CITY AND COUNTY OF SAN FRANCISCO

BASIC FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORTS

FOR THE YEAR ENDED JUNE 30, 2014

MGO Certified Public Accountants.

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MGO Certified Public Accountants.

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Sacramento

Oakland

LA/Century City

Newport Beach

San Diego

Seattle

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 (major fund), San Francisco Water Enterprise (major fund), Hetch Hetchy Water and Power (major fund), San Francisco Municipal Transportation Agency (major fund), San Francisco Wastewater Enterprise (major fund), and the Health Service System, which collectively represent the following percentages of the assets, net position/fund balances, and revenues/additions of the following opinion units.

Opinion Unit	Assets	Net Position/ Fund Balances	Revenues/ Additions
Business-type activities	91.0%	88.1%	71.7%
Aggregate remaining fund information	0.7%	0.4%	8.3%

Those financial statements were audited by other auditors whose reports 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. 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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the reports of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the General Fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matters

As discussed in Note 2(s) to the basic financial statements, in 2014, the City adopted Governmental Accounting Standards Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities,* and GASB Statement No. 67, *Financial Reporting for Pension Plans – an Amendment of GASB Statement No. 25.* The July 1, 2013 beginning net position has been restated for the retroactive application of GASB Statement No. 65. Our opinion is not modified with respect to these matters.

Other Matters

Prior-Year Comparative Information
The financial statements include partial and summarized prior-year comparative information. Such information does not include all of the information required or sufficient detail 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 government's financial statements for the year ended June 30, 2013, from which such partial and summarized information was derived.

We have previously audited the City's 2013 financial statements, and we expressed, based on our audit and the reports of other auditors, unmodified audit opinions on the respective financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information in our report dated November 27, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of funding progress, and the schedule of employer contributions 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 GASB 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.

Other Information
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, *Audits of States, Local Governments, and Non-Profit Organizations*, 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 basic financial statements. Such information has been subjected to the auditing procedures applied 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 basic financial statements or to the basic 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.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2014 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 28, 2014, except for our report on the schedule of expenditures of
federal awards, as to which the date is March 27, 2015

This section of the City and County of San Francisco's (the City) basic financial statements present a narrative overview and analysis of the financial activities of the City for the year ended June 30, 2014. We encourage readers to consider the information presented here in conjunction with additional information in our transmittal letter. Certain amounts presented as fiscal year 2012-13 summarized comparative financial information in the basic financial statements have been reclassified to conform to the presentation in the fiscal year 2013-14 basic financial statements.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of resources of the City exceeded its deferred inflows and liabilities at the end of the fiscal year by approximately $8.36 billion (net position). Of this balance, $7.03 billion represents the City's net investment in capital assets, $1.26 billion represents restricted net position, and $67.8 million is unrestricted net position. The City's total net position increased by $957.4 million or 12.9 percent over the previous fiscal year. Of this amount, total net investment in capital assets, restricted net position and unrestricted net position increased by $382.7 million or 5.8 percent, $299.4 million or 31.2 percent and $275.3 million or 132.6 percent, respectively.

The City's governmental funds reported total revenues of $4.91 billion, a $413.1 million or 9.2 percent increase over the prior year. Within this, revenues from property taxes, other local taxes, business taxes, sales and use tax, hotel room tax, intergovernmental grants and charges for services grew by approximately $95.5 million, $31.8 million, $83.3 million, $19.6 million, $71.3 million, $38.8 million and $37.8 million, respectively. At the same time, there was a decline in revenues from utility users tax, fines, forfeitures and penalties, and rents and concessions for a total of $34.5 million. Governmental funds expenditures totaled $4.58 billion for this period, a $228.1 million or 5.2 percent increase, reflecting increases in demand for governmental services of $143.4 million and capital outlay of $38.7 million.

At the end of the fiscal year, total fund balances for the governmental funds amounted to $1.94 billion, an increase of $268.4 million or 16.1 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.

The City's total long-term debt, including all bonds, loans, commercial paper and capital leases increased by $411.0 million during this fiscal year. The City issued a total of $862.9 million in bonds, certificates of participation and loans this year. Of this amount, a total of $210.0 million in general obligation bonds were issued to fund the San Francisco General Hospital rebuild projects. The City also issued $47.2 million refunding certificates of participation for economic savings and borrowed $8.7 million for the renovation of the City's west harbor marina. The San Francisco International Airport issued a total of $461.1 million refunding revenue bonds to finance the construction cost of Terminal 3 East improvements, the renovation of Boarding Area E, and other projects in the Airport's five-year Capital Plan. The SFMTA issued $75.4 million of revenue bonds to finance its various transit and parking projects. The Port Commission issued $22.7 million revenue bonds to finance capital projects to various Port facilities and $37.7 million of Certificates of Participation, of which $27.2 million was used to repay commercial paper. The Airport issued an additional $249.4 million in commercial paper notes to finance capital improvement projects. The balance of commercial paper issued to fund new capital projects or to refinance matured commercial paper also increased by $54.7 million this year. Of this increase, $80.5 million represented business-type activities while net decreases of $25.8 million represented governmental activities.

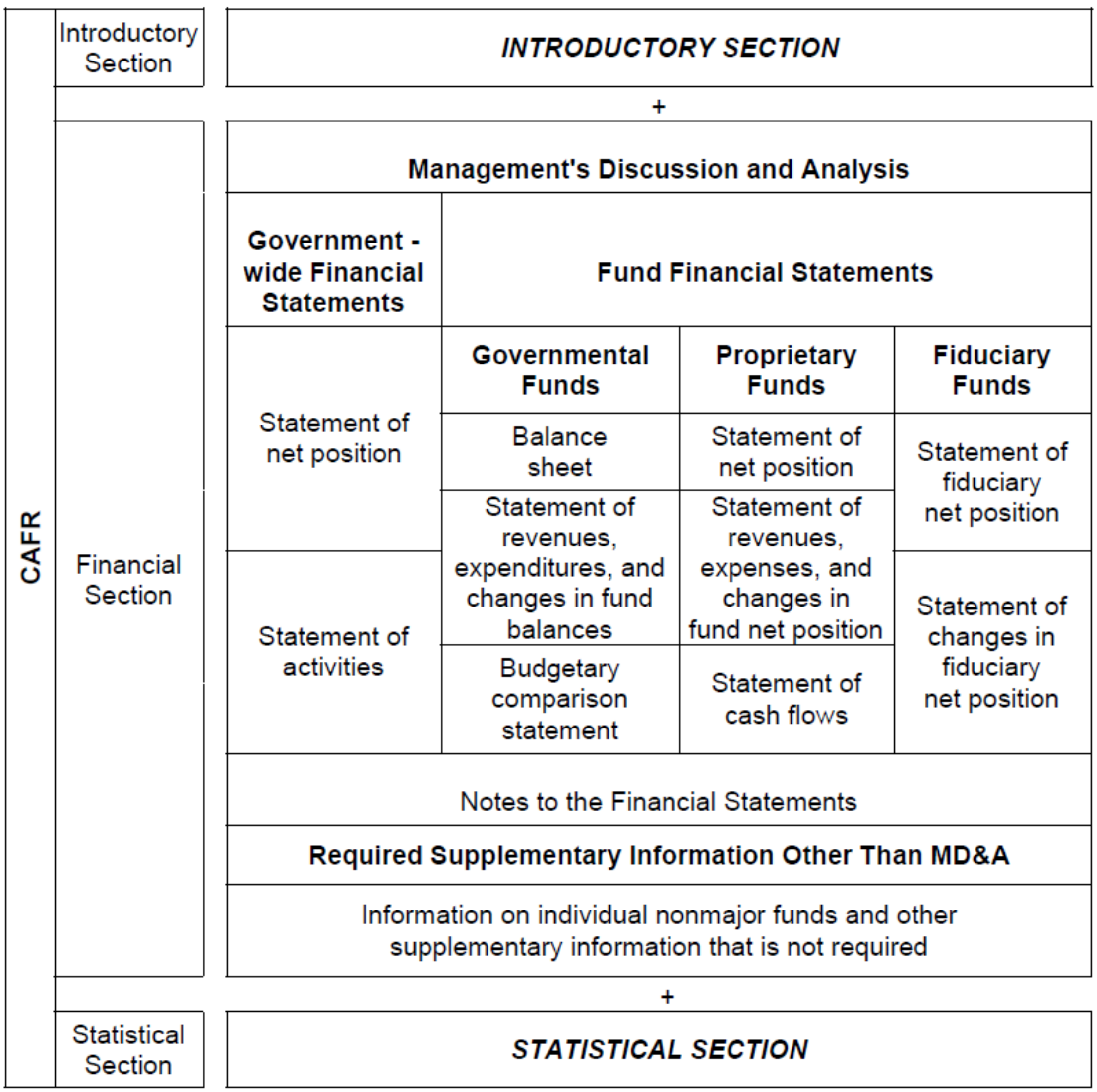
The City adopted the provisions of Governmental Accounting Standards Board Statement No. 65*, Items Previously Reported as Assets and Liabilities*, as of July 1, 2013. The City restated the July 1, 2013 net position to write off unamortized bond issuance costs previously reported as assets. In the government-wide statements, the City reclassified unamortized losses on refunding of debt and unamortized gains on refunding of debt as deferred outflows of resources and deferred inflows of resources, respectively. The City also reclassified amounts related to the SFMTA's Breda leaseback transaction as a deferred inflow of resources, which were previously reported as liabilities. The total impact of this change was a $92.2 million reduction in the beginning net position.

The Rim Fire, the third largest in California history, began on August 17, 2013 and burned over 257,135 acres. The City recorded an extraordinary loss of $6.8 million, net of impairment loss and insurance recovery, in the Hetch Hetchy Water and Power Enterprise Fund.

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. The City's Comprehensive Annual Financial Report also contains other **supplementary information** in addition to the basic financial statements themselves. These various elements of the Comprehensive Annual Financial Report are related as shown in the graphic below.

Organization of City and County of San Francisco Comprehensive Annual Financial Report



The following table 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 balance information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	Balances of spendable resources	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	All resources held in a trustee or agency capacity for others
Type of inflow and outflow information	All inflows and outflows during year, regardless of when cash is received or paid	Near-term inflows and outflows of spendable resources	All inflows and outflows 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 position** presents information on all of the City's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in net position 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 position changed during the most recent fiscal year. All changes in net position 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, transportation system (including parking), water and power operations, an acute care hospital, a long-term care hospital, and sewer operations.

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

The City, for the first time, adopted a rolling two year budget in July 2012, which appropriated budget for its General Fund for fiscal year 2013-14. 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), San Francisco Water Enterprise (Water), Hetch Hetchy Water and Power (Hetch Hetchy), San Francisco Municipal Transportation Agency (SFMTA), San Francisco General Hospital Medical Center (SFGH), San Francisco Wastewater Enterprise (Wastewater), Port of San Francisco (Port), and the Laguna Honda Hospital (LHH), 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 and telecommunication services, printing and mail services, and for lease-purchases of equipment by the San Francisco Finance Corporation. Because these services predominantly benefit governmental rather than business-type functions, they have been included within governmental activities in the government-wide financial statements. The internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements. Individual fund data for the internal service funds is provided in the form of combining statements elsewhere in this report.

Fiduciary funds*.* Fiduciary funds are used to account for resources held for the benefit of parties outside the City. The City employees' pension and health plans, retirees' 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 and the City's schedule of contributions for its employees' other postemployment benefits.

Combining Statements and Schedules

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

Government-Wide Financial Analysis

Net Position
(in thousands)

	Governmental Activities		Business-type Activities		Total	
	2014	2013 (restated)	2014	2013 (restated)	2014	2013 (restated)
Assets:						
Current and other assets	$ 3,327,511	$ 3,026,538	$ 4,680,939	$ 4,869,555	$ 8,008,450	$ 7,896,093
Capital assets	4,462,714	4,044,648	13,997,489	12,840,891	18,460,203	16,885,539
Total assets	7,790,225	7,071,186	18,678,428	17,710,446	26,468,653	24,781,632
Deferred outflows of resources	11,701	13,628	176,314	194,204	188,015	207,832
Liabilities:						
Current liabilities	1,391,609	1,333,315	1,884,942	2,032,078	3,276,551	3,365,393
Noncurrent liabilities	4,068,411	3,957,610	10,934,203	10,240,045	15,002,614	14,197,655
Total liabilities	5,460,020	5,290,925	12,819,145	12,272,123	18,279,165	17,563,048
Deferred inflows of resources	275	-	17,737	24,307	18,012	24,307
Net position:						
Net investment in capital assets *	2,483,086	2,274,460	4,832,659	4,650,574	7,032,674	6,649,991
Restricted *	862,706	686,191	452,465	371,958	1,259,065	959,707
Unrestricted (deficit) *	(1,004,161)	(1,166,762)	732,736	585,688	67,752	(207,589)
Total net position	$ 2,341,631	$ 1,793,889	$ 6,017,860	$ 5,608,220	$ 8,359,491	$ 7,402,109

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

Analysis of Net Position

The City's total net position, which may serve as a useful indicator of the government's financial position, was $8.36 billion at the end of fiscal year 2013-14, a 12.9 percent increase over the prior year. The City's governmental activities account for $2.34 billion of this total and $6.02 billion stem from its business-type activities.

The largest portion of the City's net position is the 84.1 percent or $7.03 billion in net investment in capital assets (e.g. land, buildings, and equipment). This reflects a $382.7 million or 5.8 percent increase over the prior year, and is due to the growth seen in the governmental activities and increases in all business-type activities, except Laguna Honda Hospital. Since the City 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 liquidated to pay that liability.

Another portion of the City's net position is the $1.26 billion or 15.1 percent that represents restricted resources that are subject to external limitations regarding their use. The remaining portion of total net position is an unrestricted position of $67.8 million which consists of a $1.00 billion deficit in governmental activities offset by a positive $732.7 million unrestricted position for the business-type activities. The governmental activities deficit is largely due to transfers to business type activities, recognition of other postemployment benefit expenses, and the $339.2 million in long-term bonds liabilities that 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 SFMTA (see Note 2(k)).

Changes in Net Position
(in thousands)

	Governmental activities		Business-type activities		Total	
	2014	2013 (restated)	2014	2013 (restated)	2014	2013 (restated)
Revenues						
Program revenues:						
Charges for services	$ 568,528	$ 517,660	$ 3,102,934	$ 3,279,283	$ 3,671,462	$ 3,796,943
Operating grants and contributions	1,142,094	1,086,154	190,351	224,382	1,332,445	1,310,536
Capital grants and contributions	39,379	29,718	515,445	251,753	554,824	281,471
General revenues:						
Property taxes	1,521,471	1,415,068	-	-	1,521,471	1,415,068
Business taxes	563,406	480,131	-	-	563,406	480,131
Sales and use tax	227,636	208,025	-	-	227,636	208,025
Hotel room tax	310,052	238,782	-	-	310,052	238,782
Utility users tax	86,810	91,871	-	-	86,810	91,871
Other local taxes	391,638	359,808	-	-	391,638	359,808
Interest and investment income	21,887	7,862	29,843	1,009	51,730	8,871
Other	70,024	52,865	82,737	67,344	152,761	120,209
Total revenues	4,942,925	4,487,944	3,921,310	3,823,771	8,864,235	8,311,715
Expenses						
Public protection	1,229,591	1,236,922	-	-	1,229,591	1,236,922
Public works, transportation and commerce	200,712	189,124	-	-	200,712	189,124
Human welfare and neighborhood development	1,009,190	946,562	-	-	1,009,190	946,562
Community health	786,761	751,491	-	-	786,761	751,491
Culture and recreation	357,620	338,042	-	-	357,620	338,042
General administration and finance	298,563	249,271	-	-	298,563	249,271
General City responsibilities	85,239	83,895	-	-	85,239	83,895
Unallocated Interest on long-term debt	115,880	109,094	-	-	115,880	109,094
Airport	-	-	827,658	754,553	827,658	754,553
Transportation	-	-	1,037,368	1,027,232	1,037,368	1,027,232
Port	-	-	88,551	81,404	88,551	81,404
Water	-	-	470,200	451,480	470,200	451,480
Power	-	-	137,639	129,801	137,639	129,801
Hospitals	-	-	1,011,452	992,608	1,011,452	992,608
Sewer	-	-	243,466	227,983	243,466	227,983
Market	-	-	120	1,231	120	1,231
Total expenses	4,083,556	3,904,401	3,816,454	3,666,292	7,900,010	7,570,693
Increase/(decrease) in net position before transfers and extraordinary items	859,369	583,543	104,856	157,479	964,225	741,022
Transfers	(311,627)	(483,028)	311,627	483,028	-	-
Extraordinary loss	-	(201,670)	(6,843)	-	(6,843)	(201,670)
Change in net position	547,742	(101,155)	409,640	640,507	957,382	539,352
Net position at beginning of year, as restated	1,793,889	1,895,044	5,608,220	4,967,713	7,402,109	6,862,757
Net position at end of year	$ 2,341,631	$ 1,793,889	$ 6,017,860	$ 5,608,220	$ 8,359,491	$ 7,402,109

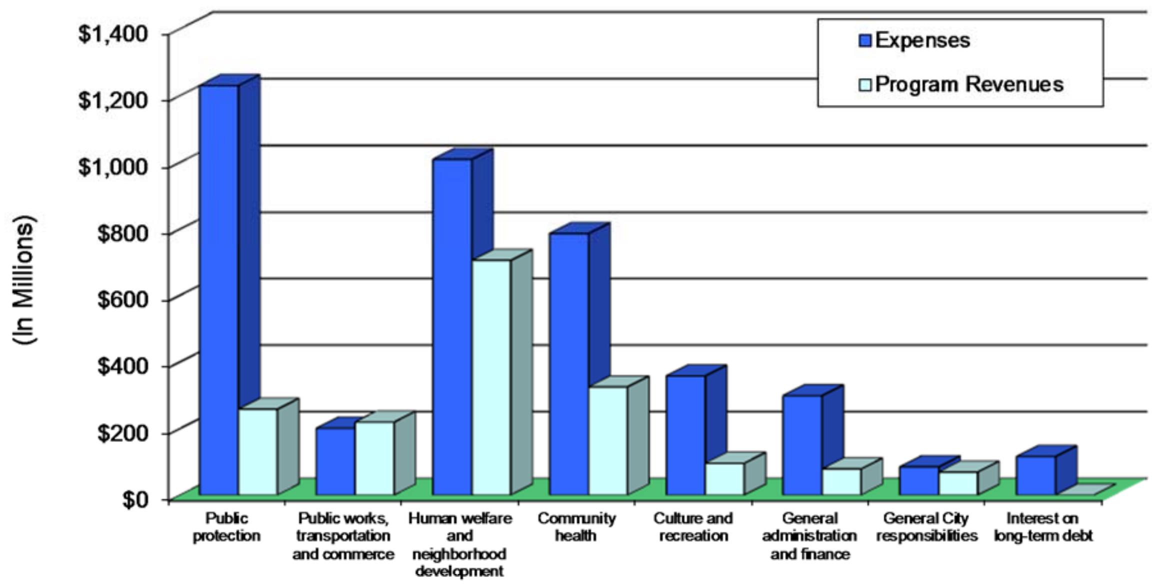
Analysis of Changes in Net Position

The City's total net position increased by $957.4 million in fiscal year 2013-14, a 12.9 percent increase over the prior fiscal year, as noted above. This was the fourth consecutive year of improvement overall, and combines increases of $547.7 million from governmental activities and $409.6 million from business type activities.

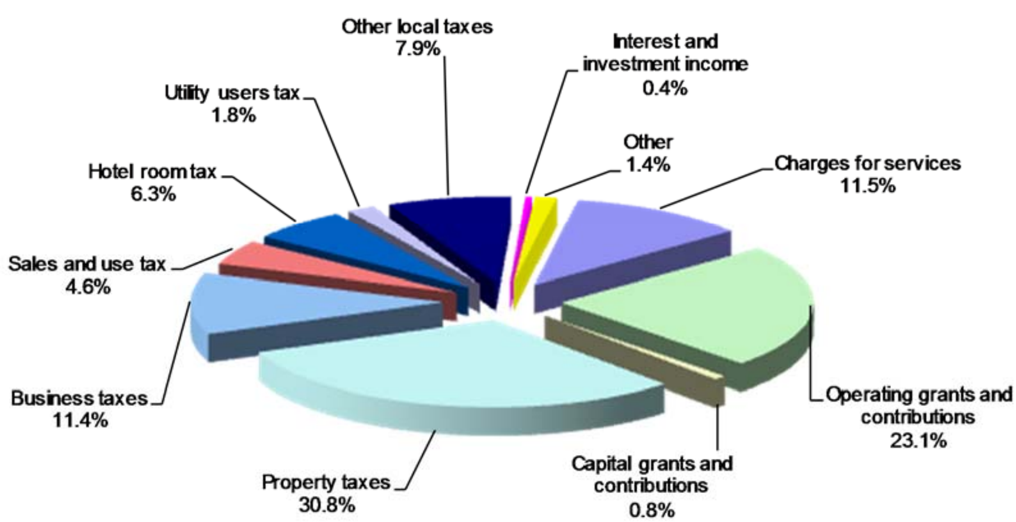
Among the City's business-type activities, SFMTA, General Hospital, Wastewater and the Port all contributed to this growth while the Airport, Water, Hetch Hetchy, Laguna Honda Hospital, and the Market Corporation did not. A discussion of this change is presented in the business-type activities section below.

The City's governmental activities experienced a $455.0 million or 10.1 percent growth in total revenues. This included increases in nearly all of the general city revenues: $55.9 million in operating grants and contributions, $106.4 million in property taxes, $50.9 million in charges for services, $71.3 million in hotel room tax, and $83.3 million in business taxes. Sales and use tax and other local taxes also had a combined growth of $51.4 million. These improvements were partly offset by a decline in utility users tax of $5.1 million. The City's governmental activities expenses reported an increase of $179.2 million or 4.6 percent this fiscal year. The net transfer to business-type activities decreased by $171.4 million, a 35.5 percent improvement over the prior year. In addition, there was a one-time extraordinary loss in the prior fiscal year of $201.7 million related to the dissolution of the former Redevelopment Agency. 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 position by approximately $547.7 million. Key factors contributing to this change are discussed below.

Overall, total revenues from governmental activities were $4.94 billion, a $455.0 million or 10.1 percent increase over the prior year. For the same period, expenses totaled $4.08 billion before transfers of $311.6 million, resulting in a total net position increase of $547.7 million by June 30, 2014.

Property tax revenues increased by $106.4 million or 7.5 percent. This growth was due in large part to higher assessed values of secured real property in San Francisco, and also due to property tax in-lieu of vehicle license fee revenues tied to the year-over-year increase of the aggregate secured roll assessed value to recent tax rate increases. Further, revenues increased from property tax in-lieu of sales and use tax (also referred to as the triple-flip) tied to actual sales and use taxes. An increase in real property transfer tax by $29.2 million made up the majority of the growth in other local taxes of $31.8 million.

Revenues from business and sales and use taxes totaled approximately $791.0 million, a growth of $102.9 million over the prior year. Business taxes grew by $83.3 million due to an increase in payroll tax revenue resulting from a 5.2 percent increase in employment and a 2.6 percent increase in average weekly wages in San Francisco. Increased business registration fee levels and gross receipts tax collection, due to Proposition E passed in November 2012, also significantly contributed to the growth in business taxes. Sales and use tax increased by $19.6 million, reflecting strong sales growth across virtually every economic segment, with particularly strong performance in retail and food establishments such as restaurants, apparel stores, department stores, and food markets.

Hotel room tax revenues grew by $71.3 million, or 29.8 percent, due to strong demand from all segments of the market (tourist, convention, and business) while no additions to inventory led to increased occupancy and the average daily room rate. In addition, there was a decline in the amount of hotel room tax revenue that was deferred in fiscal year 2013-14, as compared to the amount deferred in fiscal year 2012-13.

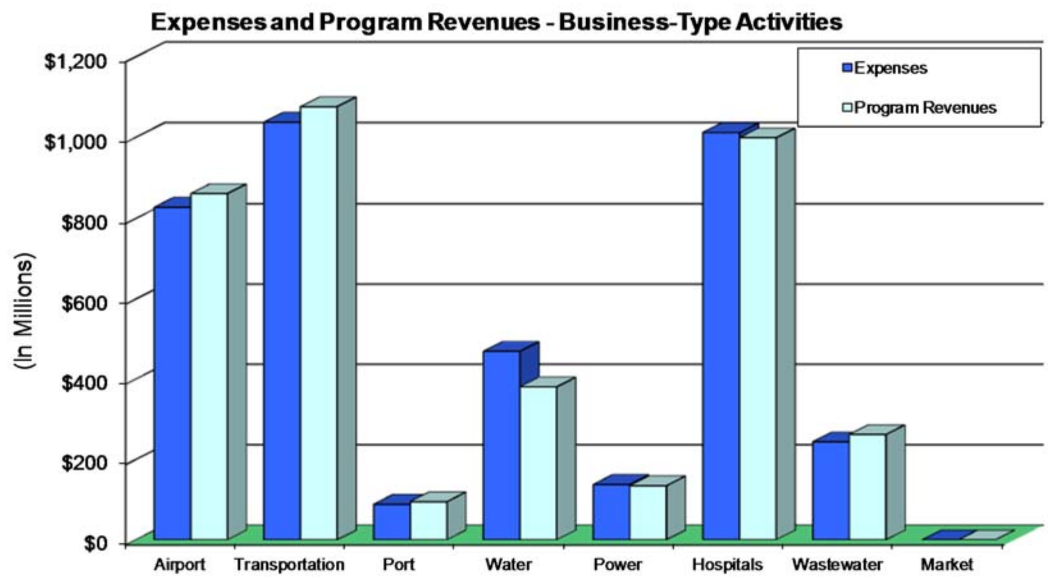
Operating grants and contributions increased $55.9 million. This was largely due to the increases from state sources, including $42.4 million for human welfare programs, $25.2 million for general city responsibilities related to SB90 state funding for various programs, $6.1 million for public works programs, and $4.3 million for public protection. These were offset primarily by a decrease of $25.8 million in community health program grants.

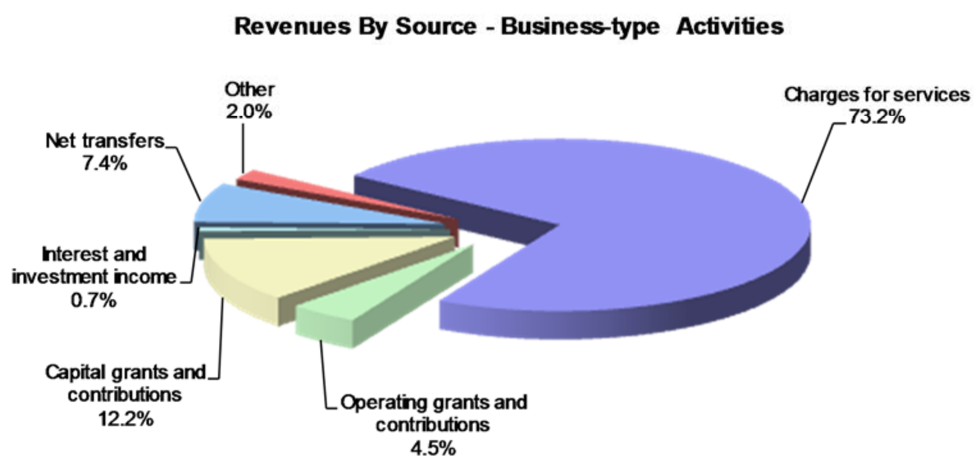
Total charges for services increased $50.9 million, or 9.8 percent, and other revenues increased $17.2 million. The increase in total charges for services is driven by increased fee revenues across various departments, partially due to improved economic conditions and expansion in construction activity. The more significant increases are discussed below. The Department of Building Inspection's permit revenue increased $9.5 million due to an increase in construction permits and project completion. Fire Department charges for services increased by $6.8 million due to ambulance billing recoveries, as well as plan check and inspection fees consistent with the expansion in construction activity. The Department of Public Works' street space permit revenue and solid waste impound fees increased by $6.2 million, in addition to $9.1 million more in revenues from its expedited condo conversion program. The Planning Department's revenues grew by more than $1.6 million from increased building permits, environmental reviews, and other planning fees. Additional special events, as well as increased recreational service charge fees resulting from improved programming opportunities and implementation of a demand responsive program delivery model improved fee revenues by $1.0 million for the Recreation and Park Department. In addition, the Department of Public Health's patient charges increased by $7.7 million. These increases were partially offset by a reduction of $2.5 million in cost allocation revenues stemming from a change in allocation methodology and a decrease in Human Services Agency revenue of $1.9 million reflecting the loss of one-time waiver refunds. The increase in other revenues is related to developer exactions, which are requirements placed on developers as conditions of receiving municipal approval, for a new development and construction project.

Interest and investment income revenue increased by $14.0 million, or 178.4 percent, primarily due to the large unrealized gain compared to the prior year's unrealized loss from the City's pooled investments, which is the difference between the fair value and the book value of the City's investments. The increase in revenues was partially offset by a reduction in the interest rate on the City's pooled investments from 0.95 percent in the prior year to 0.74 percent in the current year.

Net transfers from the governmental activities to business-type activities were $311.6 million, a 35.5 percent or $171.4 million decrease from the prior year. This was mainly due to one-time transfers in the prior year, such as $71.9 million in transfers of various general obligation bond series proceeds to the Water Enterprise, $11.0 million in bond proceeds transferred to SFMTA Parking and Traffic, and $18.2 million in bond proceeds for Port projects.

The moderate increase of total governmental expenses of $179.2 million, or 4.6 percent, was primarily due to increased demand for the government's services in almost all functional services by $186.5 million, which was partly offset by the decrease of expenses in public protection by $7.3 million.





Business-type activities increased the City's net position by $409.6 million and key factors contributing to this increase are:

- The San Francisco International Airport's net position at fiscal year-end was $266.8 million, a $5.5 million or 2.0 percent decrease over the previous fiscal year. Operating revenues totaled $770.7 million for fiscal year 2013-14, an increase of $44.3 million or 6.1 percent over the prior year and included improvements of $27.3 million, $7.0 million, and $6.8 million in aviation, concession and net sales and services revenues, respectively. For the same period, the Airport's operating expenses rose by $66.6 million, or 11.8 percent, for a net operating income of $145.0 million for the period. Net non-operating activities saw a deficit of $203.6 million versus $190.6 million deficit in the prior year, a $13.0 million increase. The increases in both operating and non-operating expenses include a rise in depreciation charges and capital asset valuation changes due to change in useful life estimates. Capital contributions, however, improved by $25.1 million due to federal grants for various Airport improvement programs.

- The City's Water Enterprise, the third largest such entity in California, reported a net position of $654.2 million at the end of fiscal year 2013-14, a $45.4 million or 6.5 percent decrease over the prior year. Revenues totaled $424.1 million, expenses totaled $470.2 million, and the net increase from capital contributions and transfers was $0.7 million. Compared to the prior year, total revenues decreased $337.7 million which included a $344.6 million decrease in water service revenues and a $3.4 million decrease in non-operating revenues. The primary reason for the decrease in water service revenues was due to the one time, early repayment in the prior year of $356.2 million from the Bay Area Water Supply and Conservation Agency (BAWSCA). Within expenses, the enterprise reported a total increase of $18.7 million in fiscal year 2013-14. This included $13.6 million more in depreciation expenses, $11.2 million more in local water conveyance and distribution project expenses, $10.1 million more in claims liability based on actuarial estimate, offset by $12.3 million in net interest expense, and $4.6 million decrease in professional and legal services, lease payment, water assessment fees, and other operational areas.

- Hetch Hetchy Water and Power's net position was $513.6 million at the end of fiscal year 2013-14, a decrease of $4.6 million or 0.9 percent. This change consisted of a $2.2 million increase from activities offset by an extraordinary loss of $6.8 million sustained in the Rim Fire which began in August 2013 in the Stanislaus National Forest and Yosemite National Park. This enterprise consists of two segments: Hetchy Water upcountry operations and water system which reported a $1.2 million net position increase offset by $2.7 million of the extraordinary loss, and Hetchy Power (also known as the Power Enterprise) which reported $1.0 million net position increase offset by $4.1 million of the loss. Hetchy Water operating revenues decreased by $1.8 million due to a $1.8 million decrease in water assessment fee revenue from the Water Enterprise although interest and investment income increased by $0.8 million Total expenses increased by a slight $0.2 million. Hetchy Power's operating revenues increased by $2.3 million due to a $2.3 million increase in power service revenues from City departments from the adopted power rate increase, while interest and investment income also increased by $1.2 million primarily due to the prior year's unrealized loss compared with the current year's unrealized gain. On the operating expenses side, Hetchy Power reported an increase of $7.8 million due primarily to a $4.1 million rise in transmission and power costs, $1.7 million in project costs, $1.2 million in purchased electricity and the remaining amount in personnel, depreciation, supply and other expenses.

- The City's Wastewater Enterprise's net position was $1.18 billion at the end of fiscal year 2013-14, an increase of $33.1 million or 2.9 percent, over the previous year. Operating revenues increased by $7.5 million due mostly to increased sewer service charges as a result of a one-time effect of transition from bi-monthly to monthly billing effective July 1, 2013. Under non-operating revenues, federal grants decreased by $17.3 million due to reduction in grant revenues for flood management projects. In addition, interest and investment income increased by $1.9 million mainly due to the current year's unrealized gain in investments. Operating expenses totaled $216.3 million, an $8.1 million increase over the prior year. Within expenses, increases included a $6.1 million rise in sewer improvement project costs, $2.1 million more in depreciation related to building and structures, $1.1 million more in services of other departments, $2.2 million more in a range of contractual, personnel, and supply expenses offset by a decline in claims liability of $3.4 million.

- The Port of San Francisco's net position was $371.3 million at the end of fiscal year 2013-14, an $8.7 million or 2.4 percent increase over the prior fiscal year. The Port is responsible for seven and one-half miles of waterfront property and its revenue is derived primarily from property rentals to commercial and industrial enterprises and a diverse mix of maritime operations. In fiscal year 2013-14, the Port's rents and concessions revenues increased $4.5 million while parking revenues also increased by $2.0 million. Operating expenses increased $4.4 million over the prior year. This was due in part to a $2.7 million positive variance in pollution remediation estimates, a $4.1 million increase in depreciation and amortization, a $1.9 million decrease in contractual services, a $1.7 million decrease in the cost of services from other departments, and a net increase of $1.3 million in personnel, administrative and other expenses.

- The Municipal Transportation Agency's (SFMTA) net position was $2.69 billion at the end of fiscal year 2013-14, a $421.6 million or 18.6 percent increase for the year. SFMTA's total revenues and transfers were $1.45 billion while total expenses including interest expense reached $1.04 billion, increases of $260 million and $8.6 million respectively. Most of the revenue increases are due to $198.3 million more in capital contributions from federal, state and local grant funds for work on a range of capital transportation projects, $16.0 million in net transfers from the City for increased subsidies, and $18.7 million improvement from non-operations including transit impact development fees and interest income. Operating revenue increases included $26.5 million more in other operating revenues from taxi medallion fees, a combined increase of $10.9 million from parking and other fees and charges offset by a $7.3 million decrease in passenger fares. A one-time payment from BART in the prior year for a fare revenue agreement accounted for most of this year's decrease in the latter. On the expenses side, increases of $22.1 million for personnel, $21.2 million for general and administrative costs, including judgments and claims, were offset in part by decreases of $16.6 million in contractual services and $17.1 million more in other operating expenses for increased cost recovery collections.

- Laguna Honda Hospital (LHH), the City's skilled nursing care hospital, had a decrease in net position of $11.8 million at the end of fiscal year 2013-14 compared to a decrease of $9.6 million at the end of the previous year, a $2.2 million difference. The LHH's loss before capital contributions and transfers for the year was $50.9 million versus a loss of $85.7 million the prior year. This change of $34.8 million was largely due to a $25.9 million increase in operating revenues, about $7.4 million increase in expenses, and a $15.3 million increase in non-operating income. This was offset by a $35.9 million decrease in net transfers with the City this fiscal year, leading to the fiscal year 2013-14 additional decrease in net position, compared to last year, of $2.2 million.

- General Hospital, the City's acute care hospital, ended fiscal year 2013-14 with a net position increase of $25.3 million, compared to a $14.8 million increase the prior year, a $10.5 million positive change. For this year, General Hospital reported $21.2 million in operating income due largely to a $56.9 million operating revenue increase, mostly from net patient services revenues. This was offset by an increase in operating expense of $12.0 million, comprised of an additional $6.8 million in contractual services, $3.6 million more in services of other departments, and $1.6 million more in other operating expenses. Net non-operating income declined by about $4.7 million due to decreases in state grants, and net transfers with the City saw a decrease of $29.7 million this year.

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 fiscal year 2013-14, the City governmental funds reported combined fund balances of $1.94 billion, an increase of $268.4 million or 16.1 percent over the prior year. Of the total fund balances, $559.6 million is assigned and $9.3 million is unassigned. The total of $568.9 million or 29.4 percent of the total fund balances 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 $508.9 million. The remainder of the governmental funds fund balances includes $24.5 million nonspendable for items that are not expected to be converted to cash such as inventories and long-term loans, $1.20 billion restricted for programs at various levels and $145.1 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 the end of the fiscal year, assigned and unassigned fund balances totaled $583.2 million while total fund balance reached $835.6 million. Combined assigned and unassigned fund balances represent 19.7 percent of total expenditures, while total fund balance represents 28.3 percent of total expenditures. For the year, the General Fund's total revenues exceeded expenditures by $792.5 million, before transfers and other items of $497.8 million, resulting in total fund balance increasing by $294.7 million. Overall, the significant growth in revenues, particularly in real estate property taxes, business taxes, hotel room taxes, and charges for services were offset by an increased rate of expenditure growth due to growing demand for services and personnel costs across City functions and resulted in an increased fund balance this fiscal year.

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 with some additional detail.

At the end of fiscal year 2013-14, the unrestricted net position for the proprietary funds was as follows: Airport: $191.0 million, Water Enterprise: $158.9 million, Hetch Hetchy Water and Power: $171.8 million, SFMTA: $254.4 million, Wastewater Enterprise: $91.5 million, and the Port: $42.3 million. In addition, San Francisco General Hospital and Laguna Honda Hospital had deficits in unrestricted net position of $132.8 million and $44.5 million, respectively.

The following table shows actual revenues, expenses and the results of operations for the current fiscal year in the City's proprietary funds (in thousands). This shows that the total net position for these funds increased by approximately $409.6 million due to the 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	Extra-ordinary Loss	Change In Net Position
Airport	$ 770,691	$ 625,660	$ 145,031	$ (203,598)	$ 91,024	$ (37,994)	$ -	$ (5,537)
Water	379,882	333,555	46,327	(92,461)	-	715	-	(45,419)
Hetch Hetchy	134,438	136,065	(1,627)	3,513	-	330	(6,843)	(4,627)
Municipal Transportation Agency	521,628	1,032,437	(510,809)	163,973	414,700	353,770	-	421,634
General Hospital	791,360	770,122	21,238	48,885	-	(44,843)	-	25,280
Wastewater Enterprise	260,097	216,340	43,757	(10,666)	-	19	-	33,110
Port	85,019	83,596	1,423	(3,007)	9,721	543	-	8,680
Laguna Honda Hospital	159,678	233,812	(74,134)	23,272	-	39,087	-	(11,775)
Market Corporation	141	120	21	(11,727)	-	-	-	(11,706)
Total	$ 3,102,934	$ 3,431,707	$ (328,773)	$ (81,816)	$ 515,445	$ 311,627	$ (6,843)	$ 409,640

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 fiscal year 2013-14, the net position of the Retirement System, Health Services System and Retiree Health Care Trust combined totaled $20.06 billion, representing a $2.94 billion increase over the prior year, and 17.2 percent change. This increase is primarily a result of net appreciation in the fair value of investments. The Private Purpose Trust Fund accounts for the Successor Agency, which had a net deficit of $439.6 million at year's end. This 6.5 percent, or $30.8 million, decrease in the net deficit is due to increases in developer payments and Redevelopment property tax revenues. The Investment Trust Fund's net position was $618.6 million at year's end, and the 88.6 percent increase represents the excess of contributions over distributions to external participants.

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 $102.2 million higher than the final budget. The City realized $36.8 million, $36.1 million, $29.9 million, and $24.0 million more revenue than budgeted in real property transfer tax, hotel tax, business taxes, and property taxes, respectively. These increases were partly offset by reductions of $29.3 million, $15.0 million, and $14.8 million in transfers from other funds, Health and Mental Health subventions, and Social Service subventions, respectively.

Differences between the final budget and the actual (budgetary basis) expenditures resulted in $82.0 million in expenditure savings. Major factors include:

- $34.7 million in savings from the Department of Public Health due to savings from reduced county participation in intergovernmental transfer programs, and patient census and delays in hiring for vacant positions creating additional salary and fringe savings.
- $23.9 million in savings from the Human Services Agency, due largely to operating savings from changes in state child care rates and allocations, and lower than expected caseload uptake levels.
- $9.9 million in salary and benefit savings mainly in the Fire Department, Adult Probation, Superior Court, Juvenile Probation and other departments in public protection.
- $7.9 million in salary and benefit savings mainly in Treasurer/Tax Collector, Elections, Board of Supervisors, Controller, and other departments in general administration and finance.
- The remaining lower than budgeted expenditures are savings from public works, transportation and commerce, culture and recreation, and general city responsibilities.

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 $294.7 million at the end of fiscal year 2013-14. The City's fiscal year 2014-15 and 2015-16 Adopted Original Budget assumed an available balance of $273.0 million fully appropriated in fiscal year 2014-15 and fiscal year 2015-16 leaving $21.7 million available for future appropriations. (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, 2014, increased by $1.57 billion, 9.3 percent, to $18.46 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 $418.1 million or 26.5 percent to this total while $1.16 billion or 73.5 percent was from business-type activities. Details are shown in the table below.

	Governmental Activities		Business-type Activities		Total	
	2014	2013	2014	2013	2014	2013
Land....................................	$ 274,163	$ 257,089	$ 217,518	$ 214,992	$ 491,681	$ 472,081
Construction in progress........	1,178,392	863,080	3,362,438	2,617,539	4,540,830	3,480,619
Facilities and improvements...	2,326,314	2,354,846	8,708,923	8,390,105	11,035,237	10,744,951
Machinery and equipment......	62,392	54,532	896,508	796,341	958,900	850,873
Infrastructure........................	575,746	471,431	739,728	739,865	1,315,474	1,211,296
Intangible asset	45,707	43,670	72,374	82,049	118,081	125,719
Total..........................	$ 4,462,714	$ 4,044,648	$ 13,997,489	$ 12,840,891	$ 18,460,203	$ 16,885,539

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

- Under governmental activities, net capital assets increased by $418.1 million mainly due to the increase in construction in progress and completed assets at various park and recreational sites, branch libraries, various street improvement and traffic signal upgrades. About $178.4 million worth of construction in progress work was substantially completed and capitalized as facilities and improvement and infrastructure. Of the completed projects, about $12.2 million is public library improvements and approximately $33.5 million is for various parks and recreation centers such as Cayuga Playground, Lafayette Park, Cabrillo Playground and various park improvement projects. The remaining completed projects include public works, intangible assets, and traffic signal projects.

- The Water Enterprise's net capital assets totaled $4.33 billion at the end of fiscal year 2013-14, an increase of $468.6 million for the year. Facilities, improvements, machinery and equipment for the Crystal Springs Pump Station and Sunol Valley Water Treatment Plan Expansion projects accounted for close to $330.6 million of this increase, while $136.6 million was due primarily to the construction work in progress on the Calaveras Dam Replacement and Irvington Tunnel Alternatives projects. These and other projects are part of the enterprise's multi-year Water System Improvement Program (WSIP), a capital program to upgrade the City's regional and local drinking water systems. As of June 30, 2014, this massive project is considered 81 percent completed, and consists of 35 local projects in the City itself and 48 regional projects spread over seven counties ranging from the Sierra foothills to San Francisco.

- SFMTA's net capital assets were $2.54 billion at the end of fiscal year 2013-14, an increase of $349.4 million for the year. Of this, $340.3 million is for construction in progress (CIP) on New Central Subway, Central Control System Upgrade and Security Projects, and other roadway and track infrastructure upgrades. The remaining increase consists of about $97.4 million for new buses, vans and escalator replacement and $12.1 million in building improvements offset by additional accumulated depreciation of approximately $100.3 million. Of the above noted construction projects, the New Central Subway has $603.6 million or 71.1 percent of SFMTA's total CIP assets of $849.4 million. It is a vast undertaking that will link the existing T-line at 4th and King in the City's South of Market area to Union Square and Chinatown to the north, greatly expanding the transit options on this highly traveled and populated corridor.

- The Wastewater Enterprise net capital assets totaled $1.8 billion at the end of fiscal year 2013-14, a $144.7 million or 8.7 percent increase for the year. Approximately $59.6 million of the increase was due to facility improvement and equipment purchases for the Oceanside and Southeast Plant Improvements project and the Spot Sewer Repair Project. The remaining increase of $85.1 million was primarily in construction in progress work on various Sewer System Improvement Projects (SSIP) and sewer repair and replacement work. The enterprise is in Phase 1 of SSIP work, a three phase, 20 year, $6.9 billion undertaking that will upgrade existing infrastructure for operational reliability and regulatory compliance, and implement innovative green infrastructure projects. Phase 1 consists of $2.7 billion in critical repair and upgrades including rebuilding the Southeast Treatment Plant, constructing eight green infrastructure projects, and planning, design and environmental review of improvements for the Central Bayside project. Phases 2 and 3 are estimated at $3.3 billion and $0.9 billion respectively, for additional infrastructure upgrades, creation of redundancy to critical system components, and seismic and reliability upgrades throughout the system.
- Hetch Hetchy's net capital assets totaled $362.5 million at the end of fiscal year 2013-14, a $13.6 or 3.9 percent increase over the prior year. Hetchy Power's net capital assets accounted for $9.6 million of this increase which was due to increased construction work in progress for Power Distribution, Early Intake Switchyard projects, facilities, improvements, machinery and equipment. The remaining $4.0 million net increase to capital assets was accounted for by Hetchy Water's rise in construction in progress work on infrastructure projects and the Lower Cherry Aqueduct Project.
- The Port's net capital assets increased by $30.7 million to $439.8 million at the end of fiscal year 2013-14. This 7.5 percent increase was largely due to completion of construction of the James R. Herman Cruise Terminal at Pier 27, which became operational in September 2014.
- Laguna Honda Hospital's net capital assets decreased by almost $13.0 million to $550.0 million in fiscal year 2013-14. This was primarily due to a small net increase in capital assets and construction in progress of $3.1 million, largely related to the rebuild of the new hospital which was occupied in 2010. In addition, in the current year there was an increase of $16.1 million in accumulated depreciation.
- General Hospital's net capital assets increased by close to $20.0 million in fiscal year 2013-14. This was due primarily to a net increase in construction projects of $23.0 million, net increase of $2.8 million in facilities, equipment and improvements, along with an increase of $5.8 million in accumulated depreciation. In the current year, the hospital continued progress on its rebuild project which is financed by general obligation bonds in the amount of $887.4 million, accounted for in the City's capital project funds. When completed, the new hospital will be contributed to the SFGH enterprise fund.
- The Airport's net capital assets increased by $148.9 million at the end of fiscal year 2014, a 4.0 percent increase over the prior year due primarily to construction in progress on several large projects, including the Runway Safety Area Program and improvements to Terminal 3.

At the end of fiscal year 2013-14, the City's business-type activities had approximately $951.4 million in commitments for various capital projects. Of this, Water Enterprise had $433.6 million, SFMTA had $283.6 million, Wastewater had $116.3 million, Airport had $68.3 million, Hetch Hetchy had $23.2 million, the Port had $17.0 million, Laguna Honda Hospital had $4.9 million and General Hospital had $4.7 million. In addition, there was an estimated $147.1 million reserved in encumbrances for general government capital projects.

For government-wide financial statement presentation, all depreciable capital assets were depreciated from acquisition date to the end of fiscal year 2013-14. 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 June 30, 2014, the City had total long-term and commercial paper debt outstanding of $13.58 billion. Of this amount, $1.94 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 $11.64 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 $411.0 million or 3.1 percent during the fiscal year. The net decrease in debt obligations in the governmental activities was $21.6 million primarily due to redemption on maturity. For the business-type activities, the net increase in debt obligations was $432.3 million. This is due primarily to the issuance of commercial paper by the Airport, certificates of participation by the Port Commission and revenue bonds by the Airport, the Municipal Transportation Agency (SFMTA) and the Port Commission for various capital projects.

The business-type activities issued a combined total of $559.2 million revenue bonds, of which $461.1 million was issued by the Airport to finance the construction cost of Terminal 3 East improvements, the renovation of Boarding Area E and other projects in the Airport's five-year Capital Plan. The SFMTA issued $75.4 million of revenue bonds to finance its various transit and parking projects. The Port Commission issued $22.7 million revenue bonds to finance capital projects to various Port facilities and $37.7 million of Certificates of Participation, of which $27.2 million was used to repay commercial paper. The Airport issued additional $249.4 million commercial paper notes to finance capital improvement projects.

The City issued $210.0 million in general obligation bonds to fund the General Hospital rebuild projects, $47.2 million refunding certificates of participation for economic savings and drew an additional loan for $8.7 million 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 assessed value of taxable property in the City – estimated at $175.97 billion in value as of the close of the fiscal year. As of June 30, 2014, the City had $2.11 billion in authorized, outstanding general obligation bonds, which is equal to approximately 1.15 percent of gross (1.2 percent of net) taxable assessed value of property. As of June 30, 2014, there were an additional $940.7 million in bonds that were authorized but unissued. If all of these general obligation bonds were issued and outstanding in full, the total debt burden would be approximately 1.66 percent of gross (1.73 percent of net) taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2014 were:

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

During the fiscal year, Moody's Investors Service (Moody's), Fitch Ratings and Standard & Poor's affirmed the City's ratings of "Aa1", "AA" and "AA+", respectively, with a stable outlook on all the City's outstanding general obligation 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 "A1", "A+" and "A+" with stable rating outlooks, respectively. The Water Enterprise, Wastewater Enterprise and SFMTA all carried underlying ratings of "Aa3" and "AA-" from Moody's and Standard & Poor's, respectively as of June 30, 2014.

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

Economic factors and future budgets and rates

San Francisco has continued to experience improvement in the economy during the fiscal year. The following economic factors were considered in the preparation of the City's budget for fiscal years 2014-15 and 2015-16. This two-year budget was adopted by the Mayor and the Board of Supervisors. It is a rolling budget for all departments, except for the Airport, PUC enterprises, SFMTA, and the Port, which each have a fixed two-year budget.

- Average unemployment for fiscal year 2013-14 was 5.2 percent, a 1.3 percent decrease from fiscal year 2012-13.

- Housing prices, residential and commercial rent, hotel revenues, and retail sales all continued to show strong growth. The average median home price in fiscal year 2013-14 was $884,083, up 15.5 percent from the previous fiscal year average median home price of $765,583. Residential and commercial rents also grew by 9.4 percent and 5.1 percent, respectively, from the prior fiscal year.

- The hotel sector saw significant growth in fiscal year 2013-14 over the prior year. Monthly average hotel room average occupancy improved slightly from 84.2 percent during fiscal year 2012-13 to 85.8 percent in fiscal year 2013-14 while average daily room rates grew by 11.7 percent to $238 per room-night from an average of $213 in the prior year.

- The City's taxable sales have also continued to grow, with fiscal year 2013-14 sales tax revenue up 9.4 percent over fiscal year 2012-13.

The Mayor and Board of Supervisors approved a final two-year budget for fiscal years 2014-15 and 2015-16 in July 2014, which assumes use of prior year fund balance from General Fund of $135.9 million and $137.1 million, respectively.

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
Chief Financial Officer
1145 Market Street, Suite 300
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
1145 Market Street, 5th Floor
San Francisco, CA 94103

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

Blended Component Units Financial Statements

San Francisco County Transportation Authority
Deputy Director for Administration and Finance
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

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Basic Financial Statements

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Position
June 30, 2014
(In Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Treasure Island Development Authority
ASSETS				
Current assets:				
Deposits and investments with City Treasury	$ 2,423,548	$ 1,944,883	$ 4,368,431	$ 8,868
Deposits and investments outside City Treasury	68,302	13,530	81,832	-
Receivables (net of allowance for uncollectible amounts of $201,932 for the primary government):				
Property taxes and penalties	62,510	-	62,510	-
Other local taxes	236,255	-	236,255	-
Federal and state grants and subventions	299,361	241,515	540,876	-
Charges for services	58,101	211,871	269,972	490
Interest and other	8,677	115,782	124,459	12
Due from component units	1,423	200	1,623	-
Inventories	-	82,500	82,500	-
Other assets	18,660	6,598	25,258	-
Restricted assets:				
Deposits and investments with City Treasury	-	227,894	227,894	-
Deposits and investments outside City Treasury	40,417	173,686	214,103	-
Grants and other receivables	-	71,103	71,103	-
Total current assets	3,217,254	3,089,562	6,306,816	9,370
Noncurrent assets:				
Loan receivables (net of allowance for uncollectible amounts of $962,170)	72,079	-	72,079	-
Advance to component units	32,276	3,227	35,503	-
Other assets	1,172	7,679	8,851	-
Restricted assets:				
Deposits and investments with City Treasury	-	957,616	957,616	-
Deposits and investments outside City Treasury	4,730	590,343	595,073	-
Grants and other receivables	-	32,512	32,512	-
Capital assets:				
Land and other assets not being depreciated	1,458,491	3,591,999	5,050,490	-
Facilities, infrastructure and equipment, net of depreciation	3,004,223	10,405,490	13,409,713	-
Total capital assets	4,462,714	13,997,489	18,460,203	-
Total noncurrent assets	4,572,971	15,588,866	20,161,837	-
Total assets	7,790,225	18,678,428	26,468,653	9,370
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized loss on refunding of debt	11,701	111,350	123,051	-
Deferred outflows on derivative instruments	-	64,964	64,964	-
Total deferred outflows of resources	$ 11,701	$ 176,314	$ 188,015	$ -

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Position (Continued)

June 30, 2014

(In Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Treasure Island Development Authority
LIABILITIES				
Current liabilities:				
Accounts payable	$ 338,365	$ 226,467	$ 564,832	$ 391
Accrued payroll	145,928	115,579	261,507	-
Accrued vacation and sick leave pay	79,559	57,653	137,212	-
Accrued workers' compensation	37,467	25,774	63,241	-
Estimated claims payable	48,932	39,491	88,423	-
Bonds, loans, capital leases, and other payables	398,816	409,495	808,311	-
Capital lease payable to other governmental agency	870	-	870	-
Accrued interest payable	12,760	51,480	64,240	-
Unearned grant and subvention revenues	18,081	-	18,081	-
Due to primary government	-	-	-	548
Internal balances	5,734	(5,734)	-	-
Unearned revenue and other liabilities	305,097	441,458	746,555	1,263
Liabilities payable from restricted assets:				
Bonds, loans, capital leases, and other payables	-	278,147	278,147	-
Accrued interest payable	-	31,007	31,007	-
Other	-	214,125	214,125	-
Total current liabilities	1,391,609	1,884,942	3,276,551	2,202
Noncurrent liabilities:				
Accrued vacation and sick leave pay	68,721	44,039	112,760	-
Accrued workers' compensation	185,280	135,355	320,635	-
Other postemployment benefits obligation	1,004,141	734,434	1,738,575	-
Estimated claims payable	106,919	51,717	158,636	-
Bonds, loans, capital leases, and other payables	2,698,590	9,791,751	12,490,341	-
Advance from primary government	-	-	-	13,833
Capital lease payable to other governmental agency	2,215	-	2,215	-
Unearned revenues and other liabilities	2,545	96,672	99,217	-
Derivative instruments liabilities	-	80,235	80,235	-
Total noncurrent liabilities	4,068,411	10,934,203	15,002,614	13,833
Total liabilities	5,460,020	12,819,145	18,279,165	16,035
DEFERRED INFLOWS OF RESOURCES				
Unamortized gain on refunding of debt	275	449	724	-
Unamortized gain on leaseback transaction	-	17,288	17,288	-
Total deferred inflows of resources	275	17,737	18,012	-
NET POSITION				
Net investment in capital assets, Note 2(k)	2,483,086	4,832,659	7,032,674	-
Restricted for:				
Reserve for rainy day	83,194	-	83,194	-
Debt service	91,900	64,143	156,043	-
Capital projects, Note 2(k)	110,608	363,601	418,103	-
Community development	200,640	-	200,640	-
Transportation Authority activities	12,496	-	12,496	-
Building inspection programs	97,928	-	97,928	-
Children and families	59,572	-	59,572	-
Culture and recreation	79,594	-	79,594	-
Grants	68,142	-	68,142	-
Other purposes	58,632	24,721	83,353	-
Total restricted	862,706	452,465	1,259,065	-
Unrestricted (deficit), Note 2(k)	(1,004,161)	732,736	67,752	(6,665)
Total net position (deficit)	$ 2,341,631	$ 6,017,860	$ 8,359,491	$ (6,665)

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, 2014

(In Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					Primary Government			Component Unit
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**	**Treasure Island Development Authority**
Primary government:								
Governmental activities:								
Public protection	$ 1,229,591	$ 69,673	$ 187,962	$ 570	$ (971,386)	$ -	$ (971,386)	$ -
Public works, transportation and commerce	200,712	135,842	48,588	34,699	18,417	-	18,417	-
Human welfare and neighborhood development	1,009,190	99,848	604,711	-	(304,631)	-	(304,631)	-
Community health	786,761	67,680	256,282	719	(462,080)	-	(462,080)	-
Culture and recreation	357,620	89,969	2,213	3,391	(262,047)	-	(262,047)	-
General administration and finance	298,563	66,071	12,520	-	(219,972)	-	(219,972)	-
General City responsibilities	85,239	39,445	29,818	-	(15,976)	-	(15,976)	-
Unallocated interest on long-term debt and cost of issuance	115,880	-	-	-	(115,880)	-	(115,880)	-
Total governmental activities	4,083,556	568,528	1,142,094	39,379	(2,333,555)	-	(2,333,555)	-
Business-type activities:								
Airport	827,658	770,691	-	91,024	-	34,057	34,057	-
Transportation	1,037,368	521,628	139,668	414,700	-	38,628	38,628	-
Port	88,551	85,019	165	9,721	-	6,354	6,354	-
Water	470,200	379,882	715	-	-	(89,603)	(89,603)	-
Power	137,639	134,438	156	-	-	(3,045)	(3,045)	-
Hospitals	1,011,452	951,038	47,867	-	-	(12,547)	(12,547)	-
Sewer	243,466	260,097	1,780	-	-	18,411	18,411	-
Market	120	141	-	-	-	21	21	-
Total business-type activities	3,816,454	3,102,934	190,351	515,445	-	(7,724)	(7,724)	-
Total primary government	$ 7,900,010	$ 3,671,462	$ 1,332,445	$ 554,824	(2,333,555)	(7,724)	(2,341,279)	-
Component unit:								
Treasure Island Development Authority	$ 7,963	$ 9,605	$ -	$ -				$ 1,642
General Revenues								
Taxes:								
Property taxes					1,521,471	-	1,521,471	-
Business taxes					563,406	-	563,406	-
Sales and use tax					227,636	-	227,636	-
Hotel room tax					310,052	-	310,052	-
Utility users tax					86,810	-	86,810	-
Parking tax					83,476	-	83,476	-
Real property transfer tax					261,925	-	261,925	-
Other local taxes					46,237	-	46,237	-
Interest and investment income					21,887	29,843	51,730	70
Other					70,024	82,737	152,761	-
Transfers - internal activities of primary government					(311,627)	311,627	-	-
Total general revenues and transfers					2,881,297	424,207	3,305,504	70
Extraordinary loss from the Rim Fire					-	(6,843)	(6,843)	-
Change in net position					547,742	409,640	957,382	1,712
Net position (deficit) at beginning of year, as restated					1,793,889	5,608,220	7,402,109	(8,377)
Net position (deficit) at end of year					$ 2,341,631	$ 6,017,860	$ 8,359,491	$ (6,665)

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, 2014
(With comparative financial information as of June 30, 2013)
(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2014	2013	2014	2013	2014	2013
Assets:						
Deposits and investments with City Treasury	$ 1,053,040	$ 720,132	$ 1,332,623	$ 1,357,554	$ 2,385,663	$ 2,077,686
Deposits and investments outside City Treasury	2,311	1,004	65,991	71,413	68,302	72,417
Receivables (net of allowance for uncollectible amounts of $163,588 in 2014; $175,712 in 2013):						
Property taxes and penalties	52,282	47,791	10,228	8,980	62,510	56,771
Other local taxes	218,551	223,091	17,704	15,191	236,255	238,282
Federal and state grants and subventions	179,065	171,113	120,296	109,308	299,361	280,421
Charges for services	44,550	41,864	13,517	11,538	58,067	53,402
Interest and other	4,249	2,318	3,829	2,071	8,078	4,389
Due from other funds	12,511	11,753	5,873	29,460	18,384	41,213
Due from component unit	878	2,179	545	457	1,423	2,636
Advance to component unit	21,670	20,067	10,606	10,336	32,276	30,403
Loans receivable (net of allowance for uncollectible amounts of $962,170 in 2014; $945,031 in 2013)	1,332	157	70,747	70,169	72,079	70,326
Other assets	3,458	4,473	13,638	12,404	17,096	16,877
Total assets	$ 1,593,897	$ 1,245,942	$ 1,665,597	$ 1,698,881	$ 3,259,494	$ 2,944,823
Liabilities:						
Accounts payable	$ 177,241	$ 152,649	$ 151,808	$ 149,246	$ 329,049	$ 301,895
Accrued payroll	118,012	107,889	25,181	23,009	143,193	130,898
Unearned grant and subvention revenues	9,748	8,186	8,333	8,025	18,081	16,211
Due to other funds	701	870	20,910	27,856	21,611	28,726
Due to component unit	-	-	-	280	-	280
Unearned revenues and other liabilities	249,566	212,732	55,412	52,532	304,978	265,264
Bonds, loans, capital leases, and other payables	-	-	175,760	201,546	175,760	201,546
Total liabilities	555,268	482,326	437,404	462,494	992,672	944,820
Deferred inflows of resources	203,067	222,745	126,776	108,697	329,843	331,442
Fund balances:						
Nonspendable	24,022	23,854	441	274	24,463	24,128
Restricted	83,194	26,339	1,115,226	1,191,189	1,198,420	1,217,528
Committed	145,126	137,487	-	-	145,126	137,487
Assigned	508,903	353,191	50,733	30,759	559,636	383,950
Unassigned	74,317	-	(64,983)	(94,532)	9,334	(94,532)
Total fund balances	835,562	540,871	1,101,417	1,127,690	1,936,979	1,668,561
Total liabilities, deferred inflows of resources and fund balances	$ 1,593,897	$ 1,245,942	$ 1,665,597	$ 1,698,881	$ 3,259,494	$ 2,944,823

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 Position

June 30, 2014
(In Thousands)

Fund balances – total governmental funds	$1,936,979
Amounts reported for governmental activities in the statement of net position are different because:	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	4,453,436
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	(4,190,458)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are not recognized in the governmental funds	329,568
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(11,182)
Deferred outflow of resources in governmental activities are not financial resources and, therefore, are not reported in the governmental funds	10,451
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 position.	(187,163)
Net position of governmental activities	$2,341,631

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

CITY AND COUNTY OF SAN FRANCISCO

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

Year Ended June 30, 2014
(With comparative financial information as of June 30, 2013)
(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2014	2013	2014	2013	2014	2013
Revenues:						
Property taxes	$ 1,178,277	$ 1,122,008	$ 338,984	$ 299,756	$ 1,517,261	$ 1,421,764
Business taxes	562,896	479,627	510	504	563,406	480,131
Sales and use tax	133,705	122,271	93,931	85,754	227,636	208,025
Hotel room tax	310,052	182,396	-	56,386	310,052	238,782
Utility users tax	86,810	91,871	-	-	86,810	91,871
Parking tax	83,476	81,645	-	-	83,476	81,645
Real property transfer tax	261,925	232,731	-	-	261,925	232,731
Other local taxes	46,237	45,432	-	-	46,237	45,432
Licenses, permits and franchises	26,975	26,273	15,396	14,628	42,371	40,901
Fines, forfeitures, and penalties	5,281	6,226	23,144	43,615	28,425	49,841
Interest and investment income	7,866	2,125	13,812	5,364	21,678	7,489
Rents and concessions	25,501	35,273	65,211	63,497	90,712	98,770
Intergovernmental:						
Federal	215,682	174,753	210,632	246,022	426,314	420,775
State	609,877	542,800	111,858	113,341	721,735	656,141
Other	2,191	3,072	7,217	38,717	9,408	41,789
Charges for services	180,850	164,391	153,054	131,668	333,904	296,059
Other	9,760	14,142	125,163	66,872	134,923	81,014
Total revenues	3,747,361	3,327,036	1,158,912	1,166,124	4,906,273	4,493,160
Expenditures:						
Current:						
Public protection	1,096,839	1,057,451	75,658	88,433	1,172,497	1,145,884
Public works, transportation and commerce	78,249	68,014	153,756	155,204	232,005	223,218
Human welfare and neighborhood development	720,787	660,657	274,405	284,449	995,192	945,106
Community health	668,701	634,701	92,738	100,035	761,439	734,736
Culture and recreation	113,019	105,870	218,895	222,924	331,914	328,794
General administration and finance	190,335	186,342	43,642	24,796	233,977	211,138
General City responsibilities	86,968	81,657	28	118	86,996	81,775
Debt service:						
Principal retirement	-	-	190,266	154,542	190,266	154,542
Interest and other fiscal charges	-	-	119,142	108,189	119,142	108,189
Bond issuance costs	-	-	2,185	2,913	2,185	2,913
Capital outlay	-	-	449,726	410,994	449,726	410,994
Total expenditures	2,954,898	2,794,692	1,620,441	1,552,597	4,575,339	4,347,289
Excess (deficiency) of revenues over (under) expenditures	792,463	532,344	(461,529)	(386,473)	330,934	145,871
Other financing sources (uses):						
Transfers in	216,449	195,272	346,834	252,462	563,283	447,734
Transfers out	(720,806)	(646,912)	(154,490)	(283,881)	(875,296)	(930,793)
Issuance of bonds and loans:						
Face value of bonds issued	-	-	257,175	557,490	257,175	557,490
Face value of loans issued	-	-	8,735	5,890	8,735	5,890
Premium on issuance of bonds	-	-	19,773	64,469	19,773	64,469
Payment to refunded bond escrow agent	-	-	(49,055)	-	(49,055)	-
Other financing sources-capital leases	6,585	4,442	6,284	9,028	12,869	13,470
Total other financing sources (uses)	(497,772)	(447,198)	435,256	605,458	(62,516)	158,260
Extraordinary loss from dissolution of the Redevelopment Agency	-	-	-	(172,651)	-	(172,651)
Net changes in fund balances	294,691	85,146	(26,273)	46,334	268,418	131,480
Fund balances at beginning of year	540,871	455,725	1,127,690	1,081,356	1,668,561	1,537,081
Fund balances at end of year	$ 835,562	$ 540,871	$ 1,101,417	$ 1,127,690	$ 1,936,979	$ 1,668,561

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, 2014
(In Thousands)

Net changes in fund balances - total governmental funds	$ 268,418
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.	414,708
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 position of the previous year exceeded expenses reported in the statement of activities that do not require the use of current financial resources.	(136,301)
Property tax revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	4,210
Unavailable revenues are reported as deferred inflows of resources in the governmental funds, but are recognized as revenues in the statement of activities.	15,497
Governmental funds report revenues and expenditures primarily pertaining to long-term loan activities, which are not reported in the statement of activities. At the government-wide level, these activities are reported in the statement of net position. This is the net expenditure reported in the governmental funds, which is not reported in the statement of activities.	1,432
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 position. 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.	7,348
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 position. This is the amount by which bond and other debt proceeds exceeded principal retirement in the current period.	(26,589)
Bond premiums are reported in the governmental funds when the bonds are issued, and are capitalized and amortized in the statement of net position. This is the amount of bond premiums capitalized during the current period.	(19,773)
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 gains.	11,015
The activities of internal service funds are reported with governmental activities.	7,777
Change in net position of governmental activities	$ 547,742

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

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2014
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Budgetary Fund Balance, July 1	$ 156,426	$ 674,637	$ 674,637	$ -
Resources (Inflows):				
Property taxes	1,153,417	1,153,417	1,177,370	23,953
Business taxes	532,988	532,988	562,896	29,908
Other local taxes:				
Sales and use tax	125,697	125,697	133,705	8,008
Hotel room tax	273,930	273,930	310,052	36,122
Utility users tax	93,515	93,515	86,810	(6,705)
Parking tax	83,251	83,251	83,476	225
Real property transfer tax	225,150	225,150	261,925	36,775
Other local taxes	45,381	45,381	46,237	856
Licenses, permits and franchises:				
Licenses and permits	9,390	9,390	10,641	1,251
Franchise tax	16,143	16,143	16,334	191
Fines, forfeitures, and penalties	9,097	4,994	5,281	287
Interest and investment income	10,946	10,946	10,132	(814)
Rents and concessions:				
Garages - Recreation and Park	9,761	9,761	12,366	2,605
Rents and concessions - Recreation and Park	11,093	11,093	11,896	803
Other rents and concessions	2,206	2,206	2,656	450
Intergovernmental:				
Federal grants and subventions	214,450	203,231	217,198	13,967
State subventions:				
Social service subventions	70,108	99,260	84,500	(14,760)
Health / mental health subventions	135,573	135,071	120,080	(14,991)
Health and welfare realignment	225,155	225,867	229,283	3,416
Public safety sales tax	86,836	86,836	87,473	637
Motor vehicle in-lieu - county	-	-	-	-
Other grants and subventions	45,251	45,264	61,628	16,364
Allowance for state revenue reduction	-	-	-	-
Other	3,563	3,659	2,191	(1,468)
Charges for services:				
General government service charges	56,030	56,030	56,546	516
Public safety service charges	26,635	26,635	33,080	6,445
Recreation charges - Recreation and Park	15,569	15,577	18,035	2,458
MediCal, MediCare and health service charges	78,814	78,839	73,618	(5,221)
Other financing sources:				
Transfers from other funds	217,982	242,958	213,647	(29,311)
Repayment of loan from Component Unit	1,105	1,105	-	(1,105)
Other resources (inflows)	14,302	14,321	5,610	(8,711)
Subtotal - Resources (Inflows)	3,793,338	3,832,515	3,934,666	102,151
Total amounts available for appropriation	3,949,764	4,507,152	4,609,303	102,151

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

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Schedule - General Fund (Continued)

Year Ended June 30, 2014

(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Charges to Appropriations (Outflows):				
Public Protection				
Adult Probation	$ 25,493	$ 23,410	$ 21,867	$ 1,543
District Attorney	41,170	40,816	40,430	386
Emergency Communications	42,778	43,432	43,204	228
Fire Department	304,496	305,406	301,975	3,431
Juvenile Probation	35,472	31,488	30,245	1,243
Police Department	455,186	445,443	445,443	-
Public Defender	28,623	28,634	27,791	843
Sheriff	163,108	151,560	150,742	818
Superior Court	32,427	32,478	31,111	1,367
Subtotal - Public Protection	1,128,753	1,102,667	1,092,808	9,859
Public Works, Transportation and Commerce				
Board of Appeals	942	971	881	90
Business and Economic Development	26,954	24,106	22,016	2,090
General Services Agency - Public Works	52,901	53,267	52,984	283
Hetch Hetchy	-	993	993	-
Municipal Transportation Agency	-	298	298	-
Subtotal - Public Works, Transportation and Commerce	80,797	79,635	77,172	2,463
Human Welfare and Neighborhood Development				
Children, Youth and Their Families	28,966	29,695	29,695	-
Commission on the Status of Women	4,925	4,988	4,959	29
County Education Office	116	116	116	-
Environment	-	265	263	2
Human Rights Commission	1,529	1,301	938	363
Human Services	664,718	696,181	672,276	23,905
Mayor - Housing/Neighborhoods	26,366	12,731	12,540	191
Subtotal - Human Welfare and Neighborhood Development	726,620	745,277	720,787	24,490
Community Health				
Public Health	701,978	703,092	668,412	34,680
Culture and Recreation				
Academy of Sciences	4,433	4,433	4,433	-
Arts Commission	8,894	7,042	6,963	79
Asian Art Museum	8,246	8,335	8,067	268
Fine Arts Museum	13,783	13,351	13,250	101
Law Library	1,285	1,282	1,157	125
Recreation and Park Commission	82,938	78,181	78,181	-
Subtotal - Culture and Recreation	119,579	112,624	112,051	573

CITY AND COUNTY OF SAN FRANCISCO

Budgetary Comparison Schedule - General Fund (Continued)

Year Ended June 30, 2014
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
General Administration and Finance				
Assessor/Recorder	$ 19,077	$ 18,907	$ 18,061	$ 846
Board of Supervisors	12,705	12,963	12,566	397
City Attorney	14,933	11,383	10,550	833
City Planning	27,718	28,739	28,739	-
Civil Service	612	616	615	1
Controller	14,469	13,591	12,610	981
Elections	16,551	16,398	13,557	2,841
Ethics Commission	4,532	2,625	2,294	331
General Services Agency - Administrative Services	59,603	45,567	44,460	1,107
General Services Agency - Technology	1,885	2,085	1,934	151
Health Service System	173	395	395	-
Human Resources	11,226	13,849	13,833	16
Mayor	4,845	4,935	4,935	-
Retirement Services	1,117	1,290	1,290	-
Treasurer/Tax Collector	28,776	26,366	25,966	400
Subtotal - General Administration and Finance	218,222	199,709	191,805	7,904
General City Responsibilities				
General City Responsibilities	96,940	86,516	85,085	1,431
Other financing uses:				
Debt service	2,215	-	-	-
Transfers to other funds	804,777	720,114	719,481	633
Budgetary reserves and designations	69,883	-	-	-
Total charges to appropriations	3,949,764	3,749,634	3,667,601	82,033
Total Sources less Current Year Uses	$ -	$ 757,518	$ 941,702	$ 184,184

Budgetary fund balance, June 30 before reserves and designations	$ 941,702
Reserves and designations made from budgetary fund balance not available for appropriation	(522,062)
Reserves for Litigation and Contingencies and General Reserves	(124,971)
Net Available Budgetary Fund Balance, June 30	$ 294,669

Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation"	$ 4,609,303
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	(674,637)
Property tax revenue - Teeter Plan net change from prior year	906
Change in unrealized gain/(loss) on investments	2,075
Interest earnings / charges from other funds assigned to General Fund as interest adjustment	(4,341)
Interest earnings from other funds assigned to General Fund as other revenues	1,623
Grants, subventions and other receivables received after 90-day recognition period	27,495
Prepaid lease revenue, Civic Center Garage	(1,416)
Transfers from other funds are inflows of budgetary resources, but are not revenues for financial reporting purposes	(213,647)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - General Fund	$ 3,747,361
Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations"	$ 3,667,601
Difference - budget to GAAP:	
Capital asset purchases funded under capital leases with Finance Corporation and other vendors	6,585
Recognition of expenditures for advances and imprest cash and capital asset acquisition for internal service fund	193
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(719,481)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - General Fund	$ 2,954,898

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Position - Proprietary Funds

June 30, 2014
(With comparative financial information as of June 30, 2013)
(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 2014	Total 2013	Governmental Activities - Internal Service Funds 2014	Governmental Activities - Internal Service Funds 2013
ASSETS													
Current Assets:													
Deposits and investments with City Treasury..........	$ 380,170	$ 328,798	$ 188,019	$ 708,199	$132,847	$ 122,546	$ 77,126	$ 7,178	$ -	$ 1,944,883	$ 1,806,112	$ 37,885	$ 32,368
Deposits and investments outside City Treasury.....	6,626	106	10	6,679	10	92	5	2	-	13,530	9,808	-	-
Receivables (net of allowance for uncollectible amounts of $38,344 and $44,179 in 2014 and 2013, respectively):													
Federal and state grants and subventions.............	-	177	-	174,064	197	19,805	6,739	40,533	-	241,515	139,951	-	-
Charges for services...	37,027	44,018	7,560	5,523	63,673	27,156	4,061	22,853	-	211,871	229,350	34	-
Interest and other..	1,391	6,408	216	6,472	85,541	1,557	141	14,056	-	115,782	110,820	599	763
Lease receivable...	-	-	-	-	-	-	-	-	-	-	-	22,128	22,545
Due from other funds..	-	260	11,417	6,286	155	110	-	5	-	18,233	20,043	-	-
Due from component unit...	-	-	200	-	-	-	-	-	-	200	200	-	-
Inventories...	56	7,735	344	62,069	7,750	2,472	1,010	1,064	-	82,500	78,225	-	-
Other assets..	681	-	5,255	515	-	-	147	-	-	6,598	6,101	225	-
Restricted assets:													
Deposits and investments with City Treasury........	141,692	-	-	-	-	-	47,598	38,604	-	227,894	160,160	-	-
Deposits and investments outside City Treasury...	65,551	64,999	1,281	-	-	24,601	13,227	4,027	-	173,686	165,938	40,417	55,337
Grants and other receivables.................................	71,103	-	-	-	-	-	-	-	-	71,103	51,810	-	-
Total current assets...	704,297	452,501	214,302	969,807	290,173	198,339	150,054	128,322	-	3,107,795	2,778,518	101,288	111,013
Noncurrent assets:													
Other assets..	2,474	1,666	2,238	-	-	-	1,301	-	-	7,679	9,155	-	-
Capital lease receivable...	-	-	-	-	-	-	-	-	-	-	-	218,983	239,998
Advance to component unit......................................	-	-	3,227	-	-	-	-	-	-	3,227	3,427	-	-
Restricted assets:													
Deposits and investments with City Treasury........	230,817	597,887	11,062	20,808	-	97,042	-	-	-	957,616	1,449,790	-	-
Deposits and investments outside City Treasury...	346,217	213,183	-	12,763	4,057	-	-	14,123	-	590,343	596,558	4,730	4,777
Grants and other receivables.................................	425	6,224	119	2,762	-	7,716	-	15,266	-	32,512	32,107	-	-
Capital assets:													
Land and other assets not being depreciated.........	394,377	1,689,784	94,053	890,477	66,149	301,425	155,506	228	-	3,591,999	2,837,693	-	-
Facilities, infrastructure, and equipment, net of depreciation.............................	3,475,341	2,637,766	268,444	1,651,571	34,161	1,504,134	284,267	549,806	-	10,405,490	10,003,198	9,278	5,920
Total capital assets..	3,869,718	4,327,550	362,497	2,542,048	100,310	1,805,559	439,773	550,034	-	13,997,489	12,840,891	9,278	5,920
Total noncurrent assets.....................................	4,449,651	5,146,510	379,143	2,578,381	104,367	1,910,317	441,074	579,423	-	15,588,866	14,931,928	232,991	250,695
Total assets...	5,153,948	5,599,011	593,445	3,548,188	394,540	2,108,656	591,128	707,745	-	18,696,661	17,710,446	334,279	361,708
DEFERRED OUTFLOWS OF RESOURCES													
Unamortized loss on refunding of debt.......................	92,147	17,505	-	-	-	1,698	-	-	-	111,350	129,461	1,250	1,330
Deferred outflows on derivative instruments..............	64,964	-	-	-	-	-	-	-	-	64,964	64,743	-	-
Total deferred outflows of resources.................	157,111	17,505	-	-	-	1,698	-	-	-	176,314	194,204	1,250	1,330

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Position - Proprietary Funds (Continued)

June 30, 2014
(With comparative financial information as of June 30, 2013)
(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		Governmental Activities - Internal Service Funds	
										2014	2013	2014	2013
LIABILITIES													
Current liabilities:													
Accounts payable	$ 40,782	$ 9,724	$ 13,260	$ 97,717	$ 41,060	$ 7,469	$ 14,333	$ 2,122	$ -	$ 226,467	$ 212,498	$ 9,316	$ 5,526
Accrued payroll	15,285	10,392	3,441	38,730	27,471	6,900	2,269	11,091	-	115,579	103,099	2,735	2,391
Accrued vacation and sick leave pay	8,728	5,932	1,948	18,475	12,565	3,380	1,252	5,373	-	57,653	55,019	1,506	1,408
Accrued workers' compensation	1,243	1,419	439	15,423	3,677	873	406	2,294	-	25,774	24,002	322	290
Estimated claims payable	1,319	6,263	788	27,345	-	2,296	1,480	-	-	39,491	24,284	-	-
Due to other funds	-	9	8	2,500	946	1,773	318	6,945	-	12,499	30,567	2,507	1,963
Unearned revenues and other liabilities	55,633	30,181	247	174,384	112,865	1,902	15,062	51,184	-	441,458	435,257	39,866	55,579
Accrued interest payable	-	37,043	223	2,064	109	8,811	1,472	1,758	-	51,480	51,380	1,578	1,650
Bonds, loans, capital leases, and other payables	145,733	213,956	1,608	5,945	2,551	31,452	2,600	5,650	-	409,495	635,557	20,440	21,144
Liabilities payable from restricted assets:													
Bonds, loans, capital leases, and other payables	278,147	-	-	-	-	-	-	-	-	278,147	207,708	-	-
Accrued interest payable	31,007	-	-	-	-	-	-	-	-	31,007	28,158	-	-
Other	100,933	79,180	567	1,268	-	31,489	-	688	-	214,125	224,549	-	-
Total current liabilities	678,810	394,099	22,529	383,851	201,244	96,345	39,192	87,105	-	1,903,175	2,032,078	78,270	89,951
Noncurrent liabilities:													
Accrued vacation and sick leave pay	7,224	5,538	1,501	12,256	9,799	2,659	1,040	4,022	-	44,039	44,414	1,272	1,324
Accrued workers' compensation	4,427	7,316	2,028	79,728	22,881	4,225	2,368	12,382	-	135,355	124,442	1,445	1,218
Other postemployment benefits obligation	103,783	94,762	20,123	199,205	191,610	37,152	18,091	69,708	-	734,434	658,008	19,789	17,847
Estimated claims payable	68	12,601	2,106	32,356	-	4,236	350	-	-	51,717	39,297	-	-
Unearned revenue and other liabilities	-	31,075	186	-	-	571	64,840	-	-	96,672	89,080	-	-
Bonds, loans, capital leases, and other payables	4,169,755	4,416,913	31,422	136,995	19,576	783,299	93,958	139,833	-	9,791,751	9,203,466	223,063	244,048
Derivative instruments liabilities	80,235	-	-	-	-	-	-	-	-	80,235	81,338	-	-
Total noncurrent liabilities	4,365,492	4,568,205	57,366	460,540	243,866	832,142	180,647	225,945	-	10,934,203	10,240,045	245,569	264,437
Total liabilities	5,044,302	4,962,304	79,895	844,391	445,110	928,487	219,839	313,050	-	12,837,378	12,272,123	323,839	354,388
DEFERRED INFLOWS OF RESOURCES													
Unamortized gain on refunding of debt	-	-	-	449	-	-	-	-	-	449	488	-	-
Unamortized gain on leaseback transaction	-	-	-	17,288	-	-	-	-	-	17,288	23,819	-	-
Total deferred inflows of resources	-	-	-	17,737	-	-	-	-	-	17,737	24,307	-	-
NET POSITION													
Net investment in capital assets	(149,894)	366,799	336,202	2,396,595	82,210	1,066,814	312,572	421,361	-	4,832,659	4,650,574	9,278	5,556
Restricted:													
Debt service	25,390	25,356	-	12,763	-	634	-	-	-	64,143	58,970	-	-
Capital projects	200,219	103,154	5,507	-	-	22,929	16,389	15,403	-	363,601	299,942	-	-
Other purposes	-	-	-	22,302	-	-	-	2,419	-	24,721	13,046	-	-
Unrestricted (deficit)	191,042	158,903	171,841	254,400	(132,780)	91,490	42,328	(44,488)	-	732,736	585,688	2,412	3,094
Total net position (deficit)	$ 266,757	$ 654,212	$ 513,550	$ 2,686,060	$ (50,570)	$ 1,181,867	$ 371,289	$ 394,695	$ -	$ 6,017,860	$ 5,608,220	$ 11,690	$ 8,650

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 Position – Proprietary Funds

Year Ended June 30, 2014
(With comparative financial information as of June 30, 2013)
(In Thousands)

	Business-type Activities - Enterprise Funds											Governmental Activities - Internal Service Funds	
	Major Funds								Other Fund	Total			
	San Francisco International Airport	San Francisco Water Enterprise	Hetch Hetchy Water and Power	Municipal Transportation Agency	General Hospital Medical Center	San Francisco Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	San Francisco Market Corporation	2014	2013	2014	2013
Operating revenues:													
Aviation	$ 441,259	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 441,259	$ 413,918	$ -	$ -
Water and power service	-	354,827	134,214	-	-	-	-	-	-	489,041	834,195	-	-
Passenger fees	-	-	-	211,684	-	-	-	-	-	211,684	218,939	-	-
Net patient service revenue	-	-	-	-	785,252	-	-	158,509	-	943,761	861,231	-	-
Sewer service	-	-	-	-	-	244,705	-	-	-	244,705	235,479	-	-
Rents and concessions	136,587	10,675	224	7,524	2,210	-	62,589	-	-	219,809	207,756	142	90
Parking and transportation	116,703	-	-	217,703	-	-	19,724	-	-	354,130	344,057	-	-
Other charges for services	-	-	-	17,620	-	-	-	-	141	17,761	19,592	118,424	106,682
Other revenues	76,142	14,380	-	67,097	3,898	15,392	2,706	1,169	-	180,784	144,116	-	-
Total operating revenues	770,691	379,882	134,438	521,628	791,360	260,097	85,019	159,678	141	3,102,934	3,279,283	118,566	106,772
Operating expenses:													
Personal services	250,088	119,849	47,105	628,849	454,909	85,114	33,489	180,811	-	1,800,214	1,761,020	47,660	44,661
Contractual services	65,126	10,921	4,898	93,140	191,555	14,314	4,770	9,214	-	393,938	404,612	39,965	34,854
Light, heat and power	20,919	-	26,215	-	-	-	1,974	-	-	49,108	42,181	-	-
Materials and supplies	14,536	12,154	3,427	87,332	74,054	10,830	1,635	18,831	-	222,799	218,786	18,152	19,098
Depreciation and amortization	222,815	89,026	15,314	120,954	5,761	48,402	20,434	16,311	120	539,137	474,393	1,957	1,547
General and administrative	3,334	46,749	32,318	58,284	1,099	22,406	3,988	-	-	168,178	119,657	382	509
Services provided by other departments	16,918	54,856	6,788	56,957	42,676	35,274	15,571	8,645	-	237,685	234,630	7,298	6,403
Other	31,924	-	-	(13,079)	68	-	1,735	-	-	20,648	32,640	1,405	987
Total operating expenses	625,660	333,555	136,065	1,032,437	770,122	216,340	83,596	233,812	120	3,431,707	3,287,919	116,819	108,059
Operating income (loss)	145,031	46,327	(1,627)	(510,809)	21,238	43,757	1,423	(74,134)	21	(328,773)	(8,636)	1,747	(1,287)
Nonoperating revenues (expenses):													
Operating grants:													
Federal	-	715	156	8,507	-	1,780	165	42	-	11,365	36,872	-	-
State / other	-	-	-	131,161	47,825	-	-	-	-	178,986	187,332	-	-
Interest and investment income	5,425	10,907	1,776	6,093	1,364	2,400	1,236	642	-	29,843	1,009	5,279	5,794
Interest expense	(201,998)	(136,645)	(1,574)	(4,931)	(304)	(27,126)	(4,955)	(7,214)	-	(384,747)	(378,373)	(5,568)	(5,983)
Other, net	(7,025)	32,562	3,155	23,143	-	12,280	547	29,802	(11,727)	82,737	67,344	518	337
Total nonoperating revenues (expenses)	(203,598)	(92,461)	3,513	163,973	48,885	(10,666)	(3,007)	23,272	(11,727)	(81,816)	(85,816)	229	148
Income (loss) before capital contributions and transfers	(58,567)	(46,134)	1,886	(346,836)	70,123	33,091	(1,584)	(50,862)	(11,706)	(410,589)	(94,452)	1,976	(1,139)
Capital contributions	91,024	-	-	414,700	-	-	9,721	-	-	515,445	251,753	-	-
Transfers in	-	2,014	368	358,353	121,407	51	27,742	39,206	-	549,141	694,352	1,242	177
Transfers out	(37,994)	(1,299)	(38)	(4,583)	(166,250)	(32)	(27,199)	(119)	-	(237,514)	(211,146)	(178)	(324)
Change in net position before extraordinary loss	(5,537)	(45,419)	2,216	421,634	25,280	33,110	8,680	(11,775)	(11,706)	416,483	640,507	3,040	(1,286)
Extraordinary loss	-	-	(6,843)	-	-	-	-	-	-	(6,843)	-	-	-
Change in net position	(5,537)	(45,419)	(4,627)	421,634	25,280	33,110	8,680	(11,775)	(11,706)	409,640	640,507	3,040	(1,286)
Net position (deficit) at beginning of year, as restated	272,294	699,631	518,177	2,264,426	(75,850)	1,148,757	362,609	406,470	11,706	5,608,220	4,967,713	8,650	9,936
Net position (deficit) at end of year	$ 266,757	$ 654,212	$ 513,550	$ 2,686,060	$ (50,570)	$1,181,867	$371,289	$394,695	$ -	$6,017,860	$ 5,608,220	$ 11,690	$ 8,650

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

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CITY AND COUNTY OF SAN FRANCISCO

Statement of Cash Flows – Proprietary Funds

Year Ended June 30, 2014
(With comparative financial information as of June 30, 2013)
(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 2014	Total 2013	Governmental Activities - Internal Service Funds 2014	Governmental Activities - Internal Service Funds 2013
Cash flows from operating activities:													
Cash received from customers, including cash deposits...	$ 784,560	$ 392,145	$ 142,632	$ 578,292	$820,905	$ 266,907	$ 16,865	$147,383	$ 477	$3,150,166	$3,241,969	$ 143,692	$133,734
Cash received from tenants for rent..................................	-	10,325	224	7,566	2,210	838	65,674	-	-	86,837	80,727	-	-
Cash paid to employees for services................................	(234,514)	(107,380)	(43,240)	(598,468)	(427,415)	(76,953)	(31,294)	(172,509)	(174)	(1,691,947)	(1,637,141)	(45,066)	(41,960)
Cash paid to suppliers for goods and services..................	(163,472)	(97,703)	(78,263)	(312,771)	(303,353)	(80,110)	(29,900)	(37,404)	(564)	(1,103,540)	(1,062,244)	(77,186)	(79,920)
Cash paid for judgments and claims.................................	-	(7,391)	(3,841)	(15,651)	-	(2,638)	-	-	-	(29,521)	(16,528)	-	-
Net cash provided by (used in) operating activities.........	386,574	189,996	17,512	(341,032)	92,347	108,044	21,345	(62,530)	(261)	411,995	606,783	21,440	11,854
Cash flows from noncapital financing activities:													
Operating grants..	-	2,883	298	131,834	47,737	414	1,131	42	-	184,339	219,404	-	-
Transfers in..	-	404	-	327,114	121,407	51	720	39,206	-	488,902	601,329	1	177
Transfers out..	(37,994)	(1,299)	(38)	(4,583)	(166,250)	(32)	-	(119)	-	(210,315)	(203,380)	(178)	(324)
Other noncapital financing increases................................	1,337	-	-	17,198	-	-	-	6,940	-	25,475	10,426	-	-
Other noncapital financing decreases...............................	(52,776)	-	-	-	(253)	-	-	-	(5,476)	(58,505)	(47,352)	-	-
Net cash provided by (used in) noncapital financing activities.......................................	(89,433)	1,988	260	471,563	2,641	433	1,851	46,069	(5,476)	429,896	580,427	(177)	(147)
Cash flows from capital and related financing activities:													
Capital grants and other taxes restricted for capital purposes..	82,047	-	-	282,444	-	-	1,734	29,550	-	395,775	301,020	-	-
Transfers in..	-	1,300	-	31,239	-	-	27,022	-	-	59,561	90,222	1,241	-
Transfers out..	-	-	-	-	-	-	(27,199)	-	-	(27,199)	(4,965)	-	-
Bond sale proceeds and loans received.............................	475,847	-	-	82,243	-	-	35,735	-	-	593,825	676,627	-	11,829
Proceeds from sale/transfer of capital assets....................	-	30	11	25	-	26	10	-	-	102	3,352	-	-
Proceeds from commercial paper borrowings...................	249,350	12,000	-	-	-	-	-	-	-	261,350	255,075	-	-
Proceeds from passenger facility charges.........................	86,868	-	-	-	-	-	-	-	-	86,868	87,033	-	-
Acquisition of capital assets...	(375,053)	(532,708)	(30,220)	(458,850)	(23,992)	(182,876)	(44,614)	(7,120)	-	(1,655,433)	(1,347,531)	(5,316)	(1,996)
Retirement of capital leases, bonds and loans...................	(343,970)	(22,860)	(1,584)	(5,896)	(2,449)	(33,343)	(3,332)	(5,447)	-	(418,881)	(705,853)	(21,143)	(22,970)
Bond issue costs paid...	-	-	-	(1,051)	-	(210)	-	-	-	(1,261)	(3,101)	(146)	(143)
Interest paid on debt...	(207,763)	(223,064)	(1,639)	(3,617)	(304)	(37,439)	(4,402)	(7,407)	-	(485,635)	(469,249)	(5,639)	(5,915)
Other capital financing increases......................................	-	24,137	694	2,500	-	3,955	3,130	-	-	34,416	69,231	-	-
Other capital financing decreases.....................................	-	-	-	-	-	-	(1,248)	989	-	(259)	(9,339)	-	-
Net cash provided by (used in) capital and related financing activities..........................	(32,674)	(741,165)	(32,738)	(70,963)	(26,745)	(249,887)	(13,164)	10,565	-	(1,156,771)	(1,057,478)	(31,003)	(19,195)
Cash flows from investing activities:													
Purchases of investments with trustees............................	(2,459,855)	(350,617)	(483)	-	-	(148,568)	-	-	-	(2,959,523)	(2,560,575)	(23)	(4,727)
Proceeds from sale of investments with trustees..............	2,406,640	401,272	483	-	-	137,958	-	-	-	2,946,353	2,650,123	4,870	5,042
Interest and investment income..	9,055	8,469	1,268	5,440	1,364	1,799	1,125	318	-	28,838	17,420	291	293
Other investing activities..	-	-	-	-	-	-	-	189	-	189	-	(1)	(501)
Net cash provided by (used in) investing activities..........	(44,160)	59,124	1,268	5,440	1,364	(8,811)	1,125	507	-	15,857	106,968	5,137	107
Net increase (decrease) in cash and cash equivalents.........	220,307	(490,057)	(13,698)	65,008	69,607	(150,221)	11,157	(5,389)	(5,737)	(299,023)	236,700	(4,603)	(7,381)
Cash and cash equivalents-beginning of year......................	539,647	1,574,192	212,986	683,441	67,307	374,669	126,450	55,201	5,737	3,639,630	3,402,930	82,905	90,286
Cash and cash equivalents-end of year................................	$ 759,954	$ 1,084,135	$ 199,288	$ 748,449	$136,914	$ 224,448	$137,607	$ 49,812	$ -	$3,340,607	$3,639,630	$ 78,302	$ 82,905

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, 2014
(With comparative financial information as of June 30, 2013)
(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 2014	Total 2013	Governmental Activities - Internal Service Funds 2014	Governmental Activities - Internal Service Funds 2013
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:													
Operating income (loss)	$ 145,031	$ 46,327	$ (1,627)	$ (510,809)	$ 21,238	$ 43,757	$ 1,423	$ (74,134)	$ 21	$ (328,773)	$ (8,636)	$ 1,747	$ (1,287)
Adjustments for non-cash and other activities:													
Depreciation and amortization	222,815	89,026	15,314	120,954	5,761	48,402	20,434	16,311	120	539,137	474,393	1,957	1,547
Provision for uncollectibles	163	(276)	-	64	-	(9)	17	-	-	(41)	(431)	-	-
Write-off of capital assets	-	6,605	(5,693)	-	-	2,324	-	-	-	3,236	42,707	-	-
Other	2,487	2,226	2,412	-	-	662	-	-	306	8,093	5,431	52	1
Changes in assets/liabilities:										-			
Receivables, net	(10,618)	14,665	2,024	8,573	4,953	7,240	(653)	(35,418)	30	(9,204)	(19,963)	20,828	22,591
Due from other funds	-	(23)	1,273	-	(156)	(22)	-	-	-	1,072	1,282	-	-
Inventories	31	(171)	(8)	(5,083)	(23)	730	182	67	-	(4,275)	(2,525)	-	-
Other assets	(5)	-	(1,529)	(182)	-	(342)	59	-	29	(1,970)	798	-	-
Accounts payable	7,385	3,510	2,469	(15,104)	3,377	990	(1,228)	(780)	(564)	55	1,039	3,899	(1,627)
Accrued payroll	1,715	971	342	4,306	2,521	1,184	171	953	-	12,163	2,628	343	68
Accrued vacation and sick leave pay	353	(247)	151	1,577	704	26	(38)	(269)	-	2,257	1,247	47	(347)
Accrued workers' compensation	437	236	44	5,949	4,131	767	59	1,062	-	12,685	3,988	259	513
Other postemployment benefits obligation	13,070	8,933	2,564	18,548	20,134	4,587	2,035	6,555	-	76,426	105,791	1,942	2,467
Estimated claims payable	-	7,979	(543)	22,064	-	(1,846)	148	-	-	27,802	6,358	-	-
Due to other funds	-	-	8	(33)	-	(133)	-	-	-	(158)	(3,830)	(114)	190
Unearned revenue and other liabilities	3,710	10,235	311	8,144	29,707	(273)	(1,264)	23,123	(203)	73,490	(3,494)	(9,520)	(12,262)
Total adjustments	241,543	143,669	19,139	169,777	71,109	64,287	19,922	11,604	(282)	740,768	615,419	19,693	13,141
Net cash provided by (used in) operating activities	$ 386,574	$ 189,996	$ 17,512	$ (341,032)	$ 92,347	$ 108,044	$ 21,345	$ (62,530)	$ (261)	$ 411,995	$ 606,783	$ 21,440	$ 11,854
Reconciliation of cash and cash equivalents to the statement of net position:													
Deposits and investments with City Treasury:													
Unrestricted	$ 380,170	$ 328,798	$ 188,019	$ 708,199	$132,847	$ 122,546	$ 77,126	$ 7,178	$ -	$1,944,883	$1,806,112	$ 37,885	$ 32,368
Restricted	372,509	597,887	11,062	20,808	-	97,042	47,598	38,604	-	1,185,510	1,609,950	-	-
Deposits and investments outside City Treasury:													
Unrestricted	6,626	106	10	6,679	10	92	5	2	-	13,530	9,808	-	-
Restricted	411,768	278,182	1,281	12,763	4,057	24,601	13,227	18,150	-	764,029	762,496	45,147	60,114
Total deposits and investments	1,171,073	1,204,973	200,372	748,449	136,914	244,281	137,956	63,934	-	3,907,952	4,188,366	83,032	92,482
Less: Investments outside City Treasury not meeting the definition of cash equivalents	(411,119)	(120,838)	(1,084)	-	-	(19,833)	(349)	(14,122)	-	(567,345)	(548,736)	(4,730)	(9,577)
Cash and cash equivalents at end of year on statement of cash flows	$ 759,954	$ 1,084,135	$ 199,288	$ 748,449	$136,914	$ 224,448	$137,607	$ 49,812	$ -	$3,340,607	$3,639,630	$ 78,302	$ 82,905
Non-cash capital and related financing activities:													
Acquisition of capital assets on accounts payable and capital lease	$ 87,072	$ 79,180	$ 199	$ -	$ 519	$ 31,489	$ 11,347	$ 375	$ -	$ 210,181	$ 232,596	$ 2,703	$ 2,104
In-kind contribution for pier demolition	-	-	-	-	-	-	-	-	-	-	22	-	-
Tenant improvements financed by rent credits	-	-	-	-	-	-	2,861	-	-	2,861	45,670	-	-
Net capitalized interest	8,357	85,940	59	790	1,135	8,934	67	-	-	105,282	88,203	-	-
Accrued fire insurance settlement	-	-	-	-	-	-	-	-	-	-	-	-	-
Donated inventory	-	-	-	-	2,746	-	-	-	-	2,746	2,759	-	-
Capital contributions and other noncash capital items	-	310	368	-	-	-	696	-	-	1,374	1,803	-	-
Bond refunding	182,342	-	-	-	-	-	26,785	-	-	209,127	88,353	-	-
Interfund loan	-	9	6	-	-	1,473	-	-	-	1,488	1,613	-	-

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Fiduciary Net Position
Fiduciary Funds
June 30, 2014
(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	$ 190,459	$ 617,667	$ 211,978	$ 157,870
Deposits and investments outside City Treasury:				
Cash and deposits	82,283	105	-	1,170
Short-term investments	838,466	-	204,177	-
Debt securities	4,531,032	-	-	-
Equity securities	10,441,661	-	-	-
Real estate	1,582,169	-	-	-
Alternative investments	2,424,678	-	-	-
Foreign currency contracts, net	829	-	-	-
Invested in securities lending collateral	911,577	-	-	-
Receivables:				
Employer and employee contributions	90,906	-	-	66,007
Brokers, general partners and others	281,319	-	-	-
Federal and state grants and subventions	-	-	444	-
Interest and other	66,067	846	17,996	144,826
Other assets	-	-	-	45,538
Capital assets:				
Land and other assets not being depreciated	-	-	62,203	-
Facilities, infrastructure and equipment, net of depreciation	-	-	135,511	-
Total assets	21,441,446	618,618	632,309	415,411
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized loss on refunding of debt	-	-	2,926	-
LIABILITIES				
Accounts payable	32,478	28	30,661	27,644
Estimated claims payable	29,156	-	-	-
Due to the primary government	-	-	1,075	-
Agency obligations	-	-	-	387,767
Bond interest payable	-	-	21,002	-
Payable to brokers	356,990	-	-	-
Deferred Retirement Option Program	3,096	-	-	-
Payable to borrowers of securities	912,886	-	-	-
Other liabilities	44,395	-	1,288	-
Advance from primary government	-	-	21,670	-
Long-term obligations	-	-	999,176	-
Total liabilities	1,379,001	28	1,074,872	$ 415,411
NET POSITION				
Held in trust for:				
Pension and other employee benefits	20,062,445	-	-	
External pool participants	-	618,590	-	
Redevelopment Agency dissolution	-	-	(439,637)	
Total net position (deficit)	$ 20,062,445	$ 618,590	$ (439,637)	

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

CITY AND COUNTY OF SAN FRANCISCO

Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Year Ended June 30, 2014
(In Thousands)

	Pension, Other Employee and Other Post-Employment Benefit Trust Funds	Investment Trust Fund	Private-Purpose Trust Fund
Additions:			
Redevelopment property tax revenues	$ -	$ -	$ 131,744
Charges for services	-	-	56,530
Contributions:			
Employees' contributions	419,723	-	-
Employer contributions	1,182,831	-	-
Contributions to pooled investments	-	2,956,714	-
Total contributions	1,602,554	2,956,714	188,274
Investment income:			
Interest	178,509	4,338	1,812
Dividends	195,503	-	-
Net appreciation in fair value of investments	2,844,568	-	-
Securities lending income	4,871	-	-
Total investment income	3,223,451	4,338	1,812
Less investment expenses:			
Securities lending borrower rebates and expenses	952	-	-
Other investment expenses	(47,599)	-	-
Total investment expenses	(46,647)	-	-
Other additions	-	-	4,309
Total additions, net	4,779,358	2,961,052	194,395
Deductions:			
Neighborhood development	-	-	91,222
Depreciation	-	-	5,499
Interest on debt	-	-	57,059
Benefit payments	1,810,793	-	-
Refunds of contributions	10,297	-	-
Distribution from pooled investments	-	2,670,438	-
Administrative expenses	15,905	-	9,829
Total deductions	1,836,995	2,670,438	163,609
Change in net position	2,942,363	290,614	30,786
Net position at beginning of year, as restated	17,120,082	327,976	(470,423)
Net position (deficit) at end of year	$ 20,062,445	$ 618,590	$ (439,637)

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 (Transportation Authority) – The voters of the City created the Transportation Authority in 1989 to impose a voter-approved sales and use tax of one-half of one percent, for a period not to exceed 20 years, to fund essential traffic and transportation projects. In 2003, the voters approved Proposition K, extending the city-wide one-half of one percent sales tax with a new 30 year plan. A board consisting of the eleven members of the City's Board of Supervisors serving ex officio governs the Transportation Authority. The Transportation Authority is reported in a special revenue fund in the City's basic financial statements. Financial statements for the Transportation Authority 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 (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 Chief Financial Officer at 1 South Van Ness Avenue, 8th Floor, San Francisco, CA 94102.

Discretely Presented Component Unit

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 1 Avenue of the Palms, Suite 241, Treasure Island, San Francisco, CA 94130.

Fiduciary Component Unit

Successor Agency to the Redevelopment Agency of the City and County of San Francisco (Successor Agency) – The Successor Agency was created on February 1, 2012 to serve as a custodian for the assets and to wind down the affairs of the former San Francisco Redevelopment Agency pursuant to California Redevelopment Dissolution Law. The Successor Agency is governed by the Successor Agency Commission, commonly known as the Commission on Community Investment and Infrastructure, and is a separate public entity from the City. The Commission has five members, which serve at the pleasure of the City's Mayor and are subject to confirmation by the Board of Supervisors. The City is financially accountable for the Successor Agency through the appointment of the Commission and a requirement that the Board of Supervisors approve the Successor Agency's annual budget.

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.

Per the Redevelopment Dissolution Law, certain actions of the Successor Agency are also subject to the direction of an Oversight Board. 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 revenues 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.

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 position and the statement of activities) 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 90 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.

During the year ended June 30, 2014, the City adopted a new revenue recognition policy, and changed the availability period from 120 days to 90 days. The new policy more closely reflects the use of current resources to pay liabilities of the current period. The adoption of the new accounting principle resulted in a reduction in revenues by approximately $16 million for the year ended June 30, 2014, and did not have a significant impact on the financial statements as of and for the year ended June 30, 2013.

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) and the operations of Sustainable Streets (previously named the 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. 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's 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 Postemployment Benefit Trust Funds*** reflect the activities of the Employees' Retirement System (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 until sufficient funds are set aside to pay for all future retiree health care costs, except in certain limited circumstances.
- 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.

The City applies all applicable Governmental Accounting Standards Board (GASB) pronouncements.

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 two-year rolling budgets annually 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) dedicated investment funds. The dedicated investment funds represent restricted funds and relate to Successor Agency separately managed funds, bond issues of the Enterprise Funds, and the General Fund's cash reserve requirement. In addition to the Treasurer's investment pool, the City has other funds that are held by trustees. These funds are related to the issuance of bonds and certain loan programs of the City. The investments of the 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, 2014, involuntary participants accounted for approximately 98.9% of the pool. Voluntary participants accounted for 1.1% 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, 2014, $618.6 million was held on behalf of these external participants. The total percentage share of the City's pool that relates to these four external participants is 9.2%. Internal participants accounted for 90.8% of the pool.

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.

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. Securities 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 $964.9 million including $93.7 million in recourse debt at June 30, 2014. 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 purchase and sale 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 Retirement System's 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, 2014 was 96 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, 2014, the weighted average maturity of the reinvested cash collateral account was 33 days. The term to maturity of the loaned securities is generally not matched with the term to maturity of the investment of the said collateral. Cash collateral may also be invested separately in term loans, in which case the maturity of the loaned securities matches the term of the loan.

Cash collateral invested in the separate account managed by the lending agent is reported at fair value. Payable to borrowers of securities in the statement of fiduciary net position 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 position.

San Francisco International Airport – The Airport has entered into certain derivative instruments, which it values at fair value, in accordance with GASB Statement No. 53 – *Accounting and Financial Reporting for Derivative Instruments*. The Airport applies hedge accounting for changes in the fair value of hedging derivative instruments, in accordance with GASB Statement No. 64 – *Derivative Instruments: Application of Hedge Accounting Termination Provisions, an amendment of GASB Statement No. 53*. Under hedge accounting, the changes in the fair value of hedging derivative instruments are reported as either deferred outflows of resources or deferred inflows of resources in the statement of net position.

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, Investment Trust and Agency Funds.

It is the City's policy to charge interest at month-end to those funds that have a negative average daily cash balance. In certain instances, City management has determined that the interest expense related to the fund should be allocated to the General Fund. On a budget basis, the interest expense is recorded in the General Fund. On a GAAP basis, the interest expense is recorded in the fund and then a transfer from the General Fund for an amount equal to the interest expense is made to the fund. This is the case for certain other funds, MTA, LHH, SFGH, 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, 2014, it was determined that $962.2 million of the $1,034.3 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 inflow of resources. For purposes of the government-wide financial statements, long-term loans are not offset by deferred inflows of resources.

(f) Inventories

Inventories recorded in the proprietary funds primarily consist 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 property 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 have an estimated life that extends beyond a single reporting period or more than a 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. 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 position. Bond issuance costs related to prepaid insurance costs, bond premiums and discounts for San Francisco International Airport, San Francisco Water Enterprise, Hetch Hetchy Water and Power, the Municipal Transportation Agency, and San Francisco Wastewater Enterprise are amortized over the life of the bonds using the effective interest method. The remaining bond prepaid issuance costs, bond premiums and discounts are calculated using the straight-line method. Bonds payable are reported net of the applicable bond premium or discount.

In the fund financial statements, governmental funds recognize bond premiums and discounts as other financing sources and uses, respectively. Issuance costs including bond insurance 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 an ordinance 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.

(Dollars in Thousands)

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.

Fund balances for all the major and nonmajor governmental funds as of June 30, 2014, were distributed as follows:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Imprest Cash, Advances, and Long Term Receivables.	$ 24,022	$ 249	$ 24,271
Gift Fund Principal	-	192	192
Total Nonspendable	24,022	441	24,463
Restricted			
Rainy Day	83,194	-	83,194
Public Protection	-	24,939	24,939
Public Works, Transportation & Commerce	-	132,625	132,625
Human Welfare & Neighborhood Development	-	257,054	257,054
Community Health	-	21,951	21,951
Culture & Recreation	-	120,876	120,876
General Administration & Finance	-	8,770	8,770
Capital Projects	-	422,507	422,507
Debt Service	-	126,504	126,504
Total Restricted	83,194	1,115,226	1,198,420
Committed			
Budget Stabilization	132,264	-	132,264
Recreation and Parks Expenditure Savings	12,862	-	12,862
Total Committed	145,126	-	145,126
Assigned			
Public Protection	21,290	1,804	23,094
Public Works, Transportation & Commerce	16,572	30,662	47,234
Human Welfare & Neighborhood Development	21,507	2,853	24,360
Community Health	44,050	-	44,050
Culture & Recreation	4,898	6,302	11,200
General Administration & Finance	47,871	9,112	56,983
General City Responsibilities	44,496	-	44,496
Capital Projects	50,930	-	50,930
Litigation and Contingencies	79,223	-	79,223
Subsequent Year's Budget	178,066	-	178,066
Total Assigned	508,903	50,733	559,636
Unassigned	74,317	(64,983)	9,334
Total	$ 835,562	$ 1,101,417	$ 1,936,979

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 2014-15 through 2018-19.

Budget Stabilization Reserve – The City sets aside as an additional reserve 75 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 2014-15 through 2018-19.

Recreation and Parks Expenditure Savings Reserve – The City maintains a Recreation and Parks Expenditure Savings Reserve under Charter Section 16.107, which sets aside and maintains 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 the 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, 2014, encumbrances recorded in the General Fund and nonmajor governmental funds were $92.3 million and $310.5 million, respectively.

Restricted Net Position

The government-wide and proprietary fund financial statements utilize a net position presentation. Net position is categorized as net investment in capital assets, restricted, and unrestricted.

- *Net Investment In Capital Assets* – This category groups all capital assets, including infrastructure, into one component of net position. 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 Position* – This category represents net position that has 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, 2014, the government-wide statement of net position reported restricted net position of $862.7 million in governmental activities and $452.5 million in business-type activities, of which $12.2 million and $22.3 million are restricted by enabling legislation in governmental activities and business-type activities, respectively.

- *Unrestricted Net Position* – This category represents net position 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 position in the City's governmental activities. In accordance with GASB guidance, the City reclassified $339.2 million of unrestricted net position of governmental activities, of which $283.1 million reduced net investment in capital assets and $56.1 million reduced net position restricted for capital projects to reflect the total column of the primary government as a whole perspective.

Deficit Net Position/Fund Balances

The Senior Citizens' Program Fund and the Human Welfare Fund had deficits of $133 and $440, respectively, as of June 30, 2014. The deficit relates to increases of unavailable revenue in various programs, which is expected to be collected beyond 90 days of the end of fiscal year 2014.

The San Francisco County Transportation Authority Fund had a deficit of $44.4 million as of June 30, 2014. This condition exists because the Transportation Authority 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 Transportation Authority refinances the outstanding short-term debt to long-term debt.

The Moscone Convention Center Fund had a $7.6 million deficit as of June 30, 2014. The deficit will be covered as hotel tax revenues are realized.

The Central Shops Internal Service Fund had a deficit in total net position of $3.6 million as of June 30, 2014 mainly due to the other postemployment benefits liability accrued as per GASB Statement No. 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, 2014, the Successor Agency has a deficit of $439.6 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

In governmental and business-type activities, losses or gains from advance refundings are recorded as deferred outflows of resources and deferred inflows of resources, respectively, and amortized into expense.

(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).

Hetch Hetchy Water and Power Enterprise Fund - The Rim Fire, the third largest in California history, began on August 17, 2013 and burned over 257,135 acres. This Rim Fire event was considered unusual, infrequent, material, and reported accordingly as an extraordinary item in the financial statements of the City in the Hetch Hetchy Water and Power Enterprise Fund.

As of June 30, 2014, approximately $8,289 in damages to facilities and infrastructure, and $7,554 in emergency response, clearing of roads, slopes and bridges, and debris removal, had been incurred, totaling $15,843. Of these expenses, $8,331 of costs were considered as an extraordinary loss. In addition to the $15,843 of costs incurred, Hetch Hetchy recognized an impairment loss of $939 to building structures and construction in progress, including Holm Powerhouse mechanical and electrical equipment, and the fiber optic line. Additionally, as a result of the fire damage to creosote treated power poles, Hetch Hetchy recorded $186 in pollution remediation obligation as debris from the poles pose a potential threat if washed into nearby waterways. Capital asset impairment loss of $939 and purchased and banked power of $1,026 were netted with the $3,453 of insurance recoveries received for damages sustained. For the year ended June 30, 2014, Hetch Hetchy recorded an extraordinary loss of $6,843, net of impairment loss and insurance recovery.

(Dollars in Thousands)

(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 2012-13 Summarized Comparative Financial Information in the basic financial statements, have been reclassified for comparative purposes, to conform to the presentation in the 2013-14 basic financial statements.

(s) Effects of New Pronouncements

During fiscal year 2014, the City implemented the following accounting standards:

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. As of July 1, 2013, the City restated its net position as follows to write off unamortized bond issuance costs previously reported as assets:

	Net Position, at Beginning of Year		
	As Previously Reported	Change in Accounting Principle	As Restated
Primary Government:			
Governmental Activities	$ 1,820,159	$ (26,270)	$ 1,793,889
Business-Type Activities:			
San Francisco International Airport	294,419	(22,125)	272,294
San Francisco Water Enterprise	732,958	(33,327)	699,631
Hetch Hetchy Water and Power	518,477	(300)	518,177
Municipal Transportation Agency	2,266,437	(2,011)	2,264,426
General Hospital Medical Center	(75,850)	-	(75,850)
San Francisco Wastewater Enterprise	1,154,912	(6,155)	1,148,757
Port of San Francisco	363,166	(557)	362,609
Laguna Honda Hospital	407,877	(1,407)	406,470
San Francisco Market Corporation	11,706	-	11,706
Total Business-Type Activities	5,674,102	(65,882)	5,608,220
Total Primary Government	$ 7,494,261	$ (92,152)	$ 7,402,109
Successor Agency Private-Purpose Trust Fund	$ (456,991)	$ (13,432)	$ (470,423)

In addition, in the government-wide statements, the City reclassified unamortized losses and gains on refunding of debt as deferred outflows of resources and deferred inflows of resources (see Note 8). The City also reclassified amounts related to the Municipal Transportation Agency's Breda leaseback transaction as a deferred inflow of resources. These were previously reported as liabilities.

In the governmental fund statements, the City reclassified $331.4 million of unavailable revenue as of June 30, 2013 as deferred inflows of resources, which was previously reported as liabilities.

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. Implementation of this statement did not have a significant impact on the City for the fiscal year ended June 30, 2014.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*. The statement establishes accounting and financial reporting standards for governments that offer or receive financial guarantees that are nonexchange transactions. The new standard is effective for periods beginning after June 15, 2013. Implementation of this statement did not have a significant impact on the City for the fiscal year ended June 30, 2014.

In addition, the City implemented the first of three related accounting standards:

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. In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date—an amendment of GASB Statement No. 68*, which clarifies reporting for contributions made after the measurement date of the pension liability.

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. Statement No. 67 was implemented for the City's fiscal year ended June 30, 2014. The total pension liability, determined in accordance with GASB

(Dollars in Thousands)

Statement No. 67, is presented in the notes and in the required supplementary information section in the Retirement System's separately issued financial report. Application of Statements Nos. 68 and 71 must be implemented simultaneously and are effective for the City's fiscal year ending June 30, 2015.

The City is also currently analyzing its accounting practices to determine the potential impact on the financial statements for GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*. The statement establishes accounting and financial reporting standards for governments that combine or dispose of their operations. The new standard is effective for periods beginning after December 15, 2013. Application of this statement 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 position 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.

(u) Deferred Outflows and Inflows of Resources

The City records deferred outflows or inflows of resources in its governmental and government-wide financial statements for consumption or acquisition of net position that is applicable to a future reporting period. These financial statement elements are distinct from assets and liabilities.

In governmental fund statements, deferred inflows of resources consist of revenues not collected within the availability period after fiscal year-end. The deferred inflows of resources balance consists as of June 30, 2014 of the following unavailable resources:

	General Fund	Other Governmental Funds	Total Governmental Funds
Grant and subvention revenues................	$ 65,083	$ 43,900	$ 108,983
Property taxes.......................................	48,119	9,035	57,154
Teeter Plan...	37,303	-	37,303
California Senate Bill 90.........................	25,217	-	25,217
Advances to Successor Agency..............	21,670	-	21,670
Franchise tax and other..........................	4,343	3,094	7,437
Loans..	1,332	70,747	72,079
Total..	$ 203,067	$ 126,776	$ 329,843

California Senate Bill 90 (SB90), was adopted in 1972 and added to the State Constitution in 1979. When the Governor or Legislature mandates a new program or higher level of service upon local agencies and school districts, SB90 requires the State to reimburse local agencies and school districts for the cost of these new programs or higher levels of service. The balance in deferred inflow of resources is the value of reimbursement claims submitted to the State which are subject to audit for unallowable costs.

As described in Note 6, under the Teeter Plan the City is allocated secured property tax revenue which has been billed but not collected. Collections which have not occurred within the availability period are included in deferred inflows of resources in the General Fund.

In government wide financial statements, deferred outflows and inflows of resources are recorded for unamortized losses and gains on refunding of debt, deferred outflows of resources on derivative instruments, and deferred inflows of resources related to the Municipal Transportation Agency's leaseback transaction.

(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 position

Total fund balances of the City's governmental funds, $1,936,979, differs from net position of governmental activities, $2,341,631, reported in the statement of net position. The difference primarily results from the long-term economic focus in the statement of net position 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 Position Totals
Assets					
Deposits and investments with City Treasury	$ 2,385,663	$ -	$ 37,885	$ -	$2,423,548
Deposits and investments outside City Treasury	68,302	-	45,147	-	113,449
Receivables, net					
Property taxes and penalties	62,510	-	-	-	62,510
Other local taxes	236,255	-	-	-	236,255
Federal and state grants and subventions	299,361	-	-	-	299,361
Charges for services	58,067	-	34	-	58,101
Interest and other	8,078	-	599	-	8,677
Due from other funds	18,384	-	-	(18,384)	-
Due from component unit	1,423	-	-	-	1,423
Advance to component unit	32,276	-	-	-	32,276
Loans receivable, net	72,079	-	-	-	72,079
Capital assets, net	-	4,453,436	9,278	-	4,462,714
Other assets	17,096	-	2,736	-	19,832
Total assets	3,259,494	4,453,436	95,679	(18,384)	7,790,225
Deferred outflows of resources					
Unamortized loss on refunding of debt	-	10,451	1,250	-	11,701
Total assets and deferred outflows of resources	$ 3,259,494	$4,463,887	$ 96,929	$ (18,384)	$7,801,926
Liabilities					
Accounts payable	$ 329,049	$ -	$ 9,316	$ -	$ 338,365
Accrued payroll	143,193	-	2,735	-	145,928
Accrued vacation and sick leave pay	-	145,502	2,778	-	148,280
Accrued workers' compensation	-	220,980	1,767	-	222,747
Other postemployment benefits obligation	-	984,352	19,789	-	1,004,141
Estimated claims payable	-	155,851	-	-	155,851
Accrued interest payable	-	11,182	1,578	-	12,760
Unearned grant and subvention revenues	18,081	-	-	-	18,081
Due to other funds	21,611	-	2,507	(18,384)	5,734
Unearned revenue and other liabilities	304,978	2,545	119	-	307,642
Bonds, loans, capital leases, and other payables	175,760	2,681,228	243,503	-	3,100,491
Total liabilities	992,672	4,201,640	284,092	(18,384)	5,460,020
Deferred inflows of resources	329,843	(329,568)	-	-	275
Fund balances/ net position					
Total fund balances/ net position	1,936,979	591,815	(187,163)	-	2,341,631
Total liabilities, deferred inflows of resources and fund balances/ net position	$ 3,259,494	$4,463,887	$ 96,929	$ (18,384)	$7,801,926

(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 position includes those capital assets, net of accumulated depreciation, among the assets of the City as a whole.

Cost of capital assets	$ 5,785,121
Accumulated depreciation	(1,331,685)
	$ 4,453,436

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 position.

Accrued vacation and sick leave pay	$ (145,502)
Accrued workers' compensation	(220,980)
Other postemployment benefits obligation	(984,352)
Estimated claims payable	(155,851)
Bonds, loans, capital leases, and other payables	(2,681,228)
Unearned revenue and other liabilities	(2,545)
	$ (4,190,458)

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	$ (11,182)

Deferred outflow of resources in governmental activities are not financial resources, and therefore, are not reported in the governmental funds.

Unamortized loss on refunding of debt	$ 10,451

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current period expenditures and thus are not included in fund balance.

Revenue not collected within the City's availability period and other activities related to long-term loans	$ 329,843
Unamortized gain on refunding of debt	(275)
	$ 329,568

(2) Internal service funds are used by management to charge the costs of certain activities, such as capital lease financing, equipment maintenance services, printing and mailing services, and telecommunications 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 position.

Net position before adjustments	$ 11,690
Adjustments for internal balances with the San Francisco Finance Corporation:	
Capital lease receivables from other governmental and enterprise funds	(241,111)
Other assets	2,511
Unearned revenue and other liabilities	39,747
	$ (187,163)

In addition, intrafund receivables and payables among various internal service funds of $85 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, $268,418, differs from the change in net position for governmental activities, $547,742, reported in the statement of activities. The differences arise primarily from the long-term economic focus in the statement of activities versus the current financial resources focus in the governmental funds. The effect of the differences is illustrated below.

	Total Governmental Funds	Long-term Revenues/ Expenses (3)	Capital-related Items (4)	Internal Service Funds (5)	Long-term Debt Transactions (6)	Statement of Activities Totals
Revenues						
Property taxes	$ 1,517,261	$ 4,210	$ -	$ -	$ -	$ 1,521,471
Business taxes	563,406	-	-	-	-	563,406
Sales and use tax	227,636	-	-	-	-	227,636
Hotel room tax	310,052	-	-	-	-	310,052
Utility users tax	86,810	-	-	-	-	86,810
Parking tax	83,476	-	-	-	-	83,476
Real property transfer tax	261,925	-	-	-	-	261,925
Other local taxes	46,237	-	-	-	-	46,237
Licenses, permits and franchises	42,371	124	-	-	-	42,495
Fines, forfeitures, and penalties	28,425	(115)	-	-	-	28,310
Interest and investment income	21,678	-	-	209	-	21,887
Rents and concessions	90,712	1,602	-	-	-	92,314
Intergovernmental:				-		
Federal	426,314	12,921	-	-	-	439,235
State	721,735	4,310	-	-	-	726,045
Other	9,408	(3,053)	-	-	-	6,355
Charges for services	333,904	1,408	-	-	-	335,312
Other	134,923	(1,700)	16,218	518	-	149,959
Total revenues	4,906,273	19,707	16,218	727	-	4,942,925
Expenditures/ Expenses						
Current:						
Public Protection	1,172,497	50,824	12,585	(6,315)	-	1,229,591
Public works, transportation and commerce	232,005	14,002	(43,374)	(1,921)	-	200,712
Human welfare and neighborhood development	995,192	13,741	480	(223)	-	1,009,190
Community health	761,439	24,257	1,065	-	-	786,761
Culture and recreation	331,914	10,204	38,392	(15,542)	(7,348)	357,620
General administration and finance	233,977	21,841	41,410	1,335	-	298,563
General City responsibilities	86,996	-	-	(1,757)	-	85,239
Debt service:						
Principal retirement	190,266	-	-	-	(190,266)	-
Interest and other fiscal charges	119,142	-	-	5,568	(11,015)	113,695
Bond issuance costs	2,185	-	-	-	-	2,185
Capital outlay	449,726	-	(449,726)	-	-	-
Total expenditures	4,575,339	134,869	(399,168)	(18,855)	(208,629)	4,083,556
Excess (deficiency) of revenues over (under) expenditures	330,934	(115,162)	415,386	19,582	208,629	859,369
Other financing sources (uses) / changes in net position						
Net transfers in (out)	(312,013)	-	(678)	1,064	-	(311,627)
Issuance of bonds and loans:						
Face value of bonds issued	257,175	-	-	-	(257,175)	-
Face value of loans issued	8,735	-	-	-	(8,735)	-
Premium on issuance of bonds	19,773	-	-	-	(19,773)	-
Payment to refunded bond escrow agent	(49,055)	-	-	-	49,055	-
Other financing sources-capital leases	12,869	-	-	(12,869)	-	-
Total other financing sources (uses)	(62,516)	-	(678)	(11,805)	(236,628)	(311,627)
Net change for the year	$ 268,418	$ (115,162)	$ 414,708	$ 7,777	$ (27,999)	$ 547,742

(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.	$ 4,210
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.	15,497
	$ 19,707
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 position 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.	$ (136,301)
Governmental funds report revenues and expenditures primarily pertaining to long-term loan activities, which are not reported in the statement of activities. These activities are reported at the government-wide level in the statement of net position. This is the net expenditures reported in the governmental funds.	1,432
	$ (134,869)

(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 position decreases by the amount of depreciation expense charged for the year and the loss on disposal of capital assets.

Capital expenditures	$ 509,729
Depreciation expense	(103,089)
Loss on disposal of capital assets	(208)
Transfer of asset to enterprise fund	(678)
Capital assets acquired by other revenues……	16,218
Write off construction of progress	(7,264)
Difference	$ 414,708

(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.	$ 7,777

(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 position 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	$ 7,348

(Dollars in Thousands)

Bond premiums are a source of funds in the governmental funds when the bonds are issued, but are capitalized in the statement of net position. This is the amount of premiums capitalized during the current period.	$ (19,773)

Repayment of bond principal and payment to escrow for refunding of debt are reported as expenditures in governmental funds and, thus, has the effect of reducing fund balance because current financial resources have been used. For the City as a whole however, the principal payments reduce the liabilities in the statement of net position 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	$ 190,266
Payments to escrow for refunded debt	49,055
	239,321

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 position and do not affect the statement of activities. Proceeds were received from:

General obligation bonds	$ (209,955)
Refunding certificates of participation	(47,220)
Loans	(8,735)
	(265,910)
	$ (26,589)

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, and (2) amortization of bond discounts, premiums and refunding losses and gains are not expended within the fund statements.

Increase in accrued interest	$ (47)
Gain on refunding	(278)
Interest payment on capital lease obligations on the Moscone Convention Center	(1,056)
Amortization of bond premiums, discounts, refunding losses and gains	12,396
	$ 11,015

(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 90-day availability period and other assets not available for budgetary appropriation.

The fund balance of the General Fund as of June 30, 2014 on a Budget basis is reconciled to the fund balance on a GAAP basis as follows:

Fund Balance - Budget Basis	$ 941,702
Unrealized Gains/ (Losses) on Investments	935
Cumulative Excess Property Tax Revenues Recognized on a Budget Basis	(37,303)
Cumulative Excess Health, Human Services, Franchise and Other Revenues Recognized on a Budget Basis	(66,415)
Deferred amounts on loan receivables	(21,670)
Pre-paid lease revenue	(5,709)
Nonspendable Fund Balance (Assets Reserved for Not Available for Appropriation)	24,022
Fund Balance - GAAP basis	$ 835,562

General Fund budget basis fund balance as of June 30, 2014 is composed of the following:

Not available for appropriations:		
Restricted Fund Balance:		
Rainy Day - Economic Stabilization Reserve	$ 60,289	
Rainy Day - One Time Spending Account	22,905	
Committed Fund Balance:		
Budget Stabilization Reserve	132,264	
Recreation and Parks Expenditure Saving Reserve	12,862	
Assigned Fund Balance:		
Assigned for Encumbrances	92,269	
Assigned for Appropriation Carryforward	159,345	
Assigned for Subsequent Years' Budgets:		
Budget Savings Incentive Program City-wide	32,088	
Salaries and benefits costs (MOU)	10,040	
Subtotal		$ 522,062
Available for appropriations:		
Assigned for Litigation and Contingences	79,223	
Assigned balance subsequently appropriated as part of the General Fund budget for use in fiscal year 2014-15	135,938	
Unassigned for General Reserve	45,748	
Unassigned - Budget for use in fiscal year 2015-16	137,075	
Unassigned - Available for future appropriations	21,656	
Subtotal		419,640
Fund Balance, June 30, 2014 - Budget basis		$ 941,702

(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 Unit
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	
Deposits and investments with City Treasury	$ 2,423,548	$ 1,944,883	$ 1,177,974	$ 5,546,405	$ 8,868
Deposits and investments outside City Treasury	68,302	13,530	20,106,570	20,188,402	-
Restricted assets:					
Deposits and investments with City Treasury	-	1,185,510	-	1,185,510	-
Deposits and investments outside City Treasury	45,147	764,029	-	809,176	-
Invested securities lending collateral	-	-	911,577	911,577	-
Total deposits & investments	$ 2,536,997	$ 3,907,952	$ 22,196,121	$28,641,070	$ 8,868
Cash and deposits				$ 876,524	$ -
Investments				27,764,546	8,868
Total deposits and investments				$28,641,070	$ 8,868

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 market 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, 2014, $2.2 million of the business-type activities bank balances were exposed to custodial credit risk by not being insured or collateralized.

(b) Investment Policies

Treasurer's Pool

The City's investment policy addresses the 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.

(Dollars in Thousands)

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 85 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 2013. 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 Portfolio	Maximum Investment in One Issuer
U.S. Treasuries	5 years	100%	100%
Federal Agencies	5 years	85% *	100%
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%	None
Commercial Paper	270 days	25% *	10% *
Medium Term Notes	24 months *	15% *	10%
Repurchase Agreements	1 year	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 which 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.

(Dollars in Thousands)

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 Board approved the following asset allocation policy in November 2012:

Asset Class	Target Allocation
Global Equity	47.0%
Fixed Income	25.0%
Private Equity	16.0%
Real Assets	12.0%
	100.0%

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 separately managed account is authorized to use repurchase arrangements. As of June 30, 2014, $235 million (or 25.8% of cash collateral) consisted of such agreements.

(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 Retirement System's interest rate risk information is discussed in section (e) of this note.

(Dollars in Thousands)

	S & P Rating	Fair Value	Investment Maturities: Less than 1 year	Investment Maturities: 1 to 5 years
Primary Government:				
Investments in City Treasury:				
Pooled Investments:				
U.S. Treasury Notes	AA+	$ 664,288	$ 75,953	$ 588,335
U.S. Agencies - Coupon	NR - AA+	4,219,872	835,173	3,384,699
Negotiable certificates of deposits	A+ - AA-	340,525	205,544	134,981
Money market mutual funds	AAAm	75,087	75,087	-
Public time deposits	NR	480	480	-
State/Local Agencies	A - AA	78,855	29,196	49,659
Corporate notes	A+ - AAA	658,695	501,050	157,645
Less: Treasure Island Development Authority				
Investments with City Treasury	n/a	(8,868)	-	(8,868)
Less: Employees' Retirement System				
Investments with City Treasury	n/a	(5,227)	-	(5,227)
Subtotal pooled investments		6,023,707	1,722,483	4,301,224
Separately managed account:				
SFRDA South Beach Harbor Revenue Bond	n/a	3,270	-	3,270
Subtotal investments in City Treasury		6,026,977	$ 1,722,483	$ 4,304,494
Investments Outside City Treasury:				
(Governmental and Business - Type)				
U.S. Treasury Notes	NR/AA+	$ 241,423	$ 5,454	$ 235,969
U.S. Agencies - Coupon	AA+	10,521	-	10,521
U.S. Agencies - Discount	A-1+	234,742	106,173	128,569
Money Market Mutual Funds	AAAm/Aaa-mf	352,894	352,894	-
U.S. Treasury Money Market Funds	A-1/P-1	125,687	125,687	-
Commercial Paper	A-1	36,314	36,314	-
Certificate of Deposit	NR	349	349	-
Subtotal investments outside City Treasury		1,001,930	$ 626,871	$ 375,059
Employees' Retirement System investments		20,735,639		
Total Primary Government		$ 27,764,546		
Component Unit:				
Treasure Island Development Authority:				
Investments with City Treasury	n/a	8,868	$ -	$ 8,868
Total Investments		**$ 27,773,414**		

As of June 30, 2014, the investments in the City Treasury had a weighted average maturity of 711 days.

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.

(Dollars in Thousands)

Custodial Credit Risk for Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to transaction, the City will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The California Government Code and the City's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments; however, it is the practice of the City Treasurer that all investments are insured, registered or held by the Treasurer's custodial agent in the City's name. The governmental and business-type activities also have investments with trustees 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, 2014, the City Treasurer has investments in U.S. Agencies that represent 5% or more of the total Pool in the following:

Federal Farm Credit Bank	19.5%
Federal Home Loan Bank	16.4%
Federal National Mortgage Association	13.7%
Federal Home Loan Mortgage Corporation	10.9%
Federal Agricultural Mortgage Corporation	9.5%

In addition, the following major funds hold investments with trustees that represent 5% or more of the funds' investments outside City Treasury as of June 30, 2014:

Airport:	
Federal Home Loan Mortgage Corporation	27.1%
Federal National Mortgage Association	10.0%
Water Enterprise:	
Federal Home Loan Mortgage Corporation	21.1%
Hetch Hetchy:	
Federal Home Loan Bank	75.1%
Wastewater Enterprise:	
Federal Home Loan Mortgage Corporation	27.8%
Federal National Mortgage Association	16.3%
Federal Home Loan Bank	7.6%

Airport's Forward Purchase and Sale Agreements

Objective and Terms – During fiscal year 2014, the Airport's Senior Trustee invested a portion of the Airport's debt service fund in investments delivered in accordance with a ten-year Forward Purchase and Sale Agreement (FPSA) with Morgan Stanley Capital Services that expired on November 1, 2013, and was intended to produce guaranteed earnings at a rate of 4.349%. Under this FPSA, which has not been replaced, the Senior Trustee was required to purchase $10.9 million of investment securities every month for the debt service fund for the first four months of the fiscal year.

(Dollars in Thousands)

The Senior Trustee also invested a portion of the Airport's debt service reserve fund in investments delivered in accordance with a ten-year FPSA with Merrill Lynch Capital Services that expires in November 2014, and is intended to produce guaranteed earnings at rates of 4.329%. Under this FPSA, the Senior Trustee is required to purchase $100.0 million of investment securities every six months, maturing on the following May 1 or November 1, as applicable, for the bond reserve fund. The final delivery of securities for purchase occurred on May 1, 2014.

The amount of unmatured investment securities purchased under the FPSA and held by the Senior Trustee as of June 30, 2014, is shown in the following table:

Provider	Purpose	Amount	Fixed Rate	Start Date	End Date
Merrill Lynch Capital Services	Reserve Fund[1]	$ 100,000	4.329%	12/10/2004	11/1/2014

[1] *The final delivery of securities occurred on May 1, 2014.*

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 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 market value as of June 30, 2014, and not at the guaranteed rate of return of the respective FPSA under which the investments were delivered. As of June 30, 2014, the accrued interest was recorded in the interest receivable account.

The Airport accounted for and disclosed the FPSA as investment derivatives in accordance with GASB Statement No. 53 as of and for the year ended June 30, 2014.

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 the Morgan Stanley Capital Services FPSA expired under its terms on November 1, 2013, and the final delivery of securities under the Airport's Merrill Lynch Capital Services FPSA occurred on May 1, 2014, the fair value of the FPSAs is zero on June 30, 2014.

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. 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 the bankruptcy or insolvency of the respective providers. In the event a provider fails to perform, the Airport can invest its funds in alternate 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.

(Dollars in Thousands)

As of June 30, 2014, all delivery obligations under the FPSAs had been fulfilled or the FPSA had expired and the FPSAs had no remaining economic value to the Airport.

Termination Risk – The downgrade of an FPSA provider increases the risk to the Airport that the provider will not perform under the FPSA. As of June 30, 2014, each of the Airport's FPSA providers fulfilled all of their required obligations under the terms of the FPSAs.

(d) Treasurer's Pool

The following represents a condensed statement of net position and changes in net position for the Treasurer's Pool as of June 30, 2014:

Statement of Net Position

Net position held in trust for all pool participants	$6,740,783
Equity of internal pool participants	$6,110,766
Equity of separately managed account participant	11,427
Equity of external pool participants	618,590
Total equity	$6,740,783

Statement of Changes in Net Position

Net position at July 1, 2013	$6,381,644
Net change in investments by pool participants	359,139
Net position at June 30, 2014	$6,740,783

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2014:

Type of Investment	Rates	Maturities	Par Value	Carrying Value
Pooled Investments:				
US government securities	0.48% - 2.00%	07/31/14 - 12/31/17	$ 660,000	$ 664,288
US Agencies - Coupon	0.15% - 2.31%	08/20/14 - 06/03/19	4,202,689	4,219,872
State and local agencies	0.39% - 1.66%	08/01/14 - 11/01/17	77,545	78,855
Negotiable certificates of deposit	0.12% - 0.46%	07/01/14 - 05/09/16	340,500	340,525
Public time deposits	0.45% - 0.46%	02/07/15 - 04/09/15	480	480
Corporate notes	0.14% - 0.81%	07/30/14 - 05/11/16	654,159	658,695
Money market mutual funds	0.01% - 0.04%	07/01/14 - 07/01/14	75,087	75,087
			$ 6,010,460	6,037,802
Segregated account:				
Local agencies	3.50%	12/1/2016	$ 3,270	3,270
Carrying amount of deposits with Treasurer				699,711
Total cash and investments with Treasurer				$ 6,740,783

(Dollars in Thousands)

(e) Retirement System's Investments

The Retirement System's investments as of June 30, 2014 are summarized as follows:

Fixed Income Investments:	
Short-term bills and notes	$ 838,466
Investments with City Treasury	5,227
Debt securities:	
U.S. Government and agencies	882,574
Other debt securities	3,648,458
Subtotal debt securities	4,531,032
Total fixed income investments	5,374,725
Equity securities:	
Domestic	5,225,847
International	5,215,814
Total equity securities	10,441,661
Real estate holdings	1,582,169
Alternative investments	2,424,678
Foreign currency contracts, net	829
Investment in lending agent's short-term investment pool	911,577
Total Retirement System Investments	$ 20,735,639

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, 2014:

		Maturities			
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**10+ years**
Asset Backed Securities	$ 130,486	$ -	$ 89,708	$ 8,216	$ 32,562
Bank Loans	110,626	1,208	54,992	52,541	1,885
City Investment Pool	5,227	-	5,227	-	-
Collateralized Bonds	8,657	-	-	-	8,657
Commercial Mortgage-Backed	630,324	-	12,273	18,027	600,024
Commingled and Other Fixed Income Funds	392,560	408,339	292	-	(16,071)
Corporate Bonds	1,793,247	632,941	353,908	511,932	294,466
Corporate Convertible Bonds	309,418	23,305	145,495	52,655	87,963
Foreign Currencies and Cash Equivalents	348,374	348,374	-	-	-
Government Agencies	215,757	211,029	4,728	-	-
Government Bonds	423,874	3,285	254,355	123,323	42,911
Government Mortgage Backed Securities	310,260	63,379	4,389	12,897	229,595
Index Linked Government Bonds	10,215	-	3,240	4,167	2,808
Mortgages	28	6	22	-	-
Municipal/Provincial Bonds	44,886	851	1,008	1,990	41,037
Non-Government Backed Collateralized Mortgage Obligations	154,813	953	3,878	4,084	145,898
Options	(16)	(16)	-	-	-
Short Term Investment Funds	490,092	490,092	-	-	-
Swaps	(4,103)	8	(3,996)	5	(120)
Total	$ 5,374,725	$ 2,183,754	$ 929,519	$ 789,837	$ 1,471,615

(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, 2014. Investments issued or explicitly guaranteed by the U.S. government of $836.8 million as of June 30, 2014 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	$ 241,871	5.3%
AA	172,653	3.8%
A	343,162	7.6%
BBB	656,696	14.5%
BB	271,044	6.0%
B	375,705	8.3%
CCC	147,817	3.3%
CC	2,117	0.0%
C	5,106	0.1%
D	1,517	0.0%
Not Rated	2,320,237	51.1%
Total	$ 4,537,925	100.0%

The securities listed as "Not Rated" include short-term investment funds, government mortgage backed securities, and investments that invest primarily in rated securities, such as commingled funds and money market funds, but do not themselves have a specific credit rating. Excluding these securities, the "Not Rated" component of credit would be approximately 12.7% for 2014.

Concentration of Credit Risk

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

As of June 30, 2014, the Retirement System had no investments of a single issuer that equaled or exceeded 5% of total Retirement System's investments or net position.

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, 2014, $221.7 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.

(Dollars in Thousands)

For fiscal year 2014, cash received as securities lending collateral is invested in a separate account managed by the lending agent using investment guidelines approved by the Retirement System and held by the Retirement System's custodial bank. Securities in this separately managed account are not exposed to custodial credit risk.

Foreign Currency Risk

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

The Retirement System's net exposures to foreign currency risk as of June 30, 2014 are as follows:

Currency	Cash	Equities	Fixed Income	Alternative Investment	Real Estate	Foreign Currency Contracts	Total
Australian dollar	$ 1,256	$ 126,880	$ 6,375	$ 12,873	$ -	$ 44,103	$ 191,487
Brazilian real	-	29,865	24,013	-	-	(15,799)	38,079
British pound sterling	7,830	702,809	22,194	-	-	(112,025)	620,808
Canadian dollar	502	89,041	6,679	-	-	(8,106)	88,116
Chilean peso	-	567	-	-	-	6,043	6,610
Colombian peso	80	-	2,792	-	-	570	3,442
Czech koruna	-	887	-	-	-	-	887
Danish krone	(4,858)	38,393	-	-	-	1,207	34,742
Euro	34,892	939,249	78,793	269,820	-	(26,178)	1,296,576
Hong Kong dollar	1,212	256,213	-	-	-	1,886	259,311
Hungarian forint	-	-	781	-	-	165	946
Indian rupee	-	-	-	-	-	540	540
Indonesian rupiah	25	15,521	4,278	-	-	270	20,094
Japanese yen	1,680	600,103	-	-	304	1,636	603,723
Malaysian ringgit	(697)	19,745	5,695	-	-	1,731	26,474
Mexican peso	550	22,857	18,257	-	-	1,392	43,056
New Israeli shekel	21	7,277	-	-	-	3,592	10,890
New Romanian leu	16	-	1,171	-	-	(158)	1,029
New Russian ruble	-	-	5,491	-	-	583	6,074
New Taiwan dollar	787	56,608	-	-	-	-	57,395
New Zealand dollar	-	621	9,497	-	-	124,375	134,493
Nigerian naira	86	-	1,251	-	-	(73)	1,264
Norwegian krone	350	25,342	-	-	-	34,681	60,373
Peruvian nuevo sol	-	-	638	-	-	(250)	388
Philippine peso	-	2,007	351	-	-	(220)	2,138
Polish zloty	-	449	7,200	-	-	783	8,432
Singapore dollar	453	40,843	-	-	-	850	42,146
South African rand	425	23,614	10,031	-	-	(3,180)	30,890
South Korean won	516	115,922	-	-	-	244	116,682
Swedish krona	758	66,256	-	-	-	(67,215)	(201)
Swiss franc	(8,295)	277,329	-	-	-	(25,203)	243,831
Thai baht	2	14,635	2,191	-	-	1,875	18,703
Turkish lira	-	15,813	3,829	-	-	2,853	22,495
Total	$ 37,591	$ 3,488,846	$ 211,507	$ 282,693	$ 304	$ (29,028)	$ 3,991,913

(Dollars in Thousands)

Derivative Instruments

As of June 30, 2014, 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 position. 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, 2014:

Derivative Type / Contracts	Notional Amount	Fair Value	Net Appreciation (Depreciation) in Fair Value
Forwards			
Foreign Exchange Contracts	(a)	$ 829	$ 829
Other Contracts	(a)	(2,123)	(2,123)
Options			
Foreign Exchange Contracts	(1,733)	(16)	2
Swaps			
Credit Contracts	105,435	(4,109)	750
Interest Rate Contracts	385	5	5
Rights/Warrants			
Equity Contracts	1,975 shares	4,746	72
Total		$ (668)	$ (465)

(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 position. 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 statements of changes in fiduciary net position.

(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, 2014, the fair value of forward currency contracts (including foreign exchange contract options) to purchase and sell international currencies were $2.2 million. The Retirement System's counterparties to these contracts held credit ratings of A or better on 99.5% of the positions as assigned by one or more of the major credit rating organizations (S&P, Moody's and/or Fitch) while 0.5% were not rated.

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, 2014, 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, 2014.

		Maturities			
Derivative Type / Contracts	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**10+ years**
Forwards					
Other Contracts	$ (2,123)	$ (2,123)	$ -	$ -	$ -
Swaps					
Credit Contracts	(4,109)	8	(3,997)	-	(120)
Interest Rate Contracts	5	-	-	5	-
Total	$ (6,227)	$ (2,115)	$ (3,997)	$ 5	$ (120)

The following table details the reference rate, notional amount, and fair value of interest rate swaps that are highly sensitive to changes in interest rates as of June 30, 2014:

Investment Type	Reference Rate	Notional Value	Fair Value
Interest Rate Swaps	Receiving fixed (6.3%), paying floating Mexican Interbank TIIE 28 Day rate	$ 2,100	$ 4
Interest Rate Swaps	Receiving fixed (6.2%), paying floating Colombian Interbank rate	$ 420,000	$ 1

(Dollars in Thousands)

Foreign Currency Risk

At June 30, 2014, the Retirement System is exposed to foreign currency risk on its investments in forwards, rights, warrants, and swaps denominated in foreign currencies. Below is the derivative instruments foreign currency risk analysis as of June 30, 2014:

Currency	Forwards	Rights/ Warrants	Swaps	Total
Australian dollar	$ 593	$ -	$ -	$ 593
Brazilian real	(397)	-	-	(397)
British pound sterling	(2,778)	-	-	(2,778)
Canadian dollar	(21)	-	-	(21)
Chilean peso	16	-	-	16
Colombian peso	(8)	-	2	(6)
Danish krone	9	-	-	9
Euro	(28)	-	-	(28)
Hong Kong dollar	(1)	165	-	164
Hungarian forint	(1)	-	-	(1)
Indian rupee	10	-	-	10
Indonesian rupiah	41	-	-	41
Japanese yen	(62)	-	-	(62)
Malaysian ringgit	28	-	-	28
Mexican peso	58	-	4	62
New Israeli shekel	36	-	-	36
New Romanian leu	(1)	-	-	(1)
New Russian ruble	23	-	-	23
New Zealand dollar	4,333	-	-	4,333
Nigerian naira	(1)	-	-	(1)
Norwegian krone	(887)	-	-	(887)
Philippine peso	(7)	-	-	(7)
Singapore dollar	10	-	-	10
South Korean won	5	-	-	5
Swedish krona	100	-	-	100
Swiss franc	(267)	-	-	(267)
Thai baht	2	-	-	2
Turkish lira	25	-	-	25
Total	$ 830	$ 165	$ 6	$ 1,001

Contingent Features

At June 30, 2014, the Retirement System held no positions in derivatives containing contingent features.

Currency Management Program

The Retirement System's currency management program is managed by two 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, 2014, the Retirement System's allocation to international equities (including cash and other assets) was primarily denominated in foreign currencies and totaled $5.4 billion, which represented 27.3% of the fiduciary net position. For the year ended June 30, 2014, the currency management program lost $19.4 million in value or 0.36% of the international equity portfolio (including cash and other assets) and 0.10% 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 105% of the fair value of domestic securities and international securities lent, respectively. There are no restrictions on the number 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 position. As of June 30, 2014, the Retirement System has no credit risk exposure to borrowers because the amounts the Retirement System owes them exceed the amounts they owe the Retirement System. As with other extensions of credit, the Retirement System may bear the risk of delay in recovery or of rights in the collateral should the borrower of securities fail financially. However, the lending agent indemnifies the Retirement System against all borrower defaults.

As of June 30, 2014, the Retirement System lent $1.3 billion in securities and received collateral of $0.9 billion and $0.5 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 Board. 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 $1.3 million is presented as part of the net appreciation (depreciation) in fair value of investments in the statement of changes in the fiduciary net position in the year in which the unrealized gains or losses occur. 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 in the account.

(Dollars in Thousands)

The Retirement System's securities lending transactions as of June 30, 2014, 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	$ 14,810	$ 15,502	$ -
International Equities	49,545	52,944	-
International Government Fixed Income	5,720	6,015	-
U.S. Corporate Fixed Income	212,491	216,958	-
U.S. Equities	436,568	445,944	-
U.S. Government Fixed Income	172,104	175,523	-
Securities Loaned with Non-Cash Collateral			
International Corporate Fixed Income	4,424	-	4,591
International Equities	409,483	-	439,560
International Government Fixed Income	6,232	-	6,682
U.S. Corporate Fixed Income	1,480	-	1,511
U.S. Equities	2,569	-	2,621
U.S. Government Fixed Income	11,582	-	11,812
Total	$ 1,327,008	$ 912,886	$ 466,777

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, 2014.

Investment Type	Fair Value	Maturities less than 1 year
Commercial Paper	$ 105,023	$ 105,023
Negotiable Certificates of Deposits	224,993	224,993
Repurchase Agreements	220,000	220,000
Short Term Investment Funds	361,561	361,561
Total	$ 911,577	$ 911,577

The Retirement System's exposure to credit risk in its reinvested cash collateral account as of June 30, 2014 is as follows:

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AA	$ 491,535	53.9%
A	199,979	21.9%
Not Rated *	220,063	24.2%
Total	$ 911,577	100.0%

* Repurchase agreements of $220.0 million are not rated, but are held by counterparties with a S&P rating of A.

(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, 2014 are summarized as follows:

Investments:	
Beginning of the year	$ 1,430,711
Capital investments	290,767
Equity in net earnings	58,123
Net appreciation in fair value	152,836
Capital distributions	(350,268)
End of the year	$ 1,582,169

(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 $208.4 million for the year ended June 30, 2014.

Taxable valuation for the year ended June 30, 2014 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Successor Agency) was approximately $159 billion, an increase of 3.9%. The secured tax rate was $1.1880 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 $0.1880 for bond debt service. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 0.94% and 4.94%, respectively, of the current year tax levy, for an average delinquency rate of 1.17% 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, 2014 was $19.7 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, 2014 was as follows:

Governmental Activities:

	Balance July 1, 2013	Increases *	Decreases *	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	$ 257,089	$ 26,231	$ (9,157)	$ 274,163
Intangible assets	7,532	4,080	(5,676)	5,936
Construction in progress	863,080	484,218	(168,906)	1,178,392
Total capital assets, not being depreciated	1,127,701	514,529	(183,739)	1,458,491
Capital assets, being depreciated:				
Facilities and improvements	3,212,534	36,050	-	3,248,584
Machinery and equipment	380,230	25,581	(4,981)	400,830
Infrastructure	561,547	125,310	-	686,857
Intangible assets	38,622	5,677	-	44,299
Total capital assets, being depreciated	4,192,933	192,618	(4,981)	4,380,570
Less accumulated depreciation for:				
Facilities and improvements	857,688	64,582	-	922,270
Machinery and equipment	325,698	17,425	(4,685)	338,438
Infrastructure	90,116	20,995	-	111,111
Intangible assets	2,484	2,044	-	4,528
Total accumulated depreciation	1,275,986	105,046	(4,685)	1,376,347
Total capital assets, being depreciated, net	2,916,947	87,572	(296)	3,004,223
Governmental activities capital assets, net	$ 4,044,648	$ 602,101	$ (184,035)	$ 4,462,714

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

(Dollars in Thousands)

Business-type Activities:

Capital asset activity of the business enterprises for the year ended June 30, 2014, was as follows:

San Francisco International Airport

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	$ 3,074	$ -	$ -	$ 3,074
Intangible assets	-	6,881	-	6,881
Construction in progress	227,278	289,951	(132,807)	384,422
Total capital assets, not being depreciated	230,352	296,832	(132,807)	394,377
Capital assets, being depreciated:				
Facilities and improvements	5,430,018	168,878	(133,371)	5,465,525
Machinery and equipment	187,100	72,142	(1,156)	258,086
Intangible assets	148,229	198	(6,881)	141,546
Total capital assets, being depreciated	5,765,347	241,218	(141,408)	5,865,157
Less accumulated depreciation for:				
Facilities and improvements	2,080,859	193,605	(106,753)	2,167,711
Machinery and equipment	84,496	22,030	(1,154)	105,372
Intangible assets	109,553	7,180	-	116,733
Total accumulated depreciation	2,274,908	222,815	(107,907)	2,389,816
Total capital assets, being depreciated, net	3,490,439	18,403	(33,501)	3,475,341
Capital assets, net	$ 3,720,791	$ 315,235	$ (166,308)	$ 3,869,718

San Francisco Water Enterprise

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	$ 24,307	$ 2,504	$ -	$ 26,811
Intangible assets	679	-	-	679
Construction in progress	1,525,689	557,730	(421,125)	1,662,294
Total capital assets, not being depreciated	1,550,675	560,234	(421,125) *	1,689,784
Capital assets, being depreciated:				
Facilities and improvements	2,915,004	411,437	-	3,326,441
Machinery and equipment	262,870	5,814	(713)	267,971
Intangible assets	12,358	1,288	-	13,646
Total capital assets, being depreciated	3,190,232	418,539 *	(713)	3,608,058
Less accumulated depreciation for:				
Facilities and improvements	741,800	72,329	-	814,129
Machinery and equipment	135,172	14,275	(713)	148,734
Intangible assets	5,007	2,422	-	7,429
Total accumulated depreciation	881,979	89,026	(713)	970,292
Total capital assets, being depreciated, net	2,308,253	329,513	-	2,637,766
Capital assets, net	$ 3,858,928	$ 889,747	$ (421,125)	$ 4,327,550

* Decrease in construction in progress is greater than increase in capital assets being depreciated is explained by $6.6 million in capital write-offs.

(Dollars in Thousands)

Hetch Hetchy Water and Power

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	$ 4,720	$ 22	$ -	$ 4,742
Intangible assets	1,437	-	-	1,437
Construction in progress	87,580	31,456	(31,162)	87,874
Total capital assets, not being depreciated	93,737	31,478	(31,162) *	94,053
Capital assets, being depreciated:				
Facilities and improvements	498,091	15,435	(797)	512,729
Machinery and equipment	80,842	14,033	(238)	94,637
Intangible assets	45,715	-	-	45,715
Total capital assets, being depreciated	624,648	29,468 *	(1,035)	653,081
Less accumulated depreciation for:				
Facilities and improvements	305,000	10,417	(91)	315,326
Machinery and equipment	46,009	4,414	(61)	50,362
Intangible assets	18,466	483	-	18,949
Total accumulated depreciation	369,475	15,314	(152)	384,637
Total capital assets, being depreciated, net	255,173	14,154	(883)	268,444
Capital assets, net	$ 348,910	$ 45,632	$ (32,045)	$ 362,497

* Decrease in construction in progress is greater than increase in capital assets being depreciated is explained by $2.6 million in capital write-offs.

Municipal Transportation Agency

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	$ 41,030	$ -	$ -	$ 41,030
Construction in progress	544,592	466,846	(161,991)	849,447
Total capital assets, not being depreciated	585,622	466,846	(161,991)	890,477
Capital assets, being depreciated:				
Facilities and improvements	667,795	12,052	-	679,847
Machinery and equipment	1,229,299	119,288	(21,920)	1,326,667
Infrastructure	1,189,998	35,361	-	1,225,359
Total capital assets, being depreciated	3,087,092	166,701	(21,920)	3,231,873
Less accumulated depreciation for:				
Facilities and improvements	243,523	15,404	-	258,927
Machinery and equipment	764,580	71,384	(20,684)	815,280
Infrastructure	471,929	34,166	-	506,095
Total accumulated depreciation	1,480,032	120,954	(20,684)	1,580,302
Total capital assets, being depreciated, net	1,607,060	45,747	(1,236)	1,651,571
Capital assets, net	$ 2,192,682	$ 512,593	$ (163,227)	$ 2,542,048

(Dollars in Thousands)

San Francisco General Hospital Medical Center

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	$ 542	$ -	$ -	$ 542
Construction in progress	42,628	23,682	(703)	65,607
Total capital assets, not being depreciated	43,170	23,682	(703)	66,149
Capital assets, being depreciated:				
Facilities and improvements	144,113	900	-	145,013
Machinery and equipment	69,310	1,847	-	71,157
Total capital assets, being depreciated	213,423	2,747	-	216,170
Less accumulated depreciation for:				
Facilities and improvements	117,574	3,103	-	120,677
Machinery and equipment	58,674	2,658	-	61,332
Total accumulated depreciation	176,248	5,761	-	182,009
Total capital assets, being depreciated, net	37,175	(3,014)	-	34,161
Capital assets, net	$ 80,345	$ 20,668	$ (703)	$ 100,310

San Francisco Wastewater Enterprise

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	$ 35,737	$ -	$ -	$ 35,737
Intangible assets	3,046	-	-	3,046
Construction in progress	176,711	194,531	(108,600)	262,642
Total capital assets, not being depreciated	215,494	194,531	(108,600) *	301,425
Capital assets, being depreciated:				
Facilities and improvements	2,405,198	94,977	-	2,500,175
Machinery and equipment	76,697	12,210	(507)	88,400
Intangible assets	3,931	-	-	3,931
Total capital assets, being depreciated	2,485,826	107,187 *	(507)	2,592,506
Less accumulated depreciation for:				
Facilities and improvements	998,861	42,595	-	1,041,456
Machinery and equipment	39,448	5,021	(507)	43,962
Intangible assets	2,168	786	-	2,954
Total accumulated depreciation	1,040,477	48,402	(507)	1,088,372
Total capital assets, being depreciated, net	1,445,349	58,785	-	1,504,134
Capital assets, net	$ 1,660,843	$ 253,316	$ (108,600)	$ 1,805,559

* Decrease in construction in progress is greater than increase in capital assets being depreciated is explained by $2.3 million in capital write-offs.

(Dollars in Thousands)

Port of San Francisco

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	$ 105,582	$ -	$ -	$ 105,582
Construction in progress	9,772	50,405	(10,253)	49,924
Total capital assets, not being depreciated	115,354	50,405	(10,253)	155,506
Capital assets, being depreciated:				
Facilities and improvements	515,472	10,225	(3,550)	522,147
Machinery and equipment	18,075	551	(65)	18,561
Infrastructure	29,056	58	-	29,114
Intangible assets	4,854	189	-	5,043
Total capital assets, being depreciated	567,457	11,023	(3,615)	574,865
Less accumulated depreciation for:				
Facilities and improvements	251,394	17,562	(3,550)	265,406
Machinery and equipment	11,838	1,089	(65)	12,862
Infrastructure	7,260	1,390	-	8,650
Intangible assets	3,287	393	-	3,680
Total accumulated depreciation	273,779	20,434	(3,615)	290,598
Total capital assets, being depreciated, net	293,678	(9,411)	-	284,267
Capital assets, net	$ 409,032	$ 40,994	$ (10,253)	$ 439,773

Laguna Honda Hospital

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets, not being depreciated:				
Construction in progress	$ -	$ 2,372	$ (2,144)	$ 228
Total capital assets, not being depreciated	-	2,372	(2,144)	228
Capital assets, being depreciated:				
Facilities and improvements	597,771	2,144	-	599,915
Machinery and equipment	26,760	984	(257)	27,487
Property held under lease	697	-	-	697
Intangible assets	431	-	-	431
Total capital assets, being depreciated	625,659	3,128	(257)	628,530
Less accumulated depreciation for:				
Facilities and improvements	47,408	11,829	-	59,237
Machinery and equipment	14,415	4,396	(257)	18,554
Property held under lease	697	-	-	697
Intangible assets	150	86	-	236
Total accumulated depreciation	62,670	16,311	(257)	78,724
Total capital assets, being depreciated, net	562,989	(13,183)	-	549,806
Capital assets, net	$ 562,989	$ (10,811)	$ (2,144)	$ 550,034

(Dollars in Thousands)

Other Fund - San Francisco Market Corporation

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets, not being depreciated:				
Construction in progress	$ 3,289	$ -	$ (3,289)	$ -
Total capital assets, not being depreciated	3,289	-	(3,289)	-
Capital assets, being depreciated:				
Facilities and improvements	9,730	-	(9,730)	-
Machinery and equipment	70	-	(70)	-
Total capital assets, being depreciated	9,800	-	(9,800)	-
		-		
Less accumulated depreciation for:				
Facilities and improvements	6,668	120	(6,788)	-
Machinery and equipment	50	-	(50)	-
Total accumulated depreciation	6,718	120	(6,838)	-
Total capital assets, being depreciated, net	3,082	(120)	(2,962)	-
Capital assets, net	$ 6,371	$ (120)	$ (6,251)	$ -

* During the year, the San Francisco Market Corporation transferred operations of the San Francisco Wholesale Produce Market (SFWPM) to a different corporation created in 2012 by existing stakeholders separate from the City.

Total Business-type Activities

	Balance July 1, 2013	Increases	Decreases	Balance June 30, 2014
Capital assets, not being depreciated:				
Land	$ 214,992	$ 2,526	$ -	$ 217,518
Intangible assets	5,162	6,881	-	12,043
Construction in progress	2,617,539	1,616,973	(872,074)	3,362,438
Total capital assets, not being depreciated	2,837,693	1,626,380	(872,074)	3,591,999
Capital assets, being depreciated:				
Facilities and improvements	13,183,192	716,048	(147,448)	13,751,792
Machinery and equipment	1,951,023	226,869	(24,926)	2,152,966
Infrastructure	1,219,054	35,419	-	1,254,473
Property held under lease	697	-	-	697
Intangible assets	215,518	1,675	(6,881)	210,312
Total capital assets, being depreciated	16,569,484	980,011	(179,255)	17,370,240
Less accumulated depreciation for:				
Facilities and improvements	4,793,087	366,964	(117,182)	5,042,869
Machinery and equipment	1,154,682	125,267	(23,491)	1,256,458
Infrastructure	479,189	35,556	-	514,745
Property held under lease	697	-	-	697
Intangible assets	138,631	11,350	-	149,981
Total accumulated depreciation	6,566,286	539,137	(140,673)	6,964,750
Total capital assets, being depreciated, net	10,003,198	440,874	(38,582)	10,405,490
Capital assets, net	$ 12,840,891	$ 2,067,254	$ (910,656)	$ 13,997,489

(Dollars in Thousands)

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

Governmental Activities:		
Public protection	$	15,329
Public works transportation and commerce		20,770
Human welfare and neighborhood development		530
Community Health		1,167
Culture and recreation		44,696
General administration and finance		20,597
Capital assets held by the City's internal service funds charged to the various functions on a prorated basis		1,957
Total depreciation expense - governmental activities	$	105,046

Business-type activities:		
Airport	$	222,815
Water		89,026
Power		15,314
Transportation		120,954
Hospitals		22,072
Wastewater		48,402
Port		20,434
Market		120
Total depreciation expense - business-type activities	$	539,137

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, the Wastewater Enterprise, the SFMTA, and the 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 SFMTA, and pier substructures of the Port, which totaled $2.68 billion as of June 30, 2014. Hetch Hetchy Water had intangible assets of water rights having estimated useful lives from 51 to 100 years, which totaled $45.6 million as of June 30, 2014. In addition, the Water Enterprise had utility type assets with useful lives over 100 years, which totaled $6.8 million as of June 30, 2014.

In fiscal year 2013-14, the Airport had write-offs and loss on disposal in the amount of $42.5 million primarily due to disposal and write-off of immaterial items that should have been expensed in prior years. During fiscal year ended June 30, 2014, the Water Enterprise, Hetch Hetchy, and the Wastewater Enterprise expensed $6.6 million, $2.6 million, and $2.3 million, respectively, related to capitalized design and planning costs on certain projects that were discontinued.

During the fiscal year ended June 30, 2014, the City's enterprise funds incurred total interest expense and interest income of approximately $490.0 million and $29.8 million, respectively. Of these amounts, interest expense of approximately $105.3 million was capitalized.

(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, 2014, are as follows:

Type of Obligation	July 1, 2013	Additional Obligation	Current Maturities	June 30, 2014
Governmental activities:				
Commercial paper				
San Francisco County Transportation Authority	$ 150,006	$ -	$ (15,006)	$ 135,000
Multiple Capital Projects	51,540	247,492	(258,272)	40,760
Governmental activities short-term obligations	$ 201,546	$ 247,492	$ (273,278)	$ 175,760
Business-type activities:				
Commercial paper				
San Francisco International Airport	$ 180,525	$ 249,350	$ (180,875)	$ 249,000
San Francisco Water Enterprise	174,000	186,000	(174,000)	186,000
Business-type activities short-term obligations	$ 354,525	$ 435,350	$ (354,875)	$ 435,000

San Francisco County Transportation Authority

In April 2004, the Transportation Authority issued an initial tranche of $50.0 million and in September 2004, the Transportation Authority issued the second tranche of $100.0 million of a programmed $200.0 million aggregate principal amount of commercial paper notes (CP) (Limited Tax Bonds), Series A and B. The CP were issued to provide a source of financing for the Transportation Authority's voter-approved Proposition K Expenditure Plan. Under this program, the Transportation Authority is able to issue CP at prevailing interest rates not to exceed 12% per annum. The maximum maturity of the CP is 270 days. In July 2012, the Transportation Authority entered into a new three-year credit and liquidity 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. The CP are secured by a first lien gross pledge of the Transportation Authority's sales tax. The principal and interest on the CP are payable at each maturity.

As of June 30, 2014, $135.0 million in CP was outstanding with weighted average maturity of 104 to 139 days after year-end with interest rates at 0.08% and 0.09%, respectively. For the year ended June 30, 2014, the Transportation Authority paid $1.0 million to Wells Fargo Bank in line of credit (LOC) fees.

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

In March 2009, the Board of Supervisors 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 costs incurred in connection with the sale and delivery of the CP. In June 2010, the City obtained irrevocable 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 LOC expire on June 10, 2016.

The City issued CP totaling $247.5 million and retired commercial paper notes totaling $258.3 million in fiscal year 2014 to provide interim financing for capital projects and capital equipment acquisitions, with each project receiving prior approval from the Board of Supervisors: the Department of Public Works equipment purchase, the War Memorial Veterans Building project, the Port Facilities Improvement project and HOPE SF, a project of rebuilding severely distressed housing sites to increase affordable housing and improve the quality of life for existing residents and the surrounding communities.

As of June 30, 2014, the outstanding principal amount of tax exempt and taxable CP was $28.2 million and $12.6 million, respectively. The tax exempt CP with LOC issued by JP Morgan and U.S. Bank N.A. bear interest rate of 0.08% and 0.07%, respectively and the taxable CP bear interest rates of 0.15%. The taxable and non-taxable CP matured on July 2, 2014.

San Francisco International Airport

In May 1997, the Airport adopted Resolution No. 97-0146, (the Note Resolution) as amended and supplemented, authorizing 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(s) of credit securing the CP. The Airport issues CP in three series that are subdivided into nine subseries according to tax status and that are secured by three direct-pay letters of credit (LOC). Two $100.0 million direct-pay LOC are issued by State Street Bank and Trust Company and Wells Fargo Bank, National Association, with expiration dates of May 2, 2019, and June 17, 2016, respectively. The third LOC issued by Royal Bank of Canada was amended and restated June 18, 2014, to increase the principal component thereof from $100.0 million to $200.0 million and extend the expiration date to May 19, 2017. Each of these LOC supports separate subseries of CP and permits the Airport to issue CP up to a combined maximum principal amount of $400.0 million as of June 30, 2014.

In addition to the applicable LOC, the CP notes are further secured by a pledge of the Net Revenues of the Airport, subject to the prior payment of the Airports' Second Series Revenue Bonds (the Senior Bonds) outstanding from time to time under Resolution No. 91-0210, adopted by the Airport on December 3, 1991, as amended and supplemented (the Senior Bond Resolution).

Net Revenues are generally defined in the Note Resolution as all revenues earned by the Airport from or with respect to its possession, management, supervision, operation and control of the Airport (not including certain specified amounts), less Operation and Maintenance Expenses (as defined in the Note Resolution).

The CP notes are special, limited obligations of the Airport, and the payment of the principal of and interest on the CP notes is secured by a pledge of, lien on and security interest in the Net Revenues and amounts in the funds and accounts provided in the Note Resolution, subject to the prior payment of principal of and interest on the Senior Bonds. The CP notes are secured on parity with any other bonds or other obligations from time to time outstanding under the Note Resolution. As of June 30, 2014, there were no obligations other than the CP notes outstanding under the Note Resolution.

During fiscal year 2014, the Airport issued $248.0 million of new money CP (AMT and Non-AMT) to fund capital improvement projects and $1.4 million of taxable CP to fund costs of issuance. A portion of the taxable CP was retired with Airport operating funds during the fiscal year. As of June 30, 2014, the interest rates on taxable CP, AMT CP and Non-AMT CP were 0.10%, 0.08% to 0.15% and 0.07% respectively.

San Francisco Water Enterprise

The San Francisco Public Utilities Commission and the Board of Supervisors have authorized the issuance of up to $500.0 million in CP pursuant to the voter-approved 2002 Proposition E. (Prior to June 2014, the $500.0 million CP authorization was comprised of $250.0 million pursuant to the voter-approved 2002 Proposition A, and $250.0 million pursuant to the voter-approved Proposition E). As of June 30, 2014, no CP was outstanding under Proposition A and $186.0 million in CP was outstanding under Proposition E. The CP interest rates ranged from 0.1% to 0.2%.

With maturities up to 270 days, the Water Enterprise intends to maintain the program by remarketing the CP upon maturity over the near-to-medium term, at which time outstanding CP will likely be refunded with revenue bonds. This is being done to take advantage of the continued low interest rate environment. If the CP interest rates rise to a level that exceeds these benefits, the Water Enterprise will refinance the CP with long-term, fixed rate debt.

San Francisco Wastewater Enterprise

Under the voter-approved 2002 Proposition E, the San Francisco Public Utilities Commission and Board of Supervisors authorized the issuance of up to $300.0 million in CP for the purpose of reconstructing, expanding, repairing, or improving the Wastewater Enterprise's facilities. The Wastewater Enterprise had no CP outstanding as of June 30, 2014.

San Francisco Municipal Transportation Agency

In June 2013, pursuant to the City Charter Section 8A.102 (b) 13, the Board of Supervisor authorized the issuance of CP notes in an aggregate principal amount not to exceed $100.0 million. The CP is secured by an irrevocable letter of credit from the State Street Bank and Trust Company issued on September 10, 2013 for a term of five years and interest rate not to exceed 12% per annum. The letter of credit will cover the principal as well as the interest accrued on the 270 days prior to the maturity date. The CP program is jointly administered by the Office of Public Finance (OPF) and San Francisco Municipal Transportation Agency (SFMTA). OPF will be initiating the issuance of CP with the dealers and reporting on the CP program. SFMTA will be requesting drawdowns based on cash flow needs and expenditures schedules.

SFMTA currently plans to repay the CP through grants, which have been previously approved but proceeds have not yet been received. SFMTA may also refinance the debt with the subsequent issuance of CP notes once the original issuance reaches maturity of up to five years. If other sources of revenue are not sufficient to repay the CP, SFMTA could also repay through issuance of revenue bonds. The CP notes will be issued from time to time on a revolving basis to pay for Board-approved project costs in the Capital Improvement Program and other related uses. No CP notes have drawn or outstanding as of June 30, 2014.

(Dollars in Thousands)

Long-Term Obligations

The following is a summary of long-term obligations of the City as of June 30, 2014:

GOVERNMENTAL ACTIVITIES

Type of Obligation and Purpose	Final Maturity Date	Remaining Interest Rates	Amount
GENERAL OBLIGATION BONDS [a]:			
Earthquake safety and emergency response	2035	3.00% - 5.00%	$ 280,140
Branch libraries	2028	4.00% - 4.50%	24,190
Parks and playgrounds	2033	2.00% - 6.26%	202,240
Road repaving and street safety	2033	2.00% - 5.00%	173,115
San Francisco General Hospital	2033	3.25% - 6.26%	714,350
Seismic safety loan program	2031	3.36% - 5.83%	25,194
Refunding	2030	3.50% - 5.00%	518,856
General obligation bonds			1,938,085
LEASE REVENUE BONDS:			
San Francisco Finance Corporation [(b), (e) & (f)]	2034	0.06% - 5.75% *	241,290
CERTIFICATES OF PARTICIPATION:			
Certificates of participation [(c) & (d)]	2041	2.50% - 5.00%	521,485
ISSUANCE PREMIUMS/DISCOUNTS:			
Add: unamortized premiums			195,004
Less: unamortized discounts			(1,659)
Subtotal			2,894,205
OTHER LONG-TERM OBLIGATIONS:			
Loans [(c), (d) & (f)]	2043	2.00% - 5.74%	27,441
Capital leases payable [(c) & (f)]	2018	5.00%	3,085
Accrued vacation and sick leave [(d) & (f)]			148,280
Accrued workers' compensation [(d) & (f)]			222,747
Estimated claims payable [(d) & (f)]			155,851
Other postemployment benefits obligation			1,004,141
Other long-term obligations			1,561,545
Governmental activities total long-term obligations			$ 4,455,750

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, 2014 for Series 2008-1 & 2 was 0.06% and 0.06%, respectively.

(Dollars in Thousands)

BUSINESS-TYPE ACTIVITIES

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
San Francisco International Airport:			
Revenue bonds *	2043	1.46% - 6.00%*	$ 4,204,425
San Francisco Water Enterprise:			
Revenue bonds	2051	1.80% - 6.90%	4,172,725
Certificates of participation	2042	2.00% - 6.49%	115,711
Accreted interest	2019	-	5,107
Hetch Hetchy Water and Power:			
Energy revenue bonds	2028	4.74%	17,211
Certificates of participation	2042	2.00% - 6.49%	15,753
Municipal Transportation Agency:			
Revenue bonds	2042	1.5% - 5.00%	130,265
San Francisco General Hospital Medical Center:			
Certificates of participation	2026	5.55%	19,678
Capital leases	2017	2.41% - 3.61%	2,449
San Francisco Wastewater Enterprise:			
Revenue bonds	2043	1.00% - 5.82%	731,745
Certificates of participation	2042	2.00% - 6.49%	30,596
Port of San Francisco:			
Revenue bonds	2044	0.55% - 7.41%	56,750
Certificates of participation	2038	4.00% - 5.25%	35,435
Loans payable	2029	4.50%	2,489
Laguna Honda Hospital:			
Certificates of participation	2031	4.00 - 5.25%	143,185
Capital leases	2017	3.00% - 4.00%	63
Issuance Premiums/discounts:			
Add: unamortized premiums			361,438
Less: unamortized discounts			(632)
Accrued vacation and sick leave			101,692
Accrued workers' compensation			161,129
Estimated claims payable			91,208
Other postemployment benefits obligation			734,434
Business-type activities total long-term obligations			$ 11,132,856

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

* Includes Second Series Revenue Bonds Issue 36 A, B & C, 37C and 2010A, which were issued as variable rate bonds in a weekly mode. For the fiscal year ended June 30, 2014, the average interest rates on Issue 36A, 36B, 36C and 37C were 0.06%, 0.05%, 0.06% and 0.05%, respectively; for Issue 2010A-1, 2010A-2 and 2010A-3 rates were 0.06%, 0.06% and 0.06%, respectively.

Debt Compliance
The City believes it is in compliance with all significant limitations and restrictions contained in the limitations and restrictions in the various bond indentures.

Legal Debt Limit and Legal Debt Margin
As of June 30, 2014, the City's debt limit (3% of valuation subject to taxation) was $5.28 billion. The total amount of debt applicable to the debt limit was $2.11 billion. The resulting legal debt margin was $3.17 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 issuance. The City has evaluated each general obligation bond and certificates of participation issuance and no arbitrage liability was recognized as of June 30, 2014. The Finance Corporation has evaluated their lease revenue bonds and no liability was reported in the Internal Service Fund as of June 30, 2014. 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.

San Francisco Sustainable Financing
The Improvement Area No.1 of the City and County of San Francisco Special Tax District No. 2009-1 (San Francisco Sustainable Financing) Special Tax Bonds was formed in accordance with Ordinance 16-10 to implement the "GreenFinanceSF" program to provide financing for renewable energy, energy efficiency and water efficiency improvements on private or public property in the City. Under the program, the Special District issued bonded indebtedness for the improvement area in an aggregate principal amount of $1.4 million and an appropriation limit for the Improvement Area of $1.4 million. The bonded indebtedness shall be paid out of the special tax levied and collected on the leasehold interest on the property located in Pier 1, San Francisco, California. The Improvement Area is owned by the City and leased to AMB Pier One LLC through the Port of San Francisco. The bonds mature from September 2013 through September 2032. Assessments collected for repayment of this debt are received in the Tax Collection Agency Fund. Unpaid assessments constitute fixed liens on the leasehold interest on the parcels within the Special Tax District No. 2009-1. As of June 30, 2014 the amount outstanding was $1.4 million.

Assessment District
In 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 to finance the construction of a new public right-of-way. The bonds began to mature from September 1998 through September 2026 bearing interest rate ranging from 6.0% to 6.85%. 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. As of June 30, 2014, the principal amount of bonds outstanding was $0.7 million.

(Dollars in Thousands)

Mortgage Revenue Bonds

The City, through the Mayor's Office of Housing and Community Development and the former San Francisco Redevelopment Agency have issued various mortgage revenue bonds and community district facility bonds for the financing of multifamily rental housing, below-market rate mortgage financing for first time homebuyer in order to facilitate affordable housing and the construction and rehabilitation in the City. These obligations have been issued on behalf of various property owners and developers who retain full responsibility for the payment of the debt and are secured by the related mortgage indebtedness and special assessment taxes and are not considered obligations of the City. As of June 30, 2014, the total obligation outstanding was $672.1 million.

Changes in Long-Term Obligations

The changes in long-term obligations for governmental activities for the year ended June 30, 2014, are as follows:

	July 1, 2013 (Restated)	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2014	Amounts Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 1,889,683	$ 209,955	$ (161,553)	$ 1,938,085	$ 167,979
Lease revenue bonds	262,070	-	(20,780)	241,290	20,440
Certificates of participation	551,555	47,220	(77,290)	521,485	34,270
Issuance premiums / discounts:					
Add: unamortized premiums	190,084	19,773	(14,853)	195,004	-
Less: unamortized discounts	(1,726)	-	67	(1,659)	-
Total bonds payable	2,891,666	276,948	(274,409)	2,894,205	222,689
Loans	19,184	8,735	(478)	27,441	367
Capital leases	9,741	1,282	(7,938)	3,085	870
Accrued vacation and sick leave pay	152,167	85,490	(89,377)	148,280	79,559
Accrued w orkers' compensation	229,332	30,669	(37,254)	222,747	37,467
Estimated claims payable	111,001	62,743	(17,893)	155,851	48,932
Other postemployment benefits obligation	899,970	195,978	(91,807)	1,004,141	-
Governmental activity long-term obligations	$ 4,313,061	$ 661,845	$ (519,156)	$ 4,455,750	$ 389,884

* The June 30, 2013 balance was restated to reflect the impact of GASB Statement No. 65 implementation. The unamortized loss on refunding of debt of $16,235 was reclassified to deferred outflows of resources.

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, 2014 are as follows:

	July 1, 2013 (Restated)	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2014	Amounts Due Within One Year
San Francisco International Airport					
Bonds payable:					
Revenue bonds	$ 3,906,395	$ 461,125	$ (163,095)	$ 4,204,425	$ 174,880
Issuance premiums / discounts:					
Add: unamortized premiums	139,332	16,539	(15,374)	140,497	-
Less: unamortized discounts	(294)	-	7	(287)	-
Total bonds payable	4,045,433	477,664	(178,462)	4,344,635	174,880
Accrued vacation and sick leave pay	15,599	12,759	(12,406)	15,952	8,728
Accrued workers' compensation	5,233	2,661	(2,224)	5,670	1,243
Estimated claims payable	1,562	386	(561)	1,387	1,319
Other postemployment benefits obligation	90,713	21,804	(8,734)	103,783	-
Long-term obligations	$ 4,158,540	$ 515,274	$ (202,387)	$ 4,471,427	$ 186,170
San Francisco Water Enterprise					
Bonds payable:					
Revenue bonds	$ 4,193,550	$ -	$ (20,825)	$ 4,172,725	$ 25,850
Certificates of participation	117,746	-	(2,035)	115,711	2,106
Issuance premiums / discounts:					-
Add: unamortized premiums	159,709	-	(8,383)	151,326	-
Total bonds payable	4,471,005	-	(31,243)	4,439,762	27,956
Accreted interest payable	4,767	340	-	5,107	-
Accrued vacation and sick leave pay	11,717	8,913	(9,160)	11,470	5,932
Accrued workers' compensation	8,499	3,049	(2,813)	8,735	1,419
Estimated claims payable	10,885	17,690	(9,711)	18,864	6,263
Other postemployment benefits obligation	85,829	17,046	(8,113)	94,762	-
Long-term obligations	$ 4,592,702	$ 47,038	$ (61,040)	$ 4,578,700	$ 41,570
Hetch Hetchy Water and Power					
Bonds payable:					
Revenue (Energy) bonds	$ 18,519	$ -	$ (1,308)	$ 17,211	$ 1,321
Certificates of participation	16,030	-	(277)	15,753	287
Issuance premiums / discounts:					-
Add: unamortized premiums	224	-	(42)	182	-
Less: unamortized discounts	(130)	-	14	(116)	-
Total bonds payable	34,643	-	(1,613)	33,030	1,608
Accrued vacation and sick leave pay	3,298	1,886	(1,735)	3,449	1,948
Accrued workers' compensation	2,423	808	(764)	2,467	439
Estimated claims payable	3,437	2,775	(3,318)	2,894	788
Other postemployment benefits obligation	17,559	4,212	(1,648)	20,123	-
Long-term obligations	$ 61,360	$ 9,681	$ (9,078)	$ 61,963	$ 4,783

* The June 30, 2013 balance was restated to reflect the impact of GASB Statement No. 65 implementation. The unamortized loss on refunding of debt of $108,581 and $22,746 for the Airport and San Francisco Water Enterprise, respectively, was reclassified to deferred outflows of resources.

(Dollars in Thousands)

The changes in long- term obligations for each enterprise fund for the year ended June 30, 2014 are as follows (continued):

	July 1, 2013 (Restated)	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2014	Amounts Due Within One Year
Municipal Transportation Agency					
Bonds payable:					
Revenue bonds	$ 60,720	$ 75,440	$ (5,895)	$ 130,265	$ 5,945
Issuance premiums / discounts:					
Add: unamortized premiums	6,687	6,803	(815)	12,675	-
Total bonds payable	67,407	82,243	(6,710)	142,940	5,945
Accrued vacation and sick leave pay	29,154	1,623	(46)	30,731	18,475
Accrued workers' compensation	89,202	24,245	(18,296)	95,151	15,423
Estimated claims payable	37,637	37,715	(15,651)	59,701	27,345
Other postemployment benefits obligation	180,657	45,614	(27,066)	199,205	-
Long-term obligations	$ 404,057	$ 191,440	$ (67,769)	$ 527,728	$ 67,188
San Francisco General Hospital Medical Center					
Bonds payable:					
Certificates of participation	$ 20,874	$ -	$ (1,196)	$ 19,678	$ 1,263
Capital leases	3,482	221	(1,254)	2,449	1,288
Accrued vacation and sick leave pay	21,660	15,148	(14,444)	22,364	12,565
Accrued workers' compensation	22,427	9,449	(5,318)	26,558	3,677
Other postemployment benefits obligation	171,476	37,322	(17,188)	191,610	-
Long-term obligations	$ 239,919	$ 62,140	$ (39,400)	$ 262,659	$ 18,793
San Francisco Wastewater Enterprise					
Bonds payable:					
Revenue bonds	$ 764,550	$ -	$ (32,805)	$ 731,745	$ 30,895
Certificates of participation	31,134	-	(538)	30,596	557
Issuance premiums / discounts:					
Add: unamortized premiums	60,707	-	(8,297)	52,410	-
Total bonds payable	856,391	-	(41,640)	814,751	31,452
Accrued vacation and sick leave pay	6,013	3,072	(3,046)	6,039	3,380
Accrued workers' compensation	4,331	2,364	(1,597)	5,098	873
Estimated claims payable	8,378	-	(1,846)	6,532	2,296
Other postemployment benefits obligation	32,565	7,265	(2,678)	37,152	-
Long-term obligations	$ 907,678	$ 12,701	$ (50,807)	$ 869,572	$ 38,001

* The June 30, 2013 balance was restated to reflect the impact of GASB Statement No. 65 implementation. The unamortized loss on refunding of debt of $735 and $4,097 for SFMTA and San Francisco Wastewater Enterprise, respectively, was reclassified to deferred outflows of resources.

(Dollars in Thousands)

The changes in long- term obligations for each enterprise fund for the year ended June 30, 2014 are as follows (continued):

	July 1, 2013	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2014	Amounts Due Within One Year
Port of San Francisco					
Bonds payable:					
Revenue bonds	$ 34,800	$ 22,675	$ (725)	$ 56,750	$ 1,400
Certificates of participation	-	37,700	(2,265)	35,435	1,080
Issuance premiums / discounts:					
Add: unamortized premiums	-	2,145	(32)	2,113	-
Less: unamortized discounts	(238)	-	9	(229)	-
Total bonds payable	34,562	62,520	(3,013)	94,069	2,480
Notes, loans, and other payables	2,603	-	(114)	2,489	120
Accrued vacation and sick leave pay	2,330	1,684	(1,722)	2,292	1,252
Accrued workers' compensation	2,715	565	(506)	2,774	406
Estimated claims payable	1,682	277	(129)	1,830	1,480
Other postemployment benefits obligation	16,056	3,333	(1,298)	18,091	-
Long-term obligations	$ 59,948	$ 68,379	$ (6,782)	$ 121,545	$ 5,738
Laguna Honda Hospital					
Bonds payable:					
Certificates of participation	$ 148,545	$ -	$ (5,360)	$ 143,185	$ 5,600
Issuance premiums / discounts:					
Add: unamortized premiums	2,369	-	(134)	2,235	-
Total bonds payable	150,914	-	(5,494)	145,420	5,600
Capital leases	124	-	(61)	63	50
Accrued vacation and sick leave pay	9,663	6,604	(6,872)	9,395	5,373
Accrued workers' compensation	13,614	4,853	(3,791)	14,676	2,294
Other postemployment benefits obligation	63,153	6,555	-	69,708	-
Long-term obligations	$ 237,468	$ 18,012	$ (16,218)	$ 239,262	$ 13,317

(Dollars in Thousands)

	July 1, 2013 (restated)*	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2014	Amounts Due Within One Year
Total Business-type Activities:					
Bonds payable:					
Revenue bonds	$ 8,960,015	$ 559,240	$ (223,345)	$ 9,295,910	$ 238,970
Clean renewable energy bonds	18,519	-	(1,308)	17,211	1,321
Certificates of Participation	334,329	37,700	(11,671)	360,358	10,893
Issurance premiums / discount:					
Add: unamortized premiums	369,028	25,487	(33,077)	361,438	-
Less: unamortized discounts	(662)	-	30	(632)	-
Total bonds payable	9,681,229	622,427	(269,371)	10,034,285	251,184
Accreted interest payable	4,767	340	-	5,107	-
Notes, loans, and other payables	2,603	-	(114)	2,489	120
Capital leases	3,606	221	(1,315)	2,512	1,338
Accrued vacation and sick leave pay	99,434	51,689	(49,431)	101,692	57,653
Accrued workers' compensation	148,444	47,994	(35,309)	161,129	25,774
Estimated claims payable	63,581	58,843	(31,216)	91,208	39,491
Other postemployment benefits obligation	658,008	143,151	(66,725)	734,434	-
Long-term obligations	$ 10,661,672	$ 924,665	$ (453,481)	$ 11,132,856	$ 375,560

* The June 30, 2013 balance was restated to reflect the impact of GASB Statement No. 65 implementation. The unamortized loss on refunding of debt of $136,159 was reclassified to deferred outflows of resources.

(Dollars in Thousands)

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2014 for governmental activities are as follows:

Governmental Activities [1]

Fiscal Year Ending June 30	General Obligation Bonds Principal	General Obligation Bonds Interest [2]	Lease Revenue Bonds Principal	Lease Revenue Bonds Interest [3]	Other Long-Term Obligations Principal [4]	Other Long-Term Obligations Interest	Total Principal	Total Interest
2015	$ 167,980	$ 90,368	$ 20,440	$ 6,096	$ 35,507	$ 23,853	$ 223,927	$ 120,317
2016	112,398	82,406	18,795	5,533	38,219	22,827	169,412	110,766
2017	104,759	77,130	14,025	5,018	37,586	21,146	156,370	103,294
2018	105,918	72,078	10,880	4,623	38,379	19,325	155,177	96,026
2019	104,856	67,178	12,595	4,333	27,724	17,724	145,175	89,235
2020-2024	523,172	262,768	67,115	16,873	96,771	73,940	687,058	353,581
2025-2029	541,969	135,299	73,435	8,285	96,571	52,735	711,975	196,319
2030-2034	271,702	25,515	24,005	1,992	111,220	29,728	406,927	57,235
2035-2039	5,331	267	-	-	48,526	10,563	53,857	10,830
2040-2044	-	-	-	-	21,508	1,596	21,508	1,596
Total	$ 1,938,085	$ 813,009	$ 241,290	$ 52,753	$ 552,011	$ 273,437	$ 2,731,386	$ 1,139,199

(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 federal subsidy for the General Obligation Bonds Series 2010 C and Series 2010 D, approximately $38.9 million and $8.0 million, respectively, through the year ending 2030. The payment of subsidy by the IRS from October 1 2013 to September 30, 2014 was reduced by 7.2% due to federal sequestration. Future interest subsidy may be reduced as well.

(3) Includes the Moscone Center Expansion Project Lease Revenue Refunding Bonds Series 2008-1 & 2, which bears interest at a weekly rate. An assumed rate of 0.06%, together with liquidity fee of 0.710% and remarketing fee of 0.0725%, were used to project the interest payment in this table.

(4) Includes approximately $3.1 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, 2014 for each enterprise fund as follows:

San Francisco International Airport [1]

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest
2015	$ 174,880	$ 206,461
2016	184,165	199,157
2017	194,125	190,868
2018	203,190	182,017
2019	226,025	172,612
2020-2024	1,269,935	683,018
2025-2029	1,095,640	380,686
2030-2034	476,245	177,667
2035-2039	277,625	76,213
2040-2043	102,595	18,309
Total	$ 4,204,425	$ 2,287,008

(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 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 Airport pursuant to the terms of the related agreements with the banks providing such letters of credit:

San Francisco International Airport [1]

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest
2015.............	$ 173,685	$ 206,461
2016.............	272,410	195,058
2017.............	492,230	180,839
2018.............	256,100	165,519
2019.............	198,840	153,457
2020-2024....	1,098,280	606,550
2025-2029....	888,560	346,779
2030-2034....	444,100	176,408
2035-2039....	277,625	76,213
2040-2043....	102,595	18,309
Total...........	$ 4,204,425	$ 2,125,593

San Francisco Water Enterprise [1]

Fiscal Year Ending	Revenue Bonds		Other Long-Term Obligations		Total	
June 30	Principal	Interest [2]	Principal	Interest [2]	Principal	Interest
2015...............	$ 25,850	$ 214,508	$ 2,106	$ 7,060	$ 27,956	$ 221,568
2016...............	33,700	213,068	2,199	6,968	35,899	220,036
2017...............	53,625	210,954	2,313	6,856	55,938	217,810
2018...............	59,715	208,346	2,431	6,737	62,146	215,083
2019...............	76,790	205,340	2,556	6,612	79,346	211,952
2020-2024.....	536,725	957,550	14,874	30,933	551,599	988,483
2025-2029.....	679,850	806,874	18,507	25,954	698,357	832,828
2030-2034.....	856,540	610,574	22,762	19,369	879,302	629,943
2035-2039....	1,019,370	361,616	28,071	11,157	1,047,441	372,773
2040-2044....	670,375	124,637	19,892	1,972	690,267	126,609
2045-2049....	109,140	37,386	-	-	109,140	37,386
2050-2051...	51,045	3,588	-	-	51,045	3,588
Total...........	$ 4,172,725	$ 3,954,441	$ 115,711	$ 123,618	$ 4,288,436	$ 4,078,059

(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 federal subsidy for the Revenue Bonds 2010 Series B, E, and G (Bonds) and Certificates of Participation Series 2009 D (Certificates), approximately $480.4 million and $38.3 million through the year ending 2051 and 2042 respectively. The SFPUC received IRS notice dated February 24, 2014 that the federal interest subsidies on the Bonds and Certificates are reduced by 7.2% or a total reduction of $37.3 million and $3.0 million, respectively, due to sequestration over the remaining life of the obligations.

(Dollars in Thousands)

Hetch Hetchy Water and Power [1]

Fiscal Year Ending June 30	Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest [2] [3]	Principal	Interest [3]	Principal	Interest
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..............	1,356	496	331	917	1,687	1,413
2019..............	1,368	451	348	900	1,716	1,351
2020-2024....	6,607	1,568	2,025	4,211	8,632	5,779
2025-2029....	3,883	394	2,520	3,533	6,403	3,927
2030-2034....	-	-	3,099	2,637	3,099	2,637
2035-2039....	-	-	3,822	1,519	3,822	1,519
2040-2042......	-	-	2,707	271	2,707	271
Total..........	$ 17,211	$ 4,655	$ 15,753	$ 16,830	$ 32,964	$ 21,485

Municipal Transportation Agency [1]

Fiscal Year Ending June 30	Revenue Bonds	
	Principal	Interest
2015.............	$ 5,945	$ 6,192
2016.............	6,160	5,980
2017.............	6,425	5,698
2018.............	6,350	5,377
2019.............	5,700	5,151
2020-2024....	24,285	22,042
2025-2029....	27,890	15,985
2030-2034....	29,430	8,466
2035-2039....	10,465	3,524
2040-2042....	7,615	774
Total..........	$ 130,265	$ 79,189

San Francisco General Hospital [1]

Fiscal Year Ending June 30	Other Long-Term Obligations	
	Principal	Interest
2015.............	$ 2,551	$ 1,326
2016.............	2,237	1,171
2017.............	1,667	972
2018.............	1,488	849
2019.............	1,572	766
2020-2024....	9,291	2,398
2025-2029....	3,321	186
Total..........	$ 22,127	$ 7,668

(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 is before federal subsidy for the Qualified Energy Conservation Bonds and New Clean Renewable Energy Bonds, approximately $1.7 million and $1.4 million, respectively, through the year ending 2028.

(3) The interest is before federal subsidy for the Certificates of Participation 2009 Series D, approximately $5.2 million through the year ending 2042. The SFPUC received IRS notice dated February 24, 2014 that the federal interest subsidies on the Qualified Energy Conservation Bonds, New Clean Renewable Energy Bonds and Certificates of Participation Series 2009 D are reduced by 7.2% or a total reduction of $134, $107 and $405, respectively, due to sequestration.

(Dollars in Thousands)

San Francisco Wastewater Enterprise [(1)]

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest [(2)(3)]	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest [(3)]	Total Principal	Total Interest
2015.....................	$ 30,895	$ 33,473	$ 557	$ 1,867	$ 31,452	$ 35,340
2016.....................	31,115	32,383	581	1,843	31,696	34,226
2017.....................	20,870	31,384	612	1,813	21,482	33,197
2018.....................	20,015	30,481	643	1,781	20,658	32,262
2019.....................	21,010	29,544	676	1,748	21,686	31,292
2020-2024............	105,490	132,209	3,932	8,179	109,422	140,388
2025-2029............	96,170	108,642	4,894	6,863	101,064	115,505
2030-2034............	119,640	80,840	6,019	5,121	125,659	85,961
2035-2039............	146,660	48,354	7,422	2,950	154,082	51,304
2040-2043............	139,880	11,968	5,260	522	145,140	12,490
Total...............	$ 731,745	$ 539,278	$ 30,596	$ 32,687	$ 762,341	$ 571,965

Port of San Francisco [(1)]

Fiscal Year Ending June 30	Revenue Bonds Principal	Revenue Bonds Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2015.....................	$ 1,400	$ 2,771	$ 1,200	$ 1,867	$ 2,600	$ 4,638
2016.....................	1,225	2,951	1,145	1,819	2,370	4,770
2017.....................	1,265	2,904	1,191	1,772	2,456	4,676
2018.....................	1,325	2,849	1,242	1,724	2,567	4,573
2019.....................	1,390	2,786	1,303	1,663	2,693	4,449
2020-2024............	8,165	12,705	6,801	7,280	14,966	19,985
2025-2029............	11,125	9,744	5,317	5,808	16,442	15,552
2030-2034............	10,770	6,131	5,545	4,420	16,315	10,551
2035-2039............	12,425	3,487	7,110	2,849	19,535	6,336
2040-2044............	7,660	840	7,070	906	14,730	1,746
Total...............	$ 56,750	$ 47,168	$ 37,924	$ 30,108	$ 94,674	$ 77,276

(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 federal subsidy, approximately $65.6 million through the year ending 2043.

(3) The interest is before federal subsidy on the Certificates of Participation 2009 Series D, approximately $10.1 million through the year ending 2042. The SFPUC received IRS notice dated February 24, 2014 that the federal interest subsidy on the 2010 Series B bonds and Certificates of Participation Series 2009 D are reduced by 7.2% or a total reduction of $5.1 million and $786, respectively, due to sequestration over the remaining life of the bonds.

(Dollars in Thousands)

Laguna Honda Hospital [1]

Fiscal Year Ending June 30	Other Long-Term Obligations	
	Principal	Interest
2015.............	$ 5,650	$ 7,163
2016.............	5,883	6,876
2017.............	6,144	6,612
2018.............	6,440	6,309
2019.............	6,735	6,017
2020-2024....	38,980	24,769
2025-2029....	49,790	13,957
2030-2031....	23,626	1,876
Total...........	$ 143,248	$ 73,579

(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
2015............	$ 240,291	$ 464,030	$ 12,351	$ 20,244	$ 252,642	$ 484,274
2016............	257,697	454,121	12,344	19,625	270,041	473,746
2017.............	277,654	442,347	12,242	18,958	289,896	461,305
2018.............	291,951	429,566	12,575	18,317	304,526	447,883
2019.............	332,283	415,884	13,190	17,706	345,473	433,590
2020-2024.....	1,951,207	1,809,092	75,903	77,770	2,027,110	1,886,862
2025-2029...	1,914,558	1,322,325	84,349	56,301	1,998,907	1,378,626
2030-2034....	1,492,625	883,678	61,051	33,423	1,553,676	917,101
2035-2039...	1,466,545	493,194	46,425	18,475	1,512,970	511,669
2040-2044...	928,125	156,528	34,929	3,671	963,054	160,199
2045-2049...	109,140	37,386	-	-	109,140	37,386
2050-2054...	51,045	3,588	-	-	51,045	3,588
Total..........	$ 9,313,121	$ 6,911,739	$ 365,359	$ 284,490	$ 9,678,480	$ 7,196,229

(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 fiscal year ended June 30, 2014, are as follows:

Governmental Activities - General Obligation Bonds

Authorized and unissued as of June 30, 2013	$ 750,675
Increases in authorization this fiscal year:	
Earthquake Safety and Emergency Response	400,000
Bonds issued:	
General Obligation Bonds Series 2014A	(209,955)
Net authorized and unissued as of June 30, 2014	$ 940,720

The increase in authorized amount of $400.0 million of 2014 Earthquake Safety and Emergency Response General Obligation Bonds was approved by at least two-third votes of the City electorate voting on Proposition A at an election held on June 3, 2014. The bonds will be issued to fund improvements to fire, earthquake and emergency response.

In January 2014, the City issued General Obligation Bonds Series 2014A in the amount of $210.0 million 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 Series 2014A bonds. The Series 2014A bonds bear interest rates ranging from 1.0% to 5.0% and mature from June 2014 through June 2033.

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

Certificates of Participation

In May 2014, the City issued Refunding Certificates of Participation Series 2014-R1 (San Francisco Courthouse Project) for $13.6 million and Series 2014-R2 (Juvenile Hall Project) for $33.6 million. The proceeds of the certificates were used to refund certain outstanding certificates of participation which financed the construction of the City’s Courthouse and the City’s Juvenile Hall in San Francisco and to pay costs of execution and delivery of the certificates. The Series 2014-R1 certificates mature from April 2015 through April 2021 with interest rate of 5.0% and the Series 2014-R2 certificates mature from April 2015 through April 2034 with interest rates ranging from 2.5% to 5.0%. The refunding resulted in the recognition of deferred accounting gain of $278 and reduced the City’s aggregate debt service payment by $5.6 million over the next 20 years and obtained present value savings of $4.8 million or 9.8% of refunded bond.

At June 30, 2014, the City has a total of $521.5 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 $773.3 million payable through September 1, 2040. For the fiscal year ended June 30, 2014, principal and interest paid by the City totaled $28.2 million and $24.4 million, respectively.

(Dollars in Thousands)

Lease Revenue Bonds

The changes in governmental activities - lease revenue bonds related to the equipment program for the year ended June 30, 2014 were as follows:

Governmental Activities - Lease Revenue Bonds

Authorized and unissued as of June 30, 2013	$ 137,425
Increase in authorization in this fiscal year:	
Current year annual increase in Finance Corporation's equipment program	2,925
Current year maturities in Finance Corporation's equipment program	10,865
Net authorized and unissued as of June 30, 2014	$ 151,215

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 amount that is not applied towards the acquisition or construction of real and personal property such as unapplied acquisition fund, bond issue costs, fund withheld pursuant to reserve fund requirement, and amount designated for capitalized interest is recorded as deferred credit in the internal service fund until such time as it is used for its intended purpose. The deferred credits are eliminated in the governmental activities statement of net position.

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 $294.0 million payable through June 2034. For the fiscal year ended June 30, 2014, principal and interest paid by the Corporation and the total lease payments made by the City totaled $20.8 million and $5.6 million, respectively.

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, 2014, the cumulative amount authorized, repaid and outstanding was $61.4 million, $10.9 million and $24.4 million, 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 of the State of California (State). Under the Small Craft Harbor Construction Loan agreement, the State 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 State with an assignment of rents and leases on marina revenues. In addition, the State will receive a first lien position on the City's marina account surplus revenues to cover any payment shortfall after construction completion. In January 2011, the State authorized to fund Phase V of the project for $7 million by an amendment to the loan agreement. Under the amended agreement, the City will 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) will 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, 2014, the City drew down $8.7 million. The amount of loan outstanding as of June 30, 2014 is $21.4 million.

Business-Type Activities Long-Term Liabilities

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

<u>San Francisco International Airport</u>

Second Series Revenue Bonds (Capital Plan Bonds)
Pursuant to resolutions approved in fiscal years 2008, 2012 and 2014, the Airport Commission has authorized the issuance of up to $4.8 billion of San Francisco International Airport Second Series Revenue Bonds to finance and refinance the construction, acquisition, equipping, and development of capital projects undertaken by the Airport, including retiring all or a portion of the Airport's outstanding subordinate commercial paper notes (CP) issued for capital projects, funding debt service reserves, and for paying costs of issuance. As of June 30, 2014, $3.7 billion of the authorized capital plan bonds remained unissued.

In July 2013, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2013A (AMT), Series 2013B (Non-AMT/Governmental Purpose) and Series 2013C (Taxable) in the total amount of $461.1 million. The Series 2013A-C Bonds are uninsured, long-term, fixed rate bonds. The Series 2013A (AMT) Bonds mature between May 1, 2020 and May 1, 2038 with interest rates from 5.00% to 5.50%. The Series 2013B (Non-AMT/Governmental Purpose) Bonds mature on May 1, 2043, with an interest rate of 5.00%. The Series 2013C (Taxable) Bonds mature between May 1, 2017 and May 1, 2019, with interest rates from 2.12% to 2.86%.

The net proceeds of $405.8 million (comprised of a $461.1 million bond principal amount, less $71.8 million in underwriting fees, deposits to the capitalized interest accounts and the reserve account, and payment of costs of issuance, together with $16.5 million in net original issue premium) were used to retire the outstanding balance of subordinate CP ($180.5 million), and make a deposit into the Airport's construction accounts to fund capital projects at the Airport ($225.3 million).

Second Series Revenue Refunding Bonds (Remarketing)
Pursuant to sale resolutions approved between fiscal years 2005 through 2011, the Airport Commission has authorized the issuance of up to $8.4 billion of Second Series Revenue Refunding Bonds for the purposes of refunding outstanding 1991 Resolution Bonds and outstanding subordinate commercial paper notes, funding debt service reserves, and paying cost of issuance, including an related bond redemption premiums. As of June 30, 2014, net of the expired sale authorizations, $1.4 billion of such refunding bonds remained unissued. During fiscal year 2014, no new refunding bonds were issued, and the following refunding bonds were remarketed with new letters of credit.

In April 2014, the Airport remarketed its outstanding Second Series Variable Rate Revenue Refunding Bonds, Issue 36B (Non-AMT/Private Activity) with a new irrevocable letter of credit (LOC) from The Bank of Tokyo–Mitsubishi UFJ, Ltd. that expires on April 25, 2018. The bonds were originally secured by a LOC from U.S. Bank National Association that expired on May 4, 2014. The Issue 36B Bonds were remarketed with the original maturity date of May 1, 2026, and no changes to principal amortization.

(Dollars in Thousands)

In April 2014, the Airport remarketed its outstanding Second Series Variable Rate Revenue Refunding Bonds, Issue 36C (Non-AMT/Private Activity) with a new irrevocable LOC from The Bank of Tokyo – Mitsubishi UFJ, Ltd. that expires on April 25, 2018. The bonds were originally secured by a LOC provided by U.S. Bank National Association with an expiration date of July 11, 2014. The Issue 36C Bonds were remarketed with the original maturity date of May 1, 2026, and no changes to principal amortization.

Variable Rate Demand Bonds

As of June 30, 2014, the Airport had outstanding aggregate principal amount of $481.5 million of Second Series Variable Rate Revenue Refunding Bonds, consisting of Issue 36A/B/C and 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 separate irrevocable LOC issued to the Senior Trustee for the benefit of the applicable bondholders by the banks identified in the tables below.

Amounts drawn under a LOC 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 LOC range between 0.52% and 0.78% per annum. As of June 30, 2014, there were no unreimbursed draws under these facilities.

In December 2013, the Airport obtained an extension of the LOC issued by J.P. Morgan Chase Bank, N.A. securing the Series 2010A Bonds and in April 2014, the Airport obtained a replacement LOC from The Bank of Tokyo-Mitsubishi UFJ, Ltd. for the Issue 36B Bonds in advance of the expiration dates of the LOC securing both series of bonds.

In April 2014, the Airport obtained an additional LOC from The Bank of Tokyo-Mitsubishi UFJ, Ltd. to support the Issue 36C Bonds in advance of the July 11, 2014 stated expiration date of the prior LOC securing those bonds.

The primary terms of the LOC securing the Variable Rate Bonds included in long-term debt as of June 30, 2014, are as follows:

	Issue 36A	Issue 36B	Issue 36C	Issue 37C	Series 2010A
Principal Amount	$100,000	$40,620	$36,145	$89,895	$215,970
Expiration Date	October 26, 2016	April 25, 2018	April 25, 2018	July 13, 2015	December 14, 2016
Credit Provider	U.S. Bank National Association	The Bank of Tokyo-Mitsubishi UFJ. Ltd.	The Bank of Tokyo-Mitsubishi UFJ. Ltd.	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.

(Dollars in Thousands)

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.

In the spring of 2008, the Airport refunded several issues of auction rate and variable rate bonds, 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 the unhedged portions of Issue 36A/B/C.

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, 2014, the Airport's derivative instruments comprised 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, 2014.

#	Current Bonds	Initial Notional Amount	Notional Amount June 30, 2014	Effective Date
1	36AB	$ 70,000	$ 70,000	2/10/2005
2	36AB	69,930	69,930	2/10/2005
3	36C	30,000	30,000	2/10/2005
4	2010A*	79,684	79,331	5/15/2008
5	37C	89,856	89,459	5/15/2008
6	2010A	143,947	143,447	2/1/2010
	Total	$ 483,417	$ 482,167	

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

(Dollars in Thousands)

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 bond due on the date of each future net settlement payment on the swaps.

As of June 30, 2014, the fair value of the Airport's six outstanding swaps, counterparty credit ratings and fixed rate payable by the Airport are as follows:

#	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%	$ (8,554)
2	36AB	J.P. Morgan Chase Bank, N.A.	A+/Aa3/A+	3.445%	(8,554)
3	36C	J.P. Morgan Chase Bank, N.A.	A+/Aa3/A+	3.444%	(3,666)
4	2010A	Merrill Lynch Capital Services, Inc./ Merrill Lynch Derivative Products AG	A+/Aa3/NR	3.773%	(13,918)
5	37C	J.P. Morgan Chase Bank, N.A.	A+/Aa3/A+	3.898%	(16,777)
6	2010A	Goldman Sachs Group, Inc.	A -/Baa1/A	3.925%	(28,481)
		Total			$ (79,950)

* The ratings for the 2010A swaps are the ratings of the guarantor.

The impact of the interest rate swaps on the financial statements for the fiscal year ended June 30, 2014 is as follows:

	Deferred outflows on derivative instruments	Derivative instruments
Balance as of June 30, 2013	$ 64,743	$ 81,338
Change in fair value	221	(1,103)
Balance as of June 30, 2014	$ 64,964	$ 80,235

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 position. 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 inflows/outflows values, the balance of remaining off-market portions are valued on a present value, or fixed yield, to maturity basis. The difference between the deferred outflows of resources and derivative instruments above is the unamortized off-market portions of the swaps as of June 30, 2014.

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

(Dollars in Thousands)

June 30, 2014, the Airport paid a total of $1.8 million less in interest on its variable rate bonds than the floating rate payments it received from the swap counterparties, resulting in a decrease in the effective synthetic interest rates on the associated bonds.

Credit Risk - As of June 30, 2014, 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. 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 2014, 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:

#	Swap	Swap Insurer	Insurer credit ratings June 30, 2014 (S&P/Moody's/Fitch)
1	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	AA-/A3/NR
2	Issue 36AB	FGIC/National Public Finance Guarantee Corporation	AA-/A3/NR
3	Issue 36C	Assured Guaranty Municipal Corp.	AA/A2/NR
4	Series 2010A	None	N/A
5	Issue 37C	Assured Guaranty Municipal Corp.	AA/A2/NR
6	Series 2010A	None	N/A

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

Additional Termination Events under the swap documents with respect to the Airport include an insurer payment default under the applicable swap insurance policy, and certain insurer rating downgrades or specified insurer non-payment defaults combined with a termination event or event of default on the part of the Airport or a ratings downgrade of the Airport below investment grade. Additional Termination Events under the swap documents with respect to a counterparty or its guarantor 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.

The Airport's swap guarantors Goldman Sachs Group, Inc. and Merrill Lynch Derivative Products AG were each downgraded by one of the rating agencies during the year ended June 30, 2014.

The downgrades to Goldman Sachs and Merrill Lynch did not constitute Additional Termination Events 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, 2014, the fair value of each swap was negative to the Airport as shown above.

Municipal Transportation Agency

In December 2013, the SFMTA issues its Revenue Bonds, Series 2013 in the total amount of $75.4 million. The net proceed of $82.2 million (consisting of $75.4 million of the Series 2013 bonds plus original issue premium of $6.8 million) were used to pay $0.2 million underwriter discount and $1 million in costs of issuance, deposit $6.0 million into the Reserve Account, and fund $75.0 million for various transit and parking capital projects for the SFMTA. The Series 2013 bonds bear interest at fixed rates from 1.5% to 5.0% and have a final maturity on March 1, 2033.

Port of San Francisco

In May 2014, the Port issued $22.7 million in revenue bonds in two series; an AMT tax-exempt series (Series 2014A) and a taxable series (Series 2014B). Series 2014A included serial and term bonds totaling $19.9 million with coupon rates ranging from 3.00% to 5.00% and maturities from March 2020 to March 2044. Series 2014B included serial bonds totaling $2.8 million with coupon rates ranging from 0.55% to 3.00% and maturities from March 2015 through March 2020. Series 2014A bonds with scheduled maturities on or after March 2025 are subject to redemption as a whole or in part at the sole option of the Port at any time on or after March 2025 at redemption prices specified in the Master Trust Indenture dated February 1, 2010. Bonds with scheduled maturities on or before March 2024 are not subject to optional redemption prior to their maturity. Under terms of the indenture the Port is required to deposit in a debt service reserve fund with a bond trustee, amounts equal to the Series 2014A reserve requirement and to the Series 2014B reserve requirement.

The Series 2014A reserve requirement is an amount equal to the lesser of: a) the maximum annual debt service with respect to the Series 2014A bonds, b) 125% of the average annual debt service on the Series 2014A bonds, c) 10% of the outstanding principal of the amount of the Series 2014A bonds, or d) the sum of $651, which is the initial deposit into the reserve fund, plus any amounts available to be transferred from the Series 2014B reserve account pursuant to the Indenture. Funds on deposit in the Series 2014A reserve fund are only for the benefit of the Series 2014A bondholders. The Series 2014B reserve requirement is an amount equal to the maximum annual debt service on the Series 2014B bonds. Funds on deposit in the Series 2014B reserve fund are only for the benefit of the Series 2014B bondholders. At June 30, 2014, the Port was in compliance with these reserve requirements.

In May 2012, the Board of Supervisors authorized the City to issue $45.0 million in certificates of participation (COPs) to finance various facilities and improvements under the jurisdiction of the Port, including the construction of a primary cruise terminal at Pier 27. The plan of finance for the Port projects also contemplated utilization of the City's commercial paper (CP) program as interim or bridge financing. Under that program, CP notes are issued by the City and short-term debt is incurred only when funds are drawn to pay project costs. The public sale of $37.7 million in COPs was completed in October 2013 and $27.2 million from the proceeds was used to repay the City CP program in November 2013. Interest rates on commercial paper for the subsequent period through October 2013 ranged from 0.07% to 0.16%.

A memorandum of understanding between the City and the Port govern the terms of repayment for the City COPs. The Port is required to make payments to the City equal to annual debt service on the Certificates. These payment obligations are subordinate to any Port revenue bond obligations. The Port has agreed, during the term of the COPs, to annually budget amounts necessary for direct payment of obligations or for reimbursement by the Port to the City for costs incurred on behalf of the Port in connection with the COPs. At the outset, the property ("Leased Property") securing the City COPs will be a specified portion of the City's Laguna Honda Hospital and Rehabilitation Center. Upon completion of Phase 2 construction of the James R. Herman Cruise Terminal at Pier 27 in 2014, the Laguna Honda Hospital and Rehabilitation Center will be released from the Project Lease and replaced with the completed cruise terminal. While the Leased Property will serve as the leased asset for the COPs to secure the City's covenants and obligations under the lease, there is no remedy under the COPs for the purchasers thereof to take possession of the Leased Property.

The COPs were issued in two series, consisting of Series 2013B (Non-AMT) in the amount of $4.8 million and Series 2013C (AMT) in the amount of $32.9 million Series 2013B certificates will mature March 2036 and March 2038, and carry coupon rates of 5.25% and 4.75%, respectively. Series 2013C certificates will mature March 2014 through March 2043 and carry coupon rates between 4.00% and 5.25%. The COPs with scheduled maturities on or after March 2023 are subject to redemption at specified prices at the option of the City. Those COPs with scheduled maturities before March 2023 are not subject to optional redemption prior to their maturity.

(9) EMPLOYEE BENEFIT PROGRAMS

(a) Retirement Plan

The City administers a cost-sharing multiple-employer defined benefit pension plan (the Plan), which covers substantially all of its employees, and certain classified and certificated employees of the San Francisco Community College and Unified School Districts, and San Francisco Trial Court employees other than judges. Due to the relatively minor share of costs borne by 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 Transportation Authority and the Successor Agency.

(Dollars in Thousands)

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, 2014 was approximately $2.5 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, 1145 Market Street, 5th Floor, San Francisco, CA 94103 or by calling (415) 487-7000.

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

Funding Policy – Contributions are made to the basic plan by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal year 2013-14 varied from 7.5% to 13.0% as a percentage of gross covered salary. For fiscal year ended June 30, 2014, 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, 2012 actuarial report, the required employer contribution rate for fiscal year 2013-14 was 20.32% to 24.32%.

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, 2012. The actuarial method used was the entry age normal cost method. The significant actuarial assumptions include: (1) annual rate of return on investments of 7.58%; (2) cost of living adjustments of 2% to 5%; and (3) projected wage increases of 3.83% with additional for merit and promotion of 0.00% 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 payroll 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
6/30/2012	$ 410,797	100%	$ -
6/30/2013	442,870	100%	-
6/30/2014	532,882	100%	-

Funded Status and Funding Progress – As of July 1, 2013, the most recent actuarial valuation date, the actuarial value of assets was $16.30 billion; the actuarial accrued liability was $20.22 billion; the total unfunded actuarial accrued liability was $3.92 billion; the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 80.6%; the annual covered payroll was $2.54 billion; and the ratio of the unfunded actuarial liability to annual covered payroll was 154.6%. The actuarial assumptions used were the same as described in the Annual Pension Cost section above. The Retirement System's unfunded actuarial accrued liability from its July 1, 2013 actuarial valuation increased $555.2 million from a deficit of $3.36 billion to a deficit of $3.92 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. 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.

(Dollars in Thousands)

California Public Employees' Retirement System

Various City public safety, Port, and all Successor Agency and Transportation Authority employees are eligible to participate in PERS. Disclosures for the 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.

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 2013-14 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 2013-14 was equal to the City's required and actual contributions, which was determined as part of the June 30, 2011 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
6/30/2012	$ -	N/A	$ -
6/30/2013	-	N/A	-
6/30/2014	-	N/A	-

Safety Plan

Funding Policy – Safety plan – Participants are required to contribute 9% of their annual covered salary. The City makes the contributions required of City employees on their behalf and for their account. The City is required to contribute at an actuarially determined rate. For the safety plan, the fiscal year contribution rate is 21.59%. The contribution requirements of plan members and the City are established and may be amended by PERS.

(Dollars in Thousands)

Annual Pension Cost – Safety Plan – The cost for PERS for fiscal year 2013-14 was equal to the City's required and actual contributions, which was determined as part of the June 30, 2011 actuarial valuation using the entry age actuarial cost method. The assumptions included in the June 30, 2011 actuarial valuation were: (a) 7.50% investment rate of return (net of administrative expenses), (b) 3.30% to 14.20% projected annual salary increases that vary by age, service and type of employment, and (c) 3.00% payroll growth. The inflation rate is 2.75%. For the June 30, 2011 actuarial valuation, the average remaining period is 32 years. 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 over as a level percentage of pay over a closed 20 year period.

Three-year trend information is as follows:

Fiscal Year Ended	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2012	$ 23,888	100%	$ -
6/30/2013	23,811	100%	-
6/30/2014	24,020	100%	-

Funded Status and Funding Progress – As of June 30, 2013, the most recent actuarial valuation date, the actuarial value of assets was $785.2 million; the actuarial accrued liability was $962.2 million; the total unfunded actuarial accrued liability was $177.1 million; the actuarial value of assets as a percentage of the actuarial accrued liability (funded ratio) was 81.6%; the annual covered payroll was $108.1 million; and the ratio of the unfunded actuarial liability to annual covered payroll was 163.8%. The assumptions included in the June 30, 2012 actuarial valuation were: (a) 7.50% investment rate of return (net of administrative expenses), (b) 3.30% to 14.20% projected annual salary increases that vary by age, service and type of employment, (c) 3.00% payroll growth and (d) 2.75% inflation rate. For the June 30, 2013 actuarial valuation, 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 over as a level percentage of pay over a closed 20 year period.

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

(Dollars in Thousands)

District, San Francisco Unified School District and the San Francisco Superior Court, amounted to approximately $644.1 million in fiscal year 2013-14. 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 $198.9 million to provide postemployment health care benefits for 25,940 retired participants, of which $160.7 million related to City employees. The City's liability for postemployment health care benefits is enumerated below. The City's contribution is paid out of current available resources and funded on a pay-as-you-go basis. The Health Service System issues a publicly available financial report that includes financial statements. That report may be obtained by writing to the San Francisco Health Service System, 1145 Market Street, Suite 300, San Francisco, CA 94103 or by calling (800) 541-2266.

(d) Postemployment Health Care Benefits

City (excluding the 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.

The City established the Retiree Health Care Trust Fund to receive contributions for the purpose of providing a funding source for certain postemployment 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.

Funding Policy – The contribution requirements of plan members and the City are based on a pay-as-you-go basis. For fiscal year ended June 30, 2014, the City paid approximately $160.7 million on behalf of its retirees and contributed $5.9 million to the Retiree Health Care Trust Fund.

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, 2012 actuarial valuation.

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

Annual required contribution	$ 341,377
Interest on Net OPEB obligation	71,444
Adjustment to annual required contribution	(59,570)
Annual OPEB cost	353,251
Contribution made	(166,628)
Increase in net OPEB obligation	186,623
Net OPEB obligation - beginning of year	1,607,130
Net OPEB obligation - end of year	$ 1,793,753

(Dollars in Thousands)

The table below shows how the total net OPEB obligation as of June 30, 2014, is distributed.

Governmental activities	$ 1,004,141
Business-type activities	734,434
Fiduciary funds	55,178
Net OPEB obligation - end of year	$ 1,793,753

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
6/30/2012	$ 405,850	38.5%	$ 1,348,883
6/30/2013	418,539	38.3%	1,607,130
6/30/2014	353,251	47.2%	1,793,753

<u>Funded Status and Funding Progress</u> – 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, 2012, the most recent actuarial valuation date, the funded status of the Retiree Health Care Benefits was 0.4%. The actuarial accrued liability for benefits was $4.00 billion, and the value of assets was $17.9 million, resulting in an unfunded actuarial accrued liability (UAAL) of $3.98 billion. As of July 1, 2012, the estimated covered payroll (annual payroll of active employees covered by the plan) was $2.46 billion and the ratio of the UAAL to the covered payroll was 161.9%.

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

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

In the actuarial valuation as of July 1, 2012, 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 payroll over a rolling 30-year period. The actuarial assumptions included a 4.45% investment rate of return on investment; 3.33% inflation rate; 3.83% payroll growth; and actual medical premiums from 2013 through 2014 and an ultimate medical inflation rate of 8.0% to 4.50% from 2016 through 2030.

(Dollars in Thousands)

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 Charter amendment passed by voters as Proposition A on November 5, 2013 prohibits withdrawals from the RHCTF until sufficient funds are set-aside to pay for all future retiree health care costs as determined by an actuarial study. Limited withdrawals prior to accumulating sufficient funds will be permitted only if annually budgeted retiree health care costs rise above 10% of payroll expenses, and will be limited to no more than 10% of the RHCTF balance. Proposition A allows for revisions to these funding limitations and requirements only upon the recommendation of the Controller and an external actuary and if approved by the RHCTF Board, two-thirds of the Board of Supervisors, and the Mayor.

San Francisco County Transportation Authority

The Transportation Authority maintains a separate single-employer defined benefit OPEB plan and reported a net OPEB obligation of $0 as of June 30, 2014. The Transportation Authority's most recent actuarial valuation was performed as of June 30, 2013, covering the fiscal year ended June 30, 2014. The Transportation Authority's OPEB plan is for retiree healthcare benefits and was 67.6% funded and the unfunded actuarial accrued liability was $0.4 million. Details of the Transportation Authority's OPEB plan may be found in its financial statements for the year ended June 30, 2014. Financial statements for the Transportation Authority can be obtained from their finance and administrative offices at 1455 Market Street, 22nd Floor, San Francisco, CA 94103.

As of June 30, 2014, the Transportation Authority's annual OPEB expense of $138.4 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
6/30/2012	$ 158.0	100%	$ -
6/30/2013	163.0	100%	-
6/30/2014	138.4	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.

The Successor Agency participates in the California Employers' Retiree Benefit Trust (CERBT) Fund. CERBT is administered by PERS and is an agent multiple-employer trust. Copies of PERS' financial report may be obtained from PERS website at www.calpers.ca.gov or from PERS at 400 "Q" Street, Sacramento, California 95811.

(Dollars in Thousands)

Funding Policy – The contribution requirements of the plan members and the Successor Agency are established by and may be amended by the Successor Agency. The Successor Agency intends to fund plan benefits through the CERBT by contributing at least 100% of the annual required contribution.

The annual required contribution is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. During the year ended June 30, 2014, the Successor Agency contributed $1.3 million to this Plan.

Annual Other Postemployment Benefit Cost and Net Obligation – The Successor Agency's annual OPEB cost (expense) is calculated based on the annual required contribution (ARC) of the employer, 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 normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. Annual OPEB Cost (AOC) equals the plan's ARC, adjusted for historical differences between the ARC and amounts actually contributed. The Successor Agency's annual required contribution for the year ended June 30, 2014 is the sum of (a) normal cost of $110 and (b) level dollar amortization of the June 30, 2013 unfunded actuarial accrued liability of $822.

The following table shows the components of the Successor Agency's annual OPEB cost for the year ended June 30, 2014, and the changes in the net OPEB obligation:

Annual required contribution	$	932
Interest on Net OPEB obligation		89
Adjustment to annual required contribution		(109)
Annual OPEB cost		912
Contribution made		(1,266)
Decrease in net OPEB obligation		(354)
Net OPEB obligation - beginning of year		1,221
Net OPEB obligation - end of year	$	867

Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost		Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation	
1/31/2012 *	$	747	65%	$	733
6/30/2012 **		533	65%		921
6/30/2013		1,306	77%		1,221
6/30/2014		912	139%		867

* Represents trend information for the former Agency for the period July 1, 2011 through January 31, 2012.

** Represents trend information for the Successor Agency for the period February 1, 2012 through June 30, 2012.

Funded Status and Funding Progress – The funded status of the plan of the former Agency as of June 30, 2013, the plan's most recent actuarial valuation date, was as follows (in thousands):

Actuarial accrued liability (AAL)	$	11,378
Actuarial value of plan assets		2,154
Unfunded actuarial accrued liability (UAAL)	$	9,224
Funded ratio (actuarial value of plan assets/AAL)		18.9%
Covered payroll (active plan memebers)	$	4,048
UAAL as a percentage of covered payroll		227.9%

Actuarial Methods and Assumptions – 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 benefits costs between the employer and plan members to that point.

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 contributions 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 annual required contribution for the year ended June 30, 2014 and the funding status of the plan was determined based on the June 30, 2013 actuarial valuation using the entry age normal actuarial cost method. Actuarial assumptions include (a) investment return and discount rate of 7.25% with a 5 year smoothing with 20% corridor for the actuarial value of plan assets; (b) medical costs trend increases of 4%; (c) inflation rate of 3.0%; (d) payroll growth of 3.0%; and (e) 2009 CALPERS mortality for miscellaneous employees. The Successor Agency's initial and residual UAAL is being amortized as a level dollar amount over closed 30 years and open 24 years, respectively.

(10) SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY

The Transportation Authority 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 (Plan), which was approved as part of Proposition B. The Transportation Authority 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 new 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 MTA 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). After 20 years of the effective date of the adoption of the Proposition K Expenditure Plan, the Transportation Authority may modify the Expenditure Plan with voter approval. Pursuant to the provisions of Division 12.5 of the California Public Utilities Code, the Transportation Authority Board may adopt an updated Expenditure Plan any time 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 Transportation Authority 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 Transportation Authority also administers the following programs:

Congestion Management Agency Programs. On November 6, 1990, the Transportation Authority 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 Transportation Authority 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 Transportation Authority was designated to act as the overall program manager for the local guarantee (40%) share of transportation funds available through the 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 Transportation Authority recommends projects that benefit air quality by reducing motor vehicle emissions.

Proposition AA (Prop AA) Administrator of County Vehicle Registration Fee Program. On November 2, 2010, San Francisco voters approved Prop AA with a 59.6% affirmative vote, authorizing the Transportation Authority 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 for the following category name: 1) Street Repair and Reconstruction (50%); 2) Pedestrian Safety (25%); and 3) Transit Reliability & Mobility Improvements (25%). In December 2012, the Transportation Authority Board approved 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 Prop AA program is a pay-as-you-go program. The Transportation Authority 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 (the 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 the 2013 North American Traffic Report from the Airports Council International (ACI), the Airport is the seventh busiest airport in the United States in terms of passengers and eighteenth in terms of cargo. The Airport is also a major origin and destination point and one of the nation's principal gateways for Pacific traffic.

(Dollars in Thousands)

Revenue Pledge – The Airport has pledged all of the Net Revenues (as defined in the bond resolutions) to repay the following obligations, in order of priority, (1) the San Francisco International Airport Second Series Revenue Bonds (Senior Bonds), (2) the Subordinate Commercial Paper Notes and any other obligations (Subordinate Bonds) and amounts due to reimburse drawings under the letters of credit securing the Commercial Paper Notes, (3) remaining amounts due to reimburse drawings under the letters of credit securing the Senior Bonds, and (4) interest rate swap termination payments.

During fiscal year 2014, the original principal amount of the Senior Bonds and Commercial Paper Notes issued, principal and interest remaining due on outstanding Senior Bonds and Commercial Paper Notes, principal and interest paid on such obligations, and applicable Net Revenues are as set forth in the table below. There are no unreimbursed drawings under any letter of credit or interest rate swap termination payments due.

Bonds issued with revenue pledge	$ 461,125
Bond principal and interest remaining due at end of the fiscal year	6,491,433
Commercial paper issued with subordinate revenue pledge	249,350
Commercial paper principal and interest remaining due at end of the fiscal year	249,047
Net revenues	403,036
Bond principal and interest paid in the fiscal year	354,387
Commercial paper principal and interest paid in the fiscal year	5,858

Debt Service Requirement – 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 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 the annual service payment 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 GAAP 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 $610.5 million was approved by the FAA in October 2013. The current authority to impose PFCs is estimated to end June 1, 2023. For the year ended June 30, 2014, the Airport reported approximately $87.0 million of PFC revenue, which is included in other nonoperating revenues in the accompanying basic financial statements.

(Dollars in Thousands)

Commitments and Contingencies – In addition to the long-term obligations discussed in Note 8, there were $82.6 million of Special Facilities Lease Revenue Bonds outstanding as of June 30, 2014, 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*.* Rent from Fuel System Lease with SFO Fuel is pledged until the maturity of the SFO Fuel bonds on January 1, 2027, unless additional bonds (including refunding bonds) with a later maturity are issued.

Purchase commitments for construction, material and services as of June 30, 2014 are as follows:

Construction	$ 68,336
Operating	8,907
Total	$ 77,243

Transactions with Other Funds – 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 (net of certain adjustments), but not less than $5.0 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, 2014 was $38.0 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, 2014 was $131.3 million.

Business Concentrations - In addition to the Lease and Use Agreements with the airlines, the Airport leases facilities to other businesses to operate concessions at the Airport. For the fiscal year ended June 30, 2014, revenues realized from the following Airport tenant exceeded five percent of the Airport's total operating revenues:

United Airlines	23.6%

(b) Port of San Francisco

A five-member Port Commission is responsible for the operation, development, and maintenance activities of the Port of San Francisco (Port). In February 1969, the Port was transferred in trust to the City under the terms and conditions of State legislation ("Burton Act") ratified by the electorate of the City. Prior to 1969, the Port was 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 its Revenue Bonds. Annual principal and interest payments through 2044 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 $103.9 million. The principal and interest payments made in 2014 were $2.8 million and pledged revenues (total net revenues calculated in accordance with the bond indenture) for the year ended June 30, 2014 were $25.3 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 $3.5 million. Annual principal and interest payments were $0.23 million in 2014 and pledged harbor revenues were $0.15 million for the year ended June 30, 2014.

Pier 29 Fire – On June 20, 2012, a fire caused damage to the Pier 29 bulkhead and shed building. Required repair, replacement and certain improvement work, including code upgrades, is covered by insurance, after a deductible of $0.5 million. Insurance proceeds totaling $12.4 million have been received pursuant to preliminary claims filed by the Port through June 30, 2014. The Port is involved in discussions with its insurer as to additional insurance proceeds which the Port believes it should be entitled.

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, 2014, the Port had purchase commitments for construction-related services, materials and supplies, and other services were $17.0 million for capital projects and $3.1 million for general operations.

The San Francisco Clean and Safe Neighborhood Parks Bond general obligation bond issued in 2012 included $34.5 million and in 2008 $33.5 million for funding allocated 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, 2014, $48.5 million of Port funds have been appropriated and $40.8 million has been expended for projects under the agreement. In addition to work directly funded by the Port, the deck and pilings that form the valley between Piers 15 and 17 and a portion on non-historic sheds were removed as part of the construction work completed by The Exploratorium project.

Related Party Transactions – The Port receives from, and provides services to, various City departments. In 2014, the $15.6 million in services provided by other City departments included $2.2 million of insurance premiums and $0.6 million in workers' compensation expense.

South Beach Harbor Project Obligations – A portion of the Rincon Point South Beach Redevelopment Project Area is within the Port Area and the former Redevelopment Agency held leasehold interests to certain Port properties. The Port and the Successor Agency are in discussions concerning the transition, termination of Port agreements, and the transfer of operations, assets, and associated obligations, if any.

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, including certain tax increments, are available to pay current debt service, but additional berthing rate increases are likely required to cover future debt service and to meet the required level of debt service coverage specified in the bond indenture. Under BCDC Permit Amendment No. 17 for the South Beach Harbor Project, certain public access and other improvements must be completed by December 31, 2017. Construction estimates prepared by a Port consultant in 2014 indicate that this uncompleted work would cost approximately $7.9 million, including certain structural repairs, soft costs and recommended contingencies.

Pollution Remediation Obligations – The Port's financial statements include liabilities, established and adjusted periodically, based on new information, in accordance with applicable GAAP, 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.

A 65-acre area commonly known as “Pier 70” 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. 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. 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.

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. In 2012, the Port completed a feasibility study to evaluate potential remedial actions, and developed a Remedial Action Plan (RAP), for implementing the recommended alternative. The RAP consists of capping site soils and establishing institutional controls to reduce or eliminate human health risks related to contamination to be managed on-site. The Port subsequently developed a Risk Management Plan, which establishes 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 impact to the environment. The Risk Management Plan specifies how future development, operation, and maintenance will implement the remedy, by covering existing site soil with buildings, streets, plazas, hardscape or new landscaping, thereby minimizing or eliminating exposure to contaminants in soil. The Regional Water Quality Control Board approved the Risk Management Plan in January 2014.

Previous investigation of the northeast shoreline of Pier 70, in an area for development as the future “Crane Cove Park”, found that near-shore sediment is contaminated with metals, petroleum hydrocarbons and PCBs at concentrations that pose a potential risk to human health or the environment, and will likely require removal or capping of sediment before development of the area for public access and recreation. The accrued cost for pollution remediation at Pier 70, including Crane Cove Park, is estimated at $10.6 million at June 30, 2014.

Other environmental conditions on Port property 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.

(Dollars in Thousands)

A summary of environmental liabilities, included in noncurrent liabilities, at June 30 2014, is as follows:

	Environmental Remediation	Monitoring and Compliance	Total
Environmental liabilities at July 1, 2013	$ 10,670	$ 163	$ 10,833
Current year claims and changes in estimates	(45)	37	(8)
Vendor payments	-	(71)	(71)
Environmental liabilities at June 30, 2014	$ 10,625	$ 129	$ 10,754

(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. In fiscal year 2014, the Water Enterprise sold water, approximately 79,205 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).

The San Francisco Public Utilities Commission (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 fiscal year 2051.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2014 and applicable revenues for 2014 are as follows:

Bonds issued with revenue pledge	$ 4,457,970
Principal and interest remaining due at the end of the year	8,127,166
Principal and interest paid during the year	236,419
Net revenue for the year ended June 30	196,239
Funds available for revenue bond debt service	483,761

During fiscal year 2014, the wholesale revenue requirement, net of adjustments, charged to wholesale customers was $177.6 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, 2014, the City owed the Wholesale Customers $29.4 million under the Water Supply Agreement.

Commitments and Contingencies – As of June 30, 2014, the Water Enterprise had outstanding commitments with third parties of $433.6 million for various capital projects and for materials and supplies.

Environmental Issue – As of June 30, 2014, the total pollution remediation liability was $20.1 million, consisting of $19.4 million for the excavation of contaminated soil that contained polycyclic aromatic hydrocarbons from a gun club site in the Lake Merced area and $1.2 million for the 17th and Folsom site.

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 $33.3 million and $8.7 million, respectively, for the year ended June 30, 2014, 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 $12.9 million for the year ended June 30, 2014 and have been included in services provided by other departments.

(d) Hetch Hetchy Water and Power Enterprise

San Francisco Hetch Hetchy Water and Power 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 and Hetch Hetchy Water, a portion of the Water Enterprise's operations, specifically the up-country water supply and transmission service for the latter. Hetch Hetchy accounts for the activities of 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 90% 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, street lights, Moscone Convention Center, and the Water and Wastewater Enterprises). The majority of the remaining 10 percent balance of electricity is sold to other utility districts, such as the Turlock and Modesto Irrigation Districts (the Districts). As a result of the 1913 Raker Act, energy produced above the City's Municipal Load is sold first to the Districts to cover their pumping and municipal load needs and any remaining energy is 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 Company (PG&E). Hetch Hetchy consists of a system of reservoirs, hydroelectric power plants, aqueducts, pipelines, and transmission lines.

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

(Dollars in Thousands)

Segment Information – Hetch Hetchy 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 Statements of Net Position	Hetch Hetchy Water	Hetch Hetchy Power	Total
Assets:			
Current assets	$ 50,899	$ 151,786	$ 202,685
Receivables from other funds and component units	-	14,844	14,844
Noncurrent restricted cash and investments	5,888	5,174	11,062
Other noncurrent assets	8	2,349	2,357
Capital assets	95,178	267,319	362,497
Total assets	151,973	441,472	593,445
Liabilities:			
Current liabilities	5,633	16,896	22,529
Noncurrent liabilities	8,936	48,430	57,366
Total liabilities	14,569	65,326	79,895
Net position:			
Net investment in capital assets	95,186	241,016	336,202
Restricted for capital projects	5,507	-	5,507
Unrestricted	36,711	135,130	171,841
Total net position	$ 137,404	$ 376,146	$ 513,550

(Dollars in Thousands)

Condensed Statements of Revenues, Expenses, and Changes in Net Position	Hetch Hetchy Water	Hetch Hetchy Power	Total
Operating revenues	$ 35,622	$ 98,816	$ 134,438
Depreciation expense	(4,186)	(11,128)	(15,314)
Other operating expenses	(30,839)	(89,912)	(120,751)
Net operating income	597	(2,224)	(1,627)
Nonoperating revenues (expenses):			
Federal grants	20	136	156
Interest and investment income (loss)	487	1,289	1,776
Interest expense	-	(1,574)	(1,574)
Other nonoperating revenues (expenses)	(50)	3,205	3,155
Transfers in (out), net	166	164	330
Extraordinary item - Rim Fire (Loss)	(2,709)	(4,134)	(6,843)
Change in net position	(1,489)	(3,138)	(4,627)
Net position at beginning of year, as restated	138,893	379,284	518,177
Net position at end of year	$ 137,404	$ 376,146	$ 513,550

Condensed Statements of Cash Flows	Hetch Hetchy Water	Hetch Hetchy Power	Total
Net cash provided by (used in):			
Operating activities	$ 5,227	$ 12,285	$ 17,512
Noncapital financing activities	20	240	260
Capital and related financing activities	(8,222)	(24,516)	(32,738)
Investing activities	295	973	1,268
Change in net position	(2,680)	(11,018)	(13,698)
Cash and cash equivalents at beginning of year	58,493	154,493	212,986
Cash and cash equivalents at end of year	$ 55,813	$ 143,475	$ 199,288

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 2014, and applicable revenues for 2014 are as follows:

Bonds issued with revenue pledge	$ 21,216
Principal and interest remaining due at the end of the year	21,866
Principal and interest paid during the year	1,975
Funds available for revenue bond debt service	16,453

Commitments and Contingencies – As of June 30, 2014, Hetch Hetchy Water and Power had outstanding commitments with third parties of $23.2 million for various capital projects and other purchase agreements for materials and services.

Hetch Hetchy Water

To meet certain requirements of the Don Pedro Reservoir operating license, the City entered into an agreement with the Modesto Irrigation District (MID) and Turlock Irrigation District (TID) 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 $4.5 million in fiscal year 2014. 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.

Hetch Hetchy Power

In April 1988, Hetchy Power entered into two separate long-term power sales agreements (the Agreement) with MID and TID. Both Agreements expire on June 30, 2015. The Agreement with MID has been amended, effective January 1, 2008, removing Hetchy Power's obligation to provide firm power and eliminated MID's rights to excess energy from the project. In April 2005, Hetchy Power amended the terms of the Agreement with TID, terminating Hetchy Power's obligation to provide TID firm power, and retaining TID's rights to excess energy from the project through the term of the Agreement.

The SFPUC will continue to comply with the Raker Act by making Hetch Hetchy generated hydropower available at cost to MID and TID for their agricultural pumping and municipal loads as energy from the Hetch Hetchy project is available after meeting the SFPUC's municipal load obligations. For fiscal years 2014, energy sales to the Districts totaled 103,489 Megawatt hours (MWh) or $3,463. The decrease was a result of drought condition in California.

In 1987 the City entered into an interconnection agreement with PG&E to provide transmission, supplemental energy services and distribution services on PG&E's system to deliver power to the City's customers. The agreement was renegotiated in 2007 and will expire on July 1, 2015. During fiscal year 2014, Hetchy Power purchased $13,834 of transmission, distribution services, and other support services from PG&E under the terms of the agreement.

The Interconnection Agreement with PG&E also contains a contractual provision allowing Hetch Hetchy to bank Hetchy Power produced in excess of its load obligations, with a maximum of 110,000 MWh. During fiscal year 2014, Hetchy Power generated 1,021,667 MWh of power, banked (deposited) in the Deferred Delivery Account (DDA) 105,184 MWh and used (withdrew) 122,280 MWh. At June 30, 2014, the balance in the bank was 78,502 MWh or $2,821.

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 $33.3 million and purchased electricity for $8.7 million for the year ended June 30, 2014. In addition, the Wastewater Enterprise purchases power from Hetch Hetchy Power totaling $9.2 million for the year ended June 30, 2014.

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 $6.8 million for the year ended June 30, 2014 and have been included in services provided by other departments.

(Dollars in Thousands)

(e) San Francisco Municipal Transportation Agency

The San Francisco Municipal Transportation Agency (SFMTA) is governed by the SFMTA Board of Directors. The SFMTA includes the entire City's surface transportation network that encompasses pedestrians, bicycling, transit (Muni), traffic and parking, regulation of the taxi industry, and three nonprofit parking garage corporations operated by separate nonprofit corporations, whose operations are interrelated. All significant inter-entity transactions have been eliminated.

The SFMTA was established by voter approval of the addition of Article VIIIA to the Charter of the City (the "Charter") in 1999 (Proposition E). The purpose of the Charter amendment was to consolidate all transportation functions within a single City department, and to provide the Transportation System with the resources, independence and focus necessary to improve transit service and the City's transportation system. The voters approved an additional Charter amendment in 2007 (Proposition A), which increased the autonomy of and revenues to the SFMTA, and another Charter amendment in 2010 (Proposition G), which increased management flexibility related to labor contracts. 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 223 million boardings 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 SFMTA's Sustainable Streets initiates and coordinates improvements to City's streets, transit, bicycles, pedestrians and parking infrastructure. It manages 19 City-owned garages and 19 metered parking lots. Of the five nonprofit parking garages, three corporations provide operational oversight of four garages. Two garage corporations, Ellis O'Farrell Parking Corporation and Downtown Parking Corporation were dissolved in January 2013, and all operations and financial reporting of these two garages have been transferred to Sustainable Streets.

In March 2009, the former Taxi Commission was merged with the SFMTA, which then has assumed responsibility for taxi regulation to advance industry reforms.

Pledged Revenue – In 2007, San Francisco voters approved Proposition A, which authorized the SFMTA to issue revenue bonds and other forms of indebtedness without further voter approval but with approval by the SFMTA Board of Directors and concurrence by the Board of Supervisors. The SFMTA 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 from all SFMTA revenues except for City General Fund allocations and restricted sources and are payable through the fiscal year 2042.

Annual principal and interest payments for fiscal year 2014 was 7.2% of funds available for revenue bond debt service. The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during 2014 and applicable revenues for 2014 are as follows:

Bonds issued with revenue pledge	$ 139,235
Principal and interest remaining due at the end of the year	209,454
Principal and interest paid during the year	9,582
Net revenue for the year	123,271
Fund available for revenue bond debt service	132,853

Operating and Capital Grants and Subsidies – The City's Annual Appropriation Ordinance provides funds to subsidize the operating deficits of SFMTA 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 SFMTA was $310.9 million in fiscal year 2014. The General Fund subsidy includes a total revenue baseline transfer of $243.9 million, as required by the City Charter, $66.8 million from an allocation of the City's parking tax, and $0.2 million from district allocation projects.

The SFMTA receives capital grants from various federal, state, and local agencies to finance transit-related property and equipment purchases. As of June 30, 2014, SFMTA had approved capital grants with unused balances amounting to $750.2 million. Capital grants receivable as of June 30, 2014 totaled $152.1 million.

The SFMTA also receives operating assistance from various federal, state, and local sources, including Transit Development Act funds, diesel fuel, and sales tax allocations. As of June 30, 2014, the SFMTA had various operating grants receivable of $28.2 million. In fiscal year 2014, the SFMTA's operating assistance from BART's Americans with Disability Act (ADA) related support of $1.2 million and other federal, state and local grants of $7.5 million to fund project expenses that are operating in nature.

Proposition 1B is a ten-year $20 billion transportation infrastructure bond that was approved by state 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. The SFMTA received cash totaling $7.1 million in fiscal year 2014 for different projects. Proposition 1B funds do not require matching funds. The original legislation required funds to be obligated within three years of the date awarded. SB87 extended the date to June 30, 2016 for funds awarded between fiscal years 2008 and 2010. 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 2014, $74.9 million in drawdowns were made from the funds for various eligible projects costs.

Commitments and Contingencies – The SFMTA has outstanding contract commitments of approximately $283.6 million with third parties, for various capital projects. Grant funding is available for a majority of this amount. The SFMTA also has outstanding commitments of approximately $66.0 million with third parties for non-capital expenditures. Various local funding sources are used to finance these expenditures. The SFMTA is also committed to numerous capital projects for which it anticipates that federal and state grants will be the primary source of funding.

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

In April 2002 and in September 2003, following the approval of the Federal Transit Administration, SFMTA Board of Directors, and the City's Board of Supervisors, Muni entered into separate leveraged lease leaseback transactions for over 118 and 21 Breda light rail vehicles (the Tranche 1 and Tranche 2 Equipment, respectively, and collectively, the "Equipment"). Each transaction, also referred to as a "sale in lease out" or "SILO", was structured as a head lease of the Equipment to a special purpose trust and a sublease of the Equipment back from such trust. 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 Equipment and is obligated to insure and maintain the Equipment.

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 leases. Muni deposited a portion of the prepaid head lease payments into separate escrows that were invested in U.S. agency securities with maturities that correspond to the purchase option dates for the Equipment as specified in each sublease. Muni also deposited a portion of the head lease payments 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 was rated "AAA" by Standard & Poor's ("S&P") and "Aaa" by Moody's Investor Services ("Moody's") at the time the Tranche 1 and Tranche 2 Equipment transactions were entered into. Although these escrows do not represent a legal defeasance of Muni's obligations under the subleases, 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 SFMTA as of June 30, 2014.

On March 17, 2014, Muni executed, with one of the equity investors, termination agreements (the "Termination Agreements") that (a) constituted the exercise of Muni's purchase option with respect to 30 items of Tranche 1 Equipment having an initial transaction value of $99.3 million, (b) amended the purchase option dates to the date of the Termination Agreements, and (c) amended the purchase option price to an amount that was funded in full from the sale proceeds of the U.S. Agency securities held in the applicable escrow accounts.

The terms of the SILO documents require Muni to replace AGM, as successor to FSA, if its ratings are downgraded below BBB+" by S&P or "Baa1" by Moody's. AGM's current ratings of "AA" from S&P and "A2" from Moody's satisfy this requirement. In addition, AGM, as successor to FSA, provides a surety policy with respect to each Equipment transaction to guarantee potential payments in the event such transaction were terminated in whole or in part prior to such sublease expiration date. The terms of the Equipment transaction documents require Muni to replace AGM, as surety provider, if its ratings are downgraded below "AA-" by S&P or "Aa3" by Moody's. On January 17, 2013, Moody's downgraded AGM's rating to A2. Failure of Muni to replace AGM following a downgrade by either Moody's or S&P to below the applicable rating threshold within a specified period of time following demand by an equity investor could allow such equity investor, 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 Equipment transaction documents. These early termination costs are in the nature of liquidated damages. The scheduled termination costs as of June 30, 2014 after giving effect to the market value of the securities in the escrow accounts, would approximate $62.4 million. The scheduled termination costs increase over the next several years. As of June 30, 2014, no investor has demanded Muni to replace AGM as the surety provider.

As a result of the cash transactions above, Muni recorded $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, and the amounts paid to the escrows and the debt payment undertaker of $352.7 million and $67.5 million, respectively. These amounts are classified as deferred inflows of resources and will be amortized over the life of the sublease unless the purchase option is executed. As mentioned above SFMTA exercised the purchase option with respect to 30 items of Tranche 1 Equipment on March 17, 2014. Revenue of $5.4 million was recognized for the remaining unamortized deferred inflows of resources for these items in fiscal year 2014. The deferred inflows of resources amortized amounts were $1.0 million and $0.2 million for remaining 88 items of Tranche 1 Equipment and 21 items of Tranche 2 Equipment in fiscal year 2014, respectively.

As of June 30, 2014, no outstanding payments remain on the sublease through the end of the sublease term. Payments to be made on the purchase options, if exercised, would be $441.4 million for the remaining Tranche 1 Equipment and $154.2 million for the Tranche 2 Equipment. 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

(Dollars in Thousands)

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, 2014, the subsidy for LHH was $36.9 million.

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

During the year ended June 30, 2014, LHH's patient receivables and charges for services were as follows:

Patient Receivables, net

	Medi-Cal	Medicare	Other	Total
Gross Accounts Receivable	$ 54,247	$ 3,644	$ 1,929	$ 59,820
Less:				
Provision for Contractual Allowances	(33,523)	(2,252)	(1,192)	(36,967)
Total, net	$ 20,724	$ 1,392	$ 737	$ 22,853

Net Patient Service Revenue

	Medi-Cal	Medicare	Other	Total
Gross Revenue	$ 314,576	$ 18,884	$ 9,996	$ 343,456
Less:				
Provision for Contractual Allowances	(163,576)	(12,889)	(8,482)	(184,947)
Total, net	$ 151,000	$ 5,995	$ 1,514	$ 158,509

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, 2014, LHH accrued and recognized $41 million of revenue as a result of matching federal funds to local funds.

Unearned Credits and Other Liabilities - As of June 30, 2014, LHH recorded approximately $51.1 million in other liabilities for third-party payor settlements payable.

(Dollars in Thousands)

Commitments and Contingencies – As of June 30, 2014, LHH has entered into various purchase contracts totaling approximately $4.9 million that are related to the old building remodel phase of the Replacement Project.

(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, 2014, the subsidy for SFGH was $121.4 million.

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

Patient accounts receivable are recorded net of estimated allowances, which include allowances for contractuals, bad debt, and administrative write-offs. These allowances are based on 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 investigation 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, 2014, SFGH’s patient receivables and charges for services were as follows:

Patient Receivables, net

	Medi-Cal	Medicare	Other	Total
Gross Accounts Receivable	$ 200,093	$ 115,961	$ 120,186	$ 436,240
Less:				
Provision for Contractual Allowances	(178,807)	(102,622)	(58,646)	(340,075)
Provision for Bad Debts	-	-	(32,492)	(32,492)
Total, net	$ 21,286	$ 13,339	$ 29,048	$ 63,673

(Dollars in Thousands)

Net Patient Service Revenue

	Medi-Cal	Medicare	Other	Total
Gross Revenue	$ 781,296	$ 513,455	$ 1,575,919	$ 2,870,670
Less:				
Provision for Contractual Allowances	(672,468)	(416,444)	(917,173)	(2,006,085)
Provision for Bad Debt	-	-	(79,333)	(79,333)
Total, net	$ 108,828	$ 97,011	$ 579,413	$ 785,252

California's Section 1115 Medicaid Waiver (Waiver), titled the "Bridge to Health Care Reform" 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 $278.0 million for the year ended June 30, 2014.

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 $18.0 million for the year ended June 30, 2014. 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. The LIHP program ended on December 31, 2013 when the participants transitioned automatically to the Medi-Cal Program or purchased health insurance through California's health benefit exchange (Covered California).

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, 2014, reimbursement under the Short-Doyle Program amounted to approximately $5.4 million and is included in net patient service revenue.

Unearned Credits and Other Liabilities - As of June 30, 2014, SFGH recorded approximately $112.9 million in unearned credits and other liabilities, which was comprised of $78.1 million in unearned credits related to receipts under Safety Net Care Pool and AB915 programs, and $34.8 million in Third Party Settlements payable.

Charity Care - SFGH provides care without charge or at amounts less than its established rates to patients who meet certain criteria under its charity care policy. Charges foregone based on established rates were $401.0 million and estimated costs and expenses to provide charity care were $115.3 million in fiscal year 2014.

Other Revenues - The State of California provides support to SFGH through a realignment of funding provided from vehicle license fees and sales tax allocated to California's counties. SFGH recognized $44.3 million as other operating revenue for the year ended June 30, 2014, for realignment funding.

With California electing to implement a state-run Medicaid Expansion afforded by the Affordable Care Act, the State anticipates that counties' costs and responsibilities for the health care services for the indigent population will decrease as much of the population becomes eligible for coverage through Medi-Cal or Covered California. Starting July 1, 2013, there is a mechanism that provides for the State to redirect health realignment funds to fund social service programs. The redirected amount will be determined according to a formula that takes into account a county's cost and revenue experience and redirects 80% (70% for fiscal year 2013-2014) of the savings realized by the county. The State predetermined an amount of health realignment to be redirected in fiscal year 2013-2014 of $16.7 million for the City and County of San Francisco. SFGH recognized $9.7 million of this amount. A reconciliation using actual experience for fiscal year 2013-2014 will be concluded within two years after June 30, 2014.

Contracts 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, 2014, was approximately $149.8 million.

SFGH Rebuild – In 1994, California passed Senate Bill 1953, mandating that all California acute care hospitals meet new seismic safety standards by 2008 (subsequent legislation has extended the final date to January 1, 2020). 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 October 2005, The San Francisco Health Commission accepted the Mayor's Blue Ribbon Committee recommendation to rebuild the hospital at its current Potrero Avenue location. A site feasibility study was concluded in September 2006 and showed a compliant hospital can be built on the west lawn without demolishing the historic buildings or other buildings. An institutional master plan, a hazardous materials assessment, a geotechnical analysis and rebuild space program have all been completed in the fiscal year 2007. Schematic design of the new building was completed and the project cost was estimated at $887.4 million.

The majority of the funding would 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, 2014, General Obligation Bonds in the amount of $887.4 million have been sold to fund the hospital rebuild. The General Obligation Bonds are accounted for as 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 and County of San Francisco Department of Public Health implemented Healthy San Francisco (HSF). HSF is a program to provide health care for the uninsured residents using a medical home model, with an emphasis on wellness and preventive care. Uninsured San Francisco residents between the ages of 18-64 with incomes at or below 500% of the federal poverty level (FPL) are eligible for the HSF. Participants with household income above 100% FPL pay a quarterly fee based on their income. As of June 30, 2014, 31,965 uninsured adult residents were enrolled in HSF. Enrollment in HSF dropped in the past year due to participants moving to new health insurance options due to the federal Patient Protection and Affordable Care Act (ACA). These options included expanded Medi-Cal and California's health insurance exchange, Covered California.

(Dollars in Thousands)

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 was a federally-supported health access program that provided 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. On January 1, 2014, enrolled participants transitioned automatically to Medi-Cal or had the opportunity to purchase health insurance through Covered California. The Department was informed by the State Department of Health Care Services that 13,680 individuals had transitioned to Medi-Cal effective January 1, 2014. Another 756 enrollees appeared to be eligible to purchase health insurance through Covered California. Healthy San Francisco will still be needed for those San Francisco residents who do not qualify for new health insurance options under the ACA and will continue to enroll participants.

Commitments and Contingencies – As of June 30, 2014, SFGH had outstanding commitments with third parties for capital projects totaling $4.7 million.

(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 147,373 residential accounts, which discharge about 18.2 million units of sanitary flow per year (measured in hundreds of cubic feet, or ccf) and approximately 16,164 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 revenues of Wastewater Enterprise and are payable through fiscal year ending 2043.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during fiscal year 2014, applicable net revenues, and funds available for bond debt service are as follows:

Bonds issued with revenue pledge	$ 731,745
Principal and interest remaining due at the end of the year	1,271,023
Principal and interest paid during the year	64,852
Net revenues for the year	109,181
Funds available for bond debt service	218,988

***Commitments and Contingencies* –** As of June 30, 2014, Wastewater Enterprise had outstanding commitments, with third parties, for capital projects and for materials and services totaling $116.3 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. Yosemite Creek has been identified as having toxic sediments, primarily polychlorinated biphenyls, in the drainage areas to the creek; contaminated flows emanating from a local industrial discharger as the likely responsible source of the contamination. The pollution remediation obligation reported in the accompanying statements of net position is based on estimated contractual costs. The liability balance remained at $571 as of June 30, 2014.

Transactions with Other Funds –The Wastewater Enterprise purchases power from Hetch Hetchy Power totaling $9.2 million for the year ended June 30, 2014. A variety of other City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, and human resources to the Wastewater Enterprise and charge amounts designed to recover those departments' costs. These charges total approximately $26.1 million for the year ended June 30, 2014 and have been included in services provided by other departments.

(i) San Francisco Market Corporation

The City of San Francisco Market Corporation (Corporation) was a non-profit corporation organized to acquired, construct, finance, and operate a produce market. The information about this non-profit corporation was presented in the financial statements of the proprietary funds as a nonmajor fund.

During the year, the City of San Francisco Market Corporation transferred operations of the San Francisco Wholesale Produce Market (SFWPM) to a different corporation created in 2012 by existing SFWPM stakeholders separate from the City. As such, the Corporation transferred all of its assets to the San Francisco Market Corporation, its successor corporation.

(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 unit, an entity 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.

On May 29, 2013, the DOF granted a Finding of Completion for the Successor Agency. Pursuant to Health and Safety Code (HSC) section 34179.7, the DOF has verified that the Successor Agency does not owe any amounts to the taxing entities as determined under HSC section 34179.6, subdivisions (d) or (e) and HSC section 34183.5. With a Finding of Completion, the Successor Agency may proceed with (1) placing loan agreements between the former Agency and the City on the ROPS, as enforceable obligations, provided the Oversight Board makes a finding that the loan was for legitimate redevelopment purposes per HSC, and (2) utilize proceeds derived from bonds issued prior to January 1, 2011 in a manner consistent with the original bond covenants.

In addition, the receipt of the Finding of Completion allows the Successor Agency to submit a Long Range Property Management Plan (LRPMP) to the Oversight Board and the DOF for approval. The LRPMP addresses the disposition and use of real properties held by the Successor Agency and must be submitted within six months of receipt of the Finding of Completion. Part 1 of the LRPMP was approved by the DOF on October 4, 2013. The Oversight Board approved Part 2 of the LRPMP on November 25, 2013 and submitted it to DOF. The DOF is in the process of reviewing the submission.

(Dollars in Thousands)

(a) Capital Assets Held by the Successor Agency

For the year ended June 30, 2014, a summary of changes in capital assets was as follows:

	Balance July 1, 2013	Additions	Balance June 30, 2014
Capital assets not being depreciated:			
Land held for lease	$ 59,381	$ -	$ 59,381
Construction in progress	1,292	1,530	2,822
Total capital assets not being depreciated	60,673	1,530	62,203
Capital assets being depreciated:			
Furniture and equipment	8,144	-	8,144
Building and improvements	225,022	-	225,022
Total capital assets being depreciated	233,166	-	233,166
Less accumulated depreciation for:			
Furniture and equipment	(8,056)	(20)	(8,076)
Building and improvements	(84,100)	(5,479)	(89,579)
Total accumulated depreciation	(92,156)	(5,499)	(97,655)
Total capital assets being depreciated, net	141,010	(5,499)	135,511
Total capital assets, net	$ 201,683	$ (3,969)	$ 197,714

(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%	$ 1,426
Hotel tax revenue bonds [(b)] ………………………………….	2025	2.00% - 5.00%	40,635
Tax allocation revenue bonds [(c)] ……………………………	2044	2.92% - 9.00%	902,603
South Beach Harbor Variable Rate			
Refunding bonds [(d)] ……………………………………….	2017	3.50%	3,270
California Department of Boating and			
Waterways Loan [(e)] ……………………………………….	2037	4.50%	7,283
Total long-term bonds and loans …………………….			$ 955,217

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 and existing debt service/escrow trust funds.

(d) South Beach Harbor Project cash reserves, redevelopment property tax revenues and project revenues.

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

Issuance of Successor Agency Bonds – On December 24, 2013, the DOF released its letter approving the issuance of Successor Agency bonds. On March 11, 2014, the Successor Agency issued $56.2 million of Tax Allocation Revenue Bonds, Mission Bay South Series 2014 A to finance certain redevelopment activities of the Successor Agency within or of benefit to the Mission Bay South Redevelopment Project Area. These bonds bear fixed interest rates ranging from 4.00% to 5.00% and have a final maturity date of August 1, 2043.

(Dollars in Thousands)

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 2044, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately $1.68 billion. The redevelopment property tax revenues recognized during the year ended June 30, 2014 was $131.7 million as against the total debt service payment of $95.2 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 $6.7 million. The Successor Agency received $12.8 million in advance during the year ended June 30, 2013, which equaled the total debt service payment of $12.8 million. The lease payments received during the year ended June 30, 2014 were $6.7 million which equaled fiscal year 2015's total debt service payment.

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 $53.2 million. The hotel tax revenue recognized during the year ended June 30, 2014 was $3.1 million which equaled the total debt service payment.

The changes in long-term obligations for the Successor Agency for the year ended June 30, 2014, are as follows:

	July 1, 2013 (as restated)	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2014
Bonds payable:				
Tax revenue bonds	$ 936,229	$ 56,245	$ (45,966)	$ 946,508
Lease revenue bonds	4,347	-	(2,921)	1,426
Less unamortized amounts:				
For issuance premiums	6,323	1,868	(858)	7,333
For issuance discounts	(5,206)	-	255	(4,951)
Total bonds payable	941,693	58,113	(49,490)	950,316
Accreted interest payable	46,282	5,286	(12,183)	39,385 (1)
Notes, loans, and other payables	7,482	-	(199)	7,283
Accrued vacation and sick leave pay	1,242	666	(583)	1,325
Other postemployment benefits obligation	1,221	912	(1,266)	867
Successor Agency - long term obligations	$ 997,920	$ 64,977	$ (63,721)	$ 999,176

(1) Amounts represents interest accretion Capital Appreciation Bonds.

(2) The June 30, 2013 balance was restated to reflect the impact of GASB Statement No. 65 implementation. The unamortized loss on refunding of debt of $3,388 was reclassified to deferred outflows of resources.

As of June 30, 2014, the debt service requirements to maturity for the Successor Agency, excluding accrued vacation and sick leave, are as follows (in thousands):

Fiscal Year Ending June 30	Tax Revenue Bonds		Lease Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2015............	$ 51,875	$ 52,977	$ 1,426	$ 5,279	$ 208	$ 328	$ 53,509	$ 58,584
2016............	54,070	49,374	-	-	218	318	54,288	49,692
2017............	55,100	46,639	-	-	227	309	55,327	46,948
2018............	57,505	43,816	-	-	238	298	57,743	44,114
2019............	67,850	40,622	-	-	248	288	68,098	40,910
2020-2024.....	175,498	209,895	-	-	1,419	1,260	176,917	211,155
2025-2029.....	127,306	162,389	-	-	1,769	911	129,075	163,300
2030-2034.....	137,767	114,162	-	-	2,205	475	139,972	114,637
2035-2039.....	135,782	62,507	-	-	751	46	136,533	62,553
2040-2044.....	83,755	10,457	-	-	-	-	83,755	10,457
Total..........	$ 946,508	$ 792,838	$ 1,426	$ 5,279	$ 7,283	$ 4,233	$ 955,217	$ 802,350

Due to/Advances from the Primary Government – In January 2003, the City and the former 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, 2014, the long-term balance due to the City's General Fund was $21.7 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 year ended June 30, 2014, the City advanced $3.7 million in property tax revenues to the Successor Agency for debt service payments. In addition, interest in the amount of $0.05 million was accrued based on the balance due to the City and the Successor Agency has made payments in the amount of $2.1 million to the City.

The short-term balance of $1.1 million consists of $0.9 million in Jessie Square reimbursement payments due to the City's General Fund and $0.2 million due to nonmajor governmental funds for services provided.

(c) Commitments and Contingencies Related to the Successor Agency

Encumbrances - At June 30, 2014, the Successor Agency had outstanding encumbrances totaling approximately $78.9 million.

Risk Management - For the period July 1, 2013 through July 18, 2013, the Successor Agency did not carry liability insurance. Effective July 19, 2013, the Successor Agency obtained coverage for personal injury, automobile liability, public official errors and omissions and employment practices liability with limits of $10.0 million per occurrence ($5.0 million for employment practices liability) and a $0.03 million deductible per occurrence.

Operating Lease - The Successor Agency has noncancelable operating leases for its office sites and a Master Lease Option Agreement with the San Francisco Port Commission, which are enforceable obligations of the Successor Agency. The leases require the following minimum annual payments:

Fiscal Years		Fiscal Years	
2015..................	$ 1,311	2025-2029...........	$ 4,351
2016..................	870	2030-2034...........	4,351
2017..................	870	2035-2039...........	4,351
2018..................	870	2040-2044...........	4,351
2019..................	870	2045-2049...........	4,351
2020-2024...........	4,351	2050..................	1,088
		Total..................	$ 31,985

Rent payments totaling $1.3 million are included in the Successor Agency's financial statements for the year ended June 30, 2014.

The Successor Agency has noncancelable operating leases on various facilities within project areas. The minimum future rental income are as follows (in thousands):

Fiscal Years			Fiscal Years		
2015………………	$	4,644	2025-2029……….	$	21,787
2016………………		4,660	2030-2034……….		23,659
2017………………		4,362	2035-2039……….		20,260
2018………………		4,287	2040-2044……….		20,804
2019………………		4,178	2045-2049……….		10,392
2020-2024……….		20,408	2050-2051……….		494
			Total………………	$	139,935

For the year ended June 30, 2014, operating lease rental income for noncancelable operating leases was $10.9 million. Within the operating lease rental income, $6.5 million represents contingent rental income received. At June 30, 2014, the leased assets had a net book value of $40.8 million.

Conduit Debt - Various community facility district bonds and mortgage revenue bonds 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 financial statements. Debt service payments will be made by developers or property owners. All of the mortgage revenue bonds issued by the former Agency were transferred to the City upon the dissolution of the former Agency. As of June 30, 2014, the Successor Agency had outstanding community facility district bonds totaling $198.4 million.

Transbay Transit Center Agreements - In July 2003, the City, the Transbay Joint Powers Authority (TJPA), and the State of California acting through its Department of Transportation (Caltrans) entered into the Transbay Transit Terminal Cooperative Agreement (Cooperative Agreement) in which Caltrans agreed to transfer approximately 10 acres of State-owned property in and around the then-existing Transbay Terminal to the City and the TJPA to help fund the development of the Transbay Transit Center (TTC). The Cooperative Agreement requires that the TJPA sell certain State-owned parcels and use the revenues from the sales and the net tax increments to finance the TTC.

In 2008, the City and the former Agency entered into a binding agreement with the TJPA that irrevocably pledges all sales proceeds and net tax increments from the State-owned parcels to the TJPA for a period of 45 years (Pledge Agreement). At the same time, the City, the TJPA and the former Agency entered into an Option Agreement which grants options to the former Agency to acquire the State-owned parcels, arrange for development of the parcels, and distribute the net tax increments to the TJPA to use for the TTC. During the year ended June 30, 2014, the Successor Agency completed the Rene Cazenave Apartments project, the first residential project on the State-owned parcels for the construction of 120 units of affordable housing for formerly homeless individuals. The Successor Agency also received impact fees in the amount of $21.6 million from developers for the future development of 564 residential units including 155 affordable units at Transbay Blocks 6 and 7 and is recorded as additions – developer payments on the financial statements.

(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 were a key milestone in realizing a new environmentally sustainable community on Treasure Island and the thousands of construction and permanent jobs the construction will bring. Pending property transfer from the Navy, the first phase of infrastructure construction should begin in the fourth quarter of 2014 with vertical construction beginning in 2015. The complete build-out of the project is anticipated to occur over fifteen to twenty years.

(Dollars in Thousands)

In July 2008, amended in November 2011 and later in July 2013, the Transportation Authority entered into a loan agreement with TIDA in the amount of $11.0 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 Transportation Authority for all project costs incurred by the Transportation Authority and accrued interest, less federal government reimbursements to the Transportation Authority. If the federal grant funds do not become available for some or all of the project costs, or if the federal agency disallows the Transportation Authority's reimbursement claims on some or all of the project costs, then TIDA bears the responsibility to repay the Transportation Authority 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 Transportation Authority 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, 2014. Interest shall accrue on all outstanding unpaid project costs until TIDA and federal agencies fully reimburse the Transportation Authority for all costs related to the project. Interest will be compounded quarterly, at the City Treasurer's Pooled Investment Fund rate or the Transportation Authority's borrowing rate, whichever is applicable, beginning on the date of the Transportation Authority's reimbursement claim to Caltrans until the Transportation Authority 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 Hetch Hetchy utility obligation under the Memorandum of Understanding (MOU) between TIDA and Hetch Hetchy.

As of June 30, 2014, TIDA has drawn down $10.1 million on the loan with the Transportation Authority and accrued $0.5 million in interest. At June 30, 2014, TIDA has the following payables to other City departments:

Payable to	Purpose	Current	Noncurrent	Total
SFCTA	YBI Loan Agreement	$ -	$ 10,606	$ 10,606
SFCTA	YBI expenses	348	-	348
Hetch Hetchy	Utility operations under MOU	200	628	828
Hetch Hetchy	Energy efficiency project	-	2,599	2,599
		$ 548	$ 13,833	$ 14,381

(Dollars in Thousands)

(14) Interfund Receivables, Payables, and Transfers

"Due to" and "due from" balances have primarily been recorded when funds overdraw their share of pooled cash or when there are transactions between entities where one or both entities do not participate in the City's pooled cash or when there are short-term loans between funds. The composition of interfund balances as of June 30, 2014 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 5,538
	San Francisco Water Enterprise	9
	Hetch Hetchy Water and Power Enterprise	4
	San Francisco Wastewater Enterprise	5
	Port of San Francisco	42
	Laguna Honda Hospital	6,913
		12,511
Nonmajor Governmental Funds	General Fund	249
	Nonmajor Governmental Funds	586
	Hetch Hetchy Water and Power Enterprise	4
	Internal Service Funds	2,502
	Municipal Transportation Agency	2,500
	Laguna Honda Hospital	32
		5,873
General Hospital Medical Center	Nonmajor Governmental Funds	155
Laguna Honda Hospital	Internal Service Funds	5
San Francisco Water Enterprise	General Fund	124
	Nonmajor Governmental Funds	136
		260
Hetch Hetchy Water and Power Enterprise	General Fund	328
	Nonmajor Governmental Funds	8,099
	Port of San Francisco	276
	General Hospital Medical Center	946
	San Francisco Wastewater Enterprise	1,768
		11,417
Municipal Transportation Agency	Nonmajor Governmental Funds	6,286
San Francisco Wastewater Enterprise	Nonmajor Governmental Funds	110
Total		$ 36,617

In addition to routine short-term loans, Hetch Hetchy serves as the City's agency for energy efficiency projects and maintains the Sustainable Energy Account 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, 2014, Hetch Hetchy loaned $9.9 million to other City funds. Hetch Hetchy is also due $1.5 million from the Wastewater Enterprise for its share of costs relating to 525 Golden Gate Headquarters project for equipment.

(Dollars in Thousands)

The SFMTA has a receivable from nonmajor governmental fund of $6.3 million for capital and operating grants.

Due from component units:

Receivable Entity	Payable Entity	Amount	
Hetch Hetchy Water and Power Enterprise	Component unit – TIDA	$ 200	(1)
Primary government – Nonmajor Fund	Component unit – TIDA	348	(1)
Primary government – General Fund	Successor Agency	878	(2)
Primary government – Nonmajor Fund	Successor Agency	197	(2)

Advance to component units:

Receivable Entity	Payable Entity	Amount	
Hetch Hetchy Water and Power Enterprise	Component unit – TIDA	$ 3,227	(1)
Primary government – Nonmajor Fund	Component unit – TIDA	10,606	(1)
Primary government – General Fund	Successor Agency	21,670	(2)

(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:	Transfers In: Funds										
Funds	General Fund	Nonmajor Govern-mental	Internal Service Funds	Water Enterprise	Hetch Hetchy Water and Power Enterprise	Municipal Transporta-tion Agency	San Francisco General Hospital Medical Center	Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	Total
General Fund	$ -	$ 247,075	$ 1,242	$ 4	$ -	$ 311,255	$ 121,407	$ -	$ 720	$ 39,103	$ 720,806
Nonmajor governmental funds	11,676	66,949	-	1,700	-	47,092	-	51	27,022	-	154,490
Internal Service Funds	178	-	-	-	-	-	-	-	-	-	178
San Francisco International Airport	37,994	-	-	-	-	-	-	-	-	-	37,994
Water Enterprise	-	1,299	-	-	-	-	-	-	-	-	1,299
Hetch Hetchy Water and Power Enterprise	-	32	-	-	-	6	-	-	-	-	38
Municipal Transportation Agency	335	4,248	-	-	-	-	-	-	-	-	4,583
San Francisco General Hospital Medical Center	166,147	-	-	-	-	-	-	-	-	103	166,250
Wastewater Enterprise	-	32	-	-	-	-	-	-	-	-	32
Port of San Francisco	-	27,199	-	-	-	-	-	-	-	-	27,199
Laguna Honda Hospital	119	-	-	-	-	-	-	-	-	-	119
Governmental Activites	-	-	-	310	368	-	-	-	-	-	678
Total transfers out	$ 216,449	$ 346,834	$ 1,242	$ 2,014	$ 368	$ 358,353	$ 121,407	$ 51	$ 27,742	$ 39,206	$ 1,113,666

The $720.8 million General Fund transfer out includes a total of $471.8 million in operating subsidies to Municipal Transportation Agency, San Francisco General Hospital Medical Center (SFGH), and Laguna Honda Hospital (note 11). The transfer of $247.1 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 Funds, as well as to provide resources for the payment of debt service. The transfers between the nonmajor governmental funds are to provide support for various City programs and to provide resources for the payment of debt service.

In connection with a memorandum of understanding, the General Fund reimbursed the Port $0.7 million for certain lost revenues (payment in lieu of rents) during the America's Cup events. Also, Port received $27.0 million, which represents the amount of commercial paper draws used to fund the expenditures incurred to date on authorized Port projects and related costs. COP proceeds of $27.2 million were used by the Port to repay the City commercial paper program and related fees.

San Francisco International Airport transferred $38.0 million to the General Fund, representing a portion of concession revenues (note 11(a)). The General Fund received transfers in of $139.0 million from SFGH for the Safety Net Care Pool (SNCP) and Delivery System Reform Incentive Program intergovernmental transfers matching program reimbursement, $5.1 million for Low Income Health Program reimbursement for Primary Care clinics, $19.9 million for Healthy San Francisco reimbursement, $0.7 million for Child Health Initiative reimbursement, and $1.4 million for interest earned by the San Francisco General Fund but credited to the General Fund (note 11(g)).

SFMTA received $47.1 million transfers, of which $31.2 million was for capital activities and $12.4 million was for operating activities from nonmajor governmental funds. Nonmajor governmental funds also transferred $3.5 million to SFMTA to fund various street improvement projects and in turn the SFMTA transferred $4.2 million to pay for various street improvement projects.

The Water Enterprise received $1.7 million from transfers in, of which $1.3 million for partial payment of the 17th and Folsom property with the remaining balance of $1.0 million will be paid over a period of four years and $0.4 million from the San Francisco Recreation and Parks Department for the Lake Merced boat house renovation. On the other hand, the Water Enterprise transferred $1.3 million to the San Francisco Recreation and Parks Department and Public Health Department for landscape and irrigation project and Hetch Hetchy Water and Power Enterprise transferred $32 to a nonmajor special revenue fund for the City Surety Bond Program.

Internal Service Funds received $1.2 million from General Fund for the Systems Recovery Project. Governmental Activities transferred equipment with a book value of $310 and $368 to the Water Enterprise and the Hetch Hetchy Water and Power Enterprise, respectively.

(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 the Airport subsequent to an initial audit by the U.S. Department of Transportation Office of Inspector General Office of Investigations began and is continuing a review of the American Recovery and Reinvestment Act and other Airport and Improvement grants received by the Airport and has to date identified approximately $1.0 million of additional non-qualifying expenditures that the Airport will repay. The review and audit with respect to these and other grants continues and the Airport may need to repay additional grant amounts it has received.

(b) Operating Leases

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

Primary Government

<u>Governmental Activities</u>

Fiscal Years		
2015	$	28,592
2016		24,730
2017		23,249
2018		19,224
2019		12,205
2020-2014		29,321
	$	137,321

Operating leases expense incurred for fiscal year 2013-14 was approximately $28.3 million.

(Dollars in Thousands)

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	Municipal Transportation Agency	Total Business-type Activities
2015……………	$ 146	$ 2,879	$ 12,981	$ 16,006
2016……………	-	2,813	12,081	14,894
2017……………	-	2,720	11,976	14,696
2018……………	-	2,720	12,241	14,961
2019……………	-	2,720	12,668	15,388
2020-2024…….	-	13,601	66,263	79,864
2025-2029…….	-	13,601	75,296	88,897
2030-2034…….	-	13,601	83,638	97,239
2035-2039…….	-	13,601	79,748	93,349
2040-2044…….	-	13,601	-	13,601
2045-2049…….	-	13,601	-	13,601
2050……………	-	227	-	227
Total……………	$ 146	$ 95,685	$ 366,892	$ 462,723

Operating lease expense incurred for the Airport, Port, and SFMTA for fiscal year 2013-14 was $0.2 million, $2.9 million, and $13.9 million, respectively.

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	
2015……….	$ 2,564
2016……….	2,462
2017……….	2,366
2018……….	1,715
2019……….	684
2020-2024..	1,665
2025-2029..	600
2030-2034..	150
Total……….	$ 12,206

(Dollars in Thousands)

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	San Francisco General Hospital	Municipal Transportation Agency	Total Business-type Activities
2015…………	$ 90,789	$ 40,485	$ 1,321	$ 3,257	$ 135,852
2016…………	87,717	34,847	1,361	2,187	126,112
2017…………	84,480	27,414	1,402	1,669	114,965
2018…………	67,978	24,493	1,444	1,512	95,427
2019…………	47,722	22,355	1,487	1,329	72,893
2020-2024…..	-	96,528	8,133	7,244	111,905
2025-2029…..	-	74,615	-	6,288	80,903
2030-2034…..	-	68,426	-	6,250	74,676
2035-2039…..	-	50,215	-	6,250	56,465
2040-2044…..	-	36,598	-	6,250	42,848
2045-2049…..	-	30,591	-	6,250	36,841
2050-2054…..	-	17,098	-	6,250	23,348
2055-2059…..	-	16,273	-	2,083	18,356
2060-2064…..	-	11,944	-	-	11,944
2065-2069…..	-	7,021	-	-	7,021
2070-2074…..	-	4,522	-	-	4,522
2075-2079…..	-	1,214	-	-	1,214
Total…………	$ 378,686	$ 564,639	$ 15,148	$ 56,819	$ 1,015,292

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 $25.2 million and $17.5 million, respectively, in fiscal year 2013-14. A new five-year car rental lease agreement option was exercised effective January 1, 2014. 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 $41.5 million for fiscal year 2013-14.

Other Commitments

The Retirement System has commitments to contribute capital for real estate and alternative investments in the aggregate amount of approximately $1.7 billion at June 30, 2014.

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.

(Dollars in Thousands)

(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 SFMTA); 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 $1.0 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. The Airport carries public officials liability and employment practices liability coverage of $5.0 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 each 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 $100.0 million, subject to a deductible of $100 per occurrence; 2) hull and machinery liability coverage of $3.5 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 $1.0 billion and a deductible of $750 per occurrence; and 4) public officials and employee liability coverage of $5.0 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. Tenants whose operations pose a significant environment risk are also required to post an environmental oversight deposit and an environmental performance deposit.

The SFMTA risk treatment program encompasses both self-insured and insured methods. Insurance purchase is generally coordinated through the City's Risk Management Division, and in some specific cases, directly by the agency. Self-insurance is when the City manages risks internally and administers, adjusts, settles, defends, and pays claims from budgeted resources, i.e., pay-as-you-go. SFMTA's general policy is to first evaluate self-insurance for the risks of loss to which it is exposed. When economically more viable or when required by debt financing covenants, SFMTA purchases insurance as necessary or required.

Risks	Coverage
a. General/Transit Liability	Self-Insure
b. Property	Self-Insure and Purchase Insurance
c. Workers' Compensation	Self-Insure
d. Employee (Transit Operators)	Purchase Insurance
e. Directors and Officers	Purchase Insurance

The SFMTA is self-insured on general liability. Through coordination with the Controller and City Attorney's Office, the SFMTA general liability payments are addressed through pay-as-you-go funding as part of the budgetary process as well as a reserve that is increased each year by approximately $4.0 million. As of June 30, 2014, the reserve was $15.4 million. Claim liabilities are actuarially determined anticipated claims and projected timing of disbursement, considering recent claim settlement trends, inflation, and other economic social factors.

(Dollars in Thousands)

The SFMTA purchases property insurance on scheduled facilities, Breda light rail cars, 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. SFMTA has purchased group life insurance and a Group Felonious Assault Coverage Insurance on transit operators per a Memorandum of Understanding with the Transport Workers' Union and has purchased insurance to cover errors and omissions of its board members and senior management.

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, 2014 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, 2012, resulted from the following activity:

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Ending Fiscal Year Liability
2012-2013	$ 169,387	$ 36,851	$ (31,656)	$ 174,582
2013-2014	174,582	121,586	(49,109)	247,059

Breakdown of the estimated claims payable at June 30, 2014 is follows:

Governmental activities:	
Current portion of estimated claims payables..................	$ 48,932
Long-term portion of estimated claims payables.............	106,919
Total..	$ 155,851
Business-type activities:	
Current portion of estimated claims payables..................	$ 39,491
Long-term portion of estimated claims payables.............	51,717
Total..	$ 91,208

Workers' Compensation

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2014 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, 2014 was $383.9 million which is reported in the appropriate individual funds in accordance with the City's accounting policies.

(Dollars in Thousands)

Changes in the reported accrued workers' compensation since June 30, 2012, resulted from the following activity:

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claims Payments	Ending Fiscal Year Liability
2012-2013	$ 370,884	$ 76,308	$ (69,416)	$ 377,776
2013-2014	377,776	78,663	(72,563)	383,876

Breakdown of the accrued workers' compensation liability at June 30, 2014 is as follows:

Governmental activities:	
Current portion of accrued workers' compensation liability....................	$ 37,467
Long-term portion of accrued workers' compensation liability...............	185,280
Total..	$ 222,747
Business-type activities:	
Current portion of accrued workers' compensation liability....................	$ 25,774
Long-term portion of accrued workers' compensation liability...............	135,355
Total..	$ 161,129

(17) SUBSEQUENT EVENTS

(a) Long-term Debt Issuance

The Series 2014 Revenue Bonds will be issued by the San Francisco Municipal Transportation Agency (SFMTA) with the U.S. Bank as trustee as approved by the SFMTA Board and concurred by the Board of Supervisors under resolution adopted on September 24, 2013. The total Series 2014 Bonds will result in project funding of $75.0 million and are being issued (a) to finance a portion of the costs of various capital projects for SFMTA; (b) to make a deposit to the Series 2014 Reserve Account of the Reserve Fund established under the Indenture for the Series 2014 Bonds; and (c) to pay a portion of the costs of issuance of the Series 2014 Bonds.

In July 2014, the City issued $17.1 million taxable and $41.4 million tax-exempt commercial paper (CP) to refund maturing $12.6 million taxable and $28.2 million tax-exempt CP and to provide $17.5 million interim funding for the War Memorial Veterans Building Seismic Retrofit project. The taxable notes bear interest rates at 0.13% and the tax-exempt CP at 0.08% and 0.07%. The taxable and tax-exempt notes are scheduled to mature on November 5, 2014.

In August 2014, the City issued $8.2 million tax-exempt CP to provide $4.8 million and $3.4 million interim funding for the Moscone Expansion project and acquisition of real property at 900 Innes Avenue, respectively. The notes bear interest rates at 0.08% and scheduled to mature on November 5, 2014.

In August 2014, the City has requested an extension on the stated expiration date of the irrevocable direct pay letter of credits related to the Series 2008-1 Bonds and 2008-2 Bonds until October 2014 for the City and County of San Francisco Finance Corporation (Corporation). Subsequently the Corporation adopted an ordinance approving the amended and restated reimbursement agreements with State Street Bank and Trust Company for 2008-01 Bonds and 2008-2 Bonds, respectively. The agreements are effective as of October 8, 2014 and the stated expiration date is October 7, 2019 or such later date or dates as may be extended.

In September 2014, the Airport issued its Second Series Revenue Bonds, Series 2014A/B in the aggregate principal amount of $473.6 million to finance and refinance (through the repayment of subordinate commercial paper notes) a portion of the Airport's Capital Plan. The Series 2014A/B Bonds are uninsured long-term fixed-rate bonds maturing between 2039 and 2044 with an interest rate of 5.0%.

In October 2014, the City issued $4.0 million taxable and $12.3 million tax-exempt CP to provide funding for the War Memorial Veterans Building Seismic Retrofit project. The taxable notes bear interest rates at 0.10% and the tax-exempt notes at 0.06% and are all scheduled to mature on November 5, 2014.

In October 2014, the City issued General Obligation Bonds Series 2014C (Earthquake Safety and Emergency Response) in the amount of $55.0 million and Series 2014D (Earthquake Safety and Emergency Response) in the amount of $100.7 million. Both series bear interest rates ranging from 2.0% to 5.0% and mature from June 2015 through June 2034. The proceeds of the Series 2014C and 2014D bonds will be used to finance improvements to earthquake safety and emergency responsiveness facilities and infrastructures and to pay certain costs related to the issuance of the respective series.

In November 2014, the City issued $57.5 million tax-exempt and $22.4 million taxable commercial paper (CP) to refund maturing $53.7 million tax-exempt and $21.1 million taxable CP and to provide $5.1 million interim financing for the War Memorial Veterans Building Seismic Retrofit project. The tax-exempt and taxable CP are scheduled to mature on February 4, 2015 and bear interest rates of 0.05% and 0.13% respectively. In addition, the City issued $17.7 million tax-exempt CP to refinance $8.2 million maturing CP and provide $9.4 million interim funding for the Moscone Expansion District project. The CP bears interest rates of 0.06% and 0.08% and scheduled to mature on January 7, 2015 and February 2, 2015, respectively.

(b) Credit Rating Changes

During fiscal year 2014, Moody's upgraded the credit rating of National Public Finance Guarantee Corporation, the reinsurer of swap insurance for the interest rate swaps associated with the Airport's Second Series Variable Rate Revenue Refunding Bonds, Issues 36AB, from "Baa1" to "A3" with a "Stable" outlook. The outlook was subsequently changed to "negative" on July 2, 2014.

(c) Post-Issuance Compliance with Federal Tax Law

The Airport follows certain federal tax law post-issuance compliance procedures that are intended to ensure that proceeds of its tax-exempt bonds are invested and expended consistent with applicable federal tax law, including the Internal Revenue Code of 1986 (Code), the Regulations promulgated thereunder, and other applicable guidance from the U.S. Treasury Department and the Internal Revenue Service (IRS). As a result, the Airport from time to time identifies and addresses relatively minor tax law compliance issues. As part of its tax diligence procedures, the Airport determined in August 2012 that small portions of the proceeds of a number of outstanding series of bonds were applied for purposes that present tax law compliance issues. In particular, a small portion of the Airport's passenger terminal facilities financed from proceeds of those bonds (less than 0.1%) were used for retail locations where wine was sold for consumption off-Airport. Such uses of proceeds are prohibited by the Code. If not addressed with the IRS, the failure to observe such limitation could cause the interest on such bonds to be includable in gross income for federal income tax purposes retroactively to the date of their issuance. In November 2013, the Airport finalized a closing agreement with the IRS under its Tax Exempt Bond Voluntary Closing Agreement Program ("VCAP") with respect to the Airport's Series 2009 C/D Bonds pursuant to which the Airport made a payment to the IRS of approximately $5 and retired a small portion ($200) of the Series 2009D Bonds allocable to such use of bond proceeds. In September 2014, the Airport approved and expects to execute in the near future, a second closing agreement with the IRS with respect to the other bonds affected by this compliance issue, pursuant to which the Airport will make a payment to the IRS of approximately $67 and retire $1.1 million of the Airports Series 2010A Bonds.

(d) Audit of FAA Grants

In 2013, the Airport resolved an initial audit by the U.S. Department of Transportation (DOT) Office of Inspector General (OIG) of two ARRA grants totaling $14.5 million for runway improvements. The Airport resolved the audit by repaying approximately $0.9 million of grant funds and voluntarily reduced other AIP grant reimbursement requests by $1.2 million. Subsequent to the initial audit, the DOT OIG Office of Investigations began and is continuing a review of the ARRA and other AIP grants received by the Airport and have identified approximately $1.0 million of additional non-qualifying expenditures that the Airport will repay. The review and audit with respect to these and other grants continues and the Airport may need to repay additional grant amounts it has received.

(e) Jurisdictional Transfer of the Francisco Reservoir Tract to the San Francisco Recreation and Parks

In July 2014, Board of Supervisors approved the jurisdictional transfer of the Francisco Reservoir Tract located in San Francisco at fair market value of $9.9 million from the San Francisco Public Utilities Commission (SFPUC) to the San Francisco Recreation and Parks Department (SFRPD). The Francisco Reservoir Tract is included in property that the City purchased from the Spring Valley Water Company in 1930 for the Water Enterprise. The Memorandum of Understanding (MOU) provides that SFRPD shall pay the appraised fair market value of $9.9 million to the SFPUC in installments over 12 years, together with interest on the unpaid principal balance. SFRPD shall take possession of the Francisco Reservoir Tract upon full approval of the MOU by the Board of Supervisors and the Mayor and after the initial installment payment to the SFPUC. However, SFPUC shall not transfer jurisdiction over the Francisco Reservoir Tract until after SFRPD makes its final principal payment and all outstanding interest. Commencement date is September 30, 2014, or within 30 days after the Board of Supervisors and the Mayor approve the MOU, whichever is later. Initial installment payment plus accrued interest of $219 was received on September 29, 2014.

(f) Mandatory Restrictions on Retail Outdoor Irrigation as Required by the State Water Resources Control Board

In July 2014, the State Water Resources Control Board adopted drought emergency regulations, which require urban water utilities to impose mandatory restrictions on irrigation of ornamental landscapes and turf with potable water. It further provided for fines of up to five hundred dollars for certain water waste activity and required that agencies implement plans to reduce wasteful outdoor water use. In August 2014, SFPUC approved the 10 percent mandatory outdoor irrigation reduction for turf and ornamental plants for the period October 1, 2014 through June 30, 2015. Excess use charges were adopted and the procedures for administering those charges applied to approximately 1,600 customers with dedicated irrigation accounts using potable water - about half of which are municipal agencies retail potable water irrigation accounts. This action represents the first charges for excess water use in the City since 1988.

(g) Elections

On November 4, 2014 the San Francisco voters approved the following propositions that will have a fiscal impact on the City:

Proposition A – An ordinance that would allow the City to borrow up to $500.0 million by issuing general obligation bonds to implement many of the infrastructure repairs and improvements identified by the Transportation Task Force.

Proposition B – A Charter amendment that would require the City to increase the Base Amount provided to the San Francisco Municipal Transportation Agency (SFMTA) by a percentage equal to the City's annual population increase, taking into account daytime and nighttime populations, as determined by the Controller's Office. In 2015, the City would increase the Base Amount based on population increases over the previous ten years. In future years, the City would increase the Base Amount based on population increases over the previous year. Proposition B would also require the SFMTA to use 75% of any population-based increases in the Base Amount to improve Muni's reliability, frequency of service, and capacity to pay for Muni repairs. The other 25% would be used for capital expenditures to improve street safety. Proposition B would also authorize the Mayor to discontinue the Base Amount increases required by this measure if the voters enact a vehicle license fee in the future.

The amendment would set aside funds for transit system improvement and capital expenditures that would otherwise be available for any public purpose. The amendment does not identify new revenue sources for this set-aside and other City spending would therefore have to be reduced or new sources of funding identified to maintain current service levels. This charter amendment is not in compliance with a non-binding, voter approved City policy which states that any new set-aside shall identify adequate new revenue sources to cover its cost and shall expire after ten years.

Proposition C – A Charter amendment that would change the way the City funds and administers services to children, youth, and their families.

Children's Fund – Proposition C would extend the Children's Fund and the property tax set-aside for 25 years, until June 30, 2041. Proposition C would increase the property tax set-aside gradually over the next four years to 4 cents for each $100 of assessed property value. Proposition C would not increase or otherwise change property taxes; it would only affect the amount of property tax revenues set aside for the Fund. Proposition C would also extend the age group served by the Children's Fund to include youth aged 18 through 24 years old.

Public Education Enrichment Fund – Proposition C would extend Public Education Enrichment Fund (PEEF) for 26 years, until June 30, 2041. It would also extend funding for universal pre-school to include 3-, 4- and 5-year-olds, but would still give priority to 4-year-olds. The City could also use these funds to develop services for children from birth to 3 years old.

Our Children, Our Families Council – Proposition C would create an Our Children, Our Families Council (Council) to advise the City and School District on the needs of children and families in San Francisco and on priorities, goals, and best practices for addressing those needs.

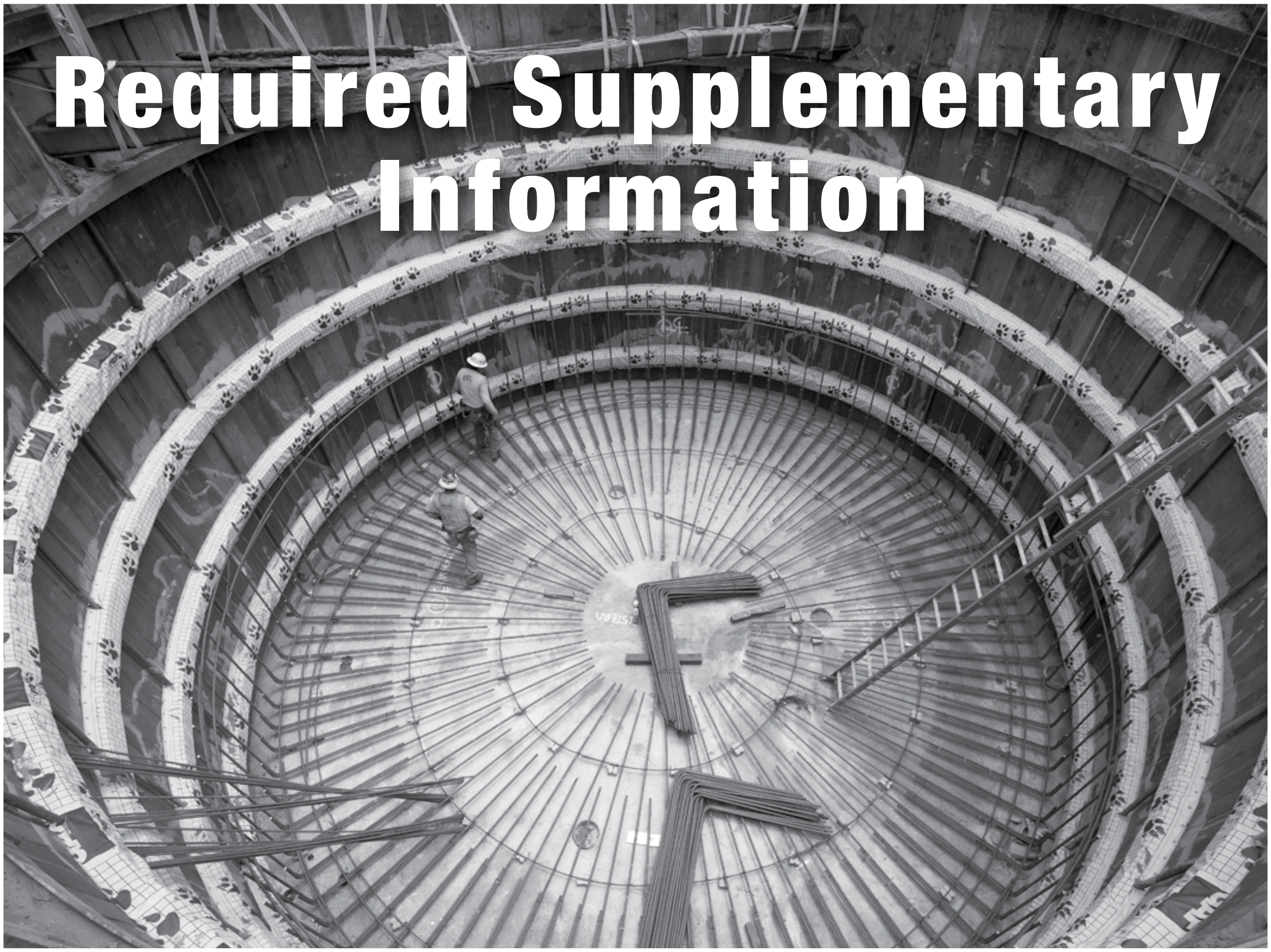
Rainy Day Reserve - Proposition C would divide the existing Rainy Day Reserve into a City Rainy Day Reserve (City Reserve) and a School Rainy Day Reserve (School Reserve). Under the amendment, 25% of the future Rainy Day deposits would go the School Reserve and 75% would go to the City Reserve. Under Proposition C, the School District could withdraw up to half the money in School Reserve in years when it expects to collect less money per student than in the previous fiscal year and would have to lay off a significant number of employees. The School Board could, by a two-thirds' vote, override those limits and withdraw any amount in the School Reserve in any year.

The amendment does not identify new revenue sources for this set-aside and other City spending would therefore have to be reduced or new sources of funding identified to maintain current service levels. This Charter amendment is not in compliance with a non-binding, voter adopted City policy which states that any set-aside shall identify adequate new revenue sources to cover its costs and shall expire after ten years.

Proposition D – A Charter amendment that would grant certain former Redevelopment Agency and Successor Agency employees the same health benefits as City employees hired during the same period. Under Proposition D, employees who started working for the Redevelopment Agency before January 10, 2009, and later started working for the City between February 1, 2012 and February 28, 2015, without a break in service, would be eligible for full retiree health care coverage after five years of employment with the City, the Redevelopment Agency, and/or the Successor Agency combined. For employees who started working for the Redevelopment Agency between January 10, 2009 and August 31, 2010, and later started working for the City between February 1, 2012, and February 28, 2015, without a break in service, Proposition D would credit the employees' years working for the former Redevelopment Agency and the Successor Agency toward the 20-year vesting period for retiree health care benefits. Under Proposition D, employees who started working for the Redevelopment Agency before January 10, 2009 and then started working for the City before March 1, 2015 without a break in service would pay 0.25% of compensation into the Retiree Health Care Trust Fund after July 1, 2016, increasing to 1% of compensation after July 1, 2019, rather than 2% of compensation.

Proposition J – An ordinance that would increase the minimum wage to $15.00 per hour by July 1, 2018 with further increases based on inflation. The ordinance would increase the minimum wage for employees who perform work in San Francisco as follow: 1) on May 1, 2015, the minimum wage would increase to $12.25 per hour; 2) on July 1, 2016 the minimum wage would increase to $13.00 per hour; 3) on July 1, 2017, the minimum wage would increase to $14.00 per hour; 4) on July 1, 2018, the minimum wage would increase to $15.00 per hour; and 5) beginning July 1, 2019, the minimum wage would increase annually based on inflation. Proposition J would apply to City employees and to employees of the In-Home Support Services Public Authority. Two types of employees would receive a limited increase: employees under the age of 18 working in a government-subsidized training or apprenticeship program; and employees over age 55 working for non-profits that provide social welfare services and whose positions are government-subsidized. These employees would receive a minimum wage of $12.25 per hour starting on May 1, 2015 with annual increases starting on July 1, 2016 based on inflation.

Required Supplementary Information



One of many new cisterns under construction. The new cisterns will enhance firefighting capacity throughout San Francisco.

Required Supplementary Information –
Schedules of Funding Progress and Employer Contributions (Unaudited)
June 30, 2014
(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	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	O/UAAL as a % of Covered Payroll
07/01/11	$ 16,313,120	$ 18,598,728	$ (2,285,608)	87.7%	$ 2,360,413	96.8%
07/01/12	16,027,683	19,393,854	(3,366,171)	82.6%	2,393,842	140.6%
07/01/13	16,303,397	20,224,777	(3,921,380)	80.6%	2,535,963	154.6%

(1) The July 1, 2012 valuation results incorporate the following significant assumption changes from the previous valuation:

- Investment Rate of Return Assumption – phase-in reduction from 7.75% to 7.50% over three years (fiscal year 2011-12 to 7.66%; fiscal year 2012-13 to 7.58%; and fiscal year 2013-14 to 7.50%)
- 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%)

Experience losses related to changes in economic and demographic assumptions and the recognition of investment losses from fiscal year 2008-09 over five years contributed to the $1.08 billion increase in UAAL from July 1, 2011.

In January 2014, the Retirement Board adopted to use the same assumptions from the July 1, 2012 actuarial valuation, instead of continuing the three-year phase-in of actuarial assumptions, in the July 1, 2013 actuarial valuation. The assumed investment rate of return remained at 7.58%, wage inflation at 3.83%, and price inflation at 3.33%. As of July 1, 2013, the most recent actuarial valuation date, the Pension Plan's UAAL increased by $0.6 billion. The primary cause of this increase is the smoothing of investment losses from the year ended June 30, 2009 that are being recognized over five years, which mitigates the impact of investment performance volatility on employer contribution rates.

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
06/30/11	$ 788,580	$ 836,171	$ (47,591)	94.3%	$ 105,575	45.1%
06/30/12	834,822	892,396	(57,574)	93.5%	104,239	55.2%
06/30/13	785,150	962,208	(177,058)	81.6%	108,070	163.8%

Required Supplementary Information –
Schedules of Funding Progress and Employer Contributions (Unaudited) (continued)
June 30, 2014
(Dollars in Thousands)

Schedule of Funding Progress – City and County of San Francisco –
Other Postemployment Health Care Benefits

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
07/01/08	$ -	$ 4,364,273	$ (4,364,273)	0.0%	$ 2,296,336	190.1%
07/01/10[1]	-	4,420,146	(4,420,146)	0.0%	2,393,930	184.6%
07/01/12	17,852	3,997,762	(3,979,910)	0.4%	2,457,633	161.9%

(1) 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.

Schedule of Employer Contributions – City and County of San Francisco –
Other Postemployment Health Care Benefits

Year ended June 30,	Annual Required Contribution	Percentage Contributed
2012	$ 397,862	39.2%
2013	408,735	39.2%
2014	341,377	48.8%

Schedule of Funding Progress – 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
01/01/10	$ 173	$ 374	$ (201)	46.3%	$ 2,858	7.0%
06/30/11[2]	405	671	(266)	60.4%	3,251	8.2%
06/30/13	760	1,124	(364)	67.6%	3,253	11.2%

(1) The actuarial valuation report is conducted once every two years. The SFCTA's next valuation is scheduled to be performed in fiscal year 2014/2015.

(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, 2013.

Required Supplementary Information –
Schedules of Funding Progress and Employer Contributions (Unaudited) (continued)
June 30, 2014
(Dollars in Thousands)

Schedule of Funding Progress – 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
06/30/09	$ 493	$ 13,790	$ (13,297)	3.6%	$ 10,515	126.5%
06/30/11	1,856	14,390	(12,534)	12.9%	4,185	299.5%
06/30/13	2,154	11,378	(9,224)	18.9%	4,048	227.9%

(1) The actuarial valuation report is conducted once every two years.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2014

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	--	$ 359,173	$ -
Pass-Through California Department of Public Health				
Plant and Animal Disease, Pest Control, and Animal Care	10.025	None	9,020	-
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	11-10438	2,844,757	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	11-10239	86,112	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	13-20505	737,413	-
Pass-Through University of California San Francisco				
Special Supplemental Nutrition Program for Women, Infants and Children; Nutrition Education Innovations	10.586	7425sc	2,853	-
Pass-Through State of California Department of Aging				
Senior Farmers Market Nutrition Program	10.576	None	40,000	-
Pass-Through State of California Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	None	58,099	-
National School Lunch Program	10.555	None	91,441	-
Summer Food Service Program for Children	10.559	04029-SFSP-38	582,946	-
Subtotal Child Nutrition Cluster			732,486	-
Pass-Through State of California Department of Social Services				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	None	29,831,240	1,443,233
Total pass-through programs			34,283,881	1,443,233
TOTAL U.S. DEPARTMENT OF AGRICULTURE			34,643,054	1,443,233
U.S. DEPARTMENT OF COMMERCE				
Direct Programs				
Economic Adjustment Assistance	11.307	--	585,071	-
ARRA-Broadband Technology Opportunities Program (BTOP)	11.557	--	1,901,727	1,073,216
TOTAL U.S. DEPARTMENT OF COMMERCE			2,486,798	1,073,216
U.S. DEPARTMENT OF DEFENSE				
Direct Programs				
Navy Cooperative Agreement for Hunters Point	12.unknown1	--	1,236,706	-
U.S. Department of the Army, Corps of Engineers	12.unknown2	--	521	-
TOTAL U.S. DEPARTMENT OF DEFENSE			1,237,227	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs				
Community Development Block Grants/Entitlement Grants	14.218	--	19,372,975	12,120,301
Rental Housing Rehabilitation	14.230	--	135,136	52,602
Emergency Solutions Grant Program	14.231	--	1,173,398	1,067,831
Supportive Housing Program	14.235	--	892,340	778,051
Shelter Plus Care	14.238	--	1,520,951	-
Home Investment Partnerships Program	14.239	--	10,475,132	-
Housing Opportunities for Persons with AIDS	14.241	--	8,957,799	4,613,006
Community Development Block Grants_Section 108 Loan Guarantees	14.248	--	4,224	-
Continuum of Care Program	14.267		14,813,200	5,744,538
Lead Hazard Reduction Demonstration Grant Program	14.905	--	710,817	14,601
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			58,055,972	24,390,930
U.S. DEPARTMENT OF THE INTERIOR				
Direct Programs				
NPS Cooperative Agreement	15.unknown	--	832,067	-
Migratory Bird Conservation	15.647	--	12,268	-
Subtotal direct programs			844,335	-
Pass-Through California Office of Historic Preservation				
Historic Preservation Fund Grants-In-Aid	15.904	06-12-41911	18,118	-
Pass-Through California Department of Parks and Recreation				
Outdoor Recreation - Acquisition, Development and Planning	15.916	06-01687	44,957	-
Outdoor Recreation - Acquisition, Development and Planning	15.916	06-01720	70,901	-
Total - Outdoor Recreation - Acquisition, Development and Planning			115,858	-
Total pass-through programs			133,976	-
TOTAL U.S. DEPARTMENT OF THE INTERIOR			978,311	-

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

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF JUSTICE				
Direct Programs				
Federal Narcotics Forfeiture and Asset Seizure	16.unknown	--	$ 1,925,030	$ -
Supervised Visitation, Safe Havens for Children	16.527	--	54,969	35,513
Drug Court Discretionary Grant Program	16.585	--	1,120	-
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	--	285,722	76,593
State Criminal Alien Assistance Program	16.606	--	207,974	-
Bulletproof Vest Partnership Program	16.607	--	66	-
Public Safety Partnership and Community Policing Grants	16.710	--	327,390	-
ARRA-Public Safety Partnership and Community Policing Grants	16.710	--	418,789	-
Total Public Safety Partnership and Community Policing Grants			746,179	-
PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities	16.735	--	2,735	
Edward Byrne Memorial Justice Assistance Grant Program	16.738	--	528,829	-
DNA Backlog Reduction Program	16.741	--	406,871	-
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	--	105,880	-
Economic High-Tech and Cyber Crime Prevention	16.752		63,391	-
Congressionally Recommended Awards	16.753	--	219,118	219,118
Second Chance Act Reentry Initiative	16.812	--	1,408,715	295,102
Byrne Criminal Justice Innovation Program	16.817	--	15,690	-
Subtotal direct programs			5,972,289	626,326
Pass-Through Corrections Standards Authority				
Juvenile Justice and Delinquency Prevention_Allocation to States	16.540	CSA 387-11	291,586	
Pass-Through National Council on Crime and Delinquency				
PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities	16.735	16100	111,944	-
Pass-Through State of California Board of Corrections				
Juvenile Accountability Block Grants	16.523	BSCC 170-13	94,132	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	650-12	54,357	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	650-13	216,627	-
Pass-Through State of California Emergency Management Agency				
Crime Victim Assistance	16.575	VW 13320380	228,740	-
Crime Victim Assistance	16.575	UV 12030380	30,892	-
Crime Victim Assistance	16.575	UV 13040380	96,387	-
Total Crime Victim Assistance			356,019	-
Violence Against Women Formula Grants	16.588	PU 11 02 0380	25,038	-
Violence Against Women Formula Grants	16.588	VV 12 04 0380	215,488	-
Violence Against Women Formula Grants	16.588	PU 12 02 0380	80,424	-
Total Violence Against Women Formula Grants			320,950	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	HF12010380	292,327	42,213
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ10070380	13,585	-
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ13030380	5,065	-
Total Paul Coverdell Forensic Sciences Improvement Grant Program			18,650	-
Total pass-through programs			1,756,592	42,213
TOTAL U.S. DEPARTMENT OF JUSTICE			7,728,881	668,539
U.S. DEPARTMENT OF LABOR				
Direct Programs				
WIA Pilots, Demonstrations, and Research Projects	17.261	--	1,959,589	1,347,662
Workforce Innovation Fund	17.283	--	923,716	635,057
Subtotal direct programs			2,883,305	1,982,719
Pass-Through WestEd				
H-1B Job Training Grants	17.268	s12-053	691,323	527,837
Pass-Through State of California Employment Development Department				
Employment Service/Wagner-Peyser Funded Activities	17.207	K285816	328,940	271,255
Workforce Investment Act (WIA) Cluster				
WIA Adult Program	17.258	K282500	202,075	155,659
WIA Adult Program	17.258	K386327	920,475	537,640
WIA Adult Program	17.258	K491048	2,116,101	1,573,228
Total WIA Adult Program			3,238,651	2,266,527
WIA Youth Activities	17.259	K386327	355,056	222,344
WIA Youth Activities	17.259	K491048	1,372,389	977,370
Total WIA Youth Activities			1,727,445	1,199,714
WIA Dislocated Worker Formula Grants	17.278	K282500	281,797	239,044
WIA Dislocated Worker Formula Grants	17.278	K386327	1,911,231	1,075,421
WIA Dislocated Worker Formula Grants	17.278	K491048	938,655	610,481
Total WIA Dislocated Workers Formula Grants			3,131,683	1,924,946
Subtotal WIA Cluster			8,097,779	5,391,187
Total pass-through programs			9,118,042	6,190,279
TOTAL U.S. DEPARTMENT OF LABOR			12,001,347	8,172,998

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

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF TRANSPORTATION				
Pass-Through State of California Department of Transportation				
Highway Planning and Construction	20.205	04-5934	$ 2,275,175	$ -
Highway Planning and Construction	20.205	BHLO-5934(168)	72,624	-
Highway Planning and Construction	20.205	CML-5934(169)	25,299	-
Highway Planning and Construction	20.205	CML-5934(172)	18,636	-
Highway Planning and Construction	20.205	CML-5934(173)	25,290	-
Highway Planning and Construction	20.205	CML-6447(004)	30,847	12,578
Highway Planning and Construction	20.205	DEMO06L-5934(166)	79,550	-
Highway Planning and Construction	20.205	HPLUL5934(138)	1,094,207	-
Highway Planning and Construction	20.205	HPLUL-5934(154)	3,351,522	-
Highway Planning and Construction	20.205	HSIPL-5934(167)	134,837	-
Highway Planning and Construction	20.205	HSIPL-5934(170)	301,000	-
Highway Planning and Construction	20.205	RPSTPLE5934(159)	324,089	-
Highway Planning and Construction	20.205	RPSTPLE5934(162)	135,502	-
Highway Planning and Construction	20.205	SRTSLNI-6447(005)	329,433	144,660
Highway Planning and Construction	20.205	STPL5934(165)	1,177,193	-
Highway Planning and Construction	20.205	STPL-5934(171)	44,401	-
Highway Planning and Construction	20.205	STPL5934(174)	25,024	-
Total Highway Planning and Construction			9,444,629	157,238
Pass-Through State of California Office of Traffic Safety				
State and Community Highway Safety	20.600	PS1308	57,063	-
State and Community Highway Safety	20.600	PT1413	40,582	-
Total State and Community Highway Safety			97,645	-
Pass-Through State of California Office of Traffic Safety				
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL1363	42,996	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL1431	42,457	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	SC13368	31,745	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	SC14368	39,104	-
Total Minimum Penalties for Repeat Offenders for Driving While Intoxicated			156,302	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			9,698,576	157,238
NATIONAL FOUNDATION FOR THE ARTS AND HUMANITIES				
Direct Program				
Promotion of the Arts - Grants to Organizations and Individuals	45.024	--	96,150	-
Pass-Through Institute of Museum and Library Services				
National Leadership Grants	45.312	LG-48-12-0406-12	18,334	-
Pass-Through California State Library				
Grants to States	45.310	LS-00-12-0005-12	9,943	-
TOTAL NATIONAL FOUNDATION FOR THE ARTS AND HUMANITIES			124,427	-
SMALL BUSINESS ADMINISTRATION				
Pass-Through Humboldt State University Sponsored Programs Foundation				
Small Business Development Centers	59.037	SBAHQ-13-B-0066	6,272	-
TOTAL SMALL BUSINESS ADMINISTRATION			6,272	-
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Direct Programs				
Congressionally Mandated Projects	66.202	--	1,046,620	-
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	--	32,826	-
Total direct programs			1,079,446	-
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	50,211	-
Pass-Through State Water Resources Control Board				
Beach Monitoring and Notification Program Implementation Grants	66.472	12-028-250	24,932	-
Total pass-through programs			75,143	-
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			1,154,589	-
U.S. DEPARTMENT OF ENERGY				
Direct Programs				
Conservation Research and Development	81.086	--	187,765	-
Renewable Energy Research and Development	81.087	--	106,335	-
Total direct programs			294,100	-
Pass-Through Leonardo Technologies, Inc.				
Department of Energy Subcontract	81.unknown	S027-CCC-PPM4002	24,215	-
Pass-Through State of California Energy Commission				
ARRA - State Energy Program	81.041	400-10-004	117,522	-
Total pass-through programs			141,737	-
TOTAL U.S. DEPARTMENT OF ENERGY			435,837	-

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 EDUCATION				
Pass-Through California Department of Education				
ARRA - Race to the Top – Early Learning Challenge	84.412	PCA#15181	$ 384,420	$ 383,391
Pass-Through California Department of Rehabilitation				
Rehabilitation Services-Vocational Rehabilitation Grants to States	84.126	28958	90,400	-
TOTAL U.S. DEPARTMENT OF EDUCATION			474,820	383,391
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Programs				
Environmental Public Health and Emergency Response	93.070	--	351,168	-
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	--	868,479	738,976
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	--	674,706	-
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	--	2,264,052	558,953
Adult Viral Hepatitis Prevention and Control	93.270	--	442,672	-
PPHF - Community Transformation Grants and National Dissemination and Support for Community Transformation Grants - financed solely by Prevention and Public Health Funds	93.531	--	1,034,164	-
Child Abuse and Neglect Discretionary Activities	93.670	--	925,043	911,777
ARRA-National Center for Research Resources, Recovery Act Construction Support	93.702	--	154,059	-
Prevention Public Health Fund: Viral Hepatitis Prevention	93.736	--	118,611	-
Child Health and Human Development Extramural Research	93.865	--	103,914	
HIV Emergency Relief Project Grants	93.914	--	16,044,589	12,456,473
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	--	322,083	101,409
Special Projects of National Significance	93.928	--	597,946	500,765
HIV Prevention Activities_Non-Governmental Organization Based	93.939	--	53,238	
HIV Prevention Activities_Health Department Based	93.940	--	8,613,794	1,853,138
Epidemiologic Research Studies of Acquired Immunodeficiency Syndrome (AIDS) and Human Immunodeficiency Virus (HIV) Infection in Selected Population Groups	93.943	--	279,247	24,465
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	--	1,756,168	-
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	--	1,507,955	127,119
Total direct programs			36,111,888	17,273,075
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	A3-1314-06 & A9-1314-06	13,473	13,473
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	A3-1314-06 & A9-1314-06	31,525	31,525
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	A3-1314-06 & A9-1314-06	60,072	60,072
Aging Cluster				
Special Programs for the Aging - Title III, Part B - Grants for Supportive Services and Senior Centers	93.044	A3-1314-06 & A9-1314-06	1,005,915	443,683
Special Programs for the Aging - Title III, Part C - Nutrition Services	93.045	A3-1314-06 & A9-1314-06	1,456,799	1,456,799
Nutrition Services Incentive Program	93.053	A3-1314-06 & A9-1314-06	1,171,353	1,171,353
Subtotal Aging Cluster			3,634,067	3,071,835
National Family Caregiver Support, Title III, Part E	93.052	A3-1314-06 & A9-1314-06	399,332	399,332
Medicare Enrollment Assistance Program	93.071	MI-1314-06	20,083	20,083
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	93.779	H9-1314-06 & H3-1314-06	113,991	109,743
Pass-Through State of California Department of Public Health				
Public Health Emergency Preparedness	93.069	EPO 12-38	12,428	-
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	EPO 13-41	992,399	-
Immunization Cooperative Agreements	93.268	13-20342	261,514	-
Centers for Disease Control and Prevention - Investigations and Technical Assistance	93.283	10-10177 A 01	74,197	-
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	201238	3,502	-
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program	93.505	201338	1,056,841	-
Total Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program			1,060,343	-
Refugee and Entrant Assistance - State Administered Programs	93.566	12-90-90840-00	58,621	17,748
Refugee and Entrant Assistance - State Administered Programs	93.566	13-90-90840-00	172,099	55,170
Medical Assistance Program	93.778	201338	1,518,451	-
Medical Assistance Program	93.778	11-10522	175,892	-
National Bioterrorism Hospital Preparedness Program	93.889	EPO 12-38	16,627	-
HIV Care Formula Grants	93.917	13-20070	2,786,883	1,564,241
Preventive Health and Health Services Block Grant	93.991	201338	2,696	-
Maternal and Child Health Services Block Grant to the States	93.994	201238	4	-
Maternal and Child Health Services Block Grant to the States	93.994	201338	400,416	-
Total Maternal and Child Health Services Block Grant to the States			400,420	-

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 California Department of Health Care Services				
Medical Assistance Program	93.778	None	$ 1,604,197	$ 8,734
Pass-Through MDRC				
Community Services Block Grant_Discretionary Awards	93.570	None	55,564	-
Pass-Through California Secretary of State				
Voting Access for Individuals with Disabilities_Grants to States	93.617	13G26124	23,801	-
Pass-Through National Association of County and City Health Officials				
Medical Reserve Corps Small Grant Program	93.008	5MRCSG101005	1,591	-
Pass-Through University of Pittsburgh				
Nursing Research	93.361	0029591 (123132)	10,179	-
Pass-Through Partners in Care Foundation				
ARRA-Special Programs for the Aging - Title IV - and Title II - Discretionary Projects	93.048	CT-1213-11	36,684	36,684
Pass-Through State of California Department of Social Services				
Guardianship Assistance	93.090	None	1,889,102	-
State Planning and Establishment Grants for the Affordable Care Act (ACA)'s Exchanges	93.525	None	752,676	-
Promoting Safe and Stable Families	93.556	None	390,341	264,913
Temporary Assistance for Needy Families	93.558	None	59,218,601	13,237,930
Refugee and Entrant Assistance - State Administered Programs	93.566	None	498,124	-
Refugee and Entrant Assistance - State Administered Programs	93.566	RESS1106	41,822	-
Refugee and Entrant Assistance - State Administered Programs	93.566	RESS1206	51,638	-
Refugee and Entrant Assistance - State Administered Programs	93.566	RESS1306	31,705	-
Refugee and Entrant Assistance - Discretionary Grants	93.576	TARL1206	3,528	3,528
Refugee and Entrant Assistance - Discretionary Grants	93.576	TARL1306	9,378	9,378
Refugee and Entrant Assistance - Discretionary Grants	93.576	TART1106	5,181	5,181
Refugee and Entrant Assistance - Discretionary Grants	93.576	TART1206	16,346	16,346
Refugee and Entrant Assistance - Discretionary Grants	93.576	TART1305	3,645	-
Subtotal Refugee and Entrant Assistance - Discretionary Grants			38,078	34,433
U.S. Repatriation	93.579	None	5,827	-
Community-Based Child Abuse Prevention Grants	93.590	None	26,259	26,259
Stephanie Tubbs Jones Child Welfare Services Program	93.645	None	1,333,130	9,994
Foster Care - Title IV-E	93.658	None	32,996,981	-
Adoption Assistance	93.659	None	10,151,873	-
Chafee Foster Care Independence Program	93.674	None	503,168	488,787
Children's Health Insurance Program	93.767	None	5,967	-
Medical Assistance Program	93.778	None	56,055,349	1,823,481
Pass-Through Regents of the University of California				
Global AIDS	93.067	5745SC	332,507	-
Global AIDS	93.067	5876SC	38,090	-
Global AIDS	93.067	6251SC	35,419	-
Global AIDS	93.067	6710SC	47,028	-
Global AIDS	93.067	6909SC	19,661	-
Global AIDS	93.067	6925SC	38,407	-
Global AIDS	93.067	7076SC	9,633	-
Global AIDS	93.067	7098SC	35,462	-
Global AIDS	93.067	7289SC	1,853	-
Global AIDS	93.067	7613SC	24,567	-
Global AIDS	93.067	7630SC	5,735	-
Global AIDS	93.067	7857SC	4,483	-
Global AIDS	93.067	8015SC	11,223	-
Total Global AIDS			604,068	-
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	4899SC	80,854	-
Mental Health Research Grants	93.242	6819SC	19,297	-
Mental Health Research Grants	93.242	6913SC	21,670	-
Mental Health Research Grants	93.242	7238SC	78,072	-
Child Welfare Research Training or Demonstration	93.648	00008567	837	
Allergy, Immunology and Transplantation Research	93.855	7254SC	5,565	-
Allergy, Immunology and Transplantation Research	93.855	7256SC	29,741	-
HIV Demonstration, Research, Public and Professional Education Projects	93.941	444932/29575-02	167,981	-
Pass-Through State of California Department of Mental Health				
Projects for Assistance in Transition from Homelessness (PATH)	93.150	None	526,893	241,733
Block Grants for Community Mental Health Services	93.958	None	2,411,515	253,902
Pass-Through State of California Family Health Council				
Family Planning - Services	93.217	380-5320-71209-13	88,329	-
Family Planning - Services	93.217	380-5320-71209-14	66,343	-
Total Family Planning - Services			154,672	-

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

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2014

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	6 H80CS00049-12-05	$ 277,085	$ -
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	6 H80CS00049-13-02	480,948	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	6 H76HA00163-21-03	82,649	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	6 H76HA00163-22-02	93,191	-
Pass-Through Public Health Foundation Enterprise				
Mental Health Research Grants	93.242	2414	38,132	-
Mental Health Research Grants	93.242	2417	83,754	-
Mental Health Research Grants	93.242	2450	10,820	-
Allergy, Immunology and Transplantation Research	93.855	0325	57,960	
Allergy, Immunology and Transplantation Research	93.855	2278	54,739	-
Allergy, Immunology and Transplantation Research	93.855	2461	48,913	-
HIV Prevention Activities_Health Department Based	93.940	2366.002.001	115,755	-
HIV Prevention Activities_Health Department Based	93.940	2369.002.001	34,119	-
Pass-Through Simon Fraser University				
Drug Abuse and Addiction Research Programs	93.279	SFU Ref#13184	5,447	-
Pass-Through State of California Department of Child Support Services				
Child Support Enforcement	93.563	None	8,212,734	-
Pass-Through State of California Department of Education				
CCDF Cluster				
Child Care and Development Block Grant	93.575	CLPC-3036	56,647	56,647
Child Care and Development Block Grant	93.575	CRET-3034	523,242	-
Total for Child Care and Development Block Grant			579,889	56,647
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	None	141,010	141,010
Subtotal CCDF Cluster			720,899	197,657
Pass-Through Standing Against Global Exploitation				
Services to Victims of a Severe Form of Trafficking	93.598	HHS-2001-ACF-ORR-ZV-0080	56,496	3,840
Pass-Through Blood Systems, Inc.				
Blood Diseases and Resources Research	93.839	10849-DPH-01	32,887	-
Pass-Through Fred Hutchinson Cancer Research Center				
Allergy, Immunology and Transplantation Research	93.855	0000747845	56,604	-
Allergy, Immunology and Transplantation Research	93.855	0000751940	34,784	-
Allergy, Immunology and Transplantation Research	93.855	0000790196	57,793	-
Allergy, Immunology and Transplantation Research	93.855	0000794865	17,451	-
Pass-Through Family Health International				
Allergy, Immunology and Transplantation Research	93.855	0080.0172/970	17,739	-
National Institutes of Health Acquired Immunodeficiency Syndrome Research Loan Repayment Program	93.936	0080.0167/965	1,902	-
Pass-Through State of California Department of Alcohol and Drug Programs				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	None	10,002,913	10,002,913
Total pass-through programs			202,224,649	31,974,482
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			238,336,537	49,247,557
U.S. DEPARTMENT OF HOMELAND SECURITY				
Direct Programs				
Assistance to Firefighters Grant	97.044	--	1,039,778	-
Port Security Grant Program	97.056	--	818,766	-
Total direct programs			1,858,544	-
Pass-Through State of California Emergency Management Agency				
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA-4158-DR-CA	34,759	-
Emergency Management Performance Grants	97.042	2012-0027	211,080	13,587
Emergency Management Performance Grants	97.042	2013-0047	279,355	-
Total Emergency Management Performance Grants			490,435	13,587
Pre-Disaster Mitigation	97.047	LPDM-09-CA-2008	239,628	-
Homeland Security Grant Cluster				
Homeland Security Grant Program	97.067	2009-0019	4	-
Homeland Security Grant Program	97.067	2010-0085	111,759	-
Homeland Security Grant Program	97.067	2011-SS-0077	17,884,500	11,451,647
Homeland Security Grant Program	97.067	2012-SS-00123	19,576,596	14,091,836
Homeland Security Grant Program	97.067	2013-00110	2,151,576	974,396
Total Homeland Security Grant Program			39,724,435	26,517,879
Metropolitan Medical Response System	97.071	2011-SS-0077	152,133	-
Subtotal Homeland Security Grant Cluster			39,876,568	26,517,879
Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111	2010-CA-T0-0002	709,746	560,059
Regional Catastrophic Preparedness Grant Program (RCPGP)	97.111	2011-0013	976,901	296,970
Total Regional Catastrophic Preparedness Grant Program (RCPGP)			1,686,647	857,029

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2014

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF HOMELAND SECURITY (continued)				
Pass-Through Marine Exchange of the San Francisco Bay				
Port Security Grant Program	97.056	2009-PU-T9-K032	$ 6,930,491	$ -
Port Security Grant Program	97.056	2010-PU-T0-K050	270,362	-
Port Security Grant Program	97.056	EMW-2011-PU-K00351	1,192,688	-
Total pass-through programs			50,721,578	27,388,495
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			52,580,122	27,388,495
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 419,942,770	$ 112,925,597

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, 2014

1. GENERAL

The schedule of expenditures of federal awards (Schedule) includes the federal grant activity of the City and County of San Francisco (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). 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), the San Francisco Municipal Transportation Agency (MTA), and the Successor Agency to the San Francisco Redevelopment Agency (Successor Agency). The expenditures of the Authority, the Airport, the MTA, and the Successor Agency are not included in the schedule of expenditures of federal awards for the year ended June 30, 2014. 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 Economic Adjustment Assistance Program 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 (CFDA number 93.778).

5. ECONOMIC ADJUSTMENT ASSISTANCE PROGRAM

For the purpose of calculating federal expenditures for the Schedule, grants for revolving loan funds (RLF) under the Economic Adjustment Assistance Program (CFDA number 11.307) are calculated as the federal share of the sum of RLF loans outstanding at the end of the fiscal year, cash and investment balance in the RLF at the end of the fiscal year, administrative expenses paid out of RLF income during the year, and the unpaid principal of all loans written off during the year.

The City incurred $585,071 of expenditures under two separate Economic Adjustment Assistance Program grants. The Port of San Francisco received a non-RLF grant and incurred program expenditures of $113,891 during the year. The Mayor's Office of Housing received a RLF grant and calculated federal expenditures for the year using the formula in the preceding paragraph. As of June 30, 2014, the total outstanding RLF and cash and investments in the RLF were $580,636 and $146,494, respectively. There were no administrative expenses paid out of the RLF income, and no write off of loans during the year. The federal share of the RLF was 64.8% and federal expenditures of $471,180 were included in the Schedule.

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. The following schedule is presented using the modified accrual basis of accounting. 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	$ -	$ 40,000
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	A3-1314-06, A9-1314-06	93.041	-	13,473
Special Programs for the Aging-Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	A3-1314-06, A9-1314-06	93.042	-	31,525
Special Programs for the Aging-Title III, Part D - Disease Prevention and Health Promotion Services	A3-1314-06, A9-1314-06	93.043	-	60,072
Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers	A3-1314-06, A9-1314-06	93.044	-	1,005,915
Special Programs for the Aging-Title III, Part C - Nutrition Services	A3-1314-06, A9-1314-06	93.045	318,276	1,456,799
National Family Caregiver Support, Title III, Part E	A3-1314-06, A9-1314-06	93.052	-	399,332
Nutrition Services Incentive Program	A3-1314-06, A9-1314-06	93.053	-	1,171,353
Medicare Enrollment Assistance Program	MI-1314-06	93.071	-	20,083
Centers for Medicare and Medicaid Services (CMS) Research, Demonstrations and Evaluations	H9-1314-06, H3-1314-06	93.779	230,184	113,991
			548,460	$ 4,312,543
State Award - California Department of Aging				
Special Deposit Fund-Federal Citation Penalties Account, General Fund Allocation	A3-1314-06, A9-1314-06		26,874	
Skilled Nursing Facility (SNF) Quality & Accountability Fund (QAF) Allocation	A3-1314-06, A9-1314-06		28,260	
Special Programs for the Aging-Title III, Part C - Nutrition Services - State General Fund	A3-1314-06		227,948	
Total Expenditures of CDA Awards			$ 831,542	

7. PROGRAM TOTALS

The following table summarizes programs funded by various sources or grants whose totals are not shown on the Schedule.

	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	$	86,112
	State of California Department of Public Health	13-20505		737,413
	State of California Department of Social Services	None		29,831,240
		Program Total	$	30,654,765
(2)	**CFDA no. 16.735 - PREA Program: Demonstration Projects to Establish "Zero Tolerance" Cultures for Sexual Assault in Correctional Facilities**			
	U.S. Department of Justice	--	$	2,735
	National Council on Crime and Delinquency	16100		111,944
		Program Total	$	114,679
(3)	**JAG Program Cluster**			
	CFDA no. 16.738 - Edward Byrne Memorial Justice Assistance Grant Program			
	U.S. Department of Justice	--	$	528,829
	State of California Board of Corrections	650-12		54,357
	State of California Board of Corrections	650-13		216,627
	State of California Emergency Management Agency	HF12010380		292,327
		Program Total	$	1,092,140
(4)	**Health Centers Cluster**			
	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	6 H80CS00049-12-05	$	277,085
	San Francisco Community Clinic Consortium	6 H80CS00049-13-02		480,948
		Program Total	$	758,033
(5)	**CFDA no. 93.242 - Mental Health Research Grants**			
	Regents of the University of California	6819SC	$	19,297
	Regents of the University of California	6913SC		21,670
	Regents of the University of California	7238SC		78,072
	Public Health Foundation Enterprise	2414		38,132
	Public Health Foundation Enterprise	2417		83,754
	Public Health Foundation Enterprise	2450		10,820
		Program Total	$	251,745
(6)	**CFDA no. 93.566 - Refugee and Entrant Assistance - State Administered Programs**			
	State of California Department of Public Health	12-90-90840-00	$	58,621
	State of California Department of Public Health	13-90-90840-00		172,099
	State of California Department of Social Services	None		498,124
	State of California Department of Social Services	RESS1106		41,822
	State of California Department of Social Services	RESS1206		51,638
	State of California Department of Social Services	RESS1306		31,705
		Program Total	$	854,009

7. PROGRAM TOTALS (Continued)

	CFDA no. / Program Title / Federal Grantor or Pass-Through Grantor	Pass-Through Identifying Number		Federal Expenditures
(7)	**Medicaid Cluster**			
	CFDA no. 93.778 - Medical Assistance Program			
	State of California Department of Public Health	201338	$	1,518,451
	State of California Department of Public Health	11-10522		175,892
	State of California Department of Health Care Services	None		1,604,197
	State of California Department of Social Services	None		56,055,349
		Program Total	$	59,353,889
(8)	**CFDA no. 93.855 - Allergy, Immunology and Transplantation Research**			
	Regents of the University of California	7254SC	$	5,565
	Regents of the University of California	7256SC		29,741
	Public Health Foundation Enterprise	0325		57,960
	Public Health Foundation Enterprise	2278		54,739
	Public Health Foundation Enterprise	2461		48,913
	Fred Hutchinson Cancer Research Center	0000747845		56,604
	Fred Hutchinson Cancer Research Center	0000751940		34,784
	Fred Hutchinson Cancer Research Center	0000790196		57,793
	Fred Hutchinson Cancer Research Center	0000794865		17,451
	Family Health International	0080.0172/970		17,739
		Program Total	$	381,289
(9)	**CFDA no. 93.918 - Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease**			
	U.S. Department of Health and Human Services	--	$	322,083
	San Francisco Community Clinic Consortium	6 H76HA00163-21-03		82,649
	San Francisco Community Clinic Consortium	6 H76HA00163-22-02		93,191
		Program Total	$	497,923
(10)	**CFDA no. 93.940 - HIV Prevention Activities - Health Department Based**			
	U.S. Department of Health and Human Services	--	$	8,613,794
	Public Health Foundation Enterprise	2366.002.001		115,755
	Public Health Foundation Enterprise	2369.002.001		34,119
		Program Total	$	8,763,668
(11)	**CFDA no. 97.056 - Port Security Grant Program**			
	U.S. Department of Homeland Security	--	$	818,766
	Marine Exchange of the San Francisco Bay	2009-PU-T9-K032		6,930,491
	Marine Exchange of the San Francisco Bay	2010-PU-T0-K050		270,362
	Marine Exchange of the San Francisco Bay	EMW-2011-PU-K00351		1,192,688
		Program Total	$	9,212,307

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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*

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

We have audited, in accordance with the 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, the financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City and County of San Francisco, California (City) as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 28, 2014, except for our report on the schedule of expenditures of federal awards, as to which the date is March 27, 2015. Our report includes a reference to other auditors who 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, and the Health Service System, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider material weaknesses. We did identify a deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2014-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from 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***.**

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
November 28, 2014

MGO Certified Public Accountants.

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**Independent Auditor's Report on Compliance for
Each Major Federal Program and Report on Internal Control Over Compliance
Required by OMB Circular A-133**

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

Report on Compliance for Each Major Federal Program

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, 2014. 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.

The City's basic financial statements include the operations of the San Francisco County Transportation Authority (Authority), the San Francisco International Airport (Airport), the San Francisco Municipal Transportation Agency (MTA), and the Successor Agency to the San Francisco Redevelopment Agency (Successor Agency), which expended $13,912,075, $60,315,050, $313,021,316, and $91,057, respectively, in federal awards, which are not included in the schedule of expenditures of federal awards for the year ended June 30, 2014. 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* (OMB Circular A-133), and report on the results separately to the Authority and the Successor Agency. The Airport and the MTA engaged other auditors to perform an audit in accordance with OMB Circular A-133.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. 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. 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 on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City complied, in all material respects, with the types of 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, 2014.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, 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 2014-002, 2014-003, and 2014-004. Our opinion on each major federal program is not modified with respect to these matters.

The City's responses to the noncompliance findings identified in our audit are described in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

Report on Internal Control over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program 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. 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.

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 material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we identified certain deficiencies in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as items 2014-002, 2014-003, and 2014-004 that we consider to be significant deficiencies.

The City's responses to the internal control over compliance findings identified in our audit are descried in the accompanying schedule of findings and questioned costs. The City's responses were not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the responses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

Walnut Creek, California
March 27, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2014

Section I – Summary of Auditor's Results

Financial Statements:

Type of auditor's report issued	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	No
• Significant deficiency(cies) identified?	Yes
Type of auditor's report issued on compliance for major programs	Unmodified
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)
Supportive Housing Program	14.235
Home Investment Partnerships Program	14.239
Continuum of Care Program	14.267
WIA Cluster	17.258, 17.259 & 17.278
WIA Pilots, Demonstrations and Research Projects	17.261
Substance Abuse and Mental Health Services_Projects of Regional and National Significance	93.243
Temporary Assistance for Needy Families	93.558
Child Support Enforcement	93.563
Adoption Assistance	93.659
Medical Assistance Program	93.778
Block Grants for Community Mental Health Services	93.958
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977
Homeland Security Cluster	97.067, 97.071

Dollar threshold used to distinguish between Types A and B programs	$3,000,000
Auditee qualified as a low-risk auditee?	No

Section II – Financial Statement Findings

Item 2014-001 – Information Technology Governance

Criteria:
A top-down governance structure is integral to providing direction and establishing an entity's control environment by issuing enterprise-wide policies and procedures. The Committee of Sponsoring Organizations of the Treadway Commission (COSO) standards, for example, require that the top-level of governance establish policies and procedures for its entire organization. Because such policies and procedures may not address all of the needs and limitations of an organization's entities, the standards also allow for local policies and procedures or desk top manuals to exist. However, these local documents need to have the approval of the top governance authority to ensure that the top governance structure is aware of, and agrees with, the local controls that are being instituted. Additionally, the COSO framework standards encourage that continual monitoring of these controls exist to ensure that the documented controls are followed and function as intended.

Condition:
The City operates under a decentralized structure wherein departments independently establish information technology (IT) policies and procedures according to their operations. This decentralized IT environment has contributed to inconsistent IT controls being utilized throughout the City's IT environment.

As part of our financial statements audit, we evaluated the City's general information technology environment and controls. Our review included evaluating controls over IT governance, computer operations, and system security of key networks and financial reporting applications. We noted that within the City's current IT environment, top-down governance is minimal because the set-up and monitoring of all department-controlled networks and applications reside with the departments. As a result, variations exist in IT policies and procedures among City departments. Examples of variations include:

- User access rights within the various software applications
- Password control configurations
- Change management process

To provide overall technology direction for departments, the City appointed the Committee on Information Technology (COIT) with the leadership role in making policy recommendations and establishing long-range plans to ensure a consistent level of service. Although COIT is increasingly aware of the current IT environment and plans to establish itself as the formalized top-down IT governance structure within the City, many of the policies developed by COIT remain in draft form.

In addition, general computer controls over the access to programs and data require that network and application security controls be implemented to assure administrative, master, and super user activities are proper and authorized, and to safeguard information technology resources and data. The City does not have policies to regularly review high-level user activities.

Cause:
The City experienced a few setbacks this year, such as turnover in key positions in the Department of Technology (Chief Information Officer and the Chief Technology Officer). During fiscal year 2013-14, COIT focused on determining funding priorities for systems as well as overseeing large projects such as citywide Wi-Fi and migrating email to a central system.

Effect:
The current decentralized IT environment has contributed to inconsistent IT controls being utilized throughout the City's IT environment.

Section II – Financial Statement Findings

Item 2014-001 – Information Technology Governance (Continued)

Recommendation:
We recommend that the City prioritize the drafting and release of formal information technology policies and procedures to be used as a guideline by all City departments to establish basic level IT controls citywide.

The City should also develop policies and implement procedures for regular reviews of high-level user activities. The reviews should be performed by a position outside of the chain of command of these users with high-level access and should be pursuant to guidelines and criteria that would aid in identifying the nature of the activities.

Management Response:
We agree. The City now has a permanent Chief Information Officer (CIO), who is also the Executive Director of the Department of Technology (DT). He will meet with COIT and discuss the prioritization of the formal information technology policies and procedures to ensure the City departments have the appropriate guidelines needed for basic level IT controls. In addition, the CIO has recently appointed a Chief Information Security Officer (CISO) at DT, and initiated the hiring of a permanent Deputy Director of Administration and Finance and a Deputy Director of Service Delivery. These roles are critical to establishing proper IT governance and controls.

Section III – Federal Award Findings and Questioned Costs

Item No. 2014-002 – Subrecipient Monitoring

Federal Program Title:	Workforce Investment Act Cluster
Federal Catalog Number(s):	17.258, 17.259, and 17.278
Federal Agency:	U.S. Department of Labor
Pass-Through Entity:	State of California Employment Development Department
Pass-Through Identifying Number(s):	K282500, K386327, and K491048

Federal Program Title:	WIA Pilots, Demonstrations, and Research Projects
Federal Catalog Number(s):	17.261
Federal Agency:	U.S. Department of Labor
Federal Award Number(s):	MI-21916-11-60-A-6

Criteria:
Pursuant to section 97.37(b)(3) under 29 CFR 97 and Part 3 of the Compliance Supplement of OMB Circular A-133 issued by the Office of Management and Budget (OMB), the pass-through agency is responsible for, at the time of the award, identifying to the subrecipient the federal award information (i.e. CFDA title and number, award name and number; if the award is research and development; and name of federal awarding agency) and applicable compliance requirements.

Condition:
During our audit of the Workforce Investment Act (WIA) Cluster and the WIA Pilots, Demonstrations, and Research Projects (WIA Projects Program), which are both administered by the City's Office of Economic and Workforce Development, we selected 12 subrecipients from a population of 20 subrecipients for the WIA Cluster and 2 subrecipients from a population of 2 subrecipients for the WIA Projects Program. Our procedures identified that, of the required federal award information, the CFDA number, and the name of federal awarding agency were not communicated at the time of the awards to the subrecipients, although such information was included in the during-award-monitoring communication to the subrecipients.

Cause:
The Office of Economic and Workforce Development was not aware that the information is required to be communicated at the time of the award.

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 providing the required information at the time of the subawards. The Office of Economic and Workforce Development's monitoring procedures for those subrecipients did not identify any non-compliance.

Recommendation:
We recommend that the City expand on its *Financial Administration of Grants and Gifts* Handbook to incorporate guidance on the timing of communicating required information to subrecipients. We also recommend the Office of Economic and Workforce Development re-evaluate its subaward process to establish procedures to provide all required federal award information prior to or at the time of the issuance of the subawards.

Management Response and Corrective Action:
The Office of Economic and Workforce Development (OEWD) concurs with the finding relating to the information required to be communicated to subrecipients at the time of the subawards. OEWD will include the information in the initial and amended contract packages. The City will incorporate guidance on the timing of communicating required information to subrecipients into the *Financial Administration of Grants and Gifts* Handbook. Training on this requirement will also be provided to City Departments.

Section III – Federal Award Findings and Questioned Costs

Item No. 2014-003 – Reporting

Federal Program Title:	Continuum of Care Program
Federal Catalog Number(s):	14.267
Federal Agency:	U.S. Department of Housing and Urban Development
Federal Award Number(s):	Multiple

Federal Program Title:	WIA Pilots, Demonstrations, and Research Projects
Federal Catalog Number(s):	17.261
Federal Agency:	U.S. Department of Labor
Federal Award Number(s):	MI-21916-11-60-A-6

Criteria:
The Federal Funding Accountability and Transparency Act (FFATA), which was signed on September 26, 2006, requires information on federal awards (federal financial assistance and expenditures) be made available to the public via a single, searchable website www.USASpending.gov. The FFATA Subaward Reporting System (FSRS) is the reporting tool federal prime grantees use to capture and report subaward and executive compensation data regarding their first-tier subawards to meet the FFATA reporting requirements.

Prime grantees are required to report each first-tier subaward or subaward amendment that results in an obligation of $25,000 or more in federal funds by the end of the month following the month in which the subcontract award or modification occurs.

Condition:
As a prime grantee of federal awards, the City is required to comply with FFATA reporting requirements. The City's Office of Economic and Workforce Development administered the WIA Pilots, Demonstrations, and Research Projects, and did not report the subaward information in the FSRS for one subaward made during fiscal year 2013-14 subject to the FFATA. The City's Human Services Agency administered the Continuum of Care Program and did not report the subaward information for 12 subawards made during fiscal year 2013-14 that were subject to the FFATA.

Cause:
The Office of Economic and Workforce Development was not aware of the FFATA reporting requirement. The Human Services Agency initially had a different interpretation of the effective date of the FFATA report requirement.

Effect:
The City is not in compliance with the FFATA reporting requirements.

Questioned Costs:
There are no questioned costs. The FFATA report captures subaward information and does not affect program expenditures.

Recommendation:
We recommend that the Office of Economic and Workforce Development and the Human Services Agency report all subawards made to date in the FSRS and establish a process to ensure compliance for future subawards. If technical or other difficulties prevent compliance with the reporting requirements by the specified due dates, the department should retain proper documentation to demonstrate good faith efforts. In addition, we recommend that the City incorporate FFATA reporting requirements into its *Financial Administration of Grants and Gifts* Handbook.

Section III – Federal Award Findings and Questioned Costs

Item No. 2014-003 (Continued)

Management Response and Corrective Action:
The Office of Economic and Workforce Development subsequently reported these awards in FSRS and will do so for future first-tier federal subcontracts of $25,000 or more once they are fully executed. The Human Services Agency will report these awards as well as future first-tier federal awards of $25,000 or more once they are fully executed. The City will incorporate the FFATA reporting requirements into the *Financial Administration of Grants and Gifts Handbook*. Training on these requirements will also be provided to City Departments.

Section III – Federal Award Findings and Questioned Costs

Item No. 2014-004 – Procurement and Suspension and Debarment

Federal Program Title:	Child Support Enforcement
Federal Catalog Number(s):	93.563
Federal Agency:	U.S. Department of Health and Human Services
Pass-Through Entity:	State of California Department of Child Support Services
Pass-Through Identifying Number(s):	None

Criteria:
Non-Federal entities are prohibited from contracting with suspended or debarred parties. Covered transactions include those procurement contracts for goods and services awarded under a nonprocurement transaction (e.g. grant or cooperative agreement) that are expected to equal or exceed $25,000 or meet certain other criteria as specified in 2 CFR section 180.220.

When a non-federal entity enters into a covered transaction, it must verify that the prospective contractor is not suspended or debarred or otherwise excluded from participating in the transaction. This verification may be accomplished by (1) checking the Excluded Parties List System (EPLS) maintained by the General Services Administration (GSA), (2) collecting a certification from the entity, or (3) adding a clause or condition to the covered transaction with that entity (2 CFR section 180.300).

Condition:
During our audit of the Child Support Enforcement program administered by the City's Department of Child Support Services, we selected 7 contracts from a population of 28 contracts for testing with procurement requirements. Our testing identified 2 contract files that lacked documentation to support whether the Department verified that the contractors were not suspended nor debarred before contract execution.

Cause:
The 2 contracts in question were citywide blanket contracts procured by the City's Office of Contract Administration in accordance with the City's Administrative Code regarding acquisition of commodities and services. These procurement requirements, however, were not specific to procurements funded by federal awards, and as such do not incorporate the federal suspension and debarment requirements.

The Department of Child Support Services procured goods and services under the citywide blanket contracts without verifying the procurement of those contracts were in compliance with applicable federal requirements.

Effect:
The City did not comply with suspension and debarment requirements.

Questioned Costs:
There are no questioned costs. Federal expenditures under the 2 blanket contracts totaled $80,774 for the year; however, our review of the EPLS indicated the contractors were not suspended nor debarred during the year ended June 30, 2014.

Recommendation:
We recommend the Department of Child Support Services establish a procedure to verify all applicable federal requirements are followed for procurement of goods and services that are funded by federal awards.

Management Response and Corrective Action:
The Department will verify that prospective contractors are not suspended or debarred before executing contracts for goods and services that are expected to equal or exceed $25,000 by checking the System for Award Management (SAM) at http://www.sam.gov. Supporting documentation will be retained on file at the department.

Reference Number:	**2013-001 Subrecipient Monitoring**
Federal Catalog Number/ Program Name:	93.044, 93.045 and 93.053/ Aging Cluster
Audit Finding:	The Aging Cluster was administered by the City's Human Services Agency (HSA). During our audit, we selected 6 out of 8 subrecipients for testing, and noted that, of the required federal award information, the CFDA number of the federal grant was excluded from the required communication at the time of the awards to the subrecipients, although such information was included in the during-award-monitoring communication to the subrecipients.
Corrective Action:	HSA will include the Federal award information (i.e., CFDA title and number; award name and number; if the award is research and development; and the name of the Federal awarding agency) in the initial contract documents, in Appendix A – Services to be Provided.
Status of Corrective Action:	Corrective action was implemented.