CITY AND COUNTY OF SAN FRANCISCO

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

FOR THE YEAR ENDED JUNE 30, 2012

CITY AND COUNTY OF SAN FRANCISCO
BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS
FOR THE YEAR ENDED JUNE 30, 2012

Table of Contents

FINANCIAL SECTION

Independent Auditor's Report 1
Management's Discussion and Analysis (Required Supplementary Information) 3
Basic Financial Statements:
Government-wide Financial Statements:
Statement of Net Assets 23
Statement of Activities 25
Fund Financial Statements:
Balance Sheet – Governmental Funds 26
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets 27
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds 28
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities 29
Budgetary Comparison Statement – General Fund 30
Statement of Net Assets – Proprietary Funds 33
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds 35
Statement of Cash Flows – Proprietary Funds 36
Statement of Fiduciary Net Assets – Fiduciary Funds 38
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds 39
Notes to Basic Financial Statements 40
Required Supplementary Information:
Schedules of Funding Progress:
Pension Plans 162
Other Postemployment Health Care Benefits 163

Single Audit:
Schedule of Expenditures of Federal Awards 164
Notes to the Schedule of Expenditures of Federal Awards 172
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards* 179
Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133 181
Schedule of Findings and Questioned Costs 183
Status of Prior Year's Findings and Questioned Costs 189

MGO Certified Public Accountants.

Walnut Creek
2121 N. California Blvd., Suite 750
Walnut Creek, CA 94596
925.274.0190

Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

The Honorable Mayor Edwin Lee
The Honorable Members of the Board of Supervisors
City and County of San Francisco, California

Independent Auditor's Report

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City and County of San Francisco (City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the San Francisco International Airport, San Francisco Water Enterprise, Hetch Hetchy Water and Power, San Francisco Municipal Transportation Agency, San Francisco Wastewater Enterprise, San Francisco Market Corporation, and the Health Service System, which collectively represent the following percentages of assets and deferred outflows, net assets/fund balances and revenues/additions of the following opinion units as of and for the year ended June 30, 2012.

Opinion Unit	Assets and Deferred Outflows	Net Assets/ Fund Balances	Revenues/ Additions
Business-type activities	91.5%	86.8%	70.4%
Aggregate remaining fund information	0.8%	0.4%	14.3%

Those financial statements were audited by other auditors whose reports thereon have been furnished to us, and our opinions, insofar as they relate to the amounts included for those entities, are based solely on the reports of the other auditors. The prior year partial and summarized comparative information has been derived from the City's 2011 basic financial statements and, in our report dated November 28, 2011, we expressed unqualified opinions, based on our audit and the reports of other auditors, on the respective financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information.

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

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City as of June 30, 2012, and the respective changes in financial position and cash flows, where applicable, thereof and the respective budgetary comparison for the General Fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1 to the basic financial statements, the California State Legislature enacted legislation that dissolved redevelopment agencies in the State of California as of February 1, 2012. On February 1, 2012, the Successor Agency to the Redevelopment Agency of the City and County of San

Francisco became responsible for overseeing the dissolution process and the wind down of redevelopment activities.

As discussed in Note 17(c) to the basic financial statements, the City and the Successor Agency to the Redevelopment Agency of the City and County of San Francisco is in the process of resolving its disagreements with the conclusions rendered by the State Department of Finance on the amounts due to taxing entities from the City's Low and Moderate Income Housing Assets fund in the amount of $106.9 million. Due to the uncertainties surrounding the results of the State's evaluation, the ultimate outcome of these issues cannot presently be determined, and accordingly, no provision for any liability that may result has been recorded in the financial statements.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 8, 2013 on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The financial statements include partial or summarized prior year comparative information. Such information does not include all of the information required to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the City's basic financial statements for the year ended June 30, 2011, from which such partial or summarized information was derived.

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and the schedules of funding progress as listed in the table of contents be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We and other auditors have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget (OMB) Circular A-133 and is not a required part of the basic financial statements. The schedule of expenditures of federal awards is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.

Macias Gini & O'Connell LLP

Walnut Creek, California
January 8, 2013, except for our report on the schedule of
expenditures of federal awards, for which the date
is March 28, 2013

This section of the City and County of San Francisco's (the City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the year ended June 30, 2012. Certain amounts presented as 2010-11 summarized comparative financial information in the basic financial statements have been reclassified to conform to the presentation in the 2011-12 basic financial statements.

FINANCIAL HIGHLIGHTS

The assets of the City exceeded its liabilities at the end of the fiscal year by approximately $6.95 billion (net assets). Of this balance, $6.46 billion represents the City's investment in capital assets net of related debt and $902.1 million represents restricted net assets. This is offset by a deficit in unrestricted net assets of $410.2 million. The City's total net assets increased by $648.5 million or 10.3 percent over the previous fiscal year. Of this amount, total invested in capital assets net of related debt and restricted net assets increased by $465.5 million or 7.8 percent and $232.7 million or 34.8 percent, respectively, and were offset by $49.7 million or 13.8% decrease in unrestricted net assets.

The City's governmental funds reported total revenues of $4.26 billion; a $152.1 million or 3.7 percent increase over the prior year. Within this, revenues from other local taxes, business taxes, hotel room tax, fines, forfeitures and penalties, sale and use tax and interest and investment income grew by approximately $102.6 million, $45.9 million, $29.6 million, $18.3 million, $16.8 million and $14.3 million, respectively. At the same time, there was a decline in revenues from federal intergovernmental grants, property taxes, and other revenue for a total of $104.8 million. Governmental funds expenditures totaled $4.06 billion for this period, a $281.0 million or 7.4 percent increase, reflecting increases in demand for governmental services of $201.3 million, debt service payments of $24.4 million and capital outlay of $55.3 million.

At the end of the fiscal year, total fund balances for the governmental funds amounted to $1.54 billion, an increase of $409.5 million or 36.3 percent from prior year, primarily due to a strong growth in most revenues over a moderate increase of expenditure and other financing uses this year over last year and an extraordinary gain of $197.3 million recognized as a result of the dissolution of the former Redevelopment Agency as discussed further below.

The City's total long-term liabilities, including all bonds, loans, commercial paper and capital leases increased by $1.40 billion during this fiscal year. The City issued a total of $3.27 billion in debt this year. Of this amount, a total of $331.0 million in general obligation bonds were issued for improvements for earthquake safety and emergency response projects, clean and safe neighborhood park projects, road repaving and street safety projects and an additional drawdown of $4.3 million of general obligation bonds for the seismic safety loan program for privately-owned buildings within the City. The City also issued $9.8 million in equipment lease revenues bonds, $86.5 million refunding certificates of participation, $42.8 million in certificates of participation for multiple capital projects and $339.5 million general obligation refunding bonds to take advantage of the lower interest rates. The San Francisco International Airport issued a total of $1.02 billion revenue bonds and refunding revenue bonds to retire outstanding commercial paper notes and certain outstanding fixed rate bonds. The San Francisco Water Enterprise issued a total of $1.42 billion in revenue bonds to provide new money for capital projects of the massive Water System Improvement Program, to refund a portion of the outstanding water revenue bonds and litigation costs. Hetch Hetchy Water and Power Enterprise issued $14.9 million in clean renewable energy bonds and qualified energy conservation bonds. The balance of commercial paper issued to fund new capital projects or to refinance matured commercial paper also increased by $63.8 million this fiscal year. Of this increase, $29.3 million was for governmental activities and $34.5 million was for business-type activities.

On June 28, 2011, Assembly Bill X1 26 (AB X1 26) was enacted. This legislation is referred to herein as the Redevelopment Dissolution Law. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26 and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. The legislation provides for successor agencies and oversight boards that are responsible for overseeing the dissolution process and wind down of redevelopment activity. The City's Board of Supervisors elected to become the Successor Agency to the Redevelopment Agency of the City and County of San Francisco (Successor Agency), effective February 1, 2012. Based upon the nature of the Successor Agency's custodial role, the Successor Agency is reported as a Private Purpose Trust. In general, the Successor Agency's assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). In future fiscal years, the Successor Agency will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former Agency until all enforceable obligations of the former Agency have been paid in full and all assets have been liquidated. The City's Board of Supervisors also elected to retain the housing assets and functions, rights, powers, duties and obligations previously performed by the former Agency, which were placed in a new Special Revenue Fund, the Low and Moderate Income Housing Asset Fund pursuant to the Redevelopment Dissolution Law. On the statement of activities, the City and former Agency recorded extraordinary gains of $323.1 million and $364.0 million, respectively, and the Successor Agency recorded an extraordinary loss of $687.1 million on the statement of changes in fiduciary net assets.

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) Government-wide financial statements, (2) Fund financial statements, and (3) Notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Organization of City and County of San Francisco Basic Financial Statements

<table>
<tr><td rowspan="9">Financial Section</td><td colspan="4">Management's Discussion and Analysis</td></tr>
<tr><td>Government-wide Financial Statements</td><td colspan="3">Fund Financial Statements</td></tr>
<tr><td rowspan="3">Statement of net assets</td><td>Governmental Funds</td><td>Proprietary Funds</td><td>Fiduciary Funds</td></tr>
<tr><td>Balance Sheet</td><td>Statement of net assets</td><td rowspan="2">Statement of fiduciary net assets</td></tr>
<tr><td rowspan="2">Statement of revenues, expenditures, and changes in fund balances</td><td rowspan="2">Statement of revenues, expenses, and changes in fund net assets</td></tr>
<tr><td rowspan="2">Statement of activities</td><td rowspan="2">Statement of changes in fiduciary net assets</td></tr>
<tr><td>Budgetary comparison statement</td><td>Statement of cash flows</td></tr>
<tr><td colspan="4">Notes to the Financial Statements</td></tr>
<tr><td colspan="4">Required Supplementary Information Other Than MD&A</td></tr>
</table>

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

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

Government-wide Financial Statements

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

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

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

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

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate redevelopment agency, the San Francisco Redevelopment Agency, and a legally separate development authority, the Treasure Island Development Authority (TIDA), for which the City is financially accountable. Financial information for these component units is reported separately from the financial information presented for the primary government. Pursuant to Redevelopment Dissolution Law, the Redevelopment Agency was dissolved by operation of law effective February 1, 2012 and financial activities are reported for the seven-month period ended January 31, 2012. The Successor Agency is a component unit, which is reported in fiduciary funds beginning on February 1, 2012. Included within the governmental activities of the government-wide financial statements are the San Francisco County Transportation Authority and San Francisco Finance Corporation. Included within the business-type activities of the government-wide financial statements is the operation of the San Francisco Parking Authority. Although legally separate from the City, these component units are blended with the primary government because of their governance or financial relationships to the City.

Fund Financial Statements

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

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

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

The City maintains several individual governmental funds organized according to their type (special revenue, debt service, capital projects and permanent funds). Information is presented separately in the governmental funds balance sheet and in the governmental funds statement of revenues, expenditures, and changes in fund balances for the General Fund, which is considered to be a major fund. Data from the remaining governmental funds are combined into a single, aggregated presentation. Individual fund data for each of the non-major governmental funds is presented in the City's Comprehensive Annual Financial Report for fiscal year ended June 30, 2012.

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

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

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the San Francisco International Airport (SFO or Airport), Port of San Francisco (Port), San Francisco Water Enterprise (Water), Hetch Hetchy Water and Power (Hetch Hetchy), Municipal Transportation Agency (MTA), Laguna Honda Hospital, San Francisco General Hospital Medical Center, and the San Francisco Wastewater Enterprise (Wastewater), all of which are considered to be major funds of the City.
- **Internal Service funds** are used to report activities that provide supplies and services for certain City programs and activities. The City uses internal service funds to account for its fleet of vehicles, management information services, printing and mail services, and for lease-purchases of equipment by the San Francisco Finance Corporation. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary funds financial statements. Individual fund data for the internal service funds are presented in the City's Comprehensive Annual Financial Report for fiscal year ended June 30, 2012.

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

Notes to the Basic Financial Statements

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

Required Supplementary Information

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net Assets
June 30, 2012 (in thousands)

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Assets and deferred outflows:						
Current and other assets	$2,850,238	$2,288,417	$4,681,192	$3,968,358	$7,531,430	$6,256,775
Capital assets	3,688,246	3,314,450	11,880,773	10,936,266	15,569,019	14,250,716
Deferred outflows	-	-	98,979	63,382	98,979	63,382
Total assets and deferred outflows	6,538,484	5,602,867	16,660,944	14,968,006	23,199,428	20,570,873
Liabilities:						
Current liabilities	1,195,565	1,071,868	1,608,865	1,150,610	2,804,430	2,222,478
Noncurrent liabilities	3,422,909	3,220,720	10,020,813	8,824,922	13,443,722	12,045,642
Total liabilities	4,618,474	4,292,588	11,629,678	9,975,532	16,248,152	14,268,120
Net assets:						
Invested in capital assets, net of related debt *	2,199,316	1,910,341	4,519,090	4,481,404	6,459,434	5,993,892
Restricted *	675,163	446,799	249,434	242,742	902,057	669,340
Unrestricted (deficit) *	(954,469)	(1,046,861)	262,742	268,328	(410,215)	(360,479)
Total net assets	$1,920,010	$1,310,279	$5,031,266	$4,992,474	$6,951,276	$6,302,753

* See note 2(k) to the basic financial statements.

Analysis of Net Assets

Current and other assets increased by $1.27 billion of which $561.8 million in governmental activities and $712.8 million in business-type activities. Governmental activities increases reflect the overall operating results of the year ended 2011-12 and the business-type activities increases reflect increased receipts from capital grants and contributions and proceeds from bond issuances as discussed in the analysis of changes in net assets.

Net assets may serve as a useful indicator of the government's financial position. As noted earlier, at the end of fiscal year 2011-12, the City's total net assets exceeded liabilities by $6.95 billion.

The largest portion of the net assets reflects the City's $6.46 billion investment in capital assets (e.g. land, buildings, and equipment) less any outstanding debt related to the acquisition of these assets. This is 92.9 percent of the City's total net assets, a 7.8 percent increase over the prior year that is largely due to growth in net capital assets in the governmental activities from the addition of former Redevelopment Agency capital assets in the amount of $124.5 million and increases in the following business-type activities: MTA, Wastewater, Port, Hetch Hetchy, General Hospital and the San Francisco Market Corporation. This was partially offset by the decreases in Airport, Water, and Laguna Honda. Since the government uses capital assets to provide services, these assets are not available for future spending. Further, the resources required to pay the outstanding debt must come from other sources since the capital assets themselves cannot be liquated to pay that liability.

Another portion of the City's net assets, $902.1 million or 13.0 percent represents restricted resources that are subject to external limitations regarding their use. The governmental activities have a $954.5 million deficit in the unrestricted net assets, due largely to transfers to business-type activities and the recognition of other postemployment benefit expense. This deficit also includes $218.5 million of long-term bonds issued to fund the Laguna Honda Hospital rebuilt project, certain park facilities projects at the Port, improvement projects for reliable emergency water supply for the Water Enterprise and road paving and street safety in MTA (see Note 2(k) to the basic financial statements).

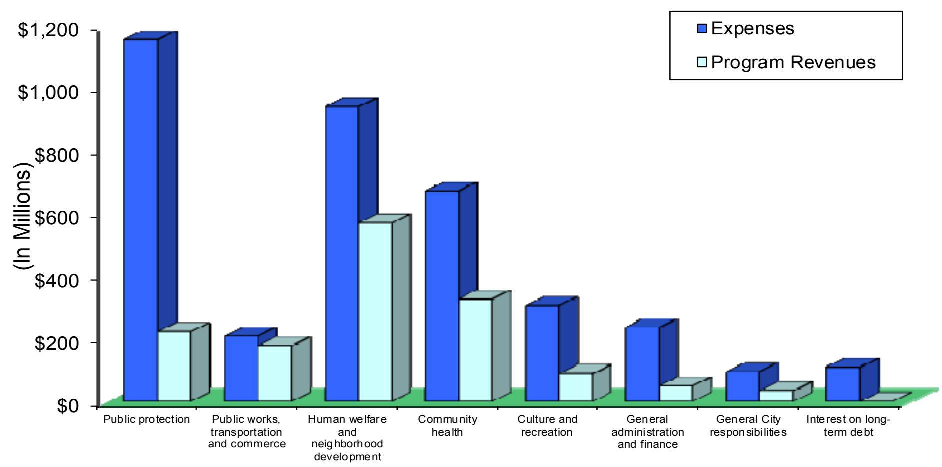
Changes in Net Assets
Year Ended June 30, 2012 (in thousands)

	Governmental activities		Business-type activities		Total	
	2012	2011	2012	2011	2012	2011
Revenues						
Program revenues:						
Charges for services	$ 435,207	$ 428,443	$ 2,552,553	$ 2,399,552	$ 2,987,760	$ 2,827,995
Operating grants and contributions	998,701	1,040,116	200,318	204,153	1,199,019	1,244,269
Capital grants and contributions	41,174	57,719	173,975	213,364	215,149	271,083
General revenues:						
Property taxes	1,355,855	1,340,590	-	-	1,355,855	1,340,590
Business taxes	437,678	391,779	-	-	437,678	391,779
Sales and use tax	198,236	181,474	-	-	198,236	181,474
Hotel room tax	239,567	209,962	-	-	239,567	209,962
Utility users tax	91,676	91,683	-	-	91,676	91,683
Other local taxes	353,746	251,285	-	-	353,746	251,285
Interest and investment income	31,453	17,645	82,533	42,299	113,986	59,944
Other	91,236	58,524	288,584	214,993	379,820	273,517
Total revenues	4,274,529	4,069,220	3,297,963	3,074,361	7,572,492	7,143,581
Expenses						
Public protection	1,158,618	1,099,791	-	-	1,158,618	1,099,791
Public works, transportation and commerce	210,415	239,230		-	210,415	239,230
Human welfare and neighborhood development	942,523	885,194	-	-	942,523	885,194
Community health	673,905	613,883	-	-	673,905	613,883
Culture and recreation	307,269	318,083	-	-	307,269	318,083
General administration and finance	237,818	224,027	-	-	237,818	224,027
General City responsibilities	96,147	84,444		-	96,147	84,444
Unallocated Interest on long-term debt	110,145	110,142	-	-	110,145	110,142
Airport	-	-	746,610	690,875	746,610	690,875
Transportation	-	-	959,088	905,218	959,088	905,218
Port	-	-	72,307	68,661	72,307	68,661
Water	-	-	431,248	362,802	431,248	362,802
Power	-	-	130,709	119,282	130,709	119,282
Hospitals	-	-	954,566	885,294	954,566	885,294
Sewer	-	-	214,593	201,629	214,593	201,629
Market	-	-	1,138	1,152	1,138	1,152
Total expenses	3,736,840	3,574,794	3,510,259	3,234,913	7,247,099	6,809,707
Increase/(decrease) in net assets before transfers	537,689	494,426	(212,296)	(160,552)	325,393	333,874
Transfers	(251,088)	(337,132)	251,088	337,132	-	-
Extraordinary gain from dissolution of the Redevelopment agency	323,130	-	-	-	323,130	-
Change in net assets	609,731	157,294	38,792	176,580	648,523	333,874
Net assets at beginning of year	1,310,279	1,152,985	4,992,474	4,815,894	6,302,753	5,968,879
Net assets at end of year	$ 1,920,010	$ 1,310,279	$ 5,031,266	$ 4,992,474	$ 6,951,276	$ 6,302,753

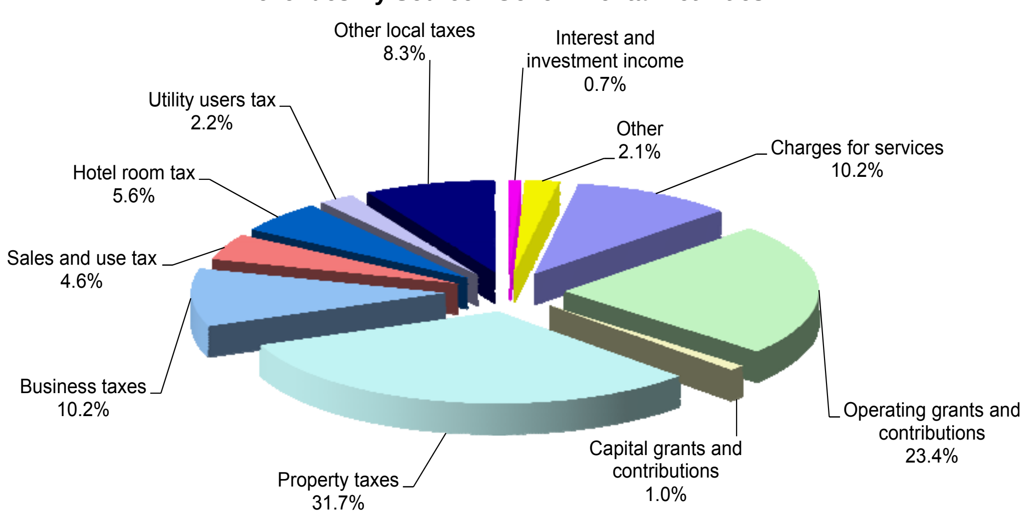
Analysis of Changes in Net Assets

The City's total net assets increased by $648.5 million during fiscal year 2011-12, the second consecutive increase following three years of decline. The governmental activities net assets increased $609.7 million and the business-type activities increased $38.8 million. The City's governmental activities experienced a $205.3 million or 5.1 percent growth in total revenues reflecting increases in nearly all of the general City revenues. A discussion of these and other changes is presented in the governmental activities and business-type activities sections that follow.

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



Governmental activities. Governmental activities increased the City's total net assets by approximately $609.7 million. Key factors contributing to this change are discussed below.

Overall, total revenues from governmental activities were $4.27 billion, a $205.3 million or 5.1 percent increase over the prior year. For the same period, expenses totaled $3.74 billion before transfers of $251.1 million and an extraordinary gain of $323.1 million, resulting in a total net assets increase of $609.7 million by June 30, 2012.

Property tax revenues increased by $15.3 million or 1.1 percent. Other local tax revenues grew by $102.5 million. Of this, $98.4 million were from Property Transfer Tax. This growth was due in large part to recent tax rate increases. Proposition N, passed in November 2008, increased the transfer tax rate from 0.75 percent to 1.5 percent for all transactions valued over $5 million. A second Proposition N, passed in

November 2010, increased the rate from 1.5 percent to 2.0 percent for transactions valued between $5 million and $10 million, and from 1.5 percent to 2.5 percent for transactions valued over $10 million. This rate increase coupled with a rise in the number of commercial transactions over $5 million significantly contributed to revenue growth. An increase in parking tax revenue by approximately $3.9 million made up the remaining growth in the other local taxes.

Revenues from business, hotel, and sales and use taxes totaled $875.5 million, a growth of $92.3 million over the prior year. Business taxes grew by $45.9 million due to an increase in average weekly wages in San Francisco, stronger growth in non-exempt business and improved taxpayer compliance with the implementation of online filing and payments. Hotel room tax increased by $29.6 million due to increased occupancy, and a rise in average daily room rates from $173 per room-night to $197 per room-night. Sales and Use Tax also increased by $16.8 million. The increases reflected strong sales growth across virtually every economic segment, resulting in all-time peak sales in many retail categories. Increased visitor spending contributed to strong growth in the restaurant, apparel and general retail sales categories during the fiscal year.

Operating and capital grants and contributions decreased $58.0 million. This was primarily due to a significant decrease in Federal and State funding for the fiscal year 2011-2012 concentrated in public works, which declined by $44.9 million, and human welfare, which declined by $18.5 million. There were also declines in community health and general city responsibilities, all declines were offset by an increase in public protection.

Total charges for services and other revenues increased $39.5 million, or 8.1 percent. This was primarily due to an increase of $15.4 million in tobacco settlement revenue, which is used to offset the cost of debt service on the Laguna Honda Hospital replacement project as directed by Proposition A of 1999. There were also increases in building permit revenue of $10.0 million, and community impact fee revenue of $3.3 million. In addition, there was a $6.1 million reimbursement of America's Cup costs incurred by the City from the America's Cup Organizing Committee, a $1.5 million increase in services to other government agencies and $0.5 million in developer exactions, offset by a one-time sale of Fire Department property on Tennessee Street for $1.3 million in fiscal year 2010-11.

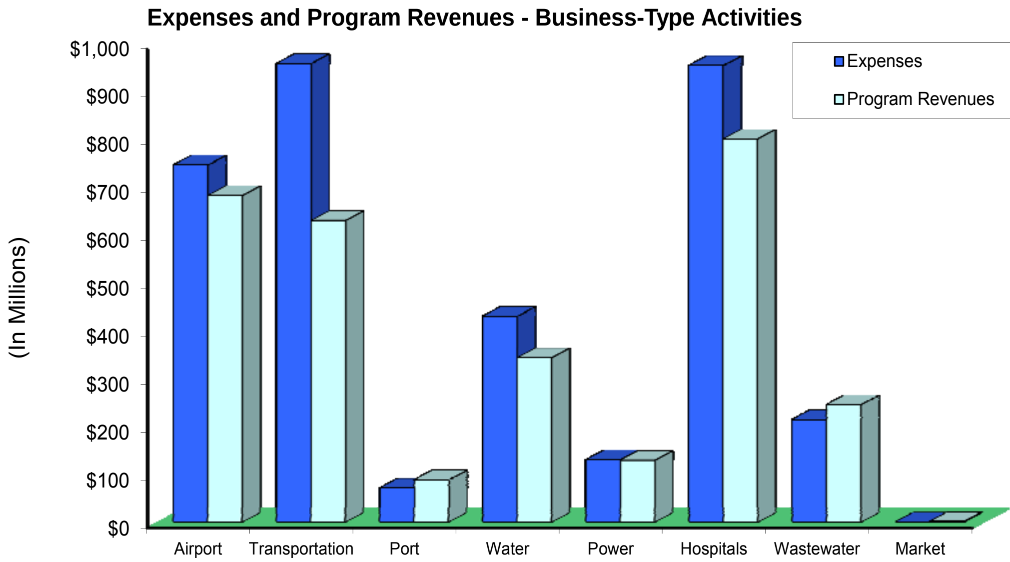
Interest and investment income revenue increased by $13.8 million, or 78.3 percent, primarily due to a much higher cash and investment balance due to increased governmental revenues and a slightly higher interest rate on the City's pooled investments from an estimated gross 1.24 percent in the prior year to 1.32 percent in the current year.

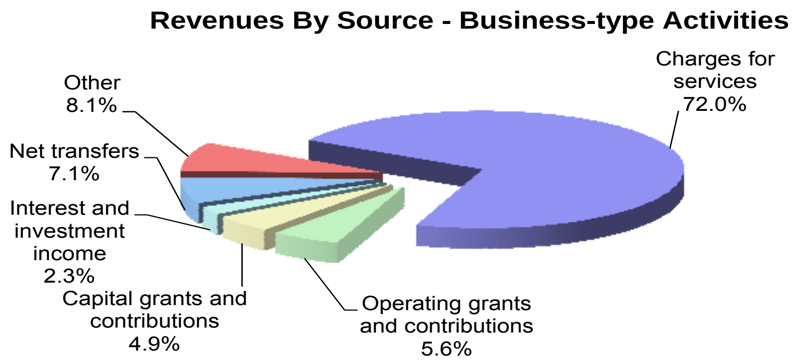
Net transfers from the governmental activities to business-type activities were $251.1 million, a 25.5 percent or $86.0 million decrease from the prior fiscal year, of which $407.6 represented net cash transfers out to business-type activities as discussed in note 14 to the basic financial statements offset with a $156.5 million transfer of the outstanding balance of the certificates of participation to Laguna Honda Hospital along with the revenue stream dedicated to repay this obligation. This obligation was issued for the purpose of rebuilding and improving the Laguna Honda Hospital.

The moderate increase of total governmental expenses of $162.1 million or 4.5 percent was primarily due to increases in demand for the government's services in almost all functional services by $201.7 million, which was partly offset by the decrease of expenses in public works, transportation and commerce, and culture and recreation service functions by $39.6 million.

The City recorded an extraordinary gain due to the dissolution of the Redevelopment Agency of $323.1 million, of which $196.8 million was current assets, $124.5 million was capital assets, and the remainder of $1.8 million was other assets less other liabilities.

The charts on the previous page illustrate expenses and program revenues by functional area, and all revenues by source. As shown, public protection is the largest function (31.0 percent), followed by human welfare and neighborhood development (25.2 percent) and community health (18.0 percent). General revenues are not shown by program or function because they are used to support activities citywide. The distribution of these revenues shows property tax (31.7 percent) as the single largest funding source, followed by operating grants and contributions (23.4 percent), charges for services (10.2 percent), and business taxes (10.2 percent). This relative ranking is equivalent to the prior fiscal year and the actual percentage distributions showed only small differences.





Business-type activities increased the City's net assets by $38.8 million. Key factors contributing to this increase are:

- The San Francisco International Airport's net assets decreased slightly overall by $0.4 million or 0.1 percent during the current year to a total of $290.6 million. Aviation revenues, concession revenues, parking revenues and net sales and services revenues increased by $61.3 million from the prior year due to improved passenger traffic. Total operating revenues of $668.7 million were offset by operating expenses of $543.1 million for $125.6 million in net operating income for the year. Lower capital contributions and higher transfers out were responsible for the overall small decline in net assets for the airport.

- The City's Water Enterprise is the third largest municipal water agency in California. For the fiscal year 2011-12, it reported net assets of $358.5 million, a decrease of $37.8 million or 9.5 percent from the prior year. While the Water Enterprise had $37.5 million of operating income for the year, the primary reasons for the decrease were an increase in non-operating expense of $7.5 million, and a reduction in capital contributions of $18.3 million, which was a one-time contribution received in fiscal year 2010-11 from the San Francisco Fire Department. The contribution consisted of assets and bond proceeds intended for improvements to the Auxiliary Water Supply System.
- Hetch Hetchy Water and Power's net assets at fiscal year-end were $512.7 million, an increase of $16.7 million, or 3.4 percent over the prior year. The enterprise is composed of two segments: Hetch Hetchy Water upcountry operations and water system and Hetch Hetchy Power, also referred to as the Power Enterprise. A number of the facilities are joint assets and are used for both water and power operations. Hetch Hetchy Power's net assets increased by $6.3 million during the year, while Hetch Hetchy Water's net assets increased by $10.4 million. Hetch Hetchy Water's increase to net assets of $10.4 million was aided by a transfer of $14.1 million from the City's Water Enterprise to finance improvements of certain upcountry water storage and transmission facilities. The transfer was offset by a loss of $4.5 million from operations, net of $0.8 million of net nonoperating revenue.
- The Municipal Transportation Agency (MTA) had net assets of $2.10 billion at year-end, which represents an increase of $134.6 million, or 6.9 percent. The increase is attributable to improvements in all revenue categories. The largest portion of the MTA's net assets reflects its investment in capital assets, which totaled $2.12 billion. The remainder of the MTA's net assets is comprised of restricted net assets, including deposits and investments with the City, and receivables. The MTA's unrestricted net asset balance is $6.5 million, which is a $47.8 million improvement over the prior year's unrestricted net deficit of $41.3 million.
- General Hospital, the City's acute care hospital, ended the fiscal year with a net deficit of $90.7 million compared to a deficit of $70.9 million the prior year, which was an increase in net deficit of $19.8 million or 27.9 percent. Although the Hospital had an overall increase in operating revenues of approximately $25.0 million, primarily attributable to increased gross patient service revenue, those revenues were exceeded by rising operating expenses of $52.8 million caused by increases in costs for personnel and contractual services. Non-operating activity showed decreases in grant revenues of $4.5 million, and increases in net transfers in of $40.8 million. Transfers in and out will vary from year to year based upon the City's budget.
- The City's Wastewater Enterprise had total net assets of $1.10 billion at June 30, 2012, an increase from the prior year of $39.1 million, or 3.7 percent. This increase in net assets was due primarily to $48.3 million of net income from operations. Although operating revenues increased, Wastewater also experienced increases in operating expenses such as salaries, fringes and depreciation. Other activities included net nonoperating losses of $9.2 million, which were lower than nonoperating losses in fiscal year 2010-11 by $4.9 million.
- The Port's net assets increased by $26.0 million, or 8.4 percent, yielding total net assets of $335.5 million at the end of fiscal year 2011-12. The Port is responsible for a seven and one-half mile stretch of waterfront land and its revenue is derived primarily from property rentals to commercial and industrial enterprises and a diverse mix of maritime operations. The Port's increase to net assets during the current year was comprised of $6.7 million of income from operations, $3.0 million of net nonoperating revenues, $6.6 million of capital contributions and net transfers in of $9.7 million. Increases to net operating revenues were due primarily to increases in parking and maritime revenues.
- Net assets for Laguna Honda Hospital, the City's skilled nursing care hospital, decreased $120.2 million, or 22.3 percent this year. The decrease is related to the hospital's assumption of debt for capital activities, which are supported by certificates of participation. The $159.9 million transfer out is partially offset by a transfer in of $40.5 million from the capital and debt service funds, also related to the construction of the new hospital. Laguna Honda Hospital's losses from operations were $85.3 million compared to $58.4 million in fiscal year 2010-11.

FINANCIAL ANALYSIS OF THE CITY'S FUNDS

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

Governmental Funds

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

At the end of the current fiscal year, the City's governmental funds reported combined fund balances of $1.54 billion, an increase of $409.5 million or 36.3 percent over the prior year. Of the total fund balances, $333.4 million is assigned and a negative $119.5 million is unassigned. This totals $213.9 or 13.9 percent of the total fund balances and constitutes the fund balances that are accessible to meet the City's needs. Within these fund balance classifications, the General Fund had an assigned fund balance of $305.4 million. The remainder of the governmental funds fund balances include $20.7 million nonspendable for items that are not expected to be converted to cash such as inventories and long-term loans, $1.22 billion restricted for programs at various levels and $79.3 million committed for other reserves.

The General Fund is the chief operating fund of the City. As a measure of liquidity, both the sum of assigned and unassigned fund balances and total fund balance can be compared to total fund expenditures. As of end of the fiscal year, assigned and unassigned fund balances totaled $322.7 million while total fund balance reached $455.7 million. Combined assigned and unassigned fund balances represent 12.4 percent of total expenditures, while total fund balance represents 17.6 percent of total expenditures. For the year, the General Fund's total revenues exceeded expenditures by $557.6 million before transfers and other items of $429.1 million and an extraordinary loss of $0.8 million due to the dissolution of the Redevelopment Agency resulting total fund balance increased by $127.7 million. Overall, the significant growth in revenues, particularly in real estate property transfer taxes, business taxes and hotel room tax were offset by an increase rate of expenditure growth due to growing demand for services and personnel costs across City functions and new America's Cup project resulted in the substantial fund balance improvement this fiscal year.

In addition to the extraordinary loss recorded in the General Fund due to the dissolution of the Redevelopment Agency, a $198.1 million gain was recorded to Special Revenue Funds for a net extraordinary gain of $197.3 million to the governmental funds.

Proprietary Funds

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

At the end of the current fiscal year, the unrestricted net assets for the proprietary funds were as follows: Airport: $189.6 million, Water Enterprise: $16.4 million, Hetch Hetchy Water and Power: $188.7 million, Wastewater Enterprise: $9.4 million, MTA: $6.5 million, the Port: $41.5 million and Market Corporation: $4.9 million. In addition, the San Francisco General Hospital and Laguna Honda Hospital had deficits in unrestricted net assets of $145.8 million and $48.4 million, respectively.

The following table shows actual revenues, expenses and results of operations for the current fiscal year in the City's proprietary funds (in thousands). As seen here, the total net assets for these funds increased by approximately $38.8 million due to current year financial activities. Reasons for this change are discussed in the previous section on the City's business-type activities.

	Operating Revenues	Operating Expenses	Operating Income (Loss)	Non-Operating Revenues (Expense)	Capital Contributions and Others	Interfund Transfers, Net	Change In Net Assets
Airport	$ 668,672	$ 543,063	$ 125,609	$ (106,512)	$ 14,538	$ (33,993)	$ (358)
Water	342,101	304,562	37,539	(61,717)	-	(13,585)	(37,763)
Hetch Hetchy	127,309	130,610	(3,301)	5,974	-	14,071	16,744
Municipal Transportation Agency	350,464	956,695	(606,231)	241,264	152,887	346,640	134,560
General Hospital	607,396	735,108	(127,712)	60,366	-	47,548	(19,798)
Wastewater Enterprise	244,155	195,857	48,298	(9,225)	-	(1)	39,072
Port	77,260	70,540	6,720	2,967	6,550	9,732	25,969
Laguna Honda Hospital	133,524	218,818	(85,294)	84,447	-	(119,324)	(120,171)
Market Corporation	1,672	1,138	534	3	-	-	537
Total	$ 2,552,553	$ 3,156,391	$ (603,838)	$ 217,567	$ 173,975	$ 251,088	$ 38,792

Fiduciary Funds

The City maintains fiduciary funds for the assets of the San Francisco Employees' Retirement System, Health Service System and Retiree Health Care Trust, and manages the investment of monies held in trust to benefit public service employees. At the end of the current fiscal year, the net assets of the Retirement System, Health Services System and Retiree Health Care Trust combined totaled $15.36 billion, representing a $270 million decrease over the prior year, a 1.7 percent change. This decrease is primarily a result of the net difference between contributions received by the funds and benefit payments made from the funds. The Private Purpose Trust accounts for the Successor Agency, and had a net deficit of $664.2 million at June 30, 2012 caused by the extraordinary loss at its inception from the Redevelopment Agency dissolution. The Investment Trust Fund's net assets were $323.4 million at year's end, compared to $448.4 million at the end of the previous fiscal year. This 27.9 percent decrease represents the excess of distributions to external participants over additions to the funds in the current year.

General Fund Budgetary Highlights

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

During the year, actual revenues and other resources were $175.2 million higher than the final budget. The City realized $115.0 million, $45.4 million, $30.5 million and $22.8 million more revenue than budgeted in real property transfer tax, business tax, property taxes and hotel room tax, respectively. These increases were offset by $67.2 million shortfall of actual versus budgeted revenue in other categories, namely, federal grants and subventions, utility user tax, charges for services, other financing sources and other resources.

Differences between the final budget and the actual (budgetary basis) expenditures resulted in $124.3 million in expenditure savings. Major factors include:

- $50.3 million savings in the Human Services Agency, due largely to lower than budgeted client assistance, aid payments, non-profit organization services, non-personnel services as well as personnel costs from unfilled Jobs Now program.

- $28.0 million in savings in the Department of Public Health, mainly from lower than budgeted intergovernmental transfer costs to State related to Hospital Fee program and Safety Net Care Pool program, professional services expenditures and material and supplies expenditures.

- $11.1 million in savings due to close-out of unspent General Reserve not used for supplemental appropriation or other contingencies during fiscal year 2011-12.

- $7.3 million in saving mainly in Treasurer/Tax Collector, Assessor/Recorder, Controller's office, Administrative Services and other departments in the general administration and finance non-personnel services, contingency expenditures and services from other departments .

- The remaining lower than budgeted expenditures are savings from public protection, other City responsibilities and transfers to other funds.

The net effect of substantial revenue increases, savings in expenditures and reduction in reserve balances was a budgetary fund balance available for subsequent year appropriation of $220.3 million at the end of fiscal year 2011-12. The City's fiscal year 2012-13 Adopted Original Budget assumed an available balance of $104.3 million, and $116.0 million remains available. (See also Note 4 to the Basic Financial Statements for additional fund balance details).

Capital Assets and Debt Administration

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2012, increased by $1.32 billion, 9.3 percent, to $15.57 billion (net of accumulated depreciation). Capital assets include land, buildings and improvements, machinery and equipment, park facilities, roads, streets, bridges, and intangible assets. Governmental activities contributed $373.8 million or 28.4 percent to this total while business-type activities contributed $944.5 million or 71.6 percent. Details are shown in the table below.

	Governmental Activities		Business-type Activities		Total	
	2012	2011	2012	2011	2012	2011
Land	$ 281,858	$ 157,308	$ 201,334	$ 181,013	$ 483,192	$ 338,321
Construction in progress	573,461	365,241	2,179,509	1,805,866	2,752,970	2,171,107
Facilities and Improvement	2,343,122	2,341,201	7,809,111	7,272,410	10,152,233	9,613,611
Machinery and equipment	49,061	53,187	845,936	801,021	894,997	854,208
Infrastructure	402,510	369,919	759,052	783,857	1,161,562	1,153,776
Property held under lease	-	-	5	15	5	15
Intangible assets	38,234	27,594	85,826	92,084	124,060	119,678
Total	$ 3,688,246	$ 3,314,450	$ 11,880,773	$ 10,936,266	$ 15,569,019	$ 14,250,716

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

- Under governmental activities, net capital assets increased by $373.8 million. As a result of the dissolution of the Redevelopment Agency, housing capital assets of $124.5 million were transferred to the City. Other increases were mainly due to construction in progress and completed assets at various branch libraries, park and recreational sites, various street and building improvement projects. Among the various city-wide parks, libraries, public works and traffic signal, bicycle lanes and building improvement projects, the General Hospital Rebuild Project, which is recorded in governmental activities grew by $104.4 million during the fiscal year. $103.9 million in construction in progress was substantially completed and capitalized as facilities and improvement, infrastructure and intangible assets during the fiscal year. Of the completed projects, $3.6 million is for public library improvements, $5.3 million is for various building improvements, $32.0 million is for Moscone Center improvements and $37.6 million is for public works, traffic signal projects and bicycle lane projects, and $23.4 million for various parks and recreation centers such as McCoppin Square, Mission Dolores Playground, South Murphy Windmill and other park and recreation improvement projects. Growth in construction-in-progress projects included park facilities, earthquake safety improvements, Marina West Harbor renovations, library renovations and other public works projects.

- The Water Enterprise's net capital assets increased by $754.3 million or 30.4 percent. Close to $157.3 million, or 20.8 percent, of the change reflects the net increase in construction-in-progress on the enterprise's ten-year capital plan, including the Water System Improvement Program. Major additions to construction work included Bay Division Pipeline Reliability Upgrade, New Irvington Tunnel, 525 Golden Gate Headquarters, and other Water System Improvement Program (WSIP). The total estimated cost for the WSIP is $4.6 billion, including $4.1 billion for capital projects and $0.5 billion for net financing costs. The program is on target to meet an overall completion date of December 2015. During the fiscal year, there was an increase of $590.5 million or 48.3 percent in structures, buildings, and equipment, an increase of $0.6 million in intangible assets of the Customer Care & Billing computer software enhancement. Completed as of June 30, 2012 the Enterprise has incurred $119.1 in construction costs for the 525 Golden Gate Avenue Headquarters project. As of June 30, 2012, the SFPUC's Water Enterprise is midway through construction of its multi-billion dollar, multi-year program to upgrade the Hetch Hetchy Regional and Local Water Systems, known as the Water System Improvement Program (WSIP). The WSIP delivers capital improvements that enhance the Enterprise's ability to provide reliable, affordable, high quality drinking water to its customers.

- MTA's net capital assets increased by $86.6 million or 4.3 percent, compared to the previous year, which was attributed to an increase in construction work for new and existing projects offset by an increase in depreciation expense for existing assets. Construction in progress is made up of various transit pedestrian and bike projects. The four projects that have the highest balances on June 30, 2012, are the Central Subway, rail replacement, Islais Creek-Woods Annex and wayside fare collection. The Central Subway Project proceeded with the detail design and construction. This project will link the existing 5.2 mile Phase I T-line, beginning at the CalTrain and 4th Street and king Streets, to BART, Union Square and Chinatown to the north. The project completed utility relocation on Stockton Street and utility vault installations/water tiepins on Geary near Stockton. The MTA received an additional $35.0 million from Federal Transit Administration (FTA) awarded in August 2011 for the second phase of Islais Creek Maintenance Facility Project. Additional funds were received to advance Track, Overhead and Cable Car Rehabilitation Programs as well as Central Control and Communication and Radio Replacement Projects.

- Laguna Honda Hospital's net capital assets increased by $13.0 million or 2.4 percent due primarily to construction in progress on the capital project to rebuild the 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 able to be operational after an earthquake. In December 2001, LHH finalized and submitted a plan to the State of California indicating that the Laguna Honda Hospital Replacement Project will be fully operational by 2013 and thereby in full compliance with the 2030 requirements. A five-year extension for the January 2008 deadline was requested and granted, postponing the deadline to 2013. As of June 30, 2012, general obligation bonds in the amount of $298 million have been sold to fund the Replacement Project and are reported as a governmental activity and LHH has entered into various purchase contracts totaling approximately $21.9 million that are related to the old building remodel phase of the Replacement Project

- General Hospital's net capital assets increased by $13.6 million or 23.1 percent, primarily due to the increase in construction in progress related to the hospital rebuild project. As of June 30, 2012, general obligation bonds, in the amount of $426.3 million have been sold to fund the hospital rebuild. On August 25, 2012, additional bonds were sold in the amount of $251.1 million. The general obligation bonds are accounted for as a governmental activity and transactions are accounted for in the City's Governmental Capital Project Funds. Upon completion of the new facility, it will be contributed to the SFGH enterprise fund.

- The Wastewater Enterprise net capital assets reported an increase of $93.7 million or 6.5 percent mainly in construction activities. These include the Sunnydale Sewer Improvements, 525 Golden Gate Headquarters Building, Mission/Cesar Chavez Improvements, and other capital projects throughout the system. As of June 30, 2012, the Enterprise has incurred $28.6 million in construction costs for the 525 Golden Gate Avenue Headquarters project. The Commission recently completed a review of the endorsed goals and service levels associated with the Sewer System Improvement Program (SSIP) in August 2012. The estimated costs over the next 20 years are projected to total $6.9 billion, of which Phase 1 totals $2.7 billion and is planned over the next 10 years.

- Hetch Hetchy net capital assets increased by $32.0 million or 10.5 percent during the year, resulting from an increase of $46.3 million in construction in progress offset by transfers of $38.3 million with increases of $25.6 million in facilities, improvements, machinery and equipment, net of depreciation and $1.6 million in capital write-offs.

- The Airport's net capital assets decreased $79.8 million or 2.1 percent largely due to higher depreciation expense with the opening of Terminal 2.

- The Port's net capital assets increased by $30.9 million or 11.7 percent mainly in construction activities that include the Hyde Street Harbor Joint Operations Building, Mission Bay Shoreline for Bayfront Park Project, Port Security Fence Phase 3, and the Energy Efficiency Project.

At the end of the year, the City's business-type activities had approximately $1.40 billion in commitments for various capital projects. Of this, Water Enterprise had an estimated $969.3 million, MTA had $188.9 million, Wastewater had $81.9 million, Airport had $33.2 million, Hetch Hetchy had $31.8 million, Port had $72.4 million, Laguna Honda Hospital had $21.9 million and the General Hospital had $1.0 million. In addition, there was approximately $320.8 million reserved for encumbrances in capital project funds for the general government projects.

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

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

Debt Administration

At the end of the current fiscal year, the City had total long-term and commercial paper debt outstanding of $12.37 billion. Of this amount, $1.51 billion is general obligation bonds secured by ad valorem property taxes without limitation as to rate or amount upon all property subject to taxation by the City and $10.86 billion is revenue bonds, loans, certificates of participation, capital leases, and other debts of the City secured solely by specified revenue sources.

As noted previously, the City's total long-term debt including all bonds, loans, commercial paper notes and capital leases increased by $1.40 billion or 12.8 percent during the fiscal year. The net increase in debt obligations in the governmental activities was $77.9 million primarily due to issuance of new debt. For the business-type activities, the net increase in debt obligations was $1.32 billion due primarily to the issuance of revenue bonds by the San Francisco Water Enterprise for various capital projects.

The business-type activities issued a combined total of $2.44 billion revenue bonds, of which $1.02 billion was issued for refunding and restructuring a portion of the Airport's long term debt and for cash flow savings. The San Francisco Water Enterprise issued a total of $1.42 billion of revenue bonds to refund $155.9 million of outstanding revenue bonds, to reimburse the San Francisco Public Utilities Commission for costs to settle litigation arising out of certain capital projects in benefit to SFPUC's Water Enterprise and to provide new money for the Water System Improvement Program (WSIP) capital projects. Hetch Hetchy Water and Power Enterprise issued $14.9 million in clean renewable energy bonds to finance installation of solar energy equipment on City-owned facilities and fund certain qualified green components of SFPUC's 525 Golden Gate headquarters. The Airport and the San Francisco Water Enterprise issued a total of $34.5 million additional commercial paper notes.

The City issued a total of $674.8 million in general obligation bonds, of which $339.5 million was for refunding bonds issued for economic savings and $331.0 million was issued to fund the City's earthquake safety and emergency response projects, clean and safe neighborhood parks projects, and road repaving and street safety projects. The City also issued $4.3 million in general obligation bonds to provide loans for the seismic strengthening of privately-owned unreinforced masonry buildings within the City. The City and County of San Francisco Finance Corporation issued $9.8 million in lease revenue bonds to finance equipment purchases. The City issued $129.3 million in certificates of participation, of which, $86.5 million was issued to refund lease revenue bonds financing the construction of and various improvements to Moscone Convention Center for economic savings and $42.8 million was issued for the construction, installation, repair and renovation of certain access ramps, street improvements and related facilities. An additional loan for $4.4 million was drawn for the renovation of the City's west harbor marina.

The City's Charter imposes a limit on the amount of general obligation bonds the City can have outstanding at any given time. That limit is three percent of the taxable assessed value of property in the City – $165.42 billion in value as of the close of the fiscal year. As of June 30, 2012, the City had $1.51 billion in authorized, outstanding general obligation bonds, which is equal to approximately 0.87 percent of gross (0.91 percent of net) taxable assessed value of property. As of June 30, 2012, there were an additional $1.08 billion in bonds that were authorized but unissued. If all of these general obligation bonds were issued and outstanding in full, the total debt burden would be approximately 1.50 percent of gross (1.56 percent of net) taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2012 were:

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

During the fiscal year, Moody's Investors Service (Moody's) and Fitch Ratings maintained the City's ratings at "Aa2" and "AA-", respectively, with a stable outlook. Standard & Poor's affirmed its rating at "AA" and its negative outlook on all the City's outstanding bonds.

The City's enterprise activities maintained their underlying debt ratings this fiscal year. Moody's, Standard & Poor's and Fitch Ratings affirmed their underlying credit ratings of the Airport of "A+", "A1" and "A+" with Stable Rating Outlooks, respectively. The San Francisco Water Enterprise carried underlying ratings of "Aa3" and "AA-" from Moody's and Standard & Poor's, respectively. The San Francisco Wastewater Enterprise carried underlying ratings of "Aa3" from Moody's and "AA-" from Standard & Poor's.

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

Economic factors and next year's budget and rates

Despite the length and severity of the recession that struck the state and the nation in late 2007, San Francisco continued to fare better than the rest of California and continued to show improvement in the economy. The following economic factors were considered in the City's fiscal year 2012-13 budget.

- Average unemployment for fiscal year 2011-12 was 8.0 percent down 1.2 percent from the fiscal year 2010-11. Over the course of fiscal year 2011-12, the San Francisco Metropolitan Division experienced a total employment increase of 4.4 percent.

- Housing prices, industry employment, residential and commercial rent, hotel revenues, and retail sales all showed significant signs of recovery.

- As of March 2012, Financial, Professional and Business, and Information Services sectors grew by approximately 14,600 jobs versus the prior year, a 7.5% increase. This is a significant increase when compared to California, which only saw a 3% increase in these sectors during the same period.

- The hotel sector saw significant growth in fiscal year 2011-12. Hotel room average occupancy rose remarkably to 81.9 percent. Average daily room rates grew substantially by 13.9 percent to $197 per room-night.

- The City's taxable sales have been growing rapidly, with fiscal year 2011-12 sales tax revenue up 9.2 percent over fiscal year 2010-11. Both residential and commercial rents asking price rose in fiscal year 2011-12. However, the average median home price in fiscal year 2011-12 was at $646,646, up 0.7 percent from the previous fiscal year.

- In March 2012, the Controller's Office, Mayor's Budget Office, and Board of Supervisors projected a $170 million General Fund shortfall. This projection assumed current service and staffing levels, and was primarily driven by the significant cuts in the State funding in the FY 2012-13 budget, dissolution of San Francisco Redevelopment Agency and expected increases in employee benefit and other costs.

- The Mayor and Board of Supervisors approved a final FY 2012-13 budget in July 2012, which bridges this General Fund shortfall with a host of departmental expenditure reductions, deferral of projected increased funding for capital and other needs, improved revenue forecasts, the use of a higher than previously projected balance available from the prior year, and other actions.

CITY AND COUNTY OF SAN FRANCISCO

REQUESTS FOR INFORMATION

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

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

Individual Department Financial Statements

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

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

San Francisco Water Enterprise
Hetch Hetchy Water and Power
San Francisco Wastewater Enterprise
Chief Financial Officer
525 Golden Gate Avenue
San Francisco, CA 94102

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

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

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

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

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

Blended Component Units Financial Statements

San Francisco County Transportation Authority
Deputy Director for Administration and Finance
1455 Market Street, 22nd Floor
San Francisco, CA 94103

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

Other Component Unit Financial Statements

Successor Agency to the
San Francisco Redevelopment Agency
Executive Director
One South Van Ness Avenue, 5th Floor
San Francisco, CA 94103

WWW.SFGOV.ORG

Basic Financial Statements

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets
June 30, 2012
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelop-ment Agency	Treasure Island Development Authority
ASSETS AND DEFERRED OUTFLOWS					
Assets:					
Current assets:					
Deposits and investments with City Treasury	$ 1,887,358	$ 1,284,156	$ 3,171,514	$ -	$ 4,363
Deposits and investments outside City Treasury	81,258	10,067	91,325	-	-
Receivables (net of allowance for uncollectible amounts of $173,054 for the primary government):					
Property taxes and penalties	55,828	-	55,828	-	-
Other local taxes	228,034	-	228,034	-	-
Federal and state grants and subventions	326,514	94,275	420,789	-	-
Charges for services	59,880	237,630	297,510	-	900
Interest and other	7,739	85,897	93,636	-	3
Due from component units	19,216	-	19,216	-	-
Inventories	-	75,700	75,700	-	-
Deferred charges and other assets	16,926	7,699	24,625	-	-
Restricted assets:					
Deposits and investments with City Treasury	-	137,632	137,632	-	-
Deposits and investments outside City Treasury	61,713	164,044	225,757	-	-
Grants and other receivables	-	12,916	12,916	-	-
Total current assets	2,744,466	2,110,016	4,854,482	-	5,266
Noncurrent assets:					
Loans receivable (net of allowance for uncollectible amounts of $559,893)	67,130	-	67,130	-	-
Advance to component units	9,725	3,827	13,552	-	-
Deferred charges and other assets	24,101	81,217	105,318	-	-
Restricted assets:					
Deposits and investments with City Treasury	-	1,746,544	1,746,544	-	-
Deposits and investments outside City Treasury	4,816	713,935	718,751	-	-
Grants and other receivables	-	25,653	25,653	-	-
Capital assets:					
Land and other assets not being depreciated	891,208	2,386,005	3,277,213	-	-
Facilities, infrastructure, and equipment, net of depreciation	2,797,038	9,494,768	12,291,806	-	-
Total capital assets	3,688,246	11,880,773	15,569,019	-	-
Total noncurrent assets	3,794,018	14,451,949	18,245,967	-	-
Total assets	6,538,484	16,561,965	23,100,449	-	5,266
Deferred outflows on derivative instruments	-	98,979	98,979	-	-
Total assets and deferred outflows	$ 6,538,484	$ 16,660,944	$23,199,428	$ -	$ 5,266

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets (continued)
June 30, 2012
(In Thousands)

	Primary Government			Component Units	
	Governmental Activities	Business-Type Activities	Total	San Francisco Redevelop-ment Agency	Treasure Island Development Authority
LIABILITIES					
Current liabilities:					
Accounts payable	$ 261,626	$ 211,620	$ 473,246	$ -	$ 328
Accrued payroll	124,681	100,364	225,045	-	-
Accrued vacation and sick leave pay	76,189	53,308	129,497	-	-
Accrued workers' compensation	41,192	25,230	66,422	-	-
Estimated claims payable	36,793	20,849	57,642	-	-
Bonds, loans, capital leases, and other payables	329,589	582,010	911,599	-	-
Capital lease payable to other governmental agency	1,740	-	1,740	-	.
Accrued interest payable	11,670	45,467	57,137	-	-
Unearned grant and subvention revenues	12,516	-	12,516	-	-
Due to primary government	-	-	-	-	39
Internal balances	1,267	(1,267)	-	-	-
Deferred credits and other liabilities	298,302	325,979	624,281	-	751
Liabilities payable from restricted assets:					
Bonds, loans, capital leases, and other payables	-	35,842	35,842	-	-
Accrued interest payable	-	28,837	28,837	-	-
Other	-	180,626	180,626	-	-
Total current liabilities	1,195,565	1,608,865	2,804,430	-	1,118
Noncurrent liabilities:					
Accrued vacation and sick leave pay	73,883	44,880	118,763	-	-
Accrued workers' compensation	185,236	119,226	304,462	-	-
Other postemployment benefits obligation	754,501	552,217	1,306,718	-	-
Estimated claims payable	75,601	36,144	111,745	-	-
Bonds, loans, capital leases, and other payables	2,309,830	9,087,262	11,397,092	-	-
Advance from primary government	-	-	-	-	13,552
Capital lease payable to other governmental agency	20,319	-	20,319	-	-
Deferred credits and other liabilities	3,539	64,225	67,764	-	-
Derivative instruments liabilities	-	116,859	116,859	-	-
Total noncurrent liabilities	3,422,909	10,020,813	13,443,722	-	13,552
Total liabilities	4,618,474	11,629,678	16,248,152	-	14,670
NET ASSETS					
Invested in capital assets, net of related debt, Note 2(k)	2,199,316	4,519,090	6,459,434	-	-
Restricted for:					
Reserve for rainy day	34,109	-	34,109	-	-
Debt service	48,202	53,951	102,153	-	-
Capital projects, Note 2(k)	91,997	176,570	246,027	-	-
Community development	240,771	-	240,771	-	-
Transportation Authority activities	6,705	-	6,705	-	-
Building inspection programs	49,364	-	49,364	-	-
Children and families	53,632	-	53,632	-	-
Culture and recreation	67,051	-	67,051		
Grants	54,630	-	54,630	-	-
Other purposes	28,702	18,913	47,615	-	-
Total restricted	675,163	249,434	902,057	-	-
Unrestricted (deficit), Note 2(k)	(954,469)	262,742	(410,215)	-	(9,404)
Total net assets (deficit)	$ 1,920,010	$ 5,031,266	$ 6,951,276	$ -	$ (9,404)

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Activities

Year Ended June 30, 2012

(In Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Assets				
					Primary Government			Component Units	
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Govern-mental Activities**	**Business-Type Activities**	**Total**	**San Francisco Redevelop-ment Agency**	**Treasure Island Development Authority**
Primary government:									
Governmental activities:									
Public protection....................	$1,158,618	$ 61,412	$ 163,084	$ -	$ (934,122)	$ -	$ (934,122)	$ -	$ -
Public works, transportation and commerce....................	210,415	93,809	52,947	31,584	(32,075)	-	(32,075)	-	-
Human welfare and neighborhood development...	942,523	68,794	502,567	-	(371,162)	-	(371,162)	-	-
Community health..................	673,905	58,864	266,048	3,056	(345,937)	-	(345,937)	-	-
Culture and recreation.............	307,269	78,828	3,402	6,534	(218,505)	-	(218,505)	-	-
General administration and finance...............................	237,818	44,358	5,933	-	(187,527)	-	(187,527)	-	-
General City responsibilities....	96,147	29,142	4,720	-	(62,285)	-	(62,285)	-	-
Unallocated interest on long-term debt.....................	110,145	-	-	-	(110,145)	-	(110,145)	-	-
Total governmental activities.......................	3,736,840	435,207	998,701	41,174	(2,261,758)	-	(2,261,758)	-	-
Business-type activities:									
Airport...................................	746,610	668,672	-	14,538	-	(63,400)	(63,400)	-	-
Transportation........................	959,088	350,464	128,003	152,887	-	(327,734)	(327,734)	-	-
Port......................................	72,307	77,260	5,348	6,550	-	16,851	16,851	-	-
Water....................................	431,248	342,101	2,199	-	-	(86,948)	(86,948)	-	-
Power....................................	130,709	127,309	2,581	-	-	(819)	(819)	-	-
Hospitals...............................	954,566	740,920	60,208	-	-	(153,438)	(153,438)	-	-
Sewer...................................	214,593	244,155	1,979	-	-	31,541	31,541	-	-
Market...................................	1,138	1,672	-	-	-	534	534	-	-
Total business-type activities.......................	3,510,259	2,552,553	200,318	173,975	-	(583,413)	(583,413)	-	-
Total primary government.............	$7,247,099	$2,987,760	$ 1,199,019	$ 215,149	(2,261,758)	(583,413)	(2,845,171)	-	-
Component units:									
San Francisco Redevelopment Agency..................................	$ 128,319	$ 14,969	$ 8,423	$ -				(104,927)	-
Treasure Island Development Authority................................	8,162	8,115	-	-				-	(47)
Total component units...................	$ 136,481	$ 23,084	$ 8,423	$ -				(104,927)	(47)
General Revenues:									
Taxes:									
Property taxes..					1,355,855	-	1,355,855	53,914	-
Business taxes..					437,678	-	437,678	-	-
Sales and use tax..					198,236	-	198,236	-	-
Hotel room tax..					239,567	-	239,567	1,418	-
Utility users tax..					91,676	-	91,676	-	-
Other local taxes..					353,746	-	353,746	-	-
Interest and investment income..					31,453	82,533	113,986	465	87
Other..					91,236	288,584	379,820	10,773	-
Transfers - internal activities of primary government.................					(251,088)	251,088	-	-	-
Total general revenues and transfers.............................					2,548,359	622,205	3,170,564	66,570	87
Extraordinary gain from dissolution of the Redevelopment Agency...					323,130	-	323,130	364,019	-
Change in net assets..					609,731	38,792	648,523	325,662	40
Net assets (deficit) - beginning..					1,310,279	4,992,474	6,302,753	(325,662)	(9,444)
Net assets (deficit) - ending...					$ 1,920,010	$ 5,031,266	$ 6,951,276	$ -	$ (9,404)

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

CITY AND COUNTY OF SAN FRANCISCO

Balance Sheet – Governmental Funds
June 30, 2012
(with comparative total financial information as of June 30, 2011)
(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2012	2011	2012	2011	2012	2011
ASSETS						
Deposits and investments with City Treasury	$ 530,443	$ 386,246	$ 1,323,276	$ 938,304	$ 1,853,719	$ 1,324,550
Deposits and investments outside City Treasury	635	860	80,613	116,317	81,248	117,177
Receivables (net of allowance for uncollectible amounts of $128,739 in 2012; $95,441 in 2011):						
Property taxes and penalties	47,374	45,278	8,454	7,943	55,828	53,221
Other local taxes	211,788	186,137	16,246	14,869	228,034	201,006
Federal and state grants and subventions	186,838	162,130	139,676	132,200	326,514	294,330
Charges for services	43,435	39,884	16,326	12,814	59,761	52,698
Interest and other	808	805	6,288	4,358	7,096	5,163
Due from other funds	47,281	27,833	5,149	8,753	52,430	36,586
Due from / advance to component unit	18,337	16,253	10,604	11,413	28,941	27,666
Loans receivable (net of allowance for uncollectible amounts of $559,893 in 2012; $530,590 in 2011)	157	-	66,973	71,346	67,130	71,346
Deferred charges and other assets	3,829	6,520	12,008	4,348	15,837	10,868
Total assets	$ 1,090,925	$ 871,946	$ 1,685,613	$ 1,322,665	$ 2,776,538	$ 2,194,611
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	$ 108,407	$ 89,882	$ 145,675	$ 115,476	$ 254,082	$ 205,358
Accrued payroll	99,721	81,547	22,637	19,400	122,358	100,947
Deferred tax, grant and subvention revenues	113,684	116,330	81,359	66,184	195,043	182,514
Due to other funds	1,212	750	49,664	41,550	50,876	42,300
Deferred credits and other liabilities	312,176	255,431	108,088	112,976	420,264	368,407
Bonds, loans, capital leases, and other payables	-	-	196,834	167,519	196,834	167,519
Total liabilities	635,200	543,940	604,257	523,105	1,239,457	1,067,045
Fund balances:						
Nonspendable	19,598	20,501	1,104	192	20,702	20,693
Restricted	34,109	33,439	1,189,102	831,269	1,223,211	864,708
Committed	79,276	33,431	-	-	79,276	33,431
Assigned	305,413	240,635	28,006	27,622	333,419	268,257
Unassigned	17,329	-	(136,856)	(59,523)	(119,527)	(59,523)
Total fund balances	455,725	328,006	1,081,356	799,560	1,537,081	1,127,566
Total liabilities and fund balances	$ 1,090,925	$ 871,946	$ 1,685,613	$ 1,322,665	$ 2,776,538	$ 2,194,611

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, 2012
(In Thousands)

Fund balances – total governmental funds	$ 1,537,081
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	3,682,775
Bond issue costs are not financial resources and, therefore, are not reported in the funds.	17,380
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(3,415,075)
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(9,912)
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.	302,874
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.	(195,113)
Net assets of governmental activities	$ 1,920,010

CITY AND COUNTY OF SAN FRANCISCO

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

Year Ended June 30, 2012
(with comparative total financial information for the year ended June 30, 2011)
(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2012	2011	2012	2011	2012	2011
Revenues:						
Property taxes	$ 1,056,143	$ 1,090,776	$ 296,714	$ 289,580	$ 1,352,857	$ 1,380,356
Business taxes	435,316	391,057	2,362	722	437,678	391,779
Sales and use tax	117,071	106,302	81,165	75,172	198,236	181,474
Hotel room tax	188,665	158,927	50,902	51,035	239,567	209,962
Utility users tax	91,676	91,683	-	-	91,676	91,683
Other local taxes	353,889	251,285	-	-	353,889	251,285
Licenses, permits and franchises	25,022	25,252	14,748	10,725	39,770	35,977
Fines, forfeitures and penalties	8,444	6,868	21,646	4,902	30,090	11,770
Interest and investment income	10,262	5,910	21,109	11,131	31,371	17,041
Rents and concessions	24,932	21,943	64,251	57,052	89,183	78,995
Intergovernmental:						
Federal	198,642	218,394	222,332	266,310	420,974	484,704
State	480,166	438,815	108,366	142,304	588,532	581,119
Other	-	29	33,181	31,988	33,181	32,017
Charges for services	145,797	146,631	119,059	111,384	264,856	258,015
Other	17,090	10,377	66,544	86,817	83,634	97,194
Total revenues	3,153,115	2,964,249	1,102,379	1,139,122	4,255,494	4,103,371
Expenditures:						
Current:						
Public protection	991,275	950,548	87,928	80,633	1,079,203	1,031,181
Public works, transportation and commerce	52,815	25,508	198,064	201,412	250,879	226,920
Human welfare and neighborhood development	626,194	610,063	292,220	260,028	918,414	870,091
Community health	545,962	493,939	107,301	101,283	653,263	595,222
Culture and recreation	100,246	99,156	210,910	211,236	311,156	310,392
General administration and finance	182,898	175,381	20,259	16,260	203,157	191,641
General City responsibilities	96,132	85,329	18	134	96,150	85,463
Debt service:						
Principal retirement	-	-	167,465	148,231	167,465	148,231
Interest and fiscal charges	-	93	103,706	101,623	103,706	101,716
Bond issuance costs	-	-	5,386	2,161	5,386	2,161
Capital outlay	-	-	270,094	214,817	270,094	214,817
Total expenditures	2,595,522	2,440,017	1,463,351	1,337,818	4,058,873	3,777,835
Excess (deficiency) of revenues over (under) expenditures	557,593	524,232	(360,972)	(198,696)	196,621	325,536
Other financing sources (uses):						
Transfers in	120,449	108,072	215,151	196,610	335,600	304,682
Transfers out	(553,190)	(502,378)	(189,529)	(128,247)	(742,719)	(630,625)
Issuance of bonds and loans:						
Face value of bonds issued	-	-	804,090	232,965	804,090	232,965
Face value of loans issued	-	-	4,359	1,813	4,359	1,813
Premium on issuance of bonds	-	-	89,336	16,799	89,336	16,799
Payment to refunded bond escrow agent	-	-	(487,390)	(142,458)	(487,390)	(142,458)
Other financing sources-capital leases	3,682	6,302	8,622	13,467	12,304	19,769
Total other financing sources (uses)	(429,059)	(388,004)	444,639	190,949	15,580	(197,055)
Extraordinary gain/(loss) from dissolution of the Redevelopment Agency	(815)	-	198,129	-	197,314	-
Net change in fund balances	127,719	136,228	281,796	(7,747)	409,515	128,481
Fund balances at beginning of year	328,006	191,778	799,560	807,307	1,127,566	999,085
Fund balances at end of year	$ 455,725	$ 328,006	$ 1,081,356	$ 799,560	$ 1,537,081	$ 1,127,566

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, 2012
(In Thousands)

Net change in fund balances – total governmental funds	$ 409,515
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays exceeded depreciation and loss on disposal of capital assets in the current period plus extraordinary gains on capital assets from the dissolution of the Redevelopment Agency.	374,457
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.	(136,045)
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	2,998
Some other revenues that do not provide current financial resources are not reported as revenues in the governmental funds but are recognized in the statement of activities.	16,623
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.	(4,216)
Lease payments on the Moscone Convention Center (including both principal and interest) are reported as expenditures in the governmental funds when paid. For the City as a whole, however, the principal portion of the payments serves to reduce the liability in the statement of net assets. This is the amount of property rent payments expended in the governmental funds that were reclassified as capital lease principal and interest payments in the current period.	26,650
Bond issue costs are expended 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.	4,276
The issuance of long-term debt and capital leases provides current financial resources to governmental funds, while the repayment of the principal of long-term debt and capital leases consume the current financial resources of governmental funds. These transactions, however, have no effect on net assets. This is the amount by which bond and other debt proceeds exceeded principal retirement in the current period.	(153,594)
In addition, governmental funds do not report the balances of long-term debt nor its re-assignment to enterprise fund. This is the amount of transfer of the liability to the Laguna Honda Hospital fund for the re-assignment of the Certificates of Participation previously issued by the City for the construction and furnishings of Laguna Honda and reported in the governmental activities.	156,545
Bond premiums are reported in the governmental funds when the bonds are issued, and are capitalized and amortized in the statement of net assets. This is the amount of bond premiums capitalized during the current period.	(89,336)
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.	(434)
The net revenues of the activities of internal service funds are reported with governmental activities.	2,292
Change in net assets of governmental activities	$ 609,731

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement – General Fund
Year Ended June 30, 2012
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Budgetary Fund Balance, July 1	$ 172,142	$ 427,886	$ 427,886	$ -
Resources (Inflows):				
Property taxes	1,028,677	1,028,677	1,059,211	30,534
Business taxes	389,878	389,878	435,316	45,438
Other local taxes:				
Sales tax	106,566	106,766	117,071	10,305
Hotel room tax	165,864	165,864	188,665	22,801
Utility users tax	95,590	95,590	91,676	(3,914)
Parking tax	71,973	71,973	76,645	4,672
Real property transfer tax	162,262	162,262	277,244	114,982
Licenses, permits, and franchises:				
Licenses and permits	8,614	8,614	9,239	625
Franchise tax	15,723	15,723	15,783	60
Fines, forfeitures, and penalties	7,710	7,710	8,444	734
Interest and investment income	6,050	6,050	10,485	4,435
Rents and concessions:				
Garages - Recreation and Park	10,094	10,094	10,744	650
Rents and concessions - Recreation and Park	10,665	10,665	12,641	1,976
Other rents and concessions	2,135	2,135	3,267	1,132
Intergovernmental:				
Federal grants and subventions	208,783	204,949	196,358	(8,591)
State subventions:				
Social service subventions	114,151	100,428	67,043	(33,385)
Health / mental health subventions	142,792	112,623	104,651	(7,972)
Health and welfare realignment	143,703	176,838	210,191	33,353
Public safety sales tax	69,089	69,089	76,565	7,476
Motor vehicle in-lieu - county	1,711	1,711	776	(935)
Other grants and subventions	4,489	13,848	19,401	5,553
Allowance for state revenue reduction	(6,341)	-	-	-
Charges for services:				
General government service charges	46,729	46,828	48,458	1,630
Public safety service charges	22,628	22,638	23,735	1,097
Recreation charges - Recreation and Park	12,085	12,102	13,385	1,283
MediCal, MediCare and health service charges	72,105	72,110	60,298	(11,812)
Other financing sources:				
Transfers from other funds	157,199	160,187	117,602	(42,585)
Repayment of loan from Component Unit	589	589	-	(589)
Other resources (inflows)	18,254	19,232	15,496	(3,736)
Subtotal - Resources (Inflows)	3,089,767	3,095,173	3,270,390	175,217
Total amounts available for appropriation	3,261,909	3,523,059	3,698,276	175,217

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement – General Fund (continued)
Year Ended June 30, 2012
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Charges to Appropriations (Outflows):				
Public Protection				
Adult Probation	$ 13,259	$ 16,023	$ 14,307	$ 1,716
District Attorney	34,218	34,968	34,682	286
Emergency Communications	38,151	41,001	40,994	7
Fire Department	274,278	276,352	276,352	-
Juvenile Probation	32,129	29,235	29,197	38
Police Department	393,194	399,745	399,745	-
Public Defender	25,730	26,126	26,126	-
Sheriff	150,827	135,508	134,210	1,298
Superior Court	32,847	32,882	32,882	-
Subtotal - Public Protection	994,633	991,840	988,495	3,345
Public Works, Transportation and Commerce				
Board of Appeals	925	922	739	183
Business and Economic Development	17,832	16,933	16,169	764
Clean Water	-	-	-	-
General Services Agency - Public Works	32,831	35,955	35,610	345
Hetch Hetchy	-	1	1	-
Municipal Transportation Agency	-	65	64	1
Water Department	-	2	2	-
Subtotal - Public Works, Transportation and Commerce	51,588	53,878	52,585	1,293
Human Welfare and Neighborhood Development				
Children, Youth and Their Families	28,444	29,555	28,169	1,386
Commission on the Status of Women	3,311	3,294	3,273	21
County Education Office	116	116	116	-
Environment	46	428	409	19
Human Rights Commission	934	1,075	1,075	-
Human Services	639,984	640,361	590,027	50,334
Mayor - Housing/Neighborhoods	1,915	3,124	3,124	-
Subtotal - Human Welfare and Neighborhood Development	674,750	677,953	626,193	51,760
Community Health				
Public Health	575,446	573,970	545,962	28,008
Culture and Recreation				
Academy of Sciences	4,023	4,023	3,995	28
Art Commission	7,981	7,076	7,070	6
Asian Art Museum	7,215	7,172	7,172	-
Fine Arts Museum	11,537	11,789	11,789	-
Law Library	751	754	607	147
Recreation and Park Commission	69,232	68,948	68,948	-
Subtotal - Culture and Recreation	100,739	99,762	99,581	181

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Statement – General Fund (continued)

Year Ended June 30, 2012
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
General Administration and Finance				
Assessor/Recorder	$ 19,141	$ 18,039	$ 16,448	$ 1,591
Board of Supervisors	10,626	11,002	10,420	582
City Attorney	7,829	8,587	8,587	-
City Planning	21,182	22,171	22,171	-
Civil Service	514	545	545	-
Controller	11,281	12,583	11,037	1,546
Elections	14,908	14,925	14,393	532
Ethics Commission	8,349	4,234	4,052	182
General Services Agency - Administrative Services	64,590	56,225	55,512	713
General Services Agency - Telecomm and Info Services	1,439	1,792	1,786	6
Health Service System	167	153	88	65
Human Resources	9,603	12,156	12,123	33
Mayor	4,020	4,288	4,084	204
Retirement Services	764	810	810	-
Treasurer/Tax Collector	22,682	22,504	20,664	1,840
Subtotal - General Administration and Finance	197,095	190,014	182,720	7,294
General City Responsibilities				
General City Responsibilities	86,226	99,274	93,225	6,049
Other financing uses:				
Debt Service	3,604	-	-	-
Transfers to other funds	528,328	567,706	552,418	15,288
Budgetary reserves and designations	49,500	11,112	-	11,112
Total charges to appropriations	3,261,909	3,265,509	3,141,179	124,330
Total Sources less Current Year Uses	$ -	$ 257,550	$ 557,097	$ 299,547
Budgetary fund balance, June 30 before reserves and designations			$ 557,097	
Reserves and designations made from budgetary fund balance, June 30			336,820	
Net Available Budgetary Fund Balance, June 30			$ 220,277	

Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation"	$ 3,698,276
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	(427,886)
Property tax revenue - Teeter Plan net change from prior year	(3,068)
Change in unrealized gain/(loss) on investments	5,228
Interest earnings / charges from other funds assigned to General Fund as interest adjustment	(5,453)
Interest earnings from other funds assigned to General Fund as other revenues	3,379
Grants, subventions and other receivables received after 120-day recognition period	1,657
Pre-paid lease revenue, Civic Center Garage	(1,416)
Transfers from other funds are inflows of budgetary resources but are not revenues for financial reporting purposes	(117,602)
Total revenues as reported on the statement of revenues, expenditures, and changes in fund balance - General Fund	$ 3,153,115
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations"	$ 3,141,179
Difference - budget to GAAP:	
Capital asset purchases funded under capital leases with Finance Corporation and other vendors	3,682
Recognition of expenditures for advances and imprest cash	3,079
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(552,418)
Total expenditures as reported on the statement of revenues, expenditures, and changes in fund balances - General Fund	$ 2,595,522

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets – Proprietary Funds

June 30, 2012
(with comparative total financial information as of June 30, 2011)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco International Airport	San Francisco Water Enterprise	Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total 2012	Total 2011	Governmental Activities - Internal Service Funds 2012	Governmental Activities - Internal Service Funds 2011
ASSETS AND DEFERRED OUTFLOWS													
Assets:													
Current Assets:													
Deposits and investments with City Treasury	$ 343,341	$ 78,960	$ 199,660	$ 425,196	$ 61,885	$ 55,586	$ 92,408	$ 27,120	$ -	$ 1,284,156	$ 1,114,318	$ 33,639	$ 28,899
Deposits and investments outside City Treasury	10	162	10	4,033	10	204	5	2	5,631	10,067	9,387	10	-
Receivables (net of allowance for uncollectible amounts of $44,315 and $31,498 in 2012 and 2011, respectively):													
Federal and state grants and subventions	-	342	62	76,944	8,015	1,693	7,219	-	-	94,275	78,080	-	-
Charges for services	40,754	51,181	9,678	5,025	44,938	35,642	3,255	47,147	10	237,630	233,294	119	134
Interest and other	1,337	12,317	128	3,723	60,168	555	7,669	-	-	85,897	70,663	643	701
Lease receivable	-	-	-	-	-	-	-	-	-	-	-	20,813	18,984
Due from other funds	-	194	16,667	14,740	271	28	274	-	-	32,174	49,683	-	-
Due from component unit	-	-	-	-	-	-	-	-	-	-	58	-	-
Inventories	113	7,882	296	54,781	7,174	3,265	1,032	1,157	-	75,700	75,570	-	-
Deferred charges and other assets	2,226	-	4,940	355	-	-	150	-	28	7,699	10,451	-	-
Restricted assets:													
Deposits and investments with City Treasury	47,198	-	-	-	-	-	41,534	48,900	-	137,632	147,470	-	-
Deposits and investments outside City Treasury	54,613	81,129	-	-	-	-	3,262	25,027	13	164,044	129,156	61,713	67,709
Grants and other receivables	12,916	-	-	-	-	-	-	-	-	12,916	12,303	-	-
Total current assets	502,508	232,167	231,441	584,797	182,461	96,973	156,808	149,353	5,682	2,142,190	1,930,433	116,937	116,427
Noncurrent assets:													
Deferred charges and other assets	28,753	42,485	325	1,608	-	4,815	1,745	1,486	-	81,217	69,396	4,655	4,789
Lease receivable	-	-	-	-	-	-	-	-	-	-	-	252,927	261,683
Advance to component unit	-	-	3,827	-	-	-	-	-	-	3,827	4,027	-	-
Restricted assets:													
Deposits and investments with City Treasury	70,367	1,596,856	21,479	3,740	-	54,102	-	-	-	1,746,544	1,328,362	-	-
Deposits and investments outside City Treasury	309,009	358,309	3,252	10,630	7,805	23,348	-	1,287	295	713,935	666,179	4,816	9,796
Grants and other receivables	10,995	5,656	260	3,488	-	5,201	-	53	-	25,653	19,644	-	-
Capital assets:													
Land and other assets not being depreciated	88,926	1,411,250	72,296	463,856	38,314	158,959	149,621	11	2,772	2,386,005	1,992,041	-	-
Facilities, infrastructure, and equipment, net of depreciation	3,645,500	1,822,916	263,099	1,651,850	33,993	1,375,178	145,097	553,777	3,358	9,494,768	8,944,225	5,471	6,132
Total capital assets	3,734,426	3,234,166	335,395	2,115,706	72,307	1,534,137	294,718	553,788	6,130	11,880,773	10,936,266	5,471	6,132
Total noncurrent assets	4,153,550	5,237,472	364,538	2,135,172	80,112	1,621,603	296,463	556,614	6,425	14,451,949	13,023,874	267,869	282,400
Total assets	4,656,058	5,469,639	595,979	2,719,969	262,573	1,718,576	453,271	705,967	12,107	16,594,139	14,954,307	384,806	398,827
Deferred outflows on derivative instruments	98,979	-	-	-	-	-	-	-	-	98,979	63,382	-	-
Total assets and deferred outflows	4,755,037	5,469,639	595,979	2,719,969	262,573	1,718,576	453,271	705,967	12,107	16,693,118	15,017,689	384,806	398,827

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Assets – Proprietary Funds (continued)

June 30, 2012
(with comparative total financial information as of June 30, 2011)
(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total 2012	Total 2011	Governmental Activities - Internal Service Funds 2012	Governmental Activities - Internal Service Funds 2011
LIABILITIES													
Current liabilities:													
Accounts payable	$ 29,162	$ 8,490	$ 19,628	$ 77,348	$ 30,252	$ 21,490	$ 13,516	$ 11,164	$ 570	$ 211,620	$ 167,102	$ 7,544	$ 5,699
Accrued payroll	13,535	9,355	2,793	33,022	24,261	5,323	2,341	9,734	-	100,364	81,024	2,323	1,965
Accrued vacation and sick leave pay	7,943	6,182	1,634	16,328	11,634	2,986	1,200	5,401	-	53,308	49,624	1,475	1,485
Accrued workers' compensation	998	1,403	433	14,806	3,845	734	425	2,586	-	25,230	24,547	183	156
Estimated claims payable	503	2,899	529	13,411	-	2,231	1,276	-	-	20,849	36,972	-	-
Due to other funds	-	3,695	214	3,731	1,440	3,057	316	18,454	-	30,907	37,166	2,821	6,803
Deferred credits and other liabilities	57,622	7,396	66	138,630	87,130	5,468	15,358	14,245	64	325,979	225,845	65,684	73,632
Accrued interest payable	-	35,164	429	98	122	6,946	829	1,879	-	45,467	37,205	1,758	1,764
Bonds, loans, capital leases, and other payables	315,153	221,936	1,277	3,575	2,113	31,938	805	5,213	-	582,010	342,627	19,390	17,545
Liabilities payable from restricted assets:													
Bonds, loans, capital leases, and other payables	35,842	-	-	-	-	-	-	-	-	35,842	24,348	-	-
Accrued interest payable	28,837	-	-	-	-	-	-	-	-	28,837	30,191	-	-
Other	26,460	143,907	832	1,241	-	7,484	-	702	-	180,626	143,642	-	-
Total current liabilities	516,055	440,427	27,835	302,190	160,797	87,657	36,066	69,378	634	1,641,039	1,200,293	101,178	109,049
Noncurrent liabilities:													
Accrued vacation and sick leave pay	7,686	6,361	1,450	11,951	9,261	2,712	1,114	4,345	-	44,880	40,939	1,604	1,559
Accrued workers' compensation	4,077	6,561	1,888	73,033	18,150	3,193	2,372	9,952	-	119,226	123,639	812	718
Other postemployment benefits obligation	75,824	73,009	14,302	153,369	142,198	26,513	13,390	53,612	-	552,217	448,966	15,380	12,906
Estimated claims payable	829	6,196	2,142	20,320	-	6,307	350	-	-	36,144	61,465	-	-
Deferred credits and other liabilities	-	11,291	1,032	23,850	-	571	27,346	-	135	64,225	66,732	-	-
Bonds, loans, capital leases, and other payables	3,743,095	4,567,299	34,678	39,776	22,816	491,270	37,157	151,171	-	9,087,262	8,014,877	255,896	264,988
Derivative instruments liabilities	116,859	-	-	-	-	-	-	-	-	116,859	68,304	-	-
Total noncurrent liabilities	3,948,370	4,670,717	55,492	322,299	192,425	530,566	81,729	219,080	135	10,020,813	8,824,922	273,692	280,171
Total liabilities	4,464,425	5,111,144	83,327	624,489	353,222	618,223	117,795	288,458	769	11,661,852	10,025,215	374,870	389,220
NET ASSETS													
Invested in capital assets, net of related debt	4,190	301,267	309,640	2,072,355	55,160	1,070,097	277,819	422,432	6,130	4,519,090	4,481,404	4,652	4,873
Restricted:													
Debt service	25,711	27,213	-	-	-	1,027	-	-	-	53,951	62,421	-	-
Capital projects	71,109	13,665	14,282	-	-	19,787	16,193	41,534	-	176,570	161,580	-	-
Other purposes	-	-	-	16,617	-	-	-	1,989	307	18,913	18,741	-	-
Unrestricted (deficit)	189,602	16,350	188,730	6,508	(145,809)	9,442	41,464	(48,446)	4,901	262,742	268,328	5,284	4,734
Total net assets (deficit)	$ 290,612	$ 358,495	$ 512,652	$ 2,095,480	$ (90,649)	$ 1,100,353	$ 335,476	$ 417,509	$ 11,338	$ 5,031,266	$ 4,992,474	$ 9,936	$ 9,607

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, 2012

(with comparative total financial information for the year ended June 30, 2011)

(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco International Airport	San Francisco Water Enterprise	Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total 2012	Total 2011	Governmental Activities - Internal Service Funds 2012	Governmental Activities - Internal Service Funds 2011
Operating revenues:													
Aviation	$ 374,767	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 374,767	$ 340,812	$ -	$ -
Water and power service	-	324,169	127,066	-	-	-	-	-	-	451,235	411,167	-	-
Passenger fees	-	-	-	200,972	-	-	-	-	-	200,972	190,181	-	-
Net patient service revenue	-	-	-	-	600,871	-	-	132,976	-	733,847	714,867	-	-
Sewer service	-	-	-	-	-	233,628	-	-	-	233,628	220,586	-	-
Rents and concessions	122,366	9,398	243	6,617	2,887	-	57,802	-	-	199,313	183,041	-	-
Parking and transportation	104,254	-	-	109,306	-	-	17,159	-	-	230,719	210,213	-	-
Other charges for services	-	-	-	2,233	-	-	-	-	1,672	3,905	4,343	97,266	101,398
Other revenues	67,285	8,534	-	31,336	3,638	10,527	2,299	548	-	124,167	124,342	-	-
Total operating revenues	668,672	342,101	127,309	350,464	607,396	244,155	77,260	133,524	1,672	2,552,553	2,399,552	97,266	101,398
Operating expenses:													
Personal services	238,382	114,337	44,575	599,944	433,060	82,709	32,318	172,850	226	1,718,401	1,596,041	43,465	42,182
Contractual services	56,155	14,838	5,816	66,180	189,417	13,257	5,347	7,282	611	358,903	333,043	29,727	31,123
Light, heat and power	20,096	-	21,539	-	-	-	2,111	-	-	43,746	40,560	-	-
Materials and supplies	14,130	12,140	2,902	86,443	70,265	8,921	1,051	14,516	5	210,373	200,052	15,041	13,920
Depreciation and amortization	167,309	64,595	13,855	118,518	5,230	44,799	15,070	15,297	288	444,961	419,071	1,691	1,970
General and administrative	1,657	49,257	36,099	30,369	777	12,879	3,518	-	8	134,564	101,773	385	398
Services provided by other departments	12,555	49,395	5,824	54,294	36,359	33,292	16,395	8,873	-	216,987	204,786	5,331	5,777
Other	32,779	-	-	947	-	-	(5,270)	-	-	28,456	14,494	704	4,916
Total operating expenses	543,063	304,562	130,610	956,695	735,108	195,857	70,540	218,818	1,138	3,156,391	2,909,820	96,344	100,286
Operating income (loss)	125,609	37,539	(3,301)	(606,231)	(127,712)	48,298	6,720	(85,294)	534	(603,838)	(510,268)	922	1,112
Nonoperating revenues (expenses):													
Operating grants:													
Federal	-	2,199	2,581	21,432	-	1,979	4,675	291	-	33,157	28,034	-	-
State / other	-	-	-	106,571	59,917	-	673	-	-	167,161	176,119	-	-
Interest and investment income	32,353	33,450	3,463	5,983	570	2,975	2,559	1,177	3	82,533	42,299	6,475	6,482
Interest expense	(203,547)	(126,686)	(99)	(2,393)	(121)	(18,736)	(1,767)	(519)	-	(353,868)	(325,093)	(6,005)	(6,059)
Other, net	64,682	29,320	29	109,671	-	4,557	(3,173)	83,498	-	288,584	214,993	124	-
Total nonoperating revenues (expenses)	(106,512)	(61,717)	5,974	241,264	60,366	(9,225)	2,967	84,447	3	217,567	136,352	594	423
Income (loss) before capital contributions and transfers	19,097	(24,178)	2,673	(364,967)	(67,346)	39,073	9,687	(847)	537	(386,271)	(373,916)	1,516	1,535
Capital contributions	14,538	-	-	152,887	-	-	6,550	-	-	173,975	225,112	-	-
Transfers in	-	1,500	14,073	357,357	128,578	-	10,405	40,528	-	552,441	462,732	29	1,018
Transfers out	(33,993)	(15,085)	(2)	(10,717)	(81,030)	(1)	(673)	(159,852)	-	(301,353)	(137,348)	(1,216)	(459)
Change in net assets	(358)	(37,763)	16,744	134,560	(19,798)	39,072	25,969	(120,171)	537	38,792	176,580	329	2,094
Net assets (deficit) at beginning of year	290,970	396,258	495,908	1,960,920	(70,851)	1,061,281	309,507	537,680	10,801	4,992,474	4,815,894	9,607	7,513
Net assets (deficit) at end of year	$ 290,612	$ 358,495	$ 512,652	$ 2,095,480	$ (90,649)	$ 1,100,353	$ 335,476	$ 417,509	$ 11,338	$ 5,031,266	$ 4,992,474	$ 9,936	$ 9,607

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Cash Flows – Proprietary Funds

Year ended June 30, 2012
(with comparative total financial information for the year ended June 30, 2011)
(In Thousands)

	Business-type Activities - Enterprise Funds											Governmental Activities - Internal Service Funds	
	Major Funds								Other Fund				
	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total 2012	Total 2011	2012	2011
Cash flows from operating activities:													
Cash received from customers, including cash deposits..........	$ 675,812	$ 349,960	$ 123,116	$ 497,199	$ 616,375	$ 247,166	$ 12,725	$ 125,425	$ 1,671	$ 2,649,449	$ 2,487,878	$ 118,566	$ 122,115
Cash received from tenants for rent.......................................	-	8,599	243	-	2,887	806	62,406	-	-	74,941	73,460	-	-
Cash paid to employees for services.....................................	(219,203)	(96,647)	(39,418)	(571,505)	(398,230)	(74,338)	(29,016)	(159,617)	(226)	(1,588,200)	(1,484,098)	(40,480)	(40,082)
Cash paid to suppliers for goods and services.......................	(156,296)	(128,073)	(64,885)	(264,512)	(295,628)	(54,322)	(31,045)	(30,508)	(408)	(1,025,677)	(906,388)	(69,035)	(84,083)
Cash paid for judgments and claims.....................................	-	(4,366)	(2,203)	(16,730)	-	(3,195)	-	-	-	(26,494)	(33,912)	-	-
Net cash provided by (used in) operating activities...........	300,313	129,473	16,853	(355,548)	(74,596)	116,117	15,070	(64,700)	1,037	84,019	136,940	9,051	(2,050)
Cash flows from noncapital financing activities:													
Operating grants...	-	1,385	3,155	119,696	52,211	531	1,327	240	-	178,545	210,185	-	-
Transfers in..	-	-	27,709	293,680	128,578	-	-	4,657	-	454,624	375,428	29	1,018
Transfers out..	(33,993)	(28,723)	-	(12,485)	(81,030)	(1)	(673)	(28,335)	-	(185,240)	(126,479)	(1,216)	(459)
Other noncapital financing increases....................................	2,478	-	-	2,655	-	-	-	5,689	-	10,822	5,586	-	-
Other noncapital financing decreases...................................	-	-	-	(4,052)	(231)	-	-	-	-	(4,283)	(14,429)	-	-
Net cash provided by (used in) noncapital financing activities......................................	(31,515)	(27,338)	30,864	399,494	99,528	530	654	(17,749)	-	454,468	450,291	(1,187)	559
Cash flows from capital and related financing activities:													
Capital grants and other taxes restricted for capital purposes...	10,308	-	-	288,263	-	-	831	83,497	-	382,899	184,824	-	-
Transfers in..	-	1,500	-	-	-	-	10,395	35,871	-	47,766	73,666	-	-
Transfers out..	-	-	-	-	-	-	-	-	-	-	(10,869)	-	-
Bond sale proceeds and loans received................................	6,273	1,509,434	14,891	-	-	-	-	344	-	1,530,942	1,002,929	10,150	38,351
Proceeds from sale/transfer of capital assets........................	-	6	21	2,584	-	-	25	-	-	2,636	1,731	-	-
Proceeds from commercial paper borrowings.........................	10,450	24,000	-	-	-	-	-	-	-	34,450	156,650	-	-
Proceeds from passenger facility charges.............................	78,156	-	-	-	-	-	-	-	-	78,156	76,543	-	-
Acquisition of capital assets..	(99,753)	(714,925)	(47,501)	(199,151)	(18,677)	(136,674)	(32,425)	(27,109)	(561)	(1,276,776)	(1,226,347)	(929)	(918)
Retirement of capital leases, bonds and loans.......................	(135,760)	(199,900)	(422)	(3,405)	(1,028)	(31,604)	(776)	(136)	-	(373,031)	(240,399)	(17,545)	(42,429)
Bond issue costs paid...	-	(11,886)	(147)	-	-	-	-	-	-	(12,033)	(6,312)	(532)	(616)
Interest paid on debt...	(208,049)	(188,881)	(985)	(2,338)	(121)	(27,250)	(2,316)	(519)	-	(430,459)	(394,180)	(6,002)	(6,171)
Other capital financing increases..	-	26,010	285	18	2,779	4,292	550	30,069	-	64,003	29,222	-	426
Other capital financing decreases...	-	-	-	-	-	-	(5,609)	-	-	(5,609)	(2,085)	-	(6)
Net cash provided by (used in) capital and related financing activities..........................	(338,375)	445,358	(33,858)	85,971	(17,047)	(191,236)	(29,325)	122,017	(561)	42,944	(354,627)	(14,858)	(11,363)
Cash flows from investing activities:													
Purchases of investments with trustees................................	(2,146,754)	(503,600)	(37,424)	-	-	(115,502)	-	-	(415)	(2,803,695)	(3,522,852)	-	(43,199)
Proceeds from sale of investments with trustees....................	2,146,893	508,076	41,652	-	-	127,427	-	-	414	2,824,462	3,365,954	14,489	47,289
Interest and investment income...	15,769	32,666	3,344	5,830	570	2,676	2,476	1,113	3	64,447	45,999	593	110
Other investing activities...	-	-	-	-	-	-	-	-	-	-	-	(8)	(60)
Net cash provided by (used in) investing activities............	15,908	37,142	7,572	5,830	570	14,601	2,476	1,113	2	85,214	(110,899)	15,074	4,140
Net increase (decrease) in cash and cash equivalents...............	(53,669)	584,635	21,431	135,747	8,455	(59,988)	(11,125)	40,681	478	666,645	121,705	8,080	(8,714)
Cash and cash equivalents-beginning of year............................	510,909	1,266,903	201,779	307,852	61,245	174,153	147,923	60,368	5,153	2,736,285	2,614,580	82,206	90,920
Cash and cash equivalents-end of year....................................	$ 457,240	$ 1,851,538	$ 223,210	$ 443,599	$ 69,700	$ 114,165	$ 136,798	$ 101,049	$ 5,631	$ 3,402,930	$ 2,736,285	$ 90,286	$ 82,206

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Cash Flows – Proprietary Funds (continued)

Year ended June 30, 2012

(with comparative total financial information for the year ended June 30, 2011)

(In Thousands)

	Business-type Activities - Enterprise Funds												
	Major Funds								Other Fund				
	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	Total 2012	Total 2011	Governmental Activities - Internal Service Funds 2012	Governmental Activities - Internal Service Funds 2011
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:													
Operating income (loss)	$ 125,609	$ 37,539	$ (3,301)	$ (606,231)	$ (127,712)	$ 48,298	$ 6,720	$ (85,294)	$ 534	$ (603,838)	$ (510,268)	$ 922	$ 1,112
Adjustments for non-cash and other activities:													
Depreciation and amortization	167,309	64,595	13,855	118,518	5,230	44,799	15,070	15,297	288	444,961	419,071	1,691	1,970
Provision for uncollectibles	600	(1,060)	-	(5)	-	(579)	(1,406)	-	-	(2,450)	1,595	-	-
Write-off of capital assets	-	8,729	1,617	-	-	2,051	-	-	-	12,397	5,173	-	-
Other	6,378	(961)	(546)	107,260	-	173	-	-	-	112,304	119,099	124	-
Changes in assets/liabilities:													
Receivables, net	(5,485)	16,516	2,355	(161)	(3,332)	(1,395)	(561)	(21,511)	-	(13,574)	(28,198)	17,044	15,422
Due from other funds	-	(194)	(8,044)	-	(152)	33	(274)	131	-	(8,500)	14,091	-	-
Inventories	4	67	30	398	(655)	4	51	(29)	-	(130)	(3,535)	-	-
Deferred charges and other assets	(5,090)	-	(1,678)	2,355	-	(107)	200	-	-	(4,320)	(3,691)	-	-
Accounts payable	(4,580)	(4,151)	8,947	3,064	1,846	11,676	1,991	60	215	19,068	10,939	1,749	(5,159)
Accrued payroll	2,792	1,677	541	5,512	5,275	689	618	2,053	-	19,157	6,188	358	58
Accrued vacation and sick leave pay	991	968	494	1,198	2,804	502	168	501	-	7,626	(87)	35	(162)
Accrued workers' compensation	109	289	258	(5,182)	(215)	318	1	692	-	(3,730)	(94)	121	(90)
Other postemployment benefits obligation	15,287	12,695	3,081	26,910	26,966	5,640	2,684	9,988	-	103,251	100,679	2,474	2,292
Estimated claims payable	-	(17,895)	541	(14,271)	-	106	300	-	-	(31,219)	(3,841)	-	-
Due to other funds	-	-	-	3,731	-	(126)	-	-	-	3,605	(779)	(72)	(104)
Deferred credits and other liabilities	(3,611)	10,659	(1,297)	1,356	15,349	4,035	(10,492)	13,412	-	29,411	10,598	(15,395)	(17,389)
Total adjustments	174,704	91,934	20,154	250,683	53,116	67,819	8,350	20,594	503	687,857	647,208	8,129	(3,162)
Net cash provided by (used in) operating activities	$ 300,313	$ 129,473	$ 16,853	$ (355,548)	$ (74,596)	$ 116,117	$ 15,070	$ (64,700)	$ 1,037	$ 84,019	$ 136,940	$ 9,051	$ (2,050)
Reconciliation of cash and cash equivalents to the statement of net assets:													
Deposits and investments with City Treasury:													
Unrestricted	$ 343,341	$ 78,960	$ 199,660	$ 425,196	$ 61,885	$ 55,586	$ 92,408	$ 27,120	$ -	$ 1,284,156	$ 1,114,318	$ 33,639	$ 28,899
Restricted	117,565	1,596,856	21,479	3,740	-	54,102	41,534	48,900	-	1,884,176	1,475,832	-	-
Deposits and investments outside of City Treasury:													
Unrestricted	10	162	10	4,033	10	204	5	2	5,631	10,067	9,387	10	-
Restricted	363,622	439,438	3,252	10,630	7,805	23,348	3,262	26,314	308	877,979	795,335	66,529	77,505
Total deposits and investments	824,538	2,115,416	224,401	443,599	69,700	133,240	137,209	102,336	5,939	4,056,378	3,394,872	100,178	106,404
Less: Investments outside of City Treasury not meeting the definition of cash equivalents	(367,298)	(263,878)	(1,191)	-	-	(19,075)	(411)	(1,287)	(308)	(653,448)	(658,587)	(9,892)	(24,198)
Cash and cash equivalents at end of year on statement of cash flows	$ 457,240	$ 1,851,538	$ 223,210	$ 443,599	$ 69,700	$ 114,165	$ 136,798	$ 101,049	$ 5,631	$ 3,402,930	$ 2,736,285	$ 90,286	$ 82,206
Non-cash capital and related financing activities:													
Acquisition of capital assets on accounts payable and capital lease	$ 27,520	$ 143,907	$ 832	$ 5,000	$ -	$ 7,484	$ 9,180	$ 9,901	$ 126	$ 203,950	$ 152,228	$ 3,455	$ 8,244
In-kind contribution for pier demolition	-	-	-	-	-	-	4,100	-	-	4,100	-	-	-
Net capitalized interest	-	-	-	-	-	-	559	-	-	559	76,080	-	-
Accrued fire insurance settlement	-	-	-	-	-	-	4,500	-	-	4,500	-	-	-
Bond refunding	1,204,069	-	-	-	-	-	-	-	-	1,204,069	470,740	-	-
Interfund loan	-	3,695	214	-	-	2,492	-	-	-	6,401	6,122	-	-
Donated inventory	-	-	-	-	2,996	-	-	-	-	2,996	1,863	-	-
Capital contributions and other noncash capital items	-	-	-	-	-	-	2,993	156,545	-	159,538	18,455	-	-

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, 2012
(In Thousands)

	Pension, Other Employee and Other Post-Employment Benefit Trust Funds	Investment Trust Fund	Private Purpose Trust Fund	Agency Funds
ASSETS				
Deposits and investments with City Treasury	$ 129,057	$ 329,960	$ 46,573	$ 141,704
Deposits and investments outside City Treasury:				
Cash and deposits	28,516	105	-	208
Short-term investments	706,721	-	167,350	-
Alternative investments	2,021,472	-	-	-
Debt securities	4,047,549	-	-	-
Equity securities	7,220,971	-	-	-
Real estate	1,403,412	-	-	-
Foreign currency contracts, net	(15,790)	-	-	-
Invested in securities lending collateral	914,105	-	-	-
Receivables:				
Employer and employee contributions	70,695	-	-	58,441
Brokers, general partners and others	317,884	-	-	-
Federal and state grants and subventions	-	-	2,362	-
Interest and other	37,030	318	25,329	172,095
Deferred charges and other assets	-	-	14,470	34,538
Captial assets (net of accumulated depreciation)	-	-	175,331	-
Total assets	16,881,622	330,383	431,415	$ 406,986
LIABILITIES				
Accounts payable	42,008	7,017	6,354	$ 34,589
Estimated claims payable	9,358	-	-	-
Due to the primary government	-	-	2,626	-
Agency obligations	-	-	-	372,397
Bond interest payable	-	-	22,135	-
Payable to brokers	463,386	-	-	-
Deferred Retirement Option Program liabilities	27,257	-	-	-
Payable to borrowers of securities	917,370	-	-	-
Advance from other funds	-	-	16,551	-
Deferred credits and other liabilities	57,310	-	992	-
Long-term obligations	-	-	1,046,930	-
Total liabilities	1,516,689	7,017	1,095,588	$ 406,986
NET ASSETS				
Held in trust for:				
Pension and other employee benefits	15,364,933	-	-	
External pool participants	-	323,366	-	
Redevelopment dissolution	-	-	(664,173)	
Total net assets (deficit)	$ 15,364,933	$ 323,366	$ (664,173)	

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

Statement of Changes in Fiduciary Net Assets – Fiduciary Funds

Year ended June 30, 2012
(In Thousands)

	Pension, Other Employee and Other Post-Employment Benefit Trust Funds	Investment Trust Fund	Private Purpose Trust Fund
Additions:			
Redevelopment property tax revenue	$ -	$ -	$ 48,675
Charges for services	-	-	8,418
Contributions:			
Employees' contributions	315,203	-	-
Employer contributions	1,026,610	-	-
Contributions to pooled investments	-	2,375,568	-
Total contributions	1,341,813	2,375,568	-
Investment income/loss:			
Interest	196,494	6,427	4
Dividends	170,759	-	-
Net depreciation in fair value of investments	(246,298)	-	-
Securities lending income	4,718	-	-
Total investment income	125,673	6,427	4
Less investment expenses:			
Securities lending borrower rebates and expenses	913	-	-
Other investment expenses	(44,540)	-	-
Total investment expenses	(43,627)	-	-
Other additions	-	-	5,506
Total additions, net	1,423,859	2,381,995	62,603
Deductions:			
Neighborhood development	-	-	11,758
Depreciation	-	-	2,294
Interest on debt	-	-	25,575
Benefit payments	1,667,823	-	-
Refunds of contributions	11,030	-	-
Distribution from pooled investments	-	2,507,027	-
Administrative expenses	14,960	-	-
Total deductions	1,693,813	2,507,027	39,627
Extraordinary loss from dissolution of the Redevelopment Agency	-	-	(687,149)
Change in net assets	(269,954)	(125,032)	(664,173)
Net assets at beginning of year	15,634,887	448,398	-
Net assets (deficit) at end of year	$ 15,364,933	$ 323,366	$ (664,173)

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

(1) THE FINANCIAL REPORTING ENTITY

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

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

Blended Component Units

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

San Francisco County Transportation Authority (SFCTA) – The voters of the City created SFCTA in 1989 to impose a voter-approved sales and use tax of one-half of one percent, for a period not to exceed 20 years, to fund essential traffic and transportation projects. In 2003, the voters approved Proposition K, extending the city-wide one-half of one percent sales tax with a new 30 year plan. A board consisting of the eleven members of the City's Board of Supervisors serving ex officio governs the SFCTA. The SFCTA is reported in a special revenue fund in the City's basic financial statements. Financial statements for the SFCTA can be obtained from their finance and administrative offices at 1455 Market Street, 22nd Floor, San Francisco, CA 94103.

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

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

Discretely Presented Component Units

San Francisco Redevelopment Agency (The Agency) – The Agency was a public body, corporate and politic, organized and existing under the Community Redevelopment Law of the State of California. Seven commissioners who were appointed by the Mayor, subject to confirmation by the City's Board of Supervisors, governed it prior to January 31, 2012.

On June 28, 2011, Assembly Bill X1 26 (AB X1 26) was enacted. This legislation is referred to herein as the Redevelopment Dissolution Law. On December 29, 2011, the California Supreme Court upheld the constitutionality of AB X1 26 and all redevelopment agencies in California were dissolved by operation of law effective February 1, 2012. The legislation provides for successor agencies and oversight boards that are responsible for overseeing the dissolution process and wind down of redevelopment activity. At the City's meeting on January 24, 2012, the City's Board of Supervisors elected to become the Successor Agency to the Redevelopment Agency of the City and County of San Francisco (The Successor Agency), effective February 1, 2012, and as such is a component unit of the City. Also, upon dissolution, the Board of Supervisors elected to retain the housing assets and functions, rights, powers, duties and obligations previously performed by the former Agency.

The financial statements present the former Agency and its component units (the San Francisco Redevelopment Financing Authority and Public Initiatives Development Corporation), entities for which the former Agency was considered to be financially accountable. The former Agency's governing body was not substantively the same as that of the City, and the Agency did not provide services entirely or almost entirely to the City. The former Agency was reported in a separate column to emphasize that it is legally separate from the City. The City was financially accountable for the former 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 former Agency's finance department at 1 South Van Ness Avenue, 5th Floor, San Francisco, CA 94103.

Successor Agency to the Redevelopment Agency of the City and County of San Francisco (The Successor Agency) – The Successor Agency was created to serve as a custodian for the assets and to wind down the affairs of the former Agency. The Oversight Board is comprised of seven-member representatives from local government bodies: four City representatives appointed by the Mayor of the City subject to confirmation by the Board of Supervisors of the City; the Vice Chancellor of the San Francisco Community College District; the Board member of the Bay Area Rapid Transit District; and the Executive Director of Policy and Operations of the San Francisco Unified School District.

In general, the Successor Agency's assets can only be used to pay enforceable obligations in existence at the date of dissolution (including the completion of any unfinished projects that were subject to legally enforceable contractual commitments). In future fiscal years, the Successor Agency will only be allocated revenue in the amount that is necessary to pay the estimated annual installment payments on enforceable obligations of the former Agency until all enforceable obligations of the former Agency have been paid in full and all assets have been liquidated. Based upon the nature of the Successor Agency's custodial role, the Successor Agency is reported in a fiduciary fund (private-purpose trust fund). Complete financial statements can be obtained from the Successor Agency's finance department at 1 South Van Ness Avenue, 5th Floor, San Francisco, CA 94103.

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

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

Non-Disclosed Organizations

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Government-wide and fund financial statements

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

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

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

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

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

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

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

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

The City reports the following major governmental fund:

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

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

- The ***San Francisco International Airport Fund*** accounts for the activities of the City-owned commercial service airport in the San Francisco Bay Area.
- The ***San Francisco Water Enterprise Fund*** accounts for the activities of the San Francisco Water Enterprise (Water Enterprise). The Water Enterprise is engaged in the distribution of water to the City and certain suburban areas.
- The ***Hetch Hetchy Water and Power Enterprise Fund*** accounts for the activities of Hetch Hetchy Water and Power Department (Hetch Hetchy). The department is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity.
- The ***Municipal Transportation Agency Fund*** accounts for the activities of the Municipal Transportation Agency (MTA). The MTA was established by Proposition E, passed by the City's voters in November 1999. The MTA includes the San Francisco Municipal Railway (MUNI), San Francisco Municipal Railway Improvement Corporation (SFMRIC), and the operations of the Sustainable Streets (previously named as Department of Parking and Traffic), 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. Sustainable Streets is responsible for proposing and implementing street and traffic changes and oversees the City's off-street parking operations. Sustainable Streets is a separate department of the MTA. The parking garages fund accounts for the activities of various non-profit corporations formed by the Parking Authority to provide financial and other assistance to the City to acquire land, construct facilities, and manage various parking facilities.
- The ***San Francisco General Hospital Medical Center Fund*** accounts for the activities of the San Francisco General Hospital Medical Center (SFGH), a City-owned acute care hospital.
- The ***San Francisco Wastewater Enterprise Fund*** was created after the San Francisco voters approved a proposition in 1976, authorizing the City to issue $240 million in bonds for the purpose of acquiring, construction, improving, and financing improvements to the City municipal sewage treatment and disposal system.
- The ***Port of San Francisco Fund*** accounts for the operation, development, and maintenance of seven and one-half miles of waterfront property of the Port of San Francisco (Port). This was established in 1969 after the San Francisco voters approved a proposition to accept the transfer of the Harbor of San Francisco from the State of California.
- The ***Laguna Honda Hospital Fund*** accounts for the activities of Laguna Honda Hospital (LHH), 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, Other Employee and Other Post-Employment Benefit Trust Funds*** reflect the activities of the Employees' Retirement System, the Health Service System and the Retiree Health Care Trust Fund. 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 Retiree Health Care Trust Fund currently accounts for employee contributions from active employees hired after January 9, 2009, related City contributions, and the earnings and profits from investments. No disbursements, other than to defray reasonable expenses of administering the trust, will be made before January 2015.
- The ***Investment Trust Fund*** accounts for the external portion of the Treasurer's Office investment pool. The funds of the San Francisco Community College District, San Francisco Unified School District, the Trial Courts of the State of California and the Transbay Joint Powers Authority are accounted for within the Investment Trust Fund.
- The ***Private-Purpose Trust Fund*** accounts for the custodial responsibilities that are assigned to the Successor Agency with the passage of the Redevelopment Dissolution Act.
- The ***Agency Funds*** account for the resources held by the City in a custodial capacity on behalf of: the State of California, human welfare, community health, and transportation programs.

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

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

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

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

(c) Budgetary Data

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

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

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

Original Budget

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

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

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

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

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

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

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

Final Budget

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

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

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

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

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

(d) Deposits and Investments

Investment in the Treasurer's Pool

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

The Treasurer's investment pool consists of two components: 1) pooled deposits and investments and 2) separately managed accounts. During the year ended June 30, 2012, the former Agency's cash and investments that were not invested with trustees were transferred to an account with the Treasurer and managed separately from the pooled deposits and investments. 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 are held by trustees (Note 5).

The San Francisco Unified School District (School District), San Francisco Community College District (Community College District), and the City are involuntary participants in the City's investment pool. As of June 30, 2012, involuntary participants accounted for approximately 98.2% of the pool. Voluntary participants accounted for 1.8% of the pool. Further, the School District, Community College District, the Trial Courts of the State of California and the Transbay Joint Powers Authority are external participants of the City's pool. At June 30, 2012, $330.0 million in deposits and investments was held on behalf of these external participants. The total percentage share of the City's pool that relates to these four external participants is 6.0%. Internal participants accounted for 94.0% of the pool.

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

Investment Valuation

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

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

The fair values of the Retirement System's real estate investments are based on net asset values provided by the investment managers. Partnership financial statements are audited annually as of December 31 and net asset values are adjusted monthly or quarterly for cash flows to/from the Retirement System, investment earnings and expenses, and changes in fair value. The Retirement System has established leverage limits for each investment style based on the risk/return profile of the underlying investments. The leverage limits for core and value-added real estate investments are 40% and 65%, respectively. The leverage limits for high return real estate investments depend on each specific offering. Outstanding mortgages for the Retirement System's real estate investments were $1,771.9 million including $103.4 million in recourse debt at June 30, 2012. The underlying real estate holdings are valued periodically based on appraisals performed by independent appraisers in accordance with Uniform Standards of Professional Appraisal Practice (USPAP). Such fair value estimates involve subjective judgments of unrealized gains and losses, and the actual market price of the real estate can only be determined by negotiation between independent third-parties in a purchase and sale transaction.

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

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

All securities loans can be terminated on demand by either the Retirement System or the borrower, although the average term of the loans as of June 30, 2012 was 75 days. All cash collateral received was invested in a separately managed account by the lending agent using investment guidelines developed and approved by the Retirement System. As of June 30, 2012, the weighted average maturity of the reinvested cash collateral account was 17 days. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the related collateral. Cash collateral may also be invested separately in term loans, in which case the maturity of the loaned securities matches the term of the loan.

Cash collateral invested in the separate account managed by the lending agent is reported at fair value. Payable to borrowers of securities in the statement of fiduciary net assets represents the cash collateral received from borrowers. Additionally, the income and costs of securities lending transactions, such as borrower rebates and fees, are recorded respectively as revenues and expenses in the statement of changes in fiduciary net assets.

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

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, and Agency Funds.

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

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

(e) Loans Receivable

The Mayor's Office of Housing (MOH) and the Mayor's Office of Community Development (MOCD) administer several housing and small business subsidy programs and issue loans to qualified applicants. In addition, the Department of Building Inspection manages other receivables from organizations. Management has determined through policy that many of these loans may be forgiven or renegotiated and extended long into the future if certain terms and conditions of the loans are met. At June 30, 2012, it was determined that $559.9 million of the $627.0 million loan portfolio is not expected to be ultimately collected.

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

(f) Inventory

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

(g) Property Held for Resale

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

(h) Capital Assets

Capital assets, which include land, facilities and improvements, machinery and equipment, infrastructure assets, and intangible assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements and in the private-purpose trust fund. Capital assets, except for intangible assets, are defined as assets with an initial individual cost of more than $5 thousand and an estimated useful life in excess of one year. Intangible assets have a capitalization threshold of $100 thousand. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. Capital outlay is recorded as expenditures of the General Fund and other governmental funds and as assets in the government-wide financial statements to the extent the City's capitalization threshold is met. Interest incurred during the construction phase of the capital assets of business-type activities is reflected in the capitalized value of the asset constructed, net of interest earned on the invested proceeds of tax-exempt debt over the same period. Amortization of assets acquired under capital leases is included in depreciation and amortization. Facilities and improvements, infrastructure, machinery and equipment, easements, and intangible assets of the primary government, as well as the component units, are depreciated using the straight-line method over the following estimated useful lives:

Assets	Years
Facilities and improvements	15 to 175
Infrastructure	15 to 70
Machinery and equipment	2 to 75
Intangible assets	Varies with type

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

(i) Accrued Vacation and Sick Leave Pay

Vacation pay, which may be accumulated up to ten weeks depending on an employee's length of service, is payable upon termination. Sick leave may be accumulated up to six months, except for Local 21 members, who are all entitled to accumulate all unused sick leave. Unused amounts accumulated prior to December 6, 1978 are vested and payable upon termination of employment by retirement or disability caused by industrial accident or death.

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

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

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

(k) Fund Equity

Governmental Fund Balance

As prescribed by Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, governmental funds report fund balance in one of five classifications that comprise a hierarchy based primarily on the extent to which the City is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. The five fund balance classifications are as follows:

- *Nonspendable* – includes amounts that cannot be spent because they are either not in spendable form or legally or contractually required to be maintained intact. The not in spendable form criterion includes items that are not expected to be converted to cash, such as prepaid amounts, as well as certain long-term receivables that would otherwise be classified as unassigned.
- *Restricted* – includes amounts that can only be used for specific purposes due to constraints imposed by external resource providers, by the City's Charter, or by enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.
- *Committed* – includes amounts that can only be used for specific purposes pursuant to a formal action of the City's highest level of decision-making authority, legislation passed by the Board of Supervisors and signed by the Mayor. Commitments may be changed or lifted only by the City taking the same formal action that imposed the constraint originally.
- *Assigned* – includes amounts that are not classified as nonspendable, restricted, or committed, but are intended to be used by the City for specific purposes. Intent is expressed by legislation or by action of the Board of Supervisors or the City Controller to which legislation has delegated the authority to assign amounts to be used for specific purposes.
- *Unassigned* – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose. Other governmental funds may only report a negative unassigned balance that was created after classification in one of the other four fund balance categories.

In circumstances when an expenditure is made for a purpose for which amounts are available in multiple fund balance classifications, fund balance is generally depleted in the order of restricted, committed, assigned, and unassigned.

(Dollars in Thousands)

Fund balances for all the major and nonmajor governmental funds as of June 30, 2012, were distributed as follows:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Advances and Long Term Receivables	$ 19,598	$ 912	$ 20,510
Gift Fund Principal	-	192	192
Total Nonspendable	19,598	1,104	20,702
Restricted			
Rainy Day	34,109	-	34,109
Public Works, Transportation & Commerce	-	80,486	80,486
Human Welfare & Neighborhood Development	-	313,844	313,844
Community Health	-	27,864	27,864
Culture & Recreation	-	101,062	101,062
General Administration & Finance	-	21,470	21,470
General City Responsibilities	-	775	775
Capital Projects	-	562,893	562,893
Debt Service	-	80,708	80,708
Total Restricted	34,109	1,189,102	1,223,211
Committed			
Budget Stabilization	74,330	-	74,330
Recreation and Parks Expenditure Savings	4,946	-	4,946
Total Committed	79,276	-	79,276
Assigned			
Public Protection	16,486	-	16,486
Public Works, Transportation & Commerce	11,482	14,271	25,753
Human Welfare & Neighborhood Development	22,981	4,544	27,525
Community Health	30,705	-	30,705
Culture & Recreation	4,044	2,809	6,853
General Administration & Finance	25,079	6,382	31,461
General City Responsibilities	5,689	-	5,689
Capital Projects	31,516	-	31,516
Litigation and Contingencies	23,637	-	23,637
Subsequent Year's Budget	133,794	-	133,794
Total Assigned	305,413	28,006	333,419
Unassigned	17,329	(136,856)	(119,527)
Total	$ 455,725	$ 1,081,356	$ 1,537,081

General Fund Stabilization and Other Reserves

Rainy Day Reserve – The City maintains a "Rainy Day" or economic stabilization reserve under Charter Section 9.113.5. In any year when the City projects that total General Fund revenues for the upcoming budget year are going to be more than 5 percent higher than the General Fund revenues for the current year, the City automatically deposits one-half of the "excess revenues," in the Rainy Day Reserve. The total amount of money in the Rainy Day Reserve may not exceed 10 percent of the City's actual total General Fund revenues. The City may spend money from the Rainy Day Reserve for any lawful governmental purpose, but only in years when the City projects that total General Fund revenues for the upcoming year will be less than the current year's total General Fund revenues, i.e., years when the City expects to take in less money than it had taken in for the current year. In those years, the City may spend up to half the money in the Rainy Day Reserve, but no more than is necessary to bring the City's total available General Fund revenues up to the level of the current year. The City may also spend up to 25 percent of the balance of the Rainy Day Reserve to help the San Francisco Unified School District in years when certain conditions are met. The City does not expect to routinely spend money from the Rainy Day Reserve after evaluating its recent General Fund revenues trends and its Five-Year Financial Plan covering fiscal years 2012-13 through 2016-17.

Budget Stabilization Reserve – The City sets aside as an additional reserve seventy-five percent of (1) real estate transfer taxes in excess of the average collected over the previous five years, (2) proceeds from the sale of land and capital assets, and (3) ending unassigned General Fund balances. The City will be able to spend those funds in years in which revenues decline or grow by less than two percent, after using the amount legally available from the Rainy Day Reserve. The City, by a resolution of the Board of Supervisors adopted by a two-thirds' vote, may temporarily suspend these provisions following a natural disaster that has caused the Mayor or the Governor to declare an emergency, or for any other purpose. The City does not expect to routinely spend money from the Budget Stabilization Reserve after evaluating its recent General Fund revenues trends and its Five-Year Financial Plan covering fiscal years 2012-13 through 2016-17.

Recreation and Parks Expenditure Savings Reserve – The City maintains a Recreation and Park Expenditure Savings Reserve under Charter Section 16.107, which set aside and maintain such an amount, together with any interest earned thereon, in the reserve account, and any amount unspent or uncommitted at the end of the fiscal year shall be carried forward to the next fiscal year and, subject to the budgetary and fiscal limitations of this Charter, shall be appropriated then or thereafter for capital and/or facility maintenance improvements to park and recreation facilities and other one-time expenditures of the Park and Recreation Department.

Encumbrances

The City establishes encumbrances to record the amount of purchase orders, contracts, and other obligations, which have not yet been fulfilled, cancelled, or discharged. Encumbrances outstanding at year-end are recorded as part of restricted or assigned fund balance. At June 30, 2012, encumbrances recorded in the General Fund and non-major governmental funds were $62.7 million and $476.2 million, respectively.

Restricted Net Assets

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

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

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

June 30, 2012, the government-wide statement of net assets reported restricted assets of $675.2 million in governmental activities and $249.4 million in business-type activities. For governmental activities, $6.4 million is restricted by enabling legislation.

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

The City issued general obligation bonds and certificates of participation for the purpose of rebuilding and improving Laguna Honda Hospital. General obligation bonds were also issued for the purpose of reconstructing and improving waterfront parks and facilities on Port property and for the retrofit and improvement work to ensure a reliable water supply (managed by the Water Enterprise) in an emergency or disaster and for certain street improvements managed by the MTA. These capital assets are reported in the City's business-type activities. However, the debt service will be paid with governmental revenues and as such these general obligation bonds and certificates of participation are reported with unrestricted net assets in the City's governmental activities. In accordance with GASB guidance, the City reclassified $281.5 million of unrestricted net assets of governmental activities, of which $259.0 million reduced net assets invested in capital assets, net of related debt and $22.5 million reduced net assets restricted for capital projects to reflect the total column of the primary government as a whole perspective.

Deficit Net Assets/Fund Balances

The Public Protection Fund had deficits of $4.1 million as of June 30, 2012. The deficits relate to increases of deferred tax, grant and subvention revenues on various programs, which are expected to be collected beyond 120 days of the end of fiscal year 2012. In addition, the Court's Fund and the Culture and Recreation Fund had deficits of $2.5 million and $2.9 million, respectively, as of June 30, 2012, which are expected to be covered with future charges for services.

The San Francisco County Transportation Authority Fund had a $76.6 million deficit as of June 30, 2012. This condition exists because the SFCTA uses short-term debt financing to accelerate the delivery of sales tax funded projects that are owned and operated by other agencies. The negative fund balance will be covered as future sales tax revenues are realized or when the SFCTA refinances the outstanding short-term debt to long-term debt. .

The Moscone Convention Center Fund had a $43.2 million deficit as of June 30, 2012. The deficit will be covered as hotel tax revenues are realized and when long-term debt is issued to refinance the short-term commercial paper obligation.

The Central Shops Internal Service Fund had a deficit in total net assets of $3.5 million as of June 30, 2012 mainly due to the other postemployment benefits liability accrued as per GASB Statement 45. The deficits are expected to be reduced in future years through anticipated rate increases or reductions in the operating expenses. The rates are reviewed and updated annually.

Prior to February 1, 2012, the California Redevelopment Law provided tax increment financing as a source of revenue to redevelopment agencies to fund redevelopment activities. Once a redevelopment area was adopted, the former Agency could only receive tax increment to the extent that it could show on an annual basis that it has incurred indebtedness that must be repaid with tax increment. Due to the nature of the redevelopment financing, the former Agency liabilities exceeded assets. Therefore, the former Agency historically carried a deficit, which was expected to be reduced as future tax increment revenues were received and used to reduce its outstanding long-term debt. This deficit was transferred to the Successor Agency on February 1, 2012. At June 30, 2012, the Successor Agency has a deficit of $664.2 million, which will be eliminated with future redevelopment property tax revenues distributed from the Redevelopment Property Tax Trust Fund administered by the City's Controller.

(l) Interfund Transfers

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

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

(m) Refunding of Debt

Gains or losses occurring from advance refundings, completed subsequent to June 30, 1993, are deferred and amortized into expense for both business-type activities and proprietary funds. For governmental activities and the private-purpose trust fund (former Agency), they are deferred and amortized into expense if they occurred subsequent to June 30, 2000.

(n) Pollution Remediation Obligations

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

(o) Cash Flows

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

(p) Extraordinary Item

Extraordinary items are both 1) unusual in nature (possessing a high degree of abnormality and clearly unrelated to, or only incidentally related to, the ordinary and typical activities of the entity) and 2) infrequent in occurrence (not reasonably expected to recur in the foreseeable future, taking into account the environment in which the entity operates).

The dissolution of all redevelopment agencies in the State of California qualifies as an extraordinary item since this state-wide dissolution was both unusual and infrequent. Accordingly, the transfer of the assets and liabilities of the former Agency to the Successor Agency; the transfer out of the former Agency's housing assets and related liabilities, and the invalidation of loans and related accrued interest in excess of the State of California Local Agency Investment Fund (LAIF) rate advanced from the City as of February 1, 2012 were recorded as an extraordinary item in the City's financial statements.

(Dollars in Thousands)

The components of the extraordinary gain (loss) recognized are as follows:

Governmental Funds/Governmental Activities:		
Transfers in of the former Agency's housing noncapital assets:		
Current assets	$	196,776
Property held for sale		6,251
Notes and mortgage receivable, net of allowance for uncollectable amounts		3,196
Transfers in of the former Agency's housing related liabilities		(8,094)
Invalidation of certain loans made between the City and the former Agency on February 1, 2012 pursuant to AB X1 26		(815)
Governmental Fund's extraordinary gain from dissolution of the Redevelopment Agency		197,314
Transfers in of the former Agency's housing capital assets		124,467
Unavailable revenue deferred on governmental fund financial statements but recognized on government-wide statements		3,368
Invalidation of certain loans made between the City and the former Agency on February 1, 2012 pursuant to AB X1 26		(958)
Invalidation of accrued interest on the Advance to the primary government in excess of the LAIF rate pursuant to AB X1 26, as amended		(1,061)
Governmental Activities' extraordinary gain from dissolution of the Redevelopment Agency	$	323,130
Private-Purpose Trust Fund:		
Transfers in of the former Agency's non-housing noncapital assets	$	231,499
Transfers in of the former Agency's non-housing capital assets		177,625
Transfers in of the former Agency's short-term liabilities		(49,595)
Transfers in of the former Agency's long-term obligations		(1,046,678)
Extraordinary loss from Redevelopment Agency Dissolution	$	(687,149)

(q) 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.

(r) Reclassifications

Certain amounts, presented as 2010-11 Summarized Comparative Financial Information in the basic financial statements, have been reclassified for comparative purposes, to conform to the presentation in the 2011-12 basic financial statements.

(s) Effects of New Pronouncements

During fiscal year 2012, the City implemented the following accounting standards:

GASB issued Statement No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans* in December 2009. This Statement addresses issues related to the use of the alternative measurement method and the frequency and timing of measurements by employers that participate in agent multiple-employer other postemployment benefit (OPEB) plans (that is, agent employers). As discussed in Note 9(d), the SFCTA complied with GASB Statement No. 57 reporting requirements and performed its OPEB actuarial valuation based on a common date.

In June 2011, GASB issued Statement No. 64, *Derivatives Instruments: Application of Hedge Accounting Termination Provisions – An Amendment of GASB Statement No. 53,* which clarifies the circumstances in which hedge accounting should continue to be applied when a swap counterparty, or a swap counterparty's credit support provider, is replaced. The City implemented the provisions of this statement as of July 1, 2011. The implementation of this statement did not have a significant impact on the City for the fiscal year ended June 30, 2012.

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

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

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

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

In June 2011, GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. This statement also amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net assets. The requirements of this statement are effective for the City's fiscal year ending June 30, 2013.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is intended to clarify the appropriate reporting of deferred outflows of resources and deferred inflows of resources to ensure consistency in financial reporting. The statement also recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. Application of this statement is effective for the City's fiscal year ending June 30, 2014.

In March 2012, the GASB issued Statement No. 66, *Technical Corrections – 2012 - An Amendment of GASB Statements No. 10 and No. 62*, to resolve conflicting accounting and financial reporting guidance that could diminish the consistency of financial reporting. This statement amends Statement No. 10, *Codification of Accounting and Financial Reporting for Risk Financing and Related Insurance Issues*, by removing the provision that limits fund-based reporting of a state and local government's risk financing activities to the general fund and the internal service fund type. This statement also amends Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, by modifying the specific guidance on accounting for (1) operating lease payments that vary from a straight-line basis, (2) the difference between the initial investment (purchase price) and the principal amount of a purchased loan or group of loans, and (3) servicing fees related to mortgage loans that are sold when the stated service fee rate differs significantly from a current servicing fee rate. Application of this statement is effective for the City's fiscal year ending June 30, 2014.

In June 2012, the GASB issued two new standards, GASB Statement No. 67, *Financial Reporting for Pension Plans - An Amendment of GASB Statement No. 25* and GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - An Amendment of GASB Statement No. 27* to improve the guidance for accounting and reporting on the pensions that governments provide to their employees.

Key changes include:

- Separating how the accounting and financial reporting is determined from how pensions are funded.
- Employers with defined benefit pension plans will recognize a net pension liability, as defined by the standard, in their government-wide, proprietary and fiduciary fund financial statements.
- Incorporating ad hoc cost-of-living adjustments and other ad hoc postemployment benefit changes into projections of benefit payments, if an employer's past practice and future expectations of granting them indicate they are essentially automatic.
- Using a discount rate that applies (a) the expected long-term rate of return on pension plan investments for which plan assets are expected to be available to make projected benefit payments, and (b) the yield or index rate on tax-exempt 20-year general obligation municipal bonds with an average rating of AA/Aa or higher to projected benefit payments for which plan assets are not expected to be available for long-term investment in a qualified trust.
- Adopting a single actuarial cost allocation method – entry age normal – rather than the current choice among six actuarial cost methods.
- Requiring more extensive note disclosures and required supplementary information.

The statements relate to accounting and financial reporting and do not apply to how governments approach the funding of their pension plans. At present, there generally is a close connection between the ways many governments fund pensions and how they account for and report information about them in financial statements. The statements would separate how the accounting and financial reporting is determined from how pensions are funded. Application of Statement 67 is effective for financial statements for the City's fiscal year ending June 30, 2014. Application of Statement 68 is effective for the City's fiscal year ending June 30, 2015.

(t) Restricted Assets

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

(Dollars in Thousands)

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

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

Total fund balances of the City's governmental funds, $1,537,081, differs from net assets of governmental activities, $1,920,010, reported in the statement of net assets. The difference primarily results from the long-term economic focus in the statement of net assets versus the current financial resources focus in the governmental funds balance sheets.

	Total Governmental Funds	Long-term Assets, Liabilities(1)	Internal Service Funds(2)	Reclassi-fications and Eliminations	Statement of Net Assets Totals
Assets					
Deposits and investments with City Treasury	$ 1,853,719	$ -	$ 33,639	$ -	$ 1,887,358
Deposits and investments outside City Treasury	81,248	-	66,539	-	147,787
Receivables, net:					
Property taxes and penalties	55,828	-	-	-	55,828
Other local taxes	228,034	-	-	-	228,034
Federal and state grants and subventions	326,514	-	-	-	326,514
Charges for services	59,761	-	119	-	59,880
Interest and other	7,096	-	643	-	7,739
Due from other funds	52,430	-	-	(52,430)	-
Due from/advances to component unit	28,941	-	-	-	28,941
Loans receivable, net	67,130	-	-	-	67,130
Capital assets, net	-	3,682,775	5,471	-	3,688,246
Deferred charges and other assets	15,837	17,380	7,810	-	41,027
Total assets	2,776,538	3,700,155	114,221	(52,430)	6,538,484
Liabilities					
Accounts payable	254,082	-	7,544	-	261,626
Accrued payroll	122,358	-	2,323	-	124,681
Accrued vacation and sick leave pay	-	146,993	3,079	-	150,072
Accrued workers' compensation	-	225,433	995	-	226,428
Other postemployment benefits obligation	-	739,121	15,380	-	754,501
Estimated claims payable	-	112,394	-	-	112,394
Accrued interest payable	-	9,912	1,758	-	11,670
Deferred tax, grant and subvention revenues	195,043	(182,527)	-	-	12,516
Due to other funds/internal balances	50,876	-	2,821	(52,430)	1,267
Deferred credits and other liabilities	420,264	(118,571)	148	-	301,841
Bonds, loans, capital leases, and other payables	196,834	2,189,358	275,286	-	2,661,478
Total liabilities	1,239,457	3,122,113	309,334	(52,430)	4,618,474
Fund balances/net assets					
Total fund balances/net assets	1,537,081	578,042	(195,113)	-	1,920,010
Total liabilities and fund balances/net assets	$ 2,776,538	$ 3,700,155	$ 114,221	$ (52,430)	$ 6,538,484

(Dollars in Thousands)

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

Cost of capital assets	$ 4,819,990
Accumulated depreciation	(1,137,215)
	$ 3,682,775

Bond issuance costs are expended in governmental funds when paid and are capitalized and amortized over the life of the corresponding bonds for purposes of the statement of net assets. $ 17,380

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

Accrued vacation and sick leave pay	$ (146,993)
Accrued workers' compensation	(225,433)
Other postemployment benefits obligation	(739,121)
Estimated claims payable	(112,394)
Bonds, loans, capital leases, and other payables	(2,189,358)
Deferred credits and other liabilities	(1,776)
	$(3,415,075)

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when paid. $ (9,912)

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

Deferred tax, grant and subvention revenues	$ 182,527
Deferred credits and other liabilities	120,347
	$ 302,874

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

Net assets before adjustments	$ 9,936
Adjustments for internal balances with the San Francisco Finance Corporation:	
Capital lease receivables from other governmental and enterprise funds	(273,740)
Deferred charges and other assets	3,155
Deferred credits and other liabilities	65,536
	$ (195,113)

In addition, intrafund receivables and payables among various internal service funds of $8 thousand are eliminated.

(Dollars in Thousands)

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

The net change in fund balances for governmental funds, $409,515, differs from the change in net assets for governmental activities, $609,731, reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated below.

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

	Total Governmental Funds	Long-term Revenues/ Expenses (3)	Capital-related Items (4)	Internal Service Funds (5)	Long-term Debt Transactions (6)	Statement of Activities Totals
Revenues						
Property taxes	$ 1,352,857	$ 2,998	$ -	$ -	$ -	$ 1,355,855
Business taxes	437,678	-	-	-	-	437,678
Sales and use tax	198,236	-	-	-	-	198,236
Hotel room tax	239,567	-	-	-	-	239,567
Utility users tax	91,676	-	-	-	-	91,676
Other local taxes	353,889	(143)	-	-	-	353,746
Licenses, permits and franchises	39,770	-	-	-	-	39,770
Fines, forfeitures and penalties	30,090	(118)	-	-	-	29,972
Interest and investment income	31,371	(557)	-	639	-	31,453
Rents and concessions	89,183	4,355	-	-	-	93,538
Intergovernmental:						
Federal	420,974	10,075	-	-	-	431,049
State	588,532	(1,952)	-	-	-	586,580
Other	33,181	(82)	-	-	-	33,099
Charges for services	264,856	2,118	-	-	-	266,974
Other revenues	83,634	1,578	-	124	-	85,336
Total revenues	4,255,494	18,272	-	763	-	4,274,529
Expenditures/Expenses						
Expenditures:						
Public protection	1,079,203	72,700	12,966	(6,251)	-	1,158,618
Public works, transportation and commerce	250,879	(8,937)	(29,594)	(1,933)	-	210,415
Human welfare and neighborhood development	918,414	23,708	401	-	-	942,523
Community health	653,263	19,570	1,072	-	-	673,905
Culture and recreation	311,156	13,124	24,815	(15,176)	(26,650)	307,269
General administration and finance	203,157	20,085	11,117	3,459	-	237,818
General City responsibilities	96,150	11	-	(1,124)	1,110	96,147
Debt service:						
Principal retirement	167,465	-	-	-	(167,465)	-
Interest and fiscal charges	103,706	-	-	6,005	434	110,145
Bond issuance costs	5,386	-	-	-	(5,386)	-
Capital outlay	270,094	-	(270,094)	-	-	-
Total expenditures/expenses	4,058,873	140,261	(249,317)	(15,020)	(197,957)	3,736,840
Other financing sources (uses)/changes in net assets						
Net transfers (to) from other funds	(407,119)	-	673	(1,187)	156,545	(251,088)
Issuance of bonds and loans:						
Face value of bonds issued	804,090	-	-	-	(804,090)	-
Face value of loans issued	4,359	-	-	-	(4,359)	-
Premium on issuance of bonds	89,336	-	-	-	(89,336)	-
Payment to escrow for refunded debt	(487,390)				487,390	-
Other financing sources-capital leases	12,304	-	-	(12,304)	-	-
Total other financing sources (uses)/changes in net assets	15,580	-	673	(13,491)	(253,850)	(251,088)
Extraordinary gain/(loss) from dissolution of the Redevelopment Agency	197,314	1,349	124,467	-	-	323,130
Net change for the year	$ 409,515	$ (120,640)	$ 374,457	$ 2,292	$ (55,893)	$ 609,731

(Dollars in Thousands)

(3) Because some property taxes will not be collected for several months after the City's fiscal year ends, they are not considered as available revenues in the governmental funds.	$ 2,998
Some other revenues that do not provide current financial resources are not reported as revenues in the governmental funds but are recognized in the statement of activities.	15,274
	$ 18,272
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. Certain long-term liabilities reported in the prior year statement of net assets were paid during the current period resulting in expenditures in the governmental funds. This is the amount by which the increase in long-term liabilities exceeded expenditures in funds that do not require the use of current financial resources.	$ (136,045)
Some expenditures reported in the governmental funds pertain to the establishment of deferred credits on long-term loans since the loans are not considered "available" to pay current period expenditures. The deferred credits are not reported in the statement of net assets and, therefore, the related expenditures are not reported in the statement of activities.	(4,216)
	$ (140,261)
Other differences between the extraordinary gain from the dissolution of the Redevelopment Agency recorded in the governmental funds and the gain recorded in the statement of activities.	$ 1,349

(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	$ 343,998
Depreciation expense	(92,967)
Loss on disposal of capital assets	(128)
Transfer of asset from enterprise fund	673
Write off construction of progress	(1,586)
Extraordinary gain from dissolution of the Redevelopment Agency……	124,467
Difference	$ 374,457

(5) Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, equipment maintenance, printing and mailing services, and telecommunications, to individual funds. The adjustments for internal service funds "close" those funds by charging additional amounts to participating governmental activities to completely cover the internal service funds' costs for the year.	$ 2,292

(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	$ 26,650

(Dollars in Thousands)

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

Bond issuance costs	$ 5,386
Amortization of bond issuance costs	(1,110)
Difference	$ 4,276

Bond premiums are a source of funds in the governmental funds when the bonds are issued, but are capitalized in the statement of net assets. This is the amount of premiums capitalized during the current period. .... $ (89,336)

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

Principal payments made	$ 167,465
Payment to escrow for refunded debt	487,390
	654,855

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

General obligation bonds	(674,775)
Certificates of participation	(129,315)
Loans	(4,359)
	(808,449)
	$ (153,594)

The outstanding debt related to Certificates of Participation issued by the City for the Laguna Honda Hospital to fund the construction and furnishings was reassigned to the Laguna Honda Hospital Fund. This amount represents the transfer of liability to the Laguna Honda Hospital Fund.

$ 156,545

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

Increase in accrued interest	$ (1,601)
Interest payment on capital lease obligations on the Moscone Convention Center	(5,783)
Amortization of bond premiums, discounts and refunding losses	6,922
Decrease in arbitrage rebate liability	28
	$ (434)

(Dollars in Thousands)

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

Budgetary Results Reconciliation

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

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

The fund balance of the General Fund as of June 30, 2012 on a Budget basis is reconciled to the fund balance on a GAAP basis as follows:

Fund Balance - Budget Basis	$ 557,097
Unrealized Gains/ (Losses) on Investments	6,838
Cumulative Excess Property Tax Revenues Recognized on a Budget Basis	(46,140)
Cumulative Excess Health, Human Services, Franchise and Other Revenues Recognized on a Budget Basis	(62,241)
Deferred amounts on loan receivables	(16,551)
Pre-paid lease revenue	(2,876)
Nonspendable Fund Balance (Assets Reserved for Not Available for Appropriation)	19,598
Fund Balance - GAAP basis	$ 455,725

General Fund budget basis fund balance as of June 30, 2012 is composed of the following:

Not available for appropriations:		
Restricted Fund Balance:		
Rainy Day - Economic Stabilization Reserve	$ 31,099	
Rainy Day - One-Time Spending Account	3,010	
Committed Fund Balance:		
Budget Stabilization Reserve	74,330	
Recreation and Parks Expenditure Saving Reserve	4,946	
Assigned for Encumbrances	62,699	
Assigned for Appropriation Carryforward	85,283	
Assigned for Subsequent Years' Budgets:		
Budget Savings Incentive Program City-wide	22,410	
Salaries and benefits costs (MOU)	7,100	
Subtotal		$ 290,877
Available for appropriations:		
Assigned for Litigation and Contingences	23,637	
Assigned for General Reserve	22,306	
Assigned balance subsequently appropriated as part of the General Fund budget for use in fiscal year 2012-13	104,284	
Unassigned - Available for future appropriations	115,993	
Subtotal		266,220
Fund Balance, June 30, 2012 - Budget basis		$ 557,097

(Dollars in Thousands)

(5) DEPOSITS AND INVESTMENTS

(a) Cash, Deposits and Investments Presentation

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

	Primary Government				Component Units
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	
Deposits and investments with City Treasury......................................	$ 1,887,358	$ 1,284,156	$ 647,294	$ 3,818,808	$ 4,363
Deposits and investments outside City Treasury......................................	81,258	10,067	15,580,514	15,671,839	-
Restricted assets:					
Deposits and investments with City Treasury...................................	-	1,884,176	-	1,884,176	-
Deposits and investments outside City Treasury...................................	66,529	877,979	-	944,508	-
Invested securities lending collateral.......	-	-	914,105	914,105	-
Total deposits & investments	$ 2,035,145	$ 4,056,378	$ 17,141,913	$ 23,233,436	$ 4,363
Cash and deposits..............................				$ 579,836	$ -
Investments..				22,653,600	4,363
Total deposits and investments				$ 23,233,436	$ 4,363

Custodial Credit Risk – Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code, the City's investment policy and the Retirement System's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits, other than the following provision. The California Government Code requires that a financial institution secure deposits made by state or local governmental units not covered by Federal Deposit Insurance Corporation insurance by pledging government securities as collateral. The fair value of pledged securities must equal at least 110% of the type of collateral authorized in California Government Code, Section 53651 (a) through (i) of the City's deposits. The collateral must be held at the pledging bank's trust department or another bank, acting as the pledging bank's agent, in the City's name. As of June 30, 2012, $0.4 million of the business-type activities bank balances were exposed to custodial credit risk by not being insured or collateralized.

(Dollars in Thousands)

(b) Investment Policies

Treasurer's Pool

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

Although the California Government Code does not limit the amount of City funds that may be invested in federal agency instruments, the City's investment policy requires that investments in federal agencies should not exceed 70 percent of the total portfolio at the time of purchase. The investment policy also places maturity limits based on the type of security. Investments held by the Treasurer during the year did not include repurchase agreements or reverse repurchase agreements.

The table below identifies the investment types that are authorized by the City's investment policy dated October 2011. The table also identifies certain provisions of the City's investment policy that address interest rate risk and concentration of credit risk.

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portolio	Maximum Investment in One Issuer
U.S. Treasuries	5 years	100%	100%
Federal Agencies	5 years	70% *	30%
Temporary Liquidity Guarantee Program (TLGP)	5 years	30%	None
State and Local Government Agency Obligations	5 years	20%	5% *
Public Time Deposits	13 months *	None	None
Negotiable Certificates of Deposit	5 years	30%	None
Bankers Acceptances	180 days	40%	100%
Commercial Paper	270 days	25%	10% *
Medium Term Notes	13 months *	15%	10%
Repurchase Agreements	30 days *	None	None
Reverse Repurchase Agreements / Securities Lending	45 days *	None	$75 million
Money Market Funds	N/A	None	N/A
State of California Local Agency Investment Fund (LAIF)	N/A	Statutory	None

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

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

Other Funds

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

Employees' Retirement System

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

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

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

The Retirement System is not directly involved in repurchase or reverse repurchase agreements. However, external investment managers retained by the Retirement System may employ repurchase arrangements if the securities purchased or sold comply with the manager's investment guidelines. The Retirement System monitors the investment activity of its investment managers to ensure compliance with guidelines. In addition, the Retirement System's securities lending cash collateral separate account is authorized to use repurchase arrangements. As of June 30, 2012, $195 million (or 21.3% of cash collateral) consisted of such agreements.

(Dollars in Thousands)

(c) Investment Risks

Interest Rate Risk

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

			Investment Maturities	
	S & P Rating	Fair Value	Less than 1 year	1 to 5 years
Primary Government:				
Investments in City Treasury:				
Pooled investments:				
U.S. Treasury Notes	AA+	$ 715,968	$ 75,105	$ 640,863
U.S. Agencies - Coupon	NR - AA+	3,766,586	370,113	3,396,473
Temporary Liquidity Guarantee Program	AA+	125,621	125,621	-
State and local agencies bonds	A- - AA+	61,145	12,809	48,336
Negotiable certificates of deposits	NR - AA+	324,405	324,405	-
Commercial paper	A-1+	29,876	29,876	-
Public time deposits	NR - A	970	970	-
Corporate notes	A - AA+	148,548	148,548	-
Less: Treasure Island Development Authority Investments with City Treasury	n/a	(4,363)	(4,363)	-
Subtotal pooled investments		5,168,756	1,083,084	4,085,672
Separately managed account:				
SFRDA South Beach Harbor Revenue Bond	NR	5,690	-	5,690
Subtotal investments in City Treasury		5,174,446	$ 1,083,084	$ 4,091,362
Investments Outside City Treasury:				
(Governmental and Business-Activites and Private-Purpose Trust)				
U.S. Treasury Bills	NR	43,397	$ 43,397	$ -
U.S. Treasury Notes	AA+	113,789	53,324	60,465
U.S. Agencies - Coupon	AA+	186,449	33,889	152,560
U.S. Agencies - Discount	A-1	306,853	306,853	-
Money Market Mutual funds	AAAm	499,973	499,973	-
Guaranteed Investment Contract	A+	15,958	15,958	-
Commercial Paper	A-1	990	990	-
Investment in Derivative Instrument	n/a	13,305	733	12,572
Subtotal investments outside City Treasury		1,180,714	$ 955,117	$ 225,597
Employees' Retirement System investments		16,298,440		
Total Primary Government		22,653,600		
Component Unit:				
Treasure Island Development Authority:				
Investments with City Treasury	n/a	4,363	$ 4,363	$ -
Total Investments		$ 22,657,963		

On August 5, 2011, Standard & Poor's ratings service downgraded the United States' long-term rating from AAA to AA+. As a consequence, Standard & Poor's subsequently downgraded all Standard & Poor's-rated securities backed by the full faith and credit of the United States government, its agencies and instrumentalities from AAA to AA+. As of June 30, 2012, the investments in the City Treasury had a weighted average maturity of 973 days.

(Dollars in Thousands)

Credit Risk

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

Custodial Credit Risk for Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments; however, it is the practice of the City Treasurer that all investments are insured, registered or held by the Treasurer's custodial agent in the City's name except for the Airport's investments with trustees in the amount of $350.3 million related to the issuance of bonds that are uninsured, unregistered and held by the counterparty's trust departments but not in the City's name. These amounts are included in the investments outside City Treasury shown in the table above.

Concentration of Credit Risk

The City's investment policy contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by the California Government Code and/or its investment policy. U.S. Treasury and Agency securities explicitly guaranteed by the U.S. government are not subject to single issuer limitation.

As of June 30, 2012, the City Treasurer investment pool has investments in U.S. Agencies that represent 5% or more of the total Pool in the following:

Federal National Mortgage Association	20.3%
Federal Home Loan Bank	19.7%
Federal Home Loan Mortgage Corporation	16.1%
Federal Farm Credit Bank	11.1%
Federal Agriculture Mortgage Corporation	5.6%

In addition, the following major funds hold investments with trustees that represent 5% or more of the funds' investments (excluding U.S. Treasury investments and money market mutual funds) outside City Treasury as of June 30, 2012:

Airport:	
Federal Home Loan Bank	45.4%
Federal Home Loan Mortgage Corporation	29.2%
Federal National Mortgage Association	13.5%
Water Enterprise:	
Federal Home Loan Mortgage Corporation	24.5%
Federal National Mortgage Association	6.5%
Hetch Hetchy Water and Power:	
Federal Home Loan Bank	31.3%
Wastewater Enterprise:	
Federal Home Loan Mortgage Corporation	24.5%
Federal Farm Credit Bank	6.5%

(Dollars in Thousands)

Airport's Forward Purchase and Sale Agreements

Objective and Terms – The Airport's Senior Trustee invests a portion of the Airport's debt service fund deposits and debt service reserve funds in investments delivered in accordance with three Forward Purchase and Sale Agreements (FPSAs) that are intended to produce guaranteed earnings rates of 3.450% - 4.349%, depending on the agreement. The three FPSAs are each ten year agreements that expire between May 2013 and November 2014.

Provider	Purpose	Amount	Fixed Rate	Start Date	End Date
Merrill Lynch Capital Services	Reserve Funds	$100,000	4.329%	12/10/2004	11/1/2014
Citigroup Financial Products	Reserve Funds	42,700	3.450%	5/15/2003	5/1/2013
Morgan Stanley Capital Services	Debt Service Fund[1]	47,073	4.349%	1/29/2004	11/1/2013

[1] *The amount invested varies depending on principal and interest deposits on the outstanding bonds.*

Under each FPSA, the Senior Trustee purchases a predetermined amount and type of investment security from the provider (every month for the debt service fund and every six months for the reserve fund), at prices that will result in the guaranteed fixed rate of return. All investments under the FPSAs are made with the intention that securities will be held to maturity, and all are invested only in specified eligible securities pursuant to the California Government Code and as defined by the Airport's 1991 Master Resolution. These investments are scheduled to mature on or before each debt service payment date on the associated bonds.

If necessary, the Airport may direct the Senior Trustee to sell the securities at any time prior to their maturity in the open market and use the proceeds of such sale for the permitted purposes of the applicable fund. The securities are recorded at their fair value as of June 30, 2012, and not at the guaranteed rate of return of the FPSA under which the investments were delivered. As of June 30, 2012, the accrued interest was recorded in the interest receivable account.

Fair Value - The fair value of each FPSA takes into consideration the prevailing interest rate environment and the specific terms and conditions of the FPSA. All fair values were estimated using the zero-coupon discounting method. This method calculates the future earnings under each FPSA, assuming that the current forward rates implied by the yield curve are the market's best estimate of future spot interest rates. These payments are then discounted using the spot rates implied by the current yield curve and compared to the future earnings at the guaranteed rate, also discounted using the spot rates implied by the current yield curve.

As of June 30, 2012, the fair values of the FPSAs t are as follows:

Provider	June 30, 2012
Merrill Lynch Capital Services	$ 8,439
Citigroup Financial Products, Inc.	733
Morgan Stanley Capital Services	4,133
Total	$ 13,305

(Dollars in Thousands)

Credit Risk – The provider under each FPSA sells the specified investment securities to the Senior Trustee on a "delivery-versus-payment" basis. Therefore, at any given time, the Senior Trustee holds either cash or the delivered investments. The Airport has received bankruptcy opinions of counsel of the respective providers to the effect that, subject to customary qualifications, investment securities purchased by the Senior Trustee would not constitute part of the bankruptcy estate of the provider. Thus, the Airport believes that the principal amounts invested in accordance with the FPSAs are not at risk in the event of the bankruptcy or insolvency of the respective providers. In the event a provider fails to perform, the Airport can invest its funds in alternative investments available at that time, which would likely produce a different rate of return. If an FPSA is terminated, the Airport would receive or pay a termination amount approximately equivalent to the fair value of the FPSA at that time, depending on market conditions. As of June 30, 2012, the fair value of each FPSA was positive to the Airport as shown above.

The providers and guarantors of the FPSAs and their credit ratings are as follows:

Provider	Guarantor	Guarantor credit ratings June 30, 2012 (Moody's/S&P)
Merrill Lynch Capital Services	Merrill Lynch & Company	Baa2/A-
Citigroup Financial Products, Inc.	Citigroup Inc.	Baa2/A-
Morgan Stanley Capital Services	Morgan Stanley	Baa1/A-

Termination Risk – Under the terms of the FPSAs, if an investment provider is downgraded below "A-" by Standard & Poor's or "A3" by Moody's, a "Downgrade Event" occurs, and the provider must take corrective action by either assigning the FPSA to a more highly rated investment provider, obtaining a guaranty from a more highly rated guarantor, or collateralizing its obligations under the FPSA. If the provider fails to cure the Downgrade Event within 10 business days, the Airport has a 45-day option to terminate the FPSA and make or receive a cash payment, depending on the then market value of the FPSA.

Merrill Lynch & Co. was downgraded by Moody's on September 21, 2011 to "Baa1" (and subsequently to "Baa2") resulting in a Downgrade Event. Consequently, Merrill Lynch Capital Services (MLCS) entered into a collateral agreement in January 2012 with the Senior Trustee for the benefit of the Airport to post collateral equal to 105% of the fair value (or "termination amount") calculated on a weekly basis to secure MLCS' obligations under the FPSA. The collateral delivered by MLCS is held by U.S. Bank National Association, as custodian (the Custodian). If an event of default by MLCS occurs under the FPSA and the FPSA is terminated, the Senior Trustee is entitled to instruct the Custodian to transfer the collateral to the Senior Trustee or to liquidate the collateral and transfer the proceeds to the Senior Trustee.

Citigroup Inc. and Morgan Stanley were each downgraded by Moody's to "Baa2" and "Baa1", respectively, on June 21, 2012, resulting in Downgrade Events under their respective FPSAs. The Airport is discussing appropriate cures to the Downgrade Events with each of these providers. The downgrade of any FPSA increases the risk to the Airport that the provider will not perform under the FPSA. Under each FPSA, the provider sells the specified investment securities to the Senior Trustee on a "delivery-versus-payment" basis. Therefore, at any given time, the Senior Trustee holds either cash or the delivered investments. The Airport has received bankruptcy opinions of counsel to the respective providers to the effect that, subject to customary qualifications, investment securities purchased by the Senior Trustee would not constitute part of the bankruptcy estate of the provider. Thus, the Airport believes that the principal amounts invested in accordance with the FPSAs are not at risk in the event of bankruptcy or insolvency of the respective providers. In the event a provider fails to perform, the Airport can invest its fund in alternative investments available at the time, which would like produce a different rate of return. If an FPSA is terminated, the Airport would receive or pay a termination amount approximately equivalent to the fair value of the FPSA at that time, depending on market conditions. As of June 30, 2012, the fair value of each FPSA was positive to the Airport.

(Dollars in Thousands)

(d) Treasurer's Pool

The following represents a condensed statement of net assets and changes in net assets for the Treasurer's Pool as of June 30, 2012:

Statement of Net Assets		
Net assets held in trust for all pool participants	$	5,707,347
Equity of internal pool participants	$	5,156,346
Equity of separately managed account participant		227,635
Equity of external pool participants		323,366
Total equity	$	5,707,347
Statement of Changes in Net Assets		
Net assets at July 1, 2011	$	4,584,949
Net change in investments by pool participants		1,122,398
Net assets at June 30, 2012	$	5,707,347

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2012:

Type of Investment	Rates	Maturities	Par Value	Carrying Value
Pooled investments:				
U.S. government securities	0.42% - 2.00%	07/15/12 - 03/31/17	$ 700,000	$ 715,968
Federal agencies	0.15% - 2.31%	10/09/12 - 06/19/17	3,713,615	3,766,586
Temporary Liquidity Guarantee Program	1.41% - 1.79%	09/28/12 - 12/21/12	125,000	125,621
State and local agencies	0.24% - 1.04%	03/01/13 - 11/01/14	58,845	61,145
Negotiable certificates of deposits	0.31% - 0.72%	07/02/12 - 06/07/13	325,000	324,405
Commercial paper	0.60%	01/18/13	30,000	29,876
Public time deposits	0.40% - 0.53%	08/03/12 - 04/09/13	970	970
Corporate notes	0.42% - 0.71%	08/10/12 - 05/01/13	147,200	148,548
			$ 5,100,630	5,173,119
Segregated account:				
Local agencies	3.50%	12/01/16	$ 5,690	5,690
Carrying amount of deposits with Treasurer				528,538
Total cash and investments with Treasurer				$ 5,707,347

(Dollars in Thousands)

(e) Retirement System Investments

The Retirement System's investments as of June 30, 2012 are summarized as follows:

Fixed Income Investments:	
Short-term bills and notes	$ 706,721
Debt securities:	
U.S. Government and agencies	1,036,859
Other debt securities	3,010,690
Subtotal debt securities	4,047,549
Total fixed income investments	4,754,270
Equity securities:	
Domestic	4,025,320
International	3,195,651
Total equity securities	7,220,971
Real estate holdings	2,021,472
Alternative investments	1,403,412
Foreign currency contracts, net	(15,790)
Investment in lending agent's short-term investment pool	914,105
Total Retirement System Investments	$ 16,298,440

Interest Rate Risk

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

Below is a table depicting the segmented time distribution for fixed income investments based upon the expected maturity (in years) as of June 30, 2012:

Investment Type	Fair Value	Less than 1 year	1-5 years	6-10 years	10+ years
Asset Backed Securities	$ 143,976	$ -	$ 52,966	$ 3,933	$ 87,077
Bank Loans	16,260	4,798	11,148	314	-
Collateralized Bonds	12,497	-	-	609	11,888
Commercial Mortgage-Backed	552,518	-	35,594	52,758	464,166
Commingled and other fixed income funds	233,922	233,712	19	-	191
Corporate Bonds	1,400,196	386,810	404,647	404,438	204,301
Corporate Convertible Bonds	211,337	22,680	116,187	16,675	55,795
Government Agencies	172,929	154,279	8,291	10,359	-
Government Bonds	544,099	2,069	403,077	62,083	76,870
Government Mortgage-Backed Securities	547,152	193,215	2,276	19,190	332,471
Index Linked Government Bonds	10,745	-	10,745	-	-
Invested Cash	393,657	393,657	-	-	-
Mortgages	72	-	72	-	-
Municipal/Provincial Bonds	42,367	-	12,814	2,093	27,460
Non-Government Backed Collateralized Mortgage Obligations	157,940	-	2,865	2,329	152,746
Options	991	947	44	-	-
Short Term Bills and Notes	576	576	-	-	-
Short Term Investment Funds	312,489	312,489	-	-	-
Swaps	547	-	2,047	(1,158)	(342)
Total	$ 4,754,270	$ 1,705,232	$ 1,062,792	$ 573,623	$ 1,412,623

(Dollars in Thousands)

Credit Risk

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

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

The following table illustrates the Retirement System's exposure to credit risk as of June 30, 2012. Investments issued or explicitly guaranteed by the U.S. government of $854.5 million as of June 30, 2012 are not considered to have credit risk and are excluded from the table below.

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	$ 233,579	6.0%
AA	109,844	2.8%
A	302,566	7.8%
BBB	641,007	16.4%
BB	190,713	4.9%
B	300,298	7.7%
CCC	111,816	2.9%
CC	10,775	0.3%
D	16,276	0.4%
Not Rated	1,982,856	50.8%
Total	$ 3,899,730	100.0%

The securities listed as "Not Rated" include short-term investment funds, U.S. government agency securities, and investments that invest primarily in rated securities, such as comingled funds and money market funds, but do not themselves have a specific credit rating. Excluding these securities, the "Not Rated" component of credit would be approximately 11.5% for 2012.

Concentration of Credit Risk

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

As of June 30, 2012, the Retirement System had no investments of a single issuer that equal or exceeded 5% of total Retirement System net assets.

Custodial Credit Risk

The Retirement System does not have a specific policy addressing custodial credit risk for investments, but investments are generally insured, registered, or held by the Retirement System or its agent in the Retirement System's name. As of June 30, 2012, $73.5 million of the Retirement System's investments were exposed to custodial credit risk because they were not insured or registered in the name of the Retirement System, and were held by the counterparty's trust department or agent but not in the Retirement System's name. Cash received as securities lending collateral is invested in a separately managed account using investment guidelines approved by the Retirement System and held with the System's custodial bank. Securities in this separately managed account are not exposed to custodial credit risk.

(Dollars in Thousands)

Foreign Currency Risk

The Retirement System's exposure to foreign currency risk derives from its positions in foreign currency denominated cash, equities, fixed income, alternative investments, real estate, and foreign currency contracts. The Retirement System's investment policy allows international managers to enter into foreign exchange contracts, which are limited to hedging currency exposure existing in the portfolio.

The Retirement System's net exposure to foreign currency risk as of June 30, 2012 is as follows:

Currency	Cash	Equities	Fixed Income	Alternative Investments	Real Estate	Foreign Currency Contracts	Total
Australian dollar	$ 651	$ 98,421	$ 22,639	$ 6,812	$ -	$ (145,518)	$ (16,995)
Brazilian real	-	25,994	26,532	-	-	37,223	89,749
British pound sterling	114	397,375	-	-	-	(30,081)	367,408
Canadian dollar	84	55,879	40,315	-	-	(6,854)	89,424
Chilean peso	-	-	-	-	-	11,606	11,606
Chinese yuan renminbi	-	-	-	-	-	42,782	42,782
Colombian peso	-	-	-	-	-	35,097	35,097
Czech koruna	-	884	-	-	-	(23,991)	(23,107)
Danish krone	213	20,697	-	-	-	(2,330)	18,580
Euro	22,369	536,231	1,397	239,888	-	(386,953)	412,932
Hong Kong dollar	1,035	165,492	-	-	-	1,487	168,014
Hungarian forint	-	818	-	-	-	24,903	25,721
Indian rupee	-	-	-	-	-	32,429	32,429
Indonesian rupiah	137	13,697	-	-	-	12,501	26,335
Japanese yen	3,038	382,914	-	-	63,121	(170,036)	279,037
Malaysian ringgit	-	3,297	-	-	-	(11,180)	(7,883)
Mexican peso	1,135	7,744	24,641	-	-	31,709	65,229
New Israeli shekel	13	4,759	-	-	-	(35,643)	(30,871)
New Romanian leu	-	-	-	-	-	6,553	6,553
New Russian ruble	-	-	-	-	-	27,767	27,767
New Taiwan dollar	100	24,569	-	-	-	(42,376)	(17,707)
New Zealand dollar	218	-	-	-	-	(2,706)	(2,488)
Nigerian naira	576	-	-	-	-	-	576
Norwegian krone	36	15,261	-	-	-	196,559	211,856
Peruvian nuevo sol	-	-	-	-	-	10,638	10,638
Philippine peso	-	698	-	-	-	19,545	20,243
Polish zloty	-	1,351	-	-	-	32,081	33,432
Singapore dollar	147	45,707	-	-	-	(34,614)	11,240
South African rand	52	13,607	-	-	-	23,596	37,255
South Korean won	755	87,949	-	-	-	9,137	97,841
Swedish krona	51	47,538	-	-	-	141,599	189,188
Swiss franc	111	151,403	-	-	-	(159,824)	(8,310)
Thai baht	-	19,241	-	-	-	7,950	27,191
Turkish lira	-	10,124	2,069	-	-	59,439	71,632
Total	$ 30,835	$ 2,131,650	$ 117,593	$ 246,700	$ 63,121	$ (287,505)	$ 2,302,394

.

(Dollars in Thousands)

Derivative Instruments

As of June 30, 2012, the derivative instruments held by the Retirement System are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized as incurred in the statement of changes in fiduciary net assets. All investment derivatives discussed below are included within the investment risk schedules, which precede this subsection. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

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

The table below presents the notional amounts, the fair value amounts, and the related net appreciation (depreciation) in the fair value of derivative instruments that were outstanding at June 30, 2012:

Derivative Type / Contracts	Notional Amount	Fair Value	Net Appreciation (Depreciation) in Fair Value
Forwards			
Foreign Exchange Contracts	(a)	$ (15,791)	$ (15,791)
Other Contracts	(a)	109	109
Futures			
Equity Contracts	1	-	-
Interest Rate Contracts	(1)	-	-
Options			
Foreign Exchange Contracts	(29,717)	991	(22)
Swaps			
Credit Contracts	111,153	1,035	(613)
Interest Rate Contracts	3,100	(488)	(488)
Rights/Warrants			
Equity Contracts	338 shares	28	(252)
Total		$ (14,116)	$ (17,057)

(a) The Retirement System's investment managers enter into a wide variety of forward foreign exchange and other contracts, which frequently do not involve the US dollar. As a result, a US dollar-based notional value is not included.

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

(Dollars in Thousands)

Counterparty Credit Risk

The Retirement System is exposed to credit risk on derivative instruments that are in asset positions. As of June 30, 2012, the fair value of forward currency contracts (including foreign exchange contract options) to purchase and sell international currencies were $11.9 million and $26.7 million, respectively. The Retirement System's counterparties to these contracts held credit ratings of A or better on 96.9% of the positions while 3.1% were rated below A as assigned by one or more of the major credit rating organizations (S&P, Moody's and/or Fitch).

Custodial Credit Risk

The custodial credit risk disclosure for exchange traded derivative instruments is made in accordance with the custodial credit risk disclosure requirements of GASB Statement No. 40. At June 30, 2012, all of the Retirement System's investments in derivative instruments are held in the Retirement System's name and are not exposed to custodial credit risk.

Interest Rate Risk

The table below describes the maturity periods of the derivative instruments exposed to interest rate risk at June 30, 2012.

Derivative Type / Contracts	Fair Value	Less than 1 year	1-5 years	6-10 years	10+ years
Swaps					
Credit Contracts	$ 1,035	$ -	$ 2,047	$ (670)	$ (342)
Interest Rate Contracts	(488)	-	-	(488)	-
Forwards					
Other Contracts	109	109	-	-	-
Total	$ 656	$ 109	$ 2,047	$ (1,158)	$ (342)

The following table details the reference rate, notional amount, and fair value of interest rate swaps at June 30, 2012 that are highly sensitive to changes in interest rates:

Investment Type	Reference Rate	Notional Value	Fair Value
Interest Rate Swaps	Receiving variable 3 month LIBOR, paying fixed (3.6%)	$ 3,100	$ (488)

(Dollars in Thousands)

Foreign Currency Risk

At June 30, 2012, the Retirement System is exposed to foreign currency risk on its investments in forwards and swaps denominated in foreign currencies. Below is the derivative instruments foreign currency risk analysis as of June 30, 2012:

Currency	Forwards	Options	Rights / Warrants	Total
Australian dollar	$ (14,197)	$ 13	$ 17	$ (14,167)
Brazilian real	2,355	-	-	2,355
British pound sterling	(1,562)	52	-	(1,510)
Canadian dollar	(1,282)	5	-	(1,277)
Chilean peso	394	-	-	394
Chinese yuan renminbi	56	-	-	56
Colombian peso	(265)	-	-	(265)
Czech koruna	518	-	-	518
Danish krone	(20)	-	-	(20)
Euro	(149)	226	11	88
Hungarian forint	(310)	-	-	(310)
Indian rupee	989	-	-	989
Indonesian rupiah	(234)	-	-	(234)
Japanese yen	(1,110)	-	-	(1,110)
Malaysian ringgit	971	-	-	971
Mexican peso	(3,214)	-	-	(3,214)
New Israeli shekel	1,351	-	-	1,351
New Romanian Leu	133	-	-	133
New Russian ruble	643	-	-	643
New Taiwan dollar	831	-	-	831
New Zealand dollar	(7,351)	218	-	(7,133)
Norwegian krone	(636)	-	-	(636)
Peruvian nuevo sol	2	-	-	2
Philippine peso	(766)	-	-	(766)
Polish zloty	183	-	-	183
Singapore dollar	(51)	-	-	(51)
South African rand	(39)	-	-	(39)
South Korean won	(603)	-	-	(603)
Swedish krona	(1,838)	-	-	(1,838)
Swiss franc	1,130	90	-	1,220
Thai baht	39	-	-	39
Turkish lira	(851)	-	-	(851)
Total	$ (24,883)	$ 604	$ 28	$ (24,251)

Contingent Features

At June 30, 2012, the Retirement System held no positions in derivatives containing contingent features.

Currency Management Program

The Retirement System's currency management program is managed by three investment managers. The objective of the currency management program is to produce a risk-adjusted return of approximately 100 basis points.

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

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

As of June 30, 2012, the Retirement System's allocation to international equities (including cash and other assets) was primarily denominated in foreign currencies and totaled $3.4 billion, which represented 22.3% of fiduciary net assets. For the year ended June 30, 2012, the currency overlay program lost $21.0 million or 0.62% of the international equity portfolio (including cash and other assets) and 0.14% of the Retirement System's average total portfolio value.

Securities Lending

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

The Retirement System does not have the ability to pledge or sell collateral securities unless a borrower defaults. The securities collateral is not reported on the statement of fiduciary net assets. As of June 30, 2012, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes them exceed the amounts they owe the Retirement System. As with other extensions of credit, the Retirement System may bear the risk of delay in recovery or of rights in the collateral should the borrower of securities fail financially. In addition, the lending agent indemnifies the Retirement System against all borrower defaults.

As of June 30, 2012, the Retirement System lent $1.2 billion in securities and received collateral of $0.9 billion and $0.3 billion in cash and securities, respectively, from borrowers. The cash collateral is invested in a separately managed account by the lending agent using investment guidelines approved by the Retirement System. Due to the decline in the fair value of assets held in the separately managed account, the Retirement System's invested cash collateral was valued at $0.9 billion. The net unrealized loss of $3.3 million is presented as part of the net depreciation in fair value of investments in the statement of changes in the fiduciary net assets. The Retirement System is exposed to investment risk including the possible loss of principal value in the separately managed securities lending account due to the fluctuation in the fair value of assets held by the account.

(Dollars in Thousands)

The Retirement System's securities lending transactions as of June 30, 2012, are summarized in the following table:

Security Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Securities Collateral
Securities Loaned for Cash Collateral:			
International Corporate Fixed Income	$ 2,921	$ 3,011	$ -
International Equities	87,075	89,637	-
U.S. Corporate Fixed Income	175,000	177,029	-
U.S. Equities	431,068	433,707	-
U.S. Government Fixed Income	210,324	213,986	-
Securities Loaned with Non-Cash Collateral:			
International Corporate Fixed Income	475	-	487
International Equities	262,284	-	272,205
International Government Fixed Income	30,389	-	32,418
U.S. Corporate Fixed Income	234	-	236
U.S. Equities	2,798	-	2,816
Total	$ 1,202,568	$ 917,370	$ 308,162

The following table presents the segmented time distribution for the reinvested cash collateral account based upon the expected maturity (in years) as of June 30, 2012.

Investment Type	Fair Value	Less than 1 year	1 - 5 years
Asset Backed Securities	$ 16,143	$ 11,412	$ 4,731
Commercial Paper	24,995	24,995	-
Government Agencies	52,899	17,862	35,037
Negotiable Certificates of Deposits	80,012	80,012	-
Repurchase Agreements	195,000	195,000	-
Short Term Investment Funds	545,056	545,056	-
Total	$ 914,105	$ 874,337	$ 39,768

The Retirement System's exposure to credit risk in its reinvested cash collateral account as of June 30, 2012 is as follows:

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	$ 26,266	2.9%
AA	90,390	9.9%
A	249,101	27.2%
BB	179	0.0%
B	1,551	0.2%
CCC	1,562	0.2%
Not Rated	545,056	59.6%
Total	$ 914,105	100.0%

(Dollars in Thousands)

Investments in Real Estate Holdings

Real estate investments represent the Retirement System's interests in real estate limited partnerships. The changes in these investments during the year ended June 30, 2012 are summarized as follows:

Investments:		
Beginning of the year	$	1,266,863
Capital investments		79,482
Equity in net earnings		69,757
Net appreciation in fair value		106,617
Capital distributions		(119,307)
End of the year	$	1,403,412

(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 secured property may be sold at public auction and the proceeds used to pay delinquent amounts due. Any excess is remitted, if claimed, to the taxpayer. Unsecured personal property taxes do not represent a lien on real property. Those taxes are levied on January 1st and become delinquent with penalties after August 31st. Supplemental property tax assessments associated with changes in the assessed valuation due to transfer of ownership in property or upon completion of new construction are levied in two equal installments and have variable due dates based on the date the bill is mailed.

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

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 the City's debt service amounted to approximately $179.9 million for the year ended June 30, 2012.

Taxable valuation for the year ended June 30, 2012 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the former Redevelopment Agency) was approximately $151 billion, an increase of 2.5%. The secured tax rate was $1.1718 per $100 of assessed valuation. After adjusting for a State mandated property tax shift to schools, the tax rate is comprised of: about $0.65 for general government, about $0.35 for other taxing entities including the San Francisco Unified School District, San Francisco Community College District, the Bay Area Air Quality Management District and the Bay Area Rapid Transit District, and also $0.1718 for bond debt service. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 1.82% and 1.91%, respectively, of the current year tax levy, for an average delinquency rate of 1.82% of the current year tax levy.

(Dollars in Thousands)

As established by the Teeter Plan, the Controller allocates to the City and other agencies 100% of the secured property taxes billed but not yet collected by the City; in return, as the delinquent property taxes and associated penalties and interest are collected, the City retains such tax amounts in the Agency Fund. To the extent the Agency Fund balances are higher than required; transfers may be made to benefit the City's General Fund on a budgetary basis. The balance of the tax loss reserve as of June 30, 2012 was $18.0 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, 2012 was as follows:

Governmental Activities:

	Balance July 1, 2011	Increases *	Decreases *	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 157,308	$ 124,550	$ -	$ 281,858
Intangible assets	25,475	11,101	(687)	35,889
Construction in progress	365,241	312,979	(104,759)	573,461
Total capital assets, not being depreciated	548,024	448,630	(105,446)	891,208
Capital assets, being depreciated:				
Facilities and improvements	3,076,718	62,844	(1,767)	3,137,795
Machinery and equipment	348,288	14,758	(3,704)	359,342
Infrastructure	428,250	46,995	-	475,245
Intangible assets	2,321	708	-	3,029
Total capital assets, being depreciated	3,855,577	125,305	(5,471)	3,975,411
Less accumulated depreciation for:				
Facilities and improvements	735,517	60,809	(1,653)	794,673
Machinery and equipment	295,101	18,862	(3,682)	310,281
Infrastructure	58,331	14,404	-	72,735
Intangible assets	202	482	-	684
Total accumulated depreciation	1,089,151	94,557	(5,335)	1,178,373
Total capital assets, being depreciated, net	2,766,426	30,748	(136)	2,797,038
Governmental activities capital assets, net	$ 3,314,450	$ 479,378	$ (105,582)	$ 3,688,246

* The increases and decrease include transfers of categories of capital assets from construction in progress to depreciable categories. Upon dissolution of the former Agency pursuant to AB X1 26 (See Note 2(p)), capital assets designated for housing activities in the amount of $124.5 million previously recorded in the former Agency's records were transferred to the City as its Housing Successor on February 1, 2012.

(Dollars in Thousands)

Business-type Activities:

Capital asset activity of the business enterprises for the year ended June 30, 2012, was as follows:

San Francisco International Airport

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 2,787	$ 287	$ -	$ 3,074
Construction in progress	83,830	101,421	(99,399)	85,852
Total capital assets, not being depreciated	86,617	101,708	(99,399)	88,926
Capital assets, being depreciated:				
Facilities and improvements	5,640,378	57,503	(64,608)	5,633,273
Machinery and equipment	97,573	92,020	(2,587)	187,006
Intangible assets	141,086	262	-	141,348
Total capital assets, being depreciated	5,879,037	149,785	(67,195)	5,961,627
Less accumulated depreciation for:				
Facilities and improvements	1,997,652	142,831	-	2,140,483
Machinery and equipment	58,576	17,301	(2,572)	73,305
Intangible assets	95,162	7,177	-	102,339
Total accumulated depreciation	2,151,390	167,309	(2,572)	2,316,127
Total capital assets, being depreciated, net	3,727,647	(17,524)	(64,623)	3,645,500
Capital assets, net	$ 3,814,264	$ 84,184	$ (164,022)	$ 3,734,426

San Francisco Water Enterprise

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 18,812	$ 5,992	$ (93)	$ 24,711
Intangible assets	679	-	-	679
Construction in progress	1,228,574	823,105	(665,819)	1,385,860
Total capital assets, not being depreciated	1,248,065	829,097	(665,912)	1,411,250
Capital assets, being depreciated:				
Facilities and improvements	1,745,099	629,486	(6)	2,374,579
Machinery and equipment	219,920	23,837	(196)	243,561
Intangible assets	9,485	2,349	-	11,834
Total capital assets, being depreciated	1,974,504	655,672	(202)	2,629,974
Less accumulated depreciation for:				
Facilities and improvements	631,412	50,315	(23)	681,704
Machinery and equipment	110,296	12,572	(195)	122,673
Intangible assets	973	1,708	-	2,681
Total accumulated depreciation	742,681	64,595	(218)	807,058
Total capital assets, being depreciated, net	1,231,823	591,077	16	1,822,916
Capital assets, net	$ 2,479,888	$ 1,420,174	$ (665,896)	$ 3,234,166

(Dollars in Thousands)

Hetch Hetchy Water and Power

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 4,665	$ 55	$ -	$ 4,720
Intangible assets	1,437	-	-	1,437
Construction in progress	59,760	46,277	(39,898)	66,139
Total capital assets, not being depreciated	65,862	46,332	(39,898)	72,296
Capital assets, being depreciated:				
Facilities and improvements	458,136	35,526	(200)	493,462
Machinery and equipment	74,325	3,954	(198)	78,081
Intangible assets	45,715	-	-	45,715
Total capital assets, being depreciated	578,176	39,480	(398)	617,258
Less accumulated depreciation for:				
Facilities and improvements	285,218	9,312	(127)	294,403
Machinery and equipment	37,902	4,060	(189)	41,773
Intangible assets	17,500	483	-	17,983
Total accumulated depreciation	340,620	13,855	(316)	354,159
Total capital assets, being depreciated, net	237,556	25,625	(82)	263,099
Capital assets, net	$ 303,418	$ 71,957	$ (39,980)	$ 335,395

Municipal Transportation Agency

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 26,501	$ 15,250	$ (256)	$ 41,495
Construction in progress	286,532	188,819	(52,990)	422,361
Total capital assets, not being depreciated	313,033	204,069	(53,246)	463,856
Capital assets, being depreciated:				
Facilities and improvements	615,763	18,072	(458)	633,377
Machinery and equipment	1,205,228	26,444	(19,414)	1,212,258
Infrastructure	1,165,135	10,068	-	1,175,203
Total capital assets, being depreciated	2,986,126	54,584	(19,872)	3,020,838
Less accumulated depreciation for:				
Facilities and improvements	214,419	13,772	(458)	227,733
Machinery and equipment	651,008	71,195	(19,135)	703,068
Infrastructure	404,654	33,533	-	438,187
Total accumulated depreciation	1,270,081	118,500	(19,593)	1,368,988
Total capital assets, being depreciated, net	1,716,045	(63,916)	(279)	1,651,850
Capital assets, net	$ 2,029,078	$ 140,153	$ (53,525)	$ 2,115,706

(Dollars in Thousands)

San Francisco General Hospital Medical Center

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 542	$ -	$ -	$ 542
Construction in progress	25,057	12,872	(157)	37,772
Total capital assets, not being depreciated	25,599	12,872	(157)	38,314
Capital assets, being depreciated:				
Facilities and improvements	138,338	1,064	-	139,402
Machinery and equipment	60,117	5,021	-	65,138
Total capital assets, being depreciated	198,455	6,085	-	204,540
Less accumulated depreciation for:				
Facilities and improvements	111,320	3,154	-	114,474
Machinery and equipment	53,997	2,076	-	56,073
Total accumulated depreciation	165,317	5,230	-	170,547
Total capital assets, being depreciated, net	33,138	855	-	33,993
Capital assets, net	$ 58,737	$ 13,727	$ (157)	$ 72,307

San Francisco Wastewater Enterprise

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 21,210	$ -	$ -	$ 21,210
Intangible assets	3,046	-	-	3,046
Construction in progress	107,176	138,439	(110,912)	134,703
Total capital assets, not being depreciated	131,432	138,439	(110,912)	158,959
Capital assets, being depreciated:				
Facilities and improvements	2,192,198	102,138	-	2,294,336
Machinery and equipment	63,244	8,307	(286)	71,265
Intangible assets	3,434	497	-	3,931
Total capital assets, being depreciated	2,258,876	110,942	(286)	2,369,532
Less accumulated depreciation for:				
Facilities and improvements	917,690	40,182	-	957,872
Machinery and equipment	31,464	3,922	(286)	35,100
Intangible assets	687	695	-	1,382
Total accumulated depreciation	949,841	44,799	(286)	994,354
Total capital assets, being depreciated, net	1,309,035	66,143	-	1,375,178
Capital assets, net	$ 1,440,467	$ 204,582	$ (110,912)	$ 1,534,137

(Dollars in Thousands)

Port of San Francisco

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 105,582	$ -	$ -	$ 105,582
Construction in progress	12,744	41,159	(9,864)	44,039
Total capital assets, not being depreciated	118,326	41,159	(9,864)	149,621
Capital assets, being depreciated:				
Facilities and improvements	347,889	12,943	(4,102)	356,730
Machinery and equipment	16,361	827	(266)	16,922
Infrastructure	27,912	25	-	27,937
Intangible assets	3,747	1,107	-	4,854
Total capital assets, being depreciated	395,909	14,902	(4,368)	406,443
Less accumulated depreciation for:				
Facilities and improvements	232,352	12,504	(4,102)	240,754
Machinery and equipment	11,060	827	(23)	11,864
Infrastructure	4,536	1,365	-	5,901
Intangible assets	2,453	374	-	2,827
Total accumulated depreciation	250,401	15,070	(4,125)	261,346
Total capital assets, being depreciated, net	145,508	(168)	(243)	145,097
Capital assets, net	$ 263,834	$ 40,991	$ (10,107)	$ 294,718

Laguna Honda Hospital

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 914	$ -	$ (914)	$ -
Construction in progress	-	27,201	(27,190)	11
Total capital assets, not being depreciated	914	27,201	(28,104)	11
Capital assets, being depreciated:				
Facilities and improvements	546,781	28,103	-	574,884
Machinery and equipment	30,471	1,112	-	31,583
Property held under lease	771	-	-	771
Intangible assets	256	17	-	273
Total capital assets, being depreciated	578,279	29,232	-	607,511
Less accumulated depreciation for:				
Facilities and improvements	25,704	11,130	-	36,834
Machinery and equipment	11,951	4,104	-	16,055
Property held under lease	756	10	-	766
Intangible assets	26	53	-	79
Total accumulated depreciation	38,437	15,297	-	53,734
Total capital assets, being depreciated, net	539,842	13,935	-	553,777
Capital assets, net	$ 540,756	$ 41,136	$ (28,104)	$ 553,788

(Dollars in Thousands)

Other Fund - San Francisco Market Corporation

	Balance July 1, 2011	Increases	Decreases	Balance June 30, 2012
Capital assets, not being depreciated:				
Construction in progress	$ 2,193	$ 579	$ -	$ 2,772
Total capital assets, not being depreciated	2,193	579	-	2,772
Capital assets, being depreciated:				
Facilities and improvements	9,739	3	-	9,742
Machinery and equipment	60	12	(1)	71
Total capital assets, being depreciated	9,799	15	(1)	9,813
Less accumulated depreciation for:				
Facilities and improvements	6,144	274	-	6,418
Machinery and equipment	24	14	(1)	37
Total accumulated depreciation	6,168	288	(1)	6,455
Total capital assets, being depreciated, net	3,631	(273)	-	3,358
Capital assets, net	$ 5,824	$ 306	$ -	$ 6,130

Total Business-type Activities

	Balance July 1, 2011	Increases *	Decreases *	Balance June 30, 2012
Capital assets, not being depreciated:				
Land	$ 181,013	$ 21,584	$ (1,263)	$ 201,334
Intangible assets	5,162	-	-	5,162
Construction in progress	1,805,866	1,352,682	(979,039)	2,179,509
Total capital assets, not being depreciated	1,992,041	1,374,266	(980,302)	2,386,005
Capital assets, being depreciated:				
Facilities and improvements	11,694,321	884,839	(69,374)	12,509,786
Machinery and equipment	1,767,299	161,533	(22,948)	1,905,884
Infrastructure	1,193,047	10,093	-	1,203,140
Property held under lease	771	-	-	771
Intangible assets	203,723	4,232	-	207,955
Total capital assets, being depreciated	14,859,161	1,060,697	(92,322)	15,827,536
Less accumulated depreciation for:				
Facilities and improvements	4,421,911	283,474	(4,710)	4,700,675
Machinery and equipment	966,278	116,071	(22,401)	1,059,948
Infrastructure	409,190	34,898	-	444,088
Property held under lease	756	10	-	766
Intangible assets	116,801	10,490	-	127,291
Total accumulated depreciation	5,914,936	444,943	(27,111)	6,332,768
Total capital assets, being depreciated, net	8,944,225	615,754	(65,211)	9,494,768
Capital assets, net	$ 10,936,266	$ 1,990,020	$ (1,045,513)	$ 11,880,773

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

(Dollars in Thousands)

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

Governmental Activities:		
Public protection	$	14,124
Public works transportation and commerce		17,029
Human welfare and neighborhood development		426
Community Health		1,225
Culture and recreation		40,035
General administration and finance		20,128
Capital assets held by the City's internal service funds charged to the various functions on a prorated bases		1,590
Total depreciation expense - governmental activities	$	94,557

Business-type activities:		
Airport	$	167,309
Water		64,595
Power		13,855
Transportation		118,500
Hospitals		20,527
Sewer		44,799
Port		15,070
Market		288
Total depreciation expense - business-type activities	$	444,943

Equipment is generally estimated to have useful lives of 2 to 40 years, except for certain equipment of the Water Enterprise that has an estimated useful life of up to 75 years. Facilities and improvements are generally estimated to have useful lives from 15 to 50 years, except for utility type assets of the Water Enterprise, Hetch Hetchy Water and Power (Hetch Hetchy), the Wastewater Enterprise, the Municipal Transportation Agency (MTA), and the Port of San Francisco (Port) that have estimated useful lives from 51 to 175 years. These long-lived assets include reservoirs, aqueducts, pumping stations of Hetch Hetchy, Cable Car Barn facilities and structures of MTA, and pier substructures of the Port, which totaled $2.2 billion as of June 30, 2012. Hetch Hetchy had intangible assets of water rights having estimated useful lives from 51 to 100 years, which totaled $45.6 million as of June 30, 2012. In addition, the Water Enterprise had utility type assets with useful lives over 100 years, which totaled $6.8 million as of June 30, 2012.

During the year ended June 30, 2012, the City's enterprise funds incurred total interest expense and interest income of approximately $436.0 million and $82.5 million, respectively. Of these amounts, net interest expense of approximately $82.1 million was capitalized.

During the year ended June 30, 2012, the Water Enterprise, Hetch Hetchy, and the Wastewater Enterprise expensed $8.7 million, $1.6 million, and $2.1 million, respectively, related to capitalized design and planning costs on certain projects that were discontinued. The amounts of the write-off were recognized as other operating expenses in the accompanying financial statements.

(Dollars in Thousands)

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

Changes in Short-Term Obligations

The changes in short-term obligations for governmental and business-type activities for the year ended June 30, 2012, are as follows:

Type of Obligation	July 1, 2011	Additional Obligation	Current Maturities	June 30, 2012
Governmental activities:				
Commercial paper				
San Francisco County Transportation Authority.....	$ 150,000	$ -	$ -	$ 150,000
Multiple Capital Projects..................................	17,519	247,517	(218,202)	46,834
Government activities short-term obligations.......	$ 167,519	$ 247,517	$ (218,202)	$ 196,834
Business-type activities:				
Commercial paper				
San Francisco International Airport.....................	$ -	$ 10,450	$ -	$ 10,450
San Francisco Water Enterprise........................	150,000	24,000	-	174,000
Business-type activities short-term obligations.....	$ 150,000	$ 34,450	$ -	$ 184,450

San Francisco County Transportation Authority

In April 2004, the San Francisco County Transportation Authority (SFCTA) issued an initial tranche of $50.0 million and in September 2004, the SFCTA issued the second tranche of $100.0 million of a programmed $200.0 million aggregate principal amount of commercial paper notes (Limited Tax Bonds), Series A and B. The commercial paper notes are issued to provide a source of financing for the Authority's voter-approved Proposition K Expenditure Plan. Under this program, the SFCTA is able to issue commercial paper notes at prevailing interest rates not to exceed 12% per annum. The maximum maturity of the notes is 270 days. The principal amount of the commercial paper notes plus interest thereon is backed as to credit and liquidity by an irrevocable line of credit (LOC) issued by Landesbank Baden–Württemberg, New York Branch in the amount up to $217.8 million. On July 12, 2005, Landesbank Baden-Wurttenberg extended the expiration date of the irrevocable LOC from April 14, 2007 to December 29, 2015 and on April 13, 2010, increased the LOC fees from 14 basis points to 90 basis points based on the SFCTA's AA credit rating. The commercial paper notes are secured by a first lien gross pledge of the SFCTA's Sales Tax. The principal and interest on the commercial paper notes is payable at each maturity.

As of June 30, 2012, $150.0 million in commercial paper notes were outstanding and maturing 10 days after year-end with interest rates ranging from 0.25% to 0.27%. For the year ended June 30, 2012, the SFCTA paid $2.0 million in LOC fees to Landesbank Baden-Württemberg.

City and County of San Francisco Lease Revenue Commercial Paper Certificates of Participation

In March 2009, the Board of Supervisor authorized the issuance of tax-exempt and taxable lease revenue commercial paper certificates of participation (CP) in an aggregate principal amount not to exceed $150.0 million to provide short term financing to 1) pay for acquisition, construction and rehabilitation of certain capital improvements within the City and the financing of vehicles and equipment; 2) fund capitalized interest with respect to the CP; 3) fund capitalized fees and expenses as defined in the trust agreement; and 4) pay for cost incurred in connection with the sale and delivery of the CP. In June 2010, the City obtained irrevocable lines of credit (LOC) issued by JP Morgan Chase Bank, National Association with a maximum available amount of $50.0 million and U.S. Bank, National Association with a maximum available amount of $50.0 million. Both LOCs expire on June 10, 2013.

The City issued commercial paper notes totaling $247.5 million and retired commercial paper notes totaling $218.2 million in fiscal year 2012 to provide interim financing for capital projects and capital equipment acquisitions, with each project receiving prior approval from the Board of Supervisors: Moscone Center Improvements, the Department of Public Works equipment purchase, HOPE SF, the War Memorial Veterans Building project, street improvement projects, disability access improvement in the Board of Supervisors chambers and the Port Facilities Improvement project. As of June 30, 2012, the outstanding principal amount of taxable commercial paper notes was $6.4 million and the tax-exempt commercial paper notes was $40.4 million. The taxable commercial paper notes bear interest rate of 0.18% and 0.21% and will mature on August 8, 2012 and the tax-exempt commercial paper notes bear interest rates of 0.16% and will mature on September 12, 2012. In June 2012, commercial paper notes in the amount of $16.7 million for street improvement projects and $0.5 million for the Board of Supervisors disability access improvement project was refunded through the issuance of Certificates of Participation (Multiple Capital Projects) Series 2012A.

San Francisco International Airport

In 1997, the Airport authorized the issuance of subordinate commercial paper notes (CP) in an aggregate principal amount not to exceed the lesser of $400.0 million or the stated amount of the letter of credit securing the CP. The Airport has two $100.0 million direct-pay letters of credit from State Street Bank and from Barclays Bank both of which will expire on May 2, 2014. Each of these letters of credit supports separate subseries of commercial paper notes and permits the Airport to issue CP up to a combined maximum principal amount of $200.0 million.

During the fiscal year 2012, the Airport issued $10.5 million of commercial paper notes to fund capital improvement projects with interest rates on private activity CP (AMT) of 0.18% and on tax-exempt governmental purpose CP (non-AMT) ranging from 0.16% to 0.20%.

San Francisco Water Enterprise

The San Francisco Public Utilities Commission and Board of Supervisors have authorized the issuance of up to $250.0 million in commercial paper pursuant to the voter-approved 2002 Proposition A and $250.0 million in commercial paper pursuant to the voter-approved 2002 Proposition E for a combined total authorization of $500.0 million. As of June 30, 2012, $174.0 million in commercial paper was outstanding under Proposition E. The commercial paper interest rate ranged from 0.10% to 0.27%. With maturities up to 270 days, the Water Enterprise intends to maintain the program by remarketing the commercial paper upon maturity over the next five years, at which time outstanding commercial paper will be refunded with long-term revenue bonds. This is being done to take advantage of the continued low interest rate environment. If the commercial paper interest rates rise to a level that exceeds these benefits, the Water Enterprise will refinance the commercial paper with long-term fixed rate debts.

San Francisco Wastewater Enterprise

The San Francisco Public Utilities Commission and Board of Supervisors have authorized the issuance of up to $300.0 million in commercial paper under the voter-approved 2002 Proposition E, for the purpose of reconstructing, expanding, repairing or improving the Wastewater Enterprise's facilities. The Wastewater Enterprise has no commercial paper outstanding at June 30, 2012 and did not have any commercial paper related activities during fiscal year 2012.

(Dollars in Thousands)

Long-Term Obligations

The following is a summary of long-term obligations of the City as of June 30, 2012:

GOVERNMENTAL ACTIVITIES

Type of Obligation and Purpose	Final Maturity Date	Remaining Interest Rate	Amount
GENERAL OBLIGATION BONDS [a]:			
Earthquake safety and emergency response	2035	3.00% - 5.00%	$ 231,730
Branch libraries	2028	4.00% - 4.50%	26,690
Parks and playgrounds	2032	2.00% - 6.26%	150,905
Road repaving and street safety	2032	2.00% - 4.00%	63,940
San Francisco General Hospital	2030	4.00% - 6.26%	359,620
Seismic safety loan program	2031	3.36% - 5.83%	27,400
Refunding	2030	3.50% - 5.00%	646,045
General Obligation Bonds - governmental activities			1,506,330
LEASE REVENUE BONDS:			
San Francisco Finance Corporation [b], [e] & [f]	2034	2.00% - 5.75%*	273,460
Lease Revenue Bonds - governmental activities			273,460
OTHER LONG-TERM OBLIGATIONS:			
Certificates of participation [c] & [d]	2041	2.00% - 5.00%	531,376
Loans [c], [d] & [f]	2027	2.00% - 5.74%	13,878
Capital leases payable [c] & [f]	2018	3.17% - 7.05%	22,878
Accrued vacation and sick leave [d] & [f]			150,072
Accrued workers' compensation [d] & [f]			226,428
Estimated claims payable [d] & [f]			112,394
Other postemployment benefits obligation			754,501
Other long-term obligations - governmental activities			1,811,527
DEFERRED AMOUNTS:			
Bond issuance premiums			136,897
Bond issuance discounts			(1,792)
Bond refunding			(18,383)
Deferred amounts			116,722
Governmental activities total long-term obligations			$ 3,708,039

Debt service payments are made from the following sources:

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

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

* Includes the Moscone Center West Expansion Project Refunding Bonds Series 2008-1 & 2, both of which were financed with variable rate bonds that reset weekly. The rate at June 30, 2012 for Series 2008-1 & 2 was 0.23% and 0.17%, respectively.

(Dollars in Thousands)

BUSINESS-TYPE ACTIVITIES

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rate	Amount
San Francisco International Airport:			
Revenue bonds *	2040	0.70% - 6.00%	$ 4,062,265
San Francisco Water Enterprise:			
Revenue bonds	2050	2.00% - 6.90%	4,335,810
Certificates of Participation	2042	2.00% - 6.49%	119,717
Accreted interest	2019	-	4,450
Hetch Hetchy Water and Power:			
Energy bonds	2028	4.74%	19,528
Certificates of Participation	2042	2.00% - 6.49%	16,298
Municipal Transportation Agency:			
Parking and Traffic			
Revenue bonds	2020	4.70% - 5.00%	13,080
Lease revenue bonds	2022	5.00% - 5.50%	5,075
Downtown Parking - parking revenue refunding bonds	2018	4.45% - 5.38%	6,095
Ellis-O'Farrell - parking revenue refunding bonds	2017	3.50% - 4.70%	2,535
Uptown Parking - revenue bonds	2031	4.50% - 6.00%	15,905
San Francisco General Hospital Medical Center:			
Certificates of Participation	2026	5.55%	22,006
Capital leases	2016	2.65% - 4.48%	2,923
San Francisco Wastewater Enterprise:			
Revenue bonds	2040	3.00% - 5.82%	446,765
Certificates of Participation	2042	2.00% - 6.49%	31,655
State of California - revolving funds loans	2021	2.80% - 3.40%	36,898
Port of San Francisco:			
Revenue bonds	2040	4.19% - 7.41%	35,495
Notes, loans and other payables	2029	4.50%	2,713
Laguna Honda Hospital:			
Certificates of participation	2031	4.00% - 5.25%	153,650
Capital leases	2015	3.00% - 4.00%	232
Accrued vacation and sick leave			98,188
Accrued workers' compensation			144,456
Estimated claims payable			56,993
Other postemployment benefits obligation			552,217
Deferred Amounts:			
Bond issuance premiums			344,033
Bond issuance discounts			(691)
Bond refunding			(155,773)
Business-type activities total long-term obligations			$ 10,372,518

* Includes Second Series Revenue Bonds Issue 36 A / B, 36C, 37C and 2010A, which were initially issued as variable rate bonds in a weekly mode. For the year ended June 30, 2012, the average interest rate on Issue 36A and B was 0.124% and 0.124%, respectively; for Issue 36C was 0.315%; for Issue 37C was 0.341% and for Issue 2010A-1, 2 & 3 was 0.128%, 0.140% & 0.132%, respectively.

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

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, 2012, the City's debt limit (3% of valuation subject to taxation) was $4.96 billion. The total amount of debt applicable to the debt limit was $1.51 billion. The resulting legal debt margin was $3.45 billion.

Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the earnings from the investment of tax exempt bond proceeds, which exceed related interest expenditures on the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issue. The City has evaluated each general obligation bond and certificates of participation and no arbitrage liability was recognized as of June 30, 2012. The Finance Corporation has evaluated their lease revenue bonds and no liability was reported in the deferred credits and other liabilities in the Internal Service Fund as of June 30, 2012. 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.

Assessment District

During June 1996, the City issued $1.0 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 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, 2012, the aggregate outstanding obligation of such bonds was $101.8 million.

(Dollars in Thousands)

Changes in Long-Term Obligations

The changes in long-term obligations for governmental activities for the year ended June 30, 2012, are as follows:

	July 1, 2011	Additional Obligations, Interest Accretion and Net Increases	Current Maturities Retirements, and Net Decreases	June 30, 2012	Amounts Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 1,355,992	$ 674,775	$ (524,437)	$ 1,506,330	$ 97,386
Lease revenue bonds	280,750	9,815	(17,105)	273,460	18,935
Certificates of participation	574,210	129,315	(172,149)	531,376	15,395
Less deferred amounts:					
For issuance premiums	72,950	89,707	(25,760)	136,897	-
For issuance discounts	(1,857)	-	65	(1,792)	-
On refunding	(17,470)	(4,433)	3,520	(18,383)	-
Total bonds payable	2,264,575	899,179	(735,866)	2,427,888	131,716
Loans	10,072	4,359	(553)	13,878	583
Capital leases	141,377	2,666	(121,165)	22,878	2,196
Accrued vacation and sick leave pay	140,621	101,213	(91,762)	150,072	76,189
Accrued workers' compensation	222,828	42,511	(38,911)	226,428	41,192
Estimated claims payable	126,044	18,295	(31,945)	112,394	36,793
Other postemployment benefits obligation	615,227	224,520	(85,246)	754,501	-
Governmental activities long-term obligations	$ 3,520,744	$ 1,292,743	$ (1,105,448)	$ 3,708,039	$ 288,669

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. Also, for the governmental activities, claims and judgments and compensated absences are generally liquidated by the General Fund.

(Dollars in Thousands)

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2012, are as follows:

	July 1, 2011	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2012	Amounts Due Within One Year
San Francisco International Airport					
Bonds payable:					
Revenue bonds	$ 4,215,230	$ 1,021,440	$ (1,174,405)	$ 4,062,265	$ 340,545
Revenue notes	25,460	-	(25,460)	-	-
Less deferred amounts:					
For issuance premiums	103,990	62,861	(17,307)	149,544	-
For issuance discounts	(4,249)	-	3,948	(301)	-
On refunding	(105,148)	(50,038)	27,318	(127,868)	-
Total bonds payable	4,235,283	1,034,263	(1,185,906)	4,083,640	340,545
Accrued vacation and sick leave pay	14,638	11,110	(10,119)	15,629	7,943
Accrued workers' compensation	4,966	2,013	(1,904)	5,075	998
Estimated claims payable	11,557	(1,386)	(8,839)	1,332	503
Other postemployment benefits obligation	60,537	15,287	-	75,824	-
Long-term obligations	$ 4,326,981	$ 1,061,287	$ (1,206,768)	$ 4,181,500	$ 349,989
San Francisco Water Enterprise					
Bonds payable:					
Revenue bonds	$ 3,113,080	$ 1,422,630	$ (199,900)	$ 4,335,810	$ 45,965
Certificates of Participation	119,717	-	-	119,717	1,971
Less deferred amounts:					
For issuance premiums	87,808	91,349	(7,662)	171,495	-
On refunding	(13,592)	(4,545)	1,900	(16,237)	-
Total bonds payable	3,307,013	1,509,434	(205,662)	4,610,785	47,936
Accreted interest payable	4,155	295	-	4,450	-
Accrued vacation and sick leave pay	11,575	8,331	(7,363)	12,543	6,182
Accrued workers' compensation	7,675	2,639	(2,350)	7,964	1,403
Estimated claims payable	26,990	2,565	(20,460)	9,095	2,899
Other postemployment benefits obligation	60,314	20,254	(7,559)	73,009	-
Long-term obligations	$ 3,417,722	$ 1,543,518	$ (243,394)	$ 4,717,846	$ 58,420
Hetch Hetchy Water and Power					
Bonds payable:					
Clean Renewable Energy Bonds	$ 5,059	$ 14,891	$ (422)	$ 19,528	$ 1,009
Certificates of Participation	16,298	-	-	16,298	268
Less deferred amounts:					
For issuance premiums	327	-	(54)	273	-
For issuance discounts	(157)	-	13	(144)	-
Total bonds payable	21,527	14,891	(463)	35,955	1,277
Accrued vacation and sick leave pay	2,590	2,225	(1,731)	3,084	1,634
Accrued workers' compensation	2,063	1,041	(783)	2,321	433
Estimated claims payable	2,130	2,321	(1,780)	2,671	529
Other postemployment benefits obligation	11,221	4,550	(1,469)	14,302	-
Long-term obligations	$ 39,531	$ 25,028	$ (6,226)	$ 58,333	$ 3,873

(Dollars in Thousands)

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2012 are as follows (continued):

	July 1, 2011	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2012	Amounts Due Within One Year
Municipal Transportation Agency					
Bonds payable:					
Revenue bonds	$ 40,640	$ -	$ (3,025)	$ 37,615	$ 3,175
Lease revenue bonds	5,455	-	(380)	5,075	400
Less deferred amounts:					
For issuance premiums	707	-	(46)	661	-
Total bonds payable	46,802	-	(3,451)	43,351	3,575
Accrued vacation and sick leave pay	27,081	19,412	(18,214)	28,279	16,328
Accrued workers' compensation	93,021	14,530	(19,712)	87,839	14,806
Estimated claims payable	48,002	2,458	(16,729)	33,731	13,411
Other postemployment benefits obligation	126,459	52,262	(25,352)	153,369	-
Long-term obligations	$ 341,365	$ 88,662	$ (83,458)	$ 346,569	$ 48,120
San Francisco General Hospital Medical Center					
Bonds payable:					
Certificates of Participation	$ 22,550	$ -	$ (544)	$ 22,006	$ 1,132
Capital Leases	628	2,779	(484)	2,923	981
Accrued vacation and sick leave pay	18,092	15,334	(12,531)	20,895	11,634
Accrued workers' compensation	22,210	5,063	(5,278)	21,995	3,845
Other postemployment benefits obligation	115,232	43,254	(16,288)	142,198	-
Long-term obligations	$ 178,712	$ 66,430	$ (35,125)	$ 210,017	$ 17,592
San Francisco Wastewater Enterprise					
Bonds payable:					
Revenue bonds	$ 468,775	$ -	$ (22,010)	$ 446,765	$ 23,095
Certificates of participation	31,655	-	-	31,655	521
Less deferred amounts:					
For issuance premiums	21,408	-	(1,850)	19,558	-
On refunding	(13,189)	-	1,521	(11,668)	-
Total bonds payable	508,649	-	(22,339)	486,310	23,616
State of California - Revolving fund loans	46,492	-	(9,594)	36,898	8,322
Accrued vacation and sick leave pay	5,196	3,035	(2,533)	5,698	2,986
Accrued workers' compensation	3,609	1,858	(1,540)	3,927	734
Estimated claims payable	8,432	2,021	(1,915)	8,538	2,231
Other postemployment benefits obligation	20,873	7,974	(2,334)	26,513	-
Long-term obligations	$ 593,251	$ 14,888	$ (40,255)	$ 567,884	$ 37,889

(Dollars in Thousands)

The changes in long-term obligations for each enterprise fund for the year ended June 30, 2012 are as follows (continued):

	July 1, 2011	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2012	Amounts Due Within One Year
Port of San Francisco					
Bonds payable:					
Revenue bonds	$ 36,165	$ -	$ (670)	$ 35,495	$ 695
Less deferred amounts:					
For issuance discounts	(255)	-	9	(246)	-
Total bonds payable	35,910	-	(661)	35,249	695
Notes, loans, and other payables	2,819	-	(106)	2,713	110
Accrued vacation and sick leave pay	2,146	1,212	(1,044)	2,314	1,200
Accrued workers' compensation	2,796	537	(536)	2,797	425
Estimated claims payable	1,326	305	(5)	1,626	1,276
Other postemployment benefits obligation	10,706	3,962	(1,278)	13,390	-
Long-term obligations	$ 55,703	$ 6,016	$ (3,630)	$ 58,089	$ 3,706
Laguna Honda Hospital					
Bonds payable:					
Certificates of participation	$ -	$ 153,650	$ -	$ 153,650	$ 5,105
Less deferred amounts:					
For issuance premiums	-	2,502	-	2,502	-
Total bonds payable	-	156,152	-	156,152	5,105
Capital leases	24	344	(136)	232	108
Accrued vacation and sick leave pay	9,245	6,923	(6,422)	9,746	5,401
Accrued workers' compensation	11,846	4,408	(3,716)	12,538	2,586
Other postemployment benefits obligation	43,624	16,410	(6,422)	53,612	-
Long-term obligations	$ 64,739	$ 184,237	$ (16,696)	$ 232,280	$ 13,200
Total Business-type Activities:					
Bonds payable:					
Revenue bonds	$ 7,873,890	$ 2,444,070	$(1,400,010)	$ 8,917,950	$ 413,475
Revenue notes	25,460	-	(25,460)	-	-
Clean renewable energy bonds	5,059	14,891	(422)	19,528	1,009
Certificates of Participation	190,220	153,650	(544)	343,326	8,997
Lease revenue bonds	5,455	-	(380)	5,075	400
Less deferred amounts:					
For issuance premiums	214,240	156,712	(26,919)	344,033	-
For issuance discounts	(4,661)	-	3,970	(691)	-
On refunding	(131,929)	(54,583)	30,739	(155,773)	-
Total bonds payable	8,177,734	2,714,740	(1,419,026)	9,473,448	423,881
Accreted interest payable	4,155	295	-	4,450	-
State of California - Revolving fund loans	46,492	-	(9,594)	36,898	8,322
Notes, loans, and other payables	2,819	-	(106)	2,713	110
Capital leases	652	3,123	(620)	3,155	1,089
Accrued vacation and sick leave pay	90,563	67,582	(59,957)	98,188	53,308
Accrued workers' compensation	148,186	32,089	(35,819)	144,456	25,230
Estimated claims payable	98,437	8,284	(49,728)	56,993	20,849
Other postemployment benefits obligation	448,966	163,953	(60,702)	552,217	-
Long-term obligations	$ 9,018,004	$ 2,990,066	$(1,635,552)	$ 10,372,518	$ 532,789

(Dollars in Thousands)

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2012, for governmental activities are as follows:

Governmental Activities [1] [2]

Fiscal Year Ending June 30	General Obligation Bonds Principal	General Obligation Bonds Interest [3]	Lease Revenue Bonds Principal	Lease Revenue Bonds Interest	Other Long-Term Obligations Principal [4]	Other Long-Term Obligations Interest [4]	Total Principal	Total Interest
2013............	$ 97,387	$ 70,902	$ 18,935	$ 7,174	$ 29,105	$ 25,801	$ 145,427	$ 103,877
2014............	93,474	66,318	19,650	6,692	29,304	24,946	142,428	97,956
2015............	88,090	61,952	17,370	6,150	31,050	23,657	136,510	91,759
2016............	92,163	57,824	15,645	5,658	32,169	22,144	139,977	85,626
2017............	83,494	53,560	13,995	5,242	29,984	20,737	127,473	79,539
2018-2022.....	393,764	210,676	61,540	21,429	114,012	84,949	569,316	317,054
2023-2027.....	379,380	120,024	71,880	12,891	95,303	60,909	546,563	193,824
2028-2032.....	263,338	32,836	49,900	4,155	103,375	36,520	416,613	73,511
2033-2037.....	15,240	1,549	4,545	395	71,725	14,005	91,510	15,949
2038-2042.....	-	-	-	-	32,105	2,969	32,105	2,969
Total...	$ 1,506,330	$ 675,641	$ 273,460	$ 69,786	$ 568,132	$ 316,637	$ 2,347,922	$ 1,062,064

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

(2) Includes the Moscone Center Expansion Project Lease Revenue Refunding Bonds Series 2008-1 & 2, which bears interest at a weekly rate. An assumed rate of 0.35%, together with liquidity fee of 0.710% and remarketing fee of 0.0725%, were used to project the interest payment in this table.

(3) The interest is before the Federal interest subsidy for the Series 2010 C and Series 2010 D General Obligation Bonds. The Federal interest subsidy on the Series 2010 C and Series 2010 D General Obligation Bonds is approximately $47.2 million and $9.9 million, respectively, through the year ending 2030.

(4) Includes approximately $25.6 million in lease payments to the Successor Agency for the Moscone Convention Center through fiscal year 2018.

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2012 for each enterprise fund is as follows:

San Francisco International Airport [1]

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest
2013............	$ 152,355	$ 193,161
2014............	163,110	188,722
2015............	181,685	182,537
2016............	187,245	174,890
2017............	181,205	166,442
2018-2022.....	1,155,550	683,349
2023-2027.....	1,140,445	386,419
2028-2032.....	588,685	154,406
2033-2037.....	200,230	67,003
2038-2040.....	111,755	10,609
Total...........	$ 4,062,265	$ 2,207,538

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

(Dollars in Thousands)

The table below presents the Airport's revenue bond debt service requirements in the event (i) the letters of credit securing the Airport's outstanding variable rate bonds had to be drawn upon to pay such bonds and the amount drawn had to be repaid by the Airport pursuant to the terms of the related agreements with the banks providing such letters of credit and (ii) the Airport's outstanding fixed rate bonds scheduled to become due (via a mandatory tender by bondholders for purchase by the Airport) are not remarketed as or refunded with long-term fixed rate bonds:

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest
2013............	$ 340,545	$ 192,152
2014............	418,155	180,545
2015............	216,225	165,280
2016............	275,465	152,290
2017............	162,405	142,911
2018-2022.....	997,090	581,836
2023-2027.....	897,800	326,000
2028-2032.....	442,595	144,053
2033-2037.....	200,230	67,003
2038-2040.....	111,755	10,609
Total..........	$ 4,062,265	$ 1,962,679

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2012 for each enterprise fund is as follows (continued):

San Francisco Water Enterprise [1]

Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest [2]	Principal	Interest [3]	Principal	Interest
2013............	$ 45,965	$ 218,795	$ 1,971	$ 7,199	$ 47,936	$ 225,994
2014............	44,150	219,973	2,035	7,132	46,185	227,105
2015............	50,995	217,741	2,106	7,060	53,101	224,801
2016............	63,465	214,966	2,199	6,968	65,664	221,934
2017............	68,220	211,756	2,313	6,856	70,533	218,612
2018-2022.....	445,350	1,003,482	13,470	32,371	458,820	1,035,853
2023-2027.....	620,240	872,190	17,033	28,194	637,273	900,384
2028-2032.....	781,100	694,911	20,949	22,183	802,049	717,094
2033-2037.....	984,245	467,083	25,811	14,651	1,010,056	481,734
2038-2042.....	908,315	205,489	31,830	5,335	940,145	210,824
2043-2047.....	226,085	58,260	-	-	226,085	58,260
2048-2051.....	97,680	13,961	-	-	97,680	13,961
Total...........	$ 4,335,810	$ 4,398,607	$ 119,717	$ 137,949	$ 4,455,527	$ 4,536,556

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

(2) The interest is before the Federal interest subsidy for the Water Enterprise's Revenue Bonds. The Federal interest subsidy amounts represent 35% of the interest for the revenue bonds 2010 Sub-Series B, E and G which is approximately $565.6 million through the year ending 2051.

(3) The interest is before the Water Enterprise Fund's portion of the Federal interest subsidy for the Certificates of Participation Series D (Taxable), which amounts to approximately $45.5 million through the year ending 2042.

(Dollars in Thousands)

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2012 for each enterprise fund is as follows (continued):

Hetch Hetchy Water and Power (1)

Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest (2)	Principal	Interest (3)	Principal	Interest
2013............	$ 1,009	$ 898	$ 268	$ 980	$ 1,277	1,878
2014............	1,309	667	277	970	1,586	1,637
2015............	1,321	625	287	961	1,608	1,586
2016............	1,332	582	299	948	1,631	1,530
2017............	1,344	539	315	933	1,659	1,472
2018-2022.....	6,906	2,027	1,834	4,408	8,740	6,435
2023-2027.....	5,538	857	2,319	3,839	7,857	4,696
2028-2032.....	769	25	2,852	3,019	3,621	3,044
2033-2037.....	-	-	3,514	1,994	3,514	1,994
2038-2042.....	-	-	4,333	728	4,333	728
Total..........	$ 19,528	$ 6,220	$ 16,298	$ 18,780	$ 35,826	$ 25,000

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

(2) Interest payments are not required on Clean Renewable Energy Bonds (CREBS) since the effective equivalent of interest on the bonds is paid in the form of Federal tax credits in-lieu of interest paid by the issuer. The interest on the Qualified Energy Conservation Bonds and the New Clean Renewable Energy Bonds is before Federal interest subsidies totaling $4.5 through fiscal year ending 2028.

(3) The interest is before the Hetch Hetchy Water and Power Enterprise's portion of the Federal interest subsidy for the Certificates of Participation Series D (Taxable) which amounts to approximately $6.2 million through the year ending 2042.

Municipal Transportation Agency (1)

Fiscal Year Ending June 30	Revenue/ Lease Revenue Bonds	
	Principal	Interest
2013............	$ 3,575	$ 2,267
2014............	3,750	2,097
2015............	3,930	1,917
2016............	4,125	1,724
2017............	4,325	1,512
2018-2022.....	12,795	4,680
2023-2027.....	4,360	2,433
2028-2032.....	5,830	915
Total..........	$ 42,690	$ 17,545

San Francisco General Hospital (1)

Fiscal Year Ending June 30	Other Long-Term Obligations	
	Principal	Interest
2013............	$ 2,113	$ 1,375
2014............	1,979	1,300
2015............	2,038	1,232
2016............	1,718	1,082
2017............	1,409	929
2018-2022.....	8,328	3,361
2023-2026.....	7,344	838
Total..........	$ 24,929	$ 10,117

(Dollars in Thousands)

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2012 for each enterprise fund is as follows (continued):

San Francisco Wastewater Enterprise [(1)]

Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest [(2)]	Principal	Interest [(3)]	Principal	Interest
2013............	$ 23,095	$ 22,902	$ 8,843	$ 3,003	$ 31,938	$ 25,905
2014............	24,395	21,715	8,730	2,734	33,125	24,449
2015............	25,790	20,428	6,243	2,469	32,033	22,897
2016............	27,325	19,034	5,418	2,274	32,743	21,308
2017............	18,855	17,890	3,947	2,097	22,802	19,987
2018-2022.....	110,920	73,919	10,088	9,038	121,008	82,957
2023-2027.....	62,670	50,358	4,503	7,455	67,173	57,813
2028-2032.....	45,995	37,822	5,540	5,867	51,535	43,689
2033-2037.....	55,315	23,478	6,825	3,873	62,140	27,351
2038-2042.....	52,405	6,245	8,416	1,410	60,821	7,655
Total...........	$ 446,765	$ 293,791	$ 68,553	$ 40,220	$ 515,318	$ 334,011

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

(2) Interest before subsidy amounts for the revenue bonds 2003 Refunding Series A and 2010 Series A and B. The Federal interest subsidy represents 35% of the interest for the 2010 Series B revenue bonds, which is approximately $78.2 million through the year ending 2041.

(3) The interest is before the Wastewater Enterprise's portion of the Federal interest subsidy for the Certificates of Participation Series D (Taxable) which amounts to approximately $12.0 million through the year ending 2042.

Port of San Francisco [(1)]

Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013............	$ 695	$ 2,151	$ 110	$ 122	$ 805	$ 2,273
2014............	725	2,122	115	117	840	2,239
2015............	755	2,088	120	112	875	2,200
2016............	795	2,051	125	107	920	2,158
2017............	835	2,008	131	101	966	2,109
2018-2022.....	5,005	9,221	747	411	5,752	9,632
2023-2027.....	6,955	7,269	932	227	7,887	7,496
2028-2032.....	7,815	4,422	433	29	8,248	4,451
2033-2037.....	6,880	2,383	-	-	6,880	2,383
2038-2042.....	5,035	525	-	-	5,035	525
Total...........	$ 35,495	$ 34,240	$ 2,713	$ 1,226	$ 38,208	$ 35,466

(Dollars in Thousands)

The annual debt service requirement to maturity for all bonds and loans outstanding as of June 30, 2012 for each enterprise fund is as follows (continued):

Laguna Honda Hospital [(1)]

Fiscal Year Ending June 30	Other Long-Term Obligations	
	Principal	Interest
2013............	$ 5,213	$ 7,678
2014............	5,443	7,411
2015............	5,641	7,162
2016............	5,875	6,875
2017............	6,140	6,611
2018-2022.....	35,420	28,328
2023-2027.....	45,125	18,625
2028-2032.....	45,025	5,976
Total...........	$ 153,882	$ 88,666

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

Total Business-type Activities

Fiscal Year Ending June 30	Revenue/Lease Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2013............	$ 226,694	$ 440,174	$ 18,518	$ 20,357	$ 245,212	$ 460,531
2014............	237,439	435,296	18,579	19,664	256,018	454,960
2015............	264,476	425,336	16,435	18,996	280,911	444,332
2016............	284,287	413,247	15,634	18,254	299,921	431,501
2017............	274,784	400,147	14,255	17,527	289,039	417,674
2018-2022.....	1,736,526	1,776,678	69,887	77,917	1,806,413	1,854,595
2023-2027.....	1,840,208	1,319,526	77,256	59,178	1,917,464	1,378,704
2028-2032.....	1,430,194	892,501	74,799	37,074	1,504,993	929,575
2033-2037.....	1,246,670	559,947	36,150	20,518	1,282,820	580,465
2038-2042.....	1,077,510	222,868	44,579	7,473	1,122,089	230,341
2043-2047.....	226,085	58,260	-	-	226,085	58,260
2048-2051.....	97,680	13,961	-	-	97,680	13,961
Total...........	$ 8,942,553	$ 6,957,941	$ 386,092	$ 296,958	$ 9,328,645	$ 7,254,899

(Dollars in Thousands)

Governmental Activities Long-term Liabilities

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition or improvement of real property and construction of affordable housing. General obligation bonds have been issued for both governmental and business-type activities. The net authorized and unissued governmental activities general obligation bonds for the year ended June 30, 2012, are as follows:

Governmental Activities - General Obligation Bonds

Authorized and unissued as of June 2011	$ 1,164,890
Increase in authorization in fiscal year 2012:	
Road Repaving and Street Safety Bonds	248,000
Bonds issued:	
Earthquake Safety and Emergency Response Bonds Series 2012A	(183,330)
Clean and Safe Neighborhood Parks Bonds Series 2012A	(73,355)
Road Repaving and Street Safety Bonds Series 2012C	(74,295)
Seismic and Safety Loan Program (6th draw)	(700)
Seismic and Safety Loan Program (7th draw)	(3,620)
Net authorized and unissued as of June 30, 2012	$ 1,077,590

The increase in authorized amount of $248.0 million of 2011 Road Repaving and Street Safety General Obligation Bonds was approved by at least two-third votes on Proposition B at an election held on November 8, 2011. The bonds will be issued to provide funds to improve and repair streets, sidewalks, and street structures.

In March 2012, the City issued the following series of General Obligation Bonds: 1) Earthquake Safety and Emergency Response, Series 2012A in the amount of $183.3 million. The bonds mature from June 2012 through June 2032 with interest rates ranging from 2.0% to 5.0%. The bonds were issued to provide funds to finance the improvement, retrofitting, rehabilitation and completion of earthquake safety and emergency responsiveness facilities and infrastructure, and to pay certain costs related to the issuance of the 2012A bonds; 2) Clean and Safe Neighborhood Parks Series 2012B in the amount of $73.4 million to provide funds for the construction, reconstruction, purchase and/or improvement of park and recreation facilities under the jurisdiction of the Recreation and Park Commission and Port Commission and all other structures, improvements and related costs necessary for these purposes, and to pay certain costs related to the issuance of the 2012B bonds. Interest rates range from 2.0% to 4.0% with principal amortizing from June 2012 through June 2032; 3) Road Repaving and Street Safety Series 2012C in the amount of $74.3 million. The proceeds of the 2012C bonds will be used for the repair, reconstruction and improvement of various streets, stairways, bridges, overpasses and other traffic infrastructure within the City and to pay certain costs related to the issuance of the 2012C bonds. Interest rates range from 2.0% to 4.0% with principal amortizing from June 2012 through June 2032.

The debt service payments are funded through ad valorem taxes on property.

(Dollars in Thousands)

Seismic Safety Loan Program Government Obligation Bonds

The Seismic Safety Loan Program was approved by the voters of the City and County of San Francisco by Proposition A in November 1992, which authorized the issuance of up to a total of $350.0 million aggregate principal amount of government obligation bonds to provide funds for loans for the seismic strengthening of privately-owned unreinforced masonry buildings within the City for affordable housing and market-rate residential, commercial and institutional purposes and for related administrative costs. Approximately 2,200 privately-owned unreinforced masonry buildings were identified by the City. These buildings are located throughout San Francisco, but are concentrated in Chinatown, the Tenderloin and south of Market Street. In July 1992, the Board of Supervisors passed legislation mandating that these buildings be seismically strengthened within specified periods of time. Most of the buildings have now been seismically retrofitted. The owners of the existing unreinforced masonry buildings are eligible to apply for loans under the Loan Program to finance the required seismic strengthening work and certain other legally-required work.

In February 2007, the Board of Supervisors approved Resolution No. 65-07, which authorized the issuance of indebtedness under Proposition A in the amount not to exceed $35.0 million. Such issuance was achieved pursuant to the terms of a credit agreement with Bank of America, N.A

In November and December 2011, the City made the sixth and seventh draws in the amount of $0.7 million and $3.6 million respectively. The sixth draw bears an interest rate of 3.36% with principal amortizing from June 2012 through June 2031 and the seventh draw bears an interest rate of 3.69% with principal amortizing from June 2012 through June 2031. Both draws are for below market rate loans.

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

Current Refunding

In November 2011, the City issued the General Obligation Refunding Bonds, Series 2011-R1 (Series 2011-R1) in the amount of $339.5 million with interest rates ranging from 2.0% to 5.0% and principal maturing from June 2012 through June 2030 to refund the following outstanding general obligation bonds of the City:

General Obligation Refunding Bonds, Series 2011-R1

Description of Bonds	Amount Refunded	Interest Rate	Call Price	Call Date
Series 2001D - Affordable Housing, 1996	$ 3,515	6.75%	100.0%	12/14/2011
Series 2002-1 General Obligation Refunding Bonds, 2002	12,010	4.13%	101.0%	12/14/2011
Series 2002A - Zoo Facilities, 1997	3,935	3.20% - 4.25%	100.5%	12/14/2011
Series 2002B - Branch Library Facilities, 2000	14,675	3.20% - 4.25%	100.5%	12/14/2011
Series 2003A - Neighborhood Recreation & Park Facilities Improvement, 2000	14,195	3.10% - 4.25%	101.0%	12/14/2011
Series 2003B - Education Facilities, 1997	19,970	3.10% - 4.25%	101.0%	12/14/2011
Series 2004-1 General Obligation Refunding Bonds, 2004	3,795	4.00%	102.0%	6/15/2012
Series 2004A - Neighborhood Recreation & Park Facilities Improvement, 2000	51,010	3.50% - 5.25%	102.0%	12/14/2011
Series 2004B - California Academy of Science Improvement, 2000	5,985	3.50% - 5.25%	102.0%	12/14/2011
Series 2005A - Laguna Honda Hospital, 1999	76,445	5.00%	102.0%	6/15/2012
Series 2005E - California Academy of Science Improvement, 2000	58,810	4.13% - 5.00%	102.0%	6/15/2012
Series 2005F - Steinhart Aquarium, 1995	21,665	4.13% - 5.00%	102.0%	6/15/2012
Series 2005G - Branch Library Facilities, 2000	25,200	4.13% - 5.00%	102.0%	6/15/2012
Series 2005H - Zoo Facilities, 1997	5,560	4.13% - 5.00%	102.0%	6/15/2012
Series 2005I - Laguna Honda Hospital, 1999	59,255	4.13% - 5.00%	102.0%	6/15/2012
	$ 376,025			

(Dollars in Thousands)

All of the refunded bonds have been redeemed as of June 30, 2012. Accordingly, the liability for the refunded bonds has been removed from the Statement of Net Assets. Although, the refunding resulted in the recognition of accounting loss of $3.1 million for the year ended June 30, 2012, the City in effect reduced its aggregate debt service payments by $43.6 million and obtained net present value benefit of $36.8 million.

Certificates of Participation

In November 2011, the City issued Refunding Certificates of Participation, Series 2011A (Moscone Center South Refunding Project) for $23.1 million and Series 2011B (Moscone Center North Refunding Project) for $63.4 million. The proceeds of the certificates were used to refund the outstanding bonds of San Francisco Redevelopment Agency's Lease Revenue Refunding Bonds (George Moscone Center) Series 2002 and Series 2004 of $65.1 million and $29.0 million respectively, fund the 2011 Reserve Account of the Reserve Fund for the certificates established under the trust agreement and pay costs of issuance of the certificates. The Series 2011A certificates mature from September 2012 through September 2024 and the Series 2011B certificates mature from September 2012 through September 2018. Interest rates for both series range from 2.0% to 5.0%. The refunding resulted in an accounting loss of $1.2 million in fiscal year 2012 and net present value savings of $10.3 million, equivalent to 10.10% on refunded bonds.

In June 2012, the City issued City and County of San Francisco Certificates of Participation Series 2012A (Multiple Capital Projects) for $42.8 million to fund a portion of the costs of acquisition, construction and installation of improvements to various City streets, fund the Reserve Account of the Reserve Fund established under the trust agreement, pay the cost of issuance of the certificates and refund Commercial Paper Certificates of Participation issued to finance street improvements and disability access to the Board of Supervisors chambers projects. The Series 2012A certificates mature from April 2013 through April 2036 with interest rates ranging from 2.0% to 5.0%.

At June 30, 2012, the City has a total of $531.4 million of certificates of participation payable by pledged revenues from the base rental payments payable by the City. Total debt service payments remaining on the certificates of participation are $830.3 million payable through September 1, 2040. For the year ended June 30, 2012, principal and interest paid by the City totaled $18.5 million and $27.6 million, respectively.

Lease Revenue Bonds

The changes in governmental activities – lease revenue bonds related to the equipment program for the year ended June 30, 2012 were as follows:

Governmental Activities - Lease Revenue Bonds

Authorized and unissued as of June 30, 2011	$ 136,986
Increases in authorization this fiscal year	
Current year annual increase in Finance Corporation's equipment program	2,653
Current year maturities in Finance Corporation's equipment program	6,580
Bond Issued:	
Series 2011A, San Francisco Finance Corporation..	(9,815)
Net authorized and unissued as of June 30, 2012	$ 136,404

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.

The lease revenue bonds are payable by pledged revenues from the base rental payments payable by the City, pursuant to a Master Lease Agreement between the City and the San Francisco Finance Corporation for the use of equipment and facilities acquired, constructed and improved by the Finance Corporation. The total debt service requirement remaining on the lease revenue bond is $343.2 million payable through June 2034. For the year ended June 30, 2012, principal and interest paid by the Corporation and the total lease payments made by the City totaled $17.1 million and $6.0 million, respectively.

(a) Equipment Lease Program

In the June 5, 1990 election, the voters of the City approved Proposition C, which amended the City Charter to allow the City to lease-purchase up to $20.0 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 $20.0 million in aggregate principal amount outstanding plus 5% annual adjustment each July 1. As of June 30, 2012, the total authorized amount is $55.7 million. The total accumulated annual authorization since 1990 is $35.7 million of which $2.7 million is new annual authorization for the year ended June 30, 2012.

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 $182.1 million in equipment lease revenue bonds since 1991. As of June 30, 2012, $148.6 million has been repaid leaving $33.5 million in equipment lease revenue bonds outstanding and $22.2 million available for new issuance.

In May 2012, The Finance Corporation issued its nineteenth series of equipment lease revenue bonds, Series 2012A in the amount of $9.8 million with interest rates ranging from 2.0% to 3.0%. The bonds mature from April 2013 through April 2018.

(b) Emergency Communication System Refinancing

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

(c) Moscone Center West Expansion Project

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

In September 2008, the San Francisco Finance Corporation issued Lease Revenue Refunding Bonds (Moscone Center Expansion Project) Series S2008-1 and Series S2008-2 for a total of $145.3 million (the "Refunding Moscone Bonds") to provide funds, together with other available monies to refund the 2000 Bonds to address the concerns regarding the credit provided by the bond insurer. A portion of the proceeds of the Refunding Bonds were also used to pay the cost of issuing the Bonds.

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

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

Under irrevocable direct pay letters of credit issued by Bank of America, N.A. for Series 2008-1 and State Street Bank and Trust Company for Series 2008-2, the trustee is entitled to draw an amount sufficient to pay the purchase price of bonds delivered to it. The letters of credit are effective through September 9, 2014 or such later date or dates as may be extended, and to the extent there is a unreimbursed draw of the letter(s) of credit, carries a fluctuating rate per annum: (A) for any day prior to the date that is 90 days from and including the date of the draw the higher of (i) the Prime Rate plus 2%; (ii) the Federal Funds Rate plus 3%; (iii) 7.5% per annum; (iv) the maximum rate of interest of such day borne by Bonds that are not Bank Bonds (the "Base Rate"), (B) on any day on or after the date that is 91 days from and including the date of the draw and prior to the date that is 61 from and including the date of the draw, a fluctuating rate of interest equal to the Base Rate plus 1%, and (C) on any day after the maturity date for the draw, a fluctuating rate of interest equal to the Base Rate in effect on such date plus 3%.

If the remarketing agent is unable to resell any Bonds that are "tendered" within the six month anniversary of the "tender" date, the City has a reimbursement agreement with Bank of America, N.A. for Series 2008-1 and State Street Bank and Trust Company for Series 2008-2 to convert the bonds to an installment loan payable in six (6) equal semiannual installments, commencing on the six month anniversary of the date of the "tender" date and bearing a fluctuating interest rate equal to the Draw Rate. The reimbursement agreement expires September 9, 2014 or such later date or dates as extended by mutual agreement. If the reimbursement agreement were to be exercised because the entire outstanding balance of $129.0 million of demand bonds were "tendered" and not resold, the City would be required to pay an amount not to exceed the fair rental value per annum of the leased asset per year for three (3) years under the reimbursement agreement at a rate per annum equal to the Draw Rate.

The City is required to pay to Bank of America, N.A. an annual commitment fee for the letter of credit of 0.70% per annum of the outstanding principal amount of the Bonds, payable quarterly in arrears for Series 2008-1 Bonds and State Street Bank and Trust Company an annual commitment fee for the letter of credit of 0.72% per annum of the outstanding principal amount of the Bonds, payable quarterly in arrears for Series 2008-2 Bonds. For fiscal year 2012-13, the City will pay a commitment fee of approximately $0.5 million to Bank of America, N.A. for Series 2008-1 Bonds and $0.5 million to State Street Bank and Trust Company for Series 2008-2 Bonds. In addition, the remarketing agent receives an annual fee of 0.0725% of the outstanding principal amount of the Bonds, payable quarterly in arrears. For fiscal year 2012-13, the City will pay a remarketing fee of approximately $0.05 million each to E.J. De La Rosa & Co., Inc. for Series 2008-1 Bonds and Banc of America Securities LLC for Series 2008-2 Bonds.

The Refunding Moscone Bonds mature from April 2009 to April 2030. As of end of June 30, 2012, both series have a combined balance of $129.0 million and bear interest at a weekly rate. Interest rates as of June 30, 2012 for Series 2008-1 and Series 2008-2 were 0.23% and 0.17%, respectively.

San Francisco Marina West Harbor Loan

In March 2009, the City through the Recreation and Parks Department entered into a loan agreement with the Department of Boating and Waterways (Department) of the State of California. Under the Small Craft Harbor Construction Loan agreement, the Department will advance the City a total amount of $16.5 million in four phases of its construction project. Repayment of principal and interest begins on August 1, immediately after the final loan draw and annually thereafter until August 2045. Interest shall be compounded continuously at the rate of 4.5% on the unpaid balance. The loan repayment shall be made from project area gross revenues. Primary collateral for the loan consists of a lease/leaseback of the marina between the City and the Department with an assignment of rents and leases on marina revenues. In addition, the Department will receive a first lien position on the Marina Fund surplus revenues to cover any payment shortfall after construction completion. In January 2011, the Department authorized to fund the Phase V of the project for $7 million by an amendment to the loan agreement. Under the amended agreement, the City shall provide and maintain a reserve fund that will act as security of the loan. At a minimum, a reserve of two annual payments ($2.9 million) shall be accumulated during the first ten years of the loan repayment terms and thereafter be maintained at that level. During the year ended June 30, 2012, the City drew down $4.4 million and as of June 30, 2012 the amount of loan outstanding is $6.8 million.

(Dollars in Thousands)

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

Second Series Revenue Refunding Bonds, Series 2011C/D/E

In July 2011, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2011C/D/E, in the total amount of $350.4 million for debt service savings. The Series 2011C (AMT) and Series 2011D (Non-AMT/Governmental Purpose) bonds refunded long-term fixed rate bonds that were currently callable, while Series 2011E (Taxable) advance refunded fixed rate bonds and all of the Second Series Revenue Notes, Series 2008A-4. The Series 2011C bonds mature on May 1, 2025, the Series 2011D Bonds on May 1, 2031, and the Series 2011E bonds on May 1, 2020. The Series 2011C/D/E bonds are long-term fixed rate bonds that bear interest at rates between 0.7% and 5.0%.

The total proceeds of $370.9 million (consisting of the $350.4 million par amount of the Series 2011C/D/E bonds, plus original issue premium of $12.6 million, plus $5.2 million accumulated in the Debt Service Fund relating to the refunded bonds, plus $2.7 million released from the Series 2008A-4 Reserve Account) were used to pay $1.7 million in underwriter's discount and $1.2 million in costs of issuance, make a $2.7 million deposit into the Issue 1 Reserve Account and make a $365.3 million deposit into irrevocable escrow funds with the Airport to defease and refund $357.8 million in revenue bonds and notes described below.

	Amount Refunded	Interest Rate	Redemption Price
Second Series Revenue Bond:			
15A (AMT)	$ 51,225	5.00%	100%
16B	9,275	4.75%	100%
17 (Non-AMT)	3,960	4.75%	100%
18A (AMT)	23,055	5.00%	100%
20	18,455	4.50%	100%
21	4,255	4.50%	100%
22 (AMT)	10,785	4.75%	100%
23A (AMT)	22,460	5.00%	100%
27A (AMT)	60,715	5.13 – 5.25%	100%
27B	93,815	5.00 – 5.13%	100%
28A (AMT)	16,555	5.25 – 5.50%	100%
30 (Non-AMT)	17,810	5.25%	102%
Series 2008A Notes:			
2008A-4	25,460	6.50%	100%
Total	$ 357,825		

The refunded bonds were defeased and redeemed on August 1, 2011 (Issues 15A, 16B, 17, 18A, 20, 21, 22, 23A, 27A, and 27B) and May 1, 2012 (Issues 28A, 30, Series 2008A-4). Accordingly, the liability for these bonds has been removed from the accompanying statements of net assets. The refunding resulted in the recognition of a deferred accounting gain of $0.6 million for the year ended June 30, 2012. The Airport reduced its aggregate debt service payments by approximately $19.0 million over the next twenty years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $12.7 million.

(Dollars in Thousands)

Second Series Revenue Refunding Bonds, Series 2011F/G/H

In September 2011, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2011F/G/H, in the total amount of $354.6 million, which were sold to refund $52.4 million of the Airport's Issue 36D/37D outstanding variable rate bonds to fixed rate, finance a payment related to the termination of the Issue 36D interest rate swap, and refund a portion of the Airport's outstanding fixed rate bonds for debt service savings. The Series 2011F (AMT) and Series 2011G (Non-AMT/Governmental Purpose) bonds refunded currently callable long-term fixed rate bonds as well as the Issue 36D/37D variable rate bonds, while Series 2011H (Taxable) advance refunded fixed rate bonds. The Series 2011F and 2011G bonds mature on May 1, 2030 and the 2011H bonds mature on May 1, 2022. The Series 2011F/G/H bonds mature between May 1, 2022 and May 1, 2030 and bear interest at rates between 0.95% and 5.3%.

The total proceeds of $376.3 million (consisting of the $354.6 million par amount of the Series 2011F/G/H bonds, plus original issue premium of $12.3 million, plus $6.6 million accumulated in the Debt Service Fund relating to the refunded bonds, plus $2.5 million released from the Issue 36D/37D Reserve Account and $0.3 million released from the Issue 36D/37D cost of issuance account) were used to pay $1.5 million in underwriter's discount and $1.0 million in costs of issuance, make a $4.6 million swap termination payment, deposit $1.3 million into the Issue 1 Reserve Account, and deposit $367.9 million into irrevocable escrow funds with the Senior Trustee to defease and refund $354.4 million in revenue bonds described below.

	Amount Refunded	Interest Rate	Redemption Price
Second Series Revenue Bond:			
15A (AMT)	$ 30,240	5.00%	100%
15B	13,970	4.50%	100%
16A (AMT)	6,940	5.00%	100%
16B	5,025	4.75%	100%
17 (Non-AMT)	2,145	4.75%	100%
18A (AMT)	13,515	5.00%	100%
20	19,825	4.50%	100%
21	4,580	4.50%	100%
22 (AMT)	11,945	4.75%	100%
23A (AMT)	17,110	5.00%	100%
27A (AMT)	45,700	5.25%	100%
28A	29,320	5.00 – 5.25%	100%
28B (Non-AMT)	13,895	5.00%	100%
28C (Non-AMT)	11,405	4.00%	100%
29A (AMT)	11,540	5.25%	100%
29B (Non-AMT)	53,175	5.13%	100%
30 (Non-AMT)	11,705	4.00% - 5.00%	102%
36D	32,685	3.45% - 3.52%	100%
37D	19,690	3.52%	100%
Total	$ 354,410		

The refunded bonds were defeased and redeemed or scheduled for redemption on September 23, 2011 (Issues 15A, 15B, 16A, 16B, 17, 18A, 20, 21, 22, 23A, 27A, 36D, 37D), May 1, 2012 (Issues 28A, 28B, 28C, 30) and May 1, 2013 (Issues 29A, 29B). Accordingly, the liability for these bonds has been removed from the accompanying statements of net assets.

The refunding resulted in the recognition of a deferred accounting gain of $0.5 million for the year ended June 30, 2012. The Airport reduced its aggregate debt service payments (over forecasted payments, as Issue 36D/37D debt service was in variable-rate mode) by approximately $10.0 million over the next eighteen years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $6.3 million.

(Dollars in Thousands)

Second Series Revenue Refunding Bonds, Series 2012A/B

In March 2012, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2012A (AMT) and 2012B (Non-AMT/Governmental Purpose) in the total amount of $316.5 million to refund long-term fixed rate bonds that were currently callable. The Series 2012A/B bonds bear interest at fixed rates between 2.5% and 5.0%, and mature on May 1, 2032 and May 1, 2030, respectively.

The net proceeds of $361.5 million (consisting of the $316.5 million par amount of the Series 2012A/B bonds, plus original issue premium of $37.9 million, plus $7.1 million accumulated in the Debt Service Fund relating to the refunded bonds) were used to pay $1.3 million underwriter's discount and $1.0 million in costs of issuance and deposit $359.2 million into irrevocable escrow funds with the Senior Trustee to defease and refund $351.9 million in revenue bonds described below.

	Amount Refunded	Interest Rate	Redemption Price
Second Series Revenue Bond:			
15A (AMT)	$ 52,200	5.00%	100%
15B	46,910	4.50%	100%
16B	10,895	4.75%	100%
17 (Non-AMT)	4,650	4.75%	100%
18A (AMT)	2,560	5.00%	100%
20	9,670	4.50%	100%
21	14,740	4.50%	100%
22 (AMT)	44,130	4.75%	100%
23A (AMT)	51,720	5.00%	100%
27A (AMT)	26,515	5.25%	100%
28A (AMT)	50,365	5.13%	100%
28B (Non-AMT)	32,210	5.00%	100%
30 (Non-AMT)	5,305	3.60% - 4.10%	102%
Total	$ 351,870		

The refunded bonds were defeased and redeemed on March 23, 2012 (Issues 15A, 15B, 16B, 17, 18A, 20, 21, 22, 23A, 27A) and May 1, 2012 (Issues 28A, 28B, 30). Accordingly, the liability for these bonds has been removed from the accompanying statements of net assets. The refunding resulted in the recognition of a deferred accounting loss of $0.3 million for the year ended June 30, 2012. The Airport reduced its aggregate debt service payments by approximately $56.5 million over the next twenty years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $33.3 million.

Second Series Revenue Refunding Bonds (Remarketing)

The Airport's variable rate bonds are subject to tender at par at the option of the holder thereof on seven days notice. These bonds are also subject to mandatory tender upon the occurrence of certain events such as the Airport's election to change the interest rate mode on such bonds or to replace the credit facility securing such bonds. Any tendered variable rate bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The following variable rate bonds were remarketed with new letters of credit:

Second Series Variable Rate Revenue Refunding Bonds, Series 36C

In July 2011, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 36C (Non-AMT/Private Activity) with a new three-year letter of credit from U.S. Bank National Association expiring on July 11, 2014. The bonds were originally secured by a standby bond purchase agreement provided by Dexia Crédit Local (Dexia) and a bond insurance provided by Assured Guaranty Municipal Corp. (Assured), both of which were terminated. The Airport elected to replace Dexia due to concerns about the firm's financial condition and cancelled the bond insurance policy. The Issue 36C Bonds were remarketed with the original maturity date of May 1, 2026 and no changes to principal amortization. Because the Issue 36C Bonds are secured by a letter of credit, they are no longer secured by a reserve account. The costs of remarketing were paid from Airport funds.

(Dollars in Thousands)

Second Series Variable Rate Revenue Refunding Bonds, Series 37C

In July 2011, the Airport remarketed its long-term Second Series Variable Rate Revenue Refunding Bonds, Issue 37C (Non-AMT/Private Activity) with a new four-year letter of credit from Union Bank of California, N.A. expiring on July 13, 2015. The bonds were originally secured by a Dexia standby bond purchase agreement and an Assured bond insurance policy, both of which were terminated. The Airport elected to replace Dexia due to concerns about the firm's financial condition and cancelled the bond insurance policy. The Issue 37C bonds were remarketed with the original maturity date of May 1, 2026 and no changes to principal amortization. The costs of remarketing were paid from Airport funds.

Variable Rate Demand Bonds

Included in long-term debt as of June 30, 2012 is an aggregate principal amount of $382.6 million of Second Series Variable Rate Revenue Refunding Bonds, consisting of Issue 36A/B/C, Issue 37C and Series 2010A (collectively, the "Variable Rate Bonds") with final maturity dates of May 1, 2026 (Issue 36A/B/C), May 1, 2029 (Issue 37C), and May 1, 2030 (Series 2010A). The Variable Rate Bonds are long-term tax-exempt bonds that currently bear interest at a rate that is adjusted weekly, and that are subject to tender at par at the option of the holder thereof on seven days notice. Any tendered Variable Rate Bonds are remarketed by the applicable remarketing agent in the secondary market to other investors. The interest rate on the Variable Rate Bonds can be converted to other interest rate modes, including a term rate or fixed rates to maturity, upon appropriate notice by the Airport.

The scheduled payment of the principal and purchase price of and interest on the Variable Rate Bonds is secured by four separate irrevocable direct-pay letters of credit issued to the Senior Trustee for the benefit of the applicable bondholders by the banks identified in the table below. Amounts drawn under a letter of credit that are not reimbursed by the Airport constitute "Repayment Obligations" under the 1991 Master Resolution and are accorded the status of other outstanding bonds to the extent provided in the Resolution. The commitment fees for the letters of credit range between 0.60% and 1.05% per annum. As of June 30, 2012, there were no unreimbursed draws under these facilities.

The primary terms of the letters of credit are as follows:

	Issue 36B	Issue 36C	Issue 37C	Issue 2010A
Principal amount	$ 40,620	$ 36,145	$ 89,895	$ 215,970
Expiration date	5/2/2014	7/11/2014	7/13/2015	1/31/2014
Credit provider	U.S. Bank National Asociation	U.S. Bank National Asociation	Union Bank, N.A.	JP Morgan Chase Bank, N.A.

Interest Rate Swaps

Objective and Terms – In December 2004, the Airport entered into seven forward starting interest rate swaps (the "2004 swaps") with an aggregate notational amount of $405.0 million, in connection with the anticipated issuance of Second Series Variable Rate Revenue Refunding Bonds, Issue 32A E in February 2005, and Second Series Variable Rate Revenue Refunding Bonds, Issue 33 in February 2006. The swap structure was intended as a means to increase the Airport's debt service savings when compared with fixed rate refunding bonds at the time of issuance. The expiration date of the 2004 swaps is May 1, 2026.

In July 2007, the Airport entered into four additional forward starting interest rate swaps in connection with the anticipated issuance of its Second Series Variable Rate Revenue Refunding Bonds, Issue 37B/C, in May 2008 (the 2007 swaps), and Second Series Variable Rate Revenue Refunding Bonds, Series 2010A, in February 2010 (the 2010 swaps). The expiration dates of the 2007 and 2010 swaps are May 1, 2029 and May 1, 2030, respectively.

(Dollars in Thousands)

In the spring of 2008, the Airport refunded several issues of auction rate and variable rate obligations, including Issue 32 and Issue 33. The 2004 swaps associated with these issues then became associated with the Second Series Variable Rate Revenue Refunding Bonds, Issues 36A-D and Issue 37A. Subsequently, in October and December 2008, the Airport refunded Issues 37A and Issue 37B, respectively. Concurrently with the refunding of Issue 37A, the three associated swaps, with an aggregate notional amount of $205.1 million, were terminated. The swap associated with Issue 37B was not terminated upon the refunding of Issue 37B.

In December 2010, the Airport terminated the swap associated with the Series 2010A-3 bonds, with a notional amount of $72.0 million. The Airport paid a termination amount of $6.7 million to the counterparty, Depfa Bank plc. The payment was funded with taxable commercial paper, which was subsequently retired with Airport operating funds in March 2011. Following the termination of the Depfa swap, the Series 2010A-3 bonds, which are variable rate, were no longer hedged with an interest rate swap. The swap associated with the Issue 37B bonds, however, is now associated with the Series 2010A-3 bonds and a $7.7 million portion of the previously unhedged Issue 37D bonds.

In September 2011, the Airport refunded the Issue 36D bonds with proceeds of the Airport Second Series Revenue Bonds, Series 2011H and terminated the swap associated with Issue 36D, which had an initial notional amount of $30.0 million and JP Morgan Chase Bank, N.A. as counterparty. The Airport paid a termination fee of $4.6 million to the counterparty.

Under the 2004 swaps, the Airport receives a monthly variable rate payment from each counterparty equal to 63.5% of USD LIBOR BBA plus 0.29%. Under the 2007 and 2010 swaps, the Airport receives 61.85% of USD LIBOR BBA plus 0.34%. These payments are intended to approximate the variable interest rates on the bonds originally hedged by the swaps. The Airport makes a monthly fixed rate payment to the counterparties as set forth below, which commenced on the date of issuance of the related bonds. The objective of the swaps is to achieve a synthetic fixed rate with respect to the hedged bonds. All of the outstanding interest rate swaps are terminable at their market value at any time solely at the option of the Airport.

As of June 30, 2012, the Airport's derivative instruments comprised of six interest rate swaps that the Airport entered into to hedge the interest payments on several series of its variable rate Second Series Revenue bonds. The Airport determined the hedging relationship between the variable rate bonds and the related interest rate swaps to be effective as of June 30, 2012.

No.	Current Bonds	Notional Amount	Effective Date
1	36AB	$ 70,000	2/10/2005
2	36AB	69,930	2/10/2005
3	36C	30,000	2/10/2005
4	2010A *	79,684	5/15/2008
5	37C	89,856	5/15/2008
6	2010A	143,947	2/1/2010
	Total	$ 483,417	

* The swap previously associated with Issue 37B is now indirectly hedging Series 2010A-3 and the unhedged portions of the Issue 36A-C and 37C Bonds.

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

(Dollars in Thousands)

As of June 30, 2012, the fair value of the Airport's six outstanding swaps, counterparty credit ratings and fixed rate payable by the Airport are as follows:

No.	Current Bonds	Counterparty / Guarantor	Counterparty Credit Ratings (S&P/ Moody's/ Fitch	Fixed Rate Payable by Airport	Fair Value to Airport
1	36AB	J.P. Morgan Chase Bank, N.A.	A+/ Aa3/ A+	3.444%	$ (12,984)
2	36AB	J.P. Morgan Chase Bank, N.A.	A+/ Aa3/ A+	3.445%	(12,982)
3	36C	J.P. Morgan Chase Bank, N.A.	A+/ Aa3/ A+	3.444%	(5,564)
4	2010A	Merrill Lynch Capital Services, Inc. / Merrill Lynch & Co.	A-/ Baa2/ A	3.898%	(21,520)
5	37C	J.P. Morgan Chase Bank, N.A.	A+/ Aa3/ A+	3.898%	(24,268)
6	2010A	Goldman Sachs Bank USA / Goldman Sachs Group, Inc.	A-/ A3/ A	3.925%	(41,121)
		Total			$(118,439)

The fair value of the interest rate swap portfolio is recorded as a liability (since the swaps are out of the money from the perspective of the Airport) in the statement of net assets. Unless a swap was determined to be an off-market swap at the inception of its hedging relationship, the fair value of the swap is recorded as a deferred outflow asset (if out of the money) or inflow liability (if in the money). The off-market portions of the Airport's swaps are recorded as carrying costs with respect to various refunded bond issues. Unlike fair value and deferred inflow/outflow values, the balance of remaining off-market portions are valued on a present value, or fixed yield, to maturity basis.

The impact of the interest rate swaps on the financial statements for the year ended June 30, 2012 is as follows:

	Deferred outflows on derivative instruments	Derivative instruments
Balance, June 30, 2011...........................	$ 63,382	$ 68,304
Change in fair value to year end................	35,597	48,555
Balance, June 30, 2012	$ 98,979	$ 116,859

Deferred outflows on derivative instruments of $99.0 million as of June 30, 2012 represented deferred outflow of resources offsetting interest rate swap liabilities. Derivative instruments of $116.9 million as of June 30, 2012 represented the fair values of interest rate swap contracts. The difference between the deferred outflows and derivative instruments above is due to the amortization of the off-market portions of the swaps.

Basis Risk - The Airport has chosen a variable rate index based on a percentage of LIBOR plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Airport is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable bond rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. During the year ended June 30, 2012, the Airport received $1.1 million in excess payments from its counterparties, resulting in a decrease in the effective synthetic interest rates on the associated bonds.

Credit Risk - As of June 30, 2012, the Airport is not exposed to credit risk because the swaps have a negative fair value to the Airport. Should long-term interest rates rise and the fair value of the swaps become positive, the Airport would be exposed to credit risk in the amount of the swaps' fair value.

(Dollars in Thousands)

Under the terms of the swaps, counterparties are required to post collateral consisting of specified U.S. Treasury and Agency securities in an amount equal to the market value of a swap that exceeds specified thresholds linked to the counterparty's credit ratings. Any such collateral will be held by a custodial bank.

Counterparty Risk – The Airport is exposed to counterparty risk, which is related to credit and termination risk. While the insolvency or bankruptcy of a counterparty, or its failure to perform would be a default under the applicable swap documents, none of the Airport's swaps would automatically terminate. Rather, the Airport would have the option to terminate the affected swap at its fair value, which may result in a payment to the counterparty. The Airport may also be exposed to counterparty risk in a high interest rate environment in the event a counterparty is unable to perform its obligations on a swap transaction leaving the Airport exposed to the variable rates on the associated debt. In order to diversify the Airport's swap counterparty credit risk and to limit the Airport's credit exposure to any one counterparty, the Airport's swap policy imposes limits on the maximum net termination exposure to any one counterparty. Maximum net termination exposure is calculated as of the date of execution of each swap and is monitored regularly during the term of the swap. The exposure limits vary for collateralized and non-collateralized swaps based upon the credit rating of the counterparty. If any exposure limit is exceeded by a counterparty during the term of a swap, the Airport Director is required to consult with the Airport's swap advisor and bond counsel regarding appropriate actions to take, if any, to mitigate such increased exposure, including, without limitation, transfer or substitution of a swap. As of June 30 2012, the fair value of the Airport's swaps was negative to the Airport (representing an amount payable by the Airport to each counterparty in the event the relevant swap was terminated). Although the Airport was not exposed to the credit of any counterparty with respect to termination amounts, the maximum net termination exposure limits in the Airport's swap policy were exceeded with respect to several counterparties. Following the consultation required by the Airport's swap policy, the Airport Director determined not to terminate, transfer or substitute such swaps.

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

No.	Swap	Swap Insurer	Insurer credit ratings June 30, 2012 (S&P/Moody's)
1	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	WD/WD*
2	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	WD/WD*
3	Issue 36C	Assured Guaranty Municipal Corp.	AA-/Aa3
4	Series 2010A	None	N/A
5	Issue 37C	Assured Guaranty Municipal Corp.	AA-/Aa3
6	Series 2010A	None	N/A

* S&P downgraded FGIC's credit ratings to "CC" from "CCC" and subsequently withdrew (denoted by WD) their ratings on FGIC on April 22, 2009. Moody's downgraded FGIC to "Caa3" from "Caa1" and subsequently withdrew their ratings on FGIC on March 24, 2009.

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

Additional Terminating Events under the swap documents with respect to the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer rating downgrades or specified insurer non-payment defaults combined with a termination event or event of default on the part of the Airport or a ratings downgrade of the Airport below investment grade. Additional Termination Events under the swap documents with respect to a counterparty include a rating downgrade below A3/A1/A1 (Moody's/S&P/Fitch), followed by a failure of the counterparty to assign its rights and obligations under the swap documents to another entity acceptable to the applicable insurer within 15 business days.

Each of the Airport's three bank counterparties, Goldman Sachs Group Inc., JPMorgan Chase Bank N.A. and Merrill Lynch & Co. was downgraded by one or more of the rating agencies during the year ended June 30, 2012. Merrill Lynch & Co. was downgraded by Moody's on September 21, 2011 to "Baa1" (and subsequently to "Baa2"). This downgrade constitutes an Additional Terminating Event under the interest rate swap agreement.

The Airport is discussing appropriate cures to the Additional Terminating Event with Merrill Lynch. The downgrades to Goldman Sachs and JPMorgan did not constitute an Additional Termination Event under the swap agreement with either counterparty. The downgrade of any swap counterparty increases the risk to the Airport that such counterparty may become bankrupt or insolvent and not perform under the applicable swap. If a counterparty does not perform under its swap, the Airport may be required to continue making its fixed rate payments to the counterparty even though it does not receive a variable rate payment in return. The Airport may elect to terminate a swap with a non-performing counterparty and may be required to pay a substantial termination payment approximately equal to the fair value of such swap, depending on market conditions at the time. As of June 30, 2012, the fair value of each swap was negative to the Airport as shown above.

Second Series Revenue Refunding Notes, Series 2008A

On July 21, 2011, the last subseries of outstanding Series 2008A-4 Notes, totaling $25.5 million, was refunded by the Series 2011E Bonds in advance of its May 1, 2012 mandatory tender date. As of June 30, 2012, there are no remaining Series 2008A Second Series Revenue Notes outstanding.

San Francisco Water Enterprise

In August 2011, the Water Enterprise issued revenue bonds 2011 Series A, B, C, and D in the combined principal amount of $720.8 million. The purpose of the bonds is to provide new money for Water System Improvement Program (WSIP) capital projects, to finance Hetch Hetchy Water Improvements and to finance the Local Water Main Replacement Projects as well as refund $56.7 million of outstanding 2001 Series A and 2002 Series A revenue bonds with the balance applied to financing cost and cash-funded debt service reserve. Although the refunding resulted in the recognition of a deferred accounting loss of $2.7 million, the Water Enterprise achieved combined net present value debt service savings of $3.3 million or 5.8% of the refunded 2001A and 2002A principal. The bonds included serial and term bonds with interest ranging from 3.0% to 5.0% and have a final maturity of 2041.

In June 2012, the Water Enterprise issued revenue bonds 2012 Series A, B and C in the combined principal amount of $701.9 million to provide $530.0 million of new money for WSIP capital projects, $15.8 million to reimburse the San Francisco Public Utilities Commission (SFPUC) for costs to settle litigation arising out of certain capital projects of benefit to the Water Enterprise, and to refund $99.2 million of outstanding 2001 Series A and 2002 Series A revenue bonds with the balance applied to financing costs and a cash-funded debt service reserve. Although the refunding resulted in the recognition of a deferred accounting loss of $1.8 million, the Water Enterprise achieved combined net present value debt service savings of $11.6 million of the refunded principal. As of June 30, 2012, the

2002 Series A bonds outstanding was $3.8 million. The bonds included serial and term bonds with interest rates ranging from 4.0% to 5.0% and have a final maturity of 2043.

Hetch Hetchy Water and Power

In October 2011, Hetch Hetchy Power issued $8.3 million of taxable Qualified Energy Conservation Bonds (QECBs) to fund certain qualified green components for the San Francisco Public Utilities Commission's 525 Golden Gate Headquarters project. The QECBs were nonrated and privately placed with Bank of America Leasing. The QECBs bear interest rate of 4.74% and mature through 2028. After the federal tax subsidy, the effective interest rate on the QECBs is 1.2%. In April 2012, Hetch Hetchy issued $6.6 million of new taxable New Clean Renewable Energy Bonds (NCREBs) to fund certain qualified facilities that will provide clean, renewable energy at Davies Symphony Hall, City Hall and University Mount Reservoir. The NCREBs were nonrated and privately placed with Bank of America Leasing. The NCREBs bear interest rate of 4.74% and mature through 2028. After the federal subsidy, the net effective interest rate on the NCREBs is 1.5%. Both bonds are payable solely from net power revenues of Hetch Hetchy Power through the year ending June 30, 2028.

Laguna Honda Hospital

Prior to fiscal year 2011-12, the General Fund paid the debt service on the Certificates of Participation, Series 2009A, which were issued to finance a portion of the costs of the Laguna Honda Replacement Project. During fiscal year 2011-12, the Laguna Honda Hospital Enterprise Fund received moneys from the State under S.B. 1128 to provide supplemental MediCal reimbursements to defray the cost of its capital improvements to its qualified acute care facility. As such, during the year ended June 30, 2012, the City transferred the outstanding balance of these Certificates in the amount of $153.7 million from its governmental activities to the Laguna Honda Hospital Enterprise Fund.

(9) EMPLOYEE BENEFIT PROGRAMS

(a) Retirement Plan

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

Employees' Retirement System

Plan Description – Substantially all full-time employees of the City participate in the Plan. The Plan provides basic service retirement, disability and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments after retirement. The Plan also provides pension continuation benefits to qualified survivors. The San Francisco City and County Charter and the Administrative Code are the authority, which establishes and amends the benefit provisions and employer obligations of the Plan. The retirement related payroll for employees covered by the Retirement System for the year ended June 30, 2012 was approximately $2.4 billion. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. That report may be obtained by writing to the San Francisco City and County Employees' Retirement System, 30 Van Ness Avenue, Suite 3000, San Francisco, CA 94102 or by calling (415) 487-7020.

(Dollars in Thousands)

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

Membership of the Retirement System consisted of the following as of June 30, 2012:

	Police	Fire	Miscellaneous	Total
Retirees and beneficiaries currently receiving benefits	2,355	2,080	20,755	25,190
Active members	1,879	1,336	24,882	28,097
Terminated members entitled to but not yet receiving benefits	120	60	5,369	5,549
Total	4,354	3,476	51,006	58,836

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.

Deferred Retirement Option Program – In February 2008, the voters of the City and County approved a Charter amendment to provide a Deferred Retirement Option Program (DROP) for certain Police members of the Plan to be effective July 1, 2008. An eligible police officer could elect to participate in DROP for a specified period of time up to a maximum of three years depending on the rank of the police officer. While participating in DROP, the police officer continues to work and receive pay as a police officer and accrues monthly DROP distributions posted to a nominal account maintained by the Retirement System. The monthly DROP distribution is equal to the participant's monthly service retirement allowance calculated as of the participant's entry into DROP. Interest at an annual effective rate of 4% and applicable COLAs are posted to the participant's DROP account during participation in DROP. Upon exiting from DROP, the participant receives a lump sum distribution from his or her DROP account and begins to receive a monthly service retirement allowance calculated using age, covered compensation and service frozen as of the date of his or her entry into DROP. DROP was closed to new applicants on June 30, 2011.

Changes in DROP liabilities during the year ended June 30, 2012 are as follows:

DROP liability, beginning of year	$ 17,641
Additions	24,570
Distributions	(14,954)
DROP liability, end of year	$ 27,257

Funding Policy – Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal year 2011-12 varied from 7% to 9% as a percentage of gross salary. For the year ended June 30, 2012, most employee groups agreed through collective bargaining for employees to contribute the full amount of the employee contributions on a pretax basis. The City is required to contribute at an actuarially determined rate. Based on the July 1, 2010 actuarial report, the required employer contribution rate for fiscal year 2011-12 was 18.09%.

(Dollars in Thousands)

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

Annual Pension Cost – The annual required contribution for the current year was determined as part of an actuarial valuation performed as of July 1, 2010. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 7.75%; (2) cost of living adjustments of 2% to 5%; and (3) projected wage increases of 4.00% with additional for merit and promotion of 0.85% to 15.00% based on a participant's years of service and membership group. The actuarial value of Retirement System assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a 5-year period. Unfunded liabilities are amortized using the level percentage of payroll method. Changes in actuarial gains and losses assumptions and supplemental COLAs are amortized as a level percentage of pay over an open 15-year period. Plan amendments and changes in interest crediting rate are amortized over a closed 20-year period.

Three-year trend information is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	$ 223,614	100%	$ -
6/30/2011	308,823	100%	-
6/30/2012	410,797	100%	-

Funded Status and Funding Progress – As of July 1, 2011, the most recent actuarial valuation date, the actuarial value of assets was $16.3 billion; the actuarial accrued liability was $18.6 billion; the total unfunded actuarial accrued liability was $2.3 billion; the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 87.7%; the annual covered payroll was $2.4 billion; and the ratio of the unfunded actuarial liability to annual covered payroll was 96.8%. The actuarial assumptions used were the same as described in the Annual Pension Cost section above except the assumptions for the Investment rate of return of 7.66% and projected wage increases of 3.91%. The Retirement System's unfunded actuarial accrued liability from its July 1, 2010 actuarial valuation increased $711.3 million from a deficit of $1.57 billion to a deficit of $2.29 billion primarily due to investment experience during the year ended June 30, 2009. The actuarial value of assets is "smoothed" in order to mitigate the impact of investment performance volatility on employer contribution rates. Under the 5 years smoothing policy adopted by the Retirement Board, the investment losses from fiscal year 2008-09 will not be fully recognized until the July 1, 2013 actuarial valuation, which determines contribution rates for fiscal year 2014-15. As a result, the City's contribution rate is expected to continue to increase over the next three fiscal years even if the fund achieves its investment return assumptions. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

California Public Employees' Retirement System

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

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

(Dollars in Thousands)

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 2011-12 contribution rate is 0% of annual covered payroll. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Miscellaneous plan – Cost for PERS for fiscal year 2011-12 was equal to the City's required and actual contributions, which was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method.

Three-year payment trend information is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	$ -	N/A	$ -
6/30/2011	-	N/A	-
6/30/2012	-	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 2011-12 contribution rate is 22.10%. The contribution requirements of plan members and the City are established and may be amended by PERS.

Annual Pension Cost – Safety Plan – The cost for PERS for fiscal year 2011-12 was equal to the City's required and actual contributions, which was determined as part of the June 30, 2009 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2009 actuarial valuation were: (a) 7.75% investment rate of return (net of administrative expenses), (b) 3.55% to 13.15% projected annual salary increases that vary by age, service and type of employment, and (c) 3.25% per year cost-of-living adjustments. The cost-of-living adjustment includes an inflation component of 3.00%. The actuarial value of PERS assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over 15 years. 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.

Three-year trend information is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2010	$ 15,657	100%	$ -
6/30/2011	16,664	100%	-
6/30/2012	23,888	100%	-

Funded Status and Funding Progress – As of June 30, 2010, the most recent actuarial valuation date, the actuarial value of assets was $743.2 million; the actuarial accrued liability was $787.2 million; the total unfunded actuarial accrued liability was $44.0 million; the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 94.4%; the annual covered payroll was $104.1 million; and the ratio of the unfunded actuarial liability to annual covered payroll was 42.3%. The assumptions included in the June 30, 2010 actuarial valuation were: (a) 7.75% investment rate of return (net of administrative expenses), (b) 3.55% to 13.15% projected annual salary increases that vary by age, service and type of employment, and (c) 3.25% per year cost-of-living adjustments. The cost-of-living adjustment includes an inflation component of 3.00%. The schedule of funding progress, presented as required supplementary information (RSI) following the notes to the financial statements, presents multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liability for benefits.

(b) Deferred Compensation Plan

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

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

(c) Health Service System

The Health Service System was established in 1937. Health care benefits of employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the Health Service System. The employers' contribution, which includes the San Francisco Community College District, San Francisco Unified School District and the San Francisco Superior Court, amounted to approximately $612.7 million in fiscal year 2011-12. 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 $189.2 million to provide postemployment health care benefits for 24,836 retired participants, of which $151.3 million related to the City employees. The City's contribution is paid out of current available resources and funded on a pay-as-you-go basis. The Health Service System issues a publicly available financial report that includes financial statements. That report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Suite 200, San Francisco, CA 94103 or by calling (800) 541-2266.

(d) Postemployment Health Care Benefits

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

Plan Description – The City maintains a single-employer, defined benefit other postemployment benefits plan, which provides health care benefits to employees, retired employees, and surviving spouses, through the City's Health Service System outlined above. Health care benefits are provided to members of the Health Service System through three plan choices: City Health Plan, Kaiser, and Blue Shield. The City does not issue a separate report on its other postemployment benefit plan.

Funding Policy – The contribution requirements of plan members and the City are based on a pay-as-you-go basis. For the year ended June 30, 2012, the City paid approximately $151.3 million on behalf of its retirees.

Annual OPEB Cost and Net OPEB Obligation – The City's annual other postemployment benefits (OPEB) expense is calculated based on the annual required contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost of each year and any unfunded actuarial liabilities (or funding excess) amortized over thirty years. The ARC was determined based on the July 1, 2010 actuarial valuation.

(Dollars in Thousands)

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

Annual required contribution	$ 397,862
Interest on Net OPEB obligation	46,715
Adjustment to annual required contribution	(38,727)
Annual OPEB cost	405,850
Contribution made*	(156,144)
Increase in net OPEB obligation	249,706
Net OPEB obligation - beginning of year	1,099,177
Net OPEB obligation - end of year	$ 1,348,883

* Contributions to the Retiree Health Care Trust Fund for fiscal year 2011-12 includes previously unrecognized prior years' employer contributions in excess of benefit payments to the Retiree Health Care Trust Fund.

The table below shows how the total net OPEB obligation as of June 30, 2012, is distributed.

Governmental activities	$ 754,501
Business-type activities	552,217
Fiduciary funds	42,165
Net OPEB obligation - end of year	$ 1,348,883

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

Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	$ 374,214	33.9%	$ 852,782
6/30/2011	392,151	37.2%	1,099,177
6/30/2012	405,850	38.5%	1,348,883

Funded Status and Funding Progress – The unfunded actuarial accrued liability is being amortized as a level percentage of expected payroll over an open thirty year period. As of July 1, 2010, the most recent actuarial valuation date, the funded status of the Retiree Health Care Benefits was 0.1%. The actuarial accrued liability for benefits was $4.42 billion, and the actuarial value of assets was $3.2 million, resulting in an unfunded actuarial accrued liability (UAAL) of $4.42 billion. For the year ended June 30, 2012, the estimated covered payroll (annual payroll of active employees covered by the plan) was $2.0 billion and the ratio of the UAAL to the covered payroll was 215.9%.

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

(Dollars in Thousands)

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

In the actuarial valuation as of July 1, 2010, the entry age normal cost method was used. Under this method, the actuarial present value of the projected benefits of each individual included in the valuation is allocated as a level percent of expected salary for each year of employment between entry age (age at hire) and assumed exit (maximum retirement age). Unfunded liabilities are amortized using the level percentage of expected payroll over an open 30-year period. The actuarial assumptions included a 4.25% investment rate of return on investment; 4.0% payroll growth; and an ultimate medical inflation rate of 4.75% over 18 years.

San Francisco County Transportation Authority

The San Francisco County Transportation Authority (SFCTA) maintains a separate single-employer defined benefit OPEB plan and reported a net OPEB obligation of $0 as of June 30, 2012. As of June 30, 2012, the SFCTA complied with GASB Statement No. 57 reporting requirements and performed OPEB valuations based on a common date. As such, the SFCTA performed the latest actuarial valuation as of June 30, 2011 in fiscal year 2011-12. SFCTA's most recent actuarial valuation was performed as of June 30, 2011, covering the fiscal years ended June 30, 2012 and 2013. SFCTA's OPEB plan was for retiree healthcare benefits and was 60.4% funded and the unfunded actuarial accrued liability was $0.3 million. Details of SFCTA's OPEB plan may be found in its financial statements for the year ended June 30, 2012. Financial statements for SFCTA can be obtained from their finance and administrative offices at 1455 Market Street, 22nd Floor, San Francisco, CA 94103.

As of June 30, 2012, the SFCTA's annual OPEB expense of $158 was equal to the ARC. Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010	$ 110	100%	$ -
6/30/2011	113	100%	-
6/30/2012	158	100%	-

Successor Agency

Effective February 1, 2012, upon the operation of law to dissolve the former Agency, the Successor Agency assumed the former Agency's postemployment healthcare plan. The Successor Agency sponsors a single-employer defined benefit plan providing other postemployment benefits (OPEB) to employees who retire directly from the former Agency and/or the Successor Agency. The Successor Agency is a contracting agency under the Public Employees' Medical and Hospital Care Act (PEMHCA), which is administered by PERS and provides monthly retiree medical benefit contributions. Premiums in excess of the above Successor Agency contributions are paid by the retirees. Benefits provisions are established and may be amended by the Successor Agency. A publicly available report is not issued.

The Successor Agency's most recent actuarial valuation was performed as of June 30, 2011, and was the basis for the ARC for the former Agency's seven months' period ended January 31, 2012 and the Successor Agency's five months' period ended June 30, 2012. The Successor Agency's

(Dollars in Thousands)

OPEB plan was for retiree healthcare benefits and was 12.9% funded based on actuarial value of plan assets of $1.9 million and an accrued actuarial liability of $14.4 million resulting inan unfunded actuarial accrued liability of $12.5 million as of June 30, 2011, the plan's most recent actuarial valuation date.

Details of the Successor Agency's OPEB plan may be found in its financial statements for the five months' period ended June 30, 2012. Financial statements for the Successor Agency can be obtained from its finance and administrative offices at 1 South Van Ness Avenue, 5th Floor, San Francisco, CA 94102.

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

Annual required contribution	$ 536
Interest on Net OPEB obligation	14
Adjustment to annual required contribution	(17)
Annual OPEB cost	533
Contribution made	(345)
Increase in net OPEB obligation	188
Net OPEB obligation - February 1, 2012	733
Net OPEB obligation - June 30, 2012	$ 921

Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2010 *	$ 1,296	93%	$ 643
6/30/2011 *	1,346	113%	470
1/31/2012 **	747	65%	733
6/30/2012 ***	533	65%	921

* Represents trend information for the former Agency for the fiscal year.
** Represents trend information for the former Agency for the period July 1, 2011 through January 31, 2012.
*** For the period February 1, 2012 through June 30, 2012.

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

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

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

Francisco Community College District and San Francisco Unified School District have the option to participate in and contribute to this trust fund if approved by their governing boards.

The City established the Retiree Health Care Trust Fund to receive contributions for the purpose of providing a funding source for certain post-employment benefits other than pension. The Retiree Health Care Trust Fund is administered by a Retiree Health Care Board of Administration governed by five trustees, one selected by the City Controller, one by the City Treasurer, one by the Executive Director of the San Francisco Employees' Retirement System, and two elected by the active and retired members of the City's Health Service System.

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

Proposition C was passed by voters on November 8, 2011, created new Retirement System benefit plans for Miscellaneous and Safety employees commencing employment on or after January 7, 2012, which raise the minimum service retirement age for Miscellaneous members from 50 to 53; limit covered compensation to 85% of the IRC §401(a)(17) limits for Miscellaneous members and 75% of the IRC §401(a)(17) limits for Safety members; calculate final compensation using highest three-year average compensation; and decrease vesting allowances for Miscellaneous members by lowering the City's funding for a portion of the vesting allowance from 100% to 50%; provided that employees commencing employment on or after January 7, 2012, otherwise eligible for membership in CalPERS may become members of the Retirement System.

Effective July 1, 2012, Proposition C provides for an increase or decrease of employee contributions to the Retirement System for certain Retirement System members based on the employer contribution rate set by the Retirement Board for that year. (For example, Miscellaneous employees who earn less than $50,000 per year would pay the minimum Charter-mandated employee contribution rate; Miscellaneous employees who earn between $50,000 and $100,000 per year would pay a fluctuating contribution rate in the range of +4% to -4% of the Charter-mandated employee contribution rate; and Miscellaneous employees who earn $100,000 or more per year would pay a fluctuating contribution rate in the range of +5% to -5% of the Charter-mandated employee contribution rate. Similar fluctuating employee contributions are required from Safety employees also); and provides that, effective July 1, 2012, no Supplemental COLA will be paid unless the Retirement System is fully funded on a market value of assets basis and, for employees hired on or after January 7, 2012, Supplemental COLA benefits will not be permanent adjustments to retirement benefits - in any year when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

The San Francisco Retiree Health Care Trust Fund (RHCTF) was established in December 2010 by the Retiree Health Trust Fund Board of the City and County of San Francisco. The RHCTF was established to receive employer and employee contributions prescribed by the Charter for the purpose of pre-funding certain postretirement health benefits. Proposition B requires employees hired on or after January 10, 2009 to contribute 2% of pay and the employer to contribute 1% of pay. Between January 10, 2009 and the establishment of the RHCTF, contributions were set aside and deposited into the RHCTF when it was established. Proposition C also requires all employees hired on or before January 9, 2009 to contribute 0.25% of pay to the RHCTF commencing July 1, 2016, increasing annually by 0.25% to a maximum of 1.0% of pay. The employer is required to contribute an equal amount. The RHCTF is currently invested in short-term fixed income securities. The RHCTF may not pay benefits from the Trust before January 1, 2020.

(10) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

The San Francisco County Transportation Authority (SFCTA) was created in 1989 by a vote of the San Francisco electorate. The vote approved Proposition B, which imposed a sales tax of one-half of one percent (0.5%), for a period not to exceed 20 years, to fund essential transportation projects. The types of projects to be funded with the proceeds from the sales tax are set forth in the San Francisco County Transportation Expenditure Plan (the Plan), which was approved as part of Proposition B. The SFCTA was organized pursuant to Sections 131000 et seq. of the Public Utilities Code. Collection of the voter-approved sales tax began on April 1, 1990. On November 4, 2003, the San Francisco voters approved Proposition K with a 74.7% affirmative vote, amending the City Business and Tax Code to extend the county-wide one-half of one percent sales tax, and to replace the 1989 Proposition B Plan with a new 30-year Expenditure Plan. The Expenditure Plan includes investments in four major categories: 1) Transit; 2) Streets and Traffic Safety (including street resurfacing, and bicycle and pedestrian improvements); 3) Paratransit services for seniors and disabled people; and 4) Transportation System Management/Strategic Initiatives (including funds for neighborhood parking management, transportation/land use coordination, and travel demand management efforts). Major capital projects to be funded by the Proposition K Expenditure Plan include: A) development of the Bus Rapid Transit and MUNI Metro Network; B) construction of the MUNI Central Subway (Third Street Light Rail Project–Phase 2); C) construction of the Caltrain Downtown Extension to a rebuilt Transbay Terminal; and D) South Approach to the Golden Gate Bridge: Doyle Drive Replacement Project (re-envisioned as the Presidio Parkway). Within 20 years of the effective date of the adoption of the Proposition K Expenditure Plan, the SFCTA may modify the Expenditure Plan with voter approval. Pursuant to the provisions of Division 12.5 of the California Public Utilities Code, the SFCTA Board may adopt an updated Expenditure Plan anytime after 20 years from the effective date of adoption of the Proposition K Expenditure Plan but no later than the last general election in which the Proposition K Expenditure Plan is in effect. The Sales Tax would continue as long as a new or modified plan is in effect. Under Proposition K legislation, the SFCTA directs the use of the Sales Tax and may spend up to $485.2 million per year and may issue up to $1.88 billion in bonds secured by the Sales Tax. In addition to the sales tax program, the SFCTA also administers the following programs:

Congestion Management Agency Programs. On November 6, 1990, the SFCTA was designated under State law as the Congestion Management Agency (CMA) for the City. Responsibilities resulting from this designation include developing a Congestion Management Program, which provides evidence of the integration of land use, transportation programming and air quality goals; preparing a long-range countywide transportation plan to guide the City's future transportation investment decisions; monitoring and measuring traffic congestion levels in the City; measuring the performance of all modes of transportation; and developing a computerized travel demand forecasting model and supporting databases. As the CMA, the SFCTA is responsible for establishing the City's priorities for state and federal transportation funds and works with the Metropolitan Transportation Commission (MTC) to program those funds to San Francisco projects.

Transportation Fund for Clean Air (TFCA) Program. On June 15, 2002, the SFCTA was designated to act as the overall program manager for the local guarantee (40%) share of transportation funds available through the Transportation Fund for Clean Air (TFCA) program. Funds from this program, administered by the Bay Area Air Quality Management District (BAAQMD) come from a $4 vehicle registration fee on automobiles registered in the Bay Area. Through this program, the SFCTA recommends projects that benefit air quality by reducing motor vehicle emissions.

Prop AA Program. On November 2, 2010, San Francisco voters approved Prop AA with a 59.6% affirmative vote, authorizing the SFCTA to collect an additional $10 annual vehicle registration fee on motor vehicles registered in San Francisco and to use the proceeds to fund transportation projects identified in the Expenditure Plan. Revenue collection began in May 2011. Prop AA revenues must be used to fund projects from the following three programmatic categories. The percentage allocation of revenues designated for each category over the 30-year Expenditure Plan period is shown in parenthesis following the category name: 1) Street Repair and Reconstruction (50%); 2) Pedestrian Safety (25%); and 3) Transit Reliability & Mobility Improvements (25%). The Authority is developing the first Prop AA Strategic Plan, including the specific projects that could be funded within the first five years (i.e., Fiscal Years 2012/13 to 2016/17). The first Prop AA allocations are anticipated in fall of 2012. The SFCTA could use up to 5% of the funds for administrative costs.

(11) DETAILED INFORMATION FOR ENTERPRISE FUNDS

(a) San Francisco International Airport

San Francisco International Airport (Airport), which is owned and operated by the City, is the principal commercial service airport for the San Francisco Bay Area. A five-member Commission is responsible for the operation and management of the Airport. The Airport is located 14 miles south of downtown San Francisco in an unincorporated area of San Mateo County between the Bayshore Freeway (U.S. Highway 101) and the San Francisco Bay. According to final data for calendar year 2011 from the Airports Council International (ACI), the Airport is one of the largest airports in the United States both in terms of passengers (seventh) and air cargo (sixteenth). The Airport is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic.

Pledged Revenues under the 1991 Master Resolution – Under the terms of the 1991 Master Bond Resolution, for a Series of Second Series Revenue Bonds to be secured by the Airport's parity common account (the Issue 1 Reserve Account), the Airport is required to deposit, with the trustee, an amount equal to the maximum debt service accruing in any year during the life of all Second Series Revenue Bonds secured by the Issue 1 Reserve Account or substitute a credit facility meeting those requirements. Alternatively, the Airport may establish a separate reserve account with a different reserve requirement to secure an individual series of bonds. While revenue bonds are outstanding, the Airport may not create liens on its property essential to operations, may not dispose of any property essential to maintaining revenues or operating the Airport, and must maintain specified insurance.

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

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

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

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

Passenger Facility Charges **–** The Airport, as authorized by the Federal Aviation Administration (FAA) pursuant to the Aviation Safety and Capacity Expansion Act of 1990 (the Act), as amended, imposes a Passenger Facility Charge (PFC) of $4.50 for each enplaning passenger at the Airport. Under the Act, air carriers are responsible for the collection of PFC charges and are required to remit PFC revenues to the Airport in the following month after they are recorded by the air carrier. The Airport's most recent application amendment of $609.1 million was approved by the FAA in September 2006. The current authority to impose PFCs is estimated to end January 1, 2017. For the year ended June 30, 2012, the Airport reported approximately $81.4 million of PFC revenue, which is included in other nonoperating revenues in the accompanying basic financial statements.

Commitments and Contingencies **–** In addition to the long-term obligations discussed in Note 8, there were $91.1 million of Special Facilities Lease Revenue Bonds outstanding as of June 30, 2012, which financed improvements to the Airport's aviation fuel storage and delivery system that is leased to SFO Fuel Company LLC (SFO Fuel). SFO Fuel agreed to pay facilities rent to the Airport in an amount equal to debt service payments and required bond reserve account deposits on the bonds. The principal and interest on the bonds will be paid solely from the facilities rent payable by SFO Fuel to the Airport. The Airport assigned its right to receive the facilities rent to the bond trustee to pay and secure the payment of the bonds. Neither the Airport nor the City is obligated in any manner for the repayment of these obligations, and as such, they are not reported in the accompanying financial statements.

(Dollars in Thousands)

Purchase commitments for construction, material and services as of June 30, 2012 are as follows:

Construction	$ 33,163
Operating	6,548
Total	$ 39,711

Transactions with Other Funds and Business Concentrations – Pursuant to the Lease and Use Agreement between the Airport and most of the airlines operating at the Airport, the Airport makes an annual service payment, to the City's General Fund, equal to 15% of concession revenue, but not less than $5 million per fiscal year, in order to compensate the City for all indirect services provided to the Airport. The annual service payment for the year ended June 30, 2012 was $34.0 million and was recorded as a transfer. In addition, the Airport compensates the City's General Fund for the cost of certain direct services provided by the City to the Airport, including those provided by the Police Department, the Fire Department, the City Attorney, the City Treasurer, the City Controller, the City Purchasing Agent and other City departments. The cost of direct services paid for by the Airport for the year ended June 30, 2012 was $ 115.4 million.

In addition to the Lease and Use Agreements with the airlines, the Airport leases facilities to other businesses to operate concessions at the Airport. During the year ended June 30, 2012, revenues realized from the following the Airport tenants exceeded five percent of the Airport's total operating revenues:

United Airlines	21%

(b) Port of San Francisco

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

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

The Port pledged future net revenues to repay $36.7 million in Revenue Bonds issued in 2010. Annual principal and interest payments through 2040 are expected to require less than 17% of net pledged revenues as calculated in accordance with the bond indenture. The total principal and interest remaining to be paid on the bonds is $69.7 million. The principal and interest payments made in 2012 were $2.8 million and pledged revenues (total net revenues calculated in accordance with the bond indenture) for the year ended June 30, 2012 were $17.5 million.

The Port has entered into a loan agreement with the California Department of Boating and Waterways for $3.5 million to finance certain Hyde Street Harbor improvements. The loan is subordinate to all bonds payable by the Port and is secured by gross revenues as defined in the loan agreement. Total principal and interest remaining to be paid on this loan is $3.9 million. Annual principal and interest payments were $0.2 million in 2012 and pledged harbor revenues were $0.1 million for the year ended June 30, 2012.

Commitments and Contingencies – The Port is presently planning various development and capital projects that involve a commitment to expend significant funds. As of June 30, 2012, the Port had purchase commitments for construction-related services, materials and supplies, and other services were $72.4 million for capital projects and $2.4 million for general operations.

The development plan for the Pier 70 area in particular will require complex financing strategies including an array of public and private financing mechanisms in order to accomplish the Pier 70 Master Plan objectives, which include environmental remediation, preservation and adaptive reuse of historic buildings, construction of new infrastructure and public open spaces. The Port has pursued State legislative changes to increase funding options to address future capital requirements. In 2005, Senate Bill No. 1085 amended the California Government Code to enable the City and Port to form, in the Port area, infrastructure financing districts ("IFD") pursuant to Section 53395 et seq. Among other things, this legislation enumerated additional infrastructure improvements that qualify for infrastructure financing districts, including seismic upgrades, historic renovation, environmental remediation, utility improvements, and structural repair or construction of seawalls, piers and wharves.

The 2008 Clean and Safe Neighborhood Parks general obligation bond included $33.5 million for parks and open space projects currently in progress on Port property. 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, 2012, $27.9 million of Port funds have been appropriated and $11.4 million has been expended for projects under the agreement. In 2011, the Port and the United States Army Corps of Engineers entered into a cooperative agreement for a federal contract to cover the removal of Pier 36 in support of the Brannan Street Wharf project. This cost-sharing arrangement for pier removal is supported by a $4.8 million federal appropriation. The removal of Pier 36 was substantially completed and construction of the Brannan Street Wharf project had commenced by June 30, 2012.

34th America's Cup – San Francisco was selected on December 31, 2010 to host the 34th America's Cup (AC34) and related events (Event) under terms set forth in the Host and Venue Agreement (HVA) between the City and the America's Cup Event Authority, LLC (Event Authority) approved by the Board of Supervisors. Environmental review of the Event under the California Environmental Quality Act (CEQA) was completed and the final environmental impact report was certified by the City Planning Commission on December 15, 2011, and following appeal, was upheld by the Board of Supervisors on January 24, 2012. Port and City staff continue to work with various regulatory agencies to secure all required reviews and permits for the Event. On March 27, 2012, the Board of Supervisors approved a Lease Disposition Agreement (LDA) between the City and the Event Authority, subject to certain risk management conditions specified in the Board resolution. The Board resolution authorized the Port Executive Director, with Port Commission approval consistent with the Board's authorization, to execute the LDA. Port Commission approval was obtained on April 24, 2012 and the LDA was executed on August 14, 2012. Certain terms providing for Event Authority remedies in the case of certain force majeure events, which were not contemplated previously, were ratified by the Port Commission and the Board of Supervisors in September 2012.

The executed LDA sets forth the final agreed framework for the City to host the AC34 events in 2012 and 2013. The LDA defines the Port properties to be used as venues for the Event and the respective responsibilities of the City, Event Authority, and America's Cup Organizing Committee (ACOC) to prepare for and host the AC34. It replaces the previously proposed Development and Disposition Agreement and revises the HVA, removing the Event Authority's long-term lease and development rights from the HVA along with its investments in Port infrastructure. The Port is responsible, instead, for the completion of necessary improvements at piers that would be used for AC34 events. The Event Authority only has temporary use of waterfront facilities. The LDA sets forth the terms and conditions for which the Port would provide venues to the Event Authority, including the respective leases or licenses to use property for these venues and make improvements to these venues in preparation for AC34, at Port expense. Under the LDA, the Port is committed to complete approximately $16.2 million of infrastructure improvements to support Event venues programmed to occur at or on the Port's waterfront facilities, including public access improvements to meet certain BCDC requirements and environmental improvements to meet other permitting requirements. Pursuant to the LDA, the Port is also committed to complete approximately $1.0 million of other capital repairs at various identified venue sites on Port property. In addition to the LDA obligations, there are other BCDC requirements for recreational water access improvements for kayaks and non-motorized craft at the Pier 52 public boat launch and for two temporary parklets during the 2013 AC34 events.

South Beach Harbor Project Obligations – A portion of the Rincon Point South Beach Redevelopment Project Area is within the Port Area and the former Agency held leasehold interests to certain Port properties. Prior to recent legislation, it was planned for the Port to resume management and control on July 1, 2012 of its property, including the South Beach Harbor and other leasehold improvements completed by the former Agency. It is anticipated that certain transition actions following the February 1, 2012 dissolution of the Agency will be ratified or approved by subsequent action of the Successor Agency in accordance with State redevelopment dissolution law. The Port, commencing July 1, 2012, has been paying certain South Beach Harbor operating costs in accordance with an early transition plan. The Successor Agency intends to enter into a management and operating agreement with the Port for South Beach Harbor. This agreement, when approved, will among other things provide for the reimbursement of the costs paid by the Port. Through October 31, 2012, approximately $1.3 million has been paid on behalf of South Beach Harbor.

South Beach Harbor revenues are pledged to a 1986 revenue bond issue that pre-dates the Port's 2010 Revenue Bonds. South Beach Harbor project funds are available to pay current debt service, but berthing rate increases are required to cover future debt service and to meet the required level of debt service coverage specified in the bond indenture. Certain public access and other improvements required under BCDC Permit Amendment No. 17 for the South Beach Harbor Project were not completed by the former Agency. The required improvements, last estimated in 2004 to cost $6.2 million, must be completed by December 31, 2017.

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

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

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

(Dollars in Thousands)

The environmental investigation work includes preparation of a feasibility study to evaluate potential remedial action; a remedial action plan, which will establish institutional controls (e.g. use restrictions, health and safety plans) and engineering controls (e.g. capping contaminated soil) to protect current and future users and prevent adverse impacts to the environment. Future development will likely cover existing site soil with buildings, streets, plazas, hardscape or new landscaping, thereby minimizing or eliminating exposure to contaminants in soil. The contractor prepared an earlier report in 2009 describing potential remediation scenarios for Pier 70 site and probability of certain contamination being encountered in soil, soil vapor or groundwater, and various degrees of remediation that would be required. The model calculation estimated that soil, groundwater, and soil vapor remediation and/or management (excluding hazardous building materials such as asbestos or lead-based paint) would cost between $15.0 million and $50.0 million, with a most likely probability-weighted estimated cost of $27.5 million. The investigation work, completed in 2011, reduced the uncertainty regarding the nature and extent of contamination, potential need for remediation, and costs associated with implementation of a risk management plan. After stakeholder and regulatory reviews, the final report, “Feasibility Study and Remedial Action Plan, Pier 70 Master Plan Area “, was issued on May 31, 2012. In August 2012, the Port received the Regional Water Quality Control Board’s official approval of the final report and its direction to proceed with preparing a risk management plan to implement the remedial action alternative that consisted of durable covers and institutional controls as described in the report. Using the two most likely discrete remediation scenarios (that entail the use of durable covers), Port management was able to reduce the probability-weighted remediation cost estimated as of June 30, 2012 to $13.5 million.

Other environmental conditions on Port property variously include asbestos and lead paint removal and oil contamination. The Port may be required to perform certain clean-up work if it intends to develop or lease such property, or at such time as may be required by the City or State. During the year ended June 30, 2012, the Port expended $0.5 million for the removal of asbestos and lead-based paint at Piers 27-29 and other sites in advance of construction work or tenant occupancy. There are sites where groundwater contamination may be later identified, where the Port has primary or secondary responsibility. The potential liability for these risks cannot be reasonably made at this time. Subsequent to June 30, 2012, an unknown underground storage tank (UST) was discovered on Port property in connection with a Department of Public Works (DPW) project. DPW will remove the UST and perform an initial characterization of site conditions. The Port will later work with the City on more systematic characterization, as well as any future required action based on the results. No remediation costs for this UST have been accrued as of June 30, 2012 because the potential liability for these costs cannot be reasonably made at this time.

A summary of environmental liabilities, included in noncurrent liabilities, at June 30 2012, is as follows:

	Environmental Remediation	Monitoring and Compliance	Total
Environmental liabilities at July 1, 2011	$ 21,650	$ 134	$ 21,784
Current year claims and changes in estimates	(8,032)	(17)	(8,049)
Vendor payments	(115)	(24)	(139)
Environmental liabilities at June 30, 2012	$ 13,503	$ 93	$ 13,596

(c) San Francisco Water Enterprise

The San Francisco Water Enterprise (Water Enterprise) was established in 1930. The Water Enterprise, which consists of a system of reservoirs, storage tanks, water treatment plants, pump stations, and pipelines, is engaged in the collection, transmission and distribution of water to the City and certain suburban areas. The Water Enterprise delivers water, approximately 77,400 million gallons annually, to a total population of approximately 2.6 million people who reside primarily in four Bay Area counties (San Francisco, San Mateo, Santa Clara and Alameda).

(Dollars in Thousands)

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

Pledged Revenues – The Water Enterprise has pledged future revenues to repay various bonds. Proceeds from the revenue bonds provided financing for various capital construction projects and to refund previously issued bonds. These bonds are payable solely from revenues of the Water Enterprise and are payable through the year ending 2051.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2012 and applicable revenues for 2012 are as follows:

Bonds issued with revenue pledge	$ 4,683,190
Principal and interest remaining due at the end of the year	8,734,417
Principal and interest paid during the year	122,289
Net revenue for the year ended June 30, 2012	159,183
Funds available for revenue bond debt service	186,656

During fiscal year 2012, the wholesale revenue requirement, net of adjustments, charged to wholesale customers was $160.4 million. Such amounts are subject to final review by wholesale customers, along with a trailing wholesale balancing account compliance audit of the wholesale revenue requirement calculation. As of June 30, 2012, the wholesale customers owed the Water Enterprise approximately $18.8 million under the Water Supply Agreement.

Commitments and Contingencies – As of June 30, 2012, the Water Enterprise had outstanding commitments with third parties of $969.3 million for various capital projects and for materials and supplies.

Transactions with Other Funds – The Water Enterprise purchases water from Hetch Hetchy Water and electricity from Hetch Hetchy Power at market rates. These amounts, totaling approximately $30.6 million and $7.1 million, respectively, for the year ended June 30, 2012, are included in the operating expenses for services provided by other departments in the Water Enterprise's financial statements.

A variety of other City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to the Water Enterprise and charge amounts designed to recover those departments' costs. These charges total approximately $11.7 million for the year ended June 30, 2012 and have been included in services provided by other departments.

(d) Hetch Hetchy Water and Power Enterprise

Hetch Hetchy was established as a result of the Raker Act of 1913, which granted water and power resources rights-of-way on the Tuolumne River in Yosemite National Park and Stanislaus National Forest to the City. Hetch Hetchy is a stand-alone enterprise comprised of two funds, Hetch Hetchy Power (AKA the Power Enterprise) and Hetch Hetchy Water, a portion of the Water Enterprise's operations, specifically the upcountry water supply and transmission service for the latter. Hetch Hetchy accounts for the activities of the Hetch Hetchy Water and Power and is engaged in the collection and conveyance of approximately 85% of the City's water supply and in the generation and transmission of electricity from that resource.

Approximately 68% of the electricity generated by Hetch Hetchy Power is used to provide electric service to the City's municipal customers (including the San Francisco Municipal Transportation Agency, Recreation and Parks Department, the Port of San Francisco, the San Francisco International Airport and its tenants, San Francisco General Hospital, streetlights, Moscone

(Dollars in Thousands)

Convention Center, and the Water and Wastewater Enterprises). The balance of electricity is sold to other utility districts, such as Turlock and Modesto Irrigation Districts. As a result of the 1913 Raker Act, energy produced above the City's Municipal Load is sold first to Modesto and Turlock Irrigation Districts (the Districts) to cover their pumping and municipal load needs and any remaining energy either sold to other municipalities and/or government agencies (not for resale) or deposited into an energy bank account under the City's agreement with Pacific Gas and Electric (PG&E). Hetch Hetchy consists of a system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines. This system carries water and power more than 165 miles from the Sierra Nevada Mountains to customers in the City and portions of the surrounding San Francisco Bay Area.

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

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

Condensed Statement of Net Assets	Hetch Hetchy Water	Hetch Hetchy Power	Total
Assets:			
Current assets	$ 44,392	$ 170,382	$ 214,774
Receivables from other funds and component units	-	20,494	20,494
Restricted cash and investments	14,880	9,851	24,731
Other noncurrent assets	13	572	585
Capital assets	87,941	247,454	335,395
Total assets	147,226	448,753	595,979
Liabilities:			
Current liabilities	3,369	24,466	27,835
Noncurrent liabilities	7,335	48,157	55,492
Total liabilities	10,704	72,623	83,327
Net assets:			
Invested in capital assets, net of related debt	87,941	221,699	309,640
Restricted	14,170	112	14,282
Unrestricted	34,411	154,319	188,730
Total net assets	$ 136,522	$ 376,130	$ 512,652

(Dollars in Thousands)

Condensed Statement of Revenues, Expenses, and Changes in Net Assets	Hetch Hetchy Water	Hetch Hetchy Power	Total
Operating revenues	$ 32,495	$ 94,814	$ 127,309
Depreciation expense	(4,059)	(9,796)	(13,855)
Other operating expenses	(32,944)	(83,811)	(116,755)
Net operating income (loss)	(4,508)	1,207	(3,301)
Nonoperating revenues (expenses):			
Federal grants	-	2,581	2,581
Interest and investment income	874	2,589	3,463
Interest expense	-	(99)	(99)
Other nonoperating revenues (expenses)	(11)	40	29
Transfers in (out), net	14,073	(2)	14,071
Change in net assets	10,428	6,316	16,744
Net assets at beginning of year	126,094	369,814	495,908
Net assets at end of year	$ 136,522	$ 376,130	$ 512,652

Condensed Statement of Cash Flows	Hetch Hetchy Water	Hetch Hetchy Power	Total
Net cash provided by (used in):			
Operating activities	$ 2,578	$ 14,275	$ 16,853
Noncapital financing activities	27,711	3,153	30,864
Capital and related financing activities	(7,436)	(26,422)	(33,858)
Investing activities	786	6,786	7,572
Change in net assets	23,639	(2,208)	21,431
Cash and cash equivalents at beginning of year	35,130	166,649	201,779
Cash and cash equivalents at end of year	$ 58,769	$ 164,441	$ 223,210

Pledged Revenues **–** Hetch Hetchy Power has pledged future power revenues to repay bonds, issued since fiscal year 2009. Proceeds from the bonds provided financing for various capital construction projects. These bonds are payable solely from net power revenues of Hetch Hetchy Power and are payable through the year ending 2028.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid, during 2012, and applicable revenues for 2012 are as follows:

Bonds issued with revenue pledge	$ 21,216
Principal and interest remaining due at the end of the year	25,748
Principal and interest paid during the year	422
Net revenue for the year ended June 30, 2012	20,551

Commitments and Contingencies – As of June 30, 2012, Hetch Hetchy Water and Power had outstanding commitments, with third parties, of $31.7 million for various capital projects and other purchase agreements for materials and services.

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Modesto and Turlock Irrigation Districts (the Districts) in which they would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments from the City. Total payments were $4.3 million in fiscal year 2012. The payments are to be made for the duration of the license, but may be terminated with one year's prior written notice after 2001. The City and the Districts have also agreed to monitor the fisheries, in the lower Tuolumne River, for the duration of the license. A maximum monitoring expense of $1.4 million is to be shared, between the City and the Districts over the term of the license. The City's share of the monitoring costs is 52% and the Districts are responsible for 48% of the costs.

In April 1988, Hetch Hetchy entered into a long-term power sales agreement (the Agreement) with the Districts. In June 2003, Hetch Hetchy amended the terms of the Agreement with the Modesto Irrigation District (MID). Under the terms of the amended and restated long-term power sales agreement, which became effective on January 1, 2003, the expiration date was shortened to December 31, 2007. The renegotiated agreement, with MID, became effective January 1, 2008, removed Hetch Hetchy's obligation to provide firm power, and eliminated MID's rights to excess energy from the Project. This agreement expires June 30, 2015. In April 2005, Hetch Hetchy Power amended the terms of the agreement with Turlock Irrigation District (TID). The settlement agreement, between the City and TID, restates and amends the power sales agreement and terminates Hetch Hetchy's obligation to provide firm power at below market costs to TID to the end of the agreement's term on June 30, 2015. Hetch Hetchy will continue to comply with the Raker Act by making water system generated hydropower available at cost to MID and TID for its agricultural pumping and municipal loads as energy is available. For fiscal year 2011-12, energy sales to the Districts totaled 277,838 megawatt hours (MWh) or $7.1 million.

Effective September 2007, the City renegotiated the Interconnection Agreement (agreement) with PG&E to provide transmission and distribution services on PG&E's system where needed to deliver the Hetch Hetchy's power to its customers. In addition, the PG&E agreement provides supplemental power and energy banking and other support services to Hetch Hetchy Power. The PG&E agreement provides audit rights to allows PG&E to review past billings paid by Hetch Hetchy Power and to retroactively (up to two years) adjust these payments as determined necessary. During fiscal year 2011-12, Hetch Hetchy purchased $13.5 million of transmission, distribution services, and other support services from PG&E under the terms of the agreement.

The PG&E agreement contains a contractual provision allowing it to bank excess power produced, with a maximum of 110,000 of MWh. During fiscal year 2011-12, Hetch Hetchy Power generated 1,321,576 MWh of power, banked (deposited) in Deferred Delivery Account (DDA) 132,678 MWh and used (withdrew) 110,700 MWh. At June 30, 2012, the balance in the bank was 102,305 MWh or $2.9 million.

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

Transactions with Other Funds –The Water Enterprise purchases water from Hetch Hetchy Water and power from Hetch Hetchy Power. Included in the operating revenues are the water assessment fees totaling $30.6 million and purchased electricity for $7.1 million for the year ended June 30, 2012. In addition, the Wastewater Enterprise purchases power from Hetch Hetchy Power totaling $8.6 million for the year ended June 30, 2012.

A variety of other City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to Hetch Hetchy Water and Power and charge amounts designed to recover those departments' costs. These charges total approximately $5.8 million for the year ended June 30, 2012 and have been included in services provided by other departments.

(e) Municipal Transportation Agency

The San Francisco Municipal Transportation Agency (MTA) is governed by the MTA Board of Directors. The MTA includes the entire City's surface transportation network, which encompasses pedestrians, bicycling, transit, traffic and parking regulation of the taxi industry, and five nonprofit parking garage corporations operated by separate non-profit corporations, whose operations are interrelated. The San Francisco Municipal Railway Improvement Corporation (SFMRIC), which was part of prior year reporting, was dissolved on October 4, 2011 and all remaining funds were transferred to MTA.

Proposition E, passed by the San Francisco voters in November 1999, amended the City Charter, calling for the creation of the MTA by consolidating MUNI and Department of Parking and Traffic (now named as Sustainable Streets) by July 1, 2002. The incorporations are intended to support the City's *Transit First* Policy. MUNI is one of America's oldest public transit agencies, the largest in the Bay Area and seventh largest system in the United States. It currently carries more than 200 million riders annually. Operating historic streetcars, modern light rail vehicles, diesel buses, alternative fuel vehicles, electric trolley coaches, and the world famous cable cars, MUNI's fleet is among the most diverse in the world. The MTA's Sustainable Streets manages 40 City-owned garages and metered parking lots. It also manages all traffic engineering functions within San Francisco, including the placement of signs, signals, traffic striping, curb markings, and parking meters. It also promotes the safe and efficient movement of people and goods throughout the City. In March 2009, the former Taxi Commission was merged with the MTA and has assumed responsibility for taxi regulation to advance reforms as well as upgrading conditions for drivers. MTA has regulatory power over the taxi industry and other motor vehicles for hire in San Francisco. The parking garages accounted for the activities of various non-profit corporations to provide financial and other assistance to the City to acquire land, construct facilities, and manage various facilities.

(Dollars in Thousands)

The tables below reflect the financial information of MUNI, the Sustainable Streets, Taxi Regulatory Services and the non-profit parking garages that are reported within the MTA, net of eliminations $181.8 million inter-agency transfers.

	MUNI	Sustainable Streets/Taxi	Parking Garages	Eliminations	Total
Assets					
Current assets	$ 486,406	$ 94,420	$ 3,971	$ -	$ 584,797
Noncurrent assets	2,010,770	53,959	70,443	-	2,135,172
Total assets	2,497,176	148,379	74,414	-	2,719,969
Liabilities					
Current liabilities	272,074	23,621	5,254	-	300,949
Current liabilities payable from restricted assets	1,241	-	-	-	1,241
Noncurrent liabilities	241,403	57,496	23,400	-	322,299
Total liabilities	514,718	81,117	28,654	-	624,489
Net assets					
Invested in capital assets, net of related debt	2,003,542	34,920	33,893	-	2,072,355
Restricted net assets	5,987	681	9,949	-	16,617
Unrestricted net assets (deficits)	(27,071)	31,661	1,918	-	6,508
Total net assets	$ 1,982,458	$ 67,262	$ 45,760	$ -	$ 2,095,480

	MUNI	Sustainable Streets/Taxi	Parking Garages	Eliminations/ Reclassifications	Total
Operating revenues	$ 220,167	$ 86,013	$ 44,284	$ -	$ 350,464
Operating expenses	810,025	126,930	19,740	-	956,695
Net operating income (loss)	(589,858)	(40,917)	24,544	-	(606,231)
Nonoperating income (loss)	127,840	118,948	(1,472)	(4,052)	241,264
Capital contributions	204,536	11,978	-	(63,627)	152,887
Transfers in	373,207	97,614	-	(113,464)	357,357
Transfers out	(14,940)	(154,734)	(22,186)	181,143	(10,717)
Change in net assets	100,785	32,889	886	-	134,560
Net assets, beginning of year	1,881,673	34,373	44,874	-	1,960,920
Net assets, end of year	$ 1,982,458	$ 67,262	$ 45,760	$ -	$ 2,095,480

(Dollars in Thousands)

The data below reflect the operations of the parking garages operated by separate nonprofit corporations managed by MTA. Information about these nonprofit corporations for the year ended June 30, 2012 is as follows:

	Downtown Parking	Uptown Parking	Japan Center Garage	Ellis - O'Farrell Parking	Portsmouth Plaza Parking	Total
Operating revenues	$ 14,892	$ 16,608	$ 3,356	$ 5,609	$ 3,819	$ 44,284
Depreciation	680	1,024	174	361	137	2,376
Operating income	9,484	10,689	1,319	1,437	1,615	24,544
Interest and other nonoperating revenues (expenses)	(359)	(971)	-	(147)	5	(1,472)
Change in net assets	142	558	65	(35)	156	886
Capital assets, additions	115	389	-	-	35	539
Capital assets, deletions	-	(804)	(256)	-	-	(1,060)
Net working capital (deficit)	(1,599)	(1,586)	1,664	(874)	1,112	(1,283)
Total assets	20,099	36,873	3,187	11,386	2,869	74,414
Total liabilities	7,136	17,878	291	3,065	284	28,654
Net assets	12,963	18,995	2,896	8,321	2,585	45,760
Total debt outstanding	6,199	16,437	-	2,538	-	25,174

***Operating and Capital Grants and Subsidies* –** The City's Annual Appropriation Ordinance provides funds to subsidize the operating deficits of MUNI and Sustainable Streets as determined by the City's budgetary accounting procedures and subject to the appropriation process. The amount of General Fund subsidy to the MTA was $274.0 million in fiscal year 2011-12.

The MTA receives capital grants from various federal, state, and local agencies to finance transit-related property and equipment purchases. As of June 30, 2012, MUNI had approved capital grants with unused balances amounting to $630.2 million. Capital grants receivable as of June 30, 2012 totaled $70.1 million.

The MTA also receives operating assistance from various federal, state, and local sources, including Transit Development Act funds and sales tax allocations. As of June 30, 2012, MTA had various operating grants receivable of $21.4 million. In fiscal year 2011-12, the MTA's operating assistance also includes funding for American Disability Act (ADA) improvements for $1.2 million and other federal, state and local grants of $25.2 million to fund project expenses that are operating in nature.

The capital grants and operating assistance identified above include funds received and due from the SFCTA (a blended component unit). During the fiscal year 2011-12, the SFCTA approved $85.8 million in new capital grants and $13.7 million in new operating grants for MTA. During the same period, the MTA received total payments of $63.6 million for capital grants and $15.0 million in operating grants from the SFCTA. As of June 30, 2012, the MTA had $11.4 million due from the SFCTA for capital grants and $3.2 million due from the SFCTA for operating grants reported in due from other funds.

Proposition 1B is a ten-year $20 billion transportation infrastructure bond program that was approved by California voters in November 2006. The bond measure was composed of several funding programs including the Public Transportation Modernization, Improvement and Service Enhancement Account program (PTMISEA) that is funding solely for public transit projects. MTA received $88.6 million in fiscal year 2011-12 for different projects. Proposition 1B funds do not require matching funds. These funds must be obligated within three years. The eligibility requirements for the PTMISEA program include rehabilitation of infrastructure, procurement of equipment and rolling stock, and investment in expansion projects. During fiscal year 2011-12, $18.1 million drawdowns were made from these funds for the various eligible project costs.

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

Commitments and Contingencies – The MTA has outstanding contract commitments of approximately $188.9 million, with third parties, for various capital projects. Grant funding is available for a majority of this amount. The MTA also has outstanding commitments of approximately $30.6 million, with third parties, for non-capital expenditures. Various local funding sources are used to finance these expenditures. The MTA is also committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding.

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

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

MUNI received an aggregate of $388.2 million and $72.6 million, respectively in 2002 and 2003, from the equity investors, in full prepayment of the head lease. MUNI deposited a portion of the prepaid head lease payments into an escrow and deposited a portion with a debt payment undertaker whose repayment obligations are guaranteed by Assured Guaranty Municipal Corp. (AGM) as successor to Financial Security Assurance (FSA), a bond insurance company that is currently rated "AA-" by Standard & Poor's ("S&P") and "Aa3" by Moody's Investor Services ("Moody's"). The terms of the SILO documents require the MUNI to replace AGM, as successor to FSA, as guarantor of debt payment undertaker if its ratings are downgraded below BBB+/Baa1 by S&P and Moody's, respectively. AGM's current ratings satisfy this requirement. In addition, FSA provided a surety policy, with respect to each SILO, to guarantee potential payments in the event such transaction is terminated in whole or in part prior to the sublease expiration date. The terms of the SILO documents require MUNI to replace AGM, as successor to FSA, as surety provider, if AGM's ratings are downgraded below "AA-/Aa3" by S&P and Moody's, respectively. AGM's current ratings satisfy this requirement. On March 20, 2012, Moody's placed the ratings of AGM on credit review for possible downgrade. As of June 30, 2012, Moody's has not yet announced the result of its credit review. Failure of MUNI to replace AGM following a downgrade within a specified period of time could allow the investors, in effect, to issue a default notice to MUNI. Because replacement of AGM in either of its roles as debt payment undertaker guarantor or surety may not be practicable, MUNI could become liable to pay termination costs as provided in certain schedules of the SILO transaction documents. These early termination costs are in the nature of liquidated damages. The scheduled termination costs as of June 30, 2012 after giving effect to the market value of the securities in the escrow accounts would approximate $62.3 million. The scheduled termination costs increase over the next several years.

The escrows were invested in U.S. agency securities with maturity dates that correspond to the purchase option dates in each sublease.

Although these escrows do not represent a legal defeasance of MUNI's obligations under the sublease, management believes that these transactions are structured in such a way that it is not probable that MUNI will need to access other monies to make sublease payments. Therefore, the assets and the sublease obligations are not recorded on the financial statements of the MTA as of June 30, 2012.

As a result of the cash transactions above, MUNI recorded deferred revenue of $35.5 million and $4.4 million in fiscal year 2002 and 2003, respectively, for the difference between the amounts received of $388.2 million and $72.6 million, respectively, and the amounts paid to the escrows and the debt payment undertaker of $352.7 million and $67.5 million, respectively. The deferred revenue will be amortized over the life of the sublease. The deferred revenue amortized amounts were $1.3 million and $0.2 million in fiscal year 2011-12.

As of June 30, 2012, the outstanding payments to be made on the sublease through the end of the sublease term are $26.4 million and $1.0 million for Tranche 1 and Tranche 2, respectively, and the payments to be made on the purchase option, if exercised, would be $680.8 million and $154.2 million, respectively. These payments are to be funded from the amounts in escrow and by the payment undertaker. If MUNI does not exercise the purchase option, MUNI would be required to either: 1) pay service and maintenance costs related to the continued operation and use of the vehicles beyond the term of the sublease; or 2) arrange for another party to be the "service recipient," under a "service contract," and to perhaps guarantee the obligations of that party under the service contract if the replacement service recipient does not meet specified credit or net worth criteria.

(f) Laguna Honda Hospital

General Fund Subsidy – The Laguna Honda Hospital (LHH) is a skilled nursing facility, which specializes in serving elderly and disabled residents. The operations of LHH are subsidized by the City's General Fund. It is the City's policy to fund operating deficits of the enterprise on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the year ended June 30, 2012, the subsidy for LHH was approximately $4.5 million.

Net Patient Services Revenue – Net patient services revenues are recorded at the estimated net realizable amounts from patients, third-party payors and others for services rendered, including a provision for doubtful accounts and estimated retroactive adjustments under reimbursement agreements with federal and state government programs and other third-party payors. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods, as final settlements are determined. Patient accounts receivable are recorded net of estimated allowances, which include allowances for contractuals and bad debt. These allowances are based on current payment rates, including per diems, DRG amounts and payment(s) received as a percentage of gross charges.

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

(Dollars in Thousands)

During the year ended June 30, 2012, LHH's patient receivables and charges for services were as follows:

Patient Receviables, net				
	Medi-Cal	Medicare	Other	Total
Gross accounts receivable………………….	$ 64,972	$ 2,243	$ 585	$ 67,800
Less:				
Contractual Allowances……………………	(19,792)	(683)	(178)	(20,653)
Total, net…………………………………	$ 45,180	$ 1,560	$ 407	$ 47,147

Net Patient Service Revenue				
	Medi-Cal	Medicare	Other	Total
Gross revenue………………………………..	$ 246,127	$ 16,039	$ 4,181	$ 266,347
Less:				
Contractual allowances……………………	(120,708)	(11,456)	(1,207)	(133,371)
Total, net…………………………………	$ 125,419	$ 4,583	$ 2,974	$ 132,976

Because Medi-Cal reimbursement rates are less that LHH's established charges rates, LHH is eligible to receive supplemental federal funding. For the year ended June 30, 2012, LHH accrued and recognized $33.5 million of revenue as a result of matching federal funds to local funds.

Deferred Credits and Other Liabilities – As of June 30, 2012, LHH recorded approximately $14.0 million in other liabilities for third-party payor settlements payable.

Replacement Project – The California Hospital Facilities Safety Act (SB 1953) specifies certain requirements that must be met at various dates in order to increase the probability that LHH could maintain uninterrupted operations following major earthquakes. By January 1, 2008, all general acute care buildings must be life safe. By January 1, 2030, all general acute care inpatient buildings must be able to be operational after an earthquake. In December 2001, LHH finalized and submitted a plan to the State of California indicating that the Laguna Honda Hospital Replacement Project will be fully operational by 2013 and thereby in full compliance with the 2030 requirements. The new Laguna Honda opened in December 2010 and is comprised of three new buildings housing 780 people.

In November 1999, San Francisco voters approved Proposition A, a ballot measure authorizing the City to issue general obligation bonds to finance the acquisition, improvement, construction and/or reconstruction of a new health care, assisted living and/or other type of continuing care facility or facilities to replace Laguna Honda Hospital (the Replacement Project). Proposition A requires an increase in property taxes to pay for the bonds. In addition, Proposition A stipulates that $100 million of tobacco settlement funds received by the City, excluding $1 million set aside each year for smoking education and prevention programs, may be used to pay for some construction of the Replacement Project, as well as to offset the cost to property owners of repaying the bonds. As of June 30, 2012, general obligation bonds in the amount of $299 million have been sold to fund the Replacement Project and are reported as a governmental activity.

As of June 30, 2012, LHH has entered into various purchase contracts totaling approximately $21.9 million that are related to the old building remodel phase of the Replacement Project.

(Dollars in Thousands)

(g) San Francisco General Hospital Medical Center

General Fund Subsidy – San Francisco General Hospital Medical Center (SFGH) is an acute care hospital. The operations of SFGH are subsidized by the City's General Fund. It is the City's policy to fully fund enterprise operations on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the year ended June 30, 2012, the subsidy for SFGH was $128.6 million.

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

Patient accounts receivable are recorded net of estimated allowances, which include allowances for contractuals, and bad debt. These allowances are based on current payment rates, including per diems, DRG amounts and payment received as a percentage of gross charges.

Third-party Payor Agreements – SFGH has agreements with third-party payors that provide for reimbursement to SFGH at amounts different from its established rates. Contractual adjustments under third-party reimbursement programs represent the difference between SFGH's established rates and amounts reimbursed by third-party payors. Major third-party payors with whom such agreements have been established are Medicare, Medi-Cal, and the State of California through the Medi-Cal Hospital/Section 1115 Medicaid Waiver and Short-Doyle mental health programs. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. SFGH believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigations involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medi-Cal programs.

During the year ended June 30, 2012, SFGH's patient receivables and charges for services were as follows:

Patient Receviables, net	Medi-Cal	Medicare	Other	Total
Gross accounts receivable.....................	$ 213,492	$ 79,872	$ 112,920	$ 406,284
Less:				
Contractual allowances.......................	(187,019)	(68,871)	(67,498)	(323,388)
Bad debt...	-	-	(37,958)	(37,958)
Total, net.......................................	$ 26,473	$ 11,001	$ 7,464	$ 44,938

Net Patient Service Revenue	Medi-Cal	Medicare	Other	Total
Gross revenue....................................	$ 833,653	$ 415,194	$ 1,153,133	$ 2,401,980
Less:				
Contractual allowances.......................	(770,821)	(269,024)	(675,069)	(1,714,914)
Bad debt...	-	-	(86,195)	(86,195)
Total, net.......................................	$ 62,832	$ 146,170	$ 391,869	$ 600,871

California's Section 1115 Medicaid Waiver (Waiver), titled the "Bridge to Health Care Report" began in November 2010. The Waiver is intended to help sustain the State's Medicaid Program (known as Medi-Cal) test new innovations to help improve care and reduce costs, and to support the safety net in advance of health reform. Under the Waiver, payments for public hospitals are comprised of: 1) fee-for-service cost-based reimbursements for inpatient hospital services; 2) Disproportionate Share Hospital payments; 3) distribution from a pool of federal funding for uninsured care, known as the Safety Net Care Pool (SNCP); 4) Delivery System Reform Incentive Program (DSRIP); and 5) the Low Income Health Program. The non-federal share of these payments will be provided by the public hospitals, primarily through certified public expenditures, whereby the hospital would expend its local funding for services to draw down the federal financial participation. Revenues recognized under the Waiver approximated $192.2 million for the year ended June 30, 2012.

The DSRIP is a pay-for-performance initiative that challenges public hospital systems to meet specific benchmarks related to improving health care access, quality and safety and outcomes. The Low income Health Program (LIHP) is a coverage program for low-income uninsured adults that was included as part of California's Section 1115 Medicaid Waiver. The program builds off and expands the previous Health Care Coverage Initiative (HCCI). Revenues recognized under the LIHP approximated $25.7 million for the year ended June 30, 2012. The LIHP covers a subset of the Healthy San Francisco population, primarily those individuals at or below 200% of the federal poverty level and who meet citizenship requirements as further discussed in the Healthy San Francisco Program section below. In addition, SFGH was reimbursed by the State of California, under the Short-Doyle Program, for mental health services provided to qualifying residents based on an established rate per unit of service not to exceed an annual negotiated contract amount. During the year ended June 30, 2012, reimbursement under the Short-Doyle Program amounted to approximately $5.4 million and is included in net patient service revenue.

Deferred Credits and Other Liabilities – As of June 30, 2012, SFGH recorded approximately $87.1 million in deferred credits and other liabilities, which was comprised of $59.9 million in deferred credits related to receipts under the periodic interim payment system and $27.2 million in third-party payor settlements payable.

Charity Care – SFGH provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Charges foregone based on established rates were $408.9 million and estimated costs and expenses to provide charity care were $143.5 million in fiscal year 2011-12.

Other Nonoperating Revenues – The State of California provides support to SFGH through a realignment of funding provided from vehicle license fees and sales tax allocated to California's counties. For the year ended June 30, 2012, SFGH recognized $48.4 million as other nonoperating revenue for realignment funding.

Contract with the University of California San Francisco – The City contracts on a year-to-year basis on behalf of SFGH with the University of California (UC). Under the contract, SFGH serves as a teaching facility for UC professional staff, medical students, residents, and interns who, in return, provide medical and surgical specialty services to SFGH's patients. The total amount for services rendered under the contract for the year ended June 30, 2012, was approximately $130.9 million.

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

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

Majority of the funding will be through issuance of bonds. In November 2008, San Francisco voters approved Proposition A, a ballot measure that authorized the City to issue general obligation bonds for the rebuild of the hospital. As of June 30, 2012, general obligation bonds, in the amount of $426.3 million have been sold to fund the hospital rebuild. On August 25, 2012, additional bonds were sold in the amount of $251.1 million. The general obligation bonds are accounted for as a governmental activity and transactions are accounted for in the City's Governmental Capital Projects Funds. Upon completion of the new facility, it will be contributed to the SFGH enterprise fund.

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

Effective July 1, 2011, over 10,000 HSF participants were transitioned to a new program called San Francisco Provides Access to Healthcare (SF PATH). SF PATH is a new federally-supported health access program that provides affordable health care services for some low income people living in San Francisco. The program was created in preparation for the implementation of federal health reform. The HSF Program started on July 23, 2011 and going forward will reflect this 10,000 reduction in enrollment. New enrollment in HSF has not ceased, but total HSF enrollment has decreased as a result of the transfer of over 10,000 former HSF participants into SF PATH. The department's and Healthy San Francisco's foray into the Affordable Care Act (ACA) preparation and implementation began in earnest on July 1, 2011, with the successful transitioning of over 10,000 participants from HSF into the new SF PATH program designed to help prepare uninsured adults for ACA implementation.

As of June 30, 2012, over 46,822 uninsured adult residents were enrolled in HSF. Combined with the over 10,000 participants in SF PATH, both programs provided care to approximately 89% of the estimated 64,000 uninsured adults residents. In addition to increasing access by serving more uninsured adults, the program also expanded access by increasing the number of primary care medical homes that participate in the program. HSF ended the 2011-12 fiscal year with 37 primary care medical homes – a 37% increase from 2007-2008 (the program's first year).

Commitments and Contingencies – At the end of the year, SFGH has approximately $1.0 million in commitments for various capital projects.

(Dollars in Thousands)

(h) San Francisco Wastewater Enterprise

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

The Wastewater Enterprise collects, transmits, treats, and discharges sanitary and stormwater flows, generated within the City, for the protection of public health and environmental safety. In addition, the Wastewater Enterprise serves, on a contractual basis, certain municipal customers located outside of the City limits, including the North San Mateo County Sanitation District No. 3, Bayshore Sanitary District, and the City of Brisbane. The Wastewater Enterprise recovers, cost of service, through user fees based on the volume and strength of sanitary flow. The Wastewater Enterprise serves approximately 147,150 residential accounts, which discharge about 18.3 million units of sanitary flow per year (measured in hundreds of cubic feet, or ccf) and approximately 16,166 non-residential accounts, which discharge about 8.6 million units of sanitary flow per year.

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

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2012, and applicable revenues for 2012 are as follows:

Bonds issued with revenue pledge	$ 635,835
Principal and interest remaining due at the end of the year	740,556
Principal and interest paid during the year	42,190
Net revenue for the year ended June 30, 2012	107,637
Funds available for bond debt service	158,398

Commitments and Contingencies **–** As of June 30, 2012, Wastewater Enterprise had outstanding commitments, with third parties, for capital projects and for materials and services totaling $81.9 million.

Pollution Remediation Obligations **–** The City and the Wastewater Enterprise have been listed as potentially responsible parties in the clean-up effort of Yosemite Creek due to the Wastewater Enterprise's role in conveying contaminated flows to the receiving waters through the sewerage system. Yosemite Creek has been identified as having toxic sediments, primarily polychlorinated biphenyls. The U.S. Environmental Protection Agency is moving forward with a clean-up plan for these sediments. Contaminated flows, emanating from a local industrial discharger in the drainage areas to Yosemite Creek, is the likely responsible source of the contamination. As of June 30, 2012, the pollution remediation obligation reported in the accompanying statements of net assets is $571 for the Yosemite Creek project, based on estimated contractual costs.

Transactions with Other Funds **–** The Wastewater Enterprise purchases electricity, from Hetch Hetchy Power, at market rates. The amount was $8.6 million for the year ended June 30, 2012, and has been included in services provided by other departments.

The City's Department of Public Works provides certain engineering and other services to the Wastewater Enterprise and charges amounts designed to recover its costs. These services are primarily related to street cleaning, engineering, building repair, and sewer repair. This amount totaling approximately $15.0 million for the year ended June 30, 2012 and has been included in services provided by other departments.

(Dollars in Thousands)

A variety of other City departments provide services such as purchasing, legal, data processing, telecommunications, and human resources to the Wastewater Enterprise and charge amounts designed to recover those departments' costs. These charges, totaling approximately $9.6 million for the year ended June 30, 2012, and have been included in services provided by other departments.

SFPUC entered into a seventy-five year lease agreement, with the San Francisco Recreation and Park Commission, for the use of parking spaces at the parking garage located at 355 McAllister Street, beneath Civic Center Plaza, which is in closer proximity to SFPUC's new headquarters at 525 Golden Gate Avenue. The term of the agreement commenced on February 1, 2011, with 40 parking spaces allocated to SFPUC. On or about April 1, 2012, SFPUC will have the right to an additional 20 parking spaces. The total payment under this agreement is $6.3 million and the first payment, in the amount of $1.5 million, was made in the fiscal year 2011. Of this $1.5 million, SFPUC recognized $0.04 million as expenses for the 40 parking spaces, rented between February and June 2011, at $0.008 per month. The remaining $1.46 million was recorded as prepaid. Of the second payment in the amount of $1.5 million made in the fiscal year ended June 30, 2012, SFPUC recognized $84 as expenses and the remaining $1.42 million was recorded as prepaid. The expenses and prepayment were prorated and allocated among the three SFPUC Enterprises based on the use of parking spaces. The remaining payments will be made as follows:

Fiscal years ending June 30:	Amount
2013	$ 1,500
2014	1,500
2015	274
Total	$ 3,274

(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) SUCCESSOR AGENCY TO THE REDEVELOPMENT AGENCY OF THE CITY AND COUNTY OF SAN FRANCISCO

As discussed in Note 1, the financial statements present the Successor Agency and its component units, entities for which the Successor Agency is considered to be financially accountable. The City and County of San Francisco Redevelopment Financing Authority (Financing Authority) is a joint powers authority formed between the former Agency and the City to facilitate the long-term financing of the former Agency activities. The Financing Authority is included as a blended component unit in the Successor Agency's financial statements because the Financing Authority provides services entirely to the Successor Agency.

Pursuant to the Redevelopment Dissolution Law, funds that would have been distributed to the former Agency as tax increment, hereafter referred to as redevelopment property tax revenues, are deposited into the Successor Agency's Redevelopment Property Tax Trust Fund (Trust Fund) administered by the City's Controller for the benefit of holders of the former Agency's enforceable obligations and the taxing entities that receive pass-through payments. Any remaining funds in the Trust Fund, plus any unencumbered redevelopment cash and funds from asset sales are distributed by the City to the local agencies in the project area unless needed to pay enforceable obligations.

(Dollars in Thousands)

(a) Capital Assets Held by the Successor Agency

For the year ended June 30, 2012, a summary of changes in capital assets was as follows:

	Balance February 1, 2012*	Additions	Balance June 30, 2012
Capital assets not being depreciated:			
Land held for lease	$ 30,363	$ -	$ 30,363
Capital assets being depreciated:			
Furniture and equipment - General	8,144	-	8,144
Building and improvements	223,474	-	223,474
Total capital assets being depreciated	231,618	-	231,618
Less accumulated depreciation for:			
Furniture and equipment	(8,016)	(12)	(8,028)
Building and improvements	(76,340)	(2,282)	(78,622)
Total accumulated depreciation	(84,356)	(2,294)	(86,650)
Total capital assets being depreciated, net	147,262	(2,294)	144,968
Total capital assets, net	$ 177,625	$ (2,294)	$ 175,331

* Amount represents capital assets transferred in from the former Agency on February 1, 2012.

(b) Summary of the Successor Agency's Long-Term Obligations

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rate	Amount
Lease Revenue Bonds:			
Moscone Convention Center [(a)]	2015	7.05%	$ 7,478
Hotel tax revenue bonds [(b)]	2025	2.00% - 5.00%	42,930
Financing Authority Bonds:			
Tax allocation revenue bonds [(c)]	2042	2.38% - 9.00%	931,276
South Beach Harbor Variable Rate Refunding bonds [(d)]	2017	3.50%	5,690
California Department of Boating and Waterways Loan [(e)]	2037	4.50%	7,673
Total long-term bonds and loans			$ 995,047

Debt service payments are made from the following sources:

(a) Hotel taxes and operating revenues recorded in the Convention Facilities Special Revenue Fund and existing debt service/escrow trust funds.

(b) Hotel taxes from the occupancy of guest rooms in the hotels located in the Redevelopment Project Areas.

(c) Redevelopment property tax revenues (note 12) and existing debt service/escrow trust funds.

(d) South Beach Harbor Project cash reserves, redevelopment property tax revenues and project revenues. The variable rate bonds were converted to fixed rate bonds on January 20, 2012.

(e) South Beach Harbor Project revenues (subordinated to Refunding Bonds).

Pledged Revenues for Bonds - The Tax Allocation Bonds are equally and ratably secured by the pledge and lien of the redevelopment property tax revenues (i.e. former tax increment). These revenues have been pledged until the year 2042, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately $1.76 billion. The redevelopment property tax revenues recognized during the period from February 1, 2012 through June 30, 2012 was $48.7 million as against the total debt service payment of $26.1 million.

The Moscone Convention Center Lease Revenue Bonds are secured by the pledge of the capital lease revenue received by the Successor Agency from the City. These revenues have been pledged until the year 2015, the final maturity date of the remaining bonds. The total principal and interest remaining on these bonds is approximately $35.1 million. The lease payments received during the period from February 1, 2012 through June 30, 2012 was $12.8 million as against the total debt service payment of $0.

The Hotel Tax Revenue Bonds are secured by the pledge and lien of the hotel tax revenue received by the Successor Agency from the City. These revenues have been pledged until the year 2026, the final maturity date of the bonds. The total principal and interest remaining on the Hotel Tax Revenue Bonds is approximately $59.5 million. The hotel tax revenue recognized during the period from February 1, 2012 through June 30, 2012 was $1.9 million as against the total debt service payment of $1.9 million.

In 1992, the bank holding the letter of credit and the former Agency approved a restructuring of the debt involving a sublease of the South Beach Harbor (Harbor) by the former Agency to the Financing Authority, who then leased the Harbor back to the former Agency. The debt restructuring was performed in order for the former Agency to be in compliance with certain debt coverage covenants of the South Beach Harbor Variable Rate Demand Refunding Bond 1986 Issue A indenture. The annual sublease and leaseback payments to be made are calculated as the difference between the net revenues of the Harbor and 130% of the debt service on the bonds for the preceding fiscal year. As a result of the Successor Agency's compliance with certain debt coverage covenants, there were no annual lease payments required to be recorded for the period February 1, 2012 through June 30, 2012.

The interest rate for the South Beach Harbor Variable Rate Demand Refunding Bond 1986 Issue A is reset weekly by a remarketing agent. The rate varies depending on financial market conditions. In connection with the issuance of the bonds, the former Agency obtained an irrevocable letter of credit as a credit facility with Dexia Credit Local for the bonds. The letter of credit expired on January 27, 2012. The former Agency was required to pay the credit facility providers an annual commitment fee of 0.42% based on the outstanding principal amount of the bonds supported by the credit facility.

On January 20, 2012, in accordance with the terms of the bond indenture, the outstanding variable rate bonds were converted to fixed rate bonds and bear Mandatory Fixed Rate of 3.50% with final maturity on December 1, 2016.

The changes in long-term obligations for the Successor Agency for the year ended June 30, 2012, are as follows:

	February 1, 2012	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2012
Bonds payable:				
Tax revenue bonds	$ 981,356	$ -	$ (1,460)	$ 979,896
Lease revenue bonds	7,478	-	-	7,478
Less deferred amounts:				
For issuance premiums	7,516	-	(351)	7,165
For issuance discounts	(5,567)	-	106	(5,461)
On refunding..	(4,044)	-	193	(3,851)
Total bonds payable	986,739	-	(1,512)	985,227
Accreted interest payable.............................	49,310	2,811	-	52,121
Notes, loans, and other payables....................	7,673	-	-	7,673
Accrued vacation and sick leave pay...............	2,223	356	(1,591)	988
Other postemployment benefits obligation........	733	533	(345)	921
Successor Agency - long term obligations...	$ 1,046,678	$ 3,700	$ (3,448)	$ 1,046,930

As of June 30, 2012, the debt service requirements to maturity, excluding accrued vacation and sick leave, are as follows (in thousands):

Successor Agency to the San Francisco Redevelopment Agency

Fiscal Year Ending June 30	Tax Revenue Bonds Principal	Tax Revenue Bonds Interest	Lease Revenue Bonds Principal	Lease Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2013............	$ 43,668	$ 55,655	$ 3,131	$ 11,357	$ 191	$ 345	$ 46,990	$ 67,357
2014............	45,966	53,704	2,921	10,766	199	337	49,086	64,807
2015............	51,875	50,484	1,426	5,506	208	328	53,509	56,318
2016............	53,375	46,583	-	-	218	318	53,593	46,901
2017............	54,380	43,879	-	-	227	309	54,607	44,188
2018-2022.....	235,400	191,246	-	-	1,300	1,380	236,700	192,626
2023-2027.....	132,856	183,605	-	-	1,620	1,060	134,476	184,665
2028-2032.....	126,152	119,468	-	-	2,019	661	128,171	120,129
2033-2037.....	132,374	80,719	-	-	1,691	177	134,065	80,896
2038-2042.....	103,850	17,429	-	-	-	-	103,850	17,429
Total..........	$ 979,896	$ 842,772	$ 7,478	$ 27,629	$ 7,673	$ 4,915	$ 995,047	$ 875,316

Mortgage Revenue Bonds and Other Conduit Debt - In order to facilitate construction and rehabilitation in the City, various community district facility bonds and mortgage revenue bonds with an aggregate outstanding balance of approximately $389 million as of June 30, 2012 have been issued by the former Agency on behalf of various developers and property owners who retain full responsibility for the repayment of the debt. When these obligations are issued, they are secured by the related mortgage indebtedness and special assessment taxes, and, in the opinion of management, are not considered obligations of the Successor Agency or the City and are therefore not included in the accompanying financial statements. Debt service payments will be made by developers or property owners.

Due to/Advances from the Primary Government - In January 2003, the City and the Agency entered into a Cooperation and Tax Increment Reimbursement Agreement. The City agreed to advance tax increment revenues to the former Agency for the debt service payments on the Tax Allocation Revenue Bonds, San Francisco Redevelopment Projects Series 2003 B and C. The former Agency agreed to make reimbursement payments related to the Jessie Square Parking Garage and fully repay the advances by fiscal year 2018. As of June 30, 2012, the long-term balance due to the City's General Fund was $16.6 million. Interest will be accrued at the State of California Local Agency Investment Fund (LAIF) rate based on the balance due to the City. During the period February 1, 2012 through June 30, 2012, the City advanced $2.85 million in redevelopment property tax revenues to the Successor Agency for debt service payments. In addition, interest in the amount of $0.03 million was accrued based on the balance due to the City and the Successor Agency has made payments in the amount of $1.0 million to the City.

The short-term balance of $2.6 million consists of $0.8 million in Jessie Square reimbursement payments due to the City's General Fund and $1.8 million in payments for services provided by the City, of which $1.0 million is due to the General Fund and $0.8 million is due to other nonmajor governmental funds.

(c) Commitments and Contingencies Related to the Successor Agency

At June 30, 2012, the Successor Agency had outstanding encumbrances totaling approximately $17.0 million.

The Successor Agency is a member of the Bay Cities Joint Powers Insurance Authority (BCJPIA), which provides coverage for its general liability, automobile liability, and public officials' errors and omissions risks with combined single limit of $34 million and a deductible of $0.05 million self insurance retention per occurrence. Claims relating to the construction of the Moscone Convention Center are indemnified by the City under an agreement between the Successor Agency and the City. Workers' compensation insurance is provided by the State Compensation Insurance Fund up to statutorily determined limits.

The Successor Agency has noncancelable operating leases for its office sites, which are enforceable obligations of the Successor Agency. The leases require the following minimum annual payments:

Fiscal Years			Fiscal Years		
2013…………………	$	1,822	2023-2027…………	$	4,351
2014…………………		1,822	2028-2032…………		4,351
2015…………………		1,822	2033-2037…………		4,350
2016…………………		1,822	2038-2042…………		4,350
2017…………………		1,267	2043-2047…………		4,350
2018-2022…………		4,351	2048-2052…………		2,828
			Total…………………	$	37,486

Rent payments totaling $0.8 million are included in the Successor Agency's financial statements for the five months ended June 30, 2012.

The Successor Agency assumed noncancelable operating leases from the former Agency on various facilities within the Yerba Buena Center, Western Addition and Hunters Point, South of Market, Mission Bay North, and South Beach Harbor project areas. The minimum future rental income are as follows (in thousands):

Fiscal Years			Fiscal Years		
2013…………………	$	4,433	2023-2027…………	$	20,524
2014…………………		4,216	2028-2032…………		22,246
2015…………………		4,223	2033-2037…………		21,398
2016…………………		4,167	2038-2042…………		19,650
2017…………………		3,941	2043-2047…………		17,958
2018-2022…………		19,589	2048-2050…………		1,482
			Total…………………	$	143,827

For the five-month period ended June 30, 2012, operating lease rental income for noncancelable operating leases was $5.0 million. Within the operating lease rental income, $3.2 million represents contingent rental income received. At June 30, 2012, the leased assets had a net book value of $41.7 million.

The former Agency provides standby payment agreements in conjunction with its issuance of Mortgage Revenue Bonds wherein the Department of Housing and Urban Development guarantees Housing Assistance Payments (HAP) subsidized under Section 8 for multifamily residential facilities. If the HAP contract expires and is not renewed or is substantially reduced, the Successor Agency will be required to pay the difference. The estimated maximum obligation until June 30, 2019 over the terms of all standby payment agreements is $47.8 million. As of June 30, 2012, management has assigned approximately $4.8 million for the standby payment agreements. It is management's intent to assign 10% of the estimated maximum obligation.

(13) TREASURE ISLAND DEVELOPMENT AUTHORITY

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

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

In early 2000, TIDA initiated a master developer selection process, culminating in the selection of Treasure Island Community Development, LLC (TICD) in March 2003. TIDA and TICD entered into an Exclusive Negotiating Agreement in 2003, and began work on the Development Plan and Term Sheet for the Redevelopment of Naval Station Treasure Island (Development Plan). The Development Plan represented the culmination of nearly seven years of extensive public discourse about the future of Treasure Island, and was the product of the most extensive public review process for a large development project in the City's history. The Development Plan was endorsed by the TIDA Board and the San Francisco Board of Supervisors in December 2006. In May 2010, the TIDA Board and Board of Supervisors both unanimously endorsed a package of legislation that included an Update to the Development Plan and Term Sheet, terms of an Economic Development Conveyance Memorandum of Agreement (EDC MOA Term Sheet), and a Term Sheet between TIDA and the Treasure Island Homeless Development Initiative (TIHDI). The 2006 endorsement and 2010 update of the Development Plan marked two very important milestones in the project, as they very specifically guided the enormous efforts undertaken since then to make the ambitious development plans for Treasure Island a reality. Together the updated Development Plan, the EDC MOA Term Sheet and the TIHDI Term Sheet formed the comprehensive vision for the future of the former military base and represented a major milestone in moving the project closer towards implementation.

In April 2011, the TIDA Board and the Planning Commission certified the environmental impact report for the project and approved various project entitlements, including amendments to the Planning Code, Zoning Maps and General Plan, as well as a Development Agreement, Disposition and Development Agreement and Interagency Cooperation Agreement. These entitlements include detailed plans regarding land uses, phasing, infrastructure, transportation, sustainability, housing, including affordable housing, jobs and equal opportunity programs, community facilities and project financing, and provide a holistic picture of the future development. In June 2011, the Board of Supervisors unanimously upheld the certification of the project's environmental impact report as well as approved project entitlements. These project approvals are a key milestone in realizing an environmentally sustainable new community on Treasure Island and the thousands of construction and permanent jobs it will bring. Pending property transfer from the Navy, the first phase of horizontal infrastructure construction could begin in summer 2013. The complete build-out of the project is anticipated to occur over fifteen to twenty years.

In July 2008 and amended in November 2011, the SFCTA entered into a loan agreement with TIDA in the amount of $10.3 million for the repayment of costs related to the Yerba Buena Island (YBI) Interchange Improvement Project. Under the terms of the agreement, TIDA will repay the SFCTA for all project costs incurred by the SFCTA and accrued interest, less federal government reimbursements to the SFCTA. If the federal grant funds do not become available for some or all of the project costs, or if the federal agency disallows the SFCTA's reimbursement claims on some or all of the project costs, then TIDA bears the responsibility to repay the SFCTA for all costs incurred on the YBI Interchange Improvement Project for a total loan obligation amount not-to-exceed $18.8 million. The repayment to the SFCTA may be paid by TIDA in four annual installment payments on the earlier of 30 days after the first close of escrow for transfer of the Naval Station Treasure Island from TIDA to Treasure Island Community Development, LLC or December 31, 2013. Interest shall accrue on all outstanding unpaid project costs until TIDA and federal agencies fully reimburse the SFCTA for all costs related to the project. Interest will be compounded quarterly, at the City Treasurer's Pooled Investment Fund rate or the SFCTA's borrowing rate, whichever is applicable, beginning on the date of the SFCTA's reimbursement claim to Caltrans until the SFCTA costs and all accrued interest has been repaid.

This loan is collateralized by the senior security interest in TIDA's right, title and interest in and to 1) the rents accruing under the Sublease, Development, Marketing and Property Management Agreement between TIDA and The John Stewart Company, related to the subleasing of existing residential units at the Naval Station Treasure Island; and 2) any and all other TIDA revenue, except revenue prohibited by applicable laws from being used for this purpose or is necessary for repayment of the annual amount of TIDA's pre-existing SFPUC utility obligation under the Memorandum of Understanding (MOU) between TIDA and SFPUC. As of June 30, 2012, TIDA has drawn down $9.4 million on the loan with the SFCTA and accrued $0.4 million in interest costs. In addition, the balance outstanding with the SFPUC under the MOU is $1.2 million at June 30, 2012. This obligation is payable $0.2 million per year through fiscal year 2017-18.

At June 30, 2012, TIDA has a balance due in the amount of $2.6 million to Hetch Hetchy's Sustainable Energy Account to repay its advance for its energy efficiency project.

(14) INTERFUND RECEIVABLES, PAYABLES, AND TRANSFERS

"Due to" and "due from" balances have primarily been recorded when funds overdraw their share of pooled cash or when there are transactions between entities where one or both entities do not participate in the City's pooled cash or when there are short-term loans between funds. The composition of interfund balances as of June 30, 2012 is as follows (in thousands):

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 25,044
	Internal Service Funds	52
	Municipal Transportation Agency	3,731
	Laguna Honda Hospital	18,454
		47,281
Nonmajor Governmental Funds	General Fund	203
	Nonmajor Governmental Funds	395
	Hetch Hetchy Water and Power Enterprise	214
	Internal Service Funds	2,769
	Wastewater Enterprise	267
	Water Enterprise	1,301
		5,149
General Hospital Medical Center	Nonmajor Governmental Funds	271
Water Enterprise	Nonmajor Governmental Funds	194
Hetch Hetchy Water and Power Enterprise	General Fund	615
	Nonmajor Governmental Funds	9,112
	Port of San Francisco	316
	General Hospital Medical Center	1,440
	Wastewater Enterprise	2,790
	Water Enterprise	2,394
		16,667
Municipal Transportation Agency	General Fund	120
	Nonmajor Governmental Funds	14,620
		14,740
Port of San Francisco	General Fund	274
Wastewater Enterprise	Nonmajor Governmental Funds	28
Total		$ 84,604

In addition to the routine short-term loans, Hetch Hetchy serves as the City's agency for energy efficiency projects and maintains the Sustainable Energy Account (SEA) fund to sponsor and financially support such projects at various City departments. In this role Hetch Hetchy may secure low-interest financing to supplement funds available in the SEA fund. At June 30, 2012, Hetch Hetchy loaned $12,048 to other City funds. Hetch Hetchy is also due $2,394 and $2,225 from the Water Enterprise and Wastewater Enterprise, respectively, to finance improvements to certain up-country water storage and transmission facilities.

(Dollars in Thousands)

Receivable Entity	Payable Entity	Amount
Hetch Hetchy Water and Power Enterprise [(1)]	Treasure Island Development Authority	$ 3,827
Primary government - governmental fund [(1)]	Treasure Island Development Authority	9,764
Primary government - General Fund [(2)]	Successor Agency	18,337
Primary government - governmental fund [(2)]	Successor Agency	840

(1) See discussion at Note 13.

(2) See discussion at Note 12(b) related to the Due to/Advances from the Primary Government.

Transfers Out: Funds	Transfers In: Funds — General Fund	Nonmajor Governmental Funds	Internal Service Funds	Water Enterprise	Hetch Hetchy	Municipal Transportation Agency	San Francisco General Hospital	Port of San Francisco	Laguna Honda Hospital	Governmental Activities	Total
General fund....................	$ -	$ 146,106	$ 29	$ -	$ -	$ 273,993	$ 128,578	$ -	$ 4,484	$ -	$ 553,190
Nonmajor governmental funds............................	4,383	54,006	-	1,500	-	83,364	-	10,405	35,871	-	189,529
Internal Service Funds......	1,216	-	-	-	-	-	-	-	-	-	1,216
San Francisco International Airport........	33,993	-	-	-	-	-	-	-	-	-	33,993
Water Enterprise.............	-	1,012	-	-	14,073	-	-	-	-	-	15,085
Hetch Hetchy..................	-	2	-	-	-	-	-	-	-	-	2
Municipal Transportation Agency.........................	-	10,717	-	-	-	-	-	-	-	-	10,717
San Francisco General Hospital............	80,857	-	-	-	-	-	-	-	173	-	81,030
Wastewater Enterprise.....	-	1	-	-	-	-	-	-	-	-	1
Port..............................	-	-	-	-	-	-	-	-	-	673	673
Laguna Honda Hospital.....	-	3,307	-	-	-	-	-	-	-	156,545	159,852
Total transfers out	$ 120,449	$ 215,151	$ 29	$ 1,500	$ 14,073	$ 357,357	$ 128,578	$ 10,405	$ 40,528	$ 157,218	$ 1,045,288

The $553.2 million General Fund transfer out includes a total of $407.1 million in operating subsidies to Municipal Transportation Agency, San Francisco General Hospital Medical Center (SFGH), and Laguna Honda Hospital (note 11). The transfer of $146.1 million from the General Fund to the nonmajor governmental funds is to provide support to various City programs such as the Public Library and Children and Families Fund, as well as to provide resources for the payment of debt service. The transfers between the nonmajor governmental funds are to provide support for various City programs and to provide resources for the payment of debt service.

San Francisco International Airport transferred $34.0 million to the General Fund, representing a portion of concession revenue (note 11(a)).

Of the $83.4 million transfer to the MTA, $78.6 million was related to capital and operating transfers from the SFCTA. $4.8 million was transferred from nonmajor governmental funds bond proceeds to MTA for various street improvement projects. On the other hand, MTA transferred $10.7 million to nonmajor governmental funds to fund various street improvement projects.

The $35.9 million transfer from nonmajor governmental funds to the Laguna Honda Hospital (LHH) was for capital projects funded by the Laguna Honda Hospital Certificates of Participation from the City Facilities Improvement nonmajor governmental fund.

The $15.1 million transfer from Water Enterprise to other City departments includes $14.1 million to Hetch Hetchy Enterprise to finance improvements to certain up-country water storage and transmission facilities and $1.0 million to nonmajor governmental funds for landscape and irrigation project performed for the Water Enterprise and for participation in the surety bond program.

During the fiscal year, the City's governmental activities transferred the outstanding balance of the certificates of participation in the amount of $156.5 million to the Laguna Honda Hospital Fund along with the revenue stream dedicated to repay this obligation. This obligation was issued for the purpose of rebuilding and improving the Laguna Honda Hospital.

(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		
2013	$	19,396
2014		16,170
2015		14,165
2016		9,162
2017		7,832
2018-2022		15,088
Total	$	81,813

Operating lease expense incurred for fiscal year 2011-2012 was approximately $22.0 million.

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	Municipal Transportation Agency (MTA)	Total Business-type Activities
2013	$ 195	$ 2,868	$ 9,851	$ 12,914
2014	118	2,868	9,898	12,884
2015	75	2,868	10,117	13,060
2016	-	2,802	8,638	11,440
2017	-	2,709	8,270	10,979
2018-2022	-	13,546	44,365	57,911
2023-2027	-	13,546	50,968	64,514
2028-2032	-	13,546	59,353	72,899
2033-2037	-	13,546	71,939	85,485
2038-2042	-	13,546	-	13,546
2043-2047	-	13,546	-	13,546
2048-2052	-	5,644	-	5,644
Total	$ 388	$ 101,035	$ 273,399	$ 374,822

Operating lease expense incurred for the Airport, Port, and MTA for fiscal year 2011-2012 was $0.2 million, $2.9 million, and $12.3 million, respectively.

(Dollars in Thousands)

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

Primary Government

Governmental Activities

Fiscal Years		
2013………..……	$	2,137
2014………..……		1,968
2015………………		1,817
2016………………		1,764
2017………………		1,697
2028-2022…………		1,810
2023-2027……..…		732
2028-2032……..…		350
Total……………….	$	12,275

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	San Francisco General Hospital Medical Center	Municipal Transportation Agency	Market Corp	Total Business-type Activities
2013………………	$ 94,191	$ 40,354	$ 1,180	$ 3,664	$ 988	$ 140,377
2014………………	92,132	34,807	1,216	3,528	79	131,762
2015………………	81,697	31,831	1,252	2,763	-	117,543
2016………………	76,804	27,277	1,290	1,918	-	107,289
2017………………	72,816	23,473	1,329	1,067	-	98,685
2028-2022…………	48,354	85,185	7,265	5,845	-	146,649
2023-2027…………	1,505	66,003	-	6,250	-	73,758
2028-2032…………	-	53,818	-	6,250	-	60,068
2033-2037…………	-	49,128	-	6,250	-	55,378
2038-2042…………	-	34,185	-	6,250	-	40,435
2043-2047…………	-	25,697	-	6,250	-	31,947
2048-2052…………	-	17,979	-	6,250	-	24,229
2053-2057…………	-	11,504	-	4,583	-	16,087
2058-2062…………	-	11,161	-	-	-	11,161
2063-2067…………	-	10,847	-	-	-	10,847
2068-2072…………	-	4,142	-	-	-	4,142
2073-2077…………	-	3,594	-	-	-	3,594
Total………………	$ 467,499	$ 530,985	$ 13,532	$ 60,868	$ 1,067	$ 1,073,951

The Airport and Port have certain rental agreements with concessionaires, which specify that rental payments are to be based on a percentage of tenant sales, subject to a minimum amount. Concession percentage rents in excess of minimum guarantees for the Airport and Port were approximately $22.2 million and $14.0 million, respectively, in fiscal year 2011-12. In addition, the Airport has a car rental agreement that will expire on December 31, 2013. Under this agreement the rental car companies will pay 10% of gross revenues or a minimum guaranteed rent whichever is higher; also in accordance with the terms of their concession agreement, the minimum annual guarantee (MAG) for the rental car operators does not apply if the actual enplanements achieved during a one-month period is less than 80% of the actual enplanements of the same Reference Month in the Reference Year, and such shortfall continues for three consecutive months. The MAG attributable to the rental car companies was approximately $36.3 million for fiscal year 2012.

Other Commitments

The Retirement System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $1.4 billion at June 30, 2012.

In February 2011, the Asian Art Museum Foundation (Foundation) entered into an agreement with JP Morgan Chase Bank to refinance its obligations of $97.0 million. To facilitate the refinancing, the City entered into an assurance agreement which, in the event of nonpayment by the Foundation, requires the City to seek an appropriation to make debt payments as they become due. Since the City has not legally guaranteed the debt, and the City believes that the likelihood of nonpayment by the Foundation is remote, no amount is recorded in the City's financial statements related to this agreement.

(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); medical malpractice; natural disasters; employee health benefit claim payments for direct provider care (collectively referred to herein as estimated claims payable); and injuries to employees (workers' compensation). With certain exceptions, it is the policy of the City not to purchase commercial insurance for the risks of losses to which it is exposed. Instead, the City believes it is more economical to manage its risks internally and set aside funds as needed for estimated current claim settlements and unfavorable judgments through annual appropriations and supplemental appropriations.

The Airport carries general liability insurance coverage of $1 billion, subject to a deductible of $10 per single occurrence and commercial property insurance coverage for full replacement value on all facilities at the Airport owned by the Airport, subject to a deductible of $500 per single occurrence. Additionally, tenants and contractors on all contracts are required to carry commercial general and automobile liability insurance in various amounts naming the Airport as additional insured. The Airport carries public officials liability and employment practices liability coverage of $5 million, subject to a deductible of $100 per single occurrence for each wrongful act other than employment practices' violations, and $250 per each occurrence for employment practices' violation. The Airport also carries insurance for public employee dishonesty, fine arts, electronic data processing equipment and watercraft liability for Airport fire and rescue vessels. The Airport has no liability insurance coverage for losses due to land movement or seismic activity, war, terrorism and hijacking.

The Port carries the following insurance: 1) marine general liability coverage of $50 million, subject to a deductible of $75 per occurrence; 2) hull and machinery liability coverage of $3.8 million, subject to a deductible of $100 per occurrence; 3) commercial property insurance for losses up to the insured appraised value of Port facilities, subject to a maximum of $1 billion and a deductible of $500 per occurrence; and 4) public officials and employee liability coverage of $5 million, subject to a deductible of $50 per occurrence. The Port also carries insurance coverage for employee dishonesty, auto liability, property damage for certain high value Port vehicles, water pollution and data processing equipment. In addition, the Port requires its tenants, licensees and contractors on all contracts to carry commercial general liability insurance in various amounts naming the Port and the City as additional insured parties. Tenants whose operations pose a significant environment risk are also required to post an environmental oversight deposit and an environmental performance deposit.

The MTA is self-insured up to the first $5 million per accident occurrence, and for over the threshold, MTA has purchased an excess liability insurance policy. Through coordination with the Controller and City Attorney's Office, the MTA general liability payments are addressed through pay-as-you-go funding as part of the budgetary process. Claim liabilities are actuarially-determined anticipated claims and projected timing of disbursement, considering recent claim settlement trends, inflation and other economic social factors. Effective fiscal year 2013, the MTA Board had decided to no longer purchase an excess liability insurance policy.

(Dollars in Thousands)

The MTA purchases property insurance on scheduled facilities and personal property. Also insurance is purchased for scheduled City parking garages covering blanket property and business interruptions. Damages to facilities and property outside of the specified schedules are self-insured. For MTA contractors, MTA requires each contractor to provide its own insurance, the traditional insurance ensuring that the full scope of work be covered with satisfactory levels to limit the risk exposure to City and MTA's property.

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, 2012 has been actuarially determined and includes an estimate of incurred but not reported losses and allocated loss adjustment expenses.

Changes in the reported estimated claims payable since June 30, 2010, resulted from the following activity:

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2010-2011	$ 240,579	$ 38,240	$ (54,338)	$ 224,481
2011-2012	224,481	26,579	(81,673)	169,387

Breakdown of the estimated claims payable at June 30, 2012 is as follows:

Governmental activities:	
Current portion of estimated claims payable	$ 36,793
Long-term portion of estimated claims payable	75,601
Total	$ 112,394
Business-type activities:	
Current portion of estimated claims payable	$ 20,849
Long-term portion of estimated claims payable	36,144
Total	$ 56,993

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

(Dollars in Thousands)

Workers' Compensation

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2012 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, 2012 was $371.0 million, which is reported in the appropriate individual funds in accordance with the City's accounting policies (note 2).

Changes in the reported accrued workers' compensation since June 30, 2010, resulted from the following activity:

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2010-2011	$ 364,979	$ 81,202	$ (75,167)	$ 371,014
2011-2012	371,014	74,600	(74,730)	370,884

Breakdown of the accrued workers' compensation liability at June 30, 2012 is as follows:

Governmental activities:	
Current portion of accrued workers' compensation liability	$ 41,192
Long-term portion of accrued workers' compensation liability	185,236
Total	$ 226,428

Business-type activities:	
Current portion of accrued workers' compensation liability	$ 25,230
Long-term portion of accrued workers' compensation liability	119,226
Total	$ 144,456

(17) SUBSEQUENT EVENTS

(a) Long-term Debt Issuance

In July 2012, SFCTA entered into a new three-year credit facility with Wells Fargo Bank, National Association, in an amount equal to $217.8 million. The credit facility will expire on July 10, 2015 and has a fee of 45 basis points of the annual maximum debt service amount.

In July 2012, MTA issued a total of $63.8 million in Revenue Bonds, Series 2012A for $38.0 million, and Series 2012B for $25.8 million. The Series 2012A Bonds were issued to: (a) refund prior bonds issued by the Parking Authority, the City of San Francisco Ellis-O'Farrell Parking Corporation, the City of San Francisco Downtown Parking Corporation and the City of San Francisco Uptown Parking Corporation; (b) make a deposit to the 2012 Reserve Account of the bond Reserve Fund; and (c) pay a portion of the cost of issuance of the Series 2012 Bonds. The Series 2012B Bonds were to: (a) finance a portion of the costs of various capital projects for the MTA; (b) make a deposit to the 2012 Reserve Account of the Bond Reserve Fund; and (c) pay a portion of the costs of issuance of the Series 2012 Bonds. The refunded bonds were redeemed on July 27, 2012. This refunding resulted in net present value savings of $6.7 million, representing 15.80% saving of refunded bonds, with the average coupon of refunded bonds 5.64%. The true interest cost (TIC) of the 2012 Revenue Bonds was 3.7%.

In August 2012, the City issued $289.3 million general obligation bonds consisting of San Francisco General Hospital Improvement Bonds Series 2012D in the amount of $251.0 million and Earthquake Safety and Emergency Response Bonds Series 2012E in the amount of $38.3 million. Both series bear Interest rates ranging from 4.0% to 5.0% and mature from June 2013 through June 2032.

The San Francisco General Hospital Improvement Bonds Series 2012D were issued to provide funds to finance the building or rebuilding and improving the earthquake safety of the San Francisco General Hospital and Trauma Center and to pay certain costs related to the issuance of the 2012D bonds. The proceeds of the Earthquake Safety and Emergency Response Bonds Series 2012E will be used to finance the improvement of the fire, earthquake and emergency response and ensure firefighters a reliable water supply for fires and disasters, through projects to the water supply infrastructure, the neighborhood fire stations and to replace the emergency command center and to pay for costs related to the issuance of the 2012E bonds.

In August 2012, the City issued $13.7 million in taxable commercial paper to refund $6.4 million of maturing taxable commercial paper and to provide $0.2 million and $7.1 million interim funding for the War Memorial Veterans Building Seismic Retrofit project and Port Facilities project, respectively. The note bears interest at 0.2% and is scheduled to mature on October 11, 2012.

In August 2012, the Water Enterprise issued Revenue Bonds, 2012 Series D in the principal amount of $24.0 million to refund $24.1 million of outstanding 2002 Series B Revenue Bonds, with the balance applied to financing costs and cash-funded debt service reserve. The bonds are serial bonds with interest rates ranging from 1.8% to 5.0%. A portion of the proceeds of the 2012 Series D bonds was deposited with the trustee, acting as escrow agent under the irrevocable Escrow Agreement dated August 1, 2012 to refund and legally defease a portion of the outstanding 2002 Series B bonds. This deposit, together with certain available monies was held by the escrow agent under the Escrow Agreement and invested in non-callable Federal securities consisting of United States Treasury Securities-State and Local Government Series. The principal and interest on monies held by the escrow agent will be sufficient to redeem the refunded 2002 Series B bonds on November 1, 2012 by optional redemption date.

In September 2012, the City issued $43.8 million in tax exempt commercial paper to refund $40.4 million in maturing commercial paper and to provide $3.4 million interim financing for the Moscone Center improvement project, War Memorial Veterans Building Seismic Retrofit project and Port Facilities project. Interest rates on these notes are 0.16% and 0.18% with maturity date of December 15, 2012. In December 2012, the City issued two series of tax exempt commercial paper notes in a total amount of $44.0 million to refund the September 2012 issuance. Both series bear interest rate of 0.16% to mature on March 7, 2013.

The Airport issued $25.7 million of Subordinate CP Notes in July 2012, comprised of a $9.5 Subseries A-2 Note (AMT), a $10.2 million principal amount of Subseries B-2 Note (Non-AMT), and a $6.0 million Subseries C-2 Note (Taxable). In August 2012, the Airport remarketed an outstanding $3.7 million Subseries B-2 Note (Non-AMT) upon maturity. In September 2012, the Airport remarketed the following outstanding CP Notes upon maturity: $2.3 million Subseries A-2 (AMT), $4.5 million Subseries B-2 N (Non-AMT), and $6.0 million Subseries C-2 (Taxable).

In October 2012, the City issued $13.7 million in taxable commercial paper to retire $13.7 million of maturing taxable commercial paper. The note bears interest at 0.25% and is scheduled to mature on January 14, 2013.

The Airport issued five commercial paper notes totaling $49.9 million in November 2012. The first issuance was of three series with a total of $25.1 million, consisting of rolled note AMT Series A-2 for $9.5 million, rolled Non-AMT Series B-2 for $10.2 million and new money note Non-AMT Series B-2 for $5.4 million. The AMT Series A-2 and Non-AMT Series B-2 will mature on March 15, 2013 and bear interest rates of 0.25% and 0.23% respectively. The Non-AMT Series B-2 (New Money Note) will mature on March 12, 2013 and bear interest rate of 0.23%. The second issuance of $24.8 million consists of AMT Series A-2 for $16.1 million and $8.7 million Taxable Series C-2 new money CP Notes which will mature on February 12, 2013 and March 20, 2013 respectively. Both series bear interest rate of 0.24%.

In December 2012 the Airport issued three commercial paper notes totaling $12.8 million with maturity date of February 6, 2013. AMT Series A-2 was issued for $2.3 million, Non-AMT Series B-2 for $4.5 million and Taxable Series C-2 for $6.0 million, with interest rates of 0.18%, 0.16% and $0.18%, respectively.

The Airport authorized $502.2 million of capital plan bonds in March 2012, subject to Board of Supervisor approval. On October 2, 2012, the Board of Supervisors authorized the issuance of $543.2 capital plan bonds.

The Airport's Second Series Revenue Refunding Bonds, Series 2009D, are subject to mandatory tender for purchase on December 4, 2012. The Airport has selected bond counsel and underwriting teams to remarket or refund the Series 2009D Bonds on or before the mandatory tender date.

The letter of credit securing the Airport's Second Series Variable Rate Revenue Refunding Bonds, Issue 36A, expires in May 2013. The Airport expects to replace the letter of credit in advance of its expiration date, but has not yet begun the process to select a replacement credit facility.

(b) Elections

On November 6, 2012, the San Francisco voters approved the following propositions that will have a fiscal impact on the City:

Proposition B – Authorizes the City to borrow up to $195.0 million by issuing general obligation bonds to fund repairs and improvements of the City's parks and public open spaces. The proceeds will be used for improving parks, playgrounds, public spaces along the waterfront and trail reconstruction.

Fiscal Impact: 1) In fiscal year 2013-14, following the issuance of the first series of bonds, and the year with the lowest tax rate, the estimated annual cost of debt service would be $3.7 million and result in property tax rate of $2.24 per $100 thousand of assessed valuation. 2) In fiscal year 2018-19, following the issuance of last series of bonds, the estimated annual costs of debt service would be $16.9 million and result in a property tax rate of $8.38 per $100 thousand of assessed valuation. 3) The best estimate of the average tax rate for these bonds from fiscal year 2013-14 through 2037-38 is $5.28 per $100 thousand of assessed valuation. 4) Based on these estimates, the highest estimated annual property tax cost for these bonds for the owner of a home with assessed value of $0.5 million would be approximately $43.36.

Proposition C – Amends the Charter to establish a Housing Trust Fund. The City would use the fund to build, purchase and improve affordable housing, provide a loan program for down payment assistance for moderate-income homebuyers and emergency first responders, and provide funds for a program that would help eligible households avoid foreclosure or eviction, or improve the safety, accessibility or efficiency of their homes.

Fiscal impact: The amendment will affect the cost of government for a thirty-year period beginning in fiscal year 2013-14 in that it would set aside funds for affordable housing which would otherwise be available for public purpose. The City would contribute a base $20.0 million annual allocation to the fund in the first year, (fiscal year 2013-14). For the following ten years, the annual allocation would be increased by $2.8 million each year until the fund reaches an annual allocation of $50.8 million in fiscal year 2024-25. From fiscal year 2025-26 through fiscal year 2042-43, the $50.8 million would be adjusted based on annual percentage increase or decrease in General Fund discretionary revenues.

Proposition E – Creates a new City business tax based on gross receipts rather than payroll costs. Under the new system, the tax on payroll would be eliminated or reduced. The new gross receipt tax would apply to businesses with $1.0 million or more in gross receipts and the $1.0 million threshold would be adjusted by the Consumer Price Index going forwards. The ordinance would increase the number and types of businesses in the City that pay business tax and registration fees from approximately 7,500 to 15,000 under the new structure. The ordinance would convert most existing payroll tax exclusions into gross receipt tax exclusions of the same size, terms and expiration dates.

Fiscal impact: The existing business registration fee structure would be replaced by a new higher graduated registration fee structure that would generate a net revenue increase to the City of approximately $28.5 million beginning in fiscal year 2013-14 and growing approximately the rate of inflation in subsequent years. Revenues from the business tax can be spent for any purpose.

(c) Successor Agency to the Redevelopment Agency of the City and County of San Francisco

On October 2, 2012, the Board of Supervisors adopted Ordinance No. 215-12 creating the Successor Agency Commission as the policy body of the Successor Agency and delegating to it the authority to act in place of the former Redevelopment Agency Commission to implement the surviving redevelopment projects, the replacement housing obligations and other enforceable obligations and the authority to take actions that the State redevelopment dissolution law requires or allows on behalf of the Successor Agency.

Assembly Bill 1484 (AB 1484), a trailer bill to the State's 2012-13 Budget Act, requires Successor Agencies to determine the unencumbered cash available for distribution to taxing entities through an Agreed-Upon Procedures Report, or Due Diligence Review (Review). The Review takes place in two phases. The first Review determines the amount available for distribution from the assets transferred from the Low and Moderate Income Housing Fund (LMIHF) assets that are held by the Successor Agency. The second Review determines amounts available for distribution from the assets transferred from all other funds of the former Agency, excluding the LMIHF assets that are held by the Successor Agency.

Pursuant to Health and Safety Code 34179.6 (d), the State Department of Finance (State) is authorized to adjust the results of the Review's stated balance of LMIHF available for distribution to the taxing entities. Based on the State's review, they made certain adjustments to the amounts owed and requested the City's Low and Moderate Income Housing Assets nonmajor fund pay $106.9 million to the taxing entities. The City and the Successor Agency has contested the State's request asserting that the balance includes bond proceeds, which are restricted from being distributed. Pursuant to AB 1484, the Successor Agency has held a meet and confer session on November 26, 2012 and is working with the State to resolve these issues. Due to the uncertainties surrounding the results of the State's evaluation, the ultimate outcome of these issues cannot presently be determined, and accordingly, no provision for any liability that may result has been recorded in the financial statements.

This page has been intentionally left blank.

REQUIRED SUPPLEMENTARY INFORMATION

(Dollars in Thousands)

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

Employees' Retirement System – Pension Plan [1]

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	Over (Under) funded AAL (O/UAAL)	Funded Ratio	Covered Payroll	O/UAAL as a % of Covered Payroll
07/01/09	$ 16,004,730	$ 16,498,649	$ (493,919)	97.0%	$ 2,537,785	-19.5%
07/01/10	16,069,058	17,643,394	(1,574,336)	91.1%	2,398,823	-65.6%
07/01/11	16,313,120	18,598,728	(2,285,608)	87.7%	2,360,413	-96.8%

(1) As a result of the Retirement Board's decision to phase in a reduction of the Plan's assumed investment rate of return from 7.75% to 7.50% over three years, the assumed investment rate of return used for the most recent actuarial valuation as of July 1, 2011 was 7.66%. The unfunded actuarial liability (UAL) as of July 1, 2011 was $2.29 billion, an increase of $711.3 million from the UAL of $1.57 billion as of July 1, 2010. This increase in the unfunded liability is primarily a result of the market value losses during fiscal year 2008-2009 that are being recognized over five years as well as liability experience losses related to changes to the economic and demographic assumptions approved by the Retirement Board.

The July 1, 2011 valuation results incorporate the following significant assumption changes approved by the Retirement Board at its December 14, 2011 Board meeting:

- Investment Rate of Return Assumption – phase in reduction from 7.75% to 7.50% over three years (7.66% as of July 1, 2011; 7.58% as of July 1, 2012; and 7.50% as of July 1, 2013)
- Wage/inflation Assumption – phase in reduction from 4.00% to 3.75% over three years (fiscal year 2011-12 to 3.91%; fiscal year 2012-13 to 3.83%; fiscal year 2013-14 to 3.75%)
- Long-term Consumer Price Index Assumption – phase in reduction from 3.50% to 3.25% over three years (fiscal year 2011-12 to 3.41%; fiscal year 2012-13 to 3.33%; fiscal year 2013-14 to 3.25%)

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

Actuarial Valuation Date	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
06/30/08	$ 673,275	$ 685,150	$ (11,875)	98.3%	$ 89,009	-13.3%
06/30/09	707,615	758,124	(50,509)	93.3%	101,929	-49.6%
06/30/10 [2]	743,188	787,186	(43,998)	94.4%	104,072	-42.3%

(Dollars in Thousands)

City and County of San Francisco – Other Postemployment Health Care Benefits

Actuarial Valuation Date [(1)]	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
07/01/06	$ -	$ 4,036,324	$ (4,036,324)	0.0%	$ 2,066,866	-195.3%
07/01/08	-	4,364,273	(4,364,273)	0.0%	2,296,336	-190.1%
07/01/10 [(2)]	-	4,420,146	(4,420,146)	0.0%	2,303,650	-191.9%

(1) The actuarial valuation report is conducted once every two years.

(2) As of July 1, 2010, the City set-aside approximately $3.2 million in assets for the OPEB plan. However, the Retiree Health Care Trust Fund was not established until December 2010 and these assets will be reflected in the next actuarial valuation report.

San Francisco County Transportation Authority – Other Postemployment Health Care Benefits

Actuarial Valuation Date [(1)]	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
01/01/08	$ -	$ 182	$ (182)	0.0%	$ 1,978	-9.2%
01/01/10	173	374	(201)	46.3%	2,858	-7.0%
06/30/11 [(2)]	405	671	(266)	60.4%	3,251	-8.2%

(1) The actuarial valuation report is conducted once every two years.

(2) As of June 30, 2012, the SFCTA complied with GASB Statement No. 57 and completed an OPEB actuarial valuation based on a common date of its trust account with CalPERS. CalPERS requires June 30 valuations to be prepared for each odd numbered year. As such, the SFCTA performed its latest actuarial valuation as of June 30, 2011.

Successor Agency – Other Postemployment Health Care Benefits

Actuarial Valuation Date [(1)]	Actuarial Asset Value	Actuarial Accrued Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
06/30/07	$ -	$ 13,829	$ (13,829)	0.0%	$ 9,634	-143.5%
06/30/09	493	13,790	(13,297)	3.6%	10,515	-126.5%
06/30/11 [(2)]	1,856	14,390	(12,534)	12.9%	4,185	-299.5%

(1) The actuarial valuation report is conducted once every two years and was conducted for the former Agency.

(2) The most recent actuarial valuation available.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF AGRICULTURE				
Direct Program				
Supplemental Nutrition Assistance Program, Process and Technology Improvement Grants	10.580	--	$ 366,901	$ -
Pass-Through California Department of Public Health				
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	11-10438	3,091,987	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	11-10239	172,670	-
Pass-Through State of California Department of Aging				
Senior Farmers Market Nutrition Program	10.576	None	32,000	-
Pass-Through State of California Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	None	62,037	-
National School Lunch Program	10.555	None	94,779	-
Summer Food Service Program for Children	10.559	38-8380-0V & 38-8380-0W	730,524	-
Subtotal Child Nutrition Cluster			887,340	-
Pass-Through State of California Department of Social Services				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	None	26,998,794	1,648,569
Total pass-through programs			31,182,791	1,648,569
TOTAL U.S. DEPARTMENT OF AGRICULTURE			31,549,692	1,648,569
U.S. DEPARTMENT OF COMMERCE				
Direct Programs				
Economic Adjustment Assistance	11.307	--	1,340,655	-
ARRA-Broadband Technology Opportunities Program	11.557	--	2,776,278	1,433,304
Subtotal direct programs			4,116,933	1,433,304
Pass-Through State of California Emergency Management Agency				
Public Safety Interoperable Communications Grant Program	11.555	075-95017	3,581,805	3,466,660
TOTAL U.S. DEPARTMENT OF COMMERCE			7,698,738	4,899,964
U.S. DEPARTMENT OF DEFENSE				
Direct Programs				
Navy Cooperative Agreement for Hunters Point	12.unknown1	--	883,025	-
U.S. Department of the Army, Corps of Engineers	12.unknown2	--	4,046,024	-
TOTAL U.S. DEPARTMENT OF DEFENSE			4,929,049	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs				
CDBG - Entitlement Grants Cluster				
Community Development Block Grants/Entitlement Grants	14.218	--	20,602,706	14,118,625
ARRA-Community Development Block Grant ARRA Entitlement Grants	14.253	--	396,516	396,516
Total CDBG - Entitlement Grants Cluster			20,999,222	14,515,141
Emergency Solutions Grant Program	14.231	--	983,205	942,280
Supportive Housing Program	14.235	--	8,164,416	6,788,142
Shelter Plus Care	14.238	--	7,926,708	57,772
Home Investment Partnerships Program	14.239	--	106,017,186	18,219
Housing Opportunities for Persons with AIDS	14.241	--	9,629,161	9,402,232
Community Development Block Grants/Brownfields Economic Development Initiative	14.246	--	39,746	39,746
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	--	998,000	380,000
ARRA-Homelessness Prevention and Rapid Re-Housing Program	14.257	--	2,766,849	2,677,595
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	--	16,863	-
Lead Hazard Reduction Demonstration Grant Program	14.905	--	234,083	24,310
ARRA-Lead-Based Paint Hazard Control in Privately-Owned Housing	14.907	--	245,570	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			158,021,009	34,845,437

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

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF THE INTERIOR				
Direct Programs				
NPS Cooperative Agreement	15.unknown	--	776,744	-
Migratory Bird Conservation	15.647	--	16,050	5,000
Historic Preservation Fund Grants-In-Aid	15.904	--	71,000	-
Subtotal direct programs			863,794	5,000
Pass-Through California Department of Parks and Recreation				
Outdoor Recreation - Acquisition, Development and Planning	15.916	06-01687	10,000	-
TOTAL U.S. DEPARTMENT OF THE INTERIOR			873,794	5,000
U.S. DEPARTMENT OF JUSTICE				
Direct Programs				
Federal Narcotics Forfeiture and Asset Seizure	16.unknown	--	1,149,335	-
Prisoner Reentry Initiative Demonstration (Offender Reentry)	16.202	--	498,108	438,740
Supervised Visitation, Safe Havens for Children	16.527	--	148,045	105,960
Enhanced Training and Services to End Violence and Abuse of Women Later in Life	16.528	--	143,693	125,291
National Institute of Justice Research, Evaluation, and Development Project Grants	16.560	--	179,014	-
Drug Court Discretionary Grant Program	16.585	--	43,622	-
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	--	230,305	57,616
State Criminal Alien Assistance Program	16.606	--	10,366	-
Bulletproof Vest Partnership Program	16.607	--	107,933	-
Public Safety Partnership and Community Policing Grants	16.710	--	1,942,858	998,966
ARRA-Public Safety Partnership and Community Policing Grants	16.710	--	5,871,136	-
Total Public Safety Partnership and Community Policing Grants			7,813,994	998,966
Edward Byrne Memorial Justice Assistance Grant Program	16.738	--	539,338	-
DNA Backlog Reduction Program	16.741	--	387,416	-
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	--	9,155	-
Congressionally Recommended Awards	16.753	--	265,487	147,943
ARRA-Recovery Act - Edward Byrne Memorial JAG Program / Grants to Units of Local Government	16.804	--	572,346	70,139
ARRA-Recovery Act - Edward Byrne Memorial Competitive Grant Program	16.808	--	458,568	-
Second Chance Act Prisoner Reentry Initiative	16.812	--	1,099,033	380,070
Subtotal direct programs			13,655,758	2,324,725
Pass-Through Bureau of Justice Assistance				
ARRA-Recovery Act - Edward Byrne Memorial JAG Program / Grants to Units of Local Government	16.804	ZH09010380	210,395	-
Pass-Through State of California Board of Corrections				
Juvenile Accountability Block Grants	16.523	CSA 170-11	149,896	-
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	CSA 364-10	45,002	-
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	CSA 364-11	42,687	-
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	CSA 373-11	177,211	-
Juvenile Justice and Delinquency Prevention - Allocation to States	16.540	CSA 387-11	69,162	-
Total Juvenile Justice and Delinquency Prevention - Allocation to States			334,062	-
Pass-Through State of California Emergency Management Agency				
Crime Victim Assistance	16.575	UV 10010380	144,099	-
Crime Victim Assistance	16.575	VW 11300308	260,435	-
Total Crime Victim Assistance			404,534	-
Violence Against Women Formula Grants	16.588	PU 11 02 0380	103,771	-
Violence Against Women Formula Grants	16.588	VV10020380	188,634	-
Total Violence Against Women Formula Grants			292,405	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	075-00000	341,577	-
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ10010380	93,865	-
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ10070380	9,843	-
Total Paul Coverdell Forensic Sciences Improvement Grant Program			103,708	-
ARRA-Recovery Act - Edward Byrne Memorial JAG Program / Grants to States and Territories	16.803	075-00000	37,744	-

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

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF JUSTICE (continued)				
Pass-Through State of California Emergency Management Agency (continued)				
ARRA-Recovery Act - Edward Byrne Memorial JAG Program / Grants to Units of Local Government	16.804	ZM09010380	15,748	-
ARRA-Recovery Act - Edward Byrne Memorial JAG Program / Grants to Units of Local Government	16.804	ZO09010380	231,651	201,659
ARRA-Recovery Act - Edward Byrne Memorial JAG Program / Grants to Units of Local Government	16.804	ZP09010380	213,652	-
Total pass-through programs			2,335,372	201,659
TOTAL U.S. DEPARTMENT OF JUSTICE			15,991,130	2,526,384
U.S. DEPARTMENT OF LABOR				
Direct Program				
WIA Pilots, Demonstrations, and Research Projects	17.261	--	1,018,527	638,753
Pass-Through State of California Employment Development Department				
Workforce Investment Act (WIA) Cluster				
WIA Adult Program	17.258	K178690	1,839,721	1,166,793
WIA Adult Program	17.258	K282500	542,132	384,292
Total WIA Adult Program			2,381,853	1,551,085
WIA Youth Activities	17.259	K178690	824,091	397,329
WIA Youth Activities	17.259	K282500	1,455,800	1,013,984
Total WIA Youth Activities			2,279,891	1,411,313
WIA Dislocated Worker Formula Grants	17.278	K178690	1,487,781	763,424
WIA Dislocated Worker Formula Grants	17.278	K282500	1,414,897	932,059
Total WIA Dislocated Workers Formula Grants			2,902,678	1,695,483
Total WIA Cluster			7,564,422	4,657,881
TOTAL U.S. DEPARTMENT OF LABOR			8,582,949	5,296,634
U.S. DEPARTMENT OF TRANSPORTATION				
Pass-Through State of California Department of Transportation				
Highway Planning and Construction	20.205	04-5934	939,166	-
ARRA-Highway Planning and Construction	20.205	04-5934	366,916	-
Highway Planning and Construction	20.205	04-925395	1,425,028	-
Highway Planning and Construction	20.205	CML-6169(012)	160,373	-
Highway Planning and Construction	20.205	CML-6447(004)	270,298	153,695
Total Highway Planning and Construction			3,161,781	153,695
Pass-Through State of California Office of Traffic Safety				
State and Community Highway Safety	20.600	PS1108	64,380	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL0990	157,517	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	SC10368	76,304	-
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			233,821	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			3,459,982	153,695
NATIONAL FOUNDATION FOR THE ARTS AND HUMANITIES				
Direct Program				
Promotion of the Arts - Grants to Organizations and Individuals	45.024	--	85,000	-
Pass-Through State of California State Library				
Grants To States	45.310	40-7745	9,998	-
Grants To States	45.310	40-7825	20,000	-
Grants To States	45.310	40-8038	1,230	-
Total Grants to States			31,228	-
Pass-Through Institute of Museum and Library Services				
National Leadership Grants	45.312	LG-48-12-0406-12	1,789	-
Total pass-through programs			33,017	-
TOTAL NATIONAL FOUNDATION FOR THE ARTS AND HUMANITIES			118,017	-
NATIONAL SCIENCE FOUNDATION				
Direct Program				
Intergovernmental Personnel Act (IPA) award	47.unknown	--	130,974	-
TOTAL NATIONAL SCIENCE FOUNDATION			130,974	-

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

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Direct Programs				
Surveys, Studies, Research, Investigations, Demonstrations, and Special Purpose Activities Relating to the Clean Air Act	66.034	--	2,938	-
Congressionally Mandated Projects	66.202	--	1,242,457	71,838
Water Security Training and Technical Assistance and Water Security Initiative Contamination Warning System Pilots	66.478	--	1,268,555	-
Source Reduction Assistance	66.717	--	92,152	-
Total direct programs			2,606,102	71,838
Pass-Through Association of Bay Area Governments				
Surveys, Studies, Investigations, Demonstrations, and Training Grants and Cooperative Agreements - Section 104(b)(3) of the Clean Water Act	66.436	X7-00T04701	21,514	20,642
Pass-Through State Water Resources Control Board				
ARRA-Capitalization Grants for Clean Water State Revolving Funds	66.458	08-303-550	29,844	-
Pass-Through California Department of Public Health				
Beach Monitoring and Notification Program Implementation Grants	66.472	11-10779	34,588	-
Pass-Through State of California Environmental Protection Agency				
ARRA-Brownfields Assessment and Cleanup Cooperative Agreements	66.818	RLF-005-2010ARRA	111,779	111,779
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	RLF-005-2010ARRA	648,221	648,221
Total Brownfields Assessment and Cleanup Cooperative Agreements			760,000	760,000
Total pass-through programs			845,946	780,642
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			3,452,048	852,480
U.S. DEPARTMENT OF ENERGY				
Direct Programs				
Conservation Research and Development	81.086	--	77,109	-
Renewable Energy Research and Development	81.087	--	529,474	-
ARRA-Renewable Energy Research and Development	81.087	--	454,583	-
Energy Efficiency and Renewable Energy Information Dissemination, Outreach, Training and Technical Analysis/Assistance	81.117	--	20,003	-
ARRA-Energy Efficiency and Conservation Block Grant Program	81.128	--	2,581,279	1,648,596
Total direct programs			3,662,448	1,648,596
Pass-Through Research and Development Solutions, LLC				
Department of Energy Subcontract	81.unknown	5027-CCC-PPM4002	46,277	-
Pass-Through Association of Bay Area Governments				
ARRA-State Energy Program	81.041	400-09-021	478,902	-
Pass-Through State of California Energy Commission				
ARRA-State Energy Program	81.041	400-09-019	418,561	342,174
Total ARRA-State Energy Program			897,463	342,174
Pass-Through California Department of Community Services and Development				
ARRA-Weatherization Assistance for Low-Income Persons	81.042	09C-1851	2,000,248	1,649,462
Pass-Through Bay Area Air Quality Management District				
ARRA-Conservation Research and Development	81.086	DE-EE0005588	7,941	-
Pass-Through Association of Bay Area Governments				
ARRA-Energy Efficiency and Conservation Block Grant Program	81.128	DE-FG36-08GO88003	257,842	-
Total pass-through programs			3,209,771	1,991,636
TOTAL U.S. DEPARTMENT OF ENERGY			6,872,219	3,640,232
U.S. DEPARTMENT OF EDUCATION				
Direct Program				
Fund for the Improvement of Education	84.215	--	78,349	78,349
TOTAL U.S. DEPARTMENT OF EDUCATION			78,349	78,349

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

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Programs				
Environmental Public Health and Emergency Response	93.070	--	115,648	-
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	--	1,683,424	1,387,168
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	--	2,552,084	1,463,461
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	--	1,009,001	389,214
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	--	286,104	-
PPHF 2012: Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by 2012 Prevention and Public Health Funds	93.531	--	27,729	-
ARRA-National Center for Research Resources, Recovery Act Construction Support	93.702	--	4,734,893	-
HIV Emergency Relief Project Grants	93.914	--	23,872,573	19,869,491
HIV Prevention Activities - Health Department Based	93.940	--	9,729,970	6,185,309
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	--	818,221	110,118
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	--	2,308,220	-
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	--	1,777,026	106,383
Total direct programs			48,914,893	29,511,144
Pass-Through California Department of Public Health				
Federal Negotiated Contract	93.unknown	None	11,482	-
Refugee and Entrant Assistance - State Administered Programs	93.566	10-90-90842-00	96,598	47,590
Refugee and Entrant Assistance - State Administered Programs	93.566	11-90-90840-00	172,146	68,570
Medical Assistance Program	93.778	11-10522	178,434	-
HIV Care Formula Grants	93.917	10-95286	2,995,194	1,525,744
HIV Prevention Activities - Health Department Based	93.940	10-95286	240,639	-
Public Health Emergency Preparedness	93.069	EPO 11-38	1,105,425	-
Immunization Cooperative Agreements	93.268	11-10596	289,097	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	10-10177	70,809	-
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	201138	268,467	-
Medical Assistance Program	93.778	None	1,800,175	-
National Bioterrorism Hospital Preparedness Program	93.889	EPO 10-38	605,761	-
Maternal and Child Health Services Block Grant to the States	93.994	2011-38	1,656,771	-
Pass-Through State of California Department of Aging				
Special Programs for the Aging - Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	AP-1112-06	14,305	14,305
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	AP-1112-06	33,589	33,589
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	AP-1112-06	65,698	65,698
Aging Cluster				
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	AP-1112-06	1,101,790	540,123
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	AP-1112-06	1,612,847	1,612,847
Nutrition Services Incentive Program	93.053	AP-1112-06	1,213,217	1,213,217
Total Aging Cluster			3,927,854	3,366,187
National Family Caregiver Support, Title III, Part E	93.052	AP-1112-06	436,034	397,867
Affordable Care Act - Medicare Improvements for Patients and Providers	93.518	MI-0910-06	87,951	87,951
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	AP-1112-06	138,116	127,548
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	MI-0910-06	11,699	11,699
Total Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations			149,815	139,247

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)				
Pass-Through State of California Department of Social Services				
ARRA-Special Programs for the Aging - Title IV - and Title II - Discretionary Projects	93.048	09-H9005	27,332	27,332
Affordable Care Act - Aging and Disability Resource Center	93.517	11-H9004	30,240	30,240
Promoting Safe and Stable Families	93.556	None	420,303	140,857
TANF Cluster				
Temporary Assistance for Needy Families	93.558	None	48,691,391	12,632,107
ARRA-Emergency Contingency Fund for Temporary Assistance for Needy Families (TANF) State Program	93.714	None	38,820	-
Total TANF Cluster			48,730,211	12,632,107
Refugee and Entrant Assistance - State Administered Programs	93.566	None	501,803	124,085
Refugee and Entrant Assistance - State Administered Programs	93.566	RESS1008	124,085	124,085
Refugee and Entrant Assistance - Discretionary Grants	93.576	RESS1008	21,735	21,735
U.S. Repatriation	93.579	(blank)	12,345	-
Community-Based Child Abuse Prevention Grants	93.590	(blank)	26,036	26,036
Stephanie Tubbs Jones Child Welfare Services Program	93.645	None	1,388,760	-
Foster Care - Title IV-E	93.658	None	29,990,414	-
Adoption Assistance	93.659	None	9,292,095	22,820
ARRA-Adoption Assistance	93.659	None	380	-
Total Adoption Assistance			9,292,475	22,820
Chafee Foster Care Independence Program	93.674	None	526,793	376,371
Medical Assistance Program	93.778	None	49,288,586	1,981,522
ARRA-Medical Assistance Program	93.778	None	62,558	-
Pass-Through Columbia University				
Global AIDS	93.067	PO#593383	23,813	-
Pass-Through Regents of the University of California				
Global AIDS	93.067	5745SC	218,820	-
Global AIDS	93.067	5876SC	35,313	-
Global AIDS	93.067	6051SC	65,023	-
Global AIDS	93.067	6251SC	62,031	-
Global AIDS	93.067	6672SC	22,153	-
Global AIDS	93.067	6710SC	16,736	-
Global AIDS	93.067	6925SC	18,893	-
Global AIDS	93.067	7076SC	6,995	-
Global AIDS	93.067	7098SC	6,296	-
Global AIDS	93.067	7102SC	7,075	-
Total Global AIDS			483,148	-
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	4899SC	101,698	-
Mental Health Research Grants	93.242	4227SC	4,284	-
Mental Health Research Grants	93.242	4857SC	19,780	-
Mental Health Research Grants	93.242	4945SC	60,501	-
Mental Health Research Grants	93.242	6819SC	41,259	-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	5573SC	18,533	-
Drug Abuse and Addiction Research Programs	93.279	6288SC	798	-
Drug Abuse and Addiction Research Programs	93.279	6422SC	22,057	-
Allergy, Immunology and Transplantation Research	93.855	5030.000	7,700	-
HIV Demonstration, Research, Public and Professional Education Projects	93.941	444932/29575-02	22,541	-
Pass-Through State of California Department of Mental Health				
Projects for Assistance in Transition from Homelessness (PATH)	93.150	None	562,810	305,788
Block Grants for Community Mental Health Services	93.958	None	2,496,747	562,529
Pass-Through Larkin Street Youth Services				
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	3H12HA00101-13-01	148	-
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	5H12HA00101-14-00	37,380	-
Pass-Through State of California Family Health Council				
Family Planning - Services	93.217	380-5320-7120-12	252,717	-

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)				
Pass-Through San Francisco Community Clinic Consortium				
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	5H80CS00049-11	558,651	-
Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)	93.224	6H80CS00049-10	239,049	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	2H76HA00163-19	87,177	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	2H76HA00163-20	60,489	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	2H76HA00163-20-01	84,262	-
Pass-Through Public Health Foundation Enterprise				
Mental Health Research Grants	93.242	2417	20,800	-
Mental Health Research Grants	93.242	2414.001.001	53,047	-
Adult Viral Hepatitis Prevention and Control	93.270	1U54PS003708-01	41,552	-
Drug Abuse and Addiction Research Programs	93.279	2192.001	7,572	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	5-U01/C1000309-05	143,184	-
The Affordable Care Act: Human Immunodeficiency Virus (HIV) Prevention and Public Health Fund Activities	93.523	2369.001	7,998	-
The Affordable Care Act: Human Immunodeficiency Virus (HIV) Prevention and Public Health Fund Activities	93.523	2369.002	256,023	-
Total Affordable Care Act: HIV Prevention and Public Health Fund Activities			264,021	-
Pass-Through Simon Fraser University				
Drug Abuse and Addiction Research Programs	93.279	SFU Ref#13184	25,762	-
Pass-Through The Office of Child Support Enforcement				
Child Support Enforcement	93.563	None	8,502,220	-
Pass-Through State of California Department of Education				
CCDF Cluster				
Child Care and Development Block Grant	93.575	38-2294	579,889	579,889
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	None	89,967	89,967
Total CCDF Cluster			669,856	669,856
Pass-Through Standing Against Global Exploitation				
Services to Victims of a Severe Form of Trafficking	93.598	2001-ACF-ORR-ZV-008(	59,914	18,045
Pass-Through Public Health Foundation Enterprise				
ARRA-Trans-NIH Recovery Act Research Support	93.701	2316.001	27,707	-
ARRA-Trans-NIH Recovery Act Research Support	93.701	5739SC	6,571	-
Allergy, Immunology and Transplantation Research	93.855	2278	176,183	-
Allergy, Immunology and Transplantation Research	93.855	0325	38,668	-
Microbiology and Infectious Diseases Research	93.856	2391	8,054	-
HIV Prevention Activities - Health Department Based	93.940	2366.001	180,935	-
HIV Demonstration, Research, Public and Professional Education Projects	93.941	2186.005	6,796	-
HIV Demonstration, Research, Public and Professional Education Projects	93.941	'2186.004	2,879	-
Pass-Through University of Miami				
ARRA-Trans-NIH Recovery Act Research Support	93.701	1RC2DA28973-02	13,923	-
Pass-Through Partners In Care				
ARRA-Communities Putting Prevention to Work: Chronic Disease Self-Management Program	93.725	CT-1011-15	28,379	28,379
Pass-Through Blood Systems, Inc.				
Blood Diseases and Resources Research	93.839	10849-DPH-01	19,372	-
Pass-Through Fred Hutchinson Cancer Research Center				
Allergy, Immunology and Transplantation Research	93.855	0000716044	134,320	-
Allergy, Immunology and Transplantation Research	93.855	0000716172	131,180	-
Pass-Through Tenderloin Health Inc.				
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	6H76HA0883-05-01	196,790	-
Special Projects of National Significance	93.928	H97HA08763	25,111	-

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)				
Pass-Through Family Health International				
National Institutes of Health Acquired Immunodeficiency Syndrome				
Research Loan Repayment Program	93.936	0080.0167/965	20,614	-
Pass-Through State of California Department of Alcohol and Drug Programs				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	None	9,471,969	9,471,969
Total pass-through programs			180,089,028	32,310,504
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			229,003,921	61,821,648
U.S. DEPARTMENT OF HOMELAND SECURITY				
Direct Programs				
Assistance to Firefighters Grant	97.044	--	40,660	-
Port Security Grant Program	97.056	--	1,071,862	-
Total direct programs			1,112,522	-
Pass-Through State of California Department of Boating and Waterways				
Boating Safety Financial Assistance	97.012	10-204-773	19,735	-
Pass-Through State of California Emergency Management Agency				
Emergency Management Performance Grants	97.042	2010-0044	4	-
Emergency Management Performance Grants	97.042	2011-0048	251,604	-
Total Emergency Management Performance Grants			251,608	-
Pre-Disaster Mitigation	97.047	LPDM-09-CA-2008	45,927	-
Emergency Operations Centers	97.052	2009EOMX0004	1,000,000	-
Emergency Operations Centers	97.052	None	7,665	-
Total Emergency Operations Centers			1,007,665	-
Interoperable Emergency Communications	97.055	075-95017	1,481,314	1,203,000
Homeland Security Grant Program	97.067	075-95017	37,846,418	29,547,169
Homeland Security Grant Program	97.067	2008-0006	314,843	-
Homeland Security Grant Program	97.067	2009-0019	1,220,750	-
Homeland Security Grant Program	97.067	2010-0085	475,959	-
Homeland Security Grant Program	97.067	2011-SS-0077	194,435	-
Buffer Zone Protection Program (BZPP)	97.078	2008-BZ-T8-0008	552,345	-
Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111	075-95017	1,310,533	145,788
Pass-Through Marine Exchange of the San Francisco Bay				
Port Security Grant Program	97.056	2007-GB-T7-K274	147,084	-
Port Security Grant Program	97.056	2010-PU-T0-K050	8,324	-
Port Security Grant Program	97.056	None	998,087	-
Pass-Through California Volunteers				
Homeland Security Grant Program	97.067	DVP03Y1-02	186,801	-
Homeland Security Grant Program	97.067	DVP03Y2-04	20,091	-
Total pass-through programs			46,081,919	30,895,957
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			47,194,441	30,895,957
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 517,956,312	$ 146,664,349

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

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012

1. GENERAL

The schedule of expenditures of federal awards (Schedule) includes the federal grant activity of the City and County of San Francisco (the City). All federal awards received directly from federal agencies as well as federal awards passed through other non-federal agencies are included in this Schedule except for assistance related to Medical Assistance (Medi-Cal) and Medicare Hospital Insurance (Medicare) (see Note 4). The Schedule also includes the federal grant activity of the former Redevelopment Agency of the City and County of San Francisco (Redevelopment Agency), from July 1, 2011 through its dissolution on January 31, 2012. Upon dissolution, the federal grants were reassigned to the City. Expenditures funded by the American Recovery and Reinvestment Act of 2009 are denoted by the prefix “ARRA” in the federal or pass-through grantor title.

The City’s basic financial statements include the operations of the San Francisco County Transportation Authority (Authority), the San Francisco International Airport (Airport), and the San Francisco Municipal Transportation Agency (MTA). The expenditures of the Authority, the Airport, and the MTA are not included in the schedule of expenditures of federal awards for the year ended June 30, 2012. Federal expenditures for these entities are separately audited.

2. BASIS OF ACCOUNTING

The accompanying Schedule is presented using the modified accrual basis of accounting for program expenditures accounted for in the governmental funds and the accrual basis of accounting for program expenditures accounted for in the proprietary funds as described in Note 2(b) of the City’s basic financial statements, with the exception of the loan programs described in Note 5.

3. RELATIONSHIP TO FEDERAL FINANCIAL REPORTS AND BASIC FINANCIAL STATEMENTS

Expenditures of federal awards are reported in the City’s basic financial statements as expenditures in the governmental funds, and as expenses for noncapital expenditures and as additions to capital assets for capital related expenditures in the proprietary-type funds. Amounts reported in the accompanying Schedule agree or can be reconciled with amounts reported in the related federal award reports and the City’s basic financial statements.

4. MEDI-CAL AND MEDICARE

Direct Medi-Cal and Medicare expenditures are excluded from the Schedule. These expenditures represent fees for services and are not included in the Schedule or in determining major programs. The City assists the State in determining eligibility and provides Medi-Cal and Medicare services through City-owned facilities. Administrative costs related to Medi-Cal and Medicare are, however, included in the Schedule under the Medical Assistance Program (federal CFDA number 93.778).

5. LOANS OUTSTANDING

The City participates in certain federal award programs that sponsor revolving loan programs, which are administered by the City. These programs maintain servicing and trust arrangements with the City to collect loan repayments. The funds are returned to the programs upon repayment of the principal and interest. The federal government has imposed certain continuing compliance requirements with respect to the loans rendered under the Economic Adjustment Assistance program and the Home Investment Partnerships Program. The table below summarizes program expenditures related to new loans and the total amount of loans outstanding as of June 30, 2012, which are included in the Schedule under the respective CFDA numbers.

CFDA Number	Program Title	Current Year Loan Expenditures	Total loans outstanding as of June 30, 2012
11.307	Economic Adjustment Assistance Program	$ -	$ 398,350
14.239	Home Investment Partnerships Program	$ 3,494,029	$ 105,309,642

6. CALIFORNIA DEPARTMENT OF AGING (CDA) SINGLE AUDIT REPORTING REQUIREMENTS

The terms and conditions of agency contracts with CDA require agencies to display state-funded expenditures discretely along with the related federal expenditures. CDA grant expenditures that involve federal funding have been presented in the Schedule. For state grants not involving federal funding, the amounts are to be displayed separately. The following schedule is presented to comply with these requirements.

Federal Grantor Pass-through Grantor Program Title	Grant / Contract No.	CFDA No.	Expenditures State	 Federal
U.S. Department of Agriculture				
Passed through State of California, Department of Aging:				
Senior Farmers Market Nutrition Program	None	10.576	$ -	$ 32,000
U.S. Department of Health and Human Services				
Passed through State of California, Department of Aging:				
Special Programs for the Aging-Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect and Exploitation	AP-1112-06	93.041	-	14,305
Special Programs for the Aging-Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	AP-1112-06	93.042	-	33,589
Special Programs for the Aging Title III, Part D - Disease Prevention and Health Promotion Services	AP-1112-06	93.043	-	65,698
Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers	AP-1112-06	93.044	-	1,101,790
Special Programs for the Aging-Title III, Part C - Nutrition Services	AP-1112-06	93.045	543,755	1,612,847
National Family Caregiver Support, Title III, Part E	AP-1112-06	93.052	-	436,034
Nutritional Services Incentive Program	AP-1112-06	93.053	-	1,213,217
Affordable Care Act - Medicare Improvements for Patients and Providers	MI-0910-06	93.518	-	87,951
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	AP-1112-06	93.779	234,708	138,116
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	MI-0910-06	93.779	-	11,699
			778,463	$4,747,246
State Award - California Department of Aging				
Special Deposit Fund-Federal Citation Penalties Account, General Fund Allocation	AP-1112-06		26,965	
Skilled Nursing Facility (SNF) Quality and Accountability Fund (QAF) Allocation	AP-1112-06		27,983	
Total Expenditures of CDA Awards			$ 833,411	

7. STATE OF CALIFORNIA DEPARTMENT OF COMMUNITY SERVICES AND DEVELOPMENT SUPPLEMENTAL SCHEDULE OF REVENUE AND EXPENDITURES

The City's funding agreement with the State of California Department of Community Services and Development (CSD) require the City to present a supplemental schedule of revenue and expenditures for CSD-funded contracts. The following schedule is presented to comply with these requirements.

ARRA-Weatherization Assistance for Low-Income Persons Program (CFDA no. 81.042)
CSD Contract No. 09C-1851
For the Period July 1, 2011 through June 30, 2012

	Total Actual	Total Reported [1]	Total Budget
Revenue:			
Grant Revenue	$ 2,000,248		$ 2,648,536
Total Revenue	$ 2,000,248		$ 2,648,536
Expenditures:			
Administration			
Salaries and Wages	$ 104,885		$ 124,388
Fringe Benefits	30,042		38,418
Professional Services	145		145
Delivery	65		65
City Attorney	540		9,869
Human Rights Commission	94		94
Subtotal Administration Costs	135,771	$ 145,825	172,979
Program			
Training and Technical Assistance	96,119	89,136	204,517
Intake	27,836	27,086	52,971
Outreach	19,741	21,538	41,116
Client Education	-	68	43,738
Direct Program Activities	1,720,781	1,533,931	2,133,215
Subtotal Program Costs	1,864,477	1,671,759	2,475,557
Total Expenditures	$ 2,000,248	$ 1,817,584	$ 2,648,536

1 The reported column represents expenditures reported to the State of California Department of Community Services and Development for the period July 1, 2011 to June 30, 2012.

8. PROGRAM TOTALS

The following table summarizes programs funded by various sources or grants whose totals are not shown on the Schedule. Expenditures funded by the American Recovery and Reinvestment Act of 2009 are denoted by the prefix "ARRA" in the federal or pass-through grantor title.

	CFDA no. / Program Title / Federal Grantor or Pass-Through Grantor	Pass-Through Identifying Number	Federal Expenditures
(1)	**CFDA no. 10.561 - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program**		
	State of California Department of Public Health	11-10239	$ 172,670
	State of California Department of Social Services	None	26,998,794
		Program Total	$ 27,171,464
(2)	**JAG Program Cluster**		
	CFDA no. 16.738 - Edward Byrne Memorial Justice Assistance Grant Program		
	U.S. Department of Justice	--	$ 539,338
	State of California Emergency Management Agency	075-00000	341,577
		Program Total	880,915
	CFDA no. 16.803 - ARRA-Recovery Act - Edward Byrne Memorial JAG Program / Grants to States and Territories		
	ARRA-State of California Emergency Management Agency	075-00000	37,744
	CFDA no. 16.804 - ARRA-Recovery Act - Edward Byrne Memorial JAG Program / Grants to Units of Local Government		
	ARRA-U.S. Department of Justice	--	572,346
	ARRA-Bureau of Justice Assistance	ZH09010380	210,395
	ARRA-State of California Emergency Management Agency	ZM09010380	15,748
	ARRA-State of California Emergency Management Agency	ZO09010380	231,651
	ARRA-State of California Emergency Management Agency	ZP09010380	213,652
		Program Total	1,243,792
		Cluster Total	$ 2,162,451
(3)	**CFDA no. 81.086 - Conservation Research and Development**		
	U.S. Department of Energy	--	$ 77,109
	Bay Area Air Quality Management District	DE-EE0005588	7,941
		Program Total	$ 85,050
(4)	**CFDA no. 81.087 - Renewable Energy Research and Development**		
	U.S. Department of Energy	--	$ 529,474
	ARRA-U.S. Department of Energy	--	454,583
		Program Total	$ 984,057
(5)	**CFDA no. 81.128 - ARRA-Energy Efficiency and Conservation Block Grant Program (EECBG)**		
	ARRA-U.S. Department of Energy	--	$ 2,581,279
	ARRA-Association of Bay Area Governments	DE-FG36-08GO88003	257,842
		Program Total	$ 2,839,121

8. PROGRAM TOTALS (Continued)

	CFDA no. / Program Title / Federal Grantor or Pass-Through Grantor	Pass-Through Identifying Number		Federal Expenditures
(6)	**CFDA no. 93.153 - Coordinated Services and Access to Research for Women, Infants, Children, and Youth**			
	Regents of the University of California	4899SC	$	101,698
	Larkin Street Youth Services	3H12HA00101-13-01		148
	Larkin Street Youth Services	5H12HA00101-14-00		37,380
		Program Total	$	139,226
(7)	**CFDA no. 93.224 - Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, Public Housing Primary Care, and School Based Health Centers)**			
	San Francisco Community Clinic Consortium	5H80CS00049-11	$	558,651
	San Francisco Community Clinic Consortium	6H80CS00049-10		239,049
		Program Total	$	797,700
(8)	**CFDA no. 93.242 - Mental Health Research Grants**			
	Regents of the University of California	4227SC	$	4,284
	Regents of the University of California	4857SC		19,780
	Regents of the University of California	4945SC		60,501
	Regents of the University of California	6819SC		41,259
	Public Health Foundation Enterprise	2417		20,800
	Public Health Foundation Enterprise	2414.001.001		53,047
		Program Total	$	199,671
(9)	**CFDA no. 93.243 - Substance Abuse and Mental Health Services - Projects of Regional and National Significance**			
	U.S. Department of Health And Human Services	--	$	1,009,001
	Regents of the University of California	5573SC		18,533
		Program Total	$	1,027,534
(10)	**CFDA no. 93.279 - Drug Abuse and Addiction Research Programs**			
	Regents of the University of California	6288SC	$	798
	Regents of the University of California	6422SC		22,057
	Public Health Foundation Enterprise	2192.001		7,572
	Simon Fraser University	SFU Ref#13184		25,762
		Program Total	$	56,189
(11)	**CFDA no. 93.283 - Centers for Disease Control and Prevention - Investigations and Technical Assistance**			
	U.S. Department of Health And Human Services	--	$	286,104
	State of California Department of Public Health	10-10177		70,809
	Public Health Foundation Enterprise	5-U01/C1000309-05		143,184
		Program Total	$	500,097

8. PROGRAM TOTALS (Continued)

	CFDA no. / Program Title / Federal Grantor or Pass-Through Grantor	Pass-Through Identifying Number	Federal Expenditures
(12)	**CFDA no. 93.566 - Refugee and Entrant Assistance - State Administered Programs**		
	California Department of Public Health	10-90-90842-00	$ 96,598
	California Department of Public Health	11-90-90840-00	172,146
	State of California Department of Social Services	None	501,803
	State of California Department of Social Services	RESS1008	124,085
		Program Total	$ 894,632
(13)	**CFDA no. 93.701 - Trans-NIH Recovery Act Research Support**		
	ARRA-Public Health Foundation Enterprise	2316.001	$ 27,707
	ARRA-Public Health Foundation Enterprise	5739SC	6,571
	ARRA-University of Miami	1RC2DA28973-02	13,923
		Program Total	$ 48,201
(14)	**Medicaid Cluster**		
	CFDA no. 93.778 - Medical Assistance Program		
	California Department of Public Health	11-10522	$ 178,434
	State of California Department of Social Services	None	49,288,586
	ARRA-State of California Department of Social Services	None	62,558
	State of California Department of Public Health	None	1,800,175
		Program Total	$ 51,329,753
(15)	**CFDA no. 93.855 - Allergy, Immunology and Transplantation Research**		
	Regents of the University of California	5030.000	$ 7,700
	Public Health Foundation Enterprise	2278	176,183
	Public Health Foundation Enterprise	0325	38,668
	Fred Hutchinson Cancer Research Center	0000716044	134,320
	Fred Hutchinson Cancer Research Center	0000716172	131,180
		Program Total	$ 488,051
(16)	**CFDA no. 93.918 - Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease**		
	San Francisco Community Clinic Consortium	2H76HA00163-19	$ 87,177
	San Francisco Community Clinic Consortium	2H76HA00163-20	60,489
	San Francisco Community Clinic Consortium	2H76HA00163-20-01	84,262
	Tenderloin Health Inc.	6H76HA0883-05-01	196,790
		Program Total	$ 428,718
(17)	**CFDA no. 93.940 - HIV Prevention Activities - Health Department Based**		
	U.S. Department of Health And Human Services	--	$ 9,729,970
	California Department of Public Health	10-95286	240,639
	Public Health Foundation Enterprise	2366.001	180,935
		Program Total	$ 10,151,544

8. PROGRAM TOTALS (Continued)

	CFDA no. / Program Title / Federal Grantor or Pass-Through Grantor	Pass-Through Identifying Number	Federal Expenditures
(18)	**CFDA no. 93.941 - HIV Demonstration, Research, Public and Professional Education Projects**		
	Regents of the University of California	444932/29575-02	$ 22,541
	Public Health Foundation Enterprise	2186.005	6,796
	Public Health Foundation Enterprise	2186.004	2,879
		Program Total	$ 32,216
(19)	**CFDA no. 97.056 - Port Security Grant Program**		
	U.S. Department of Homeland Security	--	$ 1,071,862
	Marine Exchange of the San Francisco Bay	2007-GB-T7-K274	147,084
	Marine Exchange of the San Francisco Bay	2010-PU-T0-K050	8,324
	Marine Exchange of the San Francisco Bay	None	998,087
		Program Total	$ 2,225,357
(20)	**CFDA no. 97.067 - Homeland Security Grant Program**		
	State of California Emergency Management Agency	075-95017	$ 37,846,418
	State of California Emergency Management Agency	2008-0006	314,843
	State of California Emergency Management Agency	2009-0019	1,220,750
	State of California Emergency Management Agency	2010-0085	475,959
	State of California Emergency Management Agency	2011-SS-0077	194,435
	California Volunteers	DVP03Y1-02	186,801
	California Volunteers	DVP03Y2-04	20,091
		Program Total	$ 40,259,297

This page has been intentionally left blank.

MGO Certified Public Accountants.

Walnut Creek
2121 N. California Blvd., Suite 750
Walnut Creek, CA 94596
925.274.0190

Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

The Honorable Mayor Edwin Lee
The Honorable Members of the Board of Supervisors
City and County of San Francisco, California

Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City and County of San Francisco, California (City) as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 8, 2013. Our report includes a reference to other auditors. Our report also contained explanatory paragraphs describing legislation regarding the dissolution of redevelopment agencies in the State of California and uncertainties related to the City's Low and Moderate Income Housing Assets fund under the Redevelopment Dissolution Law. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Other auditors audited the financial statements of the San Francisco International Airport, San Francisco Water Enterprise, Hetch Hetchy Water and Power, San Francisco Municipal Transportation Agency, San Francisco Wastewater Enterprise, San Francisco Market Corporation, and the Health Service System, as described in our report on the City's basic financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and questioned costs, we identified a deficiency in internal control over financial reporting that we consider to be a material weakness.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item 2012-1 to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Management's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the City's response and, accordingly, we express no opinion on the response.

This report is intended solely for the information and use of the Mayor, Board of Supervisors, City management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
January 8, 2013

MGO Certified Public Accountants.

Walnut Creek
2121 N. California Blvd., Suite 750
Walnut Creek, CA 94596
925.274.0190

Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

The Honorable Mayor Edwin Lee
The Honorable Members of the Board of Supervisors
City and County of San Francisco, California

Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance With OMB Circular A-133

Compliance

We have audited the City and County of San Francisco, California's (City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended June 30, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of the City's management. Our responsibility is to express an opinion on the City's compliance based on our audit.

The City's basic financial statements include the operations of the San Francisco County Transportation Authority (Authority), the San Francisco International Airport (Airport), and the San Francisco Municipal Transportation Agency (MTA), which expended $5,100,110, $11,790,196, and $150,777,364, respectively, in federal awards. The expenditures of the Authority, the Airport, and the MTA, are not included in the schedule of expenditures of federal awards for the year ended June 30, 2012. Our audit, described below, did not include the operations of these organizations. We were engaged to perform an audit in accordance with OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and report on the results separately to the Authority. The Airport and the MTA engaged other auditors to perform an audit in accordance with OMB Circular A-133.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the City's compliance with those requirements.

In our opinion, the City complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2012. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 2012-2 and 2012-3.

Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered the City's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items 2012-2, 2012-3, and 2012-4. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

The City's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the City's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Mayor, Board of Supervisors, City management, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

Walnut Creek, California
March 28, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued	Unqualified
Internal control over financial reporting:	
• Material weakness(es) identified?	Yes
• Significant deficiency(ies) identified?	None noted
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficieny(cies) identified?	Yes
Type of auditor's report issued on compliance for major programs	Unqualified
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133?	Yes

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number(s)
ARRA-Broadband Technology Opportunities Program	11.557
U.S. Department of the Army, Corps of Engineers	12.unknown2
Supportive Housing Program	14.235
Home Investment Partnerships Program	14.239
Housing Opportunities for Persons with AIDS	14.241
ARRA-Homelessness Prevention and Rapid Re-Housing Program	14.257
ARRA-Public Safety Partnership and Community Policing Grants	16.710
ARRA-JAG Program Cluster	16.738, 16.803, 16.804
ARRA-Recovery Act - Edward Byrne Memorial Competitive Grant Program	16.808
ARRA-Brownfields Assessment and Cleanup Cooperative Agreements	66.818
ARRA-Weatherization Assistance for Low-Income Persons	81.042
ARRA-Renewable Energy Research and Development	81.087
ARRA-Energy Efficiency and Conservation Block Grant Program	81.128
Foster Care - Title IV-E	93.658
ARRA-National Center for Research Resources, Recovery Act Construction Support	93.702
HIV Emergency Relief Project Grants	93.914
HIV Prevention Activities - Health Department Based	93.940
Homeland Security Grant Program	97.067

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

Section II – Financial Statement Findings

Item 2012-1 – Material Weakness
Internal Control Over Financial Reporting – Preparation of Financial Statements

On June 28, 2011, the Governor signed AB X1 26, which amended the Community Redevelopment Law in California to, among other things, direct the dissolution of all redevelopment agencies in California. On December 29, 2011, the California Supreme Court (Court) issued a decision that upheld the constitutionality of AB XI 26. As a result of the Court decision, as of February 1, 2012, by implementation of AB X1 26, the Redevelopment Agency of the City and County of San Francisco (Agency) was dissolved and the Successor Agency to the Redevelopment Agency of the City and County of San Francisco (Successor Agency) was established by the City.

The dissolution of the Agency severely impacted the organization's internal control over financial reporting. In 2011, the Agency had five individuals who were involved with accounting, fiscal, and financial analysis and financial reporting. During the Agency's close-out audit and the Successor Agency's initial audit, the Agency only had two individuals assigned to perform these tasks. In addition to these two financial statements audits, the Successor Agency has been responding to and providing information to numerous other auditors, State departments, rating agencies, and consultants.

The current staffing complement is not configured to adequately support the Successor Agency's financial reporting responsibilities resulting in a deficiency in internal controls that provide reasonable assurance that closing transactions (capital assets, accruals, deferred revenue, etc.) and financial statements are accurately prepared under generally accepted accounting principles.

With the increasing audit requests related to the Successor Agency's activities, it is essential that the Successor Agency has sufficient accounting and fiscal personnel performing these functions to adequately meet and maintain accurate financial records of the former Agency and subsequent Successor Agency.

Recommendation
We recommend that the City provide additional assistance to the accounting and financial reporting activities of the Successor Agency to reduce the likelihood that errors may occur and not be detected or corrected on a timely basis and therefore improve internal controls over financial reporting. Areas where the City could provide additional support include:

- Evaluating the cost basis for redevelopment capital assets for proper reporting.
- Recording of close-out entries (e.g., interest receivable on loans, intergovernmental payables, and deferred revenue) in the financial statements.
- Recording year-end accrual closing entries (e.g., unearned revenue adjustments, capital asset activity, and interest payable).

Successor Agency's Management Response
After the dissolution of the Redevelopment Agency, the Successor Agency reduced its staff by over 50%. The Successor Agency has been working with the City, including the City's Office of the Controller, to augment staffing, consistent with existing labor agreements, for the Successor Agency's accounting and finance functions. The Successor Agency anticipates that by February 2013, it will have sufficient accounting staff in place through work order arrangements or other similar arrangements with the City, to address the deficiency in accounting and finance staffing and to resolve the material weakness finding.

Section III – Federal Award Findings and Questioned Costs

Finding No. 2012-2 Subrecipient Monitoring

Federal Program Title(s):	HIV Emergency Relief Project Grants
Federal Catalog Number(s):	93.914
Federal Agency:	U.S. Department of Health and Human Services
Pass-Through Entity:	N/A – direct award
Pass-Through Identifying Number(s):	N/A – direct award

Federal Program Title(s):	HIV Prevention Activities - Health Department Based
Federal Catalog Number(s):	93.940
Federal Agency:	U.S. Department of Health and Human Services
Pass-Through Entity:	N/A – direct award
Pass-Through Identifying Number(s):	N/A – direct award

Criteria:
In accordance with the Code of Federal Regulations section 25.110 and Appendix A to part 25, a pass-through entity is responsible for determining subrecipient eligibility. For first-tier subawards made on or after October 1, 2010, this responsibility includes determining whether an applicant for a non-ARRA subaward has provided a Dun and Bradstreet Data Universal Numbering System (DUNS) number as part of its subaward application or, if not, before award.

Condition:
During our audit of the HIV Emergency Relief Project Grants administered by the Department of Public Health, we selected 19 subrecipients from a population of 31 subrecipients for testing of subaward review and approval. Our procedures identified that 16 of the 19 selected subrecipients received subawards from the City after October 1, 2010 and were thus subject to the DUNS requirement. However, the City did not obtain the subrecipients' DUNS numbers prior to issuance of the subawards.

During our audit of the HIV Prevention Activities – Health Department Based Program administered by the Department of Public Health, we selected 9 subrecipients from a population of 21 subrecipients for testing of subaward review and approval. Our procedures indicated that 7 of the 9 selected subrecipients were subject to the DUNS requirement. However, the City did not obtain the subrecipient's DUNS numbers prior to issuance of the subawards. In addition, the City did not perform monitoring procedures for 1 of the 9 selected subrecepients. The entity in question is a local governmental organization.

Cause:
The City was not aware of the DUNS number requirement. In addition, the City did not perform monitoring procedures for one entity in the HIV Prevention Activities – Health Department Based sample because the City considered the entity to be a co-applicant of the grant rather than a subrecipient.

Effect:
Continued non-compliance may result in increased oversight by the federal grantor and may also lead to a reduction or discontinuance of federal assistance under these programs in future grant periods.

Questioned Costs:
There are no questioned costs for not obtaining the DUNS numbers prior to the subawards. The City's monitoring procedures for those subrecipients did not identify any non-compliance. Expenditures under the HIV Prevention Activities – Health Department Based Program of the entity for which the City did not perform monitoring procedures totaled $456,287 for the year ended June 30, 2012.

Section III – Federal Award Findings and Questioned Costs

Finding No. 2012-2 Subrecipient Monitoring (Continued)

Recommendation:
We recommend that the City reevaluate its subaward process to establish procedures to obtain prospective subrecipients' DUNS numbers prior to issuance of the subawards. In addition, since the City received federal funding directly from the federal agency and subsequently passed the funds to another non-federal entity, the City should perform monitoring procedures on all entities that receive pass-through federal grants.

Management Response and Corrective Action:
The Department of Public Health (DPH) concurs with the finding relating to the DUNS numbers. DPH will ask program managers to require the DUNS numbers for all direct subrecipients prior to issuance of subawards. DPH also concurs with the auditor's recommendation to monitor all entities that receive pass-through federal grants. However, the entity in question was not scheduled to have a monitoring report for fiscal year 2011-12.

Finding No. 2012-3 Indirect Costs

Federal Program Title(s):	ARRA-Energy Efficiency and Conservation Block Grant Program
Federal Catalog Number(s):	81.128
Federal Agency:	U.S. Department of Energy
Pass-Through Entity:	Association of Bay Area Governments
Pass-Through Identifying Number(s):	DE-FG36-08GO88003

Criteria:
To be allowable under federal awards, costs must be allocable to federal awards under the provisions of OMB Circular A-87, *Cost Principles for State, Local and Indian Tribal Governments*. A cost is allocable to a particular cost objective if the goods or services involved are chargeable or assignable to such cost objective in accordance with relative benefits received. Indirect costs should be distributed to benefitted cost objectives on bases that will produce an equitable result in consideration of relative benefits derived. Furthermore, non-federal entities desiring to claim indirect costs under federal awards must prepare an indirect cost allocation plan to support those costs. The cost allocation plan and related supporting documentation should be retained for audit in accordance with the records retention requirements contained in the OMB Circular A-102, *Grants and Cooperative Agreements with State and Local Governments*.

Condition:
The Retrofit California Program (Program), which is administered by the City's Department of Environment, receives Energy Efficiency and Conservation Block Grant funds under the American Recovery and Reinvestment Act. The Program charged indirect costs at a rate of 123.6% of direct salaries and wages. Based on our review of supporting documentation, the indirect cost rate used was derived from an indirect rate cost proposal (IRCP) submitted to the State of California Department of Transportation, and was computed using an overall indirect cost rate of 169.47% minus the fringe benefit rate of 45.84%. The approved IRCP, however, adjusted the overall rate to be 130.37% inclusive of fringe benefits.

Cause:
The Department of Environment used the IRCP that was available at the time of preparing the Program's budget, but was not aware of the revised rate upon approval from Caltrans.

Effect:
Indirect costs allocated to the Program may have exceeded the approved rate.

Section III – Federal Award Findings and Questioned Costs

Finding No. 2012-3 Indirect Costs (Continued)

Questioned Costs:
Indirect costs allocated to the Program totaled $97,078 for the fiscal year.

Recommendation:
We recommend that the Department of Environment develop and document policies and procedures on the preparation and retention of indirect cost rate proposals to support costs charged to federal awards. The policies and procedures should address the process to confirm approval of the proposed IRCP and to revise the grant budget to reflect the approved rates as appropriate.

Management Response and Corrective Action:
The Department of the Environment (SFE) utilized the Department of Public Works (DPW) Indirect Cost Rate Plan proposal (ICRP) dated May 11, 2009 when preparing the budget for Retrofit California Program to determine indirect rates. We used this data because it was relayed to us that we would have to use an ICRP that was in-process or on file with the Federal agency and this was the only ICRP that met this criteria.

The executed ICRP that came from the proposal had updated figures. SFE finalized this budget before the updated figures were available, but did not follow up to reconcile the proposal figures with the final figures.

SFE is currently in the process of creating our own federal ICRP so this will not be an issue in the future. Until that is complete, we will task the Project Manager assigned to the grant with reconciling any budget information that did not originate with an executed document.

Finding No. 2012-4 Internal Controls Over Reporting

Federal Program Title(s):	Homeland Security Grant Program
Federal Catalog Number(s):	97.067
Federal Agency:	U.S. Department of Homeland Security
Pass-Through Entity:	State of California Emergency Management Agency (CalEMA)
Pass-Through Identifying Number(s):	All under CalEMA. See SEFA for identifying numbers.

Criteria:
In accordance with the terms and conditions of the City's grant agreement with the State of California Emergency Management Agency (CalEMA), the City submits payment request forms to CalEMA using the CalEMA Financial Management Forms Workbook.

The A-102 Common Rule (2 CFR part 215) requires that non-federal entities receiving federal awards establish and maintain internal control designed to reasonably ensure compliance with federal laws, regulations, and program compliance requirements. Reports submitted should include all required information, be mathematically accurate, supported by underlying data, and summarized in accordance with the required or stated criteria and methodology.

Condition:
The Homeland Security Grant Program is administered by the City's Department of Emergency Management and the Bay Area Urban Areas Security Initiative (UASI). During our review of the City's internal controls over compliance with reporting requirements for the Homeland Security Grant, we noted a lack of secondary review on the accuracy and completeness of the CalEMA Financial Management Forms Workbook prepared by the Department of Emergency Management.

Section III – Federal Award Findings and Questioned Costs

Finding No. 2012-4 Internal Controls Over Reporting (Continued)

Cause:
The Department of Emergency Management indicated the limited staffing resources to be the cause.

Effect:
The lack of oversight may increase the risk of inaccurate or incomplete information being reported.

Questioned Costs:
None noted. Our procedures did not identify any errors in the reports selected for review.

Recommendation:
We recommend the City reevaluate its current resources, and policies and procedures over the reporting process, and designate a knowledgeable individual to review prepared reports before they are submitted to the granting agencies.

Management Response and Corrective Action:
Moving forward, the Department of Emergency Management will include an additional manager in the payment request process to provide a secondary review of the CalEMA Financial Management Forms Workbook.

Reference Number:	**2011-01**
Federal Catalog Number/ Program Name:	CFDA number 93.658, Foster Care - Title IV-E
Audit Finding:	The Foster Care program was administered by the City's Juvenile Probation Department and the Human Services Agency. During our audit of the Foster Care Program administered by the City's Human Services Agency, we selected 2 of the 3 subrecipients for testing, and noted that the Human Services Agency did not monitor the 2 subrecipients during fiscal year 2010-11.
Corrective Action:	The Human Services Agency will monitor all subrecipients, including other governmental organizations. The Human Services Agency will obtain and review single audit reports for other governmental organizations in accordance with OMB Circular A-133, and follow-up on the resolution of all reported findings and questioned costs.
Status of Corrective Action:	The Human Services Agency will apply monitoring procedures to other governmental organizations. However, the program did not have any subrecipients in fiscal year 2011-12.

Reference Number:	**2011-02**
Federal Catalog Number/ Program Name:	CFDA number 93.658, Foster Care - Title IV-E
Audit Finding:	The Foster Care program was administered by the City's Juvenile Probation Department and the Human Services Agency. Based on our review of the program expenditures incurred by the Juvenile Probation Department, we noted that the Juvenile Probation Department allocated indirect costs at a rate of 62.78% of direct payroll costs. The indirect cost rate is derived from an indirect cost rate proposal that was prepared using fiscal year 2001-02 actual expenditures for use in fiscal year 2003-04.
Corrective Action:	The Juvenile Probation Department (JPD) will complete its indirect cost rate proposal (ICRP) for fiscal year 2011-12 and will use the currently documented rate on its next claim. JPD is also documenting its policies and procedures for the timing and method of preparing its ICRP. Going forward, JPD will claim indirect costs in compliance with the relevant OMB Circulars.
Status of Corrective Action:	The JPD completed its ICRP in April 2012 and used the new rates in the third quarter claim for fiscal year 2011-12. The JPD had also provided the Human Services Agency (Agency) corrected claims for the first two quarters of the fiscal year to be included in the Agency's adjustment claims for those two quarters.

This page has been intentionally left blank.