# CITY AND COUNTY OF SAN FRANCISCO

## Balance Sheet
## Governmental Funds

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

## (In Thousands)

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

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

# City and County of San Francisco
## Reconciliation of the Governmental Funds Balance Sheet
## to the Statement of Net Assets
## June 30, 2004

### (In Thousands)

| | |
|---|---|
| Fund balances - total governmental funds | $ 717,574 |
| Amounts reported for governmental activities in the statement of net assets are different because: | |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. | 2,311,608 |
| Bond issue costs are not financial resources and, therefore, are not reported in the funds. | 8,909 |
| Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds. | (1,796,201) |
| Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due. | (6,199) |
| Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures. Those assets are offset by deferred revenue in the funds. | 290,556 |
| Internal service funds are used by management to charge the costs of capital lease financing, fleet management, printing and mailing services, and information systems to individual funds. The assets and liabilities of internal service funds are included in governmental activities in the statement of net assets. | (219,506) |
| Net assets of governmental activities | $ 1,306,741 |

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

# CITY AND COUNTY OF SAN FRANCISCO

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

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

### (In Thousands)

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

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

# City and County of San Francisco

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

## Year ended June 30, 2004

### (In Thousands)

| | |
|---|---|
| Net change in fund balances - total governmental funds | $ (165,764) |
| Amounts reported for governmental activities in the statement of activities are different because: | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation in the current period. | 106,037 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. This is the amount by which the increase in certain liabilities reported in the statement of net assets of the previous year exceeded expenses reported in the statement of activities that do not require the use of current financial resources. | (39,293) |
| Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds. | 2,349 |
| Governmental funds report expenditures pertaining to the establishment of certain deferred credits related to long-term loans made. These deferred credits are not reported on the statement of net assets and, therefore, the corresponding expense is not reported on the statement of activities. | 37,657 |
| Lease payments on the Moscone Convention Center (including both principal and interest) are reported as expenditures in the governmental funds when paid. For the City as a whole, however, the principal portion of the payments serve to reduce the liability in the statement of net assets. This is the amount of property rent payments expended in the governmental funds in the current period. | 35,734 |
| Bond issue costs are reported in the governmental funds when paid, and are capitalized and amortized in the statement of activities. This is the amount by which current year bond issue costs exceed amortization expense in the current period. | 913 |
| The issuance of long-term debt and capital leases provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and capital leases consume the current financial resources of governmental funds. These transactions, however, have no effect on net assets. This is the amount by which principal retirement in the current period exceeded bond and other debt proceeds. | 25,832 |
| Bond premiums and discounts are expended in the governmental funds when the bonds are issued, and are capitalized and amortized in the statement of net assets. This is the net amount of bond premiums capitalized during the current period. | (1,411) |
| Interest expense in the statement of activities differs from the amount reported in the governmental funds because of additional accrued and accreted interest; amortization of bond discounts, premiums and refunding losses; and change in the accrual of arbitrage liabilities. | (18,778) |
| The net revenues of certain activities of internal service funds is reported with governmental activities. | 10,643 |
| Changes in net assets of governmental activities | $ (6,081) |

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

# CITY AND COUNTY OF SAN FRANCISCO
## Budgetary Comparison Statement - General Fund
### Year ended June 30, 2004
### (In Thousands)

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

*(Continued)*

# CITY AND COUNTY OF SAN FRANCISCO

## Budgetary Comparison Statement - General Fund *(Continued)*

### Year ended June 30, 2004

### (In Thousands)

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

*(Continued)*

# CITY AND COUNTY OF SAN FRANCISCO

## Budgetary Comparison Statement - General Fund *(Continued)*

### Year ended June 30, 2004

### (In Thousands)

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

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

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

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

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

*(Continued)*

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

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

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

# CITY AND COUNTY OF SAN FRANCISCO
## Statement of Revenues, Expenses, and Changes in Fund Net Assets
## Proprietary Funds
## Year ended June 30, 2004
## (with summarized financial information for the year ended June 30, 2003)
## (In Thousands)

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

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

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# CITY AND COUNTY OF SAN FRANCISCO

## Statement of Cash Flows
## Proprietary Funds

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

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

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

# CITY AND COUNTY OF SAN FRANCISCO
## Statement of Cash Flows *(Continued)*
## Proprietary Funds

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

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

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

# CITY AND COUNTY OF SAN FRANCISCO

## Statement of Fiduciary Net Assets

## Fiduciary Funds

## June 30, 2004

## (In Thousands)

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

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

# CITY AND COUNTY OF SAN FRANCISCO

## Statement of Changes in Fiduciary Net Assets

## Fiduciary Funds

### Year ended June 30, 2004

### (In Thousands)

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

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

## (1) THE FINANCIAL REPORTING ENTITY

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

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

### *Blended Component Units*

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

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

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

*San Francisco Parking Authority (Parking Authority)* – The Parking Authority was created in October 1949 to provide services exclusively to the City. In accordance with Proposition D authorized by the City's electorate in November 1988, a City Charter amendment created the Parking and Traffic Commission (DPT). The DPT consists of five commissioners appointed by the mayor. Upon creation of the DPT, the responsibility to oversee the City's off-street parking operations was transferred from the Parking Authority to the DPT. The staff and fiscal operations of the Parking Authority were also incorporated into the DPT. Beginning on July 1, 2002, the responsibility for overseeing the operations of the DPT became the responsibility of the Municipal Transportation Agency (MTA) pursuant to Proposition E which was passed by the voters in November 1999. Separate financial statements are not prepared for the Parking Authority. Further information about the Parking Authority can be obtained from the Parking Authority's administrative offices at 25 Van Ness Avenue, San Francisco, CA 94102.

### *Discretely Presented Component Units*

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

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

The Agency's governing body is not substantively the same as that of the City, and the Agency does not provide services entirely or almost entirely to the City. The Agency is reported in a separate column to emphasize that it is legally separate from the City. The City is financially accountable for the Agency through the appointment of the Agency's Board and the ability of the City to approve the Agency's budget. Disclosures related to the Agency, where significant, are identified separately throughout these notes. Complete financial statements can be obtained from the Agency's administrative offices at 770 Golden Gate Avenue, San Francisco, CA 94102.

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

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

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

***Non Disclosed Organizations***

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

## (2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### (a) Government-wide and fund financial statements

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

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

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

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

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

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements have been met.

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

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

The City reports the following major governmental fund:

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

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

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

The ***Water Department Fund*** accounts for the activities of the San Francisco Water Department. The department is engaged in the distribution of water to the City and certain suburban areas.

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

The ***Municipal Transportation Agency Fund*** accounts for the activities of the Municipal Transportation Agency (MTA). The MTA was established by Proposition E, passed by the City's voters in November 1999. The MTA includes the San Francisco Municipal Railway (MUNI), San Francisco Municipal Railway Improvement Corporation (SFMRIC), and beginning on July 1, 2002 the operations of the Parking and Traffic Commission (DPT), which includes the Parking Authority. MUNI was established in 1912 and is responsible for the operations of the City's public transportation system. SFMRIC is a nonprofit corporation established to provide capital financial assistance for the modernization of MUNI by acquiring, constructing, and financing improvements to the City's public transportation system. DPT is responsible for proposing and implementing street and traffic changes and oversees the City's off-street parking operations. DPT is a separate department of the MTA. The parking garages fund later accounted for the activities of various non-profit corporations formed by the Parking Authority to provide financial and other assistance to the City to acquire land, construct facilities, and manage various parking facilities.

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

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

The ***Port of San Francisco Fund*** accounts for the activities of the Port of San Francisco. This was established in 1969 after the San Francisco voters approved a proposition to accept the transfer of the Harbor of San Francisco from the State of California.

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

Additionally, the City reports the following fund types:

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

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

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

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

The ***Agency Funds*** account for the resources held by the City in a custodial capacity on behalf of other agencies.

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

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

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

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

## (c) Budgetary Data

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

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

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

***Original Budget***

(1) Departments and Commissions conduct hearings to obtain public comment on their proposed annual budgets beginning in December and submit their budget proposals to the Controller's Office no later than February 21.

(2) The Controller's Office consolidates the budget estimates and transmits them to the Mayor's Office no later than the first working day of March. Staff of the Mayor's Office analyze, review and refine the budget estimates before transmitting the Mayor's Proposed Budget to the Board of Supervisors.

(3) By the first working day of May, the Mayor submits the Proposed Budget for selected departments to the Board of Supervisors. The selected departments are determined by the Controller in consultation with the Board President and the Mayor's Budget Director. Criteria for selecting the departments include (1) that they are not supported by the City's General Fund or (2) that they do not rely on the State's budget submission in May for their revenue sources.

(4) By the first working day of June, the Mayor submits the complete Proposed Budget to the Board of Supervisors along with a draft of the Annual Appropriation Ordinance prepared by the Controller's Office.

(5) Within five working days of the Mayor's proposed budget transmission to the Board of Supervisors, the Controller reviews the estimated revenues and assumptions in the Mayor's Proposed Budget and provides an opinion as to their accuracy and reasonableness. The Controller also may make a recommendation regarding prudent reserves given the Mayor's proposed resources and expenditures.

(6) The designated Committee (usually the Budget Committee) of the Board of Supervisors conducts hearings, hears public comment, and reviews the Mayor's Proposed Budget. The Committee recommends an interim budget reflecting the Mayor's budget transmittal and, by June 30, the Board of Supervisors passes an interim appropriation and salary ordinances.

(7) Not later than the last working day of July, the Board of Supervisors adopts the budget through passage of the Annual Appropriation Ordinance, the legal authority for enactment of the budget.

***Final Budget***

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

(1) Certain annual appropriations are budgeted on a project or program basis. If such projects or programs are not completed at the end of the fiscal year, unexpended appropriations, including encumbered funds, are carried forward to the following year. In certain circumstances, other programs and regular annual appropriations may be carried forward after appropriate approval. Annually appropriated funds, not authorized to be carried forward, lapse at the end of the fiscal year. Appropriations carried forward from the prior year are included in the final budgetary data.

(2) Appropriations may be adjusted during the year with the approval of the Mayor and the Board of Supervisors, e.g. supplemental appropriations. Additionally, the Controller is authorized to make certain transfers of surplus appropriations within a department. Such adjustments are reflected in the final budgetary data.

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

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

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

## (d) Deposits and Investments

### *Investment in the Treasurer's Pool*

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

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

The San Francisco Unified School District, San Francisco Community College District, and the Trial Courts of the State of California are voluntary participants in the City's investment pool. As of June 30, 2004, $205 million was held on behalf of these voluntary participants. The total percentage share of the Treasurer's pool that relates to these three external participants is 9.23%. The deposits held for these entities are included in the Investment Trust Fund. The City has not provided nor obtained any legally binding guarantees during the fiscal year ended June 30, 2004 to support the value of shares in the pool.

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

### *Investment Valuation*

*Treasurer's Pool* – Substantially all investments are carried at fair value. The fair value of pooled investments is determined annually and is based on current market prices. The fair value of participants' position in the pool is the same as the value of the pool shares. The method used to determine the value of participants' equity withdrawn is based on the book value of the participants' percentage participation at the date of such withdrawal. In the event that a certain fund overdraws its share of pooled cash, the overdraft is reported as a due to the General Fund. Certain U.S. government securities that have a remaining maturity at time of purchase of one year or less are carried at amortized cost, which approximates market value.

*Employees' Retirement System (Retirement System)* - Investments are reported at fair value. Securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates. Investments that do not have an established market price are reported at estimated fair value. Purchases and sales of investments are recorded on a trade date basis. The fair values of real estate holdings are estimated primarily on appraisals prepared by third-party appraisers. The fair values of venture capital investments are estimated based primarily on audited financial statements provided by the individual fund managers. Such market value estimates involve subjective judgments, and the actual market price of these investments can only be determined by negotiation between independent third parties in a sales transaction.

Investments in forward currency contract investments are commitments to purchase or sell stated amounts of foreign currency. Changes in market value of open contracts are immediately recognized as gains or losses. The market values of forward currency contracts are determined by quoted currency prices from national exchanges. As of June 30, 2004, the fair value of open purchase contracts was $839.2 million, offset by the fair value of open sales contracts of ($842.7) million for a net fair value of ($3.5) million. The Retirement System utilized contracts netting to $320.6 million to hedge (or decrease) the currency risk of foreign investments or to settle trades, and contracts netting to $317.1 million to increase investment exposure in foreign currencies beyond the amounts reported as international investment securities or to settle trades. Additionally, contracts may be used to effectively cancel previous contracts.

The City Charter and Retirement System Board (Board) policies permit the Retirement System to use investments of the Retirement System's Pension Plan (the Plan) to enter into securities lending transactions. These are loans of securities to broker-dealers and other entities for collateral, with a simultaneous agreement to return collateral for the same securities in the future. The Retirement System's securities custodians are agents in lending the Plan's securities for cash collateral of 102% for domestic securities and 105% for international securities. Securities on loan at year-end are presented as "non-categorized" in the schedule of custodial risk (note 5). As of June 30, 2004, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes the borrowers exceed the amounts the borrowers owe the Retirement System. Contracts with the lending agents require them to indemnify the Retirement System if the borrowers fail to return the securities (and if the collateral were inadequate to replace the securities lent) or if the borrowers fail to pay the Retirement System for income distributions by the securities issuers while the securities are on loan. Non cash collateral cannot be pledged or sold unless the borrower defaults.

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

The City Charter and Board policies permit the Retirement System to use investments to enter into fixed coupon dollar repurchase agreements, that is, a sale of securities with a simultaneous agreement to repurchase similar securities in the future at a lower price that reflects a financing rate. The fair value of the securities underlying fixed coupon dollar repurchase agreements equals the cash received. If the dealers default on their obligations to resell these securities to the Retirement System at the agreed buy back price, the Retirement System could suffer an economic loss if the securities have to be purchased in the open market at a price higher than the agreed-upon buy back price. This credit exposure at June 30, 2004 was approximately $2.3 million.

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

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

***Investment Income***

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

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

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

## (e) Loans Receivable

For the purposes of the fund financial statements, the governmental funds expenditures relating to long-term loans arising from loan subsidy programs are charged to operations upon funding and the loans are recorded, net of an estimated allowance for potentially uncollectible loans, with an offset to a deferred credit account.

The Mayor's Office of Housing administers several housing programs and issues loans to qualified applicants. Many of these loans may be forgiven if certain terms and conditions of the loans are met. They are accounted for in the other governmental funds as long-term loans receivable with an allowance for forgivable loans, and an offsetting deferred credit account.

For purposes of the government-wide financial statements, long-term loans are not offset by deferred credit accounts.

## (f) Inventory

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

## (g) Redevelopment Agency Property Held for Resale

Property held for resale is recorded as an asset at the lower of estimated cost or estimated conveyance value. Estimated conveyance value is management's estimate of net realizable value of a property based on current intended use.

### (h) Capital Assets

Capital assets, which include land, facilities and improvements, machinery and equipment, and infrastructure assets, are reported in the applicable governmental or business-type activity columns in the government-wide financial statements. Capital assets are defined as assets with an initial individual cost of more than $5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds over the same period. Amortization of assets acquired under capital leases is included in depreciation and amortization. Facilities and improvements, infrastructure, machinery and equipment, and easements of the primary government, as well as the component units, are depreciated using the straight line method over the following estimated useful lives:

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

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

### (i) Accrued Vacation and Sick Leave Pay

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

Sick leave may be accumulated up to six months, except for Local 21 members, who are all entitled to accumulate all unused sick leave. Unused amounts accumulated prior to December 6, 1978 are vested and payable upon termination of employment by retirement or disability caused by industrial accident or death. Effective July 1, 2002, the City established a pilot "wellness incentive program" (the Program) to promote workforce attendance. The Program was initially negotiated as part of the July 1, 2001 to June 30, 2004 labor contract between the City and forty-one labor organizations, representing about 48% of the City's workforce. It is described in several Memorandums of Understanding (MOUs) dated since July 1, 2001, between the City and the affected labor organizations. Under the terms of this MOUs and the labor contracts, the Program is in effect from July 1, 2002 to at least June 30, 2005.
This Program provides:

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

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

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

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

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

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

## (k) Fund Equity

### *Reservations of Fund Equity*

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

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

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

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

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

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

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

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

***Restricted Net Assets***

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

- *Invested in Capital Assets, Net of Related Debt* – This category groups all capital assets, including infrastructure, into one component of net assets. Accumulated depreciation and the outstanding balances of debt that are attributable to the acquisition, construction, or improvement of these assets reduce the balance in this category.

- *Restricted Net Assets* – This category represents net assets that have external restrictions imposed by creditors, grantors, contributors or laws or regulations of other governments and restrictions imposed by law through constitutional provisions or enabling legislation.

- *Unrestricted Net Assets* – This category represents net assets of the City, not restricted for any project or other purpose.

***Designations of Fund Equity***

Designations of fund balances (note 4) indicate that portion of fund balance that is not available for appropriation based on management's plans for future use of the funds. Following is a brief description of the nature of the designation as of June 30, 2004.

*Designation for litigation and contingencies* – This designation represents management's estimate of anticipated legal settlements or contingencies to be paid in the subsequent fiscal year.

***Deficit Net Assets/Fund Balances***

The Telecommunications and Information Internal Service Fund had a $2.1 million deficit total net assets as of June 30, 2004. Approximately $0.05 million of this deficit is due to depreciation that is not funded and will result in continuing deficits. The remaining portion of the deficit of total net assets relates to operations and is expected to be reduced in future years through anticipated rate increases or reductions in operating expenses.

The Central Shops Internal Service Fund had a $0.8 million deficit as of June 30, 2004. The deficit is due to depreciation and certain non-current accrued expenses that are not funded and will result in continuing deficits in future years.

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

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

## (l) Interfund Transfers

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

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

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

## (m) Refunding of Debt

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

## (n) Cash Flows

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

## (o) Estimates

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

## (p) Reclassifications

Certain amounts presented as 2003 Summarized Comparative Financial Information in the basic financial statements have been reclassified for comparative purposes to conform with the presentation in the 2004 basic financial statements.

## (q) Effects of New Pronouncements

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

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

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

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

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

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

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

### (r) Restricted Assets

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

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

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

Total fund balances of the City's governmental funds, $717,574, differs from net assets of governmental activities, $1,306,741, reported in the statement of net assets. The difference primarily results from the long-term economic focus in the statement of net assets versus the current financial resources focus in the governmental fund balance sheets.

Balance Sheet/Statement of Net Assets (in thousands)

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

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

| | |
|---|---|
| Cost of capital assets | $ 2,876,826 |
| Accumulated depreciation | (565,218) |
| | $ 2,311,608 |

| | |
|---|---|
| Bond issuance costs are expended in governmental funds when paid and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets. | $ 8,909 |

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

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

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

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

| | |
|---|---|
| Deferred tax, grant and subvention revenue | $ 56,485 |
| Deferred credits and other liabilities | 234,071 |
| | $ 290,556 |

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

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

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

The net change in fund balances for governmental funds, ($165,764), differs from the change in net assets for governmental activities ($6,081), reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated below.

| | Total Governmental Funds | Long-term Revenues/ Expenses(3) | Capital-related Items(4) | Internal Service Funds(5) | Long-term Debt Transactions(6) | Statement of Activities Totals |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Property taxes | $ 721,437 | $ 2,349 | $ - | $ - | $ - | $ 723,786 |
| Business taxes | 264,832 | - | - | - | - | 264,832 |
| Other local taxes | 509,455 | - | - | - | - | 509,455 |
| Licenses, permits and franchises | 23,788 | - | - | - | - | 23,788 |
| Fines, forfeitures and penalties | 25,183 | - | - | - | - | 25,183 |
| Interest and investment income | 11,630 | - | - | 226 | - | 11,856 |
| Rents and concessions | 58,979 | - | - | - | - | 58,979 |
| Intergovernmental: | | | | | | - |
| Federal | 344,155 | - | - | - | - | 344,155 |
| State | 630,953 | - | - | - | - | 630,953 |
| Other | 18,259 | - | - | - | - | 18,259 |
| Charges for services | 217,647 | - | - | - | - | 217,647 |
| Other revenues | 57,144 | - | - | - | - | 57,144 |
| Total revenues | 2,883,462 | 2,349 | - | 226 | - | 2,886,037 |
| **Expenditures/Expenses** | | | | | | |
| Current: | | | | | | |
| Public protection | 706,758 | 15,337 | 10,019 | (4,534) | - | 727,580 |
| Public works, transportation and commerce | 165,555 | (2,617) | 14,924 | (8,683) | - | 169,179 |
| Human welfare and neighborhood development | 662,948 | (12,103) | 524 | (119) | - | 651,250 |
| Community health | 512,914 | 4,089 | 820 | (757) | - | 517,066 |
| Culture and recreation | 273,163 | (17,583) | 17,686 | (5,345) | (35,734) | 232,187 |
| General administration and finance | 153,709 | 13,765 | 15,862 | (78) | - | 183,258 |
| General City responsibilities | 74,623 | 748 | | (2,278) | 437 | 73,530 |
| Debt service: | | | | | | |
| Principal retirement | 78,831 | - | - | - | (78,831) | - |
| Interest and fiscal charges | 61,886 | - | - | 5,467 | 18,778 | 86,131 |
| Payments to refunded bond escrow agent | - | - | - | - | - | - |
| Bond issuance costs | 1,350 | - | - | - | (1,350) | - |
| Capital oulay | 165,872 | - | (165,872) | - | - | - |
| Total expenditures/expenses | 2,857,609 | 1,636 | (106,037) | (16,327) | (96,700) | 2,640,181 |
| **Other financing sources (uses)/changes in net assets** | | | | | | |
| Net transfers (to) from other funds | (252,192) | - | - | 255 | - | (251,937) |
| Issuance of bonds and loans: | | | | | | |
| Face value of bonds issued | 116,645 | - | - | - | (116,645) | - |
| Premium on issuance of bonds | 2,156 | - | - | - | (2,156) | - |
| Discount on issuance of bonds | 1,411 | - | - | - | (1,411) | - |
| Payment to bond refunding escrow agent | (65,802) | - | - | | 65,802 | |
| Other Financing sources - capital leases | 6,165 | - | - | (6,165) | - | - |
| Total other financing sources (uses)/changes in net assets | (191,617) | - | - | (5,910) | (54,410) | (251,937) |
| **Net change for the year** | $ (165,764) | $ 713 | $ 106,037 | $ 10,643 | $ 42,290 | $ (6,081) |

| | | |
|---|---|---|
| (3) | Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered as available revenues in the governmental funds | $ 2,349 |
| | Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Certain long-term liabilties reported in the prior year statement of net assets were paid during the current period resulting in expenditures in the governmental funds. This is the amount by which the increase in long term liabilities exceeded expenses reported in the statement of activities that do not require the use of current financial resources | $ (39,293) |
| | Some expenditures reported in the governmental funds pertain to the establishment of deferred credits on long-term loans since the loans are not considered "available" to pay current period expenditures. The deferred credits are not reported in the statement of activities | 37,657 |
| | | $ (1,636) |
| (4) | When capital assets that are to be used in governmental activities are purchased or constructed, the resources expended for those assets are reported as expenditures in governmental funds. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. As a result, fund balance decreases by the amount of financial resources expended, whereas net assets decrease by the amount of depreciation expense charged for the year, and the loss on disposal of capital assets. | |
| | Capital expenditures | $ 176,174 |
| | Depreciation expense | (63,343) |
| | Loss on disposal of capital assets | (44) |
| | Expense of CIP | (6,750) |
| | Difference | $ 106,037 |
| (5) | Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, equipment maintenance, printing and mailing services, and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service fund's costs for the year | $ 10,643 |
| (6) | Lease payments on the Moscone Convention Center (note 8) are reported as a culture and recreation expenditure in the governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the liability in the statement of net assets and do not result in an expense in the statement of activities. The City's capital lease obligation was reduced because principal payments were made to lessee. | |
| | Total property rent payments | $ 35,734 |
| | Bond issuance costs are expended in governmental funds when paid, and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of activities. | |
| | Bond issuance costs | $ 1,350 |
| | Amortization of bond issuance costs | (437) |
| | Difference | $ 913 |
| | Bond premiums and discounts are expended in the governmental funds when the bonds are issued, and are capitalized in the statement of net assets. This is the amount of premiums capitalized during the current period | $ (1,411) |
| | Repayment of bond principal is reported as expenditures in governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. For the City as a whole, however, the principal payments reduce the liabilities in the statement of net assets and do not result in expenses in the statement of activities. The City's bonded debt was reduced because principal payments were made to bond holders. | |
| | Principal payments made | $ 78,831 |
| | Payments to escrow for refunded debt | 65,802 |
| | | $ 144,633 |
| | Bond proceeds and capital leases are reported as other financing sources in governmental funds and thus contribute to the change in fund balance. In the government-wide statements, however, issuing debt and entering into capital lease arrangments increase long-term liabilities in the statement of net assets and do not affect the statement of activities. Proceeds were received from: | |
| | General obligation bonds | $ (50,440) |
| | Refunding general obligation bonds and refunding settlement obligation bonds | (66,205) |
| | Loans | (2,156) |
| | | (118,801) |
| | | $ 25,832 |

# CITY AND COUNTY OF SAN FRANCISCO
# NOTES TO BASIC FINANCIAL STATEMENTS
# June 30, 2004

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

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

## (4) Budgetary Results Reconciled to Results in Accordance with Generally Accepted Accounting Principles

### *Budgetary Results Reconciliation*

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

The major differences between the Budget basis "actual" and GAAP basis are timing differences. Timing differences represent transactions that are accounted for in different periods for Budget basis and GAAP basis reporting. Certain revenues accrued on a Budget basis have been deferred for GAAP reporting. These primarily relate to the accounting for property tax revenues under the Teeter Plan (note 6).

The fund balance of the General Fund as of June 30, 2004 on a Budget basis is reconciled to the fund balance on a GAAP basis as follows (in thousands):

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

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

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

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

## (5) DEPOSITS AND INVESTMENTS

The City's deposits and investments are invested pursuant to investment policy guidelines established by the City Treasurer subject to review by the Treasury Oversight Committee. The Treasury Oversight Committee established under California Government Code Sections 27130 to 27137 is composed of various City officials and representatives of agencies with large cash balances. The objectives of the policy are, in order of priority, preservation of capital, liquidity, and yield. The policy addresses the soundness of financial institutions in which the City will deposit funds, types of investment instruments as permitted by the California Government Code, and the percentage of the portfolio which may be invested in certain instruments with longer terms to maturity. Investments permitted by the City's investment policy include the following:

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

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

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

### *Employees' Retirement System*

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

### *Other Funds*

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

### *Component Units*

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

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

### *Deposits and investments*

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

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

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

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

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

### *Cash and Deposits*

The City had cash and deposits at June 30, 2004, as follows (in thousands):

| | Primary Government | | | | | | Component Units | |
|---|---|---|---|---|---|---|---|---|
| | Governmental Activities | | Business-type Activities | | Fiduciary Funds | | | |
| | Carrying Amount | Bank Balance | Carrying Amount | Bank Balance | Carrying Amount | Bank Balance | Carrying Amount | Bank Balance |
| Cash on hand.................. | $ 147 | $ - | $ 617 | $ - | $ - | $ - | $ 1 | $ - |
| Federally insured deposits.... | 600 | 600 | 1,353 | 1,352 | - | - | 26 | 1,527 |
| Collateralized deposits*........ | 13,832 | 101,500 | 170 | 60 | - | - | 65,440 | 65,439 |
| Uninsured and uncollateralized.............. | - | - | 2,534 | 2,428 | 13,867 | 13,867 | - | - |
| | $ 14,579 | $ 102,100 | $ 4,674 | $ 3,840 | $ 13,867 | $ 13,867 | $ 65,467 | $ 66,966 |

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

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

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

### *Investments*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

***Supplemental disclosure of non-cash investing and financing activities***

San Francisco International Airport

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

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

Other Non Cash Transactions (in thousands):

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

## (6) PROPERTY TAXES

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

Since the passage of California's Proposition 13, beginning with fiscal year 1978-79, general property taxes are based either on a flat 1% rate applied to the 1975-76 full value of the property or on 1% of the sales price of the property on sales transactions or construction value added after the 1975-76 valuation. Taxable values on properties (exclusive of increases related to sales and construction) can rise at the lesser of 2% per year or inflation.

The Proposition 13 limitations on general property taxes do not limit taxes levied to pay the interest and redemption charges on any indebtedness approved by the voters prior to June 6, 1978 (the date of passage of Proposition 13). Proposition 13 was amended in 1986 to allow property taxes in excess of the 1% tax rate limit to fund general obligation bond debt service when such bonds are approved by two-thirds of the local voters. In 2000, California voters approved Proposition 39 which set the approval threshold at 55% for school facilities-related bonds. These "override" taxes for debt service amounted to approximately $101.2 million for the year ended June 30, 2004, of which $2.7 million was for the San Francisco Community College District (CCD).

Taxable valuation for the year ended June 30, 2004 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Redevelopment Agency) was approximately $95.4 billion, an increase of 5.8%. The secured tax rate was $1.107 per $100 of assessed valuation. After adjusting for a State mandated property tax shift to schools, the tax rate is comprised of: $0.65 for general government, $0.107, for bond debt service, and $0.35 for the San Francisco Unified School District, CCD, the Bay Area Air Quality Management District, and the Bay Area Rapid Transit District. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 1.81% and 3.78%, respectively, of the current year tax levy, for an average delinquency rate of 1.96% of the current year tax levy.

As established by the Teeter Plan, the Controller allocates to the City and other agencies 100% of the secured property taxes billed but not yet collected by the County; in return, as the delinquent property taxes and associated penalties and interest are collected, the County retains such amounts in the Agency Fund. To the extent the Agency Fund balances are higher than required, transfers may be made to benefit the City's General Fund on a budgetary basis. The balance of the tax loss reserve, as of June 30, 2004 was $8.9 million, which is included in the Agency Fund for reporting purposes. The City has funded payment of accrued and current delinquencies, together with the required reserve, from interfund borrowing.

## (7) CAPITAL ASSETS

### *Primary Government*

Capital asset activity of the primary government for the year ended June 30, 2004, was as follows (in thousands):

### Governmental Activities:

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

### Business-type Activities:

#### San Francisco International Airport

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

## Water Department

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

## Hetch Hetchy Water and Power

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

## Municipal Transportation Agency

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

## General Hospital Medical Center

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

## Clean Water Program

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

## Port of San Francisco

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

## Laguna Honda Hospital

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

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

## Other Fund - San Francisco Market Corporation

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

## Total Business-type Activities

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

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

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

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

Equipment is generally estimated to have useful lives of 2 to 40 years, except for certain equipment of the Water Department that has an estimated useful life of up to 75 years. Facilities and improvements are generally estimated to have useful lives from 15 to 50 years, except for utility type assets of the Water Department and Hetch Hetchy Water and Power (Hetch Hetchy), the CWP, MTA, Laguna Honda Hospital (LHH), and the Port of San Francisco (Port) that have estimated useful lives from 51 to 175 years. These long-lived assets include reservoirs, aqueducts, pumping stations of Hetch Hetchy, Cable Car Barn facilities and structures of MTA, building and structures of LHH, and pier substructures of the Port and totaled $1.5 billion as of June 30, 2004. In addition, the Hetch Hetchy had utility type assets with useful lives over 100 years which totaled $4.5 million at June 30, 2004.

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

During fiscal year ended June 30, 2004, Water, Hetch Hetchy, and CWP expensed $27 million, $7.8 million, $2.5 million respectively, related to capitalized design and planning costs on certain projects which were discontinued. The amounts of the write-off were recognized as other operating expense in the accompanying financial statements.

### *Component Unit - Redevelopment Agency*

Capital asset activity of the Redevelopment Agency for the year ended June 30, 2004 was as follows (in thousands):

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

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

The following is a summary of long-term obligations of the City as of June 30, 2004 (in thousands):

### GOVERNMENTAL ACTIVITIES

| Type of Obligation and Purpose | Final Maturity Date | Remaining Interest Rates | Amount |
|---|---|---|---|
| GENERAL OBLIGATION BONDS (a): | | | |
| Affordable housing | 2021 | 4.0 to 7.375% | $ 87,540 |
| City hall improvement project | 2005 | 5.0% | 2,810 |
| Fire protection | 2005 | 5.2% | 630 |
| Library | 2022 | 2.5 to 6.8% | 37,495 |
| Museums | 2019 | 4.5 to 5.5% | 15,100 |
| Parks and playgrounds | 2023 | 2.0 to 6.5% | 72,295 |
| Public safety improvements | 2005 | 5.2% | 335 |
| Schools | 2023 | 2.0 to 6.5% | 139,925 |
| Zoo facilities | 2022 | 2.5 to 6.0% | 35,065 |
| Refunding | 2016 | 3.0 to 5.75% | 453,155 |
| General obligation bonds - governmental activities | | | 844,350 |
| LEASE REVENUE BONDS: | | | |
| San Francisco Finance Corporation* (b) & (e) | 2030 | 2.0 to 5.5% | 245,680 |
| Lease revenue bonds - governmental activities | | | 245,680 |
| OTHER LONG-TERM OBLIGATIONS: | | | |
| Certificates of participation (c) & (d) | 2034 | 3.0 to 5.875% | 290,635 |
| Commercial Paper (c) | 2005 | 1.02 to 1.05% | 50,000 |
| Loans (c), (d) & (f) | 2014 | 4.3 to 6.7% | 9,515 |
| Capital leases payable (c) & (f) | 2024 | 1.5 to 7.05% | 194,815 |
| Settlement Obligation Bonds (d) | 2011 | 2.0 to 3.05% | 44,275 |
| Accrued vacation and sick leave (d) & (f) | | | 128,417 |
| Accrued workers' compensation (d) & (f) | | | 213,630 |
| Estimated claims payable (d) & (f) | | | 79,805 |
| Other long-term obligations - governmental activities | | | 1,011,092 |
| DEFERRED AMOUNTS: | | | |
| Bond issuance premiums | | | 4,912 |
| Bond issuance discounts | | | (2,509) |
| Bond refunding | | | (6,339) |
| Deferred amounts | | | (3,936) |
| Governmental activities total long-term obligations | | | $ 2,097,186 |

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

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

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

**BUSINESS-TYPE ACTIVITIES**

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

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

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

COMPONENT UNIT

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

Debt service payments are made from the following sources:

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

## Debt Compliance

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

## Legal Debt Limit and Legal Debt Margin

As of June 30, 2004, the City's debt limit (3% of valuation subject to taxation) was $3.0 billion. The total amount of debt applicable to the debt limit was $0.8 billion, net of certain assets in other non-major governmental funds, and other deductions allowed by law. The resulting legal debt margin was $2.2 billion.

## Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issue. The City has evaluated each general obligation bond and has recognized an arbitrage liability of $1.7 million as of June 30, 2004. This arbitrage liability is reported in deferred credits and other liabilities in the governmental activities of the statement of net assets. The Finance Corporation has evaluated their lease revenue bonds and a liability of $0.2 million was reported in the deferred credits and other liabilities in the Internal Service Fund as of June 30, 2004. Each Enterprise Fund has performed a similar analysis of its debt which is subject to arbitrage rebate requirements. Any material arbitrage liability related to the debt of the Enterprise Funds has been recorded as a liability in the respective fund. In addition, the Redevelopment Agency records any arbitrage liability in deferred credits and other liabilities.

Assessment District

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

Mortgage Revenue Bonds

In order to facilitate affordable housing, the City issues mortgage revenue bonds for the financing of multifamily rental housing and for below-market rate mortgage financing for first time homebuyers. These obligations are secured by the related mortgage indebtedness and are not obligations of the City. As of June 30, 2004, the aggregate outstanding obligation of such bonds was $132.5 million.

**Changes in Long-Term Obligations**

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

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

Internal Service Funds serve primarily the governmental funds, the long-term liabilities of which are included as part of the above totals for governmental activities. At the year ended June 30, 2004, $245.8 million of lease revenue bonds, $1.1 million of capital leases, $0.3 million of loans, $3.7 million of accrued vacation and sick leave pay and $1.2 million of accrued workers' compensation are included in the above amounts. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the general fund.

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

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

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

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

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

| | July 1, 2003 | Additional Obligations, Interest Accretion and Net Increases | Current Maturities Retirements, and Net Decreases | June 30, 2004 | Amounts Due Within One Year |
|---|---|---|---|---|---|
| **General Hospital Medical Center** | | | | | |
| Capital leases | $ 2,779 | $ 242 | $ (816) | $ 2,205 | $ 630 |
| Accrued vacation and sick leave pay | 12,839 | 10,157 | (9,432) | 13,564 | 7,736 |
| Accrued workers' compensation | 22,425 | 4,653 | (4,085) | 22,993 | 4,928 |
| Long-term obligations | $ 38,043 | $ 15,052 | $ (14,333) | $ 38,762 | $ 13,294 |

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

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

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

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

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

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

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

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2004, for governmental activities are as follows (in thousands):

Governmental Activities (1)(2)(3)

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

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

San Francisco International Airport (1)

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

(1) The specific year for payment of estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.
(2) The payment stream for principal and interest on commercial paper is not practicable to determine because the timing of the issuance and payment is based on project expenditures.
(3) Includes the Moscone Center Expansion Project Lease Revenue Bonds with variable rate bonds currently reset weekly.

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

Water Department (1) (2)

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

Hetch Hetchy Water and Power (1)

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

Municipal Transportation Agency (1)(3)

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

(1) The specific year for payment of accreted interest payable (Water Department), estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.
(2) The payment stream for principal and interest on commercial paper is not practicable to determine because the timing of the issuance and payment is based on project expenditures.
(3) Unamortized loan premiums of $1.1 million (MTA) are not included in principal payments.

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

**Clean Water Program (1)**

| Fiscal Year Ending | General Obligation Bonds | | Revenue Bonds | | Other Long-Term Obligations | | Total | |
|---|---|---|---|---|---|---|---|---|
| June 30, | Principal | Interest | Principal | Interest | Principal | Interest | Principal | Interest |
| 2005.......... | $ - | $ - | $ - | $ 17,219 | $ 15,413 | $ 4,718 | $ 15,413 | $ 21,937 |
| 2006.......... | - | - | - | 17,219 | 15,915 | 4,218 | 15,915 | 21,437 |
| 2007.......... | - | - | 33,445 | 16,718 | 16,430 | 3,701 | 49,875 | 20,419 |
| 2008.......... | - | - | 34,500 | 15,698 | 13,337 | 3,168 | 47,837 | 18,866 |
| 2009.......... | - | - | 35,665 | 14,646 | 13,761 | 2,744 | 49,426 | 17,390 |
| 2010-2014... | - | - | 132,950 | 54,664 | 54,956 | 7,499 | 187,906 | 62,163 |
| 2015-2019... | - | - | 90,925 | 27,001 | 17,028 | 1,650 | 107,953 | 28,651 |
| 2020-2024... | - | - | 62,530 | 8,197 | 3,356 | 147 | 65,886 | 8,344 |
| 2025-2029... | - | - | 6,255 | 315 | - | - | 6,255 | 315 |
| Total.......... | $ - | $ - | $ 396,270 | $ 171,677 | $ 150,196 | $ 27,845 | $ 546,466 | $ 199,522 |

**Port of San Francisco (1)**

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

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

**Total Business-type Activities (1)(2) (3)**

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

(1) The specific year for payment of accreted interest payable (Water Department), estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.
(2) The payment stream for principal and interest on commercial paper is not practicable to determine because the timing of the issuance and payment is based on project expenditures.
(3) Unamortized loan premiums of $1.1 million (MTA) are not included in principal payments.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2004, for the component unit are as follows (in thousands):

Component Unit: Redevelopment Agency [1]

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

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

### *Governmental Activities Long-term Liabilities*

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition or improvement of real property and construction of affordable housing. General obligation bonds have been issued for both governmental and business-type activities; however, general obligation bonds have not been issued for business-type activities since 1979. The net authorized and unissued governmental activities general obligation bonds for the year ended June 30, 2004, are as follows (in thousands):

**Governmental Activities - General Obligation Bonds**
(in thousands)

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

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

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

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

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

Current Refundings

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

**General Obligation Refunding Bonds**
(in thousands)

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

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

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

Lease Revenue Bonds

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

**Governmental Activities - Lease Revenue Bonds**
(in thousands)

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

Finance Corporation

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

The Finance Corporation uses lease revenue bonds to finance the purchase or construction of property and equipment, which are in turn leased to the City under the terms of an Indenture and Equipment Lease Agreement. These assets are then recorded in the basic financial statements of the City. Since the sole purpose of the bond proceeds is to provide lease financing to the City, any amounts that are not applied towards the acquisition or construction of real and personal property such as unapplied acquisition funds, bond issue costs, amounts withheld pursuant to reserve fund requirements, and amounts designated for capitalized interest are recorded as deferred credits until such time as they are used for their intended purposes.

(a) Equipment Lease Program

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

Beginning July 1, 1991, the Finance Corporation was authorized to issue lease revenue bonds up to $20 million in aggregate principal amount outstanding plus 5% annual adjustment each July 1. As of June 30, 2004, the total authorized amount is $37.7 million. The total accumulated annual authorization since 1990 is $17.7 million of which $1.8 million is new annual authorization for the fiscal year ended June 30, 2004.

The equipment lease program functions as a revolving bond authorization fund. That is, for each dollar in bond principal that is repaid, a new dollar can be issued. The Finance Corporation has issued $104 million in equipment lease revenue bonds since 1991. As of June 30, 2004, $77.4 million has been repaid leaving $26.6 million in equipment lease revenue bonds outstanding and $11 million available for new issuance.

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

(b) City-wide Communication System

In 1993, the voters approved the issuance of up to $50 million in lease revenue bonds to finance the acquisition and construction of a citywide emergency radio communication system (800 mhz). The Finance Corporation issued two series in January 1998 and January 1999 for $31.2 million and $18.7 million, respectively. As of June 30, 2004, the amount authorized and unissued was $0.1 million. Further, in 1994, the voters approved the issuance of up to $60 million in lease revenue bonds to finance the acquisition and construction of a combined emergency communication center to house the City's 911-emergency communication system. The Finance Corporation issued two series in June 1997 and in June 1998 for $22.6 million and $23.3 million, respectively. As of June 30, 2004, the amount authorized and unissued was $14.1 million.

(c) Moscone Center West Expansion Project

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

Refunding Settlement Obligation Bonds

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

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

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

Asphalt Plant Expansion Loan

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

San Francisco County Transportation Authority Commercial Paper Notes

In March 2004, the San Francisco County Transportation Authority authorized the issuance of an initial tranche of up to $50 million of a programmed $200 million aggregate principal amount of Commercial Paper Notes (Limited Tax Bonds), Series A and B. The Commercial Paper Notes are issued to provide an interim source of financing for the Authority's New Transportation Expenditure Plan until a permanent financing plan is finalized and implemented. Under this program, the Authority is able to issue commercial paper notes at prevailing interest rates not to exceed 12% per annum. The maximum maturity of the notes is 270 days. The principal amount of the commercial paper notes plus interest thereon is backed as to credit and liquidity by an irrevocable Letter of Credit (LOC), issued by Landesbank Baden-Württemberg, New York Branch in the amount up to $217.8 million, with an expiration date of April 14, 2007. The commercial paper notes are secured by a first lien gross pledge of the Authority's ability to levy a half-cent sales tax collected by the California State Board of Equalization. The principal and interest on the commercial paper notes will be payable at each maturity.

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

***Business-Type Activities Long-Term Liabilities***

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

San Francisco International Airport

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

**San Francisco International Airport Refunding Bonds**
(in thousands)

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

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

The net proceeds of $35.8 million (including original issue premium of $2.3 million, and after payment of $1.3 million in underwriting fees, insurance, surety premium, and other issuance costs) plus an additional $0.5 million of available debt service funds were used to purchase U.S. Treasury Securities – State and Local Government Series. These securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the refunded bonds identified above until redeemed on May 1, 2004 through May 1, 2007.

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

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

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

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

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

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

The net proceeds of $224 million (after payment of $6.3 million in underwriting fees, insurance, surety premium, and cost of issuance account) plus an additional $6.7 million of available debt service funds were used to purchase U.S. Treasury Securities - State and Local Government Series. These securities were deposited in an irrevocable trust with an escrow agent to provide debt service payments on the refunded bonds identified above until called on May 1, 2004.

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

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

Water Department

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

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

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

Laguna Honda Hospital

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

***Component Unit Debt - Redevelopment Agency***

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

## (9) EMPLOYEE BENEFIT PROGRAMS

### (a) Retirement Plans

The City maintains a single-employer, defined benefit pension plan (the Plan) which covers substantially all of its employees, and certain classified and certified employees of the San Francisco Community College District and Unified School District. The Plan is administered by the San Francisco City and County Employees' Retirement System (the Retirement System). Some City employees participate in the California Public Employees Retirement System (PERS), an agent multiple-employer, public employee pension plan which covers certain employees in public safety functions, the Port, SFO and the Redevelopment Agency.

***Employees' Retirement System***

Plan Description - Substantially all full-time employees of the City participate in the Plan. The Plan provides basic service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and Administrative Code is the authority which establishes and amends the benefit provisions and employer obligations of the Plan. The retirement related payroll for employees covered by the Retirement System for the year ended June 30, 2004 was $2.1 billion. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County

Employees' Retirement System, 30 Van Ness, Suite 3000, San Francisco, CA 94102 or by calling (415) 487-7020.

Membership

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

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

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

Funding Policy - Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory. Employee contribution rates for fiscal year 2003-04 varied from 7.00% to 8.00% as a percentage of gross salary. The City is required to contribute at an actuarially determined rate. Based on the actuarial report, there were no required employer contributions for fiscal year 2003-04 because the Plan is funded at 109% of liability. In collective bargaining during the year ended June 30, 1994, the City and County agreed to pay a portion of the employee contributions on behalf of employees. From 1994 through June 2003, the City and County portion of these contributions has been negotiated through the various unions on a member group basis, and did not exceed 8.0% of base salary. For fiscal year ended June 30, 2004, most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis.

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

Annual Pension Cost - The annual required contribution for the current year was determined as part of an actuarial valuation performed as of July 1, 2003. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 8.00%; (2) inflation element in wage increase of 3.50%; and (3) salary merit increases of 4.50%. Unfunded liabilities are amortized using the level percentage of payroll method. Changes in actuarial gains and loss assumptions and purchasable services are amortized as a level percentage of pay over a closed 15 year period. Plan amendments are amortized over 20 years.

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

| Fiscal Year Ended | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 6/30/2002 | $ - | N/A | $ - |
| 6/30/2003 | $ - | N/A | $ - |
| 6/30/2004 | $ - | N/A | $ - |

***California Public Employees' Retirement System***

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

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

**Miscellaneous Plan**

Funding Policy - Miscellaneous plan – Participants are required to contribute 7% of their annual covered salary. The City is required to contribute at an actuarially determined rate. For the miscellaneous plan, the fiscal year 2003-04 contribution rate is 0% of annual covered payroll because the City is funded at 148.8%. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Miscellaneous plan - cost for PERS for fiscal year 2003-04 was equal to the City's required and actual contributions which was determined as part of the June 30, 2001 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2001 actuarial valuation were: (a) 8.25% investment rate of return (net of administrative expenses), (b) 3.75% to 14.20% projected annual salary increases that vary by age, service, and type of employment, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.50%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. Changes in unfunded liability/(excess assets) due to changes in actuarial methods or assumptions or changes in plan benefits are amortized, as a level percentage of pay, over a closed 20 year period. Actuarial gains and losses are first offset against one another and then 10% of the net unamortized gain/loss is recognized.

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

| Fiscal Year Ended | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 6/30/2002 | $ - | N/A | $ - |
| 6/30/2003 | $ - | N/A | $ - |
| 6/30/2004 | $ - | N/A | $ - |

**Safety Plan**

Funding Policy – Safety plan - Participants are required to contribute 9% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate. For the safety plan, the fiscal year contribution rate is 6.431% because the City is funded at 124.1%. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Safety Plan - cost for PERS for fiscal year 2003-04 was equal to the City's required and actual contributions which was determined as part of the June 30, 2001 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2001 actuarial valuation were: (a) 8.25% investment rate of return (net of administrative expenses), (b) 4.27% to 11.59% projected annual salary increases that vary by age, service and type of employment, and (c) 3.75% per year cost-of-living adjustments. Both (a) and (b) included an inflation component of 3.5%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments. Changes in unfunded liability/(excess assets) due to changes in actuarial methods or assumptions or changes in plan benefits are amortized over as a level percentage of pay over a closed 20 year period. Actuarial gains and losses are first offset against one another and then 10% of the net unamortized gain/loss is recognized.

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

| Fiscal Year Ended | Annual Pension Cost (APC) | Percentage of APC Contributed | Net Pension Obligation |
|---|---|---|---|
| 6/30/2002 | $ - | N/A | $ - |
| 6/30/2003 | $ - | N/A | $ - |
| 6/30/2004 | $ 5,606 | 100% | $ - |

## (b) Deferred Compensation Plan

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

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

## (c) Health Service System

The Health Service System was established in 1937. Health care benefits of employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the Health Service System. The employers' contribution, which includes the San Francisco Community College District and Unified School District, amounted to approximately $345.4 million in fiscal year 2004. The employers' contribution is mandated and determined by Charter provision based on similar contributions made by the ten most populous counties in California. Included in this amount is $96 million to provide post-retirement health care benefits for 19,216 retired employees. The City's liability for both current employee and post-retirement health care benefits is limited to its annual contribution. The City's contribution is paid out of current available resources and funded on a pay-as-you-go basis. The Health

Service System issues a publicly available financial report that includes financial statements and required supplementary information for the health care benefits. That report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, 2nd Floor, San Francisco, CA 94103 or by calling (415) 554-1700.

## (10) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

The San Francisco County Transportation Authority (the Authority) was established in 1989 by the voters of the City and County of San Francisco pursuant to State Code Section 131.000. The purpose of the Authority is to impose the voter-approved transactions and use tax of one-half of one percent to fund essential traffic and transportation projects, as set forth in the San Francisco County Transportation Expenditure Plan, for a period not to exceed 20 years. The principal focus of the Authority's Expenditure Plan is to define a program of prioritized projects to ensure that funding is allocated across major transportation categories. The City accounts for these activities in the other governmental funds.

In June 1992, the Authority was designated by the Board of Supervisors as the overall program manager for the Local Guarantee share of transportation funds available through the "Transportation Fund for Clean Air" Program (AB 434) which is administered by the Bay Area Air Quality Management District. The source of funds is a $4.00 surcharge on the vehicle registration fee.

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

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

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

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

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

## (11) DETAILED INFORMATION FOR ENTERPRISE FUNDS

### (a) San Francisco International Airport

San Francisco International Airport (SFO), which is owned and operated by the City, is the principal commercial service airport for the San Francisco Bay Area. A five member Commission is responsible for the operation and management of the SFO. SFO is located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County between the Bayshore Freeway (U.S. Highway 101) and the San Francisco Bay. According to final data for calendar year 2003 from the Airports Council International (the ACI), SFO is one of the largest airports in the United States both in terms of passengers (14th) and air cargo (13th). SFO is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic.

The San Francisco Bay Area Rapid Transit District (BART) extension to SFO opened for full operation on June 22, 2003. The extension creates a convenient connection between SFO and the greater San Francisco Bay Area that is served by BART. An intermodal station in the City of Millbrae provides a direct link to Caltrain offering additional transit options and connection to the southern parts of the Bay Area. Access from the BART station throughout SFO is enhanced by the AirTrain system, a shuttle train that connects airport terminals. The AirTrain system, which opened for full operation on March 24, 2003, provides transit service over a "terminal loop" to serve the terminal complex and over a "north corridor loop" to serve the rental car facility and other locations situated north of the terminal complex.

SFO has developed a revised Capital Plan to better fit the changes in the aviation industry. The Capital Plan was completed in the Fall of 2003 and included projects related to improvements to the airfield, groundside activities and customer service functions, environmental mitigation, utilities infrastructure upgrades, seismic retrofit of certain facilities, health, safety and security enhancements, and cost savings and revenue generating enhancements.

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

On July 27, 2001, the Federal Aviation Administration (FAA) approved the SFO's first Passenger Facility Charge application (PFC#1) to impose and use a $4.50 Passenger Facility Charge (PFC) per enplaning passenger from October 1, 2001 through June 1, 2003, to pay for approximately $113 million in PFC eligible project development activities and studies associated with the potential runway reconfiguration. On March 21, 2002, the FAA approved the SFO's PFC Application Number 2 (PFC#2) to impose and use a $4.50 PFC per enplaning passenger from June 1, 2003 through April 1, 2008, to pay for approximately $224 million in the principal and interest on bonds issued for certain eligible costs relating to the new International Terminal Complex.

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

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

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

Pursuant to an agreement with certain airlines, SFO makes an annual payment to the City's General Fund equal to 15% of concession revenue, but not less than $5 million per fiscal year. The amount transferred to the General Fund during the year ended June 30, 2004 was $18.2 million.

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

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

SFO has a Memorandum of Understanding with various surrounding communities to insulate residential and nonresidential structures such as schools, churches and hospitals. The total estimated funding for this program is approximately $154 million funded by bond proceeds, by federal grant reimbursements to the local communities, and by operating and other internally generated funds. As of June 30, 2004, approximately $121 million has been disbursed under this program.

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

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

SFO leases facilities to the airlines pursuant to the Lease and Use Agreements and to other businesses to operate concessions at SFO. During the year ended June 30, 2004, revenues realized from the following SFO tenants exceeded five percent of SFO's total operating revenues:

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

## (b) Port of San Francisco

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

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

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

The Port is presently planning various development projects that involve a commitment to expend significant funds. Purchase commitments at June 30, 2004 were $5.3 million for capital projects and $1.5 million for general operating costs. Under an agreement with the San Francisco Bay Conservation and Development Commission (BCDC), the Port is committed to fund and expend up to $30 million over a 20 year period for pier removal, parks and plazas and other public access improvements. As of June 30, 2004, $14.3 million has been appropriated and $1.6 million has been expended for projects under the agreement.

## (c) Water Department

The Water Department was established in 1930. The Water Department, which consists of a system of reservoirs, storage tanks, water treatment plants, pump stations, and pipelines, is engaged in the collection, transmission and distribution of water to the City and certain suburban areas. The Water Department delivers water, approximately 95,265 million gallons annually, to a total population of approximately 2.4 million people who reside primarily in four Bay Area counties (San Francisco, San Mateo, Santa Clara and Alameda).

The Commission, established in 1932, provides the operational oversight for the Water Department, Hetch Hetchy, and the Clean Water Program. The Commission consists of five members appointed by the Mayor who are responsible for determining such matters as the rates and charges for services, approval of contracts, and organizational policy.

The Water Department purchases water from Hetch Hetchy. This amount, totaling approximately $19.0 million, is included in the charges for services provided by other departments in the accompanying financial statements.

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

As of June 30, 2004, the Water Department had outstanding commitments with third parties of $60.1 million for various capital projects and for materials and supplies.

In July 1999, the California Regional Water Quality Control Board (CRWQCB) issued a directive instructing the Water Department to develop a remedial action plan (Plan) that addresses environmental contamination at certain real property owned by the Water Department. In response to the directive, the Commission developed a remedial action plan and in August 2001 received the final directive from the CRWQCB to execute the plan by middle of 2004. The Commission appropriated funding for pre-work and the award of Phase I of the plan during fiscal year 2002. The cost of cleanup associated with the Plan was estimated to be $22.7 million and was accrued in fiscal year 2001. At June 30, 2004, the outstanding estimated liability is $15.8 million.

### (d) Hetch Hetchy Water and Power

Hetch Hetchy was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park to the City. Hetch Hetchy is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity from that resource. Approximately one-third of the electricity is used by the City's municipal customers (e.g., the San Francisco Municipal Railway, the Recreation and Parks Department, the Port of San Francisco, San Francisco County hospitals, street lighting, Moscone Center, and the water and sewer utilities). The balance of the power generated is sold to other publicly owned utilities, such as the Modesto and Turlock Irrigation Districts (the Districts).

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

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

Charges for services for the year ended June 30, 2004 include $63.1 million in sales of power by Hetch Hetchy to other City Departments. Income from Hetch Hetchy is available for certain operations of the City.

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

Hetch Hetchy facilitates all electric and gas service connections between Pacific Gas and Electric Company (PG&E) and City Departments. In this capacity, Hetch Hetchy, as a pass-through agent on behalf of the City departments, coordinates the payment for the service connections that are performed by PG&E. As of June 30, 2004, there were no outstanding amounts from City departments related to this work.

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

The Commission has contracted with PG&E to provide transmission capacity on PG&E's system where needed to deliver Hetch Hetchy's power to its customers. In addition, the PG&E agreement provides backup power and other support services to Hetch Hetchy. The PG&E agreement allows PG&E to review past billings paid by Hetch Hetchy and to retroactively adjust these payments to actual backup power, transmission, and other charges as finally determined by PG&E. During fiscal year 2004, Hetch Hetchy purchased $30.5 million of transmission services, backup power, and other support services from PG&E under the terms of the agreement.

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Districts in which they would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments of $3.5 million from the City. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries in the lower Tuolumne River for the duration of the license. A maximum monitoring expense of $1.4 million is to be shared between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52% and the Districts are responsible for 48% of the costs.

In April 1988, Hetch Hetchy entered into a long-term power sales agreement (the Agreement) with the Districts. The Agreement expires in 2015 and requires that Hetch Hetchy provide, as generated, an amount equivalent to the difference between 260 megawatts and the amount required to meet the City's demand. In June 2003, Hetch Hetchy amended the terms of the Agreement with the Modesto Irrigation District (MID). Under the terms of the amended and restated long-term power sales agreement, which became effective on January 1, 2003, the expiration date was shortened to 2007, the existing pricing structure was modified, and Hetch Hetchy's firm obligation to provide power to the MID was relaxed. For fiscal year 2004, power sales to the Districts totaled 828,918 MWhrs or $24.3 million.

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

In December 2002, the City entered into an agreement (the Power Purchase Agreement) with the California Department of Water Resources in anticipation of the settlement and implementation agreements. Under the terms of the Power Purchase Agreement, the California Department of Water Resources has agreed to purchase power and rated capacity from the City at rates that will essentially provide for the full recovery of the City's costs incurred in the construction of a power generating facility (The Facility) over a ten year period from the date in which the California Department of Water Resources accepts the City's certification that the Facility meets all requirements of commercial operation as set forth in the Power Purchase Agreement (Commercial Operation Date).

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

On January 21, 2003, the City's Board of Supervisors authorized the settlement of a lawsuit filed in January 2001 by the City, on behalf of the people of the State of California (the State), against certain energy companies. Under the terms of the settlement, the City received or is to receive (i) four gas turbine generator sets valued at approximately $33 million for use within the City, (ii) future funding from a State administered fund (the Fund) to assist with the costs of sitting and developing electric generating equipment in the City, and (iii) payment to the City of $0.5 million for attorney's fees and other expenses of litigation.

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

In conjunction with the execution of the settlement agreement, the Attorney General has received the first $5.3 million from the defendants, and deposited that amount into the Fund. The City has eligible costs incurred in the development of the facility of about $2.5 million. As of June 30, 2004, the City has requested and received a total of $1.9 million for reimbursement from the Fund. Under the terms of the Agreement, the City only has claim to the proceeds held by the Fund to the extent that eligible costs are incurred in the development of the Facility. As such, the corresponding revenue will be recognized as eligible costs. Hetch Hetchy has recognized $1.9 million of revenue from the Fund as of June 30, 2004.

## (e) Municipal Transportation Agency

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

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

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

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

The City's Annual Appropriation Ordinance provides funds to subsidize the operating deficits of MUNI and the DPT determined by the City's budgetary accounting procedures, subject to the appropriation process. The amount of General Fund subsidy to the MTA was $133.7 million ($99.3 million for MUNI and $34.4 million for DPT).

Municipal Railway

MUNI receives capital grants from various federal, state, and local agencies to finance transit related property and equipment purchases. As of June 30, 2004, MUNI had approved capital grants with unused balances amounting to $232 million. Capital grants receivable as of June 30, 2004 totaled $55 million.

MUNI also receives operating assistance from various federal, state, and local sources, including Transit Development Act funds and sales tax allocations. As of June 30, 2004, MUNI had various operating grants receivable of $27.9 million.

These capital grants and operating assistance include funds from the San Francisco Transportation Authority (SFCTA). During the year ended June 30, 2004, the SFCTA approved $62.5 million in new capital grants and $15.8 million in new operating grants for MUNI. During the same period, MUNI received total payments of $116.4 million for capital grants and $12.8 million in operating grants from the Authority. As of June 30, 2004, MUNI had $35.8 million due from the SFCTA for capital grants and $5.09 million due from the SFCTA for operating grants reported in due from other funds.

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

MUNI has outstanding contract commitments of approximately $77 million with third parties for various capital projects. Grant funding is available for a majority of this amount. MUNI also has outstanding commitments of approximately $8 million for non-capital expenditures. Various local funding sources are used to finance these expenditures. MUNI is committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding. SMFRIC's Board of Directors has authorized SMFRIC to extend financial guarantees to MUNI for certain projects totaling $2.5 million.

In March 2001, MUNI and the Port entered in to a Memorandum of Understanding (MOU) under which MUNI may use the Metro East site in perpetuity for rail vehicle maintenance, operations and other operational needs at a cost of $25.7 million. MUNI received a capital contribution from the Authority for this. As part of this MOU, MUNI paid the Port an additional $4 million in fiscal year 2002 to construct the Illinois Street Bridge over Islais Creek that will mitigate traffic in the area and improve coordination with MUNI's Metro East and Third Street Light Rail Project. MUNI has agreed to reasonably extend this deadline up to March 2005 provided the Port has procured the design and construction contract and has issued direction to proceed with Phase II to build the Illinois Street Bridge. The construction is expected to be completed in early 2006.

**Leveraged Lease-Leaseback with BREDA Vehicles**

**Tranche 1**

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

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

MUNI received an aggregate of $388.2 million from the equity investors in full prepayment of the head lease. MUNI deposited $352.7 million of this head lease payment into two escrows. One escrow was deposited with a debt payment undertaker whose repayment obligations are guaranteed by Financial Security Assurance, an "Aaa/AAA" rated bond insurance company. The other escrow was invested in U.S. government bonds with maturity dates that match the completion of the sublease. Payments under these escrows are to be made at such times and in such amounts so as to fund MUNI's scheduled payments under the sublease as well as to provide a source of funding for MUNI's purchase option if it chooses to exercise it. Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that the creditworthiness of these escrows is such that they will fund MUNI's obligations under the sublease and that the possibility that MUNI will need to access other monies to make sublease payments is remote. Therefore, the trust assets and the sublease obligations are not recorded on the financial statements of MUNI as of June 30, 2004.

As a result of the cash transactions above, MUNI recorded deferred revenue in fiscal year 2002 of $35.5 million for the difference between the amount received of $388.2 million and the amount paid to the escrows of $352.7 million. The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized in fiscal year 2004 amounted to $1.3 million.

As of June 30, 2004, the outstanding payments to be made on the sublease through 2027 are $308.2 million and the payments to be made on the purchase option of the Tranche 1 Equipment would be $643.1 million, if exercised. All of these payments are to be funded from the amounts in escrow. If MUNI does not exercise the purchase option, MUNI would be required to either: 1) pay service and maintenance costs related to the continued operation and use of the vehicles beyond the term of the sublease; or 2) arrange for another party to be the "service recipient," under a "service contract," and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

**Tranche 2**

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

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

As a result of the cash transactions above, MUNI recorded deferred revenue in fiscal year 2004 of $4.4 million for the difference between the amount received of $72.6 million and the amount paid to the escrows of $67.5 million (minus $0.7 for certain transaction expenses). The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized in fiscal year 2004 amounted to $0.1 million.

As of June 30, 2004, the outstanding payments to be made on the sublease through 2029 are $59.7 million and the payments to be made on the purchase option of the Equipment would be $198.5 million, if exercised. All of these payments are to be funded from the amounts in escrow. If MUNI does not exercise the purchase option, MUNI would be required to either: 1) pay service and maintenance costs related to the continued operation and use of the vehicles beyond the term of the sublease; 2) arrange for another party to be the "service recipient," under a "service contract," and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

The data below reflects the operations of the five parking garages operated by separate nonprofit corporations organized by the City, which are under the Parking Authority. Information about these nonprofit corporations for the year ended June 30, 2004 follows (in thousands), including $0.6 million accounts payable to MUNI:

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

## (f) Laguna Honda Hospital

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

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

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

LHH has agreements with third-party payors that provide for reimbursement to LHH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between the hospital's established rate for services and amounts reimbursed by third-party payors. Medicare and Medi-Cal are the major third-party payors with whom such agreements have been established. During the fiscal year ended June 30, 2004, Medicare and Medi-Cal charges for services amounted to approximately $4 million and $107 million, respectively. As of June 30, 2004, LHH had net patient receivables from Medicare of $0.3 million and net patient receivables from Medi-Cal of $14 million.

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

In November 1999, San Francisco voters approved Proposition A, a ballot measure authorizing the City to finance the acquisition, improvement, construction and/or reconstruction of a new health care, assisted living and/or other type of continuing care facility or facilities to replace Laguna Honda Hospital. Proposition A stipulates that $100 million of tobacco settlement funds received by the City, excluding $1 million set aside each year for smoking education and prevention programs, may be used to pay for construction of a replacement facility for LHH. As of June 30, 2004, no bonds have been sold. LHH is actively involved in the planning and design phase for new facilities to replace Laguna Honda Hospital.

The California Hospital Facilities Safety Act (SB 1953) specifies certain requirements that must be met at various dates in order to increase the probability that LHH could maintain uninterrupted operations following major earthquakes. By January 1, 2008, all general acute care buildings must be life safe. By January 1, 2030, all general acute care inpatient buildings must be operational after an earthquake. In December 2001, LHH finalized and submitted a plan to the State of California indicating that the Laguna

Honda Hospital Replacement Project will be fully operational by 2013 and thereby in full compliance with the 2030 requirements. A five-year extension for the January 2008 deadline was requested and granted postponing the deadline to 2013.

LLH received a report initiated by the California Integrated Waste Management Board declaring an old dumpsite on Hospital property a "hazardous waste site" under California hazardous waste statute. The San Francisco Department of Public Health, as the local enforcement agency, has been designated to oversee and certify the future abatement of the dumpsite. LHH management has subsequently received a number of estimates to remedy this situation, ranging from $0.7 million to $2.5 million. The hospital and the S.F. Department of Public Health are evaluating the bids submitted. The State has mentioned that this particular hazardous waste site is classified as a low priority considering the other more hazardous waste sites within the State. The specific site has been contained and secured for the safety of the general public.

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

## (g) General Hospital Medical Center

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

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

SFGH has agreements with third-party payors that provide for reimbursement to SFGH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between SFGH's established rates and amounts reimbursed by third-party payors. Major third-party payors with whom such agreements have been established are Medicare, Medi-Cal, the State of California through Senate Bills 855 and 1255 and the Short-Doyle mental health program, the federal Medi-Cal Medical Education Program and Administrative Claiming System, and a managed care agreement signed with a health maintenance organization (HMO).

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

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

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

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

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

The State of California provides support to SFGH through a realignment of funding provided from vehicle license fees and sales tax allocated to California's counties. SFGH recognized $61.1 million as other operating revenue for the year ended June 30, 2004, from realignment funding.

In addition, SFGH was reimbursed by the State of California, under the Short-Doyle program, for mental health services provided to qualifying residents based on an established rate per unit of service not to exceed an annual negotiated contract amount. During the year ended June 30, 2004, reimbursement under the Short-Doyle program amounted to approximately $5 million and is included in transfers in.

State of California Proposition 99, the Tobacco Tax Initiative, allocates funds to counties for health care services to indigent persons and others who are unable to pay for health care services. Proposition 99 funds allocated to SFGH for the year ended June 30, 2004, amounted to $1.3 million and are included in other operating revenue.

SFGH provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Charges foregone based on established rates were $191 million and estimated costs and expenses to provide charity care were $103 million in fiscal year 2004.

The City contracts on a year-to-year basis on behalf of SFGH with the University of California (UC). Under the contract, SFGH serves as a teaching facility for UC professional staff, medical students, residents, and interns who, in return, provide medical and surgical specialty services to SFGH's patients. The total amount for services rendered under the contract for the year ended June 30, 2004, was approximately $62.5 million.

In 1996, California passed Senate Bill 1953, mandating that all California acute care hospitals meet new seismic safety standards by 2013. In January 2001, the San Francisco Health Commission approved a resolution to support a rebuild effort for the hospitals, and the Department of Public Health conducted a series of planning meetings to review its options. It became evident that rebuilding rather than retrofitting was required, and that rebuilding SFGH presented a unique opportunity for the Department to make system-wide as well as structural improvements in its delivery of care for patients in 2013 and beyond. As of June 30, 2004, SFGH was studying available options, including co-location opportunities with UCSF Medical Center. The total funding required to rebuild the hospital is unknown at this time.

### (h) Clean Water Program

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

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

As of June 30, 2004, the CWP had outstanding commitments with third parties for capital projects and for materials and services totaling $28.7 million.

### (i) San Francisco Market Corporation

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

## (12) SAN FRANCISCO REDEVELOPMENT AGENCY

The Redevelopment Agency of the City and County of San Francisco (the Agency) is a public body, corporate and politic, organized and existing under the Community Redevelopment Law of the State of California. Since the organization of the Agency in 1948, the Agency has completed four redevelopment project areas and twelve redevelopment project areas are now underway. In addition, the Agency is undertaking feasibility studies for two potential redevelopment areas designated by the Board of Supervisors of the City and proposed expansion to two existing project areas.

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

In 1998, the Board of Supervisors approved ordinances and resolutions adopting the Mission Bay North and South Redevelopment Plans, Interagency Cooperation Agreements, Tax Allocation Agreements and related ordinances and resolutions. The two project areas total 303 acres. Mission Bay North consists of approximately 65 acres adjacent to the Pacific Bell Park. Mission Bay South includes approximately 238 acres of land. The Agency has entered into an Owner Participation Agreement with the owner/developer to provide for development of the project areas. The proposed development in the north includes 3,000 housing units, 20% of which will be affordable units, 350,000 square feet of urban entertainment retail space, 100,000 square feet of City-serving retail space, 55,000 square feet of neighborhood-serving retail space and six acres of public open space. The proposed development in the south will include 3,090 housing units, 20% of which will be affordable units, a 43-acre University of California San Francisco (UCSF) research campus, a 500 room hotel, 210,000 square feet of City-serving and neighborhood-serving retail space, five million square feet of commercial industrial space, a new fire and police station and a 500-student public school on land to be donated by UCSF. Mission Bay is expected to create over 31,000 new permanent jobs. The Mission Bay development will take place over 20 to 30 years and will require investment of over $145 million in new public infrastructure. Total development costs for the two project areas are expected to exceed $4 billion.

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

The Agency has no direct taxing power and does not have the power to pledge the general credit or taxing power of the City, the State of California or any political subdivision thereof. However, California's Health and Safety Code allows redevelopment agencies with appropriate approvals of the local legislative bodies to recover costs of financing public improvements from increased tax revenues (tax increment) associated with increased property values of individual project areas. During the year, the Agency's revenue from property tax increment was $40.1 million.

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

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

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

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

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

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

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

In order to facilitate construction and rehabilitation within the project areas, various construction loan notes, promissory notes and mortgage revenue bonds with an aggregate outstanding balance of approximately $701 million at June 30, 2004, have been issued. When these obligations are issued, they are secured by the related mortgage indebtedness and, in the opinion of management, are not considered obligations of the Agency or the City and therefore not included in the basic financial statements. Debt service payments will be made by developers or property owners.

California Health and Safety Code Section 33334.3 requires the Agency to set aside 20% of the proceeds from its incremental property tax revenues for expenditures for low and moderate income housing. Related interest earned must also be set aside for such purposes. The Agency established a Low and Moderate Income Housing Fund to account for this commitment.

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

## (13) TREASURE ISLAND DEVELOPMENT AUTHORITY

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

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

The services provided by TIDA include negotiating the acquisition of former Naval Station Treasure Island with the U.S. Navy and establishing the Treasure Island Redevelopment Project; renting Treasure Island facilities leased from the U.S. Navy to generate revenues sufficient to cover operating costs; maintaining Treasure Island facilities owned by the U.S. Navy which are not leased to the TIDA or the City; providing facilities for special events, film production and other commercial business uses; providing 1,000 housing units; and overseeing the U.S. Navy's toxic remediation activities on the former naval base.

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

## (14) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

"Due to" and "due from" balances have primarily been recorded when funds overdraw their share of pooled cash or when there are transactions between entities where one or both entities do not participate in the City's pooled cash. The composition of interfund balances as of June 30, 2004, is as follows (in thousands):

**Due to/from other funds (in thousands):**

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

**Due to/from primary government and component units:**

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

**Transfers In (in thousands):**

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

The $277.3 million General Fund transfer out includes a total of $229.8 million in operating subsidies to Municipal Railway, General Hospital Medical Center, and Laguna Honda Hospital (note 11). The transfers of $47.2 million from the General Fund to the nonmajor governmental funds is to provide support to various City programs such as the public library and community health services. The transfers between the nonmajor governmental funds are to provide support for various City programs and to provide resources for the payment of debt service.

The General Fund received transfers in of $69.4 million from General Hospital Medical Center as reimbursement for the SB 855 matching program (note 11(g)), $18.2 million from the San Francisco International Airport, representing a portion of concession revenue (note 11(a)), and $7.6 million transferred from Laguna Honda Hospital for prior year Tobacco Tax reimbursement.

## (15) COMMITMENTS AND CONTINGENT LIABILITIES

### (a) Grants and Subventions

Receipts from federal and state grants and other similar programs are subject to audit to determine if the monies were expended in accordance with appropriate statutes, grant terms and regulations. The City believes that no significant liabilities will result.

## (b) Operating Leases

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

*Primary Government*

**Governmental Activities**

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

**Business-type Activities**

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

***Component Unit - Redevelopment Agency***

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

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

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

***Primary Government***

**Governmental Activities**

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

**Business-type Activities**

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

***Component Unit - Redevelopment Agency***

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

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

### (c) Other Lease Commitments

The City is making lease payments to the Agency for the Moscone Convention Center in the amount of approximately $14 million per year through July 1, 2025. The lease payments are intended to approximate the debt service requirements of the corresponding lease revenue bonds that were issued by the Agency to finance the construction and expansion of the Moscone Convention Center which are recorded as a long term obligation of the Agency. The City is also making lease payments to outside lessors for various telecommunication and information equipment through an internal service fund.

Amounts to be provided for capital leases are as follows (in thousands):

| Fiscal Years | Moscone Convention Center | Other | Total |
|---|---|---|---|
| 2005 | $ 6,758 | $ 645 | $ 7,403 |
| 2006 | 18,741 | 424 | 19,165 |
| 2007 | 18,744 | 65 | 18,809 |
| 2008 | 19,441 | - | 19,441 |
| 2009 | 19,510 | - | 19,510 |
| 2010-2014 | 98,708 | - | 98,708 |
| 2015-2019 | 98,414 | - | 98,414 |
| 2020-2024 | 16,744 | - | 16,744 |
| 2025-2026 | 2,956 | - | 2,956 |
| Total minimum lease payments | 300,016 | 1,134 | 301,150 |
| Less amounts representing interest | (106,298) | (37) | (106,335) |
| Present value of maximum lease payments | $ 193,718 | $ 1,097 | $ 194,815 |

### (d) Other Commitments

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

The City is a participant in the Peninsula Corridor Joint Powers Board ("PCJPB"), which was formed in 1991 to plan, administer and operate the Peninsula CalTrain rail service. The City, on behalf of MUNI, is responsible for 11.6% of the net operating costs and administrative expenses of the PCJPB for operating and capital needs. During the fiscal year ended June 30, 2004, the City contributed approximately $8.6 million to the PCJPB. This is paid by MTA from the subsidy transfer it receives from the City.

## (16) RISK MANAGEMENT

### Risk Retention Program Description

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

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

SFO is self-insured for general liability up to the first $10,000 and the SFO carries liability insurance for any amounts in excess of $10,000. The Port carries commercial insurance for all general liability, property and casualty risks of loss. Additionally, limited insurance coverage is maintained by the City for the Moscone Convention Center property, personal liability, and for art at City-owned museums.

The San Francisco Redevelopment Agency is a member of the Bay Cities Joint Powers Authority which provides coverage for its general liability, automobile liability, and public officials errors and omissions risks with combined single limits of $15 million per occurrence and a deductible of $50,000 self-insurance retention per occurrence.

Any claims relating to the construction of the Moscone Convention Center are indemnified by the City under an agreement between the Agency and the City.

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

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

### *Estimated Claims Payable*

Numerous lawsuits related to the governmental fund types are pending or threatened against the City. The City's liability as of June 30, 2004 has been actuarially determined and includes an estimate of incurred but not reported losses. In addition, various businesses in the City had filed suit in California Superior Court challenging the constitutionality of the City Gross Receipts and Payroll Expense Tax Ordinances. The majority of these suits have been settled for approximately $63 million. The City has issued debt to pay off this liability over 10 years. A few remaining unsettled claims may be settled over the next 12 months and funds are included in the City's estimated claims payable to cover these expected expenses.

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

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

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

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

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

**Workers' Compensation**

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2004 has been actuarially determined and includes an estimate of incurred but not reported losses. The total amount estimated to be payable for claims incurred as of June 30, 2004 was $397.1 million which is reported in the appropriate individual funds in accordance with the City's accounting policies (note 2).

Changes in the reported accrued workers' compensation since June 30, 2002, resulted from the following activity (in thousands):

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

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

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

## (17) SUBSEQUENT EVENTS (UNAUDITED)

### Short-term Debt

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

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

### Long-term Debt

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

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

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

**Elections**

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

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

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

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

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

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

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

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

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

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