(462,725)	(9,639)
Total net assets (deficit)	$ 1,152,985	$ 4,815,894	$ 5,968,879	$ (244,173)	$ (9,639)

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, 2010
(In Thousands)

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets — Primary Government: Governmental Activities	Primary Government: Business-Type Activities	Primary Government: Total	Component Units: San Francisco Redevelopment Agency	Component Units: Treasure Island Development Authority
Primary government:									
Governmental activities:									
Public protection	$ 1,089,309	$ 58,980	$ 124,076	$ -	$ (906,253)	$ -	$ (906,253)	$ -	$ -
Public works, transportation and commerce	225,589	71,288	57,967	43,899	(52,435)	-	(52,435)	-	-
Human welfare and neighborhood development	933,039	25,813	528,289	-	(378,937)	-	(378,937)	-	-
Community health	599,741	65,756	276,106	163	(257,716)	-	(257,716)	-	-
Culture and recreation	310,063	81,855	3,301	6,287	(218,620)	-	(218,620)	-	-
General administration and finance	221,471	35,190	2,697	-	(183,584)	-	(183,584)	-	-
General City responsibilities	80,246	37,806	4,655	-	(37,785)	-	(37,785)	-	-
Unallocated interest on long-term debt	102,635	-	-	-	(102,635)	-	(102,635)	-	-
Total governmental activities	3,562,093	376,688	997,091	50,349	(2,137,965)	-	(2,137,965)	-	-
Business-type activities:									
Airport	661,044	576,738	-	44,204	-	(40,102)	(40,102)	-	-
Transportation	897,500	303,117	112,383	114,133	-	(367,867)	(367,867)	-	-
Port	73,573	66,579	898	5,518	-	(578)	(578)	-	-
Water	325,242	265,218	1,506	-	-	(58,518)	(58,518)	-	-
Power	119,109	128,590	197	-	-	9,678	9,678	-	-
Hospitals	842,488	606,276	67,403	16,398	-	(152,411)	(152,411)	-	-
Sewer	201,403	209,843	185	-	-	8,625	8,625	-	-
Market	1,119	1,681	-	-	-	562	562	-	-
Total business-type activities	3,121,478	2,158,042	182,572	180,253	-	(600,611)	(600,611)	-	-
Total primary government	$ 6,683,571	$ 2,534,730	$ 1,179,663	$ 230,602	(2,137,965)	(600,611)	(2,738,576)	-	-
Component units:									
San Francisco Redevelopment Agency	$ 262,699	$ 26,358	$ 21,471	$ -				(214,870)	-
Treasure Island Development Authority	15,903	8,663	-	-				-	(7,240)
Total component units	$ 278,602	$ 35,021	$ 21,471	$ -				(214,870)	(7,240)
General Revenues:									
Taxes:									
Property taxes					1,345,040	-	1,345,040	86,443	-
Business taxes					354,019	-	354,019	-	-
Sales and use tax					164,769	-	164,769	-	-
Hotel room tax					186,849	-	186,849	5,896	-
Utility users tax					94,537	-	94,537	-	-
Other local taxes					194,070	-	194,070	-	-
Interest and investment income					27,877	44,471	72,348	1,885	49
Other					54,410	176,064	230,474	7,291	1,831
Transfers - internal activities of primary government					(435,824)	435,824	-	-	-
Total general revenues and transfers					1,985,747	656,359	2,642,106	101,515	1,880
Change in net assets					(152,218)	55,748	(96,470)	(113,355)	(5,360)
Net assets (deficit) - beginning					1,305,203	4,760,146	6,065,349	(130,818)	(4,279)
Net assets (deficit) - ending					$ 1,152,985	$ 4,815,894	$ 5,968,879	$ (244,173)	$ (9,639)

CITY AND COUNTY OF SAN FRANCISCO

Balance Sheet – Governmental Funds

June 30, 2010

(with comparative total financial information as of June 30, 2009)

(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2010	2009	2010	2009	2010	2009
ASSETS						
Deposits and investments with City Treasury	$ 237,888	$ 264,893	$ 920,171	$ 703,064	$ 1,158,059	$ 967,957
Deposits and investments outside City Treasury	203	337	144,786	208,684	144,989	209,021
Receivables (net of allowance for uncollectible amounts of $77,793 in 2010; $67,904 in 2009):						
Property taxes and penalties	57,785	62,351	8,539	11,364	66,324	73,715
Other local taxes	171,464	206,884	13,123	11,464	184,587	218,348
Federal and state grants and subventions	132,112	115,406	147,855	105,332	279,967	220,738
Charges for services	36,099	35,440	12,216	11,025	48,315	46,465
Interest and other	28,313	10,684	4,277	5,860	32,590	16,544
Due from other funds	36,930	24,387	11,410	4,174	48,340	28,561
Due from / advance to component unit	13,486	7,220	10,201	4,518	23,687	11,738
Loans receivable (net of allowance for uncollectible amounts of $519,720 in 2010; $510,133 in 2009)	-	-	72,294	69,413	72,294	69,413
Deferred charges and other assets	5,437	5,868	3,983	3,739	9,420	9,607
Total assets	$ 719,717	$ 733,470	$ 1,348,855	$ 1,138,637	$ 2,068,572	$ 1,872,107
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 117,339	$ 112,475	$ 132,449	$ 85,844	$ 249,788	$ 198,319
Accrued payroll	75,254	72,927	18,785	16,279	94,039	89,206
Deferred tax, grant and subvention revenues	117,925	106,811	70,043	41,179	187,968	147,990
Due to other funds	881	1,003	46,897	43,857	47,778	44,860
Deferred credits and other liabilities	216,540	138,579	118,339	118,141	334,879	256,720
Bonds, loans, capital leases, and other payables	-	-	155,035	150,000	155,035	150,000
Total liabilities	527,939	431,795	541,548	455,300	1,069,487	887,095
Fund balances:						
Reserved for rainy day	39,582	98,297	-	-	39,582	98,297
Reserved for assets not available for appropriation	14,874	11,307	28,997	19,781	43,871	31,088
Reserved for debt service	-	-	68,466	75,886	68,466	75,886
Reserved for encumbrances	69,562	65,902	210,060	167,169	279,622	233,071
Reserved for appropriation carryforward	60,935	91,075	662,674	501,006	723,609	592,081
Reserved for subsequent years' budgets	8,875	6,891	13,041	11,245	21,916	18,136
Unreserved (deficit), reported in:						
General fund	(2,050)	28,203	-	-	(2,050)	28,203
Special revenue funds	-	-	(134,178)	(69,468)	(134,178)	(69,468)
Capital projects funds	-	-	(43,798)	(26,153)	(43,798)	(26,153)
Permanent fund	-	-	2,045	3,871	2,045	3,871
Total fund balances	191,778	301,675	807,307	683,337	999,085	985,012
Total liabilities and fund balances	$ 719,717	$ 733,470	$ 1,348,855	$ 1,138,637	$ 2,068,572	$ 1,872,107

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, 2010
(In Thousands)

Fund balances – total governmental funds	$	999,085
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.		3,172,297
Bond issue costs are not financial resources and, therefore, are not reported in the funds.		19,343
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.		(3,155,814)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.		(10,745)
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.		322,840
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.		(194,021)
Net assets of governmental activities	$	1,152,985

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, 2010

(with comparative total financial information for the year ended June 30, 2009)

(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2010	2009	2010	2009	2010	2009
Revenues:						
Property taxes	$1,044,740	$ 999,528	$ 287,217	$ 272,857	$1,331,957	$1,272,385
Business taxes	353,471	387,313	548	1,340	354,019	388,653
Sales and use tax	96,605	101,662	68,164	71,132	164,769	172,794
Hotel room tax	135,521	161,714	51,328	52,746	186,849	214,460
Utility users tax	94,537	89,801	-	-	94,537	89,801
Other local taxes	194,070	126,017	-	-	194,070	126,017
Licenses, permits and franchises	24,249	24,750	9,376	7,403	33,625	32,153
Fines, forfeitures and penalties	17,279	5,618	4,976	4,076	22,255	9,694
Interest and investment income	7,900	9,193	19,138	24,354	27,038	33,547
Rents and concessions	18,733	19,096	59,794	57,918	78,527	77,014
Intergovernmental:						
Federal	211,017	172,162	237,873	190,420	448,890	362,582
State	440,021	473,187	112,620	102,587	552,641	575,774
Other	36	16	7,361	15,170	7,397	15,186
Charges for services	138,615	135,926	104,513	144,481	243,128	280,407
Other	21,856	11,199	29,167	19,119	51,023	30,318
Total revenues	2,798,650	2,717,182	992,075	963,603	3,790,725	3,680,785
Expenditures:						
Current:						
Public protection	948,772	889,594	72,733	109,924	1,021,505	999,518
Public works, transportation and commerce	40,225	61,812	203,229	186,349	243,454	248,161
Human welfare and neighborhood development	632,713	630,112	285,588	256,574	918,301	886,686
Community health	473,280	487,638	108,112	91,190	581,392	578,828
Culture and recreation	94,895	97,415	208,239	216,027	303,134	313,442
General administration and finance	169,980	170,109	17,241	20,571	187,221	190,680
General City responsibilities	86,256	72,893	242	254	86,498	73,147
Debt service:						
Principal retirement	979	938	153,072	125,563	154,051	126,501
Interest and fiscal charges	32	73	89,914	74,393	89,946	74,466
Bond issuance costs	-	-	2,145	4,746	2,145	4,746
Capital outlay	-	-	182,448	152,473	182,448	152,473
Total expenditures	2,447,132	2,410,584	1,322,963	1,238,064	3,770,095	3,648,648
Excess (deficiency) of revenues over (under) expenditures	351,518	306,598	(330,888)	(274,461)	20,630	32,137
Other financing sources (uses):						
Transfers in	94,115	136,195	208,675	216,498	302,790	352,693
Transfers out	(559,263)	(550,910)	(181,086)	(195,268)	(740,349)	(746,178)
Issuance of bonds and loans:						
Face value of bonds issued	-	-	393,010	456,935	393,010	456,935
Face value of loans issued	-	-	599	-	599	-
Premium on issuance of bonds	-	-	16,647	12,875	16,647	12,875
Payment to refunded bond escrow agent	-	-	-	(120,000)	-	(120,000)
Other financing sources-capital leases	3,733	4,157	17,013	20,724	20,746	24,881
Total other financing sources (uses)	(461,415)	(410,558)	454,858	391,764	(6,557)	(18,794)
Net change in fund balances	(109,897)	(103,960)	123,970	117,303	14,073	13,343
Fund balances at beginning of year	301,675	405,635	683,337	566,034	985,012	971,669
Fund balances at end of year	$ 191,778	$ 301,675	$ 807,307	$ 683,337	$ 999,085	$ 985,012

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, 2010
(In Thousands)

Net change in fund balances – total governmental funds	$ 14,073
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 and loss on disposal of capital assets in the current period.	149,745
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.	(134,155)
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	13,083
Some other revenues that do not provide current financial resources are not reported as revenues in the governmental funds but are recognized in the statement of activities.	41,382
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.	2,871
Lease payments on the Moscone Convention Center (including both principal and interest) are reported as expenditures in the governmental funds when paid. For the City as a whole, however, the principal portion of the payments serves to reduce the liability in the statement of net assets. This is the amount of property rent payments expended in the governmental funds that were reclassified as capital lease principal and interest payments in the current period.	18,562
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.	937
The issuance of long-term debt and capital leases provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and capital leases consume the current financial resources of governmental funds. These transactions, however, have no effect on net assets. This is the amount by which bond and other debt proceeds exceeded principal retirement in the current period.	(239,558)
Bond premiums are reported in the governmental funds when the bonds are issued, and are capitalized and amortized in the statement of net assets. This is the amount of bond premiums capitalized during the current period.	(16,647)
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.	(5,851)
The net revenues of certain activities of internal service funds are reported with governmental activities.	3,340
Change in net assets of governmental activities	$ (152,218)

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, 2010
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Budgetary Fund Balance, July 1	$ 173,747	$ 390,512	$ 390,512	$ -
Resources (Inflows):				
Property taxes	1,058,060	1,021,015	1,060,281	39,266
Business taxes	371,848	371,848	353,471	(18,377)
Other local taxes:				
Sales tax	98,233	98,233	96,605	(1,628)
Hotel room tax	117,546	116,503	135,521	19,018
Utility users tax	86,956	86,956	94,537	7,581
Parking tax	64,123	64,123	66,489	2,366
Real property transfer tax	90,325	90,325	127,581	37,256
Licenses, permits, and franchises:				
Licenses and permits	8,818	8,818	9,155	337
Franchise tax	16,320	16,320	15,093	(1,227)
Fines, forfeitures, and penalties	3,761	11,662	17,279	5,617
Interest and investment income	11,582	10,984	8,387	(2,597)
Rents and concessions:				
Garages - Recreation and Park	9,146	9,146	8,795	(351)
Rents and concessions - Recreation and Park	8,550	8,800	8,158	(642)
Other rents and concessions	1,738	1,938	1,781	(157)
Intergovernmental:				
Federal grants and subventions	235,615	231,504	212,381	(19,123)
State subventions:				
Social service subventions	97,370	96,857	108,431	11,574
Health / mental health subventions	127,325	124,114	110,647	(13,467)
Health and welfare realignment	147,270	147,270	139,319	(7,951)
Public safety sales tax	65,088	65,088	65,767	679
Motor vehicle in-lieu - county	1,412	1,412	2,339	927
Other grants and subventions	1,912	19,727	27,600	7,873
Other	86	86	36	(50)
Charges for services:				
General government service charges	42,261	42,261	38,900	(3,361)
Public safety service charges	26,193	26,193	21,923	(4,270)
Recreation charges - Recreation and Park	9,587	9,759	11,373	1,614
Medi-Cal, Medicare and health service charges	68,973	68,467	68,970	503
Other financing sources:				
Transfers from other funds	85,574	94,678	92,188	(2,490)
Repayment of loan from Component Unit	1,725	1,725	304	(1,421)
Other resources (inflows)	20,963	21,713	19,482	(2,231)
Subtotal - Resources (Inflows)	2,878,360	2,867,525	2,922,793	55,268
Total amounts available for appropriation	3,052,107	3,258,037	3,313,305	55,268

Budgetary Comparison Statement – General Fund (continued)
Year Ended June 30, 2010
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Charges to Appropriations (Outflows):				
Public Protection				
Adult Probation	$ 12,213	$ 11,495	$ 11,076	$ 419
District Attorney	32,097	32,597	32,597	-
Emergency Communications	41,056	43,122	40,910	2,212
Fire Department	253,081	251,754	250,870	884
Juvenile Probation	33,388	30,731	30,731	-
Police Department	381,414	388,211	384,497	3,714
Public Defender	23,328	24,362	24,260	102
Sheriff	144,200	136,262	136,117	145
Superior Court	30,188	36,282	35,931	351
Subtotal - Public Protection	950,965	954,816	946,989	7,827
Public Works, Transportation and Commerce				
Board of Appeals	834	818	770	48
Business and Economic Development	7,279	8,158	7,600	558
General Services Agency - Public Works	25,300	35,150	31,582	3,568
Hetch Hetchy	-	35	34	1
Municipal Transportation Agency	-	105	91	14
Water Department	-	10	10	-
Subtotal - Public Works, Transportation and Commerce	33,413	44,276	40,087	4,189
Human Welfare and Neighborhood Development				
Children, Youth and Their Families	23,785	25,024	25,021	3
Commission on the Status of Women	3,274	3,256	3,256	-
County Education Office	80	80	80	-
Environment	1,106	1,469	1,336	133
Human Rights Commission	776	871	869	2
Human Services	613,790	619,873	595,675	24,198
Mayor - Housing/Neighborhoods	1,260	6,701	6,475	226
Subtotal - Human Welfare and Neighborhood Development	644,071	657,274	632,712	24,562
Community Health				
Public Health	488,330	481,805	473,280	8,525
Culture and Recreation				
Academy of Sciences	4,288	4,169	4,065	104
Art Commission	7,673	7,398	7,345	53
Asian Art Museum	6,570	6,551	6,485	66
Fine Arts Museum	10,842	10,839	10,832	7
Law Library	706	706	563	143
Recreation and Park Commission	65,035	64,092	63,877	215
Subtotal - Culture and Recreation	95,114	93,755	93,167	588

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement – General Fund (continued)

Year Ended June 30, 2010
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
General Administration and Finance				
Assessor/Recorder	$ 14,765	$ 14,187	$ 13,647	$ 540
Board of Supervisors	10,612	10,765	10,239	526
City Attorney	8,375	8,259	8,236	23
City Planning	19,651	19,102	18,298	804
Civil Service	496	501	501	-
Controller	13,223	16,092	15,662	430
Elections	12,170	11,539	11,200	339
Ethics Commission	5,454	2,636	2,592	44
General Services Agency - Administrative Services	50,231	48,137	47,686	451
General Services Agency - Telecomm. and Info. Services	1,264	2,625	2,508	117
Human Resources	12,501	12,111	11,424	687
Mayor	4,756	5,959	5,959	-
Retirement Services	565	476	476	-
Treasurer/Tax Collector	21,557	22,518	21,443	1,075
Subtotal - General Administration and Finance	175,620	174,907	169,871	5,036
General City Responsibilities				
General City Responsibilities	90,244	94,081	85,699	8,382
Other financing uses:				
Debt Service	5,567	2,255	1,011	1,244
Transfers to other funds	528,509	564,945	558,449	6,496
Budgetary reserves and designations	40,274	16,653	-	16,653
Total charges to appropriations	3,052,107	3,084,767	3,001,265	83,502
Total Sources less Current Year Uses	$ -	$ 173,270	$ 312,040	$ 138,770
Budgetary fund balance, June 30 before reserves and designations			$ 312,040	
Reserves and designations made from budgetary fund balance, June 30			206,712	
Net Available Budgetary Fund Balance, June 30			$ 105,328	

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

Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation"	$ 3,313,305
Difference - budget to GAAP:	
The fund balance at the beginning of the year is a budgetary resource but is not a current year revenue for financial reporting purposes	(390,512)
Property tax revenue - Teeter Plan	(15,540)
Change in unrealized gain/(loss) on investments	2,999
Interest earnings / charges from other funds assigned to General Fund as interest adjustment	(3,487)
Interest earnings from other funds assigned to General Fund as other revenues	2,374
Grants, subventions and other receivables received after 120-day recognition period	(17,997)
Loan repayment from component unit	(304)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(92,188)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balances - General Fund	$ 2,798,650
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations"	$ 3,001,265
Difference - budget to GAAP:	
Capital asset purchases funded under capital leases with Finance Corporation and other vendors	3,733
Recognition of expenditures for advances and imprest cash	583
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(558,449)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - General Fund	$ 2,447,132

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets – Proprietary Funds (Continued)
June 30, 2010
(with comparative total financial information as of June 30, 2009)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco Interna-tional Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Waste-water Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total 2010	Total 2009	Governmental Activities-Internal Service Funds 2010	Governmental Activities-Internal Service Funds 2009
ASSETS AND DEFERRED OUTFLOWS													
Assets:													
Current Assets:													
Deposits and investments with City Treasury	$ 326,281	$ 113,472	$ 173,861	$ 232,862	$ 53,946	$ 49,902	$ 91,793	$ -	$ -	$ 1,042,117	$ 970,347	$ 29,655	$ 16,309
Deposits and investments outside City Treasury	10	89	10	3,843	10	89	5	1	5,190	9,247	8,041	-	-
Receivables (net of allowance for uncollectible amounts of $27,045 and $24,717 in 2010 and 2009, respectively):													
Federal and state grants and subventions	-	998	170	46,843	-	101	8,286	-	-	56,398	36,359	-	-
Charges for services	30,902	75,880	13,098	4,849	47,275	35,288	-	28,401	8	235,701	223,036	67	89
Interest and other	1,180	1,117	5,345	3,409	38,225	31	85	-	-	49,392	38,808	931	853
Loans receivable	-	-	-	-	-	-	-	-	-	-	-	19,455	21,100
Due from other funds	-	10,347	13,900	7,904	-	36	-	7,953	-	40,140	40,088	-	-
Inventories	86	1,791	287	51,671	6,201	3,246	1,013	1,227	-	65,522	63,768	-	-
Deferred charges and other assets	2,911	-	2,650	2,689	-	-	-	-	28	8,278	7,376	-	-
Restricted assets:													
Deposits and investments with City Treasury	50,515	-	-	-	-	-	51,633	68,204	-	170,352	111,256	-	-
Deposits and investments outside City Treasury	65,999	43,866	-	-	-	-	3,300	-	21	113,186	52,034	-	-
Grants and other receivables	9,175	-	-	-	-	-	-	-	-	9,175	1,257	-	-
Total current assets	487,059	247,560	209,321	354,070	145,657	88,693	156,115	105,786	5,247	1,799,508	1,552,370	50,108	38,351
Noncurrent assets:													
Deferred charges and other assets	37,155	17,371	205	1,883	-	5,246	1,529	-	-	63,389	51,526	4,199	4,233
Loans receivable	-	-	-	-	-	-	-	-	-	-	-	265,321	272,191
Advance to component unit	-	-	4,227	-	-	-	-	-	-	4,227	4,427	-	-
Restricted assets:													
Deposits and investments with City Treasury	359,958	620,347	-	9,293	-	133,597	-	-	-	1,123,195	205,715	-	-
Deposits and investments outside City Treasury	297,915	251,415	18,717	11,295	21,674	59,659	-	935	278	661,888	306,583	89,553	96,050
Grants and other receivables	21,453	273	-	4,081	-	77	-	60	-	25,944	26,410	-	-
Capital assets:													
Land and other assets not being depreciated	336,099	805,753	41,527	207,551	17,174	100,836	119,684	506,084	1,439	2,136,147	1,509,611	88	-
Facilities, infrastructure, and equipment, net of depreciation	3,375,692	1,058,600	244,243	1,761,406	35,155	1,296,776	141,355	2,903	3,893	7,920,023	7,951,283	5,437	6,363
Total capital assets	3,711,791	1,864,353	285,770	1,968,957	52,329	1,397,612	261,039	508,987	5,332	10,056,170	9,460,894	5,525	6,363
Total noncurrent assets	4,428,272	2,753,759	308,919	1,995,509	74,003	1,596,191	262,568	509,982	5,610	11,934,813	10,055,555	364,598	378,837
Total assets	4,915,331	3,001,319	518,240	2,349,579	219,660	1,684,884	418,683	615,768	10,857	13,734,321	11,607,925	414,706	417,188
Deferred outflows on derivative instruments	89,505	-	-	-	-	-	-	-	-	89,505	57,157	-	-
Total assets and deferred outflows	5,004,836	3,001,319	518,240	2,349,579	219,660	1,684,884	418,683	615,768	10,857	13,823,826	11,665,082	414,706	417,188

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets – Proprietary Funds (Continued)
June 30, 2010
(with comparative total financial information as of June 30, 2009)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco Interna-tional Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Waste-water Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total 2010	Total 2009	Governmental Activities-Internal Service Funds 2010	Governmental Activities-Internal Service Funds 2009
LIABILITIES													
Current liabilities:													
Accounts payable	$ 27,625	$ 10,161	$ 17,253	$ 64,531	$ 29,841	$ 3,912	$ 5,047	$ 9,092	$ 256	$ 167,718	$ 155,388	$ 10,481	$ 8,963
Accrued payroll	9,416	7,560	2,074	25,307	18,377	3,775	1,477	7,017	-	75,003	68,576	1,907	1,904
Accrued vacation and sick leave pay	7,955	6,366	1,520	16,873	10,545	2,747	1,100	5,071	-	52,177	51,058	1,675	1,790
Accrued workers' compensation	995	1,468	380	15,506	3,832	724	423	2,205	-	25,533	26,899	160	161
Estimated claims payable	8,978	8,719	759	20,349	-	2,708	730	-	-	42,243	26,634	-	-
Due to other funds	-	24	4,560	1,015	1,411	6,599	796	16,632	-	31,037	20,648	9,665	3,141
Deferred credits and other liabilities	61,399	5,565	843	76,527	58,437	1,502	9,935	652	62	214,922	200,520	82,861	96,201
Accrued interest payable	-	16,071	164	119	-	5,605	1,023	-	-	22,982	12,881	1,935	2,090
Bonds, loans, capital leases, and other payables	146,183	27,795	422	3,260	793	40,968	585	24	-	220,030	499,564	17,580	19,128
Liabilities payable from restricted assets:													
Bonds, loans, capital leases, and other payables	159,877	-	-	-	-	-	-	-	-	159,877	122,566	-	-
Accrued interest payable	29,406	-	-	-	-	-	-	-	-	29,406	29,296	-	-
Other	53,271	74,607	-	4,407	-	4,980	-	992	-	138,257	75,027	-	-
Total current liabilities	505,105	158,336	27,975	227,894	123,236	73,520	21,116	41,685	318	1,179,185	1,289,057	126,264	133,378
Noncurrent liabilities:													
Accrued vacation and sick leave pay	6,373	5,461	1,059	11,457	7,333	2,312	861	3,617	-	38,473	39,042	1,531	1,593
Accrued workers' compensation	4,044	6,626	1,688	76,491	18,242	3,422	2,532	9,702	-	122,747	119,112	804	866
Other postemployment benefits obligation	46,281	45,598	8,472	99,993	89,626	16,078	8,268	33,971	-	348,287	247,647	10,614	7,885
Estimated claims payable	1,035	21,021	1,112	26,572	-	8,401	350	-	-	58,491	52,109	-	-
Deferred credits and other liabilities	-	4,713	-	26,843	-	375	45,632	-	120	77,683	75,948	-	-
Bonds, loans, capital leases, and other payables	4,058,628	2,343,880	21,564	46,848	23,137	555,440	38,719	12	-	7,088,228	5,019,406	267,980	274,910
Derivative instruments liabilities	94,838	-	-	-	-	-	-	-	-	94,838	62,615	-	-
Total noncurrent liabilities	4,211,199	2,427,299	33,895	288,204	138,338	586,028	96,362	47,302	120	7,828,747	5,615,879	280,929	285,254
Total liabilities	4,716,304	2,585,635	61,870	516,098	261,574	659,548	117,478	88,987	438	9,007,932	6,904,936	407,193	418,632
NET ASSETS													
Invested in capital assets, net of related debt	(71,205)	319,581	282,698	1,918,849	50,048	970,526	256,191	508,951	5,332	4,240,971	4,204,644	5,051	5,651
Restricted:													
Debt service	54,170	12,073	-	3,408	-	1,477	-	-	-	71,128	58,716	-	-
Capital projects	81,471	3,868	-	-	-	22,801	12,989	66,973	-	188,102	140,932	-	-
Other purposes	-	-	-	16,854	-	-	-	1,701	299	18,854	31,459	-	-
Unrestricted (deficit)	224,096	80,162	173,672	(105,630)	(91,962)	30,532	32,025	(50,844)	4,788	296,839	324,395	2,462	(7,095)
Total net assets (deficit)	$ 288,532	$ 415,684	$ 456,370	$ 1,833,481	$ (41,914)	$ 1,025,336	$ 301,205	$ 526,781	$ 10,419	$ 4,815,894	$ 4,760,146	$ 7,513	$ (1,444)

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, 2010
(with comparative total financial information for the year ended June 30, 2009)
(In Thousands)

	Business-type Activities - Enterprise Funds											Governmental Activities-Internal Service Funds	
	Major Funds								Other Fund	Total			
	San Francisco Interna-tional Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Waste-water Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	2010	2009	2010	2009
Operating revenues:													
Aviation	$ 330,846	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 330,846	$ 315,777	$ -	$ -
Water and power service	-	248,369	128,345	-	-	-	-	-	-	376,714	362,692	-	-
Passenger fees	-	-	-	185,953	-	-	-	-	-	185,953	150,437	-	-
Net patient service revenue	-	-	-	-	472,122	-	-	123,263	-	595,385	556,470	-	-
Sewer service	-	-	-	-	-	202,363	-	-	-	202,363	199,332	-	-
Rents and concessions	104,457	8,584	245	5,737	2,477	-	51,690	-	-	173,190	172,557	-	48
Parking and transportation	82,876	-	-	92,352	-	-	11,958	-	-	187,186	172,988	-	-
Other charges for services	-	-	-	2,935	-	-	-	-	1,681	4,616	4,247	111,612	111,318
Other revenues	58,559	8,265	-	16,140	7,849	7,480	2,931	565	-	101,789	99,769	-	-
Total operating revenues	576,738	265,218	128,590	303,117	482,448	209,843	66,579	123,828	1,681	2,158,042	2,034,269	111,612	111,366
Operating expenses:													
Personal services	191,279	108,178	36,525	564,161	400,845	70,992	29,324	155,859	211	1,557,374	1,546,869	44,904	46,873
Contractual services	46,609	13,087	7,084	56,052	146,060	12,018	4,598	5,914	599	292,021	298,079	30,838	37,612
Light, heat and power	17,162	-	17,726	-	-	-	1,963	-	-	36,851	39,701	-	-
Materials and supplies	11,077	12,748	2,510	55,014	64,281	9,888	1,311	17,773	5	174,607	157,008	16,761	14,795
Depreciation and amortization	163,541	52,571	12,631	117,512	6,099	40,748	13,761	967	292	408,122	384,172	1,920	1,704
General and administrative	8,503	25,917	11,192	43,275	479	2,500	3,988	-	9	95,863	54,782	456	300
Services provided by other departments	10,567	47,574	5,011	55,585	36,100	32,305	16,021	7,668	-	210,831	200,373	5,706	8,245
Other	25,468	17,895	25,708	3,332	-	17,061	1,551	-	3	91,018	63,950	4,282	933
Total operating expenses	474,206	277,970	118,387	894,931	653,864	185,512	72,517	188,181	1,119	2,866,687	2,744,934	104,867	110,462
Operating income (loss)	102,532	(12,752)	10,203	(591,814)	(171,416)	24,331	(5,938)	(64,353)	562	(708,645)	(710,665)	6,745	904
Nonoperating revenues (expenses):													
Operating grants:													
Federal	-	1,506	197	38,393	-	185	898	3,272	-	44,451	17,486	-	-
State / other	-	-	-	73,990	64,131	-	-	-	-	138,121	169,319	-	-
Interest and investment income	20,691	9,823	2,738	4,927	644	2,056	2,313	1,268	11	44,471	49,691	7,315	9,219
Interest expense	(186,838)	(47,272)	(722)	(2,569)	(153)	(15,891)	(1,056)	(290)	-	(254,791)	(253,144)	(6,838)	(8,975)
Other, net	66,657	2,572	977	104,379	-	4,051	(1,279)	(1,293)	-	176,064	181,759	-	23
Total nonoperating revenues (expenses)	(99,490)	(33,371)	3,190	219,120	64,622	(9,599)	876	2,957	11	148,316	165,111	477	267
Income (loss) before capital contributions and transfers	3,042	(46,123)	13,393	(372,694)	(106,794)	14,732	(5,062)	(61,396)	573	(560,329)	(545,554)	7,222	1,171
Capital contributions	44,204	-	-	114,133	-	-	5,518	16,398	-	180,253	107,118	-	-
Transfers in	-	-	300	271,692	128,918	-	10,616	113,594	-	525,120	523,850	1,900	255
Transfers out	(28,100)	(493)	(1,700)	(8,988)	(47,925)	-	-	(2,090)	-	(89,296)	(130,591)	(165)	(29)
Change in net assets	19,146	(46,616)	11,993	4,143	(25,801)	14,732	11,072	66,506	573	55,748	(45,177)	8,957	1,397
Net asset at beginning of year, as previously reported	269,386	462,300	444,377	1,829,338	(16,113)	1,010,604	290,133	460,275	9,846	4,760,146	4,848,349	(1,444)	(2,841)
Restatements	-	-	-	-	-	-	-	-	-	-	(43,026)	-	-
Net assets (deficit) at beginning of year, as restated	269,386	462,300	444,377	1,829,338	(16,113)	1,010,604	290,133	460,275	9,846	4,760,146	4,805,323	(1,444)	(2,841)
Net assets (deficit) at end of year	$ 288,532	$ 415,684	$ 456,370	$ 1,833,481	$ (41,914)	$ 1,025,336	$ 301,205	$ 526,781	$ 10,419	$ 4,815,894	$ 4,760,146	$ 7,513	$ (1,444)

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, 2010
(with comparative total financial information for the year ended June 30, 2009)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco Interna-tional Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Waste-water Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total 2010	Total 2009	Governmental Activities-Internal Service Funds 2010	Governmental Activities-Internal Service Funds 2009
Cash flows from operating activities:													
Cash received from customers, including cash deposits............	$ 589,593	$ 246,684	$ 124,818	$ 441,625	$ 471,080	$ 209,252	$ 9,588	$ 123,487	$ 1,683	$ 2,217,810	$ 2,102,434	$ 134,361	$ 143,646
Cash received from tenants for rent...	-	8,584	251	-	2,477	-	55,518	-	-	66,830	67,424	-	-
Cash paid to employees for services.......................................	(176,049)	(91,035)	(33,208)	(535,125)	(370,813)	(65,615)	(26,764)	(146,504)	(256)	(1,445,369)	(1,409,092)	(42,412)	(43,837)
Cash paid to suppliers for goods and services..........................	(126,500)	(94,430)	(53,501)	(225,001)	(237,257)	(63,910)	(26,947)	(40,881)	(626)	(869,053)	(819,361)	(71,046)	(94,955)
Cash paid for judgments and claims.......................................	-	(4,787)	(8,721)	(20,503)	-	(1,508)	-	-	-	(35,519)	(27,876)	-	-
Net cash provided by (used in) operating activities..............	287,044	65,016	29,639	(339,004)	(134,513)	78,219	11,395	(63,898)	801	(65,301)	(86,471)	20,903	4,854
Cash flows from noncapital financing activities:													
Operating grants...	-	845	27	117,469	64,131	190	645	-	-	183,307	170,748	-	-
Transfers in..	-	-	300	252,904	128,918	-	-	54,168	-	436,290	438,460	1,900	255
Transfers out..	(28,100)	(493)	(1,700)	(8,513)	(47,925)	-	-	(2,090)	-	(88,821)	(109,462)	(165)	(29)
Transit Impact Development fees received...............................	-	-	-	484	-	-	-	-	-	484	3,687	-	-
Other noncapital financing increases.......................................	2,022	-	6,016	-	-	1,648	-	18,240	-	27,926	25,058	-	-
Other noncapital financing decreases......................................	-	-	(5,332)	(5,648)	(216)	-	-	-	-	(11,196)	(2,669)	-	-
Net cash provided by (used in) noncapital financing activities...	(26,078)	352	(689)	356,696	144,908	1,838	645	70,318	-	547,990	525,822	1,735	226
Cash flows from capital and related financing activities:													
Capital grants and other taxes restricted for capital purposes.....	35,298	-	-	107,608	-	-	1,067	16,488	-	160,461	120,602	-	-
Transfers in	-	-	-	18,788	-	-	10,616	59,426	-	88,830	52,678	-	-
Transfers out	-	-	-	-	-	-	-	-	-	-	(24,973)	-	-
Bond sale proceeds and loans received....................................	496,941	1,478,399	16,711	-	22,550	279,216	36,386	-	-	2,330,203	34,053	10,629	178,464
Proceeds from sale/transfer of capital assets............................	-	23	26	20	-	-	2	736	-	807	29,885	-	-
Proceeds from commercial paper borrowings............................	46,420	-	-	-	-	663,500	-	-	-	709,920	1,199,506	-	-
Proceeds from passenger facility charges................................	73,196	-	-	-	-	-	-	-	-	73,196	70,435	-	-
Acquisition of capital assets...	(252,827)	(352,805)	(33,033)	(115,161)	(4,553)	(44,265)	(12,663)	(80,669)	(723)	(896,699)	(691,822)	(721)	(2,115)
Retirement of capital leases, bonds and loans..........................	(118,835)	(41,005)	(422)	(4,652)	(1,142)	(51,329)	(4,473)	(77)	-	(221,935)	(811,250)	(19,127)	(167,948)
Retirement of commercial paper borrowings.............................	-	(229,600)	-	-	-	(763,500)	-	-	-	(993,100)	(203,020)	-	-
Bond issue costs paid..	-	(12,759)	(150)	-	(71)	(2,861)	(548)	-	-	(16,389)	-	(211)	(1,016)
Interest paid on debt..	(198,597)	(74,468)	(593)	(2,550)	(82)	(18,302)	(212)	(290)	-	(295,094)	(256,384)	(6,942)	(9,456)
Other capital financing increases..	-	-	-	349	-	-	1,060	-	-	1,409	-	-	-
Other capital financing decreases...	-	(10,346)	-	-	-	-	(557)	-	-	(10,903)	(4,973)	-	-
Net cash provided by (used in) capital and related financing activities............................	81,596	757,439	(17,461)	4,402	16,702	62,459	30,678	(4,386)	(723)	930,706	(485,263)	(16,372)	(2,071)
Cash flows from investing activities:													
Purchases of investments with trustees..................................	(2,504,072)	(340,412)	(4,218)	-	-	(66,912)	-	-	(262)	(2,915,876)	(3,435,539)	(34,098)	(23,716)
Proceeds from sale of investments with trustees......................	2,429,039	252,781	4,218	681	-	58,549	-	-	260	2,745,528	3,416,796	44,499	48,328
Interest and investment income..	18,976	9,936	4,887	5,385	644	2,281	2,488	1,267	11	45,875	53,645	634	2,123
Other investing activities..	-	2,783	-	-	-	-	-	(3)	-	2,780	1,472	(50)	(132)
Net cash provided by (used in) investing activities..............	(56,057)	(74,912)	4,887	6,066	644	(6,082)	2,488	1,264	9	(121,693)	36,374	10,985	26,603
Net increase (decrease) in cash and cash equivalents.................	286,505	747,895	16,376	28,160	27,741	136,434	45,206	3,298	87	1,291,702	(9,538)	17,251	29,612
Cash and cash equivalents-beginning of year..............................	447,414	152,689	176,212	229,133	47,889	98,450	101,081	64,907	5,103	1,322,878	1,332,416	73,669	44,057
Cash and cash equivalents-end of year......................................	$ 733,919	$ 900,584	$ 192,588	$ 257,293	$ 75,630	$ 234,884	$ 146,287	$ 68,205	$ 5,190	$ 2,614,580	$ 1,322,878	$ 90,920	$ 73,669

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Cash Flows – Proprietary Funds (continued)
Year ended June 30, 2010
(with comparative total financial information for the year ended June 30, 2009)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco Interna-tional Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Waste-water Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total 2010	Total 2009	Governmental Activities-Internal Service Funds 2010	Governmental Activities-Internal Service Funds 2009
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:													
Operating income (loss)	$ 102,532	$ (12,752)	$ 10,203	$ (591,814)	$ (171,416)	$ 24,331	$ (5,938)	$ (64,353)	$ 562	$ (708,645)	$ (710,665)	$ 6,745	$ 904
Adjustments for non-cash activities:													
Depreciation and amortization	163,541	52,571	12,631	117,512	6,099	40,748	13,761	967	292	408,122	384,172	1,920	1,704
Provision for uncollectibles	73	834	-	-	-	1,374	520	-	-	2,801	(240)	-	-
Write-off of capital assets	-	7,043	12,455	-	-	10,790	-	-	-	30,288	7,627	-	-
Other	4,671	-	265	107,233	-	-	-	-	-	112,169	118,649	-	23
Changes in assets/liabilities:													
Receivables, net	(245)	(11,123)	(4,709)	(1,165)	(14,973)	(1,963)	244	(445)	2	(34,377)	(12,213)	18,708	23,527
Due from other funds	-	197	758	-	-	(5)	-	-	-	950	(717)	-	(54)
Inventories	(5)	58	(26)	(1,445)	(846)	340	148	23	-	(1,753)	(7,305)	-	-
Deferred charges and other assets	(4,323)	-	828	(2,414)	-	3	(123)	-	-	(6,029)	(3,683)	-	6
Accounts payable	8,999	(4,617)	2,778	8,968	10,508	(3,979)	291	(9,549)	(55)	13,344	18,908	1,841	962
Accrued payroll	904	714	256	1,229	2,178	277	108	279	-	5,945	6,080	3	(49)
Accrued vacation and sick leave pay	446	373	39	(312)	361	(19)	(41)	(297)	-	550	3,486	(177)	(627)
Accrued workers' compensation	(175)	(523)	(237)	1,912	389	(267)	648	522	-	2,269	(1,265)	(63)	(27)
Other postemployment benefits obligation	14,055	14,631	2,673	26,208	27,104	4,665	2,452	8,852	-	100,640	127,264	2,729	3,738
Estimated claims payable	-	20,099	(8,440)	(544)	-	749	180	-	-	12,044	(14,023)	-	-
Due to other funds	-	1	-	(780)	-	217	124	-	-	(438)	2,285	(131)	225
Deferred credits and other liabilities	(3,429)	(2,490)	165	(3,592)	6,083	958	(979)	103	-	(3,181)	(4,831)	(10,672)	(25,478)
Total adjustments	184,512	77,768	19,436	252,810	36,903	53,888	17,333	455	239	643,344	624,194	14,158	3,950
Net cash provided by (used in) operating activities	$ 287,044	$ 65,016	$ 29,639	$ (339,004)	$ (134,513)	$ 78,219	$ 11,395	$ (63,898)	$ 801	$ (65,301)	$ (86,471)	$ 20,903	$ 4,854
Reconciliation of cash and cash equivalents to the statement of net assets:													
Deposits and investments with City Treasury:													
Unrestricted	$ 326,281	$ 113,472	$ 173,861	$ 232,862	$ 53,946	$ 49,902	$ 91,793	$ -	$ -	$ 1,042,117	$ 970,347	$ 29,655	$ 16,309
Restricted	410,473	620,347	-	9,293	-	133,597	51,633	68,204	-	1,293,547	316,971	-	-
Deposits outside of City Treasury:													
Unrestricted	10	89	10	3,843	10	89	5	1	5,190	9,247	8,041	-	-
Restricted	363,914	295,281	18,717	11,295	21,674	59,659	3,300	935	299	775,074	358,617	89,553	96,050
Total deposits and investments	1,100,678	1,029,189	192,588	257,293	75,630	243,247	146,731	69,140	5,489	3,119,985	1,653,976	119,208	112,359
Less: Investments outside of City Treasury not meeting the definition of cash equivalents	(366,759)	(128,605)	-	-	-	(8,363)	(444)	(935)	(299)	(505,405)	(331,098)	(28,288)	(38,690)
Cash and cash equivalents at end of year on statement of cash flows	$ 733,919	$ 900,584	$ 192,588	$ 257,293	$ 75,630	$ 234,884	$ 146,287	$ 68,205	$ 5,190	$ 2,614,580	$ 1,322,878	$ 90,920	$ 73,669
Non-cash capital and related financing activities:													
Acquisition of capital assets on accounts payable and capital lease	$ 58,822	$ 74,607	$ 5,926	$ 14,228	$ -	$ 4,980	$ 1,731	$ -	$ 125	$ 160,419	$ 86,149	$ 9,715	$ 4,264
Tenant improvements financed by rent credits	-	-	-	-	-	-	2,015	-	-	2,015	1,315	-	-
Land acquired through real property exchange	-	-	-	-	-	-	-	-	-	-	500	-	-
Net capitalized interest	17,672	36,131	-	-	-	3,790	-	-	-	57,593	-	-	-
Improvements acquired from early termination of lease	-	-	-	-	-	-	11	-	-	11	-	-	-
Bond refunding	1,283,685	-	-	-	-	-	-	-	-	1,283,685	293,753	-	-
Interfund loan	-	-	4,560	-	-	5,787	-	-	-	10,347	-	-	-
Donated inventory	-	-	-	-	1,594	-	-	-	-	1,594	-	-	-

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, 2010
(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund	Agency Funds
ASSETS			
Deposits and investments with City Treasury	$ 69,193	$ 585,010	$ 76,162
Deposits and investments outside City Treasury:			
Cash and deposits	12,834	105	-
Short-term investments	583,208	-	-
Alternative investments	1,763,500	-	-
Debt securities	4,058,835	-	-
Equity securities	5,733,593	-	-
Real estate	1,009,001	-	-
Foreign currency contracts, net	6,387	-	-
Receivables:			
Employer and employee contributions	40,056	-	51,604
Brokers, general partners and others	155,528	-	-
Interest and other	45,123	344	195,340
Invested in securities lending collateral	964,858	-	-
Deferred charges and other assets	-	-	28,424
Total assets	14,442,116	585,459	$ 351,530
LIABILITIES			
Accounts payable	43,043	2,854	$ 78,230
Estimated claims payable	12,424	-	-
Agency obligations	-	-	273,300
Payable to brokers	219,697	-	-
Deferred Retirement Option Program liabilities	8,653	-	-
Payable to borrowers of securities	966,502	-	-
Deferred credits and other liabilities	40,785	-	-
Total liabilities	1,291,104	2,854	$ 351,530
NET ASSETS			
Held in trust for pension and other employee benefits and external pool participants	$ 13,151,012	$ 582,605	

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, 2010
(In Thousands)

	Pension and Other Employee Benefit Trust Funds	Investment Trust Fund
Additions:		
Employees' contributions	$ 301,866	$ -
Employer contributions	771,799	-
Contributions to pooled investments	-	3,117,306
Total contributions	1,073,665	3,117,306
Investment income/loss:		
Interest	195,676	9,079
Dividends	139,161	-
Net appreciation in fair value of investments	1,334,684	-
Securities lending income	34,730	-
Total investment income	1,704,251	9,079
Less investment expenses:		
Securities lending borrower rebates and expenses	(4,007)	-
Other investment expenses	(44,206)	-
Total investment expenses	(48,213)	-
Total additions, net	2,729,703	3,126,385
Deductions:		
Benefit payments	1,452,990	-
Refunds of contributions	11,997	-
Distribution from pooled investments	-	3,109,161
Administrative expenses	13,833	-
Total deductions	1,478,820	3,109,161
Change in net assets	1,250,883	17,224
Net assets at beginning of year	11,900,129	565,381
Net assets at end of year	$ 13,151,012	$ 582,605

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

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

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

Discretely Presented Component Units

San Francisco Redevelopment Agency (The Agency) – The Agency is a public body, corporate and politic, organized and existing under the Community Redevelopment Law of the State of California. Seven commissioners who are appointed by the Mayor, subject to confirmation by the City's Board of Supervisors, govern it. The Agency has adopted as its mission the creation of affordable housing and economic development opportunities Citywide. Included in its financial data are the accounts of the San Francisco Redevelopment Financing Authority (SFRFA), a blended component unit of the Agency. The SFRFA is a separate joint-powers authority formed between the Agency and the City to facilitate the long-term financing of Agency activities. The Agency's governing commission serves as the Board of Directors of the SFRFA.

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

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

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

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

Non-Disclosed Organizations

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Government-wide and fund financial statements

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

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

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

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

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

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

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

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

The City reports the following major governmental fund:

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

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

- The ***San Francisco International Airport Fund*** accounts for the activities of the City-owned commercial service airport in the San Francisco Bay Area.

- The ***San Francisco Water Enterprise Fund*** accounts for the activities of the San Francisco Water Enterprise (Water Enterprise). The Water Enterprise is engaged in the distribution of water to the City and certain suburban areas.

- The ***Hetch Hetchy Water and Power Enterprise Fund*** accounts for the activities of Hetch Hetchy Water and Power Department (Hetch Hetchy). The department is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity.

- The ***Municipal Transportation Agency Fund*** accounts for the activities of the Municipal Transportation Agency (MTA). The MTA was established by Proposition E, passed by the City's voters in November 1999. The MTA includes the San Francisco Municipal Railway (MUNI), San Francisco Municipal Railway Improvement Corporation (SFMRIC), and the operations of the Department of Parking and Traffic (DPT), which includes the Parking Authority. MUNI was established in 1912 and is responsible for the operations of the City's public transportation system. SFMRIC is a nonprofit corporation established to provide capital financial assistance for the modernization of MUNI by acquiring, constructing, and financing improvements to the City's public transportation system. DPT is responsible for proposing and implementing street and traffic changes and oversees the City's off-street parking operations. DPT is a separate department of the MTA. The parking garages fund accounted for the activities of various non-profit corporations formed by the Parking Authority to provide financial and other assistance to the City to acquire land, construct facilities, and manage various parking facilities.

- The ***San Francisco General Hospital Medical Center Fund*** accounts for the activities of the San Francisco General Hospital Medical Center (SFGH), a City-owned acute care hospital.

- The ***San Francisco Wastewater Enterprise Fund*** (formerly known as the Clean Water Program) was created after the San Francisco voters approved a proposition in 1976, authorizing the City to issue $240 million in bonds for the purpose of acquiring, construction, improving, and financing improvements to the City municipal sewage treatment and disposal system.

- The ***Port of San Francisco Fund*** accounts for the operation, development, and maintenance of seven and one-half miles of waterfront property of the Port of San Francisco (Port). This was established in 1969 after the San Francisco voters approved a proposition to accept the transfer of the Harbor of San Francisco from the State of California.

- The ***Laguna Honda Hospital Fund*** accounts for the activities of Laguna Honda Hospital, the City-owned skilled nursing facility which specializes in serving elderly and disabled residents.

Additionally, the City reports the following fund types:

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

- The ***Internal Service Funds*** account for the financing of goods or services provided by one City department to another City department on a cost-reimbursement basis. Internal Service Funds account for the activities of the equipment maintenance services, centralized printing and mailing services, centralized telecommunications and information services, and lease financing through the Finance Corporation.

- The ***Pension and Other Employee Benefit Trust Funds*** reflect the activities of the Employees' Retirement System and the Health Service System. The Retirement System accounts for employee contributions, City contributions, and the earnings and profits from investments. It also accounts for the disbursements made for employee retirement benefits, withdrawals, disability and death benefits as well as administrative expenses. The Health Service System accounts for contributions from active and retired employees and surviving spouses, City contributions, and the earnings and profits from investments. It also accounts for the disbursements to various health plans and health care providers for the medical expenses of beneficiaries.

- The ***Investment Trust Fund*** accounts for the external portion of the Treasurer's Office investment pool. The funds of the San Francisco Community College District, San Francisco Unified School District, the Trial Courts of the State of California and the Transbay Joint Powers Authority are accounted for within the Investment Trust Fund.

- The ***Agency Funds*** account for the resources held by the City in a custodial capacity on behalf of: the State of California, human welfare, community health, and transportation programs.

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

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

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

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

(c) Budgetary Data

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

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.

(d) Deposits and Investments

Investment in the Treasurer's Pool

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

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

The San Francisco Unified School District (School District), San Francisco Community College District (Community College District), and the City are involuntary participants in the City's investment pool. As of June 30, 2010, involuntary participants accounted for approximately 97.5% of the pool. Voluntary participants accounted for 2.5% of the pool. Further, the School District, Community College District, the Trial Courts of the State of California and the Transbay Joint Powers Authority are external participants of the City's pool. At June 30, 2010, $582.6 million was held on behalf of these external participants. The total percentage share of the City's pool that relates to these four external participants is 13.7%. Internal participants accounted for 86.3% of the pool.

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

Investment Valuation

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

Employees' Retirement System (Retirement System) – Investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established market are reported at estimated fair value derived from third party pricing services. Purchases and sales of investments are recorded on a trade date basis.

The fair values of the Retirement System's real estate investments are based on net asset values provided by the investment managers. Partnership financial statements are audited annually as of December 31 and net asset values are adjusted monthly or quarterly for cash flows to/from the Retirement System, investment earnings and expenses, and changes in fair value. The Retirement System has established leverage limits for each investment style based on the risk/return profile of the underlying investments. The leverage limits for core and value-added real estate investments are 50% and 60%, respectively. The leverage limits for high return real estate investments depend on each specific offering. Outstanding mortgages for the Retirement System's real estate investments were $917.2 million including $103.3 million in recourse debt at June 30, 2010. The underlying real estate holdings are valued periodically based on appraisals performed by independent appraisers in accordance with Uniform Standards of Professional Appraisal Practice (USPAP). Such fair value estimates involve subjective judgments of unrealized gains and losses, and the actual market price of the real estate can only be determined by negotiation between independent third parties in a purchase and sale transaction.

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

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

All securities loans can be terminated on demand by either the Retirement System or the borrower, although the average term of the loans as of June 30, 2010 was 84 days. In lending domestic securities, cash collateral is invested in the lending agent's short-term investment pool, which had a weighted average maturity as of June 30, 2010 of 28 days. In lending international securities, cash collateral is invested in a separate short-term investment pool, which had a weighted average maturity as of June 30, 2010 of 15 days. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the said collateral. Cash collateral may also be invested separately in term loans, in which case the maturity of the loaned securities matches the term of the loan.

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

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

Component Unit – San Francisco Redevelopment Agency (The Agency) – The Agency pools deposits and investments, except for certain investments restricted for developers' deposits and pledged assets relating to specific projects. The Agency's investments are stated at fair value. Fair value has been obtained by using market quotes as of June 30, 2010. Money market investments (such as short-term, highly liquid debt instruments including commercial paper, bankers' acceptances, and U.S. Treasury and Agency obligations that have a remaining maturity of less than one year at the date of purchase) and participating interest-earning investment contracts (such as negotiable certificates of deposit, repurchase agreements and guaranteed or bank investment contracts) are valued at the amortized cost, which approximates fair value as of June 30, 2010.

Investment Income

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

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

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

(e) Loans Receivable

The Mayor's Office of Housing (MOH) and the Mayor's Office of Community Development (MOCD) administer several housing and small business subsidy programs and issues loans to qualified applicants. Management has determined through policy that many of these loans may be forgiven or renegotiated and extended long into the future if certain terms and conditions of the loans are met. At June 30, 2010, it was determined that $519.7 million of the $592.0 million loan portfolio is not expected to be ultimately collected.

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

(f) Inventory

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

(g) Redevelopment Agency Property Held for Resale

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

(Dollars in Thousands)

(h) Capital Assets

Capital assets, which include land, facilities and improvements, machinery and equipment, infrastructure assets, and intangible assets, are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets, except for intangible assets, are defined as assets with an initial individual cost of more than $5 and an estimated useful life in excess of one year. Effective July 1, 2009, the City has established a capitalization threshold of $100 for intangible assets. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Amortization of assets acquired under capital leases is included in depreciation and amortization. Facilities and improvements, infrastructure, machinery and equipment, easements, and intangible assets 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
Intangible assets	Varies with type

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

(i) Accrued Vacation and Sick Leave Pay

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

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

This Program provides:

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

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

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

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

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

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

(k) Fund Equity

Reservations of Fund Equity

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

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

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

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

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

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

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

Restricted Net Assets

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

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.
- *Restricted Net Assets* – This category represents net assets that have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation. At June 30, 2010, the government-wide statement of net assets reported restricted assets of $382.1 million in governmental activities and $278.1 million in business-type activities. For governmental activities, $2.0 million is restricted by enabling legislation.
- *Unrestricted Net Assets* – This category represents net assets of the City, not restricted for any project or other purpose.

The City issued general obligation bonds and certificates of participation for the purpose of rebuilding and improving Laguna Honda Hospital. General obligation bonds were also issued for the purpose of reconstructing and improving waterfront parks and facilities on Port property. These capital assets are reported in the City's business-type activities. However, the debt service will be paid with governmental revenues and as such these general obligation bonds and certificates of participation are reported with unrestricted net assets in the City's governmental activities. In accordance with GASB guidance, the City reclassified $388.4 million of unrestricted net assets, of which $375.7 million reduced net assets invested in capital assets, net of related debt and $12.7 million reduced net assets restricted for capital projects to reflect the primary government as a whole perspective.

Deficit Net Assets/Fund Balances

The Environmental Protection Fund, Human Welfare Fund and Senior Citizens' Program Fund had deficits of $0.6 million, $2.9 million and $1.4 million, respectively, as of June 30, 2010. The deficits relate to increases of deferred tax, grant and subvention revenues on various programs which are expected to be collected beyond 120 days of the end of fiscal year 2010.

The San Francisco County Transportation Authority Fund had a $68.4 million deficit as of June 30, 2010. The deficit relates to the Authority's capital projects which are scheduled to be implemented over the course of several fiscal periods and are funded with non-current revenues.

The Moscone Convention Center Fund had a $6.3 million deficit as of June 30, 2010. The deficit will be covered as hotel tax revenues are realized.

The Central Shops Internal Service Fund had deficits in total net assets of $1.9 million as of June 30, 2010 mainly due to the other postemployment benefits liability accrued as per GASB Statement 45. The deficits are expected to be reduced in future years through anticipated rate increases or reductions in the operating expenses. The rates are reviewed and updated annually.

(l) Interfund Transfers

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

- Charges for services are recorded as revenues of the performing fund and expenditures of the requesting fund. Unbilled costs are recognized as an asset of the performing fund and a liability of the requesting fund at the end of the fiscal year.

- Reimbursements for expenditures, initially made by one fund which are properly applicable to another fund, are recorded as expenditures in the reimbursing fund and as a reduction of expenditures in the fund that is reimbursed.

(m) Refunding of Debt

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

(n) Pollution Remediation Obligations

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

(o) Cash Flows

Statements of cash flows are presented for proprietary fund types. Cash and cash equivalents include all unrestricted and restricted highly liquid investments with original purchase maturities of three months or less. Pooled cash and investments in the City's Treasury represent monies in a cash management pool and such accounts are similar in nature to demand deposits.

(p) Estimates

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

(q) Reclassifications

Certain amounts presented as 2008-2009 Summarized Comparative Financial Information in the basic financial statements have been reclassified for comparative purposes to conform to the presentation in the 2009-2010 basic financial statements.

(r) Effects of New Pronouncements

During fiscal year 2010, the City implemented the following accounting standards:

GASB issued Statement No. 51, *Accounting and Financial Reporting for Intangible Assets* in June 2007. This Statement establishes standards for recognition and measurement of intangible assets including easements and computer software. This Statement requires all capitalized intangible assets be classified as capital assets and recognized in the statement of net assets only if it is considered identifiable. Additionally, this Statement establishes a specified-conditions approach to recognizing intangible assets that are internally generated, and internally generated computer software. This Statement also establishes guidance specific to intangible assets related to amortization. The implementation of GASB Statement No. 51 did not have a significant impact on the City for the fiscal year ended June 30, 2010.

GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments* in June 2008, which became effective for financial statements beginning after June 15, 2009. The Statement addresses the recognition, measurement and disclosure of information regarding derivative instruments entered into by state and local governments. It also provides reporting guidelines for hedging derivative instruments and investment derivative instruments. Effective July 1, 2009, the City adopted the provisions of GASB Statement No. 53 and has retroactively restated its comparative 2009 financial statements. The Airport's derivative instruments are eight interest rate swaps entered into to hedge the interest payments on several series of the Airport's variable rate Second Series Revenue Bonds (see Note 8). In addition, pursuant to the requirements of GASB Statement No. 53, the City provided a summary of the Retirement System's derivative investment activities during the fiscal year and the related risks in Note 5(e).

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

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

In December 2009, GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans.* This Statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). Beginning June 30, 2010, the SFCTA will comply with GASB Statement No. 57 reporting requirements and perform OPEB actuarial valuations based on a common date.

In June 2010, GASB issued Statement No. 59, *Financial Instruments Omnibus.* This Statement updates and improves existing standards regarding financial reporting of certain financial instruments and external investment pools. Application of this Statement is effective for the City's fiscal year ending June 30, 2011.

In December 2010, GASB issued Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*. This Statement addresses how to account for and report service concession arrangements (SCAs), a type of public-private or public-public partnership that state and local governments are increasingly entering into. Common examples of SCAs include long-term arrangements between a transferor (a government) and an operator (governmental or nongovernmental entity) in which the transferor conveys to an operator the right and related obligation to provide services through the use of infrastructure or another public asset in exchange for significant consideration and the operator collects and is compensated by fees from third parties. Application of this Statement is effective for the City's fiscal year ending June 30, 2013.

In December 2010, GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*. GASB Statement No. 61 is designed to improve financial reporting for governmental entities by amending the requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, to better meet the needs of users and address reporting entity issues that have come to light since these statements were issued in 1991 and 1999, respectively. GASB Statement No. 61 improves the information presented about the financial reporting entity, which is comprised of a primary government and related entities (component units) and amends the criteria for blending – reporting component units as if they were part of the primary government – in certain circumstances. Application of this Statement is effective for the City's fiscal year ending June 30, 2013.

In December 2010, GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements.* The objective of this Statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in the following pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. This Statement also supersedes Statement No. 20, *Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting.* The requirements of this Statement are effective for the City's fiscal year ending June 30, 2013.

(Dollars in Thousands)

(s) Restricted Assets

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

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

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

Total fund balances of the City's governmental funds, $999,085, differs from net assets of governmental activities, $1,152,985, reported in the statement of net assets. The difference primarily results from the long-term economic focus in the statement of net assets versus the current financial resources focus in the governmental funds balance sheets.

	Total Governmental Funds	Long-term Assets, Liabilities (1)	Internal Service Funds (2)	Reclassi-fications and Eliminations	Statement of Net Assets Total
Assets					
Deposits and investments with City Treasury……………	$ 1,158,059	$ -	$ 29,655	$ -	$ 1,187,714
Deposits and investments outside City Treasury……….	144,989	-	89,553	-	234,542
Receivables, net:					
Property taxes and penalties……………………………	66,324	-	-	-	66,324
Other local taxes…………………………………………	184,587	-	-	-	184,587
Federal and state grants and subventions……………	279,967	-	-	-	279,967
Charges for services……………………………………	48,315	-	67	-	48,382
Interest and other………………………………………	32,590	-	931	-	33,521
Due from other funds ……………………………………	48,340	-	-	(48,340)	-
Due from component unit ………………………………	23,687	-	-	-	23,687
Loans receivable, net……………………………………	72,294	-	-	-	72,294
Capital assets, net………………………………………	-	3,172,297	5,525	-	3,177,822
Deferred charges and other assets………………………	9,420	19,343	5,615	-	34,378
Total assets………………………………………………	2,068,572	3,191,640	131,346	(48,340)	5,343,218
Liabilities					
Accounts payable…………………………………………	$ 249,788	$ -	$ 10,481	$ -	$ 260,269
Accrued payroll……………………………………………	94,039	-	1,907	-	95,946
Accrued vacation and sick leave pay……………………	-	139,498	3,206	-	142,704
Accrued workers' compensation…………………………	-	215,735	964	-	216,699
Other postemployment benefits obligation………………	-	467,019	10,614	-	477,633
Estimated claims payable…………………………………	-	139,845	-	-	139,845
Accrued interest payable…………………………………	-	10,745	1,935	-	12,680
Deferred tax, grant and subvention revenues……………	187,968	(174,622)	-	-	13,346
Due to other funds/internal balances……………………	47,778	-	9,665	(48,340)	9,103
Deferred credits and other liabilities……………………	334,879	(144,933)	1,035	-	190,981
Bonds, loans, capital leases, and other payables………	155,035	2,190,432	285,560	-	2,631,027
Total liabilities……………………………………………	1,069,487	2,843,719	325,367	(48,340)	4,190,233
Fund balances/net assets					
Total fund balances/net assets…………………………	999,085	347,921	(194,021)	-	1,152,985
Total liabilities and fund balances/net assets…………	$ 2,068,572	$ 3,191,640	$ 131,346	$ (48,340)	$ 5,343,218

(Dollars in Thousands)

(1) When capital assets (land, infrastructure, buildings, equipment, and intangible assets) 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	$ 4,138,843
Accumulated depreciation	(966,546)
	$ 3,172,297

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. .... $ 19,343

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

Accrued vacation and sick leave pay	$ (139,498)
Accrued workers' compensation	(215,735)
Other postemployment benefits obligation	(467,019)
Estimated claims payable	(139,845)
Bonds, loans, capital leases, and other payables	(2,190,432)
Deferred credits and other liabilities	(3,285)
	$(3,155,814)

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as expenditure when paid. $ (10,745)

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

Deferred tax, grant and subvention revenues	$ 174,622
Deferred credits and other liabilities	148,218
	$ 322,840

(2) Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, fleet management, printing and mailing services, and information systems, 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	$ 7,513
Adjustments for internal balances with the San Francisco Finance Corporation:	
Capital lease receivables from other governmental and enterprise funds	(284,776)
Deferred charges and other assets	1,416
Deferred credits and other liabilities	81,826
	$ (194,021)

In addition, intrafund receivables and payables among various internal service funds of $0.2 million are eliminated.

(Dollars in Thousands)

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

The net change in fund balances for governmental funds, $14,073, differs from the change in net assets for governmental activities, ($152,218), reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated below.

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

	Governmental Funds Totals	Long-term Revenues/ Expenses (3)	Capital-related Items (4)	Internal Service Funds (5)	Long-term Debt Transactions (6)	Statement of Activities Totals
Revenues						
Property taxes	$ 1,331,957	$ 13,083	$ -	$ -	$ -	$ 1,345,040
Business taxes	354,019	-	-	-	-	354,019
Sales and use tax	164,769	-	-	-	-	164,769
Hotel room tax	186,849	-	-	-	-	186,849
Utility users tax	94,537	-	-	-	-	94,537
Other local taxes	194,070	-	-	-	-	194,070
Licenses, permits and franchises	33,625	(563)	-	-	-	33,062
Fines, forfeitures and penalties	22,255	103	-	-	-	22,358
Interest and investment income	27,038	330	-	509	-	27,877
Rents and concessions	78,527	4,453	-	-	-	82,980
Intergovernmental:						
Federal	448,890	7,013	-	-	-	455,903
State	552,641	28,775	-	-	-	581,416
Other	7,397	505	-	-	-	7,902
Charges for services	243,128	788	-	-	-	243,916
Other revenues	51,023	(22)	-	-	-	51,001
Total revenues	3,790,725	54,465	-	509	-	3,845,699
Expenditures/Expenses						
Expenditures:						
Public protection	1,021,505	60,854	13,710	(6,760)	-	1,089,309
Public works, transportation and commerce	243,454	6,592	(22,115)	(2,342)	-	225,589
Human welfare and neighborhood development	918,301	14,320	418	-	-	933,039
Community health	581,392	17,223	1,126	-	-	599,741
Culture and recreation	303,134	14,005	25,433	(13,947)	(18,562)	310,063
General administration and finance	187,221	18,282	14,131	1,837	-	221,471
General City responsibilities	86,498	8	-	(7,468)	1,208	80,246
Debt service:						
Principal retirement	154,051	-	-	-	(154,051)	-
Interest and fiscal charges	89,946	-	-	6,838	5,851	102,635
Bond issuance costs	2,145	-	-	-	(2,145)	-
Capital outlay	182,448	-	(182,448)	-	-	-
Total expenditures/expenses	3,770,095	131,284	(149,745)	(21,842)	(167,699)	3,562,093
Other financing sources (uses)/changes in net assets						
Net transfers (to)/from other funds	(437,559)	-	-	1,735	-	(435,824)
Issuance of bonds and loans:						
Face value of bonds issued	393,010	-	-	-	(393,010)	-
Face value of loans issued	599	-	-	-	(599)	-
Premium on issuance of bonds	16,647	-	-	-	(16,647)	-
Other financing sources - capital leases	20,746	-	-	(20,746)	-	-
Total other financing sources (uses)/changes in net assets	(6,557)	-	-	(19,011)	(410,256)	(435,824)
Net change for the year	$ 14,073	$ (76,819)	$ 149,745	$ 3,340	$ (242,557)	$ (152,218)

(Dollars in Thousands)

(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.	$ 13,083
	Some other revenues that do not provide current financial resources are not reported as revenues in the governmental funds but are recognized in the statement of activities.	41,382
		$ 54,465
	Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Certain long-term liabilities reported in the prior year statement of net assets were paid during the current period resulting in expenditures in the governmental funds. This is the amount by which the increase in long-term liabilities exceeded expenditures in funds that do not require the use of current financial resources.	$ (134,155)
	Some expenditures reported in the governmental funds pertain to the establishment of deferred credits on long-term loans since the loans are not considered "available" to pay current period expenditures. The deferred credits are not reported in the statement of net assets and, therefore, the related expenditures are not reported in the statement of activities.	2,871
		$ (131,284)

(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	$ 235,489
Depreciation expense	(85,507)
Loss on disposal of capital assets	(237)
Difference	$ 149,745

(5)	Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, equipment maintenance, printing and mailing services, and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year.	$ 3,340

(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	$ 18,562

(Dollars in Thousands)

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	$	2,145
Amortization of bond issuance costs		(1,208)
Difference	$	937

Bond premiums are reported 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. $ (16,647)

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	$	154,051

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

General obligation bonds		(355,125)
Certificates of participation		(37,885)
Loans		(599)
		(393,609)
	$	(239,558)

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

Increase in accrued interest	$	(367)
Interest payment on capital lease obligations on the Moscone Convention Center		(7,668)
Amortization of bond premiums, discounts and refunding losses		1,822
Increase in arbitrage rebate liability		362
	$	(5,851)

(Dollars in Thousands)

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

Budgetary Results Reconciliation

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

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

The fund balance of the General Fund as of June 30, 2010 on a budget basis is reconciled to the fund balance on a GAAP basis as follows:

	General Fund
Fund Balance – Budget Basis	$ 312,040
Unrealized Gains/(Losses) on Investments	1,851
Cumulative Excess Property Tax Revenues Recognized on a Budget Basis	(71,967)
Cumulative Excess Health, Human Service, Franchise Tax and Other Revenues Recognized on a Budget Basis	(55,938)
Deferred amounts on loan receivables	(9,082)
Reserved for Assets Not Available for Appropriation	14,874
Fund Balance – GAAP Basis	$ 191,778

General Fund Budget basis fund balance at June 30, 2010 is composed of the following:

Reserved for Rainy Day – Economic Stabilization Reserve	$ 39,582	
Reserved for Encumbrances	69,562	
Reserved for Appropriation Carryforward	60,935	
Reserved for Subsequent Years' Budgets:		
Budget Savings Incentive Program – Recreation and Park	4,677	
Salaries and benefits costs (MOU)	4,198	
Total Reserved Fund Balance		$ 178,954
Designated for Litigation and Contingencies	27,758	
Unreserved, Undesignated Fund Balance – Available for Appropriation	105,328	
Total Unreserved Amounts		133,086
Fund Balance, June 30, 2010 – Budget basis		$ 312,040

Of the $105.3 million unreserved, undesignated fund balance – available for appropriation, $79.9 million has been subsequently appropriated as part of the General Fund budget for use in fiscal year 2010-2011.

(Dollars in Thousands)

(5) DEPOSITS AND INVESTMENTS

(a) Cash, Deposits and Investments Presentation

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

	Primary Government				Component Units
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	
Deposits and investments with City Treasury	$ 1,187,714	$ 1,042,117	$ 730,365	$ 2,960,196	$ 1,452
Deposits and investments outside City Treasury	144,989	9,247	13,167,463	13,321,699	275,850
Restricted assets:					
Deposits and investments with City Treasury	-	1,293,547	-	1,293,547	-
Deposits and investments outside City Treasury	89,553	775,074	-	864,627	154,980
Invested securities lending collateral	-	-	964,858	964,858	-
Total deposits and investments	$ 1,422,256	$ 3,119,985	$ 14,862,686	$ 19,404,927	$ 432,282
Cash and deposits				$ 406,479	$ 23,562
Investments				18,998,448	408,720
Total deposits and investments				$ 19,404,927	$ 432,282

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code, the City's investment policy and the Retirement System's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision. The California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure City deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits. In addition, the City's investment policy states that mortgage-backed collateral will not be accepted. As of June 30, 2010, $0.3 million of the business-type activities bank balances were exposed to custodial credit risk by not being insured or collateralized.

(b) Investment Policies

Treasurer's Pool

The City's investment policy addresses the soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. The objectives of the policy, in order of priority, are safety, liquidity, and yield. The City has established a Treasury Oversight Committee (Oversight Committee) as defined in the City Administrative Code section 10.80-3, comprised of various City officials and representatives of agencies with large cash balances, to monitor and review the management of public funds maintained in the investment pool in accordance with Sections 27130 to 27137 of the California Government Code. The Treasurer prepares and submits a comprehensive investment report to the Mayor, the Board of Supervisors, members of the Oversight Committee and the investment pool participants every month. The report covers the type of investments in the pool, maturity dates, par value, actual cost, and fair value.

(Dollars in Thousands)

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

The City's investment policy dated April 2010 also limits the purchase of negotiable certificates of deposit to the five largest domestic commercial banks that have demonstrated profitability in their most recent audited financial statements at the time of purchase. In addition, the investment policy requires that public time deposits be made only at approved financial institutions with at least one full service branch within the geographical boundaries of the City, and that they yield a minimum of 0.125% higher than equal maturity U.S. Treasury instruments except in special circumstances specifically authorized by the Treasurer. The investment policy requires deposits in excess of the Federal Deposit Insurance Corporation (FDIC) deposit insurance limit to be fully collateralized with 110% of the type of collateral authorized in California Government Code, Section 53651 (a) through (i). The current insurance limit is $250. The investment policy also requires that commercial bank deposits be made on a competitive basis with risk exposure based on financial statements and related information gathered on each individual bank.

The table below identifies the investment types that are authorized by the City's investment policy dated April 2010. The table also identifies certain provisions of the City's investment policy that address interest rate and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
U.S. Treasury bills, notes, and bonds	5 years	None	None
U.S. Agency Securities (all):	5 years	60% *	None
Federal National Mortgage Association	5 years	30% *	None
Federal Home Loan Mortgage Corporation	5 years	30% *	None
Federal Home Loan Bank	5 years **	30% *	None
Federal Farm Credit Bank	5 years **	30% *	None
Federal Agricultural Mortgage Association	5 years **	10% *	None
Resolution Trust Funding Corporation	5 years **	5% *	None
Tennessee Valley Authority	5 years **	10% *	None
Commercial Paper	270 days	25%	10% *
Bankers' Acceptances	5 years	40%	30% *
Temporary Liquidity Guarantee Program	5 years	30%	None
State and Local Government Agencies indebtedness	5 years	20%	None
Repurchase Agreements	30 days *	None	None
Reverse Repurchase Agreements	45 days *	None	$75 million
State of California Local Agency Investment Fund	5 years	Statutory	None
Bank and Thrift:			
Public Time Deposits	1 years	None	None
Public Demand Accounts	5 years	None	None
Negotiable Certificates of Deposit	5 years	30%	None

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

** Investments in these U.S. Agency Securities shall not have a weighted average maturity in excess of 270 days. If the weighted average maturity exceeds 270 days, total investments in these securities shall be restricted to 30% of the total par amount of the portfolio.

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

Other Funds

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

Employees' Retirement System

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

Investment managers are required to diversify by issue, maturity, sector, coupon, and geography. Investment managers retained by the Retirement System follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Any exemption from general guidelines requires approval from the Retirement Board. The Retirement System invests in securities with contractual cash flows, such as asset backed securities, commercial mortgage backed securities and collateralized mortgage obligations. The value, liquidity and related income of these securities are sensitive to changes in economic conditions, including real estate values, delinquencies or defaults, or both, and may be affected by shifts in the market's perception of the issuers and changes in interest rates.

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

San Francisco Redevelopment Agency

The investment policy of the Redevelopment Agency is governed by Article 2 of the California Government Code (Code). Investment of bond proceeds is limited to those investments permitted in the bond document or provided in the Code. The Agency's Investment Policy is more restrictive than the California Government Code in the following areas: 1) reverse repurchase agreements, which requires the specific approval of the Agency Commission; 2) commercial paper, which the maximum maturity is 180 days; and 3) investment in corporate notes may not exceed 15% of the Agency's portfolio.

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

(Dollars in Thousands)

(c) Investment Risks

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value is to changes in market interest rates. Information about the sensitivity to the fair values of the City's investments to market interest rate fluctuations is provided by the following table, which shows the distribution of the City's investments by maturity. The Employees' Retirement System's interest rate risk information is discussed in section (e) of this note.

			Investment Maturities			
	S&P Rating	Fair Value	Less than 1 year	1 to 5 years	5 to 10 years	More than 10 years
Primary Government:						
Investments in City Treasury:						
U.S. Treasury Bills	AAA	$ 217,451	$ 217,451	$ -	$ -	$ -
U.S. Treasury Notes	AAA	423,417	100,497	322,920	-	-
U.S. Agencies - Coupon	AAA	2,159,483	99,457	2,060,026	-	-
Temporary Liquidity Guarantee Program	AAA	987,971	248,287	739,684	-	-
Nonnegotiable certificates of deposits	n/a	25,000	25,000	-	-	-
Public time deposits	n/a	65,100	65,100	-	-	-
Less: Treasure Island Development Authority Investments with City Treasury	n/a	(1,452)	(1,452)	-	-	-
Subtotal investments in City Treasury		3,876,970	$ 754,340	$ 3,122,630	$ -	$ -
Investments Outside City Treasury: (Governmental and Business-Type)						
U.S. Treasury Bills	AAA	177,945	$ 177,945	$ -	$ -	$ -
U.S. Treasury Notes	AAA	121,010	58,193	35,779	27,038	-
U.S. Agencies - Coupon	AAA	60,198	28,177	32,021	-	-
U.S. Agencies - Discount	AAA	25,250	25,250	-	-	-
U.S. Agencies - Discount	A-1+	363,903	363,903	-	-	-
Money market mutual funds	AAAm	236,703	236,703	-	-	-
Guaranteed investment contract	AA-	15,958	-	15,958	-	-
Commercial paper	A-1	683	683	-	-	-
Certificate of deposits	n/a	446	446	-	-	-
Subtotal investments outside City Treasury		1,002,096	$ 891,300	$ 83,758	$ 27,038	$ -
Employees' Retirement System investments		14,119,382				
Total Primary Government		18,998,448				
Component Units:						
Redevelopment Agency:						
U.S. Treasury Bills	AAA	104,978	$ 104,978	$ -	$ -	$ -
U.S. Agencies - Discount	A-1	44,997	44,997	-	-	-
State Local Agency Investment Fund	n/a	15,630	15,630	-	-	-
Money market mutual funds	AAAm	237,522	237,522	-	-	-
Guaranteed investment contracts	n/a	4,141	-	-	-	4,141
Subtotal Redevelopment Agency		407,268	$ 403,127	$ -	$ -	$ 4,141
Treasure Island Development Authority:						
Investments with City Treasury	n/a	1,452	$ 1,452	$ -	$ -	$ -
Subtotal Treasure Island Development Authority		1,452	$ 1,452	$ -	$ -	$ -
Total Component Units		408,720				
Total Investments		$ 19,407,168				

One of the ways that the Treasurer manages its exposure to interest rate risk is by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. All security transactions including collateral for repurchase agreements, entered into by the Treasurer are conducted on a deliver-versus-payment basis pursuant to approved custodial safekeeping agreements. Securities are held by a third party custodian designated by the Treasurer and evidenced by safekeeping receipts. As of June 30, 2010, the investments in the City Treasury had a weighted average maturity of 710 days and its investments in floating rate securities were $120.3 million. These securities are tied to the London Interbank Offered Rate (LIBOR) index.

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

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

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The Standard & Poor's rating for each of the investment types are shown in the table above.

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

Custodial Credit Risk for Investments

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

Concentration of Credit Risk

The City's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code. U.S. Treasury and Agency securities are not subject to single issuer limitation. As of June 30, 2010, the City Treasurer has investments in U.S. Agencies that represent 5 percent or more of the total Pool in the following: Federal National Mortgage Association notes, Federal Home Loan Mortgage Corporation, Federal Farm Credit Bank, and Federal Home Loan Bank. These investments represent 17.9 percent, 14.3 percent, 13.1 percent and 10.3 percent respectively. The City Treasurer also has investments in Temporary Liquidity Guarantee Program securities issued by General Electric that represent 6.9 percent of the Pool investments.

In addition, 87.8 percent of Airport's investments with its trustees are held in Federal National Mortgage Association and 12.2 percent are held in Federal Home Loan Bank. 21.1 percent and 5.7 percent of the Finance Corporation's investments with its trustee are held in Federal National Mortgage Association and Federal Farm Credit Bank, respectively. The Redevelopment Agency held 17.8 percent of its pooled investments with the Federal Home Loan Bank.

(d) Treasurer's Pool

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2010:

Statement of Net Assets		
Net assets held in trust for all pool participants ……….	$	4,255,195
Equity of internal pool participants ………………………		3,672,590
Equity of external pool participants ………………………		582,605
Total equity ………………………………………………	$	4,255,195
Statement of Changes in Net Assets		
Net assets at July 1, 2009 ………………………………	$	3,001,542
Net change in investments by pool participants ……….		1,253,653
Net assets at June 30, 2010 …………………………	$	4,255,195

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2010 (in thousands):

Type of Investment	Rates	Maturities	Par Value	Value
U.S. government securities ………………….	0.34% - 1.11%	11/30/10 - 07/15/12	$ 638,000	$ 640,868
Federal agencies ………………………………	0.57% - 2.88%	03/23/11 - 06/24/15	2,144,841	2,159,483
Temporary Liquidity Guarantee Program ….	0.36% - 2.07%	12/10/10 - 12/21/12	967,310	987,971
Negotiable certificates of deposits …………	0.72%	09/02/10	25,000	25,000
Public time deposits …………………………	0.70% - 1.75%	07/31/10 - 05/18/11	65,100	65,100
			$ 3,840,251	3,878,422
Carrying amount of deposits in Treasurer's Pool ……				376,773
Total cash and investments in Treasurer's Pool ……				$ 4,255,195

(Dollars in Thousands)

(e) Retirement System Investments

The Retirement System's investments as of June 30, 2010 are summarized as follows:

Fixed Income Investments:	
Short-term bills and notes	$ 583,208
Debt securities:	
U.S. Government and agencies	1,177,473
Other debt securities	2,881,362
Subtotal debt securities	4,058,835
Total fixed income investments	4,642,043
Equity securities:	
Domestic	3,090,448
International	2,643,145
Total equity securities	5,733,593
Real estate holdings	1,009,001
Alternative investments	1,763,500
Foreign currency contracts, net	6,387
Investment in lending agent's short-term investment pool	964,858
Total Retirement System Investments	$ 14,119,382

Interest Rate Risk

The Retirement System does not have a specific policy to manage interest rate risk.

Below is a table depicting the segmented time distribution for fixed income investments based upon the expected maturity (in years) as of June 30, 2010:

Investment Type	Fair Value	Less than 1 year	1-5 years	5-10 years	10+ years
Asset Backed Securities	$ 123,430	$ 1,535	$ 20,739	$ 4,869	$ 96,287
Bank Loans	31,135	295	10,722	20,118	-
Collateralized Bonds	4,736	-	-	693	4,043
Commercial Mortgage-Backed	576,020	-	57,539	151,784	366,697
Corporate Bonds	1,415,786	14,315	553,286	706,884	141,301
Corporate Convertible Bonds	197,705	1,068	104,058	17,827	74,752
Government Agencies	49,369	7,906	30,478	9,528	1,457
Government Bonds	945,315	2,555	534,511	342,794	65,455
Government Mortgage-Backed Securities	246,493	45,773	-	3,316	197,404
Index Linked Government Bonds	24,715	-	9,456	1,653	13,606
Mortgages	114	-	32	82	-
Municipal/Provincial Bonds	15,628	-	2,860	-	12,768
Non-Government Backed Collateralized Mortgage Obligations	179,332	-	1,572	5,144	172,616
Options	(390)	1,086	(1,476)	-	-
Other Fixed Income	568,767	426,285	103,833	34,341	4,308
Short-term Bills and Notes	54,099	54,099	-	-	-
Short-term Investment Funds	213,222	213,222	-	-	-
Swaps	(3,433)	1,235	858	(1,590)	(3,936)
Total	$ 4,642,043	$ 769,374	$ 1,428,468	$ 1,297,443	$ 1,146,758

(Dollars in Thousands)

Credit Risk

Fixed income investment managers typically are limited within their portfolios to no more than 5% exposure in any single security, with the exception of United States Treasury and government agencies securities. The Retirement System's credit risk policy is embedded in the individual investment manager agreements as prescribed and approved by the Retirement Board.

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

The following table illustrates the Retirement System's exposure to credit risk as of June 30, 2010. Investments issued or explicitly guaranteed by the U.S. government of $933.5 million as of June 30, 2010 are not considered to have credit risk and are excluded from the table below.

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	$ 512,872	13.8%
AA	98,024	2.6%
A	294,418	8.0%
BBB	456,016	12.3%
BB	227,096	6.1%
B	281,773	7.6%
CCC	132,467	3.6%
CC	19,767	0.5%
C	2,812	0.1%
D	6,111	0.2%
Not Rated	1,677,205	45.2%
Total	$ 3,708,561	100.0%

The securities listed as "Not Rated" include short-term investment funds and investments that invest primarily in rated securities, such as commingled funds and money market funds, but do not themselves have a specific credit rating. Excluding these securities, the "Not Rated" component of credit would be approximately 10.2% for 2010.

Concentration of Credit Risk

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

As of June 30, 2010, the Retirement System had no investments of a single issuer that equal or exceed 5% of total Retirement System net assets.

Custodial Credit Risk

The Retirement System does not have a specific policy addressing custodial credit risk for investments, but it is the practice of the Retirement System that all investments are insured, registered, or held by the Retirement System or its agent in the Retirement System's name. As of June 30, 2010, $87.4 million of the Retirement System's investments were exposed to custodial credit risk because they were not insured or registered in the name of the Retirement System, and were held by the counterparty's trust department or agent but not in the Retirement System's name. Cash received as securities lending collateral is invested in a securities lending collateral investment pool and is not exposed to custodial credit risk.

(Dollars in Thousands)

Foreign Currency Risk

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

The Retirement System's net exposure to foreign currency risk as of June 30, 2010 is as follows:

Currency	Cash	Equities	Fixed Income	Alternative Investments	Real Estate	Foreign Currency Contracts	Total
Argentine peso	$ -	$ -	$ -	$ -	$ -	$ 15,246	$ 15,246
Australian dollar	(1,229)	97,985	11,803	-	-	26,850	135,409
Brazilian real	7	49,578	16,469	-	-	49,890	115,944
British pound sterling	6,758	372,888	475	305	-	44,287	424,713
Canadian dollar	5,225	80,374	39,350	-	-	(41,813)	83,136
Chilean peso	-	-	-	-	-	(6,388)	(6,388)
Chinese yuan renminbi	-	-	-	-	-	270	270
Columbian peso	-	-	822	-	-	19,815	20,637
Czech koruna	140	9,682	-	-	-	(42,771)	(32,949)
Danish krone	1,475	22,521	-	-	-	(2,447)	21,549
Egyptian pound	-	3,403	-	-	-	-	3,403
Euro	25,816	581,611	502	218,461	-	(284,260)	542,130
Ghana cedi	-	-	-	-	-	1,161	1,161
Hong Kong dollar	115	184,277	-	-	-	1,142	185,534
Hungarian forint	83	3,208	-	-	-	(693)	2,598
Indian rupee	-	-	-	-	-	34,317	34,317
Indonesian rupiah	54	14,492	796	-	-	40,035	55,377
Israeli new shekel	-	4,752	-	-	-	(30,530)	(25,778)
Japanese yen	(9,167)	428,251	1,260	-	56,871	29,763	506,978
Kazakhstan tenge	-	-	-	-	-	553	553
Malaysian ringgit	-	9,854	712	-	-	35,489	46,055
Mexican peso	333	8,150	711	-	-	67,009	76,203
New Zealand dollar	(548)	1,982	-	-	-	73,825	75,259
Norwegian krone	3,438	20,122	-	-	-	30,489	54,049
Peruvian nuevo sol	-	-	87	-	-	33,804	33,891
Philippine peso	-	-	-	-	-	29,189	29,189
Polish zloty	35	6,844	-	-	-	16,210	23,089
Romanian leu	-	-	-	-	-	1,908	1,908
Russian ruble	-	-	168	-	-	(7,586)	(7,418)
Singapore dollar	(1,656)	36,045	-	-	-	36,517	70,906
South African rand	-	39,703	175	-	-	57,602	97,480
South Korean won	1,606	77,763	-	-	-	(12,388)	66,981
Swedish krona	815	46,479	-	-	-	74,895	122,189
Swiss franc	4,404	174,515	-	(3)	-	6,694	185,610
Taiwan dollar	2,436	51,447	-	-	-	(56,970)	(3,087)
Thai baht	-	12,592	-	-	-	247	12,839
Turkish lira	-	18,019	-	-	-	65,597	83,616
United Arab Emirates dirham	109	-	3,817	-	-	-	3,926
TOTAL	$ 40,249	$ 2,356,537	$ 77,147	$ 218,763	$ 56,871	$ 306,958	$ 3,056,525

(Dollars in Thousands)

Derivative Instruments

As of June 30, 2010, the derivative instruments held by the Retirement System are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized as incurred in the statement of changes in fiduciary net assets. All investment derivatives discussed below are included within the investment risk schedules, which precede this subsection. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

The fair value of the exchange traded derivative instruments, such as futures, options, rights and warrants are based on quoted market prices. The fair values of forward foreign currency contracts are determined using a pricing service, which uses published foreign exchange rates as the primary source. The fair values of equity index swaps are determined by the Retirement System's investment managers based on quoted market prices of the underlying investment instruments.

The table below presents the notional amounts, the fair value amounts, and the related net appreciation (depreciation) in the fair value of derivative instruments that were outstanding at June 30, 2010:

Derivative Type / Contracts	Notional Amount	Fair Value	Net Appreciation (Depreciation) in Fair Value
Forwards			
Foreign Exchange Contracts	$ -	$ 6,402	$ 6,402
Futures			
Interest Rate Contracts	(1)	-	-
Options			
Foreign Exchange Contracts	1,604	505	32
Interest Rate Contracts	-	356	58
Other Contracts	(8,180)	(1,251)	(289)
Swaps			
Credit Contracts	109,925	(561)	(1,440)
Interest Rate Contracts	41,070	(4,106)	(4,106)
Other Contracts	26,300	1,235	1,235
Rights/Warrants			
Equity Contracts	3,987 shares	15,473	2,947
Total		$ 18,053	$ 4,839

All investment derivatives are reported as investments at fair value in the statement of fiduciary net assets. Rights and warrants are reported in equity securities. Foreign exchange contracts are reported in foreign currency contracts, which also include spot contracts that are not derivatives. All other derivative contracts are reported in other debt securities. All changes in fair value are reported as net appreciation (depreciation) in fair value of investments in the statement of changes in fiduciary net assets.

(Dollars in Thousands)

Counterparty Credit Risk

The Retirement System is exposed to credit risk on derivative instruments that are in asset positions. As of June 30, 2010, the fair value of forward currency contracts to purchase and sell international currencies were $18.3 million and $11.4 million, respectively. The Retirement System's counterparties to these contracts held credit ratings of A or better as assigned by one or more of the major credit rating organizations (S&P, Moody's and/or Fitch). As of June 30, 2010, the Retirement System entered into swaps held by counterparties with at least A ratings.

Custodial Credit Risk

The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement No. 40. At June 30, 2010, all of the Retirement System's investments in derivative instruments are held in the Retirement System's name and are not exposed to custodial credit risk as of June 30, 2010.

Interest Rate Risk

The table below describes the maturity periods of the derivative instruments exposed to interest rate risk at June 30, 2010.

Derivative Type / Contracts	Fair Value	Less than 1 year	1-5 years	6-10 years	10+ years
Options					
Interest Rate Contracts	$ 356	$ 356	$ -	$ -	$ -
Other Contracts	(1,251)	463	(1,714)	-	-
Swaps					
Credit Contracts	(561)	-	858	(1,419)	-
Interest Rate Contracts	(4,106)	-	-	(170)	(3,936)
Other Contracts	1,235	1,235	-	-	-
Total	$ (4,327)	$ 2,054	$ (856)	$ (1,589)	$ (3,936)

The following table details the reference rate, notional amount, and fair value of interest rate swaps at June 30, 2010 that are highly sensitive to changes in interest rates:

Investment Type	Reference Rate	Notional Value	Fair Value
Interest Rate Swaps	Receiving variable 3 month LIBOR, paying fixed (3.6%)	$ 3,100	$ (170)
Interest Rate Swaps	Receiving variable 3 month LIBOR, paying fixed (4.3%)	12,820	(1,541)
Interest Rate Swaps	Receiving variable 3 month LIBOR, paying fixed (4.2%)	25,150	(2,395)
Total		$ 41,070	$ (4,106)

(Dollars in Thousands)

Foreign Currency Risk

At June 30, 2010, the Retirement System is exposed to foreign currency risk on its investments in forwards, rights, warrants, and swaps denominated in foreign currencies. Below is the derivative instruments foreign currency risk analysis as of June 30, 2010:

Currency	Forwards	Rights/ Warrants	Swaps	Total
Argentine peso	$ (8)	$ -	$ -	$ (8)
Australian dollar	1,373	593	-	1,966
Brazilian real	(291)	48	-	(243)
British pound sterling	(1,323)	-	-	(1,323)
Canadian dollar	6,710	-	-	6,710
Chilean peso	1,889	-	-	1,889
Chinese yuan renminbi	(97)	-	-	(97)
Colombian peso	(713)	-	-	(713)
Czech koruna	1,708	-	-	1,708
Danish krone	(3)	-	-	(3)
Euro	11,315	3	-	11,318
Hong Kong dollar	-	4	-	4
Hungarian forint	1,822	-	-	1,822
Indian rupee	348	-	-	348
Indonesian rupiah	(12)	-	-	(12)
Japanese yen	(9,035)	-	-	(9,035)
Malaysian ringgit	(405)	-	-	(405)
Mexican peso	223	-	-	223
New Zealand dollar	1,897	-	-	1,897
Norwegian krone	875	-	-	875
Peruvian nuevo sol	(80)	-	-	(80)
Philippine peso	312	-	-	312
Polish zloty	1,823	-	-	1,823
Singapore dollar	(25)	-	-	(25)
South African rand	223	-	-	223
South Korean won	3,690	-	-	3,690
Swedish krona	2,185	-	-	2,185
Swiss franc	(7,551)	-	(3)	(7,554)
Thai baht	(7)	-	-	(7)
Turkish lira	920	-	-	920
Russian ruble	664	-	-	664
Romanian leu	9	-	-	9
Taiwan dollar	315	-	-	315
Israeli new shekel	507	-	-	507
	$ 19,258	$ 648	$ (3)	$ 19,903

Contingent Features

At June 30, 2010, the Retirement System held no positions in derivatives containing contingent features.

Currency Management Program

The Retirement System's currency management program is managed by three investment managers. During fiscal year 2010, the objective of the currency management program was altered. Prior to January 2010, the objectives of the program were to: 1) systematically manage currency exposure in an effort to reduce overall plan volatility; 2) systematically manage currency exposure to reduce the volatility of its international equity portfolio; and 3) enhance diversification since the excess returns of currency trading has historically had a low correlation to the excess returns of traditional equity and fixed income asset classes. Starting in January 2010 and with the approval of the Retirement Board, the objective of the currency management program has been to produce a risk-adjusted return of approximately 100 basis points.

The Retirement System's international equity managers do not actively manage the underlying currency risk. Currency risk can be reduced through an active currency management program.

Each currency manager manages currency risk through foreign exchange spot and forward contracts, and currency options. Only international equities are subject to the currency management program. The Retirement System's international fixed income currency exposure is actively managed by four developed market bond managers and two emerging market bond managers. All four developed bond managers have discretion to invest in U.S. or international developed markets.

As of June 30, 2010, the Retirement System's allocation to international equities (including cash and other assets) totaled $2.75 billion, which represented 20.9% of plan net assets, which is primarily denominated in foreign currencies. For the year ended June 30, 2010, the currency overlay program gained $23.7 million or 0.87% of the international equity portfolio (including cash and other assets) and 0.182% of the Retirement System's average total portfolio.

Securities Lending

The Retirement System lends U.S. government obligations, domestic and international bonds, and equities to various brokers with a simultaneous agreement to return collateral for the same securities plus a fee in the future. The securities lending agent manages the securities lending program and receives securities and cash as collateral. Cash and non-cash collateral is pledged at 102% and securities at 105% of the fair value of domestic securities and non-domestic securities lent, respectively. There are no restrictions on the amount of securities that can be lent at one time. However, starting in the year ended June 30, 2009, the Retirement System engaged in a systematic reduction of the value of securities on loan with a target of no more than ten percent (10%) of total fund assets on loan at anytime. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the said collateral.

As of June 30, 2010, the Retirement System lent $1.07 billion in securities and received collateral of $0.97 billion and $0.15 billion in cash and securities, respectively, from borrowers. The cash collateral is invested in the securities lending agent's short-time investment pool. Due to the decline in the fair value of assets held by the short-term investment pool, the Retirement System's invested cash collateral was valued at $0.96 billion. The net unrealized gains and losses of $1.6 million are presented as part of the net appreciation in fair value of investments in the statement of changes in fiduciary net assets. The Retirement System is exposed to investment risk including the possible loss of principal value in the short-term investment pool due to the fluctuation in the fair value of assets held by the short-term investment pool.

The Retirement System does not have the ability to pledge or sell collateral securities unless a borrower defaults. The securities collateral is not reported on the statement of fiduciary net assets. As of June 30, 2010, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes them exceed the amounts they owe the Retirement System. As with other extensions of credit, the Retirement System may bear the risk of delay in recovery or of rights in the collateral should the borrower of securities fail financially. However, the lending agent indemnifies the Retirement System against all borrower defaults.

The Retirement System's securities lending transactions as of June 30, 2010, are summarized in the following table (in thousands):

Security Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Securities Collateral
Securities Loaned for Cash Collateral:			
International Equities	$ 135,351	$ 145,418	$ -
International Corporate Fixed Income	2,119	2,242	-
International Government Fixed Income	3,042	3,229	-
U.S. Government Agencies	10,504	10,710	-
U.S. Corporate Fixed Income	172,352	177,128	-
U.S. Equities	487,659	502,808	-
U.S. Government Fixed Income	121,913	124,967	-
Securities Loaned with Non-Cash Collateral:			
International Equities	117,907	-	129,258
International Government Fixed Income	14,097	-	14,900
U.S. Equities	206	-	212
U.S. Government Fixed Income	2,505	-	2,571
Total	$ 1,067,655	$ 966,502	$ 146,941

Investments in Real Estate Holdings

Real estate investments represent the Retirement System's interest in real estate limited partnerships. The changes in these investments during the year ended June 30, 2010 are summarized as follows:

Investments:	
Beginning of the year	$ 1,181,932
Capital investments	45,165
Equity in net earnings	64,707
Net depreciation in fair value	(226,118)
Capital distributions	(56,685)
End of the year	$ 1,009,001

(6) PROPERTY TAXES

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

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

The Proposition 13 limitations on general property taxes do not limit taxes levied to pay the interest and redemption charges on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13). Proposition 13 was amended in 1986 to allow property taxes in excess of the 1% tax rate limit to fund general obligation bond debt service when such bonds are approved by two-thirds of the local voters. In 2000, California voters approved Proposition 39 which set the approval threshold at 55% for school facilities-related bonds. These "override" taxes for debt service amounted to approximately $169 million for the year ended June 30, 2010.

Taxable valuation for the year ended June 30, 2010 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Redevelopment Agency) was approximately $152 billion, an increase of 8.0%. The secured tax rate was $1.159 per $100 of assessed valuation. After adjusting for a State mandated property tax shift to schools, the tax rate is comprised of: $0.65 for general government, $0.35 for other taxing entities including the San Francisco Unified School District, San Francisco Community College District, the Bay Area Air Quality Management District and the Bay Area Rapid Transit District, and also $0.159 for bond debt service. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 2.83% and 4.78%, respectively, of the current year tax levy, for an average delinquency rate of 2.95% of the current year tax levy.

As established by the Teeter Plan, the Controller allocates to the City and other agencies 100% of the secured property taxes billed but not yet collected by the City; in return, as the delinquent property taxes and associated penalties and interest are collected, the City retains such tax amounts in the Agency Fund. To the extent the Agency Fund balances are higher than required; transfers may be made to benefit the City's General Fund on a budgetary basis. The balance of the tax loss reserve as of June 30, 2010 was $17.5 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.

Under the provisions of Proposition 1A and as part of the 2009-10 budget package passed by the California state legislature on July 28, 2009, the State of California borrowed 8% of the amount of property tax revenue, including those property taxes associated with the in-lieu motor vehicle license fee, the triple flip in lieu sales tax, and supplemental property tax, apportioned to cities, counties and special districts (excluding redevelopment agencies). The state is required to repay this borrowing plus interest by June 30, 2013. After repayment of this initial borrowing, the California legislature may consider only one additional borrowing within a ten-year period.

(Dollars in Thousands)

Authorized with the 2009-10 State budget package, the Proposition 1A Securitization Program was instituted by the California Statewide Communities Development Authority ("California Communities"), a joint powers authority sponsored by the California State Association of Counties and the League of California Cities, to enable local governments to sell their Proposition 1A receivables to California Communities. Under the Securitization Program, California Communities simultaneously purchased the Proposition 1A receivables and issued bonds ("Prop 1A Bonds") to provide local agencies with cash proceeds in two equal installments, on January 15, 2010 and May 3, 2010. The purchase price paid to the local agencies equaled 100% of the amount of the property tax reduction. All transaction costs of issuance and interest were paid by the State of California. Participating local agencies have no obligation on the bonds and no credit exposure to the State. The City participated in the securitization program and accordingly property taxes have been recorded in the same manner as if the State had not exercised its rights under Proposition 1A. The receivable sale proceeds were equal to the book value and, as a result, no gain or loss was recorded. The amount of this borrowing pertaining to the City was $89.2 million.

(7) CAPITAL ASSETS

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2010 was as follows:

Governmental Activities:

	Balance July 1, 2009	Increases *	Decreases *	Balance June 30, 2010
Capital assets, not being depreciated:				
Land	$ 155,512	$ -	$ -	$ 155,512
Intangible assets	-	16,047	-	16,047
Construction in progress	187,133	209,898	(83,904)	313,127
Total capital assets, not being depreciated	342,645	225,945	(83,904)	484,686
Capital assets, being depreciated:				
Facilities and improvements	2,959,968	47,636	(4,400)	3,003,204
Machinery and equipment	323,898	13,270	(6,144)	331,024
Infrastructure	327,798	35,525	-	363,323
Intangible assets	-	104	-	104
Total capital assets, being depreciated	3,611,664	96,535	(10,544)	3,697,655
Less accumulated depreciation for:				
Facilities and improvements	622,490	57,885	(1,805)	678,570
Machinery and equipment	265,250	19,405	(6,135)	278,520
Infrastructure	37,654	9,763	-	47,417
Intangible assets	-	12	-	12
Total accumulated depreciation	925,394	87,065	(7,940)	1,004,519
Total capital assets, being depreciated, net	2,686,270	9,470	(2,604)	2,693,136
Governmental activities capital assets, net	$ 3,028,915	$ 235,415	$ (86,508)	$ 3,177,822

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

(Dollars in Thousands)

Business-type Activities:

Capital asset activity of the business enterprises for the year ended June 30, 2010, was as follows:

San Francisco International Airport

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets, not being depreciated:				
Land	$ 2,787	$ -	$ -	$ 2,787
Construction in progress	109,900	298,467	(75,055)	333,312
Total capital assets, not being depreciated	112,687	298,467	(75,055)	336,099
Capital assets, being depreciated:				
Facilities and improvements	5,088,064	58,540	(3,772)	5,142,832
Machinery and equipment	79,161	8,752	(1,943)	85,970
Intangible assets	139,617	1,469	-	141,086
Total capital assets, being depreciated	5,306,842	68,761	(5,715)	5,369,888
Less accumulated depreciation for:				
Facilities and improvements	1,701,445	151,944	(2,509)	1,850,880
Machinery and equipment	52,786	4,383	(1,940)	55,229
Intangible assets	80,873	7,214	-	88,087
Total accumulated depreciation	1,835,104	163,541	(4,449)	1,994,196
Total capital assets, being depreciated, net	3,471,738	(94,780)	(1,266)	3,375,692
Capital assets, net	$ 3,584,425	$ 203,687	$ (76,321)	$ 3,711,791

San Francisco Water Enterprise

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets, not being depreciated:				
Land	$ 18,386	$ -	$ (679)	$ 17,707
Intangible assets [1]	-	679	-	679
Construction in progress	547,293	417,265	(177,191)	787,367
Total capital assets, not being depreciated	565,679	417,944	(177,870)	805,753
Capital assets, being depreciated:				
Facilities and improvements	1,426,180	123,062	(667)	1,548,575
Machinery and equipment	146,788	49,456	(605)	195,639
Intangible assets [1]	-	3,973	-	3,973
Total capital assets, being depreciated	1,572,968	176,491	(1,272)	1,748,187
Less accumulated depreciation for:				
Facilities and improvements	537,920	46,940	-	584,860
Machinery and equipment	99,467	5,631	(371)	104,727
Total accumulated depreciation	637,387	52,571	(371)	689,587
Total capital assets, being depreciated, net	935,581	123,920	(901)	1,058,600
Capital assets, net	$ 1,501,260	$ 541,864	$ (178,771)	$ 1,864,353

[1] As a result of the adoption of GASB Statement No. 51, the Water Enterprise Fund reclassified $4,652 in intangible assets as of June 30, 2010, primarily composed of $3,973 of Customer Care & Billing computer software and $679 of easements.

(Dollars in Thousands)

Hetch Hetchy Water and Power

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets, not being depreciated:				
Land	$ 4,676	$ -	$ (11)	$ 4,665
Intangible assets (2)	-	1,437	-	1,437
Construction in progress	38,965	33,579	(37,119)	35,425
Total capital assets, not being depreciated	43,641	35,016	(37,130)	41,527
Capital assets, being depreciated:				
Facilities and improvements	489,342	11,938	(45,604)	455,676
Machinery and equipment	55,162	14,945	(177)	69,930
Intangible assets (2)	-	45,604	-	45,604
Total capital assets, being depreciated	544,504	72,487	(45,781)	571,210
Less accumulated depreciation for:				
Facilities and improvements	280,866	10,057	(15,283)	275,640
Machinery and equipment	33,640	2,574	(1,927)	34,287
Intangible assets (2)	-	17,040	-	17,040
Total accumulated depreciation	314,506	29,671	(17,210)	326,967
Total capital assets, being depreciated, net	229,998	42,816	(28,571)	244,243
Capital assets, net	$ 273,639	$ 77,832	$ (65,701)	$ 285,770

Municipal Transportation Agency

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets, not being depreciated:				
Land	$ 26,245	$ -	$ -	$ 26,245
Construction in progress	110,563	127,351	(56,608)	181,306
Total capital assets, not being depreciated	136,808	127,351	(56,608)	207,551
Capital assets, being depreciated:				
Facilities and improvements	594,010	11,751	-	605,761
Machinery and equipment	1,176,718	36,984	(20,181)	1,193,521
Infrastructure	1,107,755	9,911	-	1,117,666
Total capital assets, being depreciated	2,878,483	58,646	(20,181)	2,916,948
Less accumulated depreciation for:				
Facilities and improvements	187,507	13,343	-	200,850
Machinery and equipment	530,139	71,947	(19,601)	582,485
Infrastructure	339,985	32,222	-	372,207
Total accumulated depreciation	1,057,631	117,512	(19,601)	1,155,542
Total capital assets, being depreciated, net	1,820,852	(58,866)	(580)	1,761,406
Capital assets, net	$ 1,957,660	$ 68,485	$ (57,188)	$ 1,968,957

(2) As a result of the adoption of GASB Statement No. 51, the Hetch Hetchy Water and Power Enterprise Fund reclassified $45,616 of water rights and easements and recorded $1,425 of emission reduction credits for a total of $47,041 in intangible assets as of June 30, 2010.

(Dollars in Thousands)

San Francisco General Hospital Medical Center

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets, not being depreciated:				
Land	$ 542	$ -	$ -	$ 542
Construction in progress	13,109	3,523	-	16,632
Total capital assets, not being depreciated	13,651	3,523	-	17,174
Capital assets, being depreciated:				
Facilities and improvements	136,084	787	-	136,871
Machinery and equipment	57,953	243	-	58,196
Total capital assets, being depreciated	194,037	1,030	-	195,067
Less accumulated depreciation for:				
Facilities and improvements	103,740	4,174	-	107,914
Machinery and equipment	50,073	1,925	-	51,998
Total accumulated depreciation	153,813	6,099	-	159,912
Total capital assets, being depreciated, net	40,224	(5,069)	-	35,155
Capital assets, net	$ 53,875	$ (1,546)	$ -	$ 52,329

San Francisco Wastewater Enterprise

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets, not being depreciated:				
Land	$ 21,787	$ -	$ (577)	$ 21,210
Intangible assets (3)	-	1,153	-	1,153
Construction in progress	77,330	50,527	(49,384)	78,473
Total capital assets, not being depreciated	99,117	51,680	(49,961)	100,836
Capital assets, being depreciated:				
Facilities and improvements	2,109,382	34,468	(737)	2,143,113
Machinery and equipment	58,013	2,282	(2,419)	57,876
Intangible assets (3)	-	3,434	-	3,434
Total capital assets, being depreciated	2,167,395	40,184	(3,156)	2,204,423
Less accumulated depreciation for:				
Facilities and improvements	843,406	37,884	(2,199)	879,091
Machinery and equipment	28,183	2,864	(2,491)	28,556
Total accumulated depreciation	871,589	40,748	(4,690)	907,647
Total capital assets, being depreciated, net	1,295,806	(564)	1,534	1,296,776
Capital assets, net	$ 1,394,923	$ 51,116	$ (48,427)	$ 1,397,612

(3) As a result of the adoption of GASB Statement No. 51, the Wastewater Enterprise Fund reclassified $4,587 of intangible assets as of June 30, 2010, primarily composed of $3,434 of customer care and billing computer software and $1,153 of easements.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements
June 30, 2010
(Dollars in Thousands)

Port of San Francisco

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets, not being depreciated:				
Land	$ 105,582	$ -	$ -	$ 105,582
Construction in progress	6,157	14,380	(6,435)	14,102
Total capital assets, not being depreciated	111,739	14,380	(6,435)	119,684
Capital assets, being depreciated:				
Facilities and improvements	324,936	10,937	(2,142)	333,731
Machinery and equipment	16,501	1,358	(1,676)	16,183
Infrastructure	25,984	1,928	-	27,912
Intangible assets	8,849	-	(6,070)	2,779
Total capital assets, being depreciated	376,270	14,223	(9,888)	380,605
Less accumulated depreciation for:				
Facilities and improvements	213,079	12,520	(2,142)	223,457
Machinery and equipment	11,389	1,268	(1,624)	11,033
Infrastructure	(112)	3,288	-	3,176
Intangible assets	4,899	165	(3,480)	1,584
Total accumulated depreciation	229,255	17,241	(7,246)	239,250
Total capital assets, being depreciated, net	147,015	(3,018)	(2,642)	141,355
Capital assets, net	$ 258,754	$ 11,362	$ (9,077)	$ 261,039

Laguna Honda Hospital

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets, not being depreciated:				
Land	$ 914	$ -	$ -	$ 914
Construction in progress	424,501	80,669	-	505,170
Total capital assets, not being depreciated	425,415	80,669	-	506,084
Capital assets, being depreciated:				
Facilities and improvements	21,960	-	-	21,960
Machinery and equipment	13,824	-	-	13,824
Property held under lease	2,890	-	(2,119)	771
Total capital assets, being depreciated	38,674	-	(2,119)	36,555
Less accumulated depreciation for:				
Facilities and improvements	19,407	585	-	19,992
Machinery and equipment	12,606	307	-	12,913
Property held under lease	672	75	-	747
Total accumulated depreciation	32,685	967	-	33,652
Total capital assets, being depreciated, net	5,989	(967)	(2,119)	2,903
Capital assets, net	$ 431,404	$ 79,702	$ (2,119)	$ 508,987

(Dollars in Thousands)

Other Fund - San Francisco Market Corporation

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets, not being depreciated:				
Construction in progress	$ 874	$ 595	$ (30)	$ 1,439
Total capital assets, not being depreciated	874	595	(30)	1,439
Capital assets, being depreciated:				
Facilities and improvements	9,630	95	-	9,725
Machinery and equipment	89	9	(46)	52
Total capital assets, being depreciated	9,719	104	(46)	9,777
Less accumulated depreciation for:				
Facilities and improvements	5,601	269	-	5,870
Machinery and equipment	38	13	(37)	14
Total accumulated depreciation	5,639	282	(37)	5,884
Total capital assets, being depreciated, net	4,080	(178)	(9)	3,893
Capital assets, net	$ 4,954	$ 417	$ (39)	$ 5,332

Total Business-type Activities

	Balance July 1, 2009	Increases *	Decreases *	Balance June 30, 2010
Capital assets, not being depreciated:				
Land	$ 180,919	$ -	$ (1,267)	$ 179,652
Intangible assets	-	3,269	-	3,269
Construction in progress	1,328,692	1,026,356	(401,822)	1,953,226
Total capital assets, not being depreciated	1,509,611	1,029,625	(403,089)	2,136,147
Capital assets, being depreciated:				
Facilities and improvements	10,199,588	251,578	(52,922)	10,398,244
Machinery and equipment	1,604,209	114,029	(27,047)	1,691,191
Infrastructure	1,133,739	11,839	-	1,145,578
Property held under lease	2,890	-	(2,119)	771
Intangible assets	148,466	54,480	(6,070)	196,876
Total capital assets, being depreciated	13,088,892	431,926	(88,158)	13,432,660
Less accumulated depreciation for:				
Facilities and improvements	3,892,971	277,716	(22,133)	4,148,554
Machinery and equipment	818,321	90,912	(27,991)	881,242
Infrastructure	339,873	35,510	-	375,383
Property held under lease	672	75	-	747
Intangible assets	85,772	24,419	(3,480)	106,711
Total accumulated depreciation	5,137,609	428,632	(53,604)	5,512,637
Total capital assets, being depreciated, net	7,951,283	3,294	(34,554)	7,920,023
Capital assets, net	$ 9,460,894	$ 1,032,919	$ (437,643)	$ 10,056,170

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

(Dollars in Thousands)

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

Governmental activities:		
Public protection	$	14,682
Public works transportation and commerce		13,173
Human welfare and neighborhood development		520
Community health		1,131
Culture and recreation		37,162
General administration and finance		18,839
Capital assets held by the City's internal service funds charged to the various functions on a prorated basis		1,558
Total depreciation expense – governmental activities	$	87,065
Business-type activities:		
Airport	$	163,541
Water		52,571
Hetch Hetchy Water and Power		12,631
Transportation		117,512
Hospitals		7,066
Sewer		40,748
Port		13,761
Market		282
Total depreciation expense – business-type activities	$	408,112

Equipment is generally estimated to have useful lives of 2 to 40 years, except for certain equipment of the Water Enterprise that has an estimated useful life of up to 75 years. Facilities and improvements are generally estimated to have useful lives from 15 to 50 years, except for utility type assets of the Water Enterprise, Hetch Hetchy Water and Power (Hetch Hetchy), the Wastewater Enterprise, the Municipal Transportation Agency (MTA), and the Port of San Francisco (Port) that have estimated useful lives from 51 to 175 years. These long-lived assets include reservoirs, aqueducts, pumping stations of Hetch Hetchy, Cable Car Barn facilities and structures of MTA, and pier substructures of the Port, which totaled $1.6 billion as of June 30, 2010. Hetch Hetchy Water and Power (Hetch Hetchy) had an intangible asset of water rights having estimated useful lives from 15 to 50 years, which totaled $45.6 million as of June 30, 2010. In addition, the Water Enterprise had utility type assets with useful lives over 100 years, which totaled $6.8 million as of June 30, 2010.

During the fiscal year ended June 30, 2010, the City's enterprise funds incurred total interest expense and interest income of approximately $254.8 million and $44.5 million, respectively. Of these amounts, interest expense of approximately $60.0 million was capitalized, which was offset by $2.4 million of interest income was received as part of the cost of constructing proprietary capital assets.

During fiscal year ended June 30, 2010, the Water Enterprise, Hetch Hetchy, and the Wastewater Enterprise expensed $7.0 million, $2.1 million, and $10.8 million, respectively, related to capitalized design and planning costs on certain projects that were discontinued. The amounts of the write-off were recognized as other operating expenses in the accompanying financial statements.

(Dollars in Thousands)

Component Unit –Redevelopment Agency

Capital asset activity of the Redevelopment Agency for the year ended June 30, 2010 was as follows:

	Balance July 1, 2009	Increases	Decreases	Balance June 30, 2010
Capital assets, not being depreciated:				
Property held under lease..	$ 137,969	$ 4,611	$ -	$ 142,580
Construction in progress..	23,504	104	-	23,608
Total capital assets, not being depreciated	161,473	4,715	-	166,188
Capital assets, being depreciated:				
Facilities and improvements......................................	177,503	144	-	177,647
Machinery and equipment..	8,120	-	-	8,120
Leasehold improvements...	22,202	-	-	22,202
Total capital assets, being depreciated……………..	207,825	144	-	207,969
Less accumulated depreciation for:				
Facilities and improvements......................................	53,236	4,440	-	57,676
Machinery and equipment..	7,908	50	-	7,958
Leasehold improvements...	9,550	444	-	9,994
Total accumulated depreciation..............................	70,694	4,934	-	75,628
Total capital assets, being depreciated, net............	137,131	(4,790)	-	132,341
Redevelopment Agency capital asssets, net...........	$ 298,604	$ (75)	$ -	$ 298,529

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

Changes in Short-Term Obligations

The changes in short-term obligations for governmental and business-type activities for the year ended June 30, 2010, are as follows:

Type of Obligation	July 1, 2009	Additional Obligation	Current Maturities	June 30, 2010
Governmental activities:				
Commercial paper				
San Francisco County Transportation Authority…..	$ 150,000	$ -	$ -	$ 150,000
Moscone Convention Center ……………………….	-	5,035	-	5,035
Government activities short-term obligations.……	$ 150,000	$ 5,035	$ -	$ 155,035
Business-type activities:				
Commercial paper				
San Francisco International Airport……………….	$ 106,280	$ 46,420	$ (24,040)	$ 128,660
San Francisco Water Enterprise……………………	229,600	-	(229,600)	-
San Francisco Wastewater Enterprise…………….	100,000	663,500	(763,500)	-
Business-type activities short-term obligations…..	$ 435,880	$ 709,920	$ (1,017,140)	$ 128,660

<u>San Francisco County Transportation Authority</u>

In March 2004, the San Francisco County Transportation Authority (SFCTA) issued an initial tranche of $50 million and in September 2004 the SFCTA issued the second tranche of $100 million of a programmed $200 million aggregate principal amount of commercial paper notes (Limited Tax Bonds), Series A and B. The commercial paper notes are issued to provide a source of financing for the Authority’s voter-approved Proposition K Expenditure Plan. Under this program, the SFCTA is able to issue commercial paper notes at prevailing interest rates not to exceed 12% per annum. The maximum maturity of the notes is 270 days. The principal amount of the commercial paper notes plus interest thereon is backed as to credit and liquidity by an irrevocable line of credit (LOC) issued by

Landesbank Baden–Württemberg, New York Branch in the amount up to $217.8 million. On July 12, 2005, the expiration date of the irrevocable LOC was extended from April 14, 2007 to December 29, 2015 through SFCTA Board Resolution 06-01. The commercial paper notes are secured by a first lien gross pledge of the SFCTA's Sales Tax. The principal and interest on the commercial paper notes is payable at each maturity.

As of June 30, 2010, $150 million in commercial paper notes were outstanding and maturing within 8 to 99 days after year-end with interest rates ranging from 0.32% to 0.35%.

<u>Moscone Convention Center</u>

In March 2009, the Board of Supervisor authorized the issuance of tax-exempt and taxable lease revenue commercial paper certificates of participation (CP) in an aggregate principal amount not to exceed $150 million to provide short term financing to 1) pay for acquisition, construction and rehabilitation of certain capital improvements within the City and the financing of vehicles and equipment; 2) fund capitalized interest with respect to the CP; 3) fund capitalized fees and expenses as defined in the trust agreement; and 4) pay for cost incurred in connection with the sale and delivery of the CP. In June 2010, the City obtained irrevocable lines of credit (LOC) issued by JP Morgan Chase Bank, National Association with a maximum available amount of $50.0 million and U.S. Bank, National Association with a maximum available amount of $50.0 million. Both LOCs expire on June 10, 2013.

In June 2010, the City issued commercial paper notes (Tax-Exempt), Series 2010-1 in the amount of $5 million to reimburse prior expenditures and pay for project expenditures from June through August 2010 for the Moscone Center Improvement project, and related issuance fees and cost. As of June 30, 2010, the outstanding principal amount of CP was $5 million with a interest rate of 0.30% and a maturity date of September 8, 2010.

<u>San Francisco International Airport</u>

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

As of June 30, 2010, the outstanding principal amount of CP was $128.7 million. The proceeds of the CP will be used by the Airport to pay capital costs, to pay costs of CP issuance and other incidental costs, to pay certain extraordinary expenditures for which Airport funds are not otherwise available, and to pay principal and interest on maturing CP. For fiscal year 2010, the interest rate for the taxable CP ranged from 0.35% to 0.75%; interest rates for tax-exempt private activity (AMT) CP ranged from 0.30% to 0.35% and the interest rates on tax-exempt governmental purpose CP (non-AMT) ranged from 0.28% to 0.30%.

<u>San Francisco Water Enterprise</u>

The San Francisco Public Utilities Commission and Board of Supervisors have authorized the issuance of up to $500 million in commercial paper. During the fiscal year 2010, $229.6 million in outstanding commercial paper was refunded as part of the Series 2009A Water Revenue Bond issuance. The Water Enterprise Fund has no commercial paper notes outstanding as at June 30 2010.

<u>San Francisco Wastewater Enterprise</u>

The San Francisco Public Utilities Commission and Board of Supervisors have authorized the issuance of up to $150 million in commercial paper under the voter-approved 2002 Proposition E for the purpose of reconstructing, expanding, repairing or improving the Wastewater Enterprise's facilities. During the fiscal year 2010, $103.5 million in outstanding commercial paper was refunded as part of the 2010 Series A and B Wastewater Revenue Bonds issuance. The Wastewater Enterprise Fund has no commercial paper notes outstanding as at June 30, 2010.

(Dollars in Thousands)

Long-Term Obligations

The following is a summary of long-term obligations of the City as of June 30, 2010:

GOVERNMENTAL ACTIVITIES

Type of Obligation and Purpose	Final Maturity Date	Remaining Interest Rate	Amount
GENERAL OBLIGATION BONDS [a]:			
Affordable housing	2014	6.50% - 6.75%	$ 4,545
California Academy of Sciences	2025	3.125% - 5.25%	71,405
Laguna Honda Hospital	2030	3.25% - 5.00%	154,020
Branch libraries	2028	3.00% - 5.00%	72,670
Parks and playgrounds	2030	3.00% - 6.26%	168,060
Schools	2023	3.00% - 4.25%	21,270
San Francisco General Hospital	2030	4.00% - 6.26%	398,310
Seismic safety loan program	2028	4.35% - 5.83%	9,940
Steinhart Aquarium	2025	3.125% - 5.00%	23,980
Zoo facilities	2025	3.00% - 5.00%	10,375
Refunding	2030	2.85% - 5.00%	452,065
General Obligation Bonds - governmental activities			1,386,640
LEASE REVENUE BONDS:			
San Francisco Finance Corporation [(b), (e) & (f)]	2034	2.00% - 5.875% *	285,675
Lease Revenue Bonds - governmental activities			285,675
OTHER LONG-TERM OBLIGATIONS:			
Certificates of participation [(c) & (d)]	2041	1.95% - 5.30%	591,815
Loans [(c), (d) & (f)]	2025	2.00% - 7.498%	10,607
Capital leases payable [(c) & (f)]	2025	3.30% - 7.05%	152,273
Settlement Obligation Bonds [(d)]	2011	3.05%	7,040
Accrued vacation and sick leave [(d) & (f)]			142,704
Accrued workers' compensation [(d) & (f)]			216,699
Estimated claims payable [(d) & (f)]			139,845
Other postemployment benefits obligation			477,633
Other long-term obligations - governmental activities			1,738,616
DEFERRED AMOUNTS:			
Bond issuance premiums			60,535
Bond issuance discounts			(3,886)
Bond refunding			(14,707)
Deferred amounts			41,942
Governmental activities total long-term obligations			$ 3,452,873

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

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

* Includes the Moscone Center West Expansion Project Refunding Bonds Series 2008-1 & 2, both of which were financed with variable rate bonds that reset weekly. The rate at June 30, 2010 for Series 2008-1 & 2 was approximately 0.25%.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements
June 30, 2010
(Dollars in Thousands)

BUSINESS-TYPE ACTIVITIES

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rate	Amount
San Francisco International Airport:			
Revenue bonds *	2039	0.75% - 6.00%	$ 4,180,365
Revenue notes	2019	6.50% - 6.75%	66,525
San Francisco Water Enterprise:			
Revenue bonds	2040	2.50% - 6.00%	2,193,090
Certificates of Participation	2042	2.00% - 6.49%	119,717
Accreted interest	2019	0.00%	3,878
Hetch Hetchy Water and Power:			
Energy bonds **	2023	-	5,481
Certificates of Participation	2042	2.00% - 6.49%	16,298
Municipal Transportation Agency:			
Parking and Traffic			
Revenue bonds	2020	4.45% - 5.00%	15,635
Lease revenue bonds	2022	4.80% - 5.50%	5,820
Downtown Parking - parking revenue refunding bonds	2018	3.00% - 5.75%	7,780
Ellis-O'Farrell - parking revenue refunding bonds	2017	3.50% - 4.70%	3,405
Uptown Parking - revenue bonds	2031	4.50% - 6.00%	16,715
San Francisco General Hospital Medical Center:			
Certificates of Participation	2026	5.55%	22,550
Capital leases	2013	2.75% - 4.00%	1,380
San Francisco Wastewater Enterprise:			
Revenue bonds	2040	3.00% - 5.82%	495,095
Certificates of Participation	2042	2.00% - 6.49%	31,655
State of California - revolving funds loans	2021	2.80% - 3.50%	61,140
Port of San Francisco:			
Revenue bonds	2040	2.72% - 7.41%	36,650
Notes, loans and other payables	2029	4.50%	2,919
Laguna Honda Hospital:			
Capital leases	2013	3.25% - 4.00%	36
Accrued vacation and sick leave			90,650
Accrued workers' compensation			148,280
Estimated claims payable			100,734
Other postemployment benefits obligation			348,287
Deferred Amounts:			
Bond issuance premiums			201,025
Bond issuance discounts			(4,587)
Bond refunding			(143,097)
Business-type activities total long-term obligations			$ 8,027,426

* Includes Second Series Revenue Bonds Issue 36 A / B, 36 C / D, 37 C / D and 2010A, which were initially issued as variable rate bonds in a weekly mode. For the fiscal year ended June 30, 2010, the average interest rate on Issue 36A and B was 0.19% and 0.22 %, respectively; for Issue 36 C and D was 0.34% and 0.34%, respectively; for Issue 37C and D was 0.35% and 0.35%, respectively; and for Issue 2010A-1, 2 & 3 was 0.28%, 0.26% & 0.26%, respectively.

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

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

(Dollars in Thousands)

COMPONENT UNIT

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rate	Amount
San Francisco Redevelopment Agency			
and Financing Authority:			
Lease Revenue Bonds:			
Moscone Convention Center [a]	2025	3.30% - 7.05%	$ 111,453
Hotel tax revenue bonds [b]	2026	4.75% - 6.75%	54,350
Financing Authority Bonds:			
Tax allocation revenue bonds [c]	2040	2.50% - 8.41%	853,453
South Beach Harbor Variable Rate			
Refunding bonds [d]	2017	Variable (0.62% at 6/30/10)	6,300
Less deferred amounts:			
Bond issuance premiums			8,894
Bond issuance discounts			(3,703)
Refunding loss			(4,081)
Subtotal			1,026,666
California Department of Boating and			
Waterways Loan [e]	2037	4.50%	7,917
Loans payable			2,897
Accreted interest payable			62,723
Accrued vacation and sick leave			2,253
Other postemployment benefits obligation			643
Component unit total long-term obligations			$ 1,103,099

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 the occupancy of guest rooms in the 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, 2010, the City's debt limit (3% of valuation subject to taxation) was $4.85 billion. The total amount of debt applicable to the debt limit was $1.39 billion. The resulting legal debt margin was $3.46 billion.

Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issue. The City has evaluated each general obligation bond and certificates of participation and has recognized an arbitrage liability of $1.5 million as of June 30, 2010. 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 $0.01

(Dollars in Thousands)

million was reported in the deferred credits and other liabilities in the Internal Service Fund as of June 30, 2010. 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, 2010, the aggregate outstanding obligation of such bonds was $139.6 million.

Changes in Long-Term Obligations

The changes in long-term obligations for governmental activities for the year ended June 30, 2010, are as follows:

	July 1, 2009	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2010	Amounts Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 1,165,141	$ 355,125	$ (133,626)	$ 1,386,640	$ 123,036
Lease revenue bonds	294,310	10,255	(18,890)	285,675	17,395
Certificates of participation	565,205	37,885	(11,275)	591,815	17,395
Settlement obligation bonds	13,890	-	(6,850)	7,040	7,040
Less deferred amounts:					
For issuance premiums	47,587	17,051	(4,103)	60,535	-
For issuance discounts	(4,034)	-	148	(3,886)	-
On refunding	(16,831)	-	2,124	(14,707)	-
Total bonds payable	2,065,268	420,316	(172,472)	2,313,112	164,866
Loans	11,329	599	(1,321)	10,607	1,406
Capital leases	164,383	4,061	(16,171)	152,273	22,208
Accrued vacation and sick leave pay	143,528	89,940	(90,764)	142,704	76,591
Accrued workers' compensation	212,881	43,551	(39,733)	216,699	39,582
Estimated claims payable	145,006	22,963	(28,124)	139,845	47,754
Other postemployment benefits obligation	338,822	209,738	(70,927)	477,633	-
Governmental activities long-term obligations	$ 3,081,217	$ 791,168	$ (419,512)	$ 3,452,873	$ 352,407

(Dollars in Thousands)

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 June 30, 2010, $285.7 million of lease revenue bonds, $0.5 million of capital leases, $3.2 million of accrued vacation and sick leave pay and $1.0 million of accrued workers' compensation and $10.6 million of other postemployment benefits obligation 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, 2010, are as follows:

	July 1, 2009	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2010	Amounts Due Within One Year
San Francisco International Airport					
Bonds payable:					
Revenue bonds	$ 3,563,705	$ 1,716,440	$ (1,099,780)	$ 4,180,365	$ 175,420
Revenue notes	314,925	-	(248,400)	66,525	1,980
Less deferred amounts:					
For issuance premiums	55,400	64,186	(9,868)	109,718	-
For issuance discounts	(8,071)	-	3,920	(4,151)	-
On refunding	(95,165)	(62,360)	41,096	(116,429)	-
Total bonds payable	3,830,794	1,718,266	(1,313,032)	4,236,028	177,400
Accrued vacation and sick leave pay	13,882	546	(100)	14,328	7,955
Accrued workers' compensation	5,214	1,683	(1,858)	5,039	995
Estimated claims payable	66	10,051	(104)	10,013	8,978
Other postemployment benefits obligation	32,226	14,055	-	46,281	-
Long-term obligations	$ 3,882,182	$ 1,744,601	$ (1,315,094)	$ 4,311,689	$ 195,328
San Francisco Water Enterprise					
Bonds payable:					
Revenue bonds	$ 921,390	$ 1,312,705	$ (41,005)	$ 2,193,090	$ 27,795
Certificates of Participation	-	119,717	-	119,717	-
Less deferred amounts:					
For issuance premiums	24,929	45,977	(4,012)	66,894	-
On refunding	(13,433)	-	1,529	(11,904)	-
Total bonds payable	932,886	1,478,399	(43,488)	2,367,797	27,795
Accreted interest payable	3,620	258	-	3,878	-
Accrued vacation and sick leave pay	11,454	8,380	(8,007)	11,827	6,366
Accrued workers' compensation	8,617	1,624	(2,147)	8,094	1,468
Estimated claims payable	9,641	26,835	(6,736)	29,740	8,719
Other postemployment benefits obligation	30,967	19,073	(4,442)	45,598	-
Long-term obligations	$ 997,185	$ 1,534,569	$ (64,820)	$ 2,466,934	$ 44,348
Hetch Hetchy Water and Power					
Bonds payable:					
Clean Renewable Energy Bonds	$ 5,903	$ -	$ (422)	$ 5,481	$ 422
Certificates of Participation	-	16,298	-	16,298	-
Less deferred amounts:					
For issuance premiums	-	413	(35)	378	-
For issuance discounts	(186)	-	15	(171)	-
Total bonds payable	5,717	16,711	(442)	21,986	422
Accrued vacation and sick leave pay	2,540	1,460	(1,421)	2,579	1,520
Accrued workers' compensation	2,305	349	(586)	2,068	380
Estimated claims payable	10,311	332	(8,772)	1,871	759
Other postemployment benefits obligation	5,799	3,843	(1,170)	8,472	-
Long-term obligations	$ 26,672	$ 22,695	$ (12,391)	$ 36,976	$ 3,081

(Dollars in Thousands)

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2010, are as follows (continued):

	July 1, 2009	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2010	Amounts Due Within One Year
Municipal Transportation Agency					
Bonds payable:					
Revenue bonds	$ 45,360	$ -	$ (1,825)	$ 43,535	$ 2,895
Lease revenue bonds	6,165	-	(345)	5,820	365
Less deferred amounts:					
For issuance premiums	794	-	(41)	753	-
Total bonds payable	52,319	-	(2,211)	50,108	3,260
Notes, loans, and other payables	2,482	-	(2,482)	-	-
Accrued vacation and sick leave pay	28,642	18,018	(18,330)	28,330	16,873
Accrued workers' compensation	90,085	17,680	(15,768)	91,997	15,506
Estimated claims payable	47,465	19,959	(20,503)	46,921	20,349
Other postemployment benefits obligation	73,785	47,903	(21,695)	99,993	-
Long-term obligations	$ 294,778	$ 103,560	$ (80,989)	$ 317,349	$ 55,988
San Francisco General Hospital Medical Center					
Bonds payable:					
Certificates of participation	$ -	$ 22,550	$ -	$ 22,550	$ -
Capital leases	2,522	-	(1,142)	1,380	793
Accrued vacation and sick leave pay	17,517	13,673	(13,312)	17,878	10,545
Accrued workers' compensation	21,685	5,919	(5,530)	22,074	3,832
Other postemployment benefits obligation	62,522	27,104	-	89,626	-
Long-term obligations	$ 104,246	$ 69,246	$ (19,984)	$ 153,508	$ 15,170
San Francisco Wastewater Enterprise					
Bonds payable:					
Revenue bonds	$ 292,660	$ 239,565	$ (37,130)	$ 495,095	$ 26,320
Certificates of participation	-	31,655	-	31,655	-
Less deferred amounts:					
For issuance premiums	16,360	7,996	(1,074)	23,282	-
On refunding	(16,491)	-	1,727	(14,764)	-
Total bonds payable	292,529	279,216	(36,477)	535,268	26,320
State of California - Revolving fund loans	75,339	-	(14,199)	61,140	14,648
Accrued vacation and sick leave pay	5,078	2,945	(2,964)	5,059	2,747
Accrued workers' compensation	4,413	454	(721)	4,146	724
Estimated claims payable	10,360	1,535	(786)	11,109	2,708
Other postemployment benefits obligation	11,413	6,730	(2,065)	16,078	-
Long-term obligations	$ 399,132	$ 290,880	$ (57,212)	$ 632,800	$ 47,147

(Dollars in Thousands)

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2010, are as follows (continued):

	July 1, 2009	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2010	Amounts Due Within One Year
Port of San Francisco					
Bonds payable:					
Revenue bonds	$ 4,320	$ 36,650	$ (4,320)	$ 36,650	$ 485
Less deferred amounts:					
For issuance discounts	-	(268)	3	(265)	-
Total bonds payable	4,320	36,382	(4,317)	36,385	485
Notes, loans, and other payables	3,015	-	(96)	2,919	100
Accrued vacation and sick leave pay	2,002	115	(156)	1,961	1,100
Accrued workers' compensation	2,307	1,562	(914)	2,955	423
Estimated claims payable	900	355	(175)	1,080	730
Other postemployment benefits obligation	5,816	3,454	(1,002)	8,268	-
Long-term obligations	$ 18,360	$ 41,868	$ (6,660)	$ 53,568	$ 2,838
Laguna Honda Hospital					
Capital leases	$ 113	$ -	$ (77)	$ 36	$ 24
Accrued vacation and sick leave pay	8,985	-	(297)	8,688	5,071
Accrued workers' compensation	11,385	522	-	11,907	2,205
Other postemployment benefits obligation	25,119	8,852	-	33,971	-
Long-term obligations	$ 45,602	$ 9,374	$ (374)	$ 54,602	$ 7,300
Total Business-type Activities:					
Bonds payable:					
Revenue bonds	$ 4,827,435	$ 3,305,360	$ (1,184,060)	$ 6,948,735	$ 232,915
Revenue notes	314,925	-	(248,400)	66,525	1,980
Clean renewable energy bonds	5,903	-	(422)	5,481	422
Certificates of participation	-	190,220	-	190,220	-
Lease revenue bonds	6,165	-	(345)	5,820	365
Less deferred amounts:					
For issuance premiums	97,483	118,572	(15,030)	201,025	-
For issuance discounts	(8,257)	(268)	3,938	(4,587)	-
On refunding	(125,089)	(62,360)	44,352	(143,097)	-
Total bonds payable	5,118,565	3,551,524	(1,399,967)	7,270,122	235,682
Accreted interest payable	3,620	258	-	3,878	-
State of California - Revolving fund loans	75,339	-	(14,199)	61,140	14,648
Notes, loans, and other payables	5,497	-	(2,578)	2,919	100
Capital leases	2,635	-	(1,219)	1,416	817
Accrued vacation and sick leave pay	90,100	45,137	(44,587)	90,650	52,177
Accrued workers' compensation	146,011	29,793	(27,524)	148,280	25,533
Estimated claims payable	78,743	59,067	(37,076)	100,734	42,243
Other postemployment benefits obligation	247,647	131,014	(30,374)	348,287	-
Long-term obligations	$ 5,768,157	$ 3,816,793	$ (1,557,524)	$ 8,027,426	$ 371,200

(Dollars in Thousands)

The changes in long term obligations for the component unit for the year ended June 30, 2010, are as follows:

	July 1, 2009	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2010	Amounts Due Within One Year
Component unit - San Francisco Redevelopment Agency					
Bonds payable:					
Revenue bonds	$ 808,399	$ 247,325	$ (36,468)	$ 1,019,256	$ 44,268
Refunding bonds...............................	6,300	-	-	6,300	-
Less deferred amounts:					
For issuance premiums	9,612	203	(921)	8,894	-
For issuance discounts	(2,610)	(1,274)	181	(3,703)	-
On refunding.................................	(4,504)	-	423	(4,081)	-
Total bonds payable	817,197	246,254	(36,785)	1,026,666	44,268
Accreted interest payable......................	66,640	8,245	(12,162)	62,723	12,577 (1)
Notes, loans, and other payables...............	9,496	1,457	(139)	10,814	284
Accrued vacation and sick leave pay........	2,103	1,287	(1,137)	2,253	1,137
Other postemployment benefits obligation............................	552	91	-	643	-
Component unit - long term obligations....................	$ 895,988	$ 257,334	$ (50,223)	$ 1,103,099	$ 58,266

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

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2010, for governmental activities are as follows:

Governmental Activities (2) (3)

Fiscal Year Ending June 30	General Obligation Bonds Principal	General Obligation Bonds Interest (4)	Lease Revenue Bonds Principal	Lease Revenue Bonds Interest	Other Long-Term Obligations Principal (5)	Other Long-Term Obligations Interest (5)	Total Principal	Total Interest
2011...............	$ 123,036	$ 65,867	$ 17,395	$ 7,718	$ 31,914	$ 28,639	$ 172,345	$ 102,224
2012...............	97,990	60,168	17,385	7,248	25,999	41,701	141,374	109,117
2013...............	88,737	56,196	16,270	6,732	24,171	41,004	129,178	103,932
2014...............	84,144	51,993	12,870	6,220	25,734	40,265	122,748	98,478
2015...............	77,982	48,125	11,030	5,861	31,758	34,523	120,770	88,509
2016-2020.......	359,708	188,171	58,570	24,833	128,282	121,585	546,560	334,589
2021-2025.......	305,600	111,946	68,400	16,418	137,880	84,284	511,880	212,648
2026-2030.......	249,443	39,515	75,140	7,246	137,880	53,618	462,463	100,379
2031-2035......	-	-	8,615	1,267	100,210	21,059	108,825	22,326
2036-2040......	-	-	-	-	37,590	6,305	37,590	6,305
2041-2045......	-	-	-	-	8,565	192	8,565	192
Adjustment for interest accretion......	-	-	-	-	33,386	(33,386)	33,386	(33,386)
Total............	$ 1,386,640	$ 621,981	$ 285,675	$ 83,543	$ 723,369	$ 439,789	$ 2,395,684	$ 1,145,313

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

(3) Includes the Moscone Center Expansion Project Lease Revenue Refunding Bonds Series 2008-1 & 2 which bears interest at a weekly rate. An assumed rate of 0.245%, together with liquidity fee of 0.750% and remarketing fee of 0.0725%, were used to project the interest payment in this table.

(4) The interest is before the Federal interest subsidy for the Series 2010 C and Series 2010 D General Obligation Bonds. The Federal interest subsidy on the Series 2010 C and Series 2010 D General Obligation Bonds is approximately $53.0 million and $10.9 million, respectively, through the year ending 2030.

(5) Includes approximately $197.2 million in lease payments to the Agency for the Moscone Convention Center through July 1, 2024. Debt service requirement for 2011 differs from the amount due within a year as shown in the table on page 86 due to accreted interest.

(Dollars in Thousands)

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2010 for each enterprise fund is as follows:

San Francisco International Airport [1]

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2011...............	$ 134,800	$ 192,862	$ 1,980	$ 4,427	$ 136,780	$ 197,289
2012...............	130,820	188,228	4,120	4,293	134,940	192,521
2013...............	144,045	183,667	5,870	4,021	149,915	187,688
2014...............	156,280	178,699	7,690	3,630	163,970	182,329
2015...............	171,737	171,900	8,075	3,119	179,812	175,019
2016-2020.......	1,022,473	730,075	38,790	6,678	1,061,263	736,753
2021-2025……	1,235,322	460,260	-	-	1,235,322	460,260
2026-2030……	871,593	197,470	-	-	871,593	197,470
2031-2035……	181,685	66,192	-	-	181,685	66,192
2036-2040….	131,610	20,316	-	-	131,610	20,316
Total...........	$ 4,180,365	$ 2,389,669	$ 66,525	$ 26,168	$ 4,246,890	$ 2,415,837

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

In addition, the Airport's revenue bond debt service requirements to maturity if the take out agreements (letters of credits or standby purchase agreements) of the variable rate bond structure were to be exercised and if the fixed rate bond was subject to mandatory tender for purchase are as follows:

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest
2011...............	$ 175,420	$ 192,885
2012...............	130,820	186,828
2013...............	726,495	179,768
2014...............	154,730	156,178
2015...............	170,125	149,435
2016-2020.......	901,065	623,819
2021-2025……	996,275	384,753
2026-2030……	612,140	169,815
2031-2035……	181,685	66,192
2036-2040….	131,610	20,316
Total...........	$ 4,180,365	$ 2,129,989

(Dollars in Thousands)

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2010 for each enterprise fund is as follows (continued):

San Francisco Water Enterprise [1]

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest [2]	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest [3]	Total Principal	Total Interest
2011................	$ 27,795	$ 106,244	$ -	$ 7,231	$ 27,795	$ 113,475
2012................	44,050	108,029	-	7,231	44,050	115,260
2013................	45,965	105,884	1,971	7,199	47,936	113,083
2014................	48,130	103,561	2,035	7,132	50,165	110,693
2015................	50,485	101,078	2,106	7,060	52,591	108,138
2016-2020.......	293,500	464,301	12,188	33,654	305,688	497,955
2021-2025……	355,275	386,459	15,587	30,104	370,862	416,563
2026-2030……	428,735	289,123	19,285	24,752	448,020	313,875
2031-2035……	460,125	173,803	23,737	17,863	483,862	191,666
2036-2040….	439,030	60,375	29,271	9,297	468,301	69,672
2041-2045….	-	-	13,537	887	13,537	887
Total............	$ 2,193,090	$ 1,898,857	$ 119,717	$ 152,410	$ 2,312,807	$ 2,051,267

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

(2) The interest is before the Federal interest subsidy for the Water Enterprise Fund's Revenue Bonds 2001 Series A, 2002 Series A, 2002 Refunding Series B, 2006 Series A, 2006 Refunding Series B and C, 2009 Series A and B and 2010 Series ABC. In addition, the Federal interest subsidy amounts represent 35% of the interest for the Revenue Bonds 2001 Sub-Series B. The Federal interest subsidy on the Water Enterprise Fund Revenue Bonds is approximately $174.0 million through the year ending 2040.

(3) The interest is before the Water Enterprise Fund's portion of the Federal interest subsidy for the Certificates of Participation Series D (Taxable) which amounts to approximately $49.7 million through the year ending 2042.

(Dollars in Thousands)

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2010 for each enterprise fund is as follows (continued):

Hetch Hetchy Water and Power [1]

Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest [2]	Principal	Interest [3]	Principal	Interest
2011................	$ 422	$ -	$ -	$ 984	$ 422	984
2012................	422	-	-	984	422	984
2013................	422	-	268	980	690	980
2014................	422	-	277	970	699	970
2015................	422	-	287	961	709	961
2016-2020........	2,110	-	1,659	4,582	3,769	4,582
2021-2125 ……	1,261	-	2,122	4,099	3,383	4,099
2026-2030……	-	-	2,625	3,370	2,625	3,370
2031-2035…….	-	-	3,232	2,432	3,232	2,432
2036-2040….	-	-	3,985	1,266	3,985	1,266
2041-2045….	-	-	1,843	121	1,843	121
Total............	$ 5,481	$ -	$ 16,298	$ 20,749	$ 21,779	$ 20,749

Municipal Transportation Agency [1]

Fiscal Year Ending June 30	Revenue/ Lease Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011...............	$ 3,260	$ 2,576	$ -	$ -	$ 3,260	$ 2,576
2012...............	3,405	2,426	-	-	3,405	2,426
2013...............	3,575	2,267	-	-	3,575	2,267
2014...............	3,750	2,097	-	-	3,750	2,097
2015...............	3,930	1,917	-	-	3,930	1,917
2016-2020.......	18,585	6,531	-	-	18,585	6,531
2021-2025……	5,125	3,030	-	-	5,125	3,030
2026-2030……	5,190	1,577	-	-	5,190	1,577
2031-2035……	2,535	154	-	-	2,535	154
Total...........	$ 49,355	$ 22,575	$ -	$ -	$ 49,355	$ 22,575

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

(2) Interest payments are not required, since the effective equivalent of interest on the bonds is paid in the form of Federal tax credits in lieu of interest paid by the issuer.

(3) The interest is before the Hetch Hetchy Water and Power Enterprise Fund's portion of the Federal interest subsidy for the Certificates of Participation Series D (Taxable) which amounts to approximately $6.8 million through the year ending 2042.

(Dollars in Thousands)

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2010 for each enterprise fund is as follows (continued):

San Francisco General Hospital (1)

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2011................	$ -	$ -	$ 793	$ 1,317	$ 793	$ 1,317
2012................	-	-	931	1,281	931	1,281
2013................	-	-	1,331	1,217	1,331	1,217
2014................	-	-	1,196	1,142	1,196	1,142
2015................	-	-	1,263	1,075	1,263	1,075
2016-2020.......	-	-	7,464	4,225	7,464	4,225
2021-2025……	-	-	9,814	1,875	9,814	1,875
2026-2030……	-	-	1,138	186	1,138	186
Total............	$ -	$ -	$ 23,930	$ 12,318	$ 23,930	$ 12,318

San Francisco Wastewater Enterprise (1)

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest (2)	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest (3)	Total Principal	Total Interest
2011.................	$ 26,320	$ 22,377	$ 14,648	$ 3,767	$ 40,968	$ 26,144
2012.................	22,010	23,920	9,594	3,301	31,604	27,221
2013.................	23,095	22,903	8,843	3,003	31,938	25,906
2014.................	24,395	21,715	8,730	2,734	33,125	24,449
2015.................	25,790	20,429	6,243	2,469	32,033	22,898
2016-2020........	109,095	84,678	16,219	10,043	125,314	94,721
2021-2025……	90,895	58,038	5,823	8,009	96,718	66,047
2026-2030……	46,380	42,710	5,099	6,545	51,479	49,255
2031-2035…….	51,330	29,604	6,276	4,723	57,606	34,327
2036-2040….	61,931	13,311	7,740	2,459	69,671	15,770
2041-2045….	13,854	403	3,580	235	17,434	638
Total.............	$ 495,095	$ 340,088	$ 92,795	$ 47,288	$ 587,890	$ 387,376

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

(2) The interest is before the Federal interest subsidy for the Wastewater Enterprise Fund Revenue Bonds 2003 Refunding Series A, 2010 Series A and 2010 Series B. In addition, the Federal interest subsidy amounts represent 35% of the interest for the Revenue Bonds 2010 Series B. The Federal interest subsidy on the Wastewater Enterprise Fund Revenue Bonds is approximately $84.9 million through the year ending 2041.

(3) The interest is before the Wastewater Enterprise Fund's portion of the Federal interest subsidy for the Certificates of Participation Series D (Taxable) which amounts to approximately $13.1 million through the year ending 2042.

(Dollars in Thousands)

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2010 for each enterprise fund is as follows (continued):

Port of San Francisco [(1)]

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2011................	$ 485	$ 2,358	$ 100	$ 131	$ 585	$ 2,489
2012................	670	2,175	105	127	775	2,302
2013................	695	2,151	110	122	805	2,273
2014................	725	2,122	115	117	840	2,239
2015................	755	2,088	120	112	875	2,200
2016-2020........	4,450	9,775	685	474	5,135	10,249
2021-2025……	6,070	8,154	853	306	6,923	8,460
2026-2030……	8,580	5,642	831	96	9,411	5,738
2031-2035…….	6,225	3,038	-	-	6,225	3,038
2036-2040….	7,995	1,270	-	-	7,995	1,270
Total.............	$ 36,650	$ 38,773	$ 2,919	$ 1,485	$ 39,569	$ 40,258

Laguna Honda Hospital [(1)]

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2011...............	$ -	$ -	$ 24	$ 5	$ 24	$ 5
2012...............	-	-	12	2	12	2
Total...........	$ -	$ -	$ 36	$ 7	$ 36	$ 7

Total Business-type Activities [(1)]

Fiscal Year Ending June 30	Revenue/Lease Revenue Bonds Principal	Revenue/Lease Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2011.....................	$ 193,082	$ 326,417	$ 17,545	$ 17,862	$ 210,627	$ 344,279
2012.....................	201,377	324,778	14,762	17,219	216,139	341,997
2013.....................	217,797	316,872	18,393	16,542	236,190	333,414
2014.....................	233,702	308,194	20,043	15,725	253,745	323,919
2015.....................	253,119	297,412	18,094	14,796	271,213	312,208
2016-2020............	1,450,213	1,295,360	77,005	59,656	1,527,218	1,355,016
2021-2025............	1,693,948	915,941	34,199	44,393	1,728,147	960,334
2026-2030……..…	1,360,478	536,522	28,978	34,949	1,389,456	571,471
2031-2035………..	701,900	272,791	33,245	25,018	735,145	297,809
2036-2040…………	640,566	95,272	40,996	13,022	681,562	108,294
2041-2045…………	13,854	403	18,960	1,243	32,814	1,646
Total.................	$ 6,960,036	$ 4,689,962	$ 322,220	$ 260,425	$ 7,282,256	$ 4,950,387

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

(Dollars in Thousands)

The annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2010, for the component unit are as follows:

Component Unit: San Francisco Redevelopment Agency (1)

Fiscal Year Ending June 30	Lease Revenue Bonds		Tax Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest (2)	Principal	Interest (2)	Principal	Interest (3)	Principal	Interest
2011	$ 5,019	$ 13,776	$ 36,479	$ 48,128	$ 3,054	$ 3,194	$ 44,552	$ 65,098
2012	4,881	13,992	37,418	45,293	2,996	3,024	45,295	62,309
2013	4,791	14,155	39,923	42,898	6,356	2,829	51,070	59,882
2014	4,732	14,296	42,231	41,053	4,414	2,673	51,377	58,022
2015	9,510	9,479	46,080	37,958	4,573	2,507	60,163	49,944
2016-2020	68,040	11,171	250,637	148,438	21,400	9,931	340,077	169,540
2021-2025	14,480	1,953	118,931	149,491	19,868	5,115	153,279	156,559
2026-2030	-	-	88,553	93,039	6,249	979	94,802	94,018
2031-2035	-	-	107,479	66,629	2,304	376	109,783	67,005
2036-2040	-	-	85,722	22,042	250	12	85,972	22,054
Total	$ 111,453	$ 78,822	$ 853,453	$ 694,969	$ 71,464	$ 30,640	$ 1,036,370	$ 804,431

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

(2) Includes payment of accreted interest.

(3) Variable interest on the refunding bond 1986 Issue A is estimated using interest rate at June 30, 2010 of 0.62%.

Governmental Activities Long-term Liabilities

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition or improvement of real property and construction of affordable housing. General obligation bonds have been issued for both governmental and business-type activities. The net authorized and unissued governmental activities general obligation bonds for the fiscal year ended June 30, 2010, are as follows:

Governmental Activities - General Obligation Bonds

Authorized and unissued as of June 30, 2009	$ 1,202,235
Bonds issued:	
2008 San Francisco General Hospital Improvement Bonds S2010A	(120,890)
2008 Clean and Safe Neighborhood Parks S2010B	(24,785)
2008 San Francisco General Hospital Improvement Bonds S2010C	(173,805)
2008 Clean and Safe Neighborhood Parks S2010D	(35,645)
Net authorized and unissued as of June 30, 2010	$ 847,110

In March 2010, the City issued $355.1 million in General Obligation Bonds, consisting of San Francisco General Hospital Improvement Series 2010A in the amount of $120.9 million; Clean and Safe Neighborhood Parks Series 2010B in the amount of $24.8 million; General Hospital Improvement (Federally Taxable Build America Bonds) Series 2010C in the amount of $173.8 and the Clean and Safe Neighborhood Parks (Federally Taxable Build America Bonds) Series 2010D in the amount of $35.6 million. Interest rates on the Series 2010A and Series 2010B range from 4.0% to 5.0% and mature from June 2010 to June 2019. The Series 2010C and 2010D Federally Taxable Build America Bonds mature from June 2020 to June 2030 with interest rates ranging from 4.6% to 6.26%. After adjusting for the federal interest subsidy, the true interest cost averages 3.65% for the Series 2010C and Series 2010D bonds.

The San Francisco General Hospital Improvement Bonds were issued to provide funds to finance the building or rebuilding and improving the earthquake safety of the San Francisco General Hospital and Trauma Center and to pay certain costs related to the issuance of 2010A Bonds and the 2010C Bonds. The proceeds of the Clean and Safe Neighborhood Parks Series 2010B and Series 2010D Bonds will be used to finance the construction, reconstruction, purchase and/or improvement of park and recreation facilities under the jurisdiction of the Recreation and Park Commission and the Port Commission, and to pay certain costs related to the issuance of the 2010B and 2010D Bonds. Debt service payments are funded through ad valorem taxes on property.

Seismic Safety Loan Program Government Obligation Bonds

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

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

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

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

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

Certificates of Participation

In September 2009, the City issued $37.9 million Certificates of Participation, Capital Improvement Projects, Series 2009B. The Certificates were issued to 1) pay a portion of the costs of acquisition, construction and installation of certain improvements to various City streets; 2) fund capitalized interest payable with respect to the 2009B Certificates on each due date through October 1, 2010; 3) fund the 2009B Reserve Account of the Reserve Fund under the Trust Agreement for the Certificates; and 4) pay costs of execution and the delivery of the 2009B Certificates. The Certificates were issued in pursuant to a Trust Agreement between the City and U.S. Bank National Association as Trustee. The City conveyed the real property to the Trustee under a property lease in exchange for the proceeds of the sale of the Certificates. The Trustee has leased the property back to the City and the City is obligated under the Project Lease to pay the Base Rental in consideration of the use and occupancy of the land and facilities subject to the Project Lease. The Series 2009B were issued with interest rates ranging from 3.0% to 5.0% and matures from April 2011 through April 2035.

At June 30, 2010, the City has a total of $591.8 million of certificates of participation payable by pledged revenues from the base rental payments payable by the City, pursuant to the Project Lease between the City and the Trustee. Total debt service payments remaining on the certificates of participation are $998.1 million payable through September 1, 2040. For the fiscal year ended June 30, 2010, principal and interest paid by the City totaled $11.3 million and $26.3 million, respectively.

(Dollars in Thousands)

Lease Revenue Bonds

The changes in governmental activities – lease revenue bonds for the year ended June 30, 2010 were as follows:

Governmental Activities - Lease Revenue Bonds

Authorized and unissued as of June 30, 2009	$	140,892
Increases in authorization this fiscal year		
Current year annual increase in Finance Corporation's equipment program		2,407
Current year maturities in Finance Corporation's equipment program		9,055
Bond Issued:		
Series 2010A, San Francisco Finance Corporation		(10,255)
Net authorized and unissued as of June 30, 2010	$	142,099

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 in the internal service fund until such time as they are used for their intended purposes.

The lease revenue bonds are payable by pledged revenues from the base rental payments payable by the City, pursuant to a Master Lease Agreement between the City and the San Francisco Finance Corporation for the use of equipment and facilities acquired, constructed and improved by the Finance Corporation. The total debt service requirement remaining on the lease revenue bonds is $369.2 million payable through June 2034. For the fiscal year ended June 30, 2010, principal and interest paid by the Corporation and the total lease payments made by the City totaled $18.9 million and $6.9 million, respectively.

(a) Equipment Lease Program

In the June 5, 1990 election, the voters of the City approved Proposition C, which amended the City Charter to allow the City to lease-purchase up to $20 million of equipment through a non-profit corporation using tax-exempt obligations.

Beginning July 1, 1991, the Finance Corporation was authorized to issue lease revenue bonds up to $20 million in aggregate principal amount outstanding plus 5% annual adjustment each July 1. As of June 30, 2010, the total authorized amount is $50.5 million. The total accumulated annual authorization since 1990 is $30.5 million of which $2.4 million is new annual authorization for the fiscal year ended June 30, 2010.

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 $157.6 million in equipment lease revenue bonds since 1991. As of June 30, 2010, $135.0 million has been repaid leaving $22.6 million in equipment lease revenue bonds outstanding and $27.9 million available for new issuance.

In June 2010, The Finance Corporation issued its seventeenth series of equipment lease revenue bonds, Series 2010A in the amount of $10.3 million with interest rates ranging from 2.0% to 4.0%. The bonds mature from April 2011 to April 2016.

(b) City-wide Communication System

In 1993, the voters approved the issuance of up to $50 million in lease revenue bonds to finance the acquisition and construction of a citywide emergency radio communication system (800 MHz). The Finance Corporation issued two series in January 1998 and February 1999 for $31.3 million and $18.7 million, respectively. As of June 30, 2010, the amount authorized and unissued for the City-wide Emergency Radio System bonds was $0.1 million. Further, in 1994, the voters approved the issuance of up to $60 million in lease revenue bonds to finance the acquisition and construction of a combined emergency communication center to house the City's 911-emergency communication system. The Finance Corporation issued two series in June 1997 and in July 1998 for $22.6 million and $23.3 million, respectively. As of June 30, 2010, the amount authorized and unissued was $14.1 million.

(c) Moscone Center West Expansion Project

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

In September 2008, the San Francisco Finance Corporation issued Lease Revenue Refunding Bonds (Moscone Center Expansion Project) Series 2008-1 and Series 2008-2 for a total of $145.3 million (the "Refunding Moscone Bonds") to provide funds, together with other available monies to the refund the 2000 Bonds to address the concerns regarding the credit provided by the bond insurer. A portion of the proceeds of the Refunding Bonds were also used to pay the cost of issuing the Bonds.

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

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

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

If the remarketing agent is unable to resell any Bonds that are “tendered” within the six month anniversary of the “tender” date, the City has a reimbursement agreement with Bank of America, N.A. for Series 2008-1 and State Street Bank and Trust Company for Series 2008-2 to convert the bonds to an installment loan payable in six (6) equal semiannual installments, commencing on the six month anniversary of the date of the “tender” date and bearing a fluctuating interest rate equal to the Draw Rate. The reimbursement agreement expires September 9, 2011 or such later date or dates as extended by mutual agreement. If the reimbursement agreement were to be exercised because the entire outstanding balance of $137.6 million of demand bonds were “tendered” and not resold, the City would be required to pay an amount not to exceed the fair rental value per annum of the leased asset per year for three (3) years under the reimbursement agreement at a rate per annum equal to the Draw Rate.

The City is required to pay to Bank of America, N.A. for Series 2008-1 and State Street Bank and Trust Company for Series 2008-2 an annual commitment fee for the letter of credit of 0.75 percent per annum of the outstanding principal amount of the Bonds, payable quarterly in arrears. For fiscal year 2009-10, the City will pay a commitment fee of $0.5 million each to Bank of America, N.A. for Series 2008-1 and State Street Bank and Trust Company for Series 2008-2. In addition, the remarketing agent receives an annual fee of 0.0725 percent of the outstanding principal amount of the Bonds, payable quarterly in arrears. For fiscal year 2010-11, the City will pay a remarketing fee of $0.05 million each to E.J. De La Rosa & Co., Inc. for Series 2008-1 and Banc of America Securities LLC for Series 2008-2 Bonds.

The Refunding Moscone Bonds mature from April 2009 to April 2030. As of end of June 30, 2010, both series has combined balance of $137.6 million and bear interest at a weekly rate. Interest rates as of June 30, 2010 for Series 2008-1 and Series 2008-2 were 0.28% and 0.21%, respectively.

(d) Open Space Fund

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

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

(e) Library Preservation Fund

At an election held in November 2007, the voters of the City adopted Proposition D, amending the Charter by repealing the then existing Library Preservation Fund, renewing the Library Preservation Fund for 15 years to provide library services and to construct, maintain and operate library facilities and authorizing the issuance of debt for such purpose. The Library Preservation Fund is administered by the Library Department as directed by the Library Commission. A set-aside from the City’s share of the county-wide 1% property tax levy in an amount equal to two and one-half cents ($0.025) for each $100 assessed valuation is required by the Charter to be deposited in the Library Preservation Fund. The authorization to set aside these taxes in the Library Preservation Fund commences in Fiscal Year 2008-2009 and extends through July 2024.

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

Business-Type Activities Long-Term Liabilities

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

<u>San Francisco International Airport</u>

The Airport Commission has authorized the issuance of up to $6.8 billion of San Francisco International Airport Second Series Revenue Refunding Bonds for the purposes of refunding, paying, calling, and retiring a portion or all of one or more series of outstanding 1991 Resolution Bonds and all or a portion of the San Francisco International Airport's outstanding subordinate commercial paper notes, funding debt service reserves, and paying costs of issuance, including any related redemption premiums therewith.

Second Series Revenue Bonds, Series 2009E (Capital Plan Bonds)

In November 2009, the Airport issued its long-term fixed rate Second Series Revenue Bonds, Series 2009E, (Non-Alternative Minimum Tax (AMT)/Private Activity) in the amount of $485.8 million. The proceeds will be used to finance a portion of the engineering and construction costs associated with the renovation of Terminal 2 and Boarding Area D, as well as other projects within the Airport's five-year Capital Plan. The Series 2009E Bonds are uninsured fixed rate bonds maturing between May 2020 and May 2029, with interest rates from 4.375% to 6.0%.

The net proceeds of $413.7 million ($485.8 million in bond principal less $81.2 million in underwriting fees, deposits to the capitalized interest account, payment of underwriting fees and costs of issuance, together with $9.1 million in net original issue premium) were deposited into a construction account to fund capital projects at the Airport.

Refunding Bonds:

In fiscal year 2010, the Airport took advantage of low interest rates to refund and restructure a large portion of its long-term debt for debt service and cash-flow savings. The Airport closed five refunding bond transactions totaling $1.3 billion during fiscal year 2010, a number of which were made possible by the tax provisions of the American Recovery and Reinvestment Act of 2009 ("ARRA"), the economic stimulus package enacted by Congress and signed into law on February 17, 2009. The Airport also continues to respond to the ongoing effects of the global financial crisis. The Airport issued the following refunding bonds during fiscal year 2010:

Second Series Revenue Refunding Bonds, Series 2009A and B

In September 2009, the Airport issued $175.0 million of Second Series Refunding Bonds Series 2009A and B, in the amount of $92.5 and $82.5 million, respectively, to purchase and hold in trust all of the outstanding Issue 34A/B variable rate demand bonds. The Series 2009A/B Bonds mature in May 2029, are subject to mandatory tender in September 2010, and bear interest at 0.75%. If the Airport is unable to purchase the Series 2009A/B Bonds on the mandatory tender date, the Series 2009A/B Bonds will be subject to mandatory redemption on that date.

(Dollars in Thousands)

The net proceeds of $175.1 million ($175.0 million in bond principal less $15.0 million in underwriting fees, deposits to separate 2009A and B reserve accounts, and costs of issuance, together with $13.8 million in available prior bond debt service reserve funds and $1.2 million in other funds of the Airport) were used to purchase and hold in trust all of the outstanding Issue 34A/B Bonds.

	Amount Purchased	Interest Rate	Purchase Price
Second Series Variable Rate Revenue Bond:			
Issue 34A	$ 92,500	Variable	100.0%
Issue 34B	82,500	Variable	100.0%
Total	$ 175,000		

The refunded bonds were purchased in September 2009 and deposited into separate trust accounts. The Airport will make payments of principal and interest on the Issue 34A/B Bonds held in the trust accounts until such time as the Airport directs the trustee to cancel such bonds or remarket them out of the trust accounts. The Airport, as the beneficiary of the trust, receives back the payments of principal and interest that it makes on the Issue 34A/B Bonds. As such, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

The purchase of the Issue 34A/B Bonds with Series 2009A/B Bonds was initiated by the Airport to address credit concerns regarding the liquidity provider on the 34A/B Bonds and was not undertaken to specifically generate an economic gain for the Airport. While the Issue 34A/B Bonds are held in the trust accounts, the liquidity facility and bond insurance policy associated with Issue 34A/B Bonds will remain in place.

Second Series Revenue Refunding Bonds, Series 2009C

Following an invitation to tender bonds, the Airport issued its Second Series Revenue Refunding Bonds, Series 2009C, in November 2009, in the amount of $132.9 million to purchase and cancel portions of its outstanding Issue 32H, 34C and 34E fixed rate bonds and Series 2008A Revenue Notes that were voluntarily tendered by bondholders and not otherwise subject to optional redemption. The Series 2009C Bonds mature between May 1, 2011 and May 1, 2025, with interest rates ranging between 3.00% and 5.00%.

The Series 2009C Bonds were issued as one of several refundings made possible by the American Recovery and Reinvestment Act of 2009 (“ARRA”) to replace bonds subject to the federal Alternative Minimum Tax (AMT) with bonds that are not, resulting in debt service savings to the Airport. The Series 2009C-1 Bonds in the principal amount of $67.6 million were sold with bond insurance from Assured Guaranty Municipal Corporation, while the Series 2009C-2 Bonds in the principal amount of $65.3 million were uninsured.

(Dollars in Thousands)

The net proceeds of $130 million (net of $11.8 million in deposits to a new 2009 Debt Service Reserve Account, payment of underwriter's discount and costs of issuance, together with net original issue premium of $8.8 million) were deposited with the bond trustee to purchase and cancel $120.2 million of the following bonds upon tender by bondholders.

	Amount Purchased	Interest Rate	Purchase Price
Second Series Revenue Bond:			
Issue 32H	$ 640	4.00–5.00%	100.5-104.5%
Issue 34C	23,560	4.00–5.00%	102.5-106.9%
Issue 34E	35,755	4.00–5.75%	98.0-108.6%
	59,955		
Series 2008A Notes:			
2008A-1	55	5.50%	99.5%
2008A-2	58,935	6.75%	109.6%
2008A-3	1,275	6.50%	110.1%
	60,265		
	$ 120,220		

The tendered bonds were purchased and cancelled in November 2009. Accordingly, the liability for these bonds has been removed from the accompanying statements of net assets.

Second Series Revenue Refunding Bonds, Series 2009D

In November 2009, the Airport issued its Second Series Revenue Refunding Bonds, Series 2009D, in the principal amount of $88.2 million to defease and purchase all of the Second Series Revenue Notes, Series 2008B, upon their mandatory tender for purchase in December 2009. The Series 2009D Bonds mature in May 2029, are subject to mandatory tender for purchase in December 2012, and bear interest at 2.25%. If the Airport is unable to purchase the Series 2009D Bonds on the mandatory tender date, the Series 2009D Bonds will be subject to mandatory redemption on that date.

The net proceeds of $90.7 million ($88.2 million in bond principal, together with $2.5 million in available debt service funds) were deposited in an irrevocable escrow with the bond trustee to defease the Series 2008B Notes until their purchase and cancellation upon their mandatory tender date. Costs of issuance, including underwriters' compensation were funded with $0.7 million of taxable commercial paper proceeds.

	Amount Purchased	Interest Rate	Purchase Price
Second Series Revenue Notes:			
Series 2008B	$ 88,190	3.00%	100.0%

The Series 2008B Notes were initially issued to refund certain Variable Rate Demand Bonds impacted by the bankruptcy of Lehman Brothers in fall 2008 (Issue 37B) and were not issued specifically to produce debt service savings. Likewise, the issuance of Series 2009D Bonds was necessitated by the mandatory tender date of the Series 2008B Notes and was not specifically undertaken to generate an economic gain for the Airport. The Series 2008B Notes were purchased and cancelled in December 2009. Accordingly, the liability for the notes has been removed from the accompanying statements of net assets.

(Dollars in Thousands)

Second Series Variable Rate Revenue Refunding Bonds, Series 2010A

In February 2010, the Airport issued its Second Series Variable Rate Refunding Bonds, Series 2010A, in the amount of $216.0 million to refund certain outstanding Issue 23A, 24A, 25 and 26A fixed rate bonds. The Series 2010A Bonds are comprised of $86.4 million of Series 2010A-1, $57.6 million of Series 2010A-2 and $72.0 million of Series 2010A-3 Bonds, which were issued in a weekly interest rate mode, subject to conversion by the Airport to another mode. As of July 2010, each series of the Series 2010A Bonds continued to bear interest in a weekly mode, with an average interest rate through July 2010 of 0.257%. The Series 2010A Bonds mature in May 2030, and are secured by a letter of credit issued by JPMorgan Chase Bank, National Association, which expires in February 2013.

The net proceeds of $218.4 million ($216.0 million bond principal less $1.5 million in costs of issuance and underwriting fees, together with $3.9 million in available debt service funds) were deposited in an irrevocable escrow with the bond trustee to defease and redeem $210.5 million of the following revenue bonds.

	Amount Refunded	Interest Rate	Redemption Price
Second Series Revenue Bond:			
Issue 23A	$ 8,530	5.25%	101%
Issue 24A	73,915	5.50–6.00%	101%
Issue 25	83,220	5.50–6.00%	101%
Issue 26A	44,825	5.25%	101%
	$ 210,490		

The refunded bonds were redeemed in March 2010 (Issue 23A) and May 2010 (Issues 24A, 25 and 26A). Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

The refunding resulted in the recognition of $6.6 million in deferred refunding loss for fiscal year ended June 30, 2010 but reduced the Airport's aggregate debt service payments over the next twenty-one years by approximately $22.4 million. However remarketing and facility liquidity fees associated with the variable rate bonds and related swaps hedging the bonds resulted in a net negative cash flow of approximately $18.9 million, in spite of which, the Airport still realized an economic gain (the difference between the present value of the old and new debt service payments, net of refunding expenses) of $0.5 million because of the savings realized during the early years.

Second Series Revenue Refunding Bonds, Series 2010C-E

In April 2010, the Airport issued its Second Series Revenue Refunding Bonds, Series 2010C-E in the aggregate principal amount of $618.6 million, comprised of $345.7 million of Series 2010C (Non-AMT/Governmental Purpose), $89.9 million of Series 2010D (Non-AMT/Private Activity), and $183.0 million of Series 2010E (Taxable), to refund certain outstanding Issue 15A, 15B, 18A, 20, 21, 22, 23A, 23B, 24A, 24B, 25, 26A, 26B, 27B and 28B fixed rate bonds and all of outstanding Series 2008A-1 and A-2 Notes. The Series 2010C and D Bonds mature from May 2014 through May 2027, and bear interest at rates from 3.0% to 5.0%, while the Series 2010E Bonds mature from May 2011 to May 2014, and bear interest rates from 1.15% to 2.968%.

(Dollars in Thousands)

Net proceeds of $678.8 million ($618.6 million in bond principal less $12.7 million in underwriting fees, cost of issuance and deposit to the reserve fund, together with $46.2 million in net original issue premium and available debt service fund of $26.7 million), were deposited in irrevocable escrows with the bond trustee to defease and redeem $656.6 million in revenue bonds described below.

	Amount Purchased	Interest Rate	Purchase Price
Second Series Revenue Bonds:			
Issue 15A	$ 32,020	4.60–5.00%	100%
Issue 15B	11,735	4.40–4.50%	100%
Issue 18A	18,385	5.00%	100%
Issue 20	146,070	4.50–4.75%	100%
Issue 21	36,085	4.50–4.75%	100%
Issue 22	26,455	4.70–5.00%	100%
Issue 23A	44,925	5.00–5.50%	100.5%
Issue 23B	7,760	4.50–5.00%	100.5%
Issue 24A	15,375	5.50–5.875%	101%
Issue 24B	2,085	5.00–5.125%	101%
Issue 25	17,310	5.50–5.875%	101%
Issue 26A	26,750	5.00–5.25%	101%
Issue 26B	107,375	4.50–5.00%	101%
Issue 27B	56,695	5.00–5.25%	100%
Issue 28B	7,595	5.25%	100%
Subtotal	556,620		
Series 2008A Notes:			
2008A-1	49,945	5.50%	100%
2008A-2	50,000	6.50%	100%
Subtotal	99,945		
Total refunded	$ 656,565		

The refunded bonds were or will be redeemed on May 3, 2010 (Series 2008A Notes), May 7, 2010 (Issues 15A, 15B, 18A, 20, 21, 22, 23A, 23B, 24A, 25, 26A and 26B), May 1, 2011 (Issue 27B), and May 1, 2012 (Issue 28B). Accordingly, the liability for the refunded bonds has been removed from the accompanying statements of net assets.

The refunding resulted in the recognition of a deferred accounting loss of $23.5 million for fiscal year ended June 30, 2010. The Airport however reduced its aggregate debt service payments by approximately $66.1 million over the next twenty-one years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $41.6 million.

Interest Rate Swaps

Objective and Terms – The Airport entered into seven forward-starting interest rate swaps (the “2004 swaps”), in connection with the anticipated issuance of its San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issue 32A-E in February 2005, and a portion of its Variable Rate Revenue Refunding Bonds, Issue 33 in February 2006. The swap structure was used as a means to increase the Airport’s debt service savings, when compared with fixed-rate refunding bonds at the time of issuance. In July 2007, the Airport entered into four additional forward-starting interest rate swaps, in connection with the anticipated issuance of the San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issue 37B/C, in May 2008 (the “2007 swaps”), and the Variable Rate Revenue Refunding Bonds, Series 2010A, in February 2010 (the “2010 swaps”). The final maturity of the 2004 swaps is May 1, 2026, and the final maturities of the 2007 and 2010 swaps are May 1, 2029 and May 1, 2030, respectively.

(Dollars in Thousands)

In the spring of 2008, the Airport refunded several issues of auction rate and variable rate obligations, including Issue 32 and Issue 33. The 2004 swaps associated with these issues were transferred to the San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Issues 36A-D and 37A, respectively. Subsequently, in December 2008, the Airport refunded Issues 37A and 37B. Concurrently, the 2004 swaps associated with Issue 37A were terminated. However, the 2007 swap associated with Issue 37B was not terminated and is now not assigned to any bond issue for tax law purposes, but is associated with $79.7 million of the San Francisco International Airport Second Series Variable Rate Revenue Refunding Bonds, Series 2009D.

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

Under the 2004 swaps, the Airport receives a monthly variable rate payment from its swap counterparties equal to 63.5% of USD-LIBOR-BBA1 plus 0.29%. The Airport receives 61.85% of USD-LIBOR-BBA plus 0.34% under the 2007 and 2010 swaps. These payments are intended to approximate the variable interest rates on the bonds hedged by the swaps. The Airport makes a monthly fixed rate payment to the counterparties as set forth below. The objective of the swaps is to achieve a synthetic fixed interest rate on the associated bond issues. No monthly payments were made on the 2010 swaps prior to their effective date of February 1, 2010.

As of June 30, 2010, the fair value of the Airport's eight outstanding swaps, which had a total notional amount of $585.4 million are broken down by series as follows:

Associated Bonds	Notional Amount	Effective Date	Bank Counterparty
36AB	$ 70,000	2/10/2005	J.P. Morgan Chase Bank N.A.
36A	69,930	2/10/2005	J.P. Morgan Chase Bank N.A.
36C	30,000	2/10/2005	J.P. Morgan Chase Bank N.A.
36D	29,970	2/10/2005	J.P. Morgan Chase Bank N.A.
2009AB [1]	79,684	5/15/2008	Merrill Lynch Capital Services, Inc.
37C	89,856	5/15/2008	J.P. Morgan Chase Bank N.A.
2010A	71,973	2/1/2010	Depfa Bank PLC, New York
2010A	143,947	2/1/2010	Goldman Sachs Bank USA
	$ 585,360		

(1) The swap previously associated with 37B was applied to a portion of 2009AB.

The swaps hedging Issue 36A-D Bonds terminate in May 2026, the final maturity date of the Issue 36 Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2010:

Counterparty/guarantor	Initial Notional	Fixed rate payable by Airport	Counterparty credit ratings: Moody's	S&P	Fitch	Fair value to Airport
J.P. Morgan Chase Bank, N.A.	$ 70,000	3.4440%	Aa1	AA-	AA-	$ (8,273)
J.P. Morgan Chase Bank, N.A.	69,930	3.4450%	Aa1	AA-	AA-	(8,273)
J.P. Morgan Chase Bank, N.A.	30,000	3.4400%	Aa1	AA-	AA-	(3,546)
J.P. Morgan Chase Bank, N.A.	29,970	3.4450%	Aa1	AA-	AA-	(3,546)
(Aggregate notional amount)	$ 199,900					$ (23,638)

(Dollars in Thousands)

The swaps hedging the Issue 37B and 37C Bonds (the former is currently applied to Series 2009D Bonds) terminate in May 2029, which is the final maturity date of the Issue 37B/C Bonds. Following the refunding of the Issue 37B bonds, the Airport did not restructure the amortization of the swap to match the amortization of the Series 2009D Bonds, resulting in a mismatch in later years and a lack of integration for tax purposes. The following is additional information regarding each swap and the counterparty as of June 30, 2010:

Counterparty/guarantor	Initial Notional	Fixed rate payable by Airport	Counterparty credit ratings Moody's	S&P	Fitch	Fair value to Airport
Merrill Lynch Capital Services	$ 79,684	3.8980%	A2	A	A+	$ (14,407)
J.P. Morgan Chase Bank, N.A.	89,856	3.8980%	Aa1	AA-	AA-	(16,246)
(Aggregate notional amount)	$ 169,540					$ (30,653)

The swaps relating to the Series 2010A Bonds terminate in May 2030, the final maturity date of the Series 2010A Bonds. The following is additional information regarding each swap and the counterparty as of June 30, 2010:

Counterparty/guarantor	Initial Notional	Fixed rate payable by Airport	Counterparty credit ratings Moody's	S&P	Fitch	Fair value to Airport
Depfa Bank PLC, New York	$ 71,973	3.8950%	A3	BBB	A-	$ (13,334)
Goldman Sachs Bank USA	143,947	3.9250%	Aa3	A	A+	(27,213)
(Aggregate notional amount)	$ 215,920					$ (40,547)

***Fair Value* –** The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All fair values were estimated using the zero-coupon discounting method. This method calculates the future payments required by the swap, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve for a hypothetical zero-coupon rate bonds due on the date of each future net settlement payment on the swaps.

***Basis Risk* –** The Airport has chosen a variable rate index based on a percentage of LIBOR plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Airport is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable bond rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. During the fiscal year ended June 30, 2010, the Airport received $0.4 million in excess payments from its counterparties, resulting in a decrease in the effective synthetic interest rates on the associated bonds.

***Credit Risk* –** As of June 30, 2010, the Airport is not exposed to credit risk because the swaps have a negative fair value to the Airport. Should long-term interest rates rise and the fair value of the swaps becomes positive, the Airport would be exposed to credit risk in the amount of the swaps' fair value. Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities in an amount equal to the market value of a swap that exceeds specified thresholds linked to the counterparty's credit ratings. Any such collateral will be held by a custodial bank.

***Counterparty Risk* –** The Airport is exposed to counterparty risk, which is related to credit and termination risk. While the insolvency or bankruptcy of a counterparty or its failure to perform would be a default under the applicable swap documents, none of the Airport's swaps would automatically terminate. Rather, the Airport would have the option to terminate the affected swap at its fair value, which may result in a payment to the counterparty. The Airport may also be exposed to counterparty risk in a high interest rate environment in the event a counterparty is unable to perform its obligations on a swap transaction leaving the Airport exposed to the variable rates on the associated debt. The Airport's swap policy limits counterparty credit risk by limiting exposure to any one counterparty at the time a swap is executed to not more than 20% of the total portfolio. While the Airport's exposure to J.P. Morgan Chase Bank, N.A. and affiliates complied with the swap policy when the applicable swaps were executed, the Airport's exposure as of June 30, 2010 exceeded this threshold due to JPMorgan's acquisition of Bear Stearns Capital Markets, Inc. The swap policy does not require remedial action in this case.

(Dollars in Thousands)

Termination Risk – All of the interest rate swaps are terminable at their market value at any time at the option of the Airport. The Airport has limited termination risk with respect to the interest rate swaps. That risk would arise primarily from certain credit-related events or events of default on the part of the Airport, the municipal swap insurer, or the counterparty. The Airport has secured municipal swap insurance for all its regular payments and some termination payments due under all its interest rate swaps except the swaps associated with the Series 2010A Bonds, from the following insurers:

Swap	Swap Insurer	Insurer credit ratings June 30, 2010 (S&P/Moody's)
Issue 36C	Assured Guaranty Municipal Corp.	AAA/Aa3
Issue 36AB (two swaps)	FGIC/National Public Finance Guarantee Corporation	A/Baa1
Issue 36D	Assured Guaranty Municipal Corp.	AAA/Aa3
Issue 37C	Assured Guaranty Municipal Corp.	AAA/Aa3
Series 2009D	Assured Guaranty Municipal Corp.	AAA/Aa3
Series 2010A (two swaps)	None	N/A

If the Airport is rated between Baa1/BBB+/BBB+ and Baa3/BBB-/BBB- (Moody's/S&P/Fitch), and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any, unless the Airport chooses to provide suitable replacement credit enhancement, assign the Airport's interest in the swaps to a suitable replacement counterparty, or post collateral to secure the swap termination value. If the Airport is rated below Baa3/BBB-/BBB- (Moody's/S&P/Fitch) or its ratings are withdrawn or suspended, and the applicable bond insurer is rated below A3/A- (Moody's/S&P), the counterparties may terminate the swaps and require the Airport to pay the termination value, if any. With respect to the Series 2010A swaps with no swap insurance, the counterparty termination provisions and the Airport rating thresholds are the same as described above.

Additional Termination Events under the swap documents with respect to the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer rating downgrades or specified insurer non-payment defaults combined with a termination event or event of default on the part of the Airport or a ratings downgrade of the Airport below investment grade. Additional Termination Events under the swap documents with respect to a counterparty include a rating downgrade below investment grade followed by a failure of the counterparty to assign its rights and obligations under the swap documents to another entity acceptable to the applicable insurer within 15 business days.

The impact of the interest rate swaps on the financial statements for the year ended June 30, 2010 is as follows:

	Deferred outflows on derivative instrument	Derivative instrument liabilities
Balance June 30, 2009	$ 57,157	$ 62,615
Change in fair value to year end	32,348	32,223
Balance June 30, 2010	$ 89,505	$ 94,838

(Dollars in Thousands)

Deferred outflows on derivative instruments of $89.5 million as of June 30, 2010 represent deferred outflows of resources offsetting interest rate swap liabilities in accordance with GASB Statement No. 53 in fiscal year 2010. Per reporting guidelines of GASB Statement No. 53, derivative outflows on derivative instrument as of June 30, 2009 were restated at the amount of $57.2 million.

Derivative instrument liabilities of $94.8 million as of June 30, 2010 represent the recording of the fair values of interest rate swap contracts per GASB Statement No. 53. Per reporting guidelines of GASB Statement No. 53, the balance of derivative instrument liabilities as of June 30, 2009 was restated at the amount of $62.6 million.

Variable Rate Demand Bonds

Included in long-term debt as of June 30, 2010 is $535.0 million of Second Series Variable Rate Revenue Refunding Bonds, Issues 36A-D, Issues 37C-D and Series 2010A (collectively, the "Variable Rate Bonds") in a weekly variable rate mode that mature on May 1, 2006 (Issues36 A-D), May 1, 2029 (Issues 37C), and May 1, 2030 (Issues 37D and Series 2010A). The Variable Rate Bonds are long-term tax-exempt bonds that bear a floating weekly interest rate that provide the holders thereof the option to tender their bonds at par on seven days notice. Any tendered Variable Rate Bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The Variable Rate Bonds can be converted to other interest rate modes, including a term rate or a fixed rate to maturity, upon appropriate notice by the Airport.

The scheduled payment of the principal and purchase price of and interest on the Issues 36A-B and Series 2010A bonds is secured by three irrevocable direct-pay letters of credit issued to the bond trustee for the benefit of the applicable bondholders by the banks identified in the table below. The scheduled payment of principal of and interest on the Issues 36C/D and 37C/D when due is guaranteed under several bond insurance policies issued by Assured Guaranty Municipal Corp. (formerly known as Financial Security Assurance Inc.), while the payment of the purchase price of the Issues 36C/D and 37C/D bonds upon tender for purchase is payable, subject to the satisfaction of certain conditions precedent, from amounts made available pursuant to three Standby Bond Purchase Agreements with Dexia Credit Local, acting through its New York Branch.

Amounts drawn under a standby bond purchase agreement or a letter of credit that are not reimbursed by the Airport constitute "Repayment Obligations" under the 1991 Master Resolution and are accorded the status of other outstanding bonds to the extent provided in the Resolution. The commitment fees for the letters of credit and standby bond purchase agreements range between 0.55% and 1.35% per annum. As of June 30, 2010, there were no unreimbursed draws under these facilities. The primary terms of the standby bond purchase agreements and letters of credits are as follows:

	Issue 36A	Issue 36B	Issue 36 C/D	Issue 37C/D	Series 2010A
Principal Amount……………	$100,000	$40,620	$68,830	$109,585	$215,970
Type…………………………	Line of Credit	Line of Credit	Standby Bond Purchase Agreement	Standby Bond Purchase Agreement	Line of Credit
Expiration Date…………….	May 7, 2013	May 6, 2011	May 15, 2013	May 15, 2013	February 8, 2013
Insurer………………………	n/a	n/a	Assured Guaranty Municipal Corp.	Assured Guaranty Municipal Corp.	n/a
Credit/Liquidity Provider……………………	Wells Fargo Bank, National Association	Union Bank, N.A.	Dexia Credit Local, New York Branch	Dexia Credit Local, New York Branch	JPMorgan Chase Bank, N.A.

Port Commission

In February 2010, the Port issued $36.6 million in revenue bonds in two series; a non-AMT taxable exempt series (Series 2010A) with a par value of $14.2 million and a taxable series (Series 2010B) with a par value of $22.4 million. Series 2010A bonds will mature in March 2040 and carry a coupon rate of 5.125%. Series 2010B bonds carry coupon rates ranging from 2.72% to 7.41% and mature from March 2011 through March 2030. The net proceeds of the bond, after deduction for bond issue discount, underwriting and other issuance cost, debt service reserve fund and bond auditing fees will be used to provide funds for the design, construction, reconstruction, repair and/or improvements to various Port facilities. The Port has pledged future net revenues to repay the bonds which are solely repayable from the net revenues of the Port and are not an obligation of the City.

San Francisco Public Utilities Commission

In October 2009, the City issued $167.7 million in certificates of participation to fund construction of the future headquarters building of the San Francisco Public Utilities Commission (SFPUC) at 525 Golden Gate Avenue. The 2009 Series C were issued for $38.1 million and 2009 Series D for $129.6 million as "Build America Bonds" on a taxable basis under the 2009 American Recovery and Reinvestment Act. The 2009 Series C certificates carry interest rates ranging from 2.0% to 5.0% and mature on November 1, 2022. The 2009 Series D certificates carry interest rates ranging from 6.36% to 6.49% and mature on November 1, 2041, after adjusting for the Federal interest subsidy, the true interest cost averages 3.4% and 4.3% for Series C & D, respectively.

Under the terms of a Memorandum of Understanding between the City and the SFPUC dated October 1, 2009, the City conveyed the real property to the Trustee under a property lease in exchange for the proceeds of the sale of the certificates. The Trustee has leased the property back to the City for the City's use under a Project Lease. The City will be obligated under the Project Lease to pay base rental payments and other payments to the Trustee each year during the thirty-two year term of the Project Lease. The SFPUC will make annual base rental payments to the City for the building equal to annual debt service on the certificates. It is anticipated that these lease costs will be offset with reductions in costs associated with current office rental expense.

Each of the three Enterprise Funds has an ownership interest in the building equal to their projected usage of space as follows: Water Enterprise (73%), Wastewater Enterprise (15%) and Hetch Hetchy Water and Power (12%). Similarly, each Enterprise Fund is responsible for a portion of the annual Base Rental Payment based on their ownership percentages less contributed equity. The percentage share of Base Rental Payments for the Enterprise Funds is as follows: Water Enterprise (71.4%), Wastewater Enterprise (18.9%), and Hetch Hetchy Water and Power (9.7%).

a) San Francisco Water Enterprise

In August 2009, the SFPUC issued $412 million in 2009 Water Revenue Bonds, Series A and in September 2009, SFPUC issued $412 million in 2009 Water Revenue Bonds, Series B. The bonds were issued to finance a portion of the design, acquisition and construction of various capital projects of the Water System Improvement Program (WSIP), fund the capitalized interest accounts of the 2009 Series A and B for approximately five Indentures and to pay for the costs of issuances. A portion of the 2009 Series A will also be used to refund SFPUC's Commercial Paper Notes issued to fund a portion of the WSIP. Interest rates for the 2009 Series A bonds range from 4.0% to 5.3% and mature from November 2011 through November 2039. The 2009 Series B bonds bear interest rates ranging from 4.0% to 5.0% and mature from November 2011 to November 2039.

In June 2010, the SFPUC issued 2010 San Francisco Water Revenue Bonds Series ABC (the "ABC bonds") with the combined amount of $488.7 million. The Sub-Series A bonds was issued for $56.9 million to provide funds for the Advance Metering Infrastructure System ("AMI") project as well as financing costs. The 2010 Sub-Series A bonds mature from November 2011 through November 2030 with interest rates ranging from 2.0% to 5.0%. The Sub-Series B (Federally Taxable-Build America Bonds-Direct Payment) bonds was issued for $417.7 million to provide $364.8 million in new money for the WSIP capital projects as well as to pay financing costs. The 2010 Sub-Series B bonds mature from November 2016 through November 2040 with interest rates ranging from 4.0% to 6.0%. The Sub-Series C bonds was issued for $14.1 million to refund $14.4 million of outstanding principal amount of SFPUC's Water Revenue Bonds, 2001 Series A and to pay financing costs. The 2010 Sub-Series C bonds mature from November 2012 through November 2015 with interest rate of 5.0%. A portion of the proceeds on the 2010 Sub-Series C revenue bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement, dated June 1, 2010, to refund and legally defease a portion of the outstanding 2001 Series A bonds. This deposit, together with certain other available moneys was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal Securities consisting of United States Treasury Securities-State and Local Government Series (SLGS). The principal and interest on monies held by the escrow agent will be sufficient to redeem the Refunded 2001 Series A bonds on November 1, 2011 by optional redemption on that date. As of June 30, 2010, the 2001 Series A bonds still outstanding totals $60.2 million. Although the refunding resulted in the recognition of a deferred accounting loss of $1.0 million, the Water Enterprise Fund achieved net present value debt service savings of $0.9 million or 6.4% of the refunded principal.

b) San Francisco Wastewater Enterprise

In June 2010, the SFPUC issued the 2010 Wastewater Revenue Bonds Series A for $47.1 million and Wastewater Revenue Bonds Series B (Federally Taxable-Build America Bonds-Direct Payment) for $192.5 million. The 2010 Series A Bonds were issued to 1) refinance a portion of the costs of planning, design, construction and improvement of various capital projects in furtherance of the SFPUC's Wastewater Enterprise Capital Improvement Program (the "CIP"); 2) to refund commercial paper notes issued by SFPUC to fund a portion of the CIP; 3) to fund the reserve account; and 4) pay costs of issuance. The proceeds of the 2010 Series B will be applied to 1) refund additional commercial paper notes; 2) to fund a portion of the costs of the CIP and a portion of the SFPUC's proposed Sewer System Improvement Program; 3) to fund capitalized interest on the 2010 Series B Bonds; 4) to fund a reserve account for the 2010 Series B Bonds; and 5) pay costs of issuance. The 2010 Series A Bonds mature from October 2016 through October 2021 with interest rates ranging from 4.0% to 5.0% and the 2010 Series B Bonds mature from October 2022 through October 2040 with interest rates ranging from 4.65% to 5.82%.

San Francisco General Hospital

In April 2010, the City issued $22.5 million Certificates of Participation, San Francisco General Hospital Emergency Backup Generator Project Series 2010A. The Certificates were issued to finance the replacement of the existing steam turbine-driven emergency generators, along with the steam generating equipment which currently provides a back-up emergency power source to the San Francisco General Hospital. A portion of the proceeds will also be used to pay for the cost of issuance of the Certificates and fund the capital lease payable through November 25, 2011. The Certificates were issued pursuant to a Trust Agreement between the City and the Trustee, Deutsche Bank National Trust, acting on behalf to the lessor, Princeton Credit LLC. Under the trust agreement, the City and the lessor, have entered into a lease purchase financing agreement pursuant to which the City agreed to lease the project from the lessor and to make rental payments. The Series 2010A were issued with an interest rate of 5.55% and matures from May 2012 through November 2025.

The City is required under the Lease to pay Rental Payments from any source of legally available funds. Rental Payments are required to be deposited with the Trustee on or before the twenty-fifth day of the month preceding each Certificate Payment Date, for application to the Rental Payment Fund established pursuant to the Trust Agreement. The City has also pledged all amounts on deposit from time to time in the funds established pursuant to the Trust Agreement (other than in the Rebate Fund) to the payment of all Rental Payments.

Component Unit Debt – San Francisco Redevelopment Agency

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

(Dollars in Thousands)

(9) EMPLOYEE BENEFIT PROGRAMS

(a) Retirement Plan

The City maintains a cost-sharing multiple-employer defined benefit pension plan (the Plan), which covers substantially all of its employees, and certain classified and certified employees of the San Francisco Community College District and Unified School District, and San Francisco Trial Court employees other than judges. Due to the relative insignificance of the other employers in the Plan, the City presents disclosure information for the Plan as if it were a single-employer plan. The Plan is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). Some City employees participate in the California Public Employees Retirement System (PERS), agent or cost-sharing multiple-employer, public employee pension plans, which cover certain employees in public safety functions, the Port, the Airport, the San Francisco County Transportation Authority and the Redevelopment Agency.

Employees' Retirement System

Plan Description – Substantially all full-time employees of the City participate in the Plan. The Plan provides basic service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and the Administrative Code are the authority which establishes and amends the benefit provisions and employer obligations of the Plan. The retirement related payroll for employees covered by the Retirement System for the year ended June 30, 2010 was approximately $2.46 billion. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, CA 94102 or by calling (415) 487-7020.

Legislative Changes to the Plan – In June 2010, the voters of the City and County approved a Charter amendment to create new benefit plans for miscellaneous City employees and firefighter and police employees who are hired on or after July 1, 2010. The new benefit plan covering Miscellaneous employees hired on or after July 1, 2010 provides for a service retirement benefit, which is calculated using the member's final compensation (highest two-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation. The two new benefit plans covering firefighter and police employees hired on or after July 1, 2010 provide for: a) an increase in required employee contributions from 7.5% of covered compensation in the previous safety plans to 9% of covered compensation, and b) a service retirement benefit, which is calculated using the member's final compensation (highest two-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

Membership of the Retirement System consisted of the following as of June 30, 2010:

	Police	**Fire**	**Miscellaneous**	**Total**
Retirees and beneficiaries currently receiving benefits	2,214	2,059	19,227	23,500
Active members	2,139	1,394	24,689	28,222
Terminated members entitled to but not yet receiving benefits	121	71	5,301	5,493
Total	4,474	3,524	49,217	57,215

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.

(Dollars in Thousands)

Deferred Retirement Option Program – In February 2008, the voters of the City approved a Charter amendment to provide a Deferred Retirement Option Program (DROP) for certain Police members of the Plan to be effective July 1, 2008. An eligible police officer may elect to participate in DROP for a specified period of time up to a maximum of three years depending on the rank of the police officer. While participating in DROP, the police officer continues to work and receive pay as a police officer and begins to accrue monthly DROP distributions posted to a nominal account maintained by the Retirement System. The monthly DROP distribution is equal to the participant's monthly service retirement allowance calculated as of the participant's entry into DROP. Interest at an annual effective rate of 4% and applicable COLAs are posted to the participant's DROP account during participation in DROP. Upon exiting from DROP, the participant receives a lump sum distribution from his or her DROP account and begins to receive a monthly service retirement allowance calculated using age, covered compensation and service frozen as of the date of his or her entry into DROP. DROP is scheduled to sunset effective July 1, 2011 unless extended by the Board of Supervisors of the City.

Changes in DROP liabilities during the year ended June 30, 2010 are as follows:

DROP liability, beginning of year	$ 4,143
Additions	6,994
Distributions	(2,484)
DROP liability, end of year	$ 8,653

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 2009-2010 varied from 7% to 8% as a percentage of gross salary. For fiscal year ended June 30, 2010, most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2008 actuarial report, the required employer contribution rate for fiscal year 2009-2010 was 9.49%.

Employer contributions and employee 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, 2008. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 7.75%; (2) cost of living adjustments of 2% to 4.5%; and (3) salary merit increases of 4.5%. The actuarial value of Retirement System assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 5-year period. Unfunded liabilities are amortized using the level percentage of payroll method. Changes in actuarial gains and loss assumptions and purchasable services are amortized as a level percentage of pay over an open 15-year period. Plan amendments and changes in interest crediting rate are amortized over a closed 20-year period.

Three-year trend information is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2008	$ 134,060	100%	$ -
6/30/2009	119,750	100%	-
6/30/2010	223,614	100%	-

(Dollars in Thousands)

Funded Status and Funding Progress – As of July 1, 2009, the most recent actuarial valuation date, the actuarial value of assets was $16.0 billion; the actuarial accrued liability was $16.5 billion; the total unfunded actuarial accrued liability was $493.9 million; the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 97.0%; the annual covered payroll was $2.5 billion; and the ratio of the unfunded actuarial liability to annual covered payroll was 19.5%. The actuarial assumptions used were the same as described in the Annual Pension Cost section above. The Retirement System's actuarial accrued surplus from its July 1, 2008 actuarial valuation decreased from a surplus $582.6 million to a deficit of $493.9 million primarily due to investment experience during the year ended June 30, 2009. The actuarial value of assets is "smoothed" in order to mitigate the impact of investment performance volatility on employer contribution rates. Because asset valuations are smoothed and the full investment losses from the year ended June 30, 2009 have not been recognized, the contribution rate is expected to increase over the next four years assuming investment returns equal the assumed rate and all other actuarial assumptions are met. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

California Public Employees' Retirement System

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

Plan Description – The City contributes to PERS, an agent multiple-employer public employee defined benefit pension plan for safety members and a cost-sharing multiple-employer plan for miscellaneous members. Effective with the PERS June 30, 2003 actuarial valuation, PERS mandated that the City's miscellaneous members plan be included in a cost-sharing multiple-employer plan consisting of various government entities with plan memberships of less than 100 active members. PERS provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. PERS acts as a common investment and administrative agent for participating public entities within the State of California. Benefit provisions and all other requirements are established by state statute and City ordinance. Copies of PERS' annual financial report may be obtained from their executive office: 400 P Street, Sacramento, CA 95814. A separate report for the City's plan within PERS is not available.

Miscellaneous Plan

Funding Policy – Miscellaneous plan – Participants are required to contribute 7% of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the miscellaneous plan, the fiscal year 2009-2010 contribution rate is 0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Miscellaneous plan – Cost for PERS for fiscal year 2009-2010 was equal to the City's required and actual contributions, which was determined as part of the June 30, 2007 actuarial valuation using the entry age actuarial cost method.

Three-year payment trend information is as follows:

Fiscal Year Ended	Pension Cost (APC)	of APC Contributed	Pension Obligation
6/30/2008	$ -	N/A	$ -
6/30/2009	-	N/A	-
6/30/2010	-	N/A	-

(Dollars in Thousands)

Safety Plan

Funding Policy – Safety plan – Participants are required to contribute 9% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate. For the safety plan, the fiscal year contribution rate is 18.125%. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Safety Plan – The cost for PERS for fiscal year 2009-2010 was equal to the City's required and actual contributions, which was determined as part of the June 30, 2007 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2007 actuarial valuation were: (a) 7.75% investment rate of return (net of administrative expenses), (b) 3.25% to 13.15% projected annual salary increases that vary by age, service and type of employment, and (c) 3.25% per year cost-of-living adjustments. The cost-of-living adjustment includes an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. Changes in unfunded liability/(excess assets) due to changes in actuarial methods or assumptions or changes in plan benefits are amortized over as a level percentage of pay over a closed 20 year period.

Three-year trend information is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2008	$ 15,982	100%	$ -
6/30/2009	15,926	100%	-
6/30/2010	15,657	100%	-

Funded Status and Funding Progress – As of June 30, 2009, the most recent actuarial valuation date, the actuarial value of assets was $707.6 million; the actuarial accrued liability was $758.1 million; the total unfunded actuarial accrued liability was $50.5 million; the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 93.3%; the annual covered payroll was $101.9 million; and the ratio of the unfunded actuarial liability to annual covered payroll was 49.6%. The actuarial assumptions used were the same as described in the Annual Pension Cost – Safety Plan section above. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(b) Deferred Compensation Plan

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

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

(c) Health Service System

The Health Service System was established in 1937. Health care benefits of employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the Health Service System. The employers' contribution, which includes the San Francisco Community College District, San Francisco Unified School District and the San Francisco Superior Court, amounted to approximately $548.2 million in fiscal year 2009-2010. 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 $159.5 million to provide postemployment health care benefits for 23,623 retired participants, of which $126.8 million related to the City employees. The City's liability for both current employee and postemployment health care benefits is enumerated below. The City's contribution is paid out of current available resources and funded on a pay-as-you-go basis. The Health Service System issues a publicly available financial report that includes financial statements. That report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Suite 200, San Francisco, CA 94103 or by calling (800) 541-2266.

(Dollars in Thousands)

(d) Postemployment Health Care Benefits

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

Plan Description – The City maintains a single-employer, defined benefit other postemployment benefits plan, which provides health care benefits to employees, retired employees, and surviving spouses, through the City's Health Service System outlined above. Health care benefits are provided to members of the Health Service System through three plan choices: City Health Plan, Kaiser, and Blue Shield.

Funding Policy – The contribution requirements of plan members and the City are based on a pay-as-you-go basis. For fiscal year ended June 30, 2010, the City paid approximately $126.8 million on behalf of its retirees.

Annual OPEB Cost and Net OPEB Obligation – The City's annual other postemployment benefits (OPEB) expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excess) amortized over thirty years. The ARC was determined based on the July 1, 2008 actuarial valuation.

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

Annual required contribution	$ 368,665
Interest on Net OPEB obligation	25,729
Adjustment to annual required contribution	(20,180)
Annual OPEB cost	374,214
Contribution made	(126,829)
Increase in net OPEB obligation	247,385
Net OPEB obligation - beginning of year	605,397
Net OPEB obligation - end of year	$ 852,782

The table below shows how the total net OPEB obligation as of June 30, 2010, is distributed.

Governmental activities	$ 477,633
Business-type activities	348,287
Fiduciary funds	26,862
Net OPEB obligation - end of year	$ 852,782

Eligible fiduciary funds' employees are City employees and thereby eligible for postemployment health benefits. These obligations are reported as other obligations in the City's basic financial statements.

(Dollars in Thousands)

Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	$ 409,080	28.0%	$ 294,440
6/30/2009	430,924	27.8%	605,397
6/30/2010	374,214	33.9%	852,782

The Annual OPEB Cost computed for the year ended June 30, 2010 includes the following actuarial assumptions changes since the July 1, 2006 valuation:

- The discount rate has changed from 4.50% to 4.25%
- The payroll growth rate has changed from 4.50% to 4.25%.
- A refund of contribution assumption was introduced to better reflect anticipated experience.
- Rates of retirement for miscellaneous, craft, and municipal members have been updated, in line with the Retirement System's rates.
- The benefit commencement age for current and future terminated vested participants is assumed to be at age 55 compared to the eligible age of 50.
- Health care cost trend rates, plan costs and retiree contributions have been updated to better reflect anticipated future experience.
- The spouse coverage assumption was updated from 50% for males and 20% for females to 35% for both genders.
- The Medicare eligibility assumption was updated from 95% to 100%.
- The plan election rates were updated to reflect the elimination of PacifiCare as a plan option.

Funded Status and Funding Progress – The unfunded actuarial accrued liability is being amortized as a level percentage of expected payroll over a thirty year period, beginning July 1, 2007. As of July 1, 2008, the most recent actuarial valuation date, the funded status of the Retiree Health Care Benefits was 0%. The actuarial accrued liability for benefits was $4.4 billion, and the actuarial value of assets was $0, resulting in an unfunded actuarial accrued liability (UAAL) of $4.4 billion. The covered payroll (annual payroll of active employees covered by the plan) was $2.3 billion and the ratio of the UAAL to the covered payroll was 191.3%.

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

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

In the actuarial valuation as of July 1, 2008, the entry age normal cost method was used. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percent of expected salary for each year of employment between entry age (age at hire) and assumed exit (maximum retirement age). Unfunded liabilities are amortized using the level percentage of expected payroll over an open 30-year period. The actuarial assumptions included a 4.25% investment rate of return on investment; annual healthcare cost trend rates using the actual rates for fiscal years ended June 30, 2009 and 2010, an annual blended healthcare cost trend rate of 9% in the fiscal year ended June 30, 2011, reduced by 0.5% each year to an ultimate rate of 5% in the eighth year and beyond; annual vision and expenses trend rates using the actual rates for fiscal years ended June 30, 2009 and 2010, and 3% per year thereafter; and a 4.25% annual increase in projected payroll.

(Dollars in Thousands)

San Francisco County Transportation Authority

The San Francisco County Transportation Authority (SFCTA) maintains a separate single-employer defined benefit OPEB plan and reported a net OPEB obligation of $0 as of June 30, 2010. SFCTA's most recent actuarial valuation was performed as of January 1, 2010, covering the fiscal years ended June 30, 2010 and June 30, 2011. SFCTA's OPEB plan was for retiree healthcare benefits and was 46.3% funded and the unfunded actuarial accrued liability was $0.2 million. Details of SFCTA's OPEB plan may be found in its financial statements for the fiscal year ended June 30, 2010. Financial statements for SFCTA can be obtained from their finance and administrative offices at 100 Van Ness Avenue, 26th Floor, San Francisco, CA 94102.

As of June 30, 2010, the SFCTA's annual OPEB expense of $110 was equal to the ARC. Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	$ 84	100%	$ -
6/30/2009	86	100%	-
6/30/2010	110	100%	-

San Francisco Redevelopment Agency

The San Francisco Redevelopment Agency (the Agency) maintains a separate OPEB single-employer defined benefit plan and reported a net OPEB obligation of $0.6 million as of June 30, 2010. The Agency's most recent actuarial valuation was performed as of June 30, 2009, covering the fiscal year ended June 30, 2010. The Agency's OPEB plan was for retiree healthcare benefits and was 3.6% funded and the unfunded actuarial accrued liability was $13.3 million. Details of the Agency's OPEB plan may be found in its financial statements for the fiscal year ended June 30, 2010. Financial statements for the Agency can be obtained from their finance and administrative offices at 1 South Van Ness Avenue, 5th Floor, San Francisco, CA 94102.

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

Annual required contribution	$ 1,306
Interest on Net OPEB obligation	43
Adjustment to annual required contribution	(53)
Annual OPEB cost	1,296
Contribution made	(1,205)
Increase in net OPEB obligation	91
Net OPEB obligation - beginning of year	552
Net OPEB obligation - end of year	$ 643

(Dollars in Thousands)

Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2008	$ 1,216	59%	$ 493
6/30/2009	1,298	95%	552
6/30/2010	1,296	93%	643

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

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

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

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

(10) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

The San Francisco County Transportation Authority (SFCTA) was created in 1989 by a vote of the San Francisco electorate. The vote approved Proposition B, which imposed a sales tax of one-half of one percent (0.5%), for a period not to exceed 20 years, to fund essential transportation projects. The types of projects to be funded with the proceeds from the sales tax are set forth in the San Francisco County Transportation Expenditure Plan (the Plan), which was approved as part of Proposition B. The SFCTA was organized pursuant to Sections 131000 et seq. of the Public Utilities Code. Collection of the voter-approved sales tax began on April 1, 1990. The Expenditure Plan includes investments in four major categories: 1) Transit; 2) Streets and Traffic Safety (including street resurfacing, and bicycle and pedestrian improvements); 3) Paratransit services for seniors and disabled people; and 4) Transportation System Management/Strategic Initiatives (including funds for neighborhood parking management, transportation/land use coordination, and travel demand management efforts). Major capital projects to be funded by the Proposition K Expenditure Plan include: A) development of the Bus Rapid Transit and MUNI Metro Network; B) construction of the MUNI Central Subway (Third Street Light Rail Project–Phase 2); C) construction of the Caltrain Downtown Extension to a rebuilt Transbay Terminal; and D) South Approach to the Golden Gate Bridge: Doyle Drive Replacement Project (re-envisioned as the Presidio Parkway). Within 20 years of the effective date of the adoption of the Proposition K Expenditure Plan, the SFCTA may modify the Expenditure Plan with voter approval. Pursuant to the provisions of Division 12.5 of the California Public Utilities Code, the SFCTA Board may adopt an updated Expenditure Plan anytime after 20 years from the effective date of adoption of the Proposition K Expenditure Plan but no later than the last general election in which the Proposition K Expenditure Plan is in effect. The Sales Tax would continue as long as a new or modified plan is in effect. Under Proposition K legislation, the SFCTA directs the use of the Sales Tax and may spend up to $485.2 million per year and may issue up to $1.88 billion in bonds secured by the Sales Tax.

In November 1990, the SFCTA was designated under State law as the Congestion Management Agency (CMA) for the City. Responsibilities resulting from this designation include developing a Congestion Management Program, which provides evidence of the integration of land use, transportation programming and air quality goals; preparing a long-range countywide transportation plan to guide the City's future transportation investment decisions; monitoring and measuring traffic congestion levels in the City; measuring the performance of all modes of transportation; and developing a computerized travel demand forecasting model and supporting databases. As the CMA, the SFCTA is responsible for establishing the City's priorities for state and federal transportation funds and works with the Metropolitan Transportation Commission (MTC) to program those funds to San Francisco projects.

Major programs under the CMA include:

- Surface Transportation Program (STP) – In September 1992, the MTC began programming Federal STP to CMAs in the Bay Area. In turn, the Authority is responsible for certain planning and programming activities, work tasks and products, that support MTC's overall work program.
- Countywide Transportation Plan – As the CMA, the Authority is responsible for preparing a Countywide Transportation Plan to guide transportation system development and investment over the next 30 years. The Plan is consistent with the broader policy framework of the City and County of San Francisco's General Plan and particularly its Transportation Element. The Countywide Transportation Plan further develops and implements General Plan principles, by identifying needed transportation system improvements based on technical review of system performance; extensive public input on key issues and needs; and analysis of financial opportunities and constraints. The planning process began this summer and continues over the next 18 months to two years.
- Transportation Fund for Clean Air Program – On June 15, 2002, the SFCTA was designated to act as the overall program manager for the local guarantee (40%) share of transportation funds available through the Transportation Fund for Clean Air (TFCA) program. Funds from this program, administered by the Bay Area Air Quality Management District (BAAQMD) come from a $4 vehicle registration fee on automobiles registered in the Bay Area. Through this program, the SFCTA recommends projects that benefit air quality by reducing motor vehicle emissions.

(11) DETAILED INFORMATION FOR ENTERPRISE FUNDS

(a) San Francisco International Airport

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

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

The Airport has revised its five-year Capital Plan, which was approved in May 2010 and included airfield and groundside improvements, utility infrastructure upgrades, terminal upgrades, health, safety and security enhancements, and cost savings and revenue generating enhancements.

Pledged Revenues under the 1991 Master Resolution – Under the terms of the 1991 Master Bond Resolution, for a Series of Second Series Revenue Bonds to be secured by the common 1991 Reserve Fund, the Airport is required to deposit with the trustee an amount equal to the maximum debt service accruing in any year during the life of all Second Series Revenue Bonds secured by the common 1991 Reserve Fund or substitute a credit facility meeting those requirements. Alternatively, the Airport may establish a separate reserve account with a different reserve requirement to secure an individual series of bonds. While revenue bonds are outstanding, the Airport may not create liens on its property essential to operations, may not dispose of any property essential to maintaining revenues or operating the Airport, and must maintain specified insurance.

Under the terms of the 1991 Master Bond Resolution, the Airport has covenanted that it will establish and at all times maintain rentals, rates, fees, and charges for the use of the Airport and for services rendered by the Airport so that:

(a) Net revenues (as defined in the bond resolutions) in each fiscal year will be at least sufficient (i) to make all required debt service payments and deposits in such fiscal year with respect to the bonds, any subordinate bonds, and any general obligation bonds issued by the City for the benefit of the Airport and (ii) to make all payments required to be made to the City and

(b) Net revenues, together with any transfer from the contingency account to the revenue account (both held by the City Treasurer), in each fiscal year will be at least equal to 125% of aggregate annual debt service with respect to the bonds for such fiscal year.

The methods required by the 1991 Master Bond Resolution for calculating debt service coverage differs from the U.S. generally accepted accounting principles used to determine amounts reported in the Airport's financial statements.

Passenger Facility Charges – The Airport, as authorized by the Federal Aviation Administration (FAA) pursuant to the Aviation Safety and Capacity Expansion Act of 1990 (the Act), as amended, imposes a Passenger Facility Charge (PFC) of $4.50 for each enplaning passenger at the Airport. Under the Act, air carriers are responsible for the collection of PFC charges and are required to remit PFC revenues to the Airport in the following month after they are recorded by the air carrier. The Airport's most recent application amendment of $609.1 million was approved by the FAA in September 2006. The current authority to impose PFCs is estimated to end January 1, 2017.

For the year ended June 30, 2010, the Airport reported approximately $73.8 million of PFC revenue, which is included in other nonoperating revenues in the accompanying basic financial statements. The Airport designated $61.0 million of PFC revenues as "Revenues" under the 1991 Master Bond Resolution for the purpose of paying debt service in fiscal year 2009-2010.

Commitments and Contingencies – In addition to the long-term obligations discussed in Note 8, there was $98.8 million of Special Facilities Lease Revenue Bonds outstanding as of June 30, 2010, which financed improvements to the Airport's aviation fuel storage and delivery system that is leased to SFO Fuel Company LLC (SFO Fuel). SFO Fuel agreed to pay facilities rent to the Airport in an amount equal to debt service payments and required bond reserve account deposits on the bonds. The principal and interest on the bonds will be paid solely from the facilities rent payable by SFO Fuel to the Airport. The Airport assigned its right to receive the facilities rent to the bond trustee to pay and secure the payment of the bonds. Neither the Airport nor the City is obligated in any manner for the repayment of these obligations, and as such, they are not reported in the accompanying financial statements.

(Dollars in Thousands)

Purchase commitments for construction, material and services as of June 30, 2010 are as follows:

Construction	$ 109,539
Operating	11,184
Total	$ 120,723

Transactions with Other Funds and Business Concentrations **–** Pursuant to the Lease and Use Agreement between the Airport and most of the airlines operating at the Airport, the Airport makes an annual service payment to the City's General Fund equal to 15% of concession revenue, but not less than $5 million per fiscal year, in order to compensate the City for all indirect services provided to the Airport. The annual service payment for the year ended June 30, 2010 was $28.1 million and was recorded as a transfer. In addition, the Airport compensates the City's General Fund for the cost of certain direct services provided by the City to the Airport, including those provided by the Police Department, the Fire Department, the City Attorney, the City Treasurer, the City Controller, the City Purchasing Agent and other City departments. The cost of direct services paid for by the Airport for the year ended June 30, 2010 was $104.2 million.

In addition to the Lease and Use Agreements with the airlines, the Airport leases facilities to other businesses to operate concessions at the Airport. During the year ended June 30, 2010, revenues realized from the following the Airport tenants exceeded five percent of the Airport's total operating revenues:

United Airlines	22.0%
New South Parking	12.6%

(b) Port of San Francisco

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

Pledged Revenues – The Port's revenues, derived primarily from property rentals to commercial and industrial enterprises and from maritime operations which include cargo, ship repair, fishing, harbor services, cruise and other maritime activities, are held in a separate enterprise fund and appropriated for expenditure pursuant to the budget and fiscal provisions of the City Charter, consistent with trust requirements. Under public trust doctrine, the Burton Act, and the transfer agreement between the City and the State, Port revenues may be spent only for uses and purposes of the public trust.

The Port pledged future net revenues to repay $36.7 million in Revenue Bonds issued in 2010. Annual principal and interest payments through 2040 are expected to require less than 24% of net pledged revenues as calculated in accordance with the bond indenture. The total principal and interest remaining to be paid on the bonds is $75.4 million. The first debt service payment on the new Revenue Bonds issued in 2010 is in 2011.

The Port has entered into a loan agreement with the California Department of Boating and Waterways for $3.5 million to finance certain Hyde Street Harbor improvements. The loan is subordinate to all bonds payable by the Port and is secured by gross revenues as defined in the loan agreement. Total principal and interest remaining to be paid on this loan is $4.4 million. Annual principal and interest payments were $0.2 million in 2010 and pledged revenues were $0.1 million for the year ended June 30, 2010.

Commitments and Contingencies **–** The Port is presently planning various development projects that involve a commitment to expend significant funds. Under an agreement with the San Francisco Bay Conservation and Development Commission (BCDC), the Port is committed to fund and expend up to $30 million over a 20-year period for pier removal, parks and plazas, and other public access improvements. As of June 30, 2010, $16.8 million of Port funds have been appropriated and $3.3 million has been expended for projects under the agreement. The $16.8 million appropriated includes $9.0 million received in 2004 from the sale of a portion of Seawall Lot 330 to a developer. After expiration of the original development agreement in 2006, the land sales proceeds of $9.0 million remain designated for the design and construction of a public plaza (Brannan Street Wharf) as required by the San Francisco Waterfront Special Area Plan. An additional $10.8 million has been identified for appropriation and expenditure on Plan projects subsequent to June 30, 2010.

A City general obligation bond, 2008 Clean and Safe Neighborhood Parks, included $33.5 million for open space projects on Port property. The Port received $10.6 million in 2010 of proceeds from these general obligation bonds. The next issuance in 2011 will provide additional funding of $6.0 million, including $2.9 million for the Brannan Street Wharf project.

As of June 30, 2010, the Port had purchase commitments for construction-related services, materials and supplies, and other services were $7.1 million for capital projects and $3.0 million for general operations.

In November 2002, a maritime vessel known as Drydock #1 broke free from its moorings at Pier 70 and went adrift in very high winds, finally running aground on Yerba Buena Island. The recovered drydock is currently moored at a safer harbor location. The Port continues to evaluate options for the final disposition of this surplus vessel. Engineering consultants have assessed requirements for hazardous materials abatement, including potential remediation of lead-based paints, heavy-metal contaminated sediments, and asbestos. The consulting engineers also performed a preliminary structural assessment and condition survey to assess the viability of towing the vessel from its present location to a location for ultimate disposal. Due to its poor condition, the drydock is most likely only salvageable for scrap metal. Based on the information from various consultants and internal engineering estimates, $2.8 million was accrued in 2008 for the drydock's final disposition, including the remediation of identified hazardous materials. Disposition options and related cost estimates were re-assessed in 2010 and the total accrued liability as of June 30, 2010 has been increased to $5.0 million. The Port is also pursuing federal financial assistance towards the final disposition cost of Drydock #1. This accrual is included in other noncurrent liabilities.

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

Port lands are subject to environmental risk elements typical of sites with a mix of light industrial activities dominated by transportation, transportation-related and warehousing activities. Due to the historical placement of fill of varying quality, and widespread use of aboveground and underground tanks and pipelines containing and transporting fuel, elevated levels of petroleum hydrocarbons and lead are commonly found on Port properties. Consequently, any significant construction, excavation or other activity that disturbs soil or fill material may encounter hazardous materials and/or generate hazardous waste.

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

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

With funding from a federal grant, the Port proceeded in fiscal year 2008-2009 with a $1.2 million contract to investigate soil and groundwater conditions throughout the site, including the fifteen-acre portion leased to the Port's ship repair tenant and in fiscal year 2010-2011 the Port will proceed with a contract to survey many of the historic buildings for hazardous building materials, such as lead and asbestos. At June 30, 2010, the contract work for the site assessment remains in progress. Findings to date, including data from previous investigations, indicate that soil throughout the Pier 70 site contains metals, naturally-occurring asbestos, and petroleum hydrocarbons at concentrations that do not require imminent remediation, but will require removal or capping of surface soil in connection with development of the area for public access and recreation. The investigation also found oily residue in soil and groundwater beneath by the ship repair tenant's leasehold area and contamination from the adjacent former manufactured gas plant site (see "*Potrero Power Plant"*) that has migrated beneath a small area in the southeast portion of Pier 70. The current environmental investigation work scope includes evaluation of the potential human health and environmental risks associated with contaminants at Pier 70 and development of a Risk Management Plan to ensure that significant risks are addressed. The Risk Management Plan will establish institutional controls (e.g. use restrictions, health and safety plans) and engineering controls (e.g. capping contaminated soil) to protect current and future users and prevent adverse impacts to the environment. Future development will likely cover existing site soil with buildings, streets, plazas, hardscape or new landscaping, thereby minimizing or eliminating exposure to contaminants in soil. Although the risk assessment phase is currently underway, findings to date do not suggest significant potential for risk to current site occupants or visitors, or a need for soil or groundwater remediation that would substantially affect the current use or future development as envisioned by the Port's Master Plan. However, previous investigation of the northeast shoreline of Pier 70, in an area slated in the Master Plan for development as the future "Crane Cove Park", found that near-shore sediment is contaminated with metals, petroleum hydrocarbons and PCBs at concentrations that pose a potential risk to human health or the environment, and will likely require removal or capping of sediment before development of the area for public access and recreation.

The contractor prepared an earlier report in 2009 describing potential remediation scenarios for Pier 70 site and probability of certain contamination being encountered in soil, soil vapor or groundwater, and various degrees of remediation that would be required. The model calculation estimated that soil, groundwater, and soil vapor remediation and/or management (excluding hazardous building materials such as asbestos or lead-based paint) would cost between $15.0 million and $50.0 million, with a most likely probability-weighted estimated cost of $27.5 million. Port management believes the environmental consultant's model calculation is a reasonable estimate of an existing brownfield pollution remediation obligation. The $27.5 million is recorded as a noncurrent pollution remediation obligation. As part of the contract work to be completed in fiscal year 2010-2011, the Port and the contractor will update the probabilistic cost estimate for remediation of environmental conditions at Pier 70, including evaluation of the cost to mitigate environmental impact from contaminated sediment. The results will more thoroughly inform pollution remediation activities and adaptive re-use of the Pier 70 project area.

Hazardous building materials, such as lead-based paint, asbestos, and mercury and/or PCBs in certain electrical equipment, will have to be abated during the course of rehabilitation of any historic building. Hazardous building materials abatement is very roughly estimated to be 20% of the total construction cost of building rehabilitation. In an effort to reduce the development uncertainties, the Port will use a portion of the federal grant for an assessment (identification and quantification) of hazardous building materials to enable rehabilitation or demolition of buildings and other structures within the site.

(Dollars in Thousands)

In addition to the Pier 70 issue, the Port has identified and accrued certain environmental issues related to Port property, including fuel tank removal and oil contamination in the amount of $0.1 million at June 30, 2010. The Port may be required to perform certain clean-up work if it intends to develop or lease the property, or at such time as required by the City or State. There are sites where groundwater contamination may be later identified, where the Port has primary or secondary responsibility. The potential liability for such risk cannot be reasonably made at this time.

A summary of environmental liabilities, included in noncurrent liabilities, at June 30 2010, is as follows:

	Environmental Remediation	Monitoring and Compliance	Total
Environmental liabilities at July 1, 2009	$ 27,500	$ 494	$ 27,994
Current year claims and changes in estimates	-	(157)	(157)
Vendor payments	-	(239)	(239)
Environmental liabilities at June 30, 2010	$ 27,500	$ 98	$ 27,598

(c) San Francisco Water Enterprise

The San Francisco Water Enterprise (Water Enterprise) was established in 1930. The Water Enterprise, which consists of a system of reservoirs, storage tanks, water treatment plants, pump stations, and pipelines, is engaged in the collection, transmission and distribution of water to the City and certain suburban areas. The Water Enterprise delivers water, approximately 80,273 million gallons annually, to a total population of approximately 2.4 million people who reside primarily in four Bay Area counties (San Francisco, San Mateo, Santa Clara and Alameda).

The San Francisco Public Utilities Commission (the Commission), established in 1932, provides the operational oversight for the Water Enterprise, Hetch Hetchy Water and Power (Hetch Hetchy), and the San Francisco Wastewater Enterprise. Under Proposition E, the City's Charter Amendment approved by the voters in June 2008, the Mayor nominates candidates subject to qualification requirements to the Commission and the Board of Supervisors votes to approve the nominees by a majority (at least 6 members).

Pledged Revenues – The Water Enterprise has pledged future revenues to repay various bonds. Proceeds from the revenue bonds provided financing for various capital construction projects and to refund previously issued bonds. These bonds are payable solely from revenues of the Water Enterprise and are payable through the year ending 2040.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2010 and applicable revenues for 2010 are as follows:

Bonds issued with revenue pledge	$ 2,421,205
Principal and interest remaining due at the end of the year	4,091,947
Principal and interest paid during the year	69,621
Net revenue for the year ended June 30, 2010	77,735
Funds available for revenue bond debt service	138,686

During fiscal year 2009-2010, water sales to suburban resale customers were $129.2 million. As of June 30, 2010, the suburban resale customers owed the Water Enterprise approximately $34.1 million under the Water Rate Agreement.

Commitments and Contingencies – As of June 30, 2010, the Water Enterprise had outstanding commitments with third parties of $913.6 million for various capital projects and for materials and supplies.

Pollution Remediation Obligation – In July 1999, the California Regional Water Quality Control Board (CRWQCB) issued a directive instructing the Water Enterprise to develop a remedial action plan (Plan) that addresses environmental contamination at certain real property owned by the Water Enterprise. In response to the directive, the Commission completed a remedial action plan and in August 2001 received the final directive from the CRWQCB to execute the plan. This environmental issue, along with the Water Enterprise's complete review of GASB Statement No. 49 pronouncement resulted in the reporting of $0.7 million in fiscal year 2010. The Water Enterprise paid $2.7 million in fiscal year 2010 in accordance with the remedial action plan.

Transactions with Other Funds – The Water Enterprise purchases water from Hetch Hetchy Water and electricity from Hetch Hetchy Power at market rates. These amounts, totaling approximately $29.7 million and $6.7 million, respectively, for the year ended June 30, 2010, are included in the charges for services provided by other departments in the Water Enterprise's financial statements.

A variety of other City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to the Water Enterprise and charge amounts designed to recover those departments' costs. These charges total approximately $11.1 million for the year ended June 30, 2010 and have been included in services provided by other departments.

(d) Hetch Hetchy Water and Power Enterprise

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 and Stanislaus National Forest to the City. Hetch Hetchy has two segments: Hetch Hetchy Power (Power Enterprise) and Hetch Hetchy Water, a portion of the Water Enterprise's operations, specifically the upcountry water supply and transmission service for the latter. Hetch Hetchy accounts for the activities of the Hetch Hetchy Water and Power and 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 65% of the electricity generated by Hetch Hetchy Power is used by the City's municipal customers (e.g., the San Francisco Transportation Agency, the Recreation and Parks Department, the Port of San Francisco, the San Francisco International Airport and its tenants, San Francisco General Hospital, street lighting, Moscone Convention Center, and the Water and Wastewater Enterprises). Also a result of the Raker Act of 1913, energy produced above the City's Municipal Load is sold first to Modesto and Turlock Irrigation Districts (the Districts) to cover their pumping municipal load needs and any remaining energy either sold to other Municipalities and/or Government Agencies (not for resale) or deposited into an account under the City's agreement with PG&E. Hetch Hetchy consists of a system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines. This system carries water and power more than 165 miles from the Sierra Nevada Mountains to customers in the City and portions of the surrounding San Francisco Bay Area.

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

(Dollars in Thousands)

Segment Information – Hetch Hetchy issued debt to finance its improvements. Both the Water Enterprise and the Power Enterprise are reported for in a single fund (i.e., Hetch Hetchy Water and Power Enterprise). However investors in the debt rely solely on the revenue generated by the individual activities for repayment. Summary financial information for Hetch Hetchy is presented below:

Condensed Statement of Net Assets	Hetch Hetchy Water	Hetch Hetchy Power	Total
Assets:			
Current assets	$ 34,512	$ 160,909	$ 195,421
Receivables from other funds and component units	-	18,127	18,127
Restricted cash and investments	-	18,717	18,717
Other noncurrent assets	-	205	205
Capital assets	86,634	199,136	285,770
Total assets	121,146	397,094	518,240
Liabilities:			
Current liabilities	4,696	23,279	27,975
Noncurrent liabilities	3,301	30,594	33,895
Total liabilities	7,997	53,873	61,870
Net assets:			
Invested in capital assets, net of related debt	86,634	196,064	282,698
Unrestricted net assets	26,515	147,157	173,672
Total net assets	$ 113,149	$ 343,221	$ 456,370

Condensed Statement of Revenues, Expenses, and Changes in Net Assets	Hetch Hetchy Water	Hetch Hetchy Power	Total
Operating revenues	$ 31,219	$ 97,371	$ 128,590
Depreciation expense	(4,092)	(8,539)	(12,631)
Other operating expenses	(27,961)	(77,795)	(105,756)
Net operating income (loss)	(834)	11,037	10,203
Nonoperating revenues (expenses):			
Federal grants	-	197	197
Interest and investment income	657	2,081	2,738
Interest expense	-	(722)	(722)
Other nonoperating revenues (expenses)	39	938	977
Transfers out, net	-	(1,400)	(1,400)
Change in net assets	(138)	12,131	11,993
Net assets at beginning of year	113,287	331,090	444,377
Net assets at end of year	$ 113,149	$ 343,221	$ 456,370

Condensed Statement of Cash Flows	Hetch Hetchy Water	Hetch Hetchy Power	Total
Net cash provided by (used in):			
Operating activities	$ 5,782	$ 23,857	$ 29,639
Noncapital financing activities	2	(691)	(689)
Capital and related financing activities	(8,626)	(8,835)	(17,461)
Investing activities	1,105	3,782	4,887
Change in net assets	(1,737)	18,113	16,376
Cash and cash equivalents at beginning of year	35,725	140,487	176,212
Cash and cash equivalents at end of year	$ 33,988	$ 158,600	$ 192,588

(Dollars in Thousands)

Pledged Revenues – Hetch Hetchy Power has pledged future power revenues to repay Clean Renewable Energy Bonds, which were issued in fiscal year 2009. Proceeds from the bonds provided financing for various capital construction projects. These bonds are payable solely from net power revenues of Hetch Hetchy Power and are payable through the year ending 2022.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2010 and applicable revenues for 2010 are as follows:

Bonds issued with revenue pledge	$	6,325
Principal and interest remaining due at the end of the year		5,481
Principal and interest paid during the year		422
Net revenue for the year ended June 30, 2010		33,898

Commitments and Contingencies – As of June 30, 2010, Hetch Hetchy had outstanding commitments with third parties of $29.7 million for various capital projects and other purchase agreements for materials and services.

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Modesto and Turlock Irrigation Districts (the Districts) in which they would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments from the City. Total payments were $4.6 million in fiscal year 2010. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries in the lower Tuolumne River for the duration of the license. A maximum monitoring expense of $1.4 million is to be shared between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52% and the Districts are responsible for 48% of the costs.

In April 1988, Hetch Hetchy entered into a long-term power sales agreement (the Agreement) with the Districts. In June 2003, Hetch Hetchy amended the terms of the Agreement with the Modesto Irrigation District (MID). Under the terms of the amended and restated long-term power sales agreement, which became effective on January 1, 2003, the expiration date was shortened to December 31, 2007. The renegotiated agreement with MID became effective January 1, 2008, removed Hetch Hetchy's obligation to provide firm power, and eliminated MID's rights to excess energy from the Project. This agreement expires June 30, 2015. In April 2005, Hetch Hetchy amended the terms of the agreement with Turlock Irrigation District (TID). The settlement agreement between Hetch Hetchy and TID restates and amends the power sales agreement and terminates Hetch Hetchy's obligation to provide firm power at below market costs to TID to the end of the agreements term on June 30, 2015. Hetch Hetchy will continue to comply with the Raker Act by making water system generated hydropower available at cost to MID and TID for its agricultural pumping and municipal loads as energy is available. For fiscal year 2010, energy sales to the Districts totaled 286,980 MWhrs or $7.5 million.

Effective September 2007, the City renegotiated the Interconnection Agreement (agreement) with PG&E to provide transmission and distribution services on PG&E's system where needed to deliver the Hetch Hetchy's power to its customers. In addition, the PG&E agreement provides supplemental power and energy banking and other support services to Hetch Hetchy. The PG&E agreement provides audit rights to allows PG&E to review past billings paid by Hetch Hetchy and to retroactively (up to two years) adjust these payments as determined necessary. During fiscal year 2010, Hetch Hetchy purchased $12.9 million of transmission, distribution services, and other support services from PG&E under the terms of the agreement.

The City's Interconnection Agreement with PG&E contains a contractual provision allowing it to bank excess power produced, with a maximum of 110,000 of Megawatt hours (MWh). During the fiscal year 2010, Hetch Hetchy Power generated 1,453,158 MWh of power, banked (deposited) in Deferred Delivery Account (DDA) 104,321 MWH and used (withdrew) 115,630 MWH. At June 30, 2010, the balance in the bank was 92,854 MWh or $2.6 million.

Hetch Hetchy is exposed to risks that could negatively impact its ability to generate net revenues to fund operating and capital investment activities. Hydroelectric generation facilities in the Sierra Nevada are the primary source of electricity for Hetch Hetchy. For this reason, the financial results of Hetch Hetchy are sensitive to variability in watershed hydrology and market prices for energy.

Transactions with Other Funds – Charges for services for the year ended June 30, 2010 include $60.3 million in sales of power by Hetch Hetchy Power to other City Departments. Income from Hetch Hetchy is available for certain operations of the City.

The Water Enterprise purchases water from Hetch Hetchy Water and power from Hetch Hetchy Power. Included in the operating revenues are the waster assessment fees totaling $29.7 million and purchased electricity for $6.7 million for the year ended June 30, 2010. In addition, the Wastewater Enterprise purchases power from Hetch Hetchy Power totaling $8.7 million for the year ended June 30, 2010.

A variety of other City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to the Water Enterprise and charge amounts designed to recover those departments' costs. These charges total approximately $5.0 million for the year ended June 30, 2010 and have been included in services provided by other departments.

(e) Municipal Transportation Agency

The San Francisco Municipal Transportation Agency (SFMTA) is governed by the SFMTA Board of Directors. It is composed of the San Francisco Municipal Railway (MUNI), the San Francisco Municipal Railway Improvement Corporation (SFMRIC), the Department of Parking and Traffic (DPT), five nonprofit parking garage corporations, and the Division of Taxis operations. Proposition E passed by the San Francisco voters in November 1999 amended the City Charter, calling for the creation of the SFMTA by consolidating MUNI and DPT by July 1, 2002. The incorporations are intended to support the City's *TransitFirst* Policy. MUNI is one of America's oldest public transit agencies, the seventh largest system in the United States. The DPT operations manage 40 City-owned garages and metered parking lots as well as all traffic engineering functions within the City. SFMRIC is a nonprofit corporation established to provide capital financial assistance on behalf of the City for the modernization of MUNI by purchasing equipment and improving facilities. The operations of former Taxi Commission have been merged with SFMTA as the Division of Taxis and Accessible services. SFMTA has the power to regulate the taxi industry and other motor vehicle for hire in San Francisco. The five nonprofit parking garages account for the activities of various non-profit corporations to provide financial and other assistance to the City to acquire land, construct facilities and manage various facilities.

(Dollars in Thousands)

The tables below reflect the financial information of MUNI, DPT, and the parking garages that are reported within the SFMTA, net of eliminations for $1.6 million receivable, restricted cash and payables, and transfers in of $167.7 million.

	MUNI	DPT	Parking Garages	Eliminations	Total
Assets					
Current assets	$ 318,888	$ 33,131	$ 3,700	$ (1,649)	$ 354,070
Noncurrent assets	1,890,053	29,694	75,762	-	1,995,509
Total assets	2,208,941	62,825	79,462	(1,649)	2,349,579
Liabilities					
Current liabilities	198,764	18,911	7,461	(1,649)	223,487
Current liabilities payable from restricted assets	4,407	-	-	-	4,407
Noncurrent liabilities	212,009	49,156	27,039	-	288,204
Total liabilities	415,180	68,067	34,500	(1,649)	516,098
Net assets					
Invested in capital assets, net of related debt	1,876,679	7,314	34,856	-	1,918,849
Restricted net assets	8,967	682	10,613	-	20,262
Unrestricted net assets (deficits)	(91,885)	(13,238)	(507)	-	(105,630)
Total net assets (deficits)	$ 1,793,761	$ (5,242)	$ 44,962	$ -	$ 1,833,481

	MUNI	DPT	Parking Garages	Eliminations/ Reclassifications	Total
Operating revenues	$ 202,796	$ 55,597	$ 44,724	$ -	$ 303,117
Operating expenses	775,660	100,713	18,558	-	894,931
Net operating income (loss)	(572,864)	(45,116)	26,166	-	(591,814)
Nonoperating income (loss)	112,525	113,510	(6,915)	-	219,120
Capital contributions	111,854	2,279	-	-	114,133
Transfers in	359,329	80,075	-	(167,712)	271,692
Transfers out	(2,505)	(153,974)	(20,221)	167,712	(8,988)
Change in net assets	8,339	(3,226)	(970)	-	4,143
Net assets (deficits), beginning of year	1,785,422	(2,016)	45,932	-	1,829,338
Net assets (deficits), end of year	$ 1,793,761	$ (5,242)	$ 44,962	$ -	$ 1,833,481

(Dollars in Thousands)

The data below reflect the operations of the parking garages operated by separate nonprofit corporations managed by SFMTA. Information about these nonprofit corporations for the year ended June 30, 2010 is as follows:

	Downtown Parking	Uptown Parking	Japan Center Garage	Ellis - O'Farrell Parking	Portsmouth Plaza Parking	Total
Operating revenues	$ 15,799	$ 16,284	$ 3,391	$ 5,666	$ 3,584	$ 44,724
Depreciation	687	1,006	175	361	143	2,372
Operating income	10,708	10,637	1,588	1,820	1,413	26,166
Interest and other non-operating revenues (expenses)	(429)	(4,063)	(442)	(181)	(1,800)	(6,915)
Change in net assets	160	(572)	(161)	(10)	(387)	(970)
Capital assets, additions	154	13	-	1	89	257
Capital assets, deletions	-	-	(452)	-	-	(452)
Net working capital (deficit)	(1,438)	(1,144)	543	(2,743)	1,021	(3,761)
Total assets	21,367	37,420	2,864	14,109	3,702	79,462
Total liabilities	8,799	18,403	436	5,870	992	34,500
Net assets	12,568	19,017	2,428	8,239	2,710	44,962
Total debt outstanding	$ 7,918	$ 17,300	$ -	$ 3,409	$ -	$ 28,627

Operating and Capital Grants and Subsidies **–** The City's Annual Appropriation Ordinance provides funds to subsidize the operating deficits of MUNI and DPT determined by the City's budgetary accounting procedures, subject to the appropriation process. The amount of General Fund subsidy to the SFMTA was $236.9 million in fiscal year 2010.

The SFMTA receives capital grants from various federal, state, and local agencies to finance transit-related property and equipment purchases. As of June 30, 2010, MUNI had approved capital grants with unused balances amounting to $580.5 million. Capital grants receivable as of June 30, 2010 totaled $36.0 million.

The SFMTA also receives operating assistance from various federal, state, and local sources, including Transit Development Act funds and sales tax allocations. As of June 30, 2010, SFMTA had various operating grants receivable of $18.7 million. In fiscal year 2010, the SFMTA's operating assistance also includes BART American Disability Act (ADA) revenues of $1.2 million and other federal, state and local grants of $37.3 million to fund project expenses that are operating in nature.

The capital grants and operating assistance identified above include funds received and due from the San Francisco County Transportation Authority (SFCTA). During the fiscal year 2010, the SFCTA approved $150 million in new capital grants and $15.6 million in new operating grants for SFMTA. During the same period, the SFMTA received total payments of $12.4 million for capital grants and $16.6 million in operating grants from the SFCTA. As of June 30, 2010, the SFMTA had $6.9 million due from the SFCTA for capital grants and $0.9 million due from the SFCTA for operating grants reported in due from other funds.

Proposition 1B is a ten-year $20 billion transportation infrastructure bond that was approved by voters in November 2006. The bond measure was composed of several funding programs including the Public Transportation Modernization, Improvement and Service Enhancement Account program (PTMISEA) that is funding solely for public transit projects. SFMTA received $36.7 million in fiscal year 2010 for different projects. Proposition 1B funds do not require matching funds. These funds must be obligated within three years. The eligibility requirements for the PTMISEA program include rehabilitation of infrastructure, procurement of equipment and rolling stock, and investment in expansion projects. During fiscal year 2010, $25.6 million drawdowns were made from these funds for the various eligible project costs.

On July 23, 2009, the Metropolitan Transportation Commission approved allocation of State Transit Assistance (STA) funds for the SFMTA transit projects in the amount of $2.1 million. The cash was received in advance and recorded as deferred grant.

In addition, MTC approved SFMTA's request to advance STA money for the "Third Street Light project" for unspent open contracts that will cover costs for closeouts and claims. The cash received in advance amounting to $3.4 million was recorded as deferred grant.

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

Commitments and Contingencies – The SFMTA has outstanding contract commitments of approximately $175.8 million with third parties for various capital projects. Grant funding is available for a majority of this amount. The SFMTA also has outstanding commitments of approximately $31.8 million with third parties for non-capital expenditures. Various local funding sources are used to finance these expenditures. The SFMTA is also committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding. The SFMRIC board of directors has authorized SFMRIC to extend financial guarantees to the SFMTA for certain projects totaling $1.2 million.

SFMRIC is authorized to issue debt to fund each of its programs under separate indentures. Transit Equipment Progress bonds totaling $51.5 million have been authorized, of which $30.5 million is available for issuance and none are outstanding. Transit Improvement Program (TIP) bonds amounting to $44.0 million have been authorized, of which $7.8 million is available for issuance. As of June 30, 2010, no bonds were outstanding under TIP.

Leveraged Lease-Leaseback of BREDA Vehicles – Tranches 1 and 2

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

MUNI received an aggregate of $388.2 million and $72.6 million, respectively in 2002 and 2003, from the equity investors in full prepayment of the head lease. MUNI deposited a portion of the prepaid head lease payments into an escrow and deposited a portion with a debt payment undertaker whose repayment obligations are guaranteed by Assured Guaranty Municipal Corp. (AGM) as successor to Financial Security Assurance (FSA), a bond insurance company that is currently rated "AA+" by Standard & Poor's ("S&P") and "Aa3" by Moody's Investor Services ("Moody's"). AGM was downgraded by S&P on October 25, 2010. The terms of the SILO documents require the City to replace AGM, as successor to FSA, as guarantor of debt payment undertaker if its ratings are downgraded below BBB+/Baa1 by Standard & Poor's and Moody's, respectively. AGM's current ratings satisfy this requirement. In addition, FSA provided a surety policy with respect to each SILO to guarantee potential payments in the event such transaction is terminated in whole or in part prior to the sublease expiration date. The terms of the SILO documents require MUNI to replace AGM, as successor to FSA, as surety provider if AGM's ratings are downgraded below "AA-/Aa3" by Standard & Poor's and Moody's, respectively. AGM's current ratings satisfy this requirement. Although Moody's has a "negative" outlook with respect to AGM's rating (S&P's outlook is "stable"), it is not known whether or to what level downgrades, if any, may occur. Failure of MUNI to replace

AGM following a downgrade within a specified period of time could allow the investors, in effect, to issue a default notice to MUNI. Because replacement of AGM in either of its roles as debt payment undertaker guarantor or surety may not be practicable, MUNI could become liable to pay termination costs as provided in certain schedules of the SILO transaction documents. These early termination costs are in the nature of liquidated damages. The scheduled termination costs as of June 30, 2010 after giving effect to the market value of the securities in the escrow accounts would approximate $97.1 million. The scheduled termination costs increase over the next several years.

The escrows were invested in U.S. agency securities with maturity dates that correspond to the purchase option dates in each sublease. Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that these transactions are structured in such a way that it is not probable that MUNI will need to access other monies to make sublease payments. Therefore, the assets and sublease obligations are not recorded on the financial statements of the SFMTA as of June 30, 2010.

As a result of the cash transactions above, MUNI recorded deferred revenue of $35.5 million and $4.4 million in fiscal years 2002 and 2003, respectively, for the difference between the amounts received of $388.2 million and $72.6 million, respectively, and the amounts paid to the escrows and the debt payment undertaker of $352.7 million and $67.5 million. The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized amounts were $1.3 million and $0.2 million in fiscal year 2010.

As of June 30, 2010, the outstanding payments to be made on the sublease through the end of the sublease term are $44.3 million and $49.3 million, for Tranche 1 and Tranche 2, respectively, and the payments to be made on the purchase option, if exercised, would be $680.8 million and $154.2 million. These payments are to be funded from the amounts in escrow and by the payment undertaker. If MUNI does not exercise the purchase option, MUNI would be required to either: 1) pay service and maintenance costs related to the continued operation and use of the vehicles beyond the term of the sublease; or 2) arrange for another party to be the "service recipient," under a "service contract," and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

(f) Laguna Honda Hospital

General Fund Subsidy – The Laguna Honda Hospital (LHH) is a skilled nursing facility which specializes in serving elderly and disabled residents. The operations of LHH are subsidized by the City's General Fund. It is the City's policy to fund operating deficits of the enterprise on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the year ended June 30, 2010, the subsidy for LHH was approximately $37.1 million.

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

Patient accounts receivable are recorded net of estimated allowances, which include allowances for contractuals and bad debt. These allowances are based on closed account history.

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

(Dollars in Thousands)

During the fiscal year ended June 30, 2010, LHH's patient receivables and charges for services were as follows:

Patient Receivables, net	Medi-Cal	Medicare	Other	Total
Gross accounts receivable.....................	$ 46,545	$ 1,628	$ 287	$ 48,460
Less:				
Contractual Allowances........................	(19,621)	(434)	(4)	(20,059)
Total, net......................................	$ 26,924	$ 1,194	$ 283	$ 28,401

Net Patient Service Revenue	Medi-Cal	Medicare	Other	Total
Gross revenue....................................	$ 212,558	$ 10,546	$ 1,858	$ 224,962
Less:				
Provision for contractual allowances......	(93,025)	(7,271)	(1,077)	(101,373)
Provision for bad debt........................	(326)	-	-	(326)
Total, net	$ 119,207	$ 3,275	$ 781	$ 123,263

Because Medi-Cal reimbursement rates are less that LHH's established charges rates, LHH is eligible to receive supplemental federal funding. For the year ended June 30, 2010, LHH accrued and recognized $16.0 million of revenue as a result of matching federal funds to local funds. In addition, during the year ended June 30, 2010, LHH recognized $16.4 million in tobacco settlement revenues as capital contributions in accordance with Proposition A as further described in the Replacement Project section below.

Deferred Credits and Other Liabilities – As of June 30, 2010, LHH recorded approximately $0.7 million in other liabilities for third party payor settlements payable.

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

In November 1999, San Francisco voters approved Proposition A, a ballot measure authorizing the City to issue general obligation bonds to finance the acquisition, improvement, construction and/or reconstruction of a new health care, assisted living and/or other type of continuing care facility or facilities to replace Laguna Honda Hospital (the Replacement Project). Proposition A requires an increase in property taxes to pay for the bonds. In addition, Proposition A stipulates that $100 million of tobacco settlement funds received by the City, excluding $1 million set aside each year for smoking education and prevention programs, may be used to pay for some construction of the Replacement Project, as well as to offset the cost to property owners of repaying the bonds. As of June 30, 2010, general obligation bonds in the amount of $299 million have been sold to fund the Replacement Project and are reported as a governmental activity.

As of June 30, 2010, LHH has entered into various purchase contracts totaling approximately $61.3 million that are related to future construction for the Replacement Project.

(Dollars in Thousands)

(g) San Francisco General Hospital Medical Center

General Fund Subsidy – San Francisco General Hospital Medical Center (SFGH) is an acute care hospital. The operations of SFGH are subsidized by the City's General Fund. It is the City's policy to fully fund enterprise operations on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the year ended June 30, 2010, the subsidy for SFGH was $ 128.9 million.

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

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

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

During the fiscal year ended June 30, 2010, SFGH's patient receivables and charges for services were as follows:

Patient Receivables, net				
	Medi-Cal	Medicare	Other	Total
Gross accounts receivable………………….	$ 158,250	$ 56,890	$ 80,025	$ 295,165
Less:				
Contractual allowances…………………….	(125,492)	(45,114)	(63,460)	(234,066)
Bad debt…………………………………….	-	-	(13,824)	(13,824)
Total, net…………………………………	$ 32,758	$ 11,776	$ 2,741	$ 47,275

Net Patient Service Revenue				
	Medi-Cal	Medicare	Other	Total
Gross revenue………………………………..	$ 694,824	$ 322,504	$ 771,124	$ 1,788,452
Less:				
Provision for contractual allowances………	(636,336)	(205,350)	(416,219)	(1,257,905)
Provision for bad debt……………………	-	-	(58,425)	(58,425)
Total, net	$ 58,488	$ 117,154	$ 296,480	$ 472,122

California's Medi-cal Hospital/Uninsured Care Demonstration Project (Demonstration) is the current system for paying selected hospitals for hospital care provided to Medi-cal and uninsured patients and replaces funding previously provided through California State Senate Bills 855 and 1255. The Demonstration was negotiated between the State of California's Department of Health Services and the Federal Centers for Medicare and Medicaid Services, and covers the period from July 1, 2005 to June 30, 2010 and was extended to October 31, 2010 (see Note 17 for discussion of new program). Under the Demonstration, payments for public hospitals are comprised of: 1) fee-for-service cost-based reimbursement for inpatient hospital services; 2) Disproportionate Share Hospital payments; and 3) distribution from a pool of federal funding for uninsured care, known as the Safety Net Care Pool (SNCP). The nonfederal share of these three payments will be provided by the public hospitals, primarily through certified public expenditures, whereby the hospital would expend its local funding for services to draw down the federal financial participation. Revenues recognized under the Demonstration approximated $104 million for the fiscal year ended June 30, 2010. Beginning in fiscal year 2008, the State created the Health Care Coverage Initiative (HCCI), allowable under the Demonstration, to expand healthcare coverage for eligible low-income, uninsured individuals using an annual allotment of federal funds from the SNCP. On September 1, 2007, the City entered in to a contract with the State to participate in HCCI and was allocated $73.1 million over 3 years. As of June 30, 2010, SFGH has accrued and recognized $43.3 million. The HCCI covers a subset of the Healthy San Francisco population, primarily those individuals at or below 200% of the federal poverty level and who meet citizenship requirements as further discussed in the Healthy San Francisco Program section below.

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, 2010 reimbursement under the Short-Doyle Program amounted to approximately $5.3 million and is included in other operating revenue.

Deferred Credits and Other Liabilities – As of June 30, 2010, SFGH recorded approximately $58.4 million in deferred credits and other liabilities, which was comprised of $41.2 million in deferred credits and $17.2 million in third-party settlements payable.

Charity Care – SFGH provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Charges foregone based on established rates were $151 million and estimated costs and expenses to provide charity care were $61 million in fiscal year 2009-2010.

Other Nonoperating Revenues – The State of California provides support to SFGH through a realignment of funding provided from vehicle license fees and sales tax allocated to California's counties. For the year ended June 30, 2010, SFGH recognized $49.9 million as other nonoperating revenue for realignment funding.

Contract with the University of California San Francisco – The City contracts on a year-to-year basis on behalf of SFGH with the University of California (UC). Under the contract, SFGH serves as a teaching facility for UC professional staff, medical students, residents, and interns who, in return, provide medical and surgical specialty services to SFGH's patients. The total amount for services rendered under the contract for the year ended June 30, 2010, was approximately $94.6 million.

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

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

Majority of the funding will be through issuance of bonds. In November 2008, San Francisco voters approved Proposition A, a ballot measure that authorized the City to issue general obligation bonds for the rebuild of the hospital. As of June 30, 2010, general obligation bonds in the amount of $426.3 million have been sold to fund the hospital rebuild. The general obligation bonds are accounted for as a governmental activity and transactions are accounted for in the City's Governmental Capital Projects Funds.

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

As of June 30, 2010, over 53,400 uninsured adult residents were enrolled in HSF – this represented a 24% increase compared to enrollment at the end of fiscal year 2008-2009. With 53,400 participants, HSF provided care to 89% of the estimated 60,000 uninsured adult residents. In addition to increasing access by serving more uninsured adults, the program also expanded access by increasing the number of primary care medical homes that participate in the program. HSF ended the 2009-2010 fiscal year with 32 medical homes – a 19% increase from 2007-2008 (the program's first year).

Commitments and Contingencies – As of June 30, 2010, SFGH had outstanding commitments with third parties for capital projects totaling $1.9 million.

(h) San Francisco Wastewater Enterprise

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

The Wastewater Enterprise collects, transmits, treats, and discharges sanitary and stormwater flows generated within the City for the protection of public health and environmental safety. In addition, the Wastewater Enterprise serves on a contractual basis certain municipal customers located outside of the City limits, including the North San Mateo County Sanitation District No. 3, Bayshore Sanitary District, and the City of Brisbane. The Wastewater Enterprise recovers cost of service through user fees based on the volume and strength of sanitary flow. The Wastewater Enterprise serves approximately 150,000 residential accounts, which discharge about 18.5 million units of sanitary flow per year (measured in hundreds of cubic feet, or ccf) and approximately 22,000 non-residential accounts, which discharge about 8.6 million units of sanitary flow per year.

Pledged Revenues – Wastewater Enterprise's revenues, which consists mainly of sewer service charges, is pledged for the payment of principal and interest on various revenue bonds. Proceeds from the bonds provided financing for various capital construction projects and to refund previously issued bonds. These bonds are payable solely from net power revenues of Wastewater Enterprise and are payable through fiscal year ending 2041.

(Dollars in Thousands)

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2010 and applicable revenues for 2010 are as follows:

Bonds issued with revenue pledge	$	635,835
Principal and interest remaining due at the end of the year		835,183
Principal and interest paid during the year		50,313
Net revenue for the year ended June 30, 2010		63,995
Funds available for bond debt service		113,267

Commitments and Contingencies – As of June 30, 2010, Wastewater Enterprise had outstanding commitments with third parties for capital projects and for materials and services totaling $27.1 million.

Pollution Remediation Obligations – The City and the Wastewater Enterprise have been listed as potentially responsible parties in the clean-up effort of Yosemite Creek due to the Wastewater Enterprise's role in conveying contaminated flows to the receiving waters through the sewerage system. Yosemite Creek has been identified as having toxic sediments, primarily polychlorinated biphenyls. The U.S. Environmental Protection Agency is moving forward with a clean-up plan for these sediments. Contaminated flows emanating from a local industrial discharger in the drainage areas to Yosemite Creek is the likely responsible source of the contamination. As of June 30, 2010, the environmental liability reported in the accompanying statements of net assets is $375, based on estimated contractual costs.

Transactions with Other Funds – The Wastewater Enterprise purchases electricity from Hetch Hetchy at market rates. The amount was $8.7 million for the year ended June 30, 2010, and has been included in services provided by other departments.

The City's Department of Public Works provides certain engineering and other services to the Wastewater Enterprise and charges amounts designed to recover its costs. These services are primarily related to street cleaning, engineering, building repair, and sewer repair. This amount charged was approximately $15.3 million for the year ended June 30, 2010 and has been included in services provided by other departments.

A variety of other City departments provide services such as purchasing, legal, data processing, telecommunications, and human resources to the Wastewater Enterprise and charge amounts designed to recover those departments' costs. These charges total approximately $8.3 million for the year ended June 30, 2010 and have been included in services provided by other departments.

(i) San Francisco Market Corporation

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

(12) San Francisco Redevelopment Agency

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

The Agency has no direct taxing power and does not have the power to pledge the general credit or taxing power of the City, the State of California or any political subdivision thereof. However, California's Health and Safety Code allows redevelopment agencies with appropriate approvals of the local legislative bodies to recover costs of financing public improvements from increased tax revenues (tax increment) associated with increased property values of individual project areas. During the year, the Agency's revenue from property tax increment was $86.4 million.

The Public Initiatives Development Corporation (PIDC) was formed in May of 2002 to develop affordable housing on the Agency's behalf. On November 12, 2004, PIDC and Wincopin Circle, LLLP formed a limited partnership, Plaza Apartments Associates, L.P. (the Partnership). PIDC is the managing general partner and owns a 0.01% interest in the partnership. Wincopin Circle, LLLP is a limited partner and owns a 99.99% interest. Wincopin Circle, LLLP transferred its interest in the Partnership to the Housing Outreach Fund XI Limited Partnership, effective December 24, 2004. The Partnership completed construction of a 106-unit affordable housing project in the South of Market project area in January 2006. As of June 30, 2010, 100% of the units were leased. The Agency reports the investment in the Partnership under the equity method, based on the value of the assets and liabilities transferred to the Partnership.

California Health and Safety Code Section 33334.3 requires the Agency to set aside 20% of the proceeds from its incremental property tax revenues for expenditures for low and moderate income housing. Related interest earned on these funds must also be set aside for such purposes. The Agency established the City-Wide Housing Capital Project Account to account for this commitment and has budgeted $682 million for such expenditures since its inception. The Agency has expended $471 million for low- and moderate-income housing since its inception.

Payment to Supplemental Educational Revenue Augmentation Fund (SERAF) – On July 24, 2009, the State Legislature passed Assembly Bill (AB) 26 4x, which requires redevelopment agencies statewide to deposit a total of $2.05 billion of property tax increment in the county Supplemental Educational Revenue Augmentation Fund (SERAF) to be distributed to meet the State's Proposition 98 obligations to schools. The Agency's share of this revenue shift is $28.7 million in fiscal year 2009-2010 and $5.9 million in fiscal year 2010-2011. Payments are to be made by May 10 of each respective fiscal year. Accordingly, the first payment was made by the Agency during the year.

New Debt Issuances – In September 2009, the Agency issued $75.0 million in 2009 Series A Taxable Tax Allocation Revenue Bonds, $17.6 million in 2009 Series B Tax-Exempt Tax Allocation Bonds, $25.7 million in 2009 Series C Tax-Exempt Tax Allocation Revenue Bonds and $49.8 million in 2009 Series D Tax-Exempt Tax Allocation Revenue Bonds (2009 Series A to D Bonds). The proceeds for the 2009 Series A Bonds were used primarily to fund the construction of affordable housing. The proceeds from the 2009 Series B Bonds were used to fund various public works projects in the Bayview Hunters Point (Area B), South of Market, Transbay and Yerba Buena Center project areas. The proceeds from the 2009 Series C Bonds were used to fund the Agency's obligation to finance certain infrastructure required pursuant to the Mission Bay North Owner Participation Agreement. The proceeds from the Series 2009 Series D Bonds were used to fund the Agency's obligation to finance certain infrastructure required pursuant to the Mission Bay South Owner Participation Agreement. The 2009 Series A to D bonds bear fixed interest rates. 2009 Series A bonds have a final maturity date of August 1, 2024, while 2009 Series B, 2009 Series C and 2009 Series D bonds have a final maturity date of August 1, 2039.

In December 2009, the Agency issued $72.6 million in 2009 Series E Taxable Tax Allocation Revenue Bonds and $6.6 million in 2009 Series F Tax-Exempt Tax Allocation Bonds (2009 E and F

Bonds). The proceeds for the 2009 Series E Bonds were used to fund general redevelopment activities, including financing the development, rehabilitation, and preservation of low and moderate income housing for in the Bayview Hunters Point (Area B), Mission Bay North, Mission Bay South, Rincon Point-South Beach, Western Addition, and Yerba Buena Center project areas. The proceeds for the 2009 Series F Bonds were used to fund various redevelopment projects in the Bayview Hunters Point (Area B), South of Market, and Transbay project areas. The 2009 Series E and F bonds bear fixed interest rates and have a final maturity date of August 1, 2039.

Pledged Revenues for Bonds – The Agency's Tax Allocation Bonds are equally and ratably secured by the pledge and lien of the Agency's tax increment revenue. These revenues have been pledged until the year 2040, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately $1.5 billion. The tax increment revenue recognized during the year ended June 30, 2010 was $86.4 million as against the total debt service payment of $64.3 million.

The Agency's Moscone Convention Center Lease Revenue Bonds are secured by the pledge of the capital lease revenue received by the Agency from the City. These revenues have been pledged until the year 2025, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately $190.3 million. The lease payments recognized during the year ended June 30, 2010 was $18.6 million as against the total debt service payment of $18.7 million.

The Agency's Hotel Tax Lease Revenue Bonds are secured by the pledge and lien of the hotel tax revenue received by the Agency from the City. These revenues have been pledged until the year 2026, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately $79.1 million. The tax revenue recognized during the fiscal year ended June 30, 2010 was $5.9 million as against the total debt service payment of $5.6 million.

Variable Rate Demand Refunding Bonds – The interest rate for the South Beach Harbor Variable Rate Demand Refunding Bond 1986 Issue A is reset weekly by a remarketing agent. The rate varies depending on financial market conditions. In connection with the issuance of the bonds, the Agency obtained an irrevocable letter of credit as a credit facility with Dexia Credit Local for the bonds. At June 30, 2010, the letter of credit was set to expire on January 27, 2012. The Agency's repayment of unreimbursed draws made on the credit facility bear interest at the Default Rate as defined in the reimbursement agreement with the principal due at the expiration of the credit facility. At June 30, 2010, the Agency did not made any draws on the credit facility. The Agency is required to pay the credit facility providers an annual commitment fee of 0.42% based on the outstanding principal amount of the bonds supported by the credit facility.

Mortgage Revenue Bonds and Other Conduit Debt – In order to facilitate construction and rehabilitation in the City, various community district facility bonds and mortgage revenue bonds with an aggregate outstanding balance of approximately $576 million as of June 30, 2010 have been issued by the Agency on behalf of various developers and property owners who retain full responsibility for the repayment of the debt. When these obligations are issued, they are secured by the related mortgage indebtedness and special assessment taxes, and, in the opinion of management, are not considered obligations of the Agency or the City and are therefore not included in the accompanying financial statements. Debt service payments will be made by developers or property owners.

Commitments and Contingencies – The Agency had commitments under contracts for capital improvements of approximately $65.7 million as of June 30, 2010.

The Agency provides standby payment agreements in conjunction with its issuance of Mortgage Revenue Bonds wherein the Department of Housing and Urban Development (HUD) guarantees Housing Assistance Payments (HAP) subsidized under Section 8 for multifamily residential facilities. If the HAP contract expires and is not renewed or is substantially reduced, the Agency will be required to pay the difference. The estimated maximum obligation until June 30, 2019 over the terms of all standby payment agreements is $58.7 million. As of June 30, 2010, management has designated $5.9 million for standby payment agreements. It is management's intent to designate 10% of the estimated maximum obligation.

(13) TREASURE ISLAND DEVELOPMENT AUTHORITY

The Treasure Island Development Authority (TIDA) is a nonprofit public benefit corporation. 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. 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 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 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 TIDA or the City; providing facilities for special events, film production and other commercial business uses; providing approximately 800 housing units; and overseeing the U.S. Navy's toxic remediation activities on the former naval base.

In early 2000, TIDA initiated a master developer selection process, culminating in the selection of Treasure Island Community Development, LLC (TICD) in March 2003. TIDA and TICD entered into an Exclusive Negotiating Agreement in 2003, and began work on the Development Plan and Term Sheet for the Redevelopment of Naval Station Treasure Island (Development Plan). The Development Plan represented the culmination of nearly seven years of extensive public discourse about the future of Treasure Island, and was the product of the most extensive public review process for a large development project in the City's history. The Development Plan was endorsed by the TIDA Board and the San Francisco Board of Supervisors in December 2006. The 2006 endorsement of the Development Plan marked a very important milestone in the project, as it has very specifically guided the enormous efforts undertaken since then to make the ambitious redevelopment plans for Treasure Island a reality.

The Development Plan presents a comprehensive look at all of the key elements of the proposed redevelopment of NSTI, and includes detailed plans regarding land uses, phasing, infrastructure, transportation, sustainability, housing, including affordable housing, jobs and equal opportunity programs, community facilities and project financing. The Development Plan is extraordinarily comprehensive in its scope. The breadth of the Development Plan is intended to allow for a clear understanding of the policy goals and objectives of the project, and once it is endorsed, will provide specific guidance for the enormous effort necessary to prepare final development agreements and plans.

In May 2010, the TIDA Board and Board of Supervisors both unanimously endorsed a package of legislation that included an Update to the Development Plan and Term Sheet, terms of an Economic Development Conveyance Memorandum of Agreement, and a Term Sheet between TIDA and the Treasure Island Homeless Development Initiative (TIHDI). Together these three agreements form the comprehensive vision for the future of the former military base and represent a major milestone in moving the project closer towards implementation. In August 2010, Mayor Gavin Newsom, House Speaker Nancy Pelosi, and U.S. Secretary of the Navy Ray Mabus signed the terms for the conveyance of former Naval Station Treasure Island from the Navy to the City, representing another major step towards realizing an environmentally sustainable new community on Treasure Island and the thousands of construction and permanent jobs it will bring.

Next steps include negotiating the terms of a comprehensive Disposition and Development Agreement between TIDA and TICD and engaging multiple agencies and stakeholders to obtain final project approvals. A Draft Environmental Impact Report was published on July 12, 2010, and a public hearing was held on August 12, 2010, to evaluate the proposed redevelopment plans and alternatives in accordance with the California Environmental Quality Act. Predevelopment planning and entitlement efforts will continue over the next several months with the goal of receiving final project approvals from the TIDA Board and the Board of Supervisors in Spring 2011. The first phase of construction could begin in Fall 2011 and would consist primarily of horizontal infrastructure improvements to enable subsequent phases of vertical construction. The complete build-out of the project is anticipated to occur over fifteen to twenty years.

(Dollars in Thousands)

(14) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

"Due to" and "due from" balances have primarily been recorded when funds overdraw their share of pooled cash or when there are transactions between entities where one or both entities do not participate in the City's pooled cash or when there are short-term loans between funds. The composition of interfund balances as of June 30, 2010, is as follows:

Due to/from other funds:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 19,194
	Internal Service Funds	41
	Municipal Transportation Agency	914
	Port of San Francisco	125
	San Francisco Water Enterprise	24
	Laguna Honda Hospital	16,632
		36,930
Nonmajor Governmental Funds	Nonmajor Governmental Funds	1,777
	Internal Service Funds	9,532
	Municipal Transportation Agency	101
		11,410
Laguna Honda Hospital	Nonmajor Governmental Funds	7,861
	Internal Service Funds	92
		7,953
San Francisco Water Enterprise	Hetch Hetchy Water and Power	4,560
	San Francisco Wastewater Enterprise	5,787
		10,347
Hetch Hetchy Water and Power	General Fund	881
	Nonmajor Governmental Funds	10,125
	Port of San Francisco	671
	General Hospital Medical Center	1,411
	San Francisco Wastewater Enterprise	812
		13,900
Municipal Transportation Agency	Nonmajor Governmental Funds	7,904
		7,904
San Francisco Wastewater Enterprise	Nonmajor Governmental Funds	36
		36
Total		$ 88,480

Interfund transactions between the primary government and component units:

Receivable Entity	Payable Entity	Amount
Primary government - governmental fund	Component unit - San Francisco Redevelopment Agency	$ 16,620
Hetch Hetchy Water and Power Enterprise	Component unit - Treasure Island Development Authority	$ 4,227
Primary government - governmental fund	Component unit - Treasure Island Development Authority	$ 7,067

(Dollars in Thousands)

Transfers Out: Funds	Transfers In: Funds — General Fund	Nonmajor Governmental	Internal Service Funds	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	Port	Laguna Honda Hospital	Total
General Fund…………………	$ -	$ 154,441	$ 1,900	$ -	$ 236,920	$ 128,878	$ -	$ 37,124	$ 559,263
Nonmajor governmental funds ………………………	21,893	44,753	-	300	34,772	40	10,616	68,712	181,086
Internal service funds ………	165	-	-	-	-	-	-	-	165
San Francisco International Airport………	28,100	-	-	-	-	-	-	-	28,100
Water Enterprise ……………	-	493	-	-	-	-	-	-	493
Hetch Hetchy Water and Power………………………	-	-	-	-	-	-	-	1,700	1,700
Municipal Transportation Agency………………………	-	8,988	-	-	-	-	-	-	8,988
San Francisco General Hospital Medical Center….	41,867	-	-	-	-	-	-	6,058	47,925
Laguna Honda Hospital…….	2,090	-	-	-	-	-	-	-	2,090
Total transfers out……………	$ 94,115	$ 208,675	$ 1,900	$ 300	$ 271,692	$ 128,918	$ 10,616	$ 113,594	$ 829,810

The $559.3 million General Fund transfer out includes a total of $402.9 million in operating subsidies to Municipal Transportation Agency, San Francisco General Hospital Medical Center (SFGH), and Laguna Honda Hospital (note 11). The transfer of $154.4 million from the General Fund to the nonmajor governmental funds is to provide support to various City programs such as the Public Library and Children and Families nonmajor governmental funds, as well as to provide resources for the payment of debt service. The transfers between the nonmajor governmental funds are to provide support for various City programs and to provide resources for the payment of debt service.

The San Francisco International Airport transferred $28.1 million to the General Fund, representing a portion of concession revenue (note 11(a)). The General Fund received transfers in of $33.4 million from SFGH for the Safety Net Care Pool (SNCP) intergovernmental transfers (IGT) matching program reimbursement and $8.5 million for Health Care Coverage Initiative (HCCI) reimbursement for Primary Care clinics (note 11(g)). In addition, Laguna Honda Hospital transferred $2.1 million to reimburse the General Fund for expenditures related to Laguna Honda Hospital's capital activities.

The $34.8 million transferred to the Municipal Transportation Agency (MTA) is primarily due to a $34.3 million capital and operating transfers from the San Francisco County Transportation Authority. The MTA also transferred $9.0 million to nonmajor governmental funds to fund various street improvement projects. The $10.6 million transfer from City Facilities Improvement nonmajor governmental funds to the Port of San Francisco is for a capital transfer funded by the 2008 Clean & Safe Park Bonds.

The $68.7 million transfer from nonmajor governmental funds to the Laguna Honda Hospital (LHH) is due primarily to a $68.5 million transfer for capital projects funded by the Laguna Honda Hospital Certificates of Participation from the City Facilities Improvement nonmajor governmental fund. LHH also received transfers in from Hetch Hetchy Water and Power Enterprise in the amount of $1.7 million for energy savings reimbursements and from SFGH's budgetary savings in the amount of $6.0 million to fund its budgetary cost overruns.

(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.

(Dollars in Thousands)

(b) Operating Leases

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

Primary Government

Governmental Activities

Fiscal Years		
2011………………	$	21,825
2012………………		18,944
2013………………		13,039
2014………………		8,607
2015………………		7,123
2016-2020………..		8,958
Total……………….	$	78,496

Operating lease expense incurred for fiscal year 2009-2010 was approximately $24.5 million.

Business-type Activities

Fiscal Years	San Francisco International Airport		Port of San Francisco		Municipal Transportation Agency (MTA)		Total Business-type Activities	
2011……….	$	188	$	3,058	$	8,764	$	12,010
2012……….		116		2,861		9,047		12,024
2013……….		118		2,861		9,157		12,136
2014……….		85		2,861		9,173		12,119
2015……….		5		2,861		9,352		12,218
2016-2020….		-		13,600		37,220		50,820
2021-2025….		-		13,507		44,031		57,538
2026-2030….		-		13,507		53,242		66,749
2031-2035….		-		13,507		57,538		71,045
2036-2040….		-		13,507		-		13,507
2041-2045….		-		13,507		-		13,507
2046-2050….		-		11,031		-		11,031
Total…………	$	512	$	106,668	$	237,524	$	344,704

Operating lease expense incurred for the Airport, Port, and MTA for fiscal year 2009-2010 was $0.3 million, $3.2 million, and $12.1 million, respectively.

Component Unit – San Francisco Redevelopment Agency

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

Fiscal Years			Fiscal Years		
2011……………….	$	1,846	2026-2030………..		4,351
2012……………….		1,838	2031-2035………..		4,351
2013……………….		1,822	2036-2040………..		4,351
2014……………….		1,822	2041-2045………..		4,351
2015……………….		1,822	2046-2050………..		4,350
2016-2020……….		6,650	2051-2055………..		217
2021-2025……….		4,351	Total……………….	$	42,122

Rent payments totaling $1.8 million are included in the Agency's financial statements for the year ended June 30, 2010.

(Dollars in Thousands)

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

Primary Government

Governmental Activities

Fiscal Years		
2011……………….	$	2,547
2012…………..……		2,201
2013…………..……		1,956
2014……………….		1,664
2015……………….		1,513
2016-2020…………		3,965
2021-2025…………		331
2026-2030…………		33
Total………………	$	14,210

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	San Francisco General Hospital Medical Center	Municipal Transportation Agency	Market Corp	Total Business-type Activities
2011……………...	$ 78,337	$ 32,256	$ 1,285	$ 3,838	$ 972	$ 116,688
2012………………	64,219	29,644	1,323	3,233	943	99,362
2013………………	59,521	25,044	1,363	2,492	961	89,381
2014………………	52,728	20,104	1,404	2,250	78	76,564
2015………………	45,963	18,240	1,446	1,452	-	67,101
2016-2020…………	-	79,961	6,231	534	-	86,726
2021-2025…………	-	63,701	-	-	-	63,701
2026-2030…………	-	52,053	-	-	-	52,053
2031-2035…………	-	48,415	-	-	-	48,415
2036-2040…………	-	37,700	-	-	-	37,700
2041-2045…………	-	24,539	-	-	-	24,539
2046-2050…………	-	19,715	-	-	-	19,715
2051-2055…………	-	9,319	-	-	-	9,319
2056-2060…………	-	8,633	-	-	-	8,633
2061-2065…………	-	8,633	-	-	-	8,633
2066-2070…………	-	4,109	-	-	-	4,109
2071-2075…………	-	1,610	-	-	-	1,610
2076-2080…………	-	322	-	-	-	322
Total………………	$ 300,768	$ 483,998	$ 13,052	$ 13,799	$ 2,954	$ 814,571

The Airport and Port have certain rental agreements with concessionaires, which specify that rental payments are to be based on a percentage of tenant sales, subject to a minimum amount. Concession percentage rents in excess of minimum guarantees for the Airport and Port were approximately $15.9 million and $11.5 million, respectively, in fiscal year 2009-2010. In addition, the Airport has a car rental agreement that will expire on December 31, 2013. Under this agreement the rental car companies will pay 10% of gross revenues or a minimum guaranteed rent whichever is higher; also in accordance with the terms of their concession agreement, the minimum annual guarantee (MAG) for the rental car operators does not apply if the number of deplaning passengers on all scheduled airlines during one calendar month is less than 70% of the number of deplaning passengers for the same calendar month of the base year (1996). The MAG attributable to the rental car companies was approximately $30.9 million for fiscal year 2010.

(Dollars in Thousands)

Component Unit – San Francisco Redevelopment Agency

The Agency leases various facilities within the Yerba Buena Center, Western Addition. Hunters Point, South of Market, Mission Bay North and South Beach Harbor project areas. The minimum annual payments are as follows:

Fiscal Years			Fiscal Years		
2011…………………	$	4,770	2046-2050…………	$	8,740
2012…………………		4,678	2051-2055…………		1,205
2013…………………		4,647	2056-2060…………		950
2014…………………		7,534	2061-2065…………		800
2015…………………		7,510	2066-2070…………		660
2016-2020…………		23,402	2071-2075…………		395
2021-2025…………		22,967	2076-2080…………		295
2026-2030…………		20,623	2081-2085…………		250
2031-2035…………		19,899	2086-2090…………		150
2036-2040…………		20,882	2091-2095…………		150
2041-2045…………		22,153	2096-2098…………		90
			Total………………	$	172,750

For the year ended June 30, 2010, operating lease rental income for noncancelable operating leases was $10.7 million. Within the operating lease rental income, $6.0 million represents contingent rental income received. At June 30, 2010, the leased assets had a net book value of $141.5 million.

(c) Other Commitments

The Retirement System has unfunded commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $1.4 billion at June 30, 2010.

The City is a participant in the Peninsula Corridor Joint Powers Board (PCJPB), which was formed in 1991 to plan, administer, and operate the Peninsula CalTrain rail service. The City, on behalf of MUNI, contributes to the net operating costs and administrative expenses of the PCJPB for operating and capital needs. During the fiscal year ended June 30, 2010, the City contributed approximately $7.3 million to the PCJPB. This is paid by MTA from the subsidy transfer it receives from the City.

The San Francisco Redevelopment Agency (the Agency) provides standby payment agreements in conjunction with its issuance of Mortgage Revenue Bonds wherein the Department of Housing and Urban Development (HUD) guarantees Housing Assistance Payments (HAP) subsidized under Section 8 for multifamily residential facilities. If the HAP contract expires and is not renewed or is substantially reduced, the Agency will be required to pay the difference. The estimated maximum obligation until June 30, 2019 over the terms of all standby payment agreements is $58.7 million. As of June 30, 2010, management has designated $5.9 million for standby payment agreements. It is management's intent to designate 10% of the estimated maximum obligation.

(16) Risk Management

Risk Retention Program Description

The City is exposed to various risks of losses related to torts, theft of, damage to, and destruction of assets; business interruption; errors and omissions; automobile liability and accident claims (primarily for 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 noted below, it is the policy of the City not to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the City believes it is more economical to manage its risks internally and set aside funds as needed for estimated current claim settlements and unfavorable judgments through annual appropriations and supplemental appropriations.

The Airport has an ongoing loss prevention program, a safety officer, property loss control and ongoing employee training programs. The Airport carries general liability insurance coverage of $1 billion, subject to a deductible of $10 per single occurrence and commercial property insurance coverage for full replacement value on all facilities at SFO owned by the Airport subject to a deductible of $500 per single occurrence. Additionally, tenants and contractors on all contracts are required to carry commercial general liability insurance in various amounts naming the Airport as additional insured. The Airport is self-insured as part of the City's workers' compensation program. The Airport carries public official liability and employment practices liability coverage of $5 million, subject to a deductible of $100 per single occurrence for each wrongful act other than employment practices' violations, and $200 per each occurrence for employment practices' violation. The Airport also carries insurance for public employee dishonesty, fine arts, electronic data processing equipment and watercraft liability for Airport fire and rescue vessels. The Airport does not carry insurance for losses due to land movement or seismic activity and losses for war, terrorism and hijacking.

The Port carries the following insurance: 1) marine general liability coverage of $50 million, subject to a deductible of $75 per occurrence; 2) hull and machinery liability coverage of $3.8 million, subject to a deductible of $100 per occurrence; 3) commercial property insurance for losses up to the insured appraised value of Port facilities, subject to a maximum of $1 billion and a deductible of $50 per occurrence; and 4) public officials and employee liability coverage of $5 million, subject to a deductible of $50 per occurrence. The Port also carries insurance coverage for employee dishonesty, auto liability, property damage for certain high value Port vehicles, water pollution and data processing equipment. The Port does not carry commercial insurance for workers' compensation, property damage to most Port-owned vehicles, employee health and accident and losses due to seismic events.

Beginning July 2009, the MTA added excess insurance coverage to address exceptionally large litigation and claims liabilities for a $25 million excess liability limit with a $5 million self-insured retention level. Thus their unpaid claim estimates reflect only MTA's deductible/retained portion.

The San Francisco Redevelopment Agency is a member of the Bay Cities Joint Powers Insurance Authority (BCJPIA), which provides coverage for its general liability, automobile liability, and public officials' errors and omissions risks with combined single limit of $29 million and a deductible of $50 self insurance retention per occurrence. Claims relating to the construction of the Moscone Convention Center are indemnified by the City under an agreement between the Agency and the City. Workers' compensation insurance is provided by the State Compensation Insurance Fund up to statutorily determined limits.

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 and allocated loss adjustment expenses. 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.

(Dollars in Thousands)

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, 2010 has been actuarially determined and includes an estimate of incurred but not reported losses and allocated loss adjustment expenses.

Changes in the reported estimated claims payable since June 30, 2008, resulted from the following activity:

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2008-2009	$ 206,942	$ 71,752	$ (54,945)	$ 223,749
2009-2010	223,749	82,030	(65,200)	240,579

Breakdown of the estimated claims payable at June 30, 2010 is as follows:

Governmental activities:	
Current portion of estimated claims payable	$ 47,754
Long-term portion of estimated claims payable	92,091
Total	$ 139,845
Business-type activities:	
Current portion of estimated claims payable	$ 42,243
Long-term portion of estimated claims payable	58,491
Total	$ 100,734

In June 2007, a jury from the San Mateo County Superior Court rendered a verdict finding the Airport in breach of the covenant of good faith and fair dealing and awarded the plaintiffs $1.1 million in damages. In April 2008, the Superior Court vacated the judgment against the Airport and ordered that judgment be entered in the Airport's favor. The plaintiffs appealed the Superior Court's ruling and on September 2010, the Court of Appeals granted plaintiffs appeal and reversed the judgment for the Airport. The Airport has sought review by the California Supreme Court.

In July 2004, the San Francisco Superior Court granted summary judgment to the plaintiff in a case involving a contractor who claimed the City's minority and women-owned business program violates the California Constitution. The Superior Court enjoined the City from enforcing the program but did not award damages. The City appealed the Superior Court's decision and prevailed in part, in the Court of Appeals. Plaintiff sought review in the California Supreme Court, which agreed to hear the case. In August 2010, the California Supreme Court issued an order affirming the Court of Appeals decision and remanding the case to the trial court for further proceedings. The case is now pending in the Superior Court. If plaintiffs prevail, they will be entitled to reasonable attorney's fees, which could approximate $3.5 million. The Airport, which is one of two City departments sued in the case, would be responsible for 50% of any attorney's fees awarded.

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

(Dollars in Thousands)

Workers' Compensation

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2010 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, 2010 was $365.0 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, 2008, resulted from the following activity:

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2008-2009	$ 351,606	$ 75,169	$ (67,883)	$ 358,892
2009-2010	358,892	73,344	(67,257)	364,979

Breakdown of the accrued workers' compensation liability at June 30, 2010 is as follows:

Governmental activities:	
Current portion of accrued workers' compensation liability	$ 39,582
Long-term portion of accrued workers' compensation liability	177,117
Total	$ 216,699

Business-type activities:	
Current portion of accrued workers' compensation liability	$ 25,533
Long-term portion of accrued workers' compensation liability	122,747
Total	$ 148,280

(17) SUBSEQUENT EVENTS

(a) Long-term Debt Issuance

In July 2010, the San Francisco Finance Corporation issued Lease Revenue Refunding Bonds (Emergency Communications System Refinancing) Series 2010-R1 in the amount of $22.3 million (the Refunding Bonds) to refund the following outstanding bonds of the San Francisco Finance Corporation: Lease Revenue Bonds, Series 1997 (Combined Emergency Communications Center), Series 1998 (Combined Emergency Communications System), Series 1998-I (Citywide Emergency Radio System), and Series 1999-I (Citywide Emergency Radio System) with the outstanding amount of $26.8 million; to fund the Reserve Fund established under the Trust Agreement and to pay costs of issuance and delivery of the 2010-R1 Bonds. The Refunding Bonds begin to mature in April 2011 through April 2024 and interest rates ranges from 2.0% to 4.0%.

In July 2010, the San Francisco Public Utilities Commission ("SFPUC") issued San Francisco Water Revenue Bonds 2010 Sub-Series 2010D (the "Series D") for $102.7 million and 2010 Sub-Series 2010E (Federally Taxable-Build America Bonds-Direct Payment) (the "Series E") for $344.2 million. The proceeds of the issuance will be used to finance and refinance a portion of the design, acquisition and construction of various capital projects in furtherance of the SFPUC's Water System Improvement Program ("WSIP"). Proceeds of the Series D and E bonds will be applied to fund a portion of the WSIP, refund $31.6 million aggregate principal amount of the SFPUC's Water Revenue Bonds, 2002 Series A, to fund capitalized interest on the Series D and E bonds, to fund a debt service reserve account for the 2010 Series D and E bonds and to pay cost of issuance. Interest rate ranges from 3.00% to 5.00% and from 4.90% to 6.00% for the Series D and Series E bonds, respectively. The Series D bonds mature from November 2015 through November 2021 and the Series E bonds mature from November 2022 through November 2040.

In August 2010, the Airport refunded $121.9 million of the commercial paper outstanding at June 30, 2010 through the issuance of Series 2010FG. Following these transactions, the outstanding principal amount of the commercial paper decreased from $128.7 million to $6.8 million.

In August 2010, the Water Enterprise sold $25 million in taxable commercial paper with the proceeds used to exclusively fund Regional Projects under the Water System Improvement Program ("WSIP"). The Enterprise expects to refinance the commercial paper notes with an intermediate-term debt issuance in the winter of 2010.

In September 2010, the Airport remarketed $175.0 million of Series 2009AB Revenue Refunding Bonds in a new interest period extending to their final maturity date.

In September 2010, the City issued City and County of San Francisco Refunding Certificates of Participation, Series 2010A for $138.4 million (the Refunding Certificates) to refund the City's Certificates of Participation 2789 25th Street, Series 1997, 555 7th Street, Series 1999, San Bruno Jail Series 2000 and 25 Van Ness Series 2001-1 (collectively the Prior Certificates) with an outstanding amount of $142.4 million. A portion of the proceeds of the Refunding Bonds was also used to pay the costs incurred in connection with issuance of the Refunding Certificates. The Series 2010A certificates mature from October 2011 through October 2033 with interest rate ranging from 3.0% to 5.0%.

In September 2010, the City and County of San Francisco Redevelopment Financing Authority issued $40.1 million in 2010 Series A Taxable Tax Allocation Revenue Bonds. The proceeds of the 2010 Series A bonds will be used to fund various redevelopment projects in the Golden Gateway, Transbay and Western Addition project areas. The 2010 Series A bonds bear fixed interest rates and have a final maturity date of August 1, 2020.

In November 2010, the City made the fifth borrowing under the Credit Agreement (Seismic Safety Loan Program, 1992) Series 2007A in the amount of $15 million. The fifth borrowing bears an interest rate of 4.91% with principal amortizing from June 2011 through June 2030. The fifth borrowing is for below market rate loan account.

In December 2010, the City issued General Obligation Bonds, Earthquake Safety and Emergency Response Bonds, Series 2010E in the amount of $79.5 million. Interest rates ranges from 3.0% to 5.0%. The bonds mature from June 2011 through June 2035. The bonds were issued to provide funds to finance the improvement, retrofitting, rehabilitation and completion of earthquake safety and emergency responsiveness facilities and infrastructure, and to pay certain costs related to the issuance of the bonds. The debt service payments are funded through ad valorem taxes on property.

(b) Elections

On November 2, 2010, the San Francisco voters approved the following propositions that will have a fiscal impact on the City:

Proposition AA – Amendment to the City's Business and Tax Regulations Code to add $10 to the existing annual registration fee for vehicle registered in San Francisco to fund transportation projects. Under the SFCTA's Expenditure Plan, the proceeds from the fee would be spent on projects in the following categories: 1) Street Repairs and Reconstruction (50% of fee revenue) – giving priority to streets with bicycle and public transit routes. It would also include projects such as curb ramps, bicycle infrastructure, pedestrian improvements, and other measures to slow or reduce traffic. 2) Pedestrian Safety (25% of fee revenue) – including crosswalk improvements, sidewalk repair or upgrade, and pedestrian countdown signals and lighting. 3) Transit Reliability and Improvement (25% of revenue) – including transit stop improvements, consolidation and relocation; transit signal priority; traffic signal upgrades; travel information improvements; and parking management projects. The SFCTA will determine the specific projects and can use up to 5% of the funds for administrative cost.

Fiscal Impact: Overall, the proposed changes will generate additional tax revenue for the City of approximately $5.0 million annually that can be used for projects related to street repair, pedestrian safety and transit improvement.

Proposition G – **Eliminates the formula for setting minimum wages for the San Francisco Municipal Railway (MUNI) operators.** This will allow the San Francisco Municipal Transportation Agency (MTA) to set MUNI operators wages and benefits through collective bargaining and arbitration proceedings regarding MTA's employees, and make other changes to terms of employment.

Fiscal Impact: The amendment can either increase or decrease the cost of government depending on the outcome of collective bargaining and labor arbitration processes.

Proposition N – Increases the tax rate for sale of real estate valued at more than $5.0 million. For real estate sales of $5.0 million to $10.0 million, the rate will increase from 1.5% to 2.0%. For real estate sales of $10.0 million or more, the rate will increase from 1.5% to 2.5%. These increases will also apply to real estate leases with a term of 35 years or more.

Fiscal Impact: Based on the actual pattern of transactions and revenues received by the City through the property transfer tax, had the proposed ordinance been in place during the period fiscal year 2000-2001 through fiscal year 2008-2009, it would have resulted in additional revenues ranging from $6.0 million to $90.0 million with an average amount of $36.0 million annually during that period. While the estimate that the ordinance would have resulted in average additional revenue of $36.0 million per year in the past, it is important to note that this is the City's most volatile revenue source, and estimates based on prior year's activity may not be predicative of future revenues.

(c) Ratings Downgrade

In November 2010, Moody's Investors Service downgraded to Aa2 from Aa1 the rating on the City's general obligation bonds and assigned an Aa2 rating to the City's General Obligation Bonds, 2010 Earthquake Safety and Emergency Response Bonds, Series 2010E. Moody's also downgraded by one notch their ratings on the City's various general fund obligations, including its abatement leases and settlement obligation bonds. The outlook on the City's ratings has been revised to stable. Fitch Ratings and Standard & Poor's maintained their ratings of AA and AA with negative and stable outlook, respectively.

(d) Litigation

In August 2010, resolution has been reached to conclude the Implementation Agreement the City entered into in January 2003 with the Attorney General of the State of California, the California Consumer Power and Conservation Financing Authority, and the California Department of Water Resources (DWR). On March 11, 2010, pursuant to section 4.02(a) of the Implementation Agreement, the City sold the four combustion turbines for $44.0 million; some of these proceeds were distributed to the Hetch Hetchy Power and DWR accordingly; with the remaining funds placed in a holding escrow account, pending resolution between the City and DWR. Under the terms of the resolution, Hetch Hetchy Power is to be reimbursed $6.3 million of expenses, and has recorded as receivable accordingly. In September 2010, Hetch Hetchy Power received the State's warrant in the amount of $2.7 million to be applied to the receivable. Remaining receivable amount will be subsequently drawn from escrow accounts. The total settlement amount was approximately $21.0 million to offset expenses, including write-off of assets.

In October 2010, a federal jury rejected First Amendment retaliation claims that San Francisco Public Utilities Commission (SFPUC) retaliated against an engineering firm for engaging in speech protected by First Amendment. However, the jury found for the engineering firm on the due process claim related to the contract termination. The engineering firm was awarded $3.6 million, and will be entitled for attorneys' fees and costs under the federal statute. SFPUC is appealing the verdict. On a related note, this federal case is separate from the pending state cases between the SFPUC and the engineering firm, each of which involves cross-allegations of breach of contract. Estimated costs for both federal and state cases have been reflected in the financial statements.

(e) Laguna Honda Hospital and Rehabilitation Center

In December 2010, Laguna Honda Hospital and Rehabilitation Center occupied its newly constructed modern patient care facility that is designed to foster integration, independence and community. The new Laguna Honda provides 780 resident beds in three state of the art buildings on Laguna Honda's 62-acre campus. The new, 500,000 square foot facility received silver certification by the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) program, becoming the first green-certified hospital in California.

(f) California Hospital Fee Program

The California Hospital Fee Program (Program) was signed into law by the Governor of California effective January 1, 2010. Enactment of the legislation was subject to approval by the Centers for Medicare and Medicaid Services (CMS). Subsequent to June 30, 2010, CMS approved the State Plan Amendment and Waiver allowing the State to implement the Program. The Program contains two components: 1) the Quality Assurance Fee Act, which governs the hospital fee paid by participating hospitals (public hospitals are exempt from this requirement) and 2) the Medi-Cal Hospital Provider Stabilization Act, which governs supplemental Medi-Cal payments made to providers. Subsequent to year end through January 7, 2011, SFGH received approximately $23 million of enhanced Medi-Cal payments under the Program.

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Required Supplementary Information

CITY AND COUNTY OF SAN FRANCISCO

Required Supplementary Information –
Schedules of Funding Progress (Unaudited)
June 30, 2010
(Dollars in Thousands)

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

Employees' Retirement System – Pension Plan [1]

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	Over (Under) funded AAL (O/UAAL)	Funded Ratio	Covered Payroll	O/UAAL as a % of Covered Payroll
07/01/07	$ 14,929,287	$ 13,541,388	$ 1,387,899	110.2%	$ 2,376,221	58.4%
07/01/08	15,941,390	15,358,824	582,566	103.8%	2,457,196	23.7%
07/01/09	16,004,730	16,498,649	(493,919)	97.0%	2,537,785	-19.5%

[1] In the most recent actuarial valuation as of July 1, 2009, the Retirement System assumed investment rate of return is 7.75% consistent with previous actuarial valuation as of July 1, 2008. However, the unfunded actuarial liability increased by $1.1 billion from a surplus of $582.6 million as of July 1, 2008 to a deficit of $493.9 million as of July 1, 2009. This increase in the unfunded liability primarily reflects investment experience reductions of $722.7 million and liability experience losses of an additional $235.8 million.

In the prior July 1, 2008 valuation, along with a decrease in the assumed rate of return to 7.75%, the following benefit changes passed in June 2008 under Proposition B were recognized:

- Increased retirement accrual factors for miscellaneous plan members (resulting in an additional change in retirement rates to recognize the increased benefits).
- Basic COLA for all new plan members (police, fire, and miscellaneous) changed from a 2.0% simple COLA to a 2.0% compound COLA.
- The changes to the supplemental COLA took effect July 1, 2009; however, no Supplemental COLA was adopted by the Board as of July 1, 2009.

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

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	Under funded AAL	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
06/30/07	$ 622,866	$ 627,675	$ (4,809)	99.2%	$ 85,508	-5.6%
06/30/08	673,275	685,150	(11,875)	98.3%	89,009	-13.3%
06/30/09	707,615	758,124	(50,509)	93.3%	101,929	-49.6%

CITY AND COUNTY OF SAN FRANCISCO

Required Supplementary Information –
Schedules of Funding Progress (Unaudited)
June 30, 2010
(Dollars in Thousands)

City and County of San Francisco – Other Postemployment Health Care Benefits

Actuarial Valuation Date (1)	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
07/01/06	$ -	$ 4,036,324	$ (4,036,324)	0.0%	$ 2,066,866	-195.3%
07/01/08	-	4,364,273	(4,364,273)	0.0%	2,296,336	-190.1%

San Francisco County Transportation Authority – Other Postemployment Health Care Benefits

Actuarial Valuation Date (1)	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
01/01/08	$ -	$ 182	$ (182)	0.0%	$ 1,978	-9.2%
01/01/10	173	374	(201)	46.3%	2,858	-7.0%

San Francisco Redevelopment Agency – Other Postemployment Health Care Benefits

Actuarial Valuation Date (1)	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
06/30/07	$ -	$ 13,829	$ (13,829)	0.0%	$ 9,634	-143.5%
06/30/09	493	13,790	(13,297)	3.6%	10,515	-126.5%

(1) The actuarial valuation report is conducted once every two years.

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SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE				
Direct Program:				
Supplemental Nutrition Assistance Program, Outreach/Participation Program	10.580	--	$ 293,154	$ -
Pass-Through Program, Girls 2000:				
Community Food Projects	10.225	None	2,620	-
Pass-Through Programs, State of California, Department of Education:				
Child Nutrition Cluster				
School Breakfast Program	10.553	None	70,253	-
National School Lunch Program	10.555	None	107,584	-
Summer Food Service Program for Children	10.559	38-8380-OV	530,433	-
Summer Food Service Program for Children	10.559	38-8380-OW	166,245	-
Sub-Total of Summer Food Service Program for Children			696,678	-
Sub-Total of Child Nutrition Cluster			874,515	-
Pass-Through Program, State of California, Department of Public Health:				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	08-85416	2,732,682	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	08-85151	138,992	-
Pass-Through Program, State of California, Department of Social Services				
ARRA-State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	None	415,698	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	None	21,305,636	3,455,483
Pass-Through Program, State of California, Department of Aging:				
Senior Farmers Market Nutrition Program	10.576	None	35,000	-
Sub-Total of Pass-Through Programs			25,505,143	3,455,483
TOTAL U.S. DEPARTMENT OF AGRICULTURE			25,798,297	3,455,483
U.S. DEPARTMENT OF COMMERCE				
Direct Programs:				
Public Works and Economic Development Cluster				
Economic Adjustment Assistance	11.307	--	1,368,760	-
Sub-Total of Public Works and Economic Development Cluster			1,368,760	-
Special Projects	11.553	--	35,000	35,000
Pass-Through Program, California Emergency Management Agency:				
Public Safety Interoperable Communications Grant Program	11.555	2007-2008	2,310,075	1,046,162
TOTAL U.S. DEPARTMENT OF COMMERCE			3,713,835	1,081,162
U.S. DEPARTMENT OF DEFENSE				
Direct Program:				
Navy Cooperative Agreement for Hunters Point	12.unknown	--	1,088,542	-
TOTAL U.S. DEPARTMENT OF DEFENSE			1,088,542	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs:				
CDBG - Entitlement Grants Cluster:				
Community Development Block Grants/Entitlement Grants	14.218	--	20,504,845	14,466,543
ARRA-Community Development Block Grant ARRA Entitlement Grants (CDBG-R)(Recovery Act Funded)	14.253	--	871,283	871,283
Sub-Total of CDBG - Entitlement Grants Cluster			21,376,128	15,337,826
Emergency Shelter Grants Program	14.231	--	957,709	910,766
Supportive Housing Program	14.235	--	7,704,277	5,923,545
Shelter Plus Care	14.238	--	6,757,255	-
Home Investment Partnerships Program	14.239	--	108,185,723	7,348,284
Community Development Block Grants - Section 108 Loan Guarantees	14.248	--	1,462	-
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	--	588,000	588,000
ARRA-Homelessness Prevention and Rapid Re-Housing Program	14.257	--	1,926,847	1,858,418
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	--	785,226	-
Lead Hazard Control Cluster				
ARRA-Lead-Based Paint Hazard Control in Privately-Owned Housing	14.907	--	877,567	-
Sub-Total of Lead Hazard Control Cluster			877,567	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			149,160,194	31,966,839
U.S. DEPARTMENT OF INTERIOR				
Direct Programs:				
Central Valley Project Improvement Act, Title XXXIV	15.512	--	200,000	-
Partners for Fish and Wildlife	15.631	--	1,000	-
TOTAL U.S. DEPARTMENT OF INTERIOR			201,000	-

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

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF JUSTICE				
Direct Programs:				
Federal Narcotics Forfeiture and Asset Seizure	16.unknown	--	1,062,604	-
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	--	113,637	113,637
Supervised Visitation, Safe Havens for Children	16.527	--	250,741	213,064
Enhanced Training and Services to End Violence and Abuse of Women Later in Life	16.528	--	90,161	65,133
Part E - Developing, Testing and Demonstrating Promising New Programs	16.541	--	407,074	291,398
Edward Byrne Memorial State and Local Law Enforcement Assistance Discretionary Grants Program	16.580	--	810,812	56,128
Grants to Encourage Arrest Policies and Enforcement of Protection Orders	16.590	--	71,310	32,679
Community Capacity Development Office	16.595	--	89,729	75,512
State Criminal Alien Assistance Program	16.606	--	756,325	-
Bulletproof Vest Partnership Program	16.607	--	53,474	-
ARRA-Public Safety Partnership and Community Policing Grants	16.710	--	2,683,974	-
Public Safety Partnership and Community Policing Grants	16.710	--	2,787,162	1,296,498
Sub-Total of Public Safety Partnership and Community Policing Grants			5,471,136	1,296,498
Gang Resistance Education and Training	16.737	--	2,290	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	--	230,729	-
Forensic DNA Backlog Reduction Program	16.741	--	38,250	-
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	--	94,950	-
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	--	88,848	-
Congressionally Recommended Awards	16.753	--	571,021	153,554
ARRA-Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Government	16.804	--	446,265	123,609
ARRA-Recovery Act - Edward Byrne Memorial Competitive Grant Program	16.808	--	158,248	-
Second Chance Act Prisoner Reentry Initiative	16.812	--	83,724	-
Sub-Total of Direct Programs			10,891,328	2,421,212
Pass-Through Programs, California Board of Corrections:				
Juvenile Accountability Block Grants	16.523	170-09	100,583	-
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	364-09	30,558	-
Pass-Through Programs, State of California, Emergency Management Agency:				
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	CQ08060380	55,828	-
Crime Victim Assistance	16.575	SE09160380	106,965	-
Crime Victim Assistance	16.575	SE09120380	109,761	-
Crime Victim Assistance	16.575	VW09280380	260,821	-
Sub-Total of Crime Victim Assistance			477,547	-
ARRA-Violence Against Women Formula Grants	16.588	RV09010380	18,346	-
Violence Against Women Formula Grants	16.588	VV09050380	199,230	-
Sub-Total of Violence Against Women Formula Grants			217,576	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	DC09120380	507,017	-
ARRA-Recovery Act - State Victim Assistance Formula Grant Program	16.801	VS09010380	27,239	-
ARRA-Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Government	16.804	ZP09010380	10,098	-
ARRA-Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Government	16.804	ZO09010380	348,972	203,918
Pass-Through Program, Asian Women's Shelter:				
Rural Domestic Violence, Dating Violence, Sexual Assault, and Stalking Assistance Program	16.589	None	9,159	-
Sub-Total of Pass-Through Programs			1,784,577	203,918
TOTAL U.S. DEPARTMENT OF JUSTICE			12,675,905	2,625,130
U.S. DEPARTMENT OF LABOR				
Pass-Through Programs, California Employment Development Department:				
Workforce Investment Act (WIA) Cluster:				
ARRA-WIA Adult Program	17.258	R970567	283,007	202,085
WIA Adult Program	17.258	R970567	377,954	-
WIA Adult Program	17.258	K074171	1,929,503	951,857
Sub-Total of WIA Adult Program			2,590,464	1,153,942
ARRA-WIA Youth Activities	17.259	R970567	2,026,671	1,568,676
WIA Youth Activities	17.259	R970567	1,054,705	729,458
WIA Youth Activities	17.259	K074171	483,703	276,505
Sub-Total of WIA Youth Activities			3,565,079	2,574,639
ARRA-WIA Dislocated Workers	17.260	R970567	542,947	424,078
WIA Dislocated Workers	17.260	R970567	1,726,774	1,285,961
WIA Dislocated Workers	17.260	K074171	896,401	344,761
Sub-Total of WIA Dislocated Workers			3,166,122	2,054,800
Sub-Total of WIA Cluster			9,321,665	5,783,381
WIA Pilots, Demonstrations, and Research Projects	17.261	R970567	68,000	-
Sub-Total of Pass-Through Programs			9,389,665	5,783,381
TOTAL U.S. DEPARTMENT OF LABOR			9,389,665	5,783,381

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

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF TRANSPORTATION				
Pass-Through Programs, State of California, Department of Transportation:				
Highway Planning and Construction Cluster:				
ARRA-Highway Planning and Construction	20.205	04-5934	7,228,528	-
Highway Planning and Construction	20.205	04-5934	8,436,536	-
Highway Planning and Construction	20.205	04-6169	774	-
Highway Planning and Construction	20.205	04-6447	149,970	81,002
Sub-Total of Highway Planning and Construction Cluster			15,815,808	81,002
Pass-Through Program, State of California, Office of Traffic Safety:				
Highway Safety Cluster				
State and Community Highway Safety	20.600	AL0990	126,401	-
State and Community Highway Safety	20.600	OP0809	47,867	-
State and Community Highway Safety	20.600	SC09368	23,365	-
State and Community Highway Safety	20.600	CT10368	11,260	-
State and Community Highway Safety	20.600	PS1006	112,031	88,038
State and Community Highway Safety	20.600	SC10368	59,935	-
Sub-Total of Highway Safety Cluster			380,859	88,038
Sub-Total of Pass-Through Programs			16,196,667	169,040
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			16,196,667	169,040
NATIONAL FOUNDATION ON THE ARTS & HUMANITIES				
Direct Programs:				
ARRA-Promotion of the Arts - Grants to Organizations and Individuals	45.024	--	50,000	-
Promotion of the Arts - Grants to Organizations and Individuals	45.024	--	60,000	-
Sub-Total of Direct Programs			110,000	-
Pass-Through Program, California State Library:				
Grants to States	45.310	40-7373	5,040	-
TOTAL NATIONAL FOUNDATION ON THE ARTS & HUMANITIES			115,040	-
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Direct Programs:				
Water Security Training and Technical Assistance and Water Security Initiative Contamination Warning System Pilots	66.478	--	890,730	-
Sub-Total of Direct Programs			890,730	-
Pass-Through Program, Association of Bay Area Governments:				
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436	X7-00T04701	167,025	-
Pass-Through Program, State of California, State Water Control Resources Board:				
ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	08-303-550	1,063,952	-
Leaking Underground Storage Tank Trust Fund Corrective Action Program	66.805	09-026-250	369,657	-
Pass-Through Program, State of California, Department of Public Health:				
Beach Monitoring and Notification Program Implementation Grants	66.472	08-85537	3,543	-
Beach Monitoring and Notification Program Implementation Grants	66.472	09-11380	23,116	-
Sub-Total of Beach Monitoring and Notification Program Implementation Grants			26,659	-
Sub-Total of Pass-Through Programs			1,627,293	-
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			2,518,023	-
U.S. DEPARTMENT OF ENERGY				
Direct Programs:				
ARRA-Renewable Energy Research and Development	81.087	--	11,262	-
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	--	58,850	-
ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG)	81.128	--	197,481	-
Sub-Total of Direct Programs			267,593	-
Pass-Through Program, California Energy Commission:				
Department of Energy subcontract	81.unknown	None	3,839	-
TOTAL U.S. DEPARTMENT OF ENERGY			271,432	-
U.S. DEPARTMENT OF EDUCATION				
Direct Program:				
Fund for the Improvement of Education	84.215	--	49,657	49,657
TOTAL U.S. DEPARTMENT OF EDUCATION			49,657	49,657
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Programs:				
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	--	2,286,671	755,577
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	--	2,687,179	1,323,466
Mental Health Research Grants	93.242	--	452,276	34,458

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)				
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	--	1,279,326	362,270
ARRA-National Center for Research Resources, Recovery Act Construction Support	93.702	--	163,499	-
Health Care and Other Facilities	93.887	--	1,125	-
National Bioterrorism Hospital Preparedness Program	93.889	--	67,796	-
HIV Emergency Relief Project Grants	93.914	--	27,169,989	16,761,091
HIV Prevention Activities - Health Department Based	93.940	--	9,230,046	4,533,703
HIV Demonstration, Research, Public and Professional Education Projects	93.941	--	4,926	4,926
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	--	2,028,863	-
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	--	1,816,699	209,579
Sub-Total of Direct Programs			47,188,395	23,985,070
Pass-Through Programs, State of California, Department of Aging:				
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	AP-0910-06	14,588	14,588
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	AP-0910-06	32,215	32,215
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	AP-0910-06	63,975	63,975
Aging Cluster:				
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	AP-0910-06	1,089,168	480,608
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	AP-0910-06	1,654,430	1,637,427
Nutrition Services Incentive Program	93.053	AP-0910-06	1,261,658	1,261,658
ARRA-Aging Home-Delivered Nutrition Services for States	93.705	NS-0809-06	93,948	93,948
ARRA-Aging Congregate Nutrition Services for States	93.707	NS-0809-06	190,832	190,832
Sub-Total of the Aging Cluster			4,290,036	3,664,473
Special Programs for the Aging - Title IV - and Title II - Discretionary Projects	93.048	09-H9005	39,288	39,288
National Family Caregiver Support, Title III, Part E	93.052	AP-0910-06	483,562	445,109
Medicare Enrollment Assistance Program	93.071	MP-0910-06	14,385	14,385
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	MP-0910-06	31,589	31,589
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	HI-0910-06	110,049	-
Sub-Total of CMS Research, Demonstrations and Evaluations			141,638	31,589
Pass-Through Programs, Regents of the University of California:				
Global AIDS	93.067	5745SC	32,692	-
Global AIDS	93.067	5876SC	28,465	-
Sub-Total of Global AIDS			61,157	-
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	4899SC	94,801	-
Mental Health Research Grants	93.242	3078SC	23,545	-
Mental Health Research Grants	93.242	4227SC	34,493	-
Mental Health Research Grants	93.242	4336SC	68,378	-
Mental Health Research Grants	93.242	4857SC	19,181	-
Mental Health Research Grants	93.242	4945SC	151,876	-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	5573SC	24,790	-
Occupational Safety and Health Program	93.262	SA5776-11825, PO 1408077	860	-
Drug Abuse and Addiction Research Programs	93.279	5122SC	19,377	-
ARRA-Trans-NIH Recovery Act Research Support	93.701	5734SC	11,373	-
Allergy, Immunology and Transplantation Research	93.855	5030SC	7,297	-
Special Projects of National Significance	93.928	3861SC	14,158	-
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	3148SC	150,832	-
Pass-Through Programs, State of California, Department of Mental Health:				
Projects for Assistance in Transition from Homelessness (PATH)	93.150	None	392,275	211,078
Block Grants for Community Mental Health Services	93.958	None	2,524,937	613,871
Pass-Through Program, Larkin Street Youth Services:				
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	6H12HA00101-11-01	3,934	-
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	3H12HA00101-12-01	16,916	-
Pass-Through Program, California Family Health Council:				
Family Planning - Services	93.217	380-5320-71209-09	113,808	-
Family Planning - Services	93.217	380-5320-71209-10	48,207	-
Sub-Total of Family Planning - Services			162,015	-

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)				
Pass-Through Programs, San Francisco Community Clinic Consortium:				
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	5H80CS00049-08	182,210	-
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	5H80CS00049-09	524,580	-
Sub-Total of Consolidated Health Centers			706,790	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	2H76HA00163-17	93,065	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	2H76HA00163-18	91,259	-
Pass-Through Programs, Public Health Foundation Enterprise:				
Drug Abuse and Addiction Research Programs	93.279	2131.003	23,519	-
Drug Abuse and Addiction Research Programs	93.279	2192.001	13,007	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	235-012-908	115,554	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	235-012-908	15,240	-
ARRA-Trans-NIH Recovery Act Research Support	93.701	2296.001.001	6,699	-
ARRA-Trans-NIH Recovery Act Research Support	93.701	2316.001	13,170	-
Allergy, Immunology and Transplantation Research	93.855	0325.009	104,608	-
Allergy, Immunology and Transplantation Research	93.855	2278.001	72,997	-
Allergy, Immunology and Transplantation Research	93.855	0325	74,895	-
Allergy, Immunology and Transplantation Research	93.855	5R01AI083060-02	24,005	-
Microbiology and Infectious Diseases Research	93.856	0475.006	23,265	-
HIV Demonstration, Research, Public and Professional Education Projects	93.941	2186.002	23,046	-
HIV Demonstration, Research, Public and Professional Education Projects	93.941	5UR6PS000684-03	12,554	-
Pass-Through Program, National Association of County and City Health Officials:				
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	2009-040703	72,818	-
Pass-Through Programs, State of California, Department of Public Health:				
Public Health Emergency Preparedness	93.069	EPO 08-38	71,061	-
Public Health Emergency Preparedness	93.069	EPO 09-38	858,907	-
Public Health Emergency Preparedness	93.069	EPO 09-P4-38	1,961,749	15,000
Sub-Total of Public Health Emergency Preparedness			2,891,717	15,000
Immunization Cluster:				
Immunization Grants	93.268	09-11294-A01	332,447	105,165
ARRA-Immunization	93.712	09-11294-A01	253,000	98,315
Sub-Total of Immunization Cluster			585,447	203,480
Temporary Assistance for Needy Families	93.558	05-45322	126,485	31,121
Refugee and Entrant Assistance - State Administered Programs	93.566	08-90-90840-1	264,999	110,840
Refugee and Entrant Assistance - Discretionary Grants	93.576	09-90-90841-00	85,372	54,799
Medical Assistance Program	93.778	08-85085	131,208	-
National Bioterrorism Hospital Preparedness Program	93.889	EPO 08-38	156,527	29,004
National Bioterrorism Hospital Preparedness Program	93.889	EPO HPP 07-38	113,108	-
National Bioterrorism Hospital Preparedness Program	93.889	EPO 09-38	20,919	-
National Bioterrorism Hospital Preparedness Program	93.889	EPO xx-38	291,984	496
HIV Care Formula Grants	93.917	06-55770	318,969	195,655
HIV Care Formula Grants	93.917	07-65770-A04	3,420,774	1,926,423
Sub-Total of HIV Care Formula Grants			3,739,743	2,122,078
HIV Prevention Activities - Health Department Based	93.940	07-65077 PREV 07-38/1	510,705	-
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	07-65871	228,571	215,164
Maternal and Child Health Services Block Grant to the States	93.994	200938	1,146,594	283,784
Pass-Through Programs, State of California, Department of Social Services:				
Temporary Assistance for Needy Families	93.558	None	54,765,265	14,091,479
ARRA-Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	None	35,324,242	-
Promoting Safe and Stable Families	93.556	None	301,361	298,839
Refugee and Entrant Assistance - State Administered Programs	93.566	None	427,194	-
Refugee and Entrant Assistance - State Administered Programs	93.566	RESS0807	20,770	20,770
Refugee and Entrant Assistance - State Administered Programs	93.566	RESS0907	72,046	72,046
Refugee and Entrant Assistance - Discretionary Grants	93.576	TARL0908	19,467	19,467
Child Welfare Services - State Grants	93.645	None	471,121	-
ARRA-Foster Care - Title IV-E	93.658	None	1,200,110	-
Foster Care - Title IV-E	93.658	None	30,328,737	505,265
Sub-Total of Foster Care - Title IV-E			31,528,847	505,265

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)				
Adoption Assistance	93.659	None	10,439,661	114,590
ARRA-Adoption Assistance	93.659	None	985,470	-
Sub-Total of Adoption Assistance			11,425,131	114,590
Chafee Foster Care Independence Program	93.674	None	567,989	357,466
Medical Assistance Program	93.778	None	46,448,945	2,153,093
Pass-Through Programs, State of California, Department of Child Support Services:				
ARRA-Child Support Enforcement	93.563	None	1,337,068	-
Child Support Enforcement	93.563	None	8,447,089	-
Sub-Total of Child Support Enforcement			9,784,157	-
Pass-Through Programs, State of California, Department of Education:				
CCDF Cluster:				
Child Care and Development Block Grant	93.575	CRET-9035	824,145	815,905
Child Care and Development Block Grant	93.575	CLPC-9036	98,138	-
Child Care and Development Block Grant	93.575	C2AP-9054	156,000	156,000
Sub-Total of Child Care and Development Block Grant			1,078,283	971,905
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CAPP-9059	112,303	112,303
Sub-Total of CCDF Cluster			1,190,586	1,084,208
Pass-Through Program, California Secretary of State:				
Voting Access for Individuals with Disabilities - Grants to States	93.617	09G26107	153,912	-
Pass-Through Program, University of Miami:				
ARRA-Trans-NIH Recovery Act Research Support	93.701	None	43,256	-
Pass-Through Program, Health Resources and Services Administration:				
ARRA-Grants to Health Center Programs	93.703	1H8BCS12114-01-00	46,976	-
Pass-Through Programs, State of California, Department of Health Care Services:				
Medical Assistance Program	93.778	None	1,902,229	-
Pass-Through Program, Fred Hutchinson Cancer Research Center:				
Allergy, Immunology and Transplantation Research	93.855	0000678012	119,082	-
Allergy, Immunology and Transplantation Research	93.855	0000657463	101,940	-
Allergy, Immunology and Transplantation Research	93.855	0000679071	33,446	-
Allergy, Immunology and Transplantation Research	93.855	0000692534	8,586	-
Allergy, Immunology and Transplantation Research	93.855	0000692535	9,455	-
Pass-Through Programs, University of California, San Francisco:				
Child Health and Human Development Extramural Research	93.865	5U01HD040506-09	18,117	-
Child Health and Human Development Extramural Research	93.865	5U01HD040506-10	11,074	-
Sub-Total of Child Health and Human Development Extramural Research			29,191	-
Pass-Through Programs, Tenderloin Health Inc.:				
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	5H76HA08883-03-00	153,254	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	6H76HA08883-03-02	46,018	-
Special Projects of National Significance	93.928	5H97HA08763-02-00	46,012	-
Special Projects of National Significance	93.928	H97HA08763	207,259	-
Pass-Through Program, State of California, Department of Alcohol and Drug Programs:				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	3B08TI010005-09, SB08TI0005-10	10,152,538	10,152,538
Pass-Through Program, Stanford University:				
Geriatric Education Centers	93.969	1 D31HP08825-01	8,500	-
Sub-Total of Pass-Through Programs			226,050,527	37,066,098
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			273,238,922	61,051,168
U.S. DEPARTMENT OF HOMELAND SECURITY				
Direct Programs:				
Assistance to Firefighters Grant	97.044	--	685,321	-
Port Security Grant Program	97.056	--	89,353	-
Sub-Total of Direct Programs			774,674	-
Pass-Through Programs, State of California, Emergency Management Agency:				
Emergency Management Performance Grants	97.042	2009-0015	162,599	-
Interoperable Communications Equipment	97.055	2008-IO-T8-0015	187,768	-
Interoperable Communications Equipment	97.055	2009-0015	1,819	-
Sub-Total of Interoperable Communications Equipment			189,587	-

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

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF HOMELAND SECURITY (Continued)				
Homeland Security Cluster				
Homeland Security Grant Program	97.067	2006-0071	43	-
Homeland Security Grant Program	97.067	2007-0008	13,836,774	6,756,093
Homeland Security Grant Program	97.067	2008-0006	8,656,492	5,110,511
Homeland Security Grant Program	97.067	2009-0019	581,350	-
Sub-Total of Homeland Security Cluster			23,074,659	11,866,604
Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111	2008-CP-T8-0018	6,019,111	253,518
Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111	2009-0015	2,937	-
Sub-Total of RCPGP			6,022,048	253,518
Sub-Total of Pass-Through Programs			29,448,893	12,120,122
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			30,223,567	12,120,122
U.S. AGENCY FOR INTERNATIONAL DEVELOPMENT				
Pass-Through Program, Regents of the University of California:				
U.S. Aid	98.unknown	5644SC	20,059	-
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			20,059	-
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 524,660,805	$ 118,301,982

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

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2010

1. GENERAL

The schedule of expenditures of federal awards (Schedule) includes the federal grant activity of the City and County of San Francisco (the City). All federal awards received directly from federal agencies as well as federal awards passed through other governmental and educational agencies are included in this Schedule except for assistance related to Medical Assistance (Medi-Cal) and Medicare Hospital Insurance (Medicare) (see Note 4). Expenditures funded by the American Recovery and Reinvestment Act of 2009 are denoted by the prefix “ARRA” in the federal or pass-through grantor title.

The City’s basic financial statements include the operations of the San Francisco County Transportation Authority (Authority), the San Francisco Redevelopment Agency (Agency), the San Francisco International Airport (Airport), and the San Francisco Municipal Transportation Agency (MTA). The expenditures of the Authority, the Agency, the Airport, and the MTA are not included in the schedule of expenditures of federal awards for the year ended June 30, 2010. Federal expenditures for these entities are separately audited by other auditors.

2. BASIS OF ACCOUNTING

The accompanying Schedule is presented using the modified accrual basis of accounting for program expenditures accounted for in the governmental funds and the accrual basis of accounting for program expenditures accounted for in the proprietary funds as described in Note 2(b) of the City’s basic financial statements, with the exception of the loan programs described in Note 5.

3. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS AND BASIC FINANCIAL STATEMENTS

Amounts reported in the accompanying Schedule agree or can be reconciled with amounts reported in the related federal award reports and the City’s basic financial statements.

4. MEDI-CAL AND MEDICARE

Direct Medi-Cal and Medicare expenditures are excluded from the Schedule. These expenditures represent fees for services and are not included in the Schedule or in determining major programs. The City assists the State in determining eligibility and provides Medi-Cal and Medicare services through City-owned facilities. Administrative costs related to Medi-Cal and Medicare are, however, included in the Schedule under the Medical Assistance Program (federal CFDA number 93.778).

5. 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 Economic Adjustment Assistance program and the Home Investment Partnerships Program. The table below summarizes program expenditures related to new loans and the total amount of loans outstanding as of June 30, 2010, which are included in the Schedule under the respective CFDA numbers.

CFDA Number	Program Title	Current Year Loan Expenditures	Total loans outstanding as of June 30, 2010
11.307	Economic Adjustment Assistance program	$ -	$ 471,147
14.239	Home Investment Partnerships Program	$ 6,588,011	$ 107,080,567

6. CALIFORNIA DEPARTMENT OF AGING (CDA) SINGLE AUDIT REPORTING REQUIREMENTS

The terms and conditions of agency contracts with CDA require agencies to display state-funded expenditures discretely along with the related federal expenditures. CDA grant expenditures that involve federal funding have been presented in the Schedule. For state grants not involving federal funding, the amounts are to be displayed separately. The following schedule is presented to comply with these requirements.

Federal Grantor Pass-through Grantor Program Title	Grant / Contract No.	CFDA No.	Expenditures State	 Federal
U.S. Department of Agriculture				
Passed through State of California, Department of Aging:				
Senior Farmers Market Nutrition Program	None	10.576	$ -	$ 35,000
U.S. Department of Health & Human Services				
Passed through State of California, Department of Aging:				
Special Programs for the Aging-Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect and Exploitation	AP-0910-06	93.041	-	14,588
Special Programs for the Aging-Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	AP-0910-06	93.042	-	32,215
Special Programs for the Aging Title III, Part D - Disease Prevention and Health Promotion Services	AP-0910-06	93.043	-	63,975
Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers	AP-0910-06	93.044	-	1,089,168
Special Programs for the Aging-Title III, Part C - Nutrition Services	AP-0910-06	93.045	702,213	1,654,430
Special Programs for the Aging-Title IV, and Title II, Discretionary Projects	09-H9005	93.048	-	39,288
National Family Caregiver Support, Title III, Part E	AP-0910-06	93.052	-	483,562
Nutritional Services Incentive Program	AP-0910-06	93.053	-	1,261,658
Medicare Enrollment Assistance Program	MP-0910-06	93.071	-	14,385
ARRA-Aging Home-Delivered Nutrition Services for States	NS-0809-06	93.705	-	93,948
ARRA-Aging Congregate Nutrition Services for States	NS-0809-06	93.707	-	190,832
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	MP-0910-06	93.779	-	31,589
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	HI-0910-06	93.779	234,260	110,049
			936,473	$ 5,114,687
State Awards - California Department of Aging:				
State Community-Based Services Program	AP-0910-06		122,701	
Medicaid Penalty Citations Ombudsman	AP-0910-06		61,086	
Total Expenditures of CDA Awards			$ 1,120,260	

7. PROGRAM TOTALS

The following table summarizes programs funded by various sources or grants whose totals are not shown on the Schedule. Expenditures funded by the American Recovery and Reinvestment Act of 2009 are denoted by the prefix "ARRA" in the federal or pass-through grantor title.

	CFDA no. / Program Title / Federal Grantor or Pass-Through Grantor	Pass-Through Identifying Number	Federal Expenditures
(1)	**SNAP Cluster**		
	CFDA no. 10.561 - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program		
	State of California, Department of Public Health	08-85151	$ 138,992
	ARRA-State of California, Department of Social Services	--	415,698
	State of California, Department of Social Services	--	21,305,636
		Cluster Total	$ 21,860,326
(2)	**CFDA no. 16.738 - Edward Byrne Memorial Justice Assistance Grant Program**		
	U.S. Department of Justice	--	$ 230,729
	State of California, Emergency Management Agency	DC09120380	507,017
		Program Total	$ 737,746
(3)	**CFDA no. 16.804 - Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants To Units Of Local Government**		
	ARRA-U.S. Department of Justice	--	$ 446,265
	ARRA-State of California, Emergency Management Agency	ZP09010380	10,098
	ARRA-State of California, Emergency Management Agency	ZO09010380	348,972
		Program Total	$ 805,335
(4)	**CFDA no. 93.153 - Coordinated Services and Access to Research for Women, Infants, Children, and Youth**		
	Regents of the University of California	4899SC	$ 94,801
	Larkin Street Youth Services	6H12HA00101-11-01	3,934
	Larkin Street Youth Services	3H12HA00101-12-01	16,916
		Program Total	$ 115,651
(5)	**CFDA no. 93.242 - Mental Health Research Grants**		
	U.S. Department of Health and Human Services	--	$ 452,276
	Regents of the University of California	3078SC	23,545
	Regents of the University of California	4227SC	34,493
	Regents of the University of California	4336SC	68,378
	Regents of the University of California	4857SC	19,181
	Regents of the University of California	4945SC	151,876
		Program Total	$ 749,749
(6)	**CFDA no. 93.243 - Substance Abuse and Mental Health Services - Projects of Regional and National Significance**		
	U.S. Department of Health and Human Services	--	$ 1,279,326
	Regents of the University of California	5573SC	24,790
		Program Total	$ 1,304,116
(7)	**CFDA no. 93.279 - Drug Abuse and Addiction Research Programs**		
	Regents of the University of California	5122SC	$ 19,377
	Public Health Foundation Enterprise	2131.003	23,519
	Public Health Foundation Enterprise	2192.001	13,007
		Program Total	$ 55,903

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

7. PROGRAM TOTALS (Continued)

	CFDA no. / Program Title / Federal Grantor or Pass-Through Grantor	Pass-Through Identifying Number		Federal Expenditures
(8)	**CFDA no. 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance**			
	Public Health Foundation Enterprise	235-012-908	$	115,554
	Public Health Foundation Enterprise	235-012-908		15,240
	National Association of County and City Health Officials	2009-040703		72,818
		Program Total	$	203,612
(9)	**TANF Cluster**			
	CFDA no. 93.558 - Temporary Assistance for Needy Families (TANF)			
	State of California, Department of Public Health	05-45322	$	126,485
	State of California, Department of Social Services	--		54,765,265
				54,891,750
	CFDA no. 93.714 - ARRA-Emergency Contingency Fund for TANF State Program			
	ARRA-State of California, Department of Social Services	--		35,324,242
		Cluster Total	$	90,215,992
(10)	**CFDA no. 93.566 - Refugee and Entrant Assistance - State Administered Programs**			
	State of California, Department of Public Health	08-90-90840-1	$	264,999
	State of California, Department of Social Services	--		427,194
	State of California, Department of Social Services	RESS0807		20,770
	State of California, Department of Social Services	RESS0907		72,046
		Program Total	$	785,009
(11)	**CFDA no. 93.576 - Refugee and Entrant Assistance - Discretionary Grants**			
	State of California, Department of Public Health	09-90-90841-00	$	85,372
	State of California, Department of Social Services	TARL0908		19,467
		Program Total	$	104,839
(12)	**CFDA no. 93.701 - Trans-NIH Recovery Act Research Support**			
	ARRA-Regents of the University of California	5734sc	$	11,373
	ARRA-Public Health Foundation Enterprise	2296.001.001		6,699
	ARRA-Public Health Foundation Enterprise	2316.001		13,170
	ARRA-University of Miami	--		43,256
		Program Total	$	74,498
(13)	**Medicaid Cluster**			
	CFDA no. 93.778 - Medical Assistance Program			
	State of California, Department of Public Health	08-85085	$	131,208
	State of California, Department of Social Services	--		46,448,945
	State of California, Department of Health Care Services	--		1,902,229
		Cluster Total	$	48,482,382

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2010

7. PROGRAM TOTALS (Continued)

	CFDA no. / Program Title / Federal Grantor or Pass-Through Grantor	Pass-Through Identifying Number		Federal Expenditures
(14)	**CFDA no. 93.855 - Allergy, Immunology and Transplantation Research**			
	Regents of the University of California	5030SC	$	7,297
	Public Health Foundation Enterprise	0325.009		104,608
	Public Health Foundation Enterprise	2278.001		72,997
	Public Health Foundation Enterprise	0325		74,895
	Public Health Foundation Enterprise	5R01AI083060-02		24,005
	Fred Hutchinson Cancer Research Center	0000678012		119,082
	Fred Hutchinson Cancer Research Center	0000657463		101,940
	Fred Hutchinson Cancer Research Center	0000679071		33,446
	Fred Hutchinson Cancer Research Center	0000692534		8,586
	Fred Hutchinson Cancer Research Center	0000692535		9,455
		Program Total	$	556,311
(15)	**CFDA no. 93.889 - National Bioterrorism Hospital Preparedness Program**			
	U.S. Department of Health and Human Services	--	$	67,796
	State of California, Department of Public Health	EPO 08-38		156,527
	State of California, Department of Public Health	EPO HPP 07-38		113,108
	State of California, Department of Public Health	EPO 09-38		20,919
	State of California, Department of Public Health	EPO xx-38		291,984
		Program Total	$	650,334
(16)	**CFDA no. 93.918 - Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease**			
	San Francisco Community Clinic Consortium	2H76HA00163-17	$	93,065
	San Francisco Community Clinic Consortium	2H76HA00163-18		91,259
	Tenderloin Health Inc.	5H76HA08883-03-00		153,254
	Tenderloin Health Inc.	6H76HA08883-03-02		46,018
		Program Total	$	383,596
(17)	**CFDA no. 93.928 - Special Projects of National Significance**			
	Regents of the University of California	3861sc	$	14,158
	Tenderloin Health Inc.	5H97HA08763-02-00		46,012
	Tenderloin Health Inc.	H97HA08763		207,259
		Program Total	$	267,429
(18)	**CFDA no. 93.940 - HIV Prevention Activities - Health Department Based**			
	U.S. Department of Health and Human Services	--	$	9,230,046
	State of California, Department of Public Health	07-65077 PREV 07-38/1		510,705
		Program Total	$	9,740,751
(19)	**CFDA no. 93.941 - HIV Demonstration, Research, Public and Professional Education Projects**			
	U.S. Department of Health and Human Services	--	$	4,926
	Public Health Foundation Enterprise	2186.002		23,046
	Public Health Foundation Enterprise	5UR6PS000684-03		12,554
		Program Total	$	40,526

7. PROGRAM TOTALS (Continued)

	CFDA no. / Program Title / Federal Grantor or Pass-Through Grantor	Pass-Through Identifying Number		Federal Expenditures
(20)	**CFDA no. 93.943 - Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups**			
	Regents of the University of California	3148SC	$	150,832
	State of California, Department of Public Health	07-65871		228,571
		Program Total	$	379,403

The Honorable Mayor Edwin Lee
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 City and County of San Francisco, California (City) as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 28, 2011. Our report includes a reference to other auditors. Our report also includes an explanatory paragraph indicating that the City adopted the provisions of Governmental Accounting Standards Board Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments.* We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the San Francisco International Airport, San Francisco Water Enterprise, Hetch Hetchy Water and Power, San Francisco Municipal Transportation Agency, San Francisco Wastewater Enterprise, San Francisco Market Corporation, and the Health Service System, as described in our report on the City's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of the City in a separate letter dated January 28, 2011.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the Board of Supervisors, City management, federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Certified Public Accountants

Walnut Creek, California
January 28, 2011

MGO Certified Public Accountants.

Sacramento • Walnut Creek • Oakland • Los Angeles/Century City • Newport Beach • San Diego

mgocpa.com

The Honorable Mayor Edwin Lee
The Honorable Members of the Board of Supervisors
City and County of San Francisco, California

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Compliance

We have audited the City and County of San Francisco, California's (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2010. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the San Francisco County Transportation Authority (Authority), the San Francisco Redevelopment Agency (Agency), the San Francisco International Airport (Airport), and the San Francisco Municipal Transportation Agency (MTA), which expended $1,757,820, $14,071,342, $44,825,709, and $126,567,827, respectively, in federal awards. The expenditures of the Authority and the Agency, component units of the City, are not included in the schedule of expenditures of federal awards for the year ended June 30, 2010. Our audit as described below did not include the operations of the Authority and Agency because we were engaged to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and report on the results separately to those organizations. The Airport's and the MTA's expenditures are not included in the schedule of federal awards for the year ended June 30, 2010. Our audit, described below, did not include the operations of the Airport and the MTA because these organizations engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

As described in item 2010-02 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding cost principles that are applicable to the Lead Hazard Control Cluster (CFDA number 14.907) program. Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to that program.

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In our opinion, except for the noncompliance described in the preceding paragraph, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. The results of our auditing procedures also disclosed other instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2010-01, 2010-03, 2010-04 and 2010-05.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-01, 2010-02, and 2010-04 to be material weaknesses.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2010-03 and 2010-05 to be significant deficiencies.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

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
March 30, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued:	Unqualified
Internal control over financial reporting:	
• Material weaknesses identified?	No
• Significant deficiencies identified that are not considered to be material weaknesses	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weaknesses identified?	Yes
• Significant deficiencies identified that are not considered to be material weaknesses	Yes
Type of auditor's report issued on compliance for major programs	Unqualified for all major programs except for the Lead Hazard Control Cluster (CFDA No. 14.907), which was qualified
Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133?	Yes
Dollar threshold used to distinguish between Types A and B programs	$3,000,000
Auditee qualified as a low-risk auditee under Section 530 of OMB Circular A-133	Yes

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number(s)
SNAP Cluster	10.561
CDBG - Entitlement Grants Cluster	14.218/14.253
Supportive Housing Program	14.235
ARRA-Homelessness Prevention and Rapid Re-Housing Program	14.257
Lead Hazard Control Cluster	14.907
Public Safety Partnership and Community Policing Grants	16.710
ARRA-Recovery Act - Edward Byrne Memorial Justice Assistance Grant (JAG) Program / Grants to Units of Local Government	16.804
WIA Cluster	17.258/17.259/17.260
Highway Planning and Construction Cluster	20.205
ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458
Aging Cluster	93.044/93.045/ 93.053/93.705/93.707
Immunization Cluster	93.268/93.712
TANF Cluster	93.558/93.714
HIV Care Formula Grants	93.917
Block Grants for Prevention and Treatment of Substance Abuse	93.959
Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

Finding No. 2010-01 – U.S. Department of Housing and Urban Development
CDBG - Entitlement Grants Cluster, CFDA numbers 14.218 and 14.253
Federal award numbers and years: B-08-MC-06-0016; 2008
B-09-MY-06-0016; 2009
Administered by the San Francisco Mayor's Office of Housing
Allowable Costs/Cost Principles

Criteria:
U.S. Office of Management and Budget Circular A-102, *Grants and Cooperative Agreements with State and Local Governments* (Common Rule) requires that non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with Federal laws, regulations, and program compliance requirements.

Condition:
During our testing of internal control over compliance with allowability requirements from a population of 3,394 payroll transactions, we noted 5 out of 40 timesheets tested did not have evidence of supervisory review. Expenditure records also indicate that payroll costs were charged only to the Community Development Block Grants/Entitlement Grants under CFDA number 14.218, and none were allocated to ARRA funds under CFDA number 14.253. While we were able to conclude that payroll costs associated with these transactions were in compliance with allowability requirements, the lack of supervisory review signifies a deficiency in the operation of the established controls.

Effect:
Inadequate review over time entries may lead to payroll costs being inappropriately charged to federal programs.

Questioned Cost:
Not applicable.

Recommendation:
We recommend the Mayor's Office of Housing enforce its policy on approval of timesheets to ensure that the payroll costs are being appropriately charged to federal programs.

Management Response and Corrective Action Plan:
The Mayor's Office of Housing will enforce its policy that all timesheets be reviewed and signed by a supervisor to ensure that payroll costs are being appropriately charged to all programs and funding sources. Policies and procedures for timesheets have been reiterated to all employees. An internal review has been conducted of the current procedures in place and additional measures have been implemented to prevent future incidents.

Section III – Federal Award Findings and Questioned Costs

Finding No. 2010-02 – U.S. Department of Housing and Urban Development
Lead Hazard Control Cluster - Lead-Based Paint Hazard Control In Privately-Owned Housing (Recovery Act Funded), CFDA number 14.907
Federal award number and year: CALHB0415-08; 2010
Administered by the San Francisco Mayor's Office of Housing
Allowable Costs/Cost Principles

Criteria:
To be allowable under Federal awards, costs must be allocable to federal awards under the provisions of OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received.

Condition:
During our audit, we noted the allocation of payroll charges to the program were based on percentages budgeted at the beginning of the grant. These budgeted allocation percentages were recorded in the City's labor distribution system, which automatically allocates actual payroll costs to the program every pay period. The U.S. Department of Housing and Urban Development (HUD) Office of Healthy Homes and Lead Hazard Control performed on-site program monitoring in February 2010, and identified the same condition that required corrective action. The Mayor's Office of Housing provided formal responses of follow-up actions to the Office of Healthy Homes and Lead Hazard Control in June 2010.

Effect:
Since actual staff time is not tracked by program, payroll costs charged to the programs cannot be identified with specific time spent on program-related activities. Inadequate review over time entries may lead to payroll costs being inappropriately charged to federal programs.

Questioned Cost:
Salaries and fringe benefits costs allocated to the program totaled $179,958 for the fiscal year.

Recommendation:
We recommend the Mayor's Office of Housing continue to work with the HUD Office of Healthy Homes and Lead Hazard Control on an acceptable time reporting methodology and implement procedures to track actual staff time by program to ensure that payroll costs are being appropriately charged to federal programs in accordance with OMB Circular A-87.

Management Response and Corrective Action Plan:
The Mayor's Office of Housing responded to HUD's program monitoring report prior to the end of the 2009-2010 fiscal year, outlining its proposed corrective action plan. Following approval by HUD's Office of Healthy Homes representatives, the Mayor's Office of Housing implemented new time and activity reporting methodology and procedures for the program beginning in the 2010-2011 fiscal year. These new procedures track actual staff time and activity spent on the program to ensure that payrolls costs are charged appropriately.

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

Finding No. 2010-03 – U.S. Department of Housing and Urban Development
Lead Hazard Control Cluster - Lead-Based Paint Hazard Control In Privately-Owned Housing (Recovery Act Funded), CFDA number 14.907
Federal award number and year: CALHB0415-08; 2010
Administered by the San Francisco Mayor's Office of Housing
Cash Management

Criteria:
When federal funds are advanced, recipients must follow procedures to minimize the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by the grantee. Interest earned by local government grantees on advances is required to be submitted promptly, but at least quarterly, to the Federal agency. Up to $100 per year may be kept for administrative expenses.

Condition:
The Mayor's Office of Housing (MOH) drew down an allowable 10% advance of $300,000 at the beginning of the grant in anticipation of an upcoming project. However, due to project delays, the MOH did not spend the advance within a reasonable amount of time, and accumulated $2,691 of interest during the year. The U.S. Department of Housing and Urban Development (HUD) Office of Healthy Homes and Lead Hazard Control identified the same condition during its on-site program monitoring in February 2010. The MOH fully expended the cash advance and returned excess interest to HUD by the end of the fiscal year.

Effect:
The MOH did not follow cash advances procedures.

Questioned Cost:
Not applicable. The MOH returned excess interest to HUD by the end of the fiscal year.

Recommendation:
We recognize that the MOH provided evidence of liquidation of the advance and has returned excess interest earnings to the U.S. Department of Housing and Urban Development. We recommend the MOH emphasize and reinforce its cash advance procedures to ensure timely spending of cash drawdowns.

Management Response and Corrective Action Plan:
The Mayor's Office of Housing will enforce its procedures pertaining to cash advances to ensure timely spending of any funds received in advance.

Finding No. 2010-04 – Environmental Protection Agency
ARRA-Capitalization Grants for Clean Water State Revolving Funds,
CFDA number 66.458
Passed Through the State Water Resources Control Board
Federal award number and year: 08-303-550; 2009
Administered by the Port of San Francisco
Davis-Bacon Act

Criteria:
Pursuant to the Davis-Bacon Act, all laborers and mechanics employed by contractors or subcontractors to work on construction contracts in excess of $2,000 financed by federal assistance funds must be paid wages not less than those established for the locality of the project (prevailing wage rates) by the U.S. Department of Labor. Non-federal entities shall include in their construction contracts subject to the Davis-Bacon Act a requirement for the contractor or subcontractor to submit to the non-federal entity weekly, for each week in which any contract work is performed, a copy of the payroll and a statement of compliance (certified payrolls).

As the grant recipient, the Port of San Francisco (Port) is responsible for compliance with grant provisions. In the event that the contractor does not provide the required certified payrolls by the due date, the Port should initiate timely corrective actions to ensure compliance, such as sending timely follow-up requests to the contractor or withholding payment until the certified payrolls are received.

Condition:
During our audit of the City's compliance with the Davis-Bacon Act, we selected 51 samples out of a population of 91 certified payrolls for testing. The results of our testing disclosed 21 instances in which the Port released payment to the contractor before the required certified payrolls were collected.

Effect:
The Port did not verify the laborers and mechanics employed by the contractor were paid prevailing wage rates before releasing payment to the contractor. This poses a risk that federal funds may be paid to contractors who do not comply with prevailing wage requirements. However, the Port's subsequent reviews of certified payrolls determined prevailing wages were paid.

Questioned Costs:
Not applicable.

Recommendation:
We recommend the Port evaluate its procedures and controls over the monitoring of certified payroll submission to ensure certified payrolls have been submitted by the contractor and to determine whether prevailing wage rates are paid before releasing payment to the contractor. Procedures should indicate follow up actions to be taken when the contractor does not comply with contract provisions.

Management Response and Corrective Action Plan:
We concur. There was a breakdown in the timing and extent of our internal review process. The auditor did not find any missing certified payrolls. We will require, effective immediately, the timely submission of certified payrolls to verify compliance with the provisions of the Davis-Bacon Act prior to processing contractor payments. If the required certified payrolls are not filed, we will notify the Contractor and withhold contract payment until the Contractor submits the required certified payrolls.

An electronic filing system is in place to facilitate compliance by all Prime Contractors and/or their Subcontractors of the Davis-Bacon Act and other labor standard requirements. Port managers have reviewed the Davis-Bacon Act requirements with the Port's project and construction management staff, which have also been trained or re-trained to more effectively utilize the electronic filing system to monitor compliance.

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

Finding No. 2010-05 – U.S. Department of Health and Human Services
Immunization Cluster, CFDA numbers 93.268 and ARRA 93.712
Passed Through the California Department of Public Health
Federal award numbers and years: 09-11294; 2009
3H23IP922507-07S2; 2010
Administered by the San Francisco Department of Public Health
Subrecipient Monitoring

Criteria:
Pursuant to subrecipient monitoring requirements in the Single Audit Act Amendments of 1996 (31 USC 7502(f)(2)(A)), at the time of the award, the City is responsible for identifying to the subrecipient the Federal award information (e.g., CFDA title and number, award name and number; and name of Federal awarding agency) and applicable compliance requirements.

Condition:
During our audit of the City's compliance with the subrecipient monitoring requirement of the Immunization Cluster, we were not able to review documentary evidence to determine whether the subrecipients were notified of the federal award information at the time the subawards were made. However, our review of the Department of Public Health's (DPH) subrecipient records indicated the DPH performed monitoring of the subrecipients' use of federal awards through reporting, site visits, and regular contacts during the year.

Based on review of the grant agreements and amendments, and further discussion with management, we noted the City's award was originally funded by State General Fund and federal funds not covered by the American Recovery and Reinvestment Act (ARRA). Due to the elimination of State General Fund funding for immunization services in the 2009-10 Budget Act, the award was amended to replace the State General Fund with ARRA funds. The DPH was notified of this decision in February 2010 and of the awarded amount in July 2010. The DPH communicated the amended funding source to its subrecipients at that time.

Effect:
While subrecipients were notified of the ARRA award information, we could not verify whether subrecipients were aware of federal award information and requirements when the subawards were initially granted.

Questioned Costs:
Not applicable.

Recommendation:
We recommend management to re-evaluate the existing process to identify and track award funding sources to ensure federal award information are communicated to subrecipients and reported timely.

Management Response and Corrective Action Plan:
DPH concurs. DPH has notified the above mentioned program subrecipients of the federal award information and requirements. DPH will also review its procedures to enhance communication of federal award information to program subrecipients in a timely manner.

CITY AND COUNTY OF SAN FRANCISCO
STATUS OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2010

None reported in the prior year.