

File No. 170528

Committee Item No. 4

Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

AGENDA PACKET CONTENTS LIST

Committee: Government Audit and Oversight

Date: May 17, 2017

Board of Supervisors Meeting:

Date: _____

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OTHER

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| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>CAFR - FYE June 30, 2016</u> |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>MG&O Basic Financial Statements and Single Audit Reports</u>
<u>- FYE June 30, 2016</u> |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>KPMG SFMTA Report - FYE June 30, 2016</u> |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>MG&O Audit Service Plan - FY2016-2017 - Dated May 17, 2017</u> |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>MG&O FYE June 30, 2016 Report</u> |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>KPMG Audit Plan - FYE June 30, 2016 - Dated May 17, 2017</u> |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>MG&O Presentation for May 17, 2017</u> |
| <input checked="" type="checkbox"/> | <input type="checkbox"/> | <u>Referral FYI - Controller - May 9, 2017</u> |

Prepared by: John Carroll

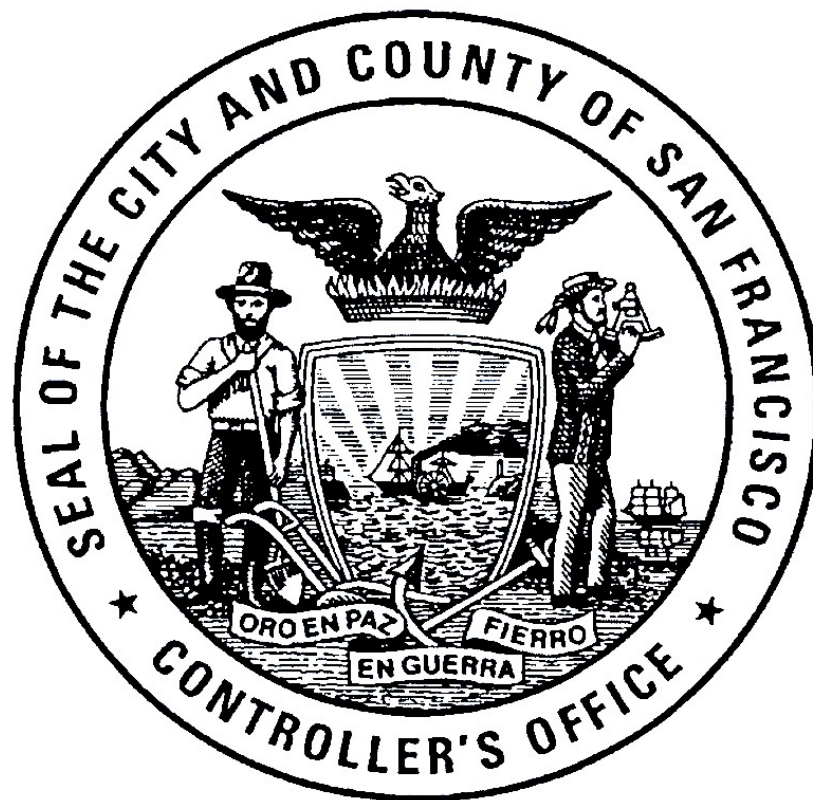
Date: May 12, 2017

Prepared by: _____

Date: _____

CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA

Comprehensive Annual Financial Report
Year ended June 30, 2016



Prepared by:
Office of the Controller

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Ben Rosenfield
Controller



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CITY AND COUNTY OF SAN FRANCISCO

Comprehensive Annual Financial Report

Year Ended June 30, 2016

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November 18, 2016

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

Ladies and Gentlemen:

I am pleased to present the Comprehensive Annual Financial Report (CAFR) of the City and County of San Francisco, California (the City) for the year ended June 30, 2016, with the independent auditor's report. The report is submitted in compliance with City Charter sections 2.115 and 3.105, and California Government Code Sections 25250 and 25253. The Office of the Controller prepared the CAFR in conformance with the principles and standards for accounting and financial reporting set forth by the Governmental Accounting Standards Board (GASB).

The City is responsible for the accuracy of the data and for the completeness and fairness of its presentation. The existing comprehensive structure of internal accounting controls in the City provides reasonable assurance that the financial statements are free of any material misstatements. Because the cost of internal control should not exceed the anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of material misstatements. I believe that the reported data is accurate in all material respects and that its presentation fairly depicts the City's financial position and changes in its financial position as measured by the financial activity of its various funds. I am confident that the included disclosures provide the reader with an understanding of the City's financial affairs.

The City's Charter requires an annual audit of the Controller's records. The records have been audited by Macias Gini & O'Connell LLP and are presented in the Basic Financial Statements in this CAFR. The CAFR also incorporates financial statements of various City enterprise funds and component units, including the San Francisco International Airport, the San Francisco Water Enterprise, Hetch Hetchy Water and Power, the Municipal Transportation Agency, the San Francisco Wastewater Enterprise, the Port of San Francisco, San Francisco General Hospital, Laguna Honda Hospital, the City and County of San Francisco Finance Corporation, the San Francisco County Transportation Authority, the City and County of San Francisco Health Service System, the San Francisco City and County Employees' Retirement System, and the Successor Agency to the San Francisco Redevelopment Agency.

This letter of transmittal is designed to complement the Management's Discussion and Analysis (MD&A) section of the CAFR. The MD&A provides a narrative overview and analysis of the Basic Financial Statements and is presented after the independent auditor's report.

KEY FINANCIAL REPORT SECTIONS:

The **Introductory Section** includes information about the organizational structure of the City, the City's economy, major initiatives, status of City services, and cash management.

The **Financial Section** includes the MD&A, Basic Financial Statements, notes to the Basic Financial Statements, and required supplementary information. The Basic Financial Statements include the government-wide financial and other statements that report on all City financial operations, and also include fund financial statements that present information for all City funds. The independent auditor's report on the Basic Financial Statements is also included.

The financial statements of several enterprise activities and of all component units of government are included in this CAFR. Some component units' financial statements are blended with the City's, such as the San Francisco County Transportation Authority and the San Francisco Finance Corporation. The reason for this is that the primary government is financially accountable for the operations of these agencies. In other instances, namely, for the Treasure Island Development Authority, financial reporting is shown separately. Supplemental combining statements and schedules for non-major governmental funds, internal service funds and fiduciary funds are also presented in the financial section.

The **Statistical Section** includes up to ten years of historical financial data and miscellaneous social and economic information that conforms to GASB standards for reporting statistical information. This section may be of special interest to citizens and prospective investors in our bonds.

SAN FRANCISCO'S ECONOMY:

Overview of Recent Trends

An educated workforce and easy access to transit and financial capital continue to drive business investment in the City. San Francisco's economy has fully recovered losses from the most recent recession, and growth continues to outpace that of the state and national economies. The City's unemployment rate in fiscal year 2015-16 declined to a rate of 3.4%, a drop of 0.6% from the prior fiscal year's rate of 4.0%. In comparison, average unemployment rates for California and the nation for fiscal year 2015-16 stood at 5.7% and 5.0%, respectively. Most importantly, this fall in unemployment rate is due to a strengthening labor market as opposed to people dropping out of the labor force. In fiscal year 2015-16, private nonfarm employment in the San Francisco Metropolitan Division grew 4.4% over the prior fiscal year, compared to 3.0% growth for the state overall.

The resident population also continued to grow, reaching a new historical high of 864,816 in 2015 according to the U.S. Census Bureau. This represents a 1.4% increase versus the prior year, and cumulative growth of 101,800 or 13% over the last decade.

Several local economic indicators have shown marked improvement over the past fiscal year. Housing prices, residential and commercial rents, and hotel room and occupancy rates, have all shown significant growth. Commercial and residential rents and median home prices all increased to new historical highs. The average asking monthly rent for apartments in San Francisco rose to \$3,614 in fiscal year 2015-16, an increase of 4.9%. Monthly per square foot rental rates for commercial space grew to \$70.16 in fiscal year 2015-16, a 6.5% increase versus the prior fiscal year. The average median home price in the fiscal year grew to a new annual high of approximately \$1,133,813 up 10.4% from the previous fiscal year. Average annual hotel occupancy grew to 87.7%, a new historical high, while average room rates grew by 5.7% between FY2014-15 and FY2015-16.

San Francisco's economic recovery has stimulated the demand for new residential and commercial space. A large amount of private construction was completed or underway during the last fiscal year, with 4,703 housing units completed and 6,998 additional units under construction at the end of the fiscal year. Building permits for nearly 4.9 million square feet of construction were issued during the year. Much of this development is shaped by major area planning efforts that the City has completed in recent years, including in the Eastern Neighborhoods, Market-Octavia, and the Transit Center District. The City has also adopted or approved large-scale development projects in Candlestick Point/Hunters Point Shipyard, Treasure Island, and Park Merced.

SAN FRANCISCO GOVERNMENT:

Profile of San Francisco Government

The City and County of San Francisco was established by Charter in 1850, and is the only legal subdivision of the State of California with the governmental powers of both a city and a county. The City's legislative power is exercised through a Board of Supervisors, while its executive power is vested upon a Mayor and other appointed and elected officials. Key public services provided by the City include public safety and

protection, public transportation, water and sewer, parks and recreation, public health, social services and land-use and planning regulation. The heads of most of these departments are appointed by the Mayor and advised by commissions and boards appointed by City elected officials.

Elected officials include the Mayor, Members of the Board of Supervisors, Assessor-Recorder, City Attorney, District Attorney, Public Defender, Sheriff, Superior Court Judges, and Treasurer. Since November 2000, the eleven-member Board of Supervisors has been elected through district elections. The eleven district elections are staggered for five and six seats at a time, and held in even-numbered years. Board members serve four-year terms and vacancies are filled by Mayoral appointment.

San Francisco's Budgetary Process

The budget is adopted at the character level of expenditure within each department, and the department level and fund is the legal level of budgetary control. Note 2(c) to the Basic Financial Statements summarizes the budgetary roles of City officials and the timetable for their various budgetary actions according to the City Charter.

The City has historically adopted annual budgets for all governmental funds and typically adopts project-length budgets for capital projects and certain debt service funds. The voters adopted amendments to the Charter in November 2009 designed to further strengthen the City's long-range financial planning. As a result of these changes, the City for the first time adopted a two-year budget for all funds for the two upcoming fiscal years in July 2012. The Charter requires that the City adopt a "rolling" two-year budget each year unless the Board of Supervisors authorizes a "fixed" two-year budget appropriation for a given fund, in which case authorization occurs every two years. As of fiscal year 2015-16 there were seven departments on a two-year fixed budget.

As further required by these amendments, the Board of Supervisors and Mayor adopt a five-year financial plan every two years. The most recent plan was adopted in March 2015. Additionally, these Charter changes provided a mechanism for the Controller to propose, and the Board to adopt, various binding financial policies, which can only be suspended by a supermajority of the Board. Financial policies have now been adopted under these provisions governing the City's budget reserve practices, the use of non-recurring revenues, and limits on the use of debt paid from the General Fund.

Internal and Budgetary Controls

In developing and evaluating the City's accounting system, consideration is given to the adequacy of internal accounting controls. Internal accounting controls are designed to provide reasonable, but not absolute, assurance regarding: (1) the safeguarding of assets against loss from unauthorized use or disposition, and (2) the reliability of financial records for preparing financial statements and maintaining accountability for assets. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the evaluation of costs and benefits requires estimates and judgments by management. All internal control evaluations occur within the above framework. We believe that the City's internal accounting controls adequately safeguard assets and provide reasonable assurance of proper recording of financial transactions.

The City maintains budgetary controls to ensure that legal provisions of the annual budget are in compliance and expenditures do not exceed budgeted amounts. Controls are exercised by integrating the budgetary accounts in fund ledgers for all budgeted funds. An encumbrance system is also used to account for purchase orders and other contractual commitments. Encumbered balances of appropriations at year-end are carried forward and are not reappropriated in the following year's budget.

Pension and Retiree Health Trust Fund Operations

In FY 2014-15 the City implemented the Governmental Accounting Standards Board (GASB) Statement No. 68 related to financial reporting of pension plans. It requires additional disclosures in the notes and recognition of a net pension liability. While the City has six defined benefit retirement plans, a substantial majority of full-time employees participates in the San Francisco Employees' Retirement System (SFERS).

With this new standard the City uses two different actuarial valuation studies – one for financial reporting purposes as required by Standard No. 68 and the other for funding purposes to determine the City's annual required contributions to the plan. The new method, for financial reporting purposes, is used to calculate the net pension liability that appears on the City's financial statements.

Funding Purposes – The most recent actuarial valuation report for the SFERS pension plan, dated July 1, 2015, estimates the unfunded actuarial accrued liability at \$3.32 billion, an increase of \$207 million from the previous actuarial valuation dated July 1, 2014. For funding purposes, the pension plan's funding ratio increased from 85.3% to 85.6%.

Financial Reporting – As of June 30, 2016, for financial reporting purposes, the City's net pension liability for SFERS is \$2.16 billion, an increase of \$496 million from the previous year. SFERS's fiduciary net position as a percentage of total pension liability, which is comparable to the funding ratio mentioned above decreased from 91.8% to 89.9%.

The City's unfunded retiree health benefit liability has been calculated at \$4.21 billion as of July 1, 2014. In 2009, the City and employees began to pre-fund prospective obligations through contributions of 3% of salary for employees hired on or after January 10, 2009. These contributions are held in an irrevocable trust, the Retiree Health Care Trust Fund. Beginning in fiscal year 2016-17, employees hired before January 10, 2009 will also start contributing to the Trust Fund with an employer match, starting at a combined 0.5% of salary and rising to 2.0% of salary by fiscal year 2019-20. As of June 30, 2016, the Trust Fund had assets of \$114.8 million, an increase of 57% versus the prior year.

General Fund Financial Position Highlights

The City's General Fund financial position continued to post significant improvement during this most recent fiscal year, continuing trends from recent years.

Total GAAP-basis General Fund balance, which includes funds reserved for continuing appropriations and reserves, ended fiscal year 2015-16 at \$1,429 million, up \$284 million from the prior year.

The General Fund's cash position also reflects a strong improvement in fiscal year 2015-16, rising to a new year-end peak of \$1.7 billion, up \$0.43 billion from June 30, 2015.

The General Fund rainy day and budget stabilization reserves grew to \$298.5 million at the end of fiscal years 2015-16, an increase of \$51.3 million compared to prior year.

The majority of fund balance available for appropriation on a budgetary basis totaled \$435.2 million or \$11.9 million more than had been previously projected and appropriated by the Mayor and Board as a source in the adopted two-year budget for fiscal years 2016-17 and 2017-18.

Key Government Initiatives

San Francisco's economy depends on investments in infrastructure and services that benefit City residents, workers, visitors, and businesses. These economic foundations range from housing and commercial development, to transportation infrastructure, investments in health and human services, and the City's quality of life. The City is taking steps to strengthen this infrastructure, to support San Francisco's economic recovery and long-term prosperity. Some important initiatives are described below:

Improving the City's Public Transportation Systems

San Francisco is ideally situated to serve the Bay Area's need to rapidly bring a large numbers of workers into a transit-accessible employment center, and efficiently navigate the dense City on foot, mass transit, taxi or bicycle.

Plans for a multi-modal transit hub located in the City's core – the Transbay Transit Center – are targeted to meet a portion of this regional need. The center is designed to provide expanded bus, commuter train, and ultimately high-speed rail connections into the City from within the region and state, and to provide pedestrian connections to nearby subway, surface rail, and bus services within the City. The former terminal at the site has been demolished with completion of the new center targeted for fiscal year 2017-18. The \$2.3 billion transit center, managed by a financially independent authority, is funded through a host of revenue sources; including federal stimulus funding, land sale proceeds, tax increment, local sales tax, and other revenues generated from planned dense, mixed-use development adjacent to the site. In order to meet cash flow needs of the project, an interim financing in an amount not to exceed \$260 million was approved by both the City and the authority in fiscal year 2015-16. This interim financing will be provided by the City and repaid from future tax revenues generated by development from the district plan area and state-owned parcels within the redevelopment area.

The City is currently constructing the Central Subway project, the second phase of a program designed to create a light-rail line running from Chinatown, under the heart of downtown, and connecting to the most-recent extension of the light-rail system to the Southeast portion of the City. The subway will connect to Bay Area Rapid Transit (BART) and Caltrain, the region's two largest regional commuter rail services. The Central Subway project, with an estimated budget of \$1.6 billion and a targeted completion date of 2018, is estimated to provide approximately 35,000 daily boardings at four stations along the new 1.7-mile line. Once in active service in 2019, the project will reduce travel times and congestion along some of the most congested vehicular and public transit routes in California.

The City is also implementing a street repair and improvement program, funded with a \$248 million general obligation bond, as well as state and local revenue sources. Under this program, over 2,500 blocks are expected to be repaved or preserved, 1,900 curb ramps for disabled access will be constructed, and over 125,000 square feet of public sidewalk will be repaired. In commercial corridors, and along busy routes, the program is enabling the City to build complete streets that enhance pedestrian and bicycle safety and enhance the vibrancy of urban neighborhoods. The program also provides funds to rehabilitate existing traffic signal infrastructure and allow transit signal priority along key transit routes, improving transit efficiency and relieving traffic congestion. During the last two years, the City has repaved or maintained more than 1,700 blocks, built 1,400 curb ramps, repaired 21 street structures, inspected and repaired more than 300,000 square feet of sidewalk.

These improvements to the City's transportation infrastructure will be accelerated given voter approval of a \$500 million general obligation bond in November 2014, the first of four funding measures recommended by a Mayoral taskforce convened during fiscal year 2013-14 to prioritize critical transportation infrastructure projects and recommend funding strategies to meet these needs. Projects planned for the bond include investments designed to improve reliability and travel time on mass transit, improve pedestrian safety, improve accessibility, and address priority deferred maintenance needs.

The City continued to invest in improvements at San Francisco International Airport (SFO) in fiscal year 2015-16 as part of an approved capital plan of \$2.6 billion over the next five years. Completed projects during the fiscal year include runway safety area improvements and a new cargo facility, with work to construct a new air traffic control tower and renovations to Terminal 3 in construction. The plan also includes funds for programming, planning, and construction of the initial phases of the Terminal 1 Renovation Program, which has a projected cost of \$2.2 billion and anticipated phased completion dates through 2023. These projects are necessitated by the continued growth in passenger volumes at SFO, which accounts for 93% of international air travel and 70% of all air travel into the Bay Area.

Completing Critical Infrastructure Upgrades for Water, Power, and Sewer Services

Service reliability and disaster preparedness are also priorities of the City's Public Utilities Commission (PUC), as evidenced in the historic levels of infrastructure investment being deployed and planned in all three enterprises the PUC operates.

As of the end of fiscal year 2015-16, the City was over 91% complete on a \$4.8 billion multi-year capital program to upgrade local and regional water systems, known as the Water System Improvement Program

(WSIP). The WSIP program consists of both local and regional projects spread over seven counties from the Sierra foothills to San Francisco. The WSIP delivers capital improvements that enhance the system's ability to provide reliable, affordable, high-quality drinking water in an environmentally sustainable manner to its 27 wholesale and regional retail customers in Alameda, Santa Clara, San Mateo, and San Francisco counties, collectively serving some 2.6 million people. The program is structured to cost effectively meet water quality requirements, improve seismic and delivery reliability, and meet long-term water supply objectives.

The PUC is also underway with a \$6.9 billion, three-phased 20-year program to upgrade of the City's wastewater infrastructure, the Sewer System Improvement Program (SSIP). The first phase, totaling \$2.7 billion, includes \$1.7 billion in improvements to the Southeast Treatment Plant and funding for sustainable, green infrastructure and urban watershed assessment projects to minimize stormwater impact on the sewer system. The SSIP will upgrade the City's combined sewer system, which was predominantly built out over the past century. Although significant investment occurred in the mid-1970s through the mid-1990s to comply with the Clean Water Act, today many of the existing facilities are in need of upgrade and major improvement to prepare San Francisco for the future.

Hetch Hetchy Water and Power, which includes upcountry water operations and the City's power enterprise, is in the midst of an upcountry rehabilitation program for its aging reservoirs, powerhouses, switchyards, pipelines, tunnels and in-city power assets. Upcountry water and power facilities are being assessed and rehabilitated where needed, including investments in reservoirs, powerhouses, switchyards, and substations, 170 miles of pipelines and tunnels, 160 miles of transmission lines, watershed land, and right-of-way property. Improvements in San Francisco include piloted replacement of old, outdated streetlight fixtures and poles with modern, energy-efficient ones. These new fixtures will have wireless controls, enabling the City to achieve cost-efficiency and higher performance through the ability to monitor and control them remotely. Over the next ten years, \$1.2 billion of critical infrastructure investment is planned.

Expanding Access to Healthcare

Public health and human services are important to the long-term health and well-being of City residents, and to the overall productivity of the City's workforce. The City offers a host of health and safety net services, including operation of two public hospitals, the administration of federal, state, and local entitlement programs, and a vast array of community-based health and human services.

January 2014 marked the beginning of full-scale implementation of the Affordable Care Act (ACA), including the launch of Covered California and the Medi-Cal expansion. In preparation, the City conducted extensive outreach through various agencies, and the Department of Public Health (DPH) created the San Francisco Health Network, consolidating the department's full continuum of direct health care services. The San Francisco Health Network is an integrated health care delivery system that improves the department's ability to provide and manage care for insured patients that select our network, organize the elements of the delivery system, improve system efficiency, and improve the patient experience.

Approximately 140,000 San Franciscans have enrolled in new health insurance options since the launch of the ACA in 2014, including more than 92,000 in Medi-Cal and over 52,000 in Covered California. Paralleling the increased insurance enrollment is a continued reduction in enrollment in Healthy San Francisco, the City's health access program for the uninsured, which declined from nearly 58,000 participants prior to ACA implementation to 14,500 as of June 2016. However, Healthy San Francisco does not account for all uninsured San Franciscans, and the City estimates that 25,000 to 30,000 residents continue to remain without insurance. The residually uninsured include those ineligible for the insurance expansions offered under the ACA and those who are eligible but who, for a variety of reasons, do not enroll. The City will continue to be a key provider of safety net services for these individuals.

Amidst these changes, the City has replaced and modernized the City's two public hospitals. The voters approved an \$887 million general obligation bond measure to fund the replacement of San Francisco General Hospital in November 2008. This replacement project is required given changes to state law governing seismic requirements for hospitals. It replaced the current facility with a new seven-story building, emergency rooms three times the size of the old hospital and more operating rooms on the existing hospital

campus. The hospital is the only trauma center in San Francisco, and also acts as the safety net hospital for our residents. The project was completed in November 2015 and patient move-in and official opening occurred in May. This project follows substantial completion of the reconstruction of the City's skilled nursing facility, Laguna Honda Hospital, in fiscal year 2011-12. On June 7, 2016, a two-thirds majority of voters of the City approved \$350 million in general obligation bonds to fund capital projects to renovate, expand, and seismically enhance fire safety and healthcare facilities, construct a larger and more modern City ambulance center, to repair and modernize neighborhood fire stations, and to build, acquire, and improve facilities to better serve homeless individuals and families.

Modernizing the City's Parks and Libraries

San Francisco voters have approved a number of bond measures to fund capital improvements to the City's parks and libraries during the past decade, including the most recent approval in November 2012 of a \$195 million general obligation bond for improvements to neighborhood parks. Once implemented, the City will have completed substantial renovations of 13 recreation centers, 52 playgrounds, and 9 swimming pools during a ten-year period.

The City substantially completed a comprehensive branch library improvement program in fiscal year 2013-14 that renovated 16 branch libraries, replaced seven branches with new buildings, and constructed a new branch library in Mission Bay. The \$195 million program, funded with a mix of general obligation and lease-revenue bonds, state funds, and other local sources, focused on seismic safety, accessibility, and modernization for current uses.

Delivering Public and Private Waterfront Improvements

The Port of San Francisco, a department of the City, is custodian to seven and one-half miles of maritime industrial and urban waterfront property. The City utilizes public-private partnerships to marshal private sector creativity and financial resources to rehabilitate historic Port assets or develop new facilities for maximum public benefit. Public-private partnerships complement the City's public works project-delivery mechanism, which has been used to deliver many waterfront projects. Development opportunity areas are identified and guided by the Port of San Francisco Waterfront Land Use Plan, which was initially adopted in 1997 and is in a public planning update process expected to conclude with policy recommendations for key waterfront subareas in 2017. Current public-private partnership projects include the rehabilitation of the Pier 70 area which contemplates continued ship repair, historic preservation, new waterfront parks, housing, and up to two million square feet of new commercial and office space and a new mixed-use neighborhood with waterfront parks and a rehabilitated Pier 48 adjacent to AT&T Park.

Improving Public Safety and Earthquake Preparedness

In June 2014, San Francisco voters approved a \$400 million Earthquake Safety and Emergency Response Bond (ESER 2014) to continue vital work done in the ESER program and to pay for repairs and improvements that will allow San Francisco to quickly respond to a major earthquake or disaster. The first phase of the ESER program was approved by voters in June 2010 and since the program began, the City has completed the new Public Safety Building, made improvements to a number of neighborhood firehouses, and upgrades to the emergency firefighting water system.

Other Long-Term Financial Challenges Remain

Notwithstanding the City's strong economic and financial performance during the recent recovery and despite significant initiatives outlined above, several long-term financial challenges and risks remain unresolved.

While significant investments are proposed in the City's adopted ten-year capital plan, identified resources remain below those necessary to maintain and enhance the City's physical infrastructure. As a result, over \$10 billion in capital needs are deferred from the plan's horizon. Over two-thirds of these unfunded needs are for the City's transportation and waterfront infrastructure, where core maintenance investments have lagged for decades. The City will update this plan in fiscal year 2016-17.

The City has taken significant steps to address long-term unfunded liabilities for employee pension and other postemployment benefits, including retiree health obligations, yet significant liabilities remain. The most recent actuarial analyses estimate unfunded actuarial accrued liabilities of \$7.53 billion for these benefits, comprised of \$4.21 billion for retiree health obligations and \$3.32 billion for employee pension benefits. In recent years, the City and voters have adopted significant changes that should mitigate these unfunded liabilities over time, including adoption of lower-cost benefit tiers, increases to employee and employer contribution requirements, and establishment of a trust fund to set-aside funding for future retiree health costs. The financial benefit from these changes will phase in over time, however, leaving ongoing financial challenges for the City in the shorter term.

Lastly, while the City has adopted a number of measures to better position the City's operating budget for future economic downturns, further progress is still needed. Economic stabilization reserves have grown significantly during the last four fiscal years, exceeding pre-recession peaks in the prior year. By the end of the fiscal year, these reserves were funded up to 6.4% of discretionary General Fund revenues, which is below the adopted target of 10%. Further progress towards the targeted level in future fiscal years will allow the City to better weather inevitable negative variances that will be driven by future economic volatility.

OTHER INFORMATION:**Independent Audit**

The City's Charter requires an annual audit of the Controller's records. These records, represented in the basic financial statements included in the CAFR have been audited by the nationally recognized certified public accounting firm, Macias Gini & O'Connell LLP. The various enterprise funds, the Health Service System, the Employees' Retirement System, the San Francisco County Transportation Authority, the San Francisco Finance Corporation, and the Successor Agency to the San Francisco Redevelopment Agency have been separately audited. The Independent Auditor's Report on our current year's financial statements is presented in the Financial Section.

Award for Financial Reporting

The Government Finance Officers Association of the United States and Canada (GFOA) awarded a Certificate of Achievement for Excellence in Financial Reporting to the City for its Comprehensive Annual Financial Report (CAFR) for the fiscal year ended June 30, 2015. This was the 34th consecutive year, beginning with the fiscal year ended June 30, 1982, that the City has achieved this prestigious award. A Certificate of Achievement is valid for a period of one year only. In order to be awarded a Certificate of Achievement, a government must publish an easily readable and efficiently organized CAFR. The CAFR must satisfy both Generally Accepted Accounting Principles (GAAP) and applicable legal requirements.

Acknowledgements

I would like to express my appreciation to the entire staff of the Controller's Office whose professionalism, dedication, and efficiency are responsible for the preparation of this report. I would also like to thank Macias Gini & O'Connell LLP for their invaluable professional support in the preparation of the CAFR. Finally, I want to thank the Mayor and the Board of Supervisors for their interest and support in planning and conducting the City's financial operations.

Respectfully submitted,



Ben Rosenfield
Controller



Government Finance Officers Association

**Certificate of
Achievement
for Excellence
in Financial
Reporting**

Presented to

**City and County of San Francisco
California**

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended

June 30, 2015

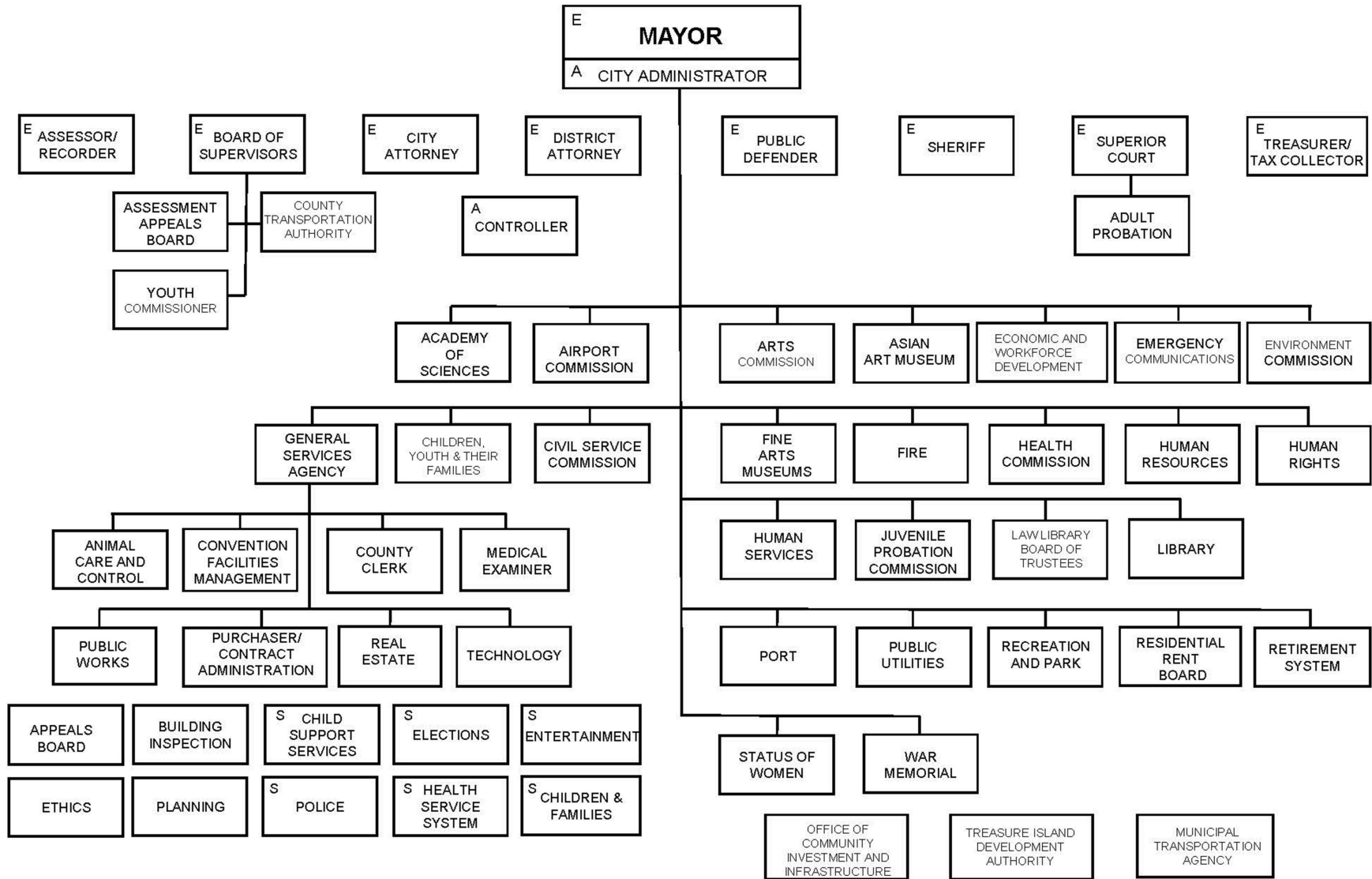
Executive Director/CEO



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City and County of San Francisco Organization Chart

(As of June 30, 2016)



A = Appointed / E = Elected / S = Shared – appointed by various elected officials.

CITY AND COUNTY OF SAN FRANCISCO

List of Principal Officials

As of June 30, 2016

ELECTED OFFICIALS

Mayor	Edwin M. Lee
Board of Supervisors:	
President	London Breed
Supervisor.....	Eric L. Mar
Supervisor.....	Mark Farrell
Supervisor.....	Aaron Peskin
Supervisor.....	Katy Tang
Supervisor.....	Jane Kim
Supervisor.....	Norman Yee
Supervisor.....	Scott Wiener
Supervisor.....	David Campos
Supervisor.....	Malia Cohen
Supervisor.....	John Avalos
Assessor/Recorder.....	Carmen Chu
City Attorney.....	Dennis J. Herrera
District Attorney.....	George Gascón
Public Defender.....	Jeff Adachi
Sheriff.....	Vicki Hennessy
Superior Courts	
Presiding Judge	Judge John K. Stewart
Treasurer/Tax Collector	José Cisneros

APPOINTED OFFICIALS

City Administrator.....	Naomi Kelly
Controller.....	Benjamin Rosenfield

DEPARTMENT DIRECTORS/ADMINISTRATORS

Airport.....	John L. Martin
Appeals Board.....	Cynthia Goldstein
Arts Commission	Tom DeCaigny
Asian Art Museum	Jay Xu
Board of Supervisors	Angela Calvillo
Assessment Appeals Board	Dawn Duran
County Transportation Authority.....	Tilly Chang
Building Inspection	Tom Hui
California Academy of Sciences	Jonathan Foley, Ph.D.
Child Support Services.....	Karen M. Roye
Children, Youth and Their Families.....	Maria Su
Civil Service.....	Michael L. Brown
Economic and Workforce Development.....	Todd Rufo
Elections.....	John Arntz
Emergency Management	Anne Kronenberg
Entertainment.....	Jocelyn Kane
Environment.....	Deborah Raphael
Ethics.....	LeeAnn Pelham
Fine Arts Museums	Max Hollein
Fire	Joanne Hayes-White

CITY AND COUNTY OF SAN FRANCISCO

List of Principal Officials

As of June 30, 2016

DEPARTMENT DIRECTORS/ADMINISTRATORS (Continued)

General Services Agency	
Animal Care and Control	Virginia Donohue
Convention Facilities Management	John Noguchi
County Clerk	Catherine Stefani
Medical Examiner	Michael Hunter
Public Works	Mohammed Nuru
Purchaser/Contract Administration	Jaci Fong
Real Estate	John Updike
Department of Technology	Miguel A. Gamino, Jr.
Health Service System	Catherine Dodd
Human Resources	Micki Callahan
Human Rights	Theresa Sparks
Human Services	Trent Rhorer
Aging and Adult Services	Shireen McSpadden
Juvenile Probation.....	Allen A. Nance
Law Library Board of Trustees	Marcia Bell
Library	Luis Herrera
Municipal Transportation Agency	Ed Reiskin
Planning	John Rahaim
Police.....	Toney Chaplin (Acting)
Office of Citizen Complaints	Joyce M. Hicks
Port.....	Elaine Forbes (Acting)
Public Health	Barbara A. Garcia
Public Utilities	Harlan Kelly
Recreation and Park	Phil Ginsburg
Residential Rent Board	Robert Collins
Retirement System.....	Jay Huish
Small Business.....	Regina Dick-Endrizzi
Status of Women.....	Emily M. Murase
Successor Agency to the Redevelopment Agency.....	Tiffany Bohee
Superior Court.....	T. Michael Yuen
Adult Probation	Karen L. Fletcher
War Memorial	Elizabeth Murray

DISCRETELY PRESENTED COMPONENT UNIT

Treasure Island Development Authority.....	Robert P. Beck
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Independent Auditor's Report

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

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information and the discretely presented component unit, of the City and County of San Francisco (City), as of and for the year ended June 30, 2016, 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 County Transportation Authority, 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
Governmental activities	1.0%	3.1%	3.5%
Business-type activities	89.9%	91.4%	73.0%
Aggregate remaining fund information	0.8%	0.5%	14.6%

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. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from 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, each major fund, and the aggregate remaining fund information and the discretely presented component unit, of the City as of June 30, 2016, 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, effective July 1, 2015, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, and GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. 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, 2015, from which such partial and summarized information was derived.

We have previously audited the City's 2015 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 23, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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 schedule of the City's proportionate share of the net pension liability, the schedule of changes in the net pension liability and related ratios, the schedule of employer contributions – pension plans, and the schedules of funding progress and employer contributions – other postemployment healthcare benefits, 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 combining fund financial statements and schedules and the introductory and statistical sections are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining fund financial statements and schedules are the responsibility of management and were derived from and relate 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 combining fund financial statements and schedules are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The introductory and statistical sections have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Macias Gini & O'Connell LLP

San Francisco, California
November 18, 2016

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited)

Year Ended June 30, 2016

This section of the City and County of San Francisco's (the City) Comprehensive Annual Financial Report (CAFR) presents a narrative overview and analysis of the financial activities of the City for the year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information in our transmittal letter. Certain amounts presented as fiscal year 2014-15 summarized comparative financial information in the basic financial statements have been reclassified to conform to the presentation in the fiscal year 2015-16 basic financial statements.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the end of the fiscal year by approximately \$8.00 billion (net position). Of this balance, \$8.15 billion represents the City's net investment in capital assets, \$1.75 billion represents restricted net position, and unrestricted net position has a deficit of \$1.90 billion. The City's total net position increased by \$1.44 billion, or 22.0 percent, from the previous fiscal year. Of this amount, total net investment in capital assets, restricted net position and unrestricted net position increased by \$630.7 million or 8.4 percent, \$353.0 million or 25.2 percent and \$457.7 million or 19.4 percent, respectively.

The City's governmental funds reported total revenues of \$5.79 billion, which is a \$444.2 million or 8.3 percent increase over the prior year. Within this, revenues from property taxes, business taxes, sales and use tax, intergovernmental grants, and other revenues grew by approximately \$156.6 million, \$49.0 million, \$27.0 million, \$47.0 million, and \$141.1 million, respectively. At the same time, there was a decline in revenues from real property transfer tax of \$45.5 million and hotel room tax of \$6.6 million. Governmental funds expenditures totaled \$5.07 billion for this period, a \$281.2 million or 5.9 percent increase, reflecting increases in demand for governmental services of \$415.3 million, an increase in debt service of \$54.7 million and a decrease in capital outlay of \$188.8 million.

At the end of the fiscal year, total fund balances for the governmental funds amounted to \$2.84 billion, an increase of \$546.5 million or 23.9 percent from prior year, primarily due to a strong growth in most revenues over a moderate increase of expenditures 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 \$516.7 million during this fiscal year. The City issued a total of \$1.14 billion in bonds, certificates of participation and loans this year. Of this amount, a total of \$321.9 million in general obligation bonds were issued for transportation and road improvement projects, seismic safety loan program, clean and safe neighborhood parks projects, earthquake safety and response projects and road repaving and street safety projects. The City also issued \$123.6 million in refunding certifications of participation and \$150.5 million in certificates of participation for War Memorial Veteran Building Seismic Upgrade and Improvements projects. The San Francisco International Airport issued \$232.1 million in refunding revenue bonds for debt service savings. The Hetch Hetchy Power Enterprise issued \$4.1 million new clean renewable energy bonds to fund certain qualified clean, renewable energy solar generation facilities in the City. The San Francisco Wastewater Enterprise issued \$308.4 million in revenue refunding bonds to fund capital projects and pay off outstanding commercial paper notes. The balance of commercial paper issued to finance and refinance capital projects increased by \$283.9 million in this fiscal year. Of this increase, \$338.9 million represented business-type activities while net decreases of \$55.0 million represented governmental activities.

The City early implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73 Accounting and Financial Reporting for Pensions*. Statement No 82, treats Employer-Paid Member contributions as employee contributions rather than employer contributions. This resulted in a restatement due to change in accounting principle decreasing net position as of July 1, 2015 by \$8.6 million.

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis are intended to serve as an introduction to the City's basic financial statements. The City's basic financial statements comprise three components: (1) **Government-wide** financial statements, (2) **Fund** financial statements, and (3) **Notes** to the financial statements. This report also contains other **supplementary information** in addition to the basic financial statements themselves. These various elements of the Comprehensive Annual Financial Report are related as shown in the graphic below.

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

CAFR	Introductory Section	<i>INTRODUCTORY SECTION</i>			
		+			
	Financial Section	Management's Discussion and Analysis (MD&A)			
		Government - wide Financial Statements	Fund Financial Statements		
			Governmental Funds	Proprietary Funds	Fiduciary Funds
		Statement of net position	Balance sheet	Statement of net position	Statement of fiduciary net position
		Statement of activities	Statement of revenues, expenditures, and changes in fund balances	Statement of revenues, expenses, and changes in fund net position	Statement of changes in fiduciary net position
			Budgetary comparison statement	Statement of cash flows	
		Notes to the Financial Statements			
	Required Supplementary Information Other Than MD&A				
Information on individual nonmajor funds and other supplementary information that is not required					
	+				
Statistical Section	<i>STATISTICAL SECTION</i>				

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

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.

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

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 (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 (Successor 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.

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

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

The City adopts a rolling two-year budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

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

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the San Francisco International Airport (SFO or Airport), San Francisco Water Enterprise (Water), Hetch Hetchy Water and Power (Hetch Hetchy), San Francisco Municipal Transportation Agency (SFMTA), San Francisco General Hospital (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, 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 net pension liability, pension contributions and progress in funding its obligation to provide other postemployment benefits to its employees and the City's schedule of contributions for its employees' other postemployment benefits.

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

Combining Statements and Schedules

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

**Net Position
(in thousands)**

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets.....	\$4,309,790	\$3,635,676	\$ 4,893,995	\$ 4,774,416	\$ 9,203,785	\$ 8,410,092
Capital assets.....	5,125,352	4,874,710	15,695,817	14,750,206	20,821,169	19,624,916
Total assets.....	<u>9,435,142</u>	<u>8,510,386</u>	<u>20,589,812</u>	<u>19,524,622</u>	<u>30,024,954</u>	<u>28,035,008</u>
Deferred outflows of resources	<u>404,560</u>	<u>346,493</u>	<u>490,027</u>	<u>444,208</u>	<u>894,587</u>	<u>790,701</u>
Liabilities:						
Current liabilities.....	1,462,148	1,345,352	2,295,833	1,892,224	3,757,981	3,237,576
Noncurrent liabilities.....	5,938,626	5,340,775	12,462,886	12,109,905	18,401,512	17,450,680
Total liabilities.....	<u>7,400,774</u>	<u>6,686,127</u>	<u>14,758,719</u>	<u>14,002,129</u>	<u>22,159,493</u>	<u>20,688,256</u>
Deferred inflows of resources	<u>429,865</u>	<u>883,538</u>	<u>323,284</u>	<u>688,451</u>	<u>753,149</u>	<u>1,571,989</u>
Net position:						
Net investment in capital assets*.....	2,750,782	2,684,808	5,690,741	5,117,679	8,151,422	7,520,698
Restricted *.....	1,331,516	961,387	538,474	495,654	1,753,264	1,400,246
Unrestricted (deficit) *.....	(2,073,235)	(2,358,981)	(231,379)	(335,083)	(1,897,787)	(2,355,480)
Total net position.....	<u>\$2,009,063</u>	<u>\$1,287,214</u>	<u>\$ 5,997,836</u>	<u>\$ 5,278,250</u>	<u>\$ 8,006,899</u>	<u>\$ 6,565,464</u>

* See note 10(d) 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 \$8.00 billion at the end of fiscal year 2015-16, a 22.0 percent increase over the prior year. The City's governmental activities account for \$2.00 billion of this total and \$6.00 billion stem from its business-type activities.

The largest portion of the City's net position is the \$8.15 billion in net investment in capital assets (e.g. land, buildings, and equipment). This reflects a \$630.7 million or 8.4 percent increase over the prior year, and is due to the growth seen in the governmental activities and increases in all business-type activities. 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 \$1.75 billion that represents restricted resources that are subject to external limitations regarding their use. The remaining portion of total net position is a deficit of \$1.90 billion, which consists of a \$2.07 billion deficit in governmental activities and \$231.4 million deficit in business-type activities. The governmental activities and business-type activities deficit is largely due to recording net pension liability (see note 9). The governmental activities deficit also included \$406.8 million in long-term bonds liabilities that fund the LHH rebuild 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 10(d)).

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services.....	\$ 777,182	\$ 612,983	\$ 3,230,367	\$ 3,134,814	\$ 4,007,549	\$ 3,747,797
Operating grants and contributions.....	1,289,902	1,165,340	199,623	191,101	1,489,525	1,356,441
Capital grants and contributions.....	24,795	48,233	374,924	357,819	399,719	406,052
General revenues:						
Property taxes.....	1,808,917	1,640,383	-	-	1,808,917	1,640,383
Business taxes.....	660,926	611,932	-	-	660,926	611,932
Sales and use tax.....	270,051	240,424	-	-	270,051	240,424
Hotel room tax.....	387,661	394,262	-	-	387,661	394,262
Utility users tax.....	98,651	98,979	-	-	98,651	98,979
Other local taxes.....	399,882	451,994	-	-	399,882	451,994
Interest and investment income.....	24,048	20,737	28,566	25,999	52,614	46,736
Other.....	59,266	46,906	240,636	200,148	299,902	247,054
Total revenues.....	<u>5,801,281</u>	<u>5,332,173</u>	<u>4,074,116</u>	<u>3,909,881</u>	<u>9,875,397</u>	<u>9,242,054</u>
Expenses						
Public protection.....	1,222,549	1,108,200	-	-	1,222,549	1,108,200
Public works, transportation and commerce.....	418,978	270,454	-	-	418,978	270,454
Human welfare and neighborhood development.....	1,233,403	1,073,652	-	-	1,233,403	1,073,652
Community health.....	747,071	735,040	-	-	747,071	735,040
Culture and recreation.....	311,028	355,676	-	-	311,028	355,676
General administration and finance.....	246,383	249,823	-	-	246,383	249,823
General City responsibilities.....	113,490	94,577	-	-	113,490	94,577
Unallocated Interest on long-term debt.....	115,357	115,030	-	-	115,357	115,030
Airport.....	-	-	900,621	853,338	900,621	853,338
Transportation.....	-	-	1,106,420	1,018,251	1,106,420	1,018,251
Port.....	-	-	91,449	88,436	91,449	88,436
Water.....	-	-	470,254	438,885	470,254	438,885
Power.....	-	-	153,472	149,438	153,472	149,438
Hospitals.....	-	-	1,050,618	996,395	1,050,618	996,395
Sewer.....	-	-	244,289	239,556	244,289	239,556
Total expenses.....	<u>4,408,259</u>	<u>4,002,452</u>	<u>4,017,123</u>	<u>3,784,299</u>	<u>8,425,382</u>	<u>7,786,751</u>
Increase/(decrease) in net position before transfers.....	1,393,022	1,329,721	56,993	125,582	1,450,015	1,455,303
Transfers.....	(671,173)	(504,791)	671,173	504,791	-	-
Change in net position.....	<u>721,849</u>	<u>824,930</u>	<u>728,166</u>	<u>630,373</u>	<u>1,450,015</u>	<u>1,455,303</u>
Net position at beginning of year, as previously reported.....	<u>1,287,214</u>	<u>462,284</u>	<u>5,278,250</u>	<u>4,647,877</u>	<u>6,565,464</u>	<u>5,110,161</u>
Cumulative effect of accounting change.....	-	-	(8,580)	-	(8,580)	-
Net position at beginning of year, as restated.....	<u>1,287,214</u>	<u>462,284</u>	<u>5,269,670</u>	<u>4,647,877</u>	<u>6,556,884</u>	<u>5,110,161</u>
Net position at end of year.....	<u>\$ 2,009,063</u>	<u>\$ 1,287,214</u>	<u>\$ 5,997,836</u>	<u>\$ 5,278,250</u>	<u>\$ 8,006,899</u>	<u>\$ 6,565,464</u>

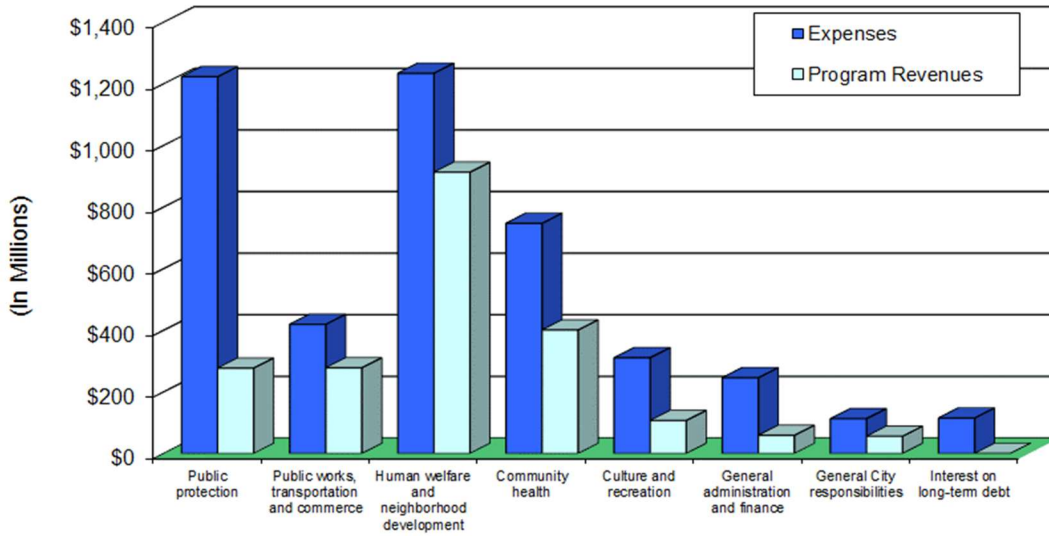
Analysis of Changes in Net Position

The City's Change in Net Position decreased by \$5.3 million in fiscal year 2015-16, a 0.4 percent decrease from the prior fiscal year, as noted above. The decrease in the change in net position was due to a \$97.8 million increase from business-type activities offset by a \$103.1 million decrease from governmental activities.

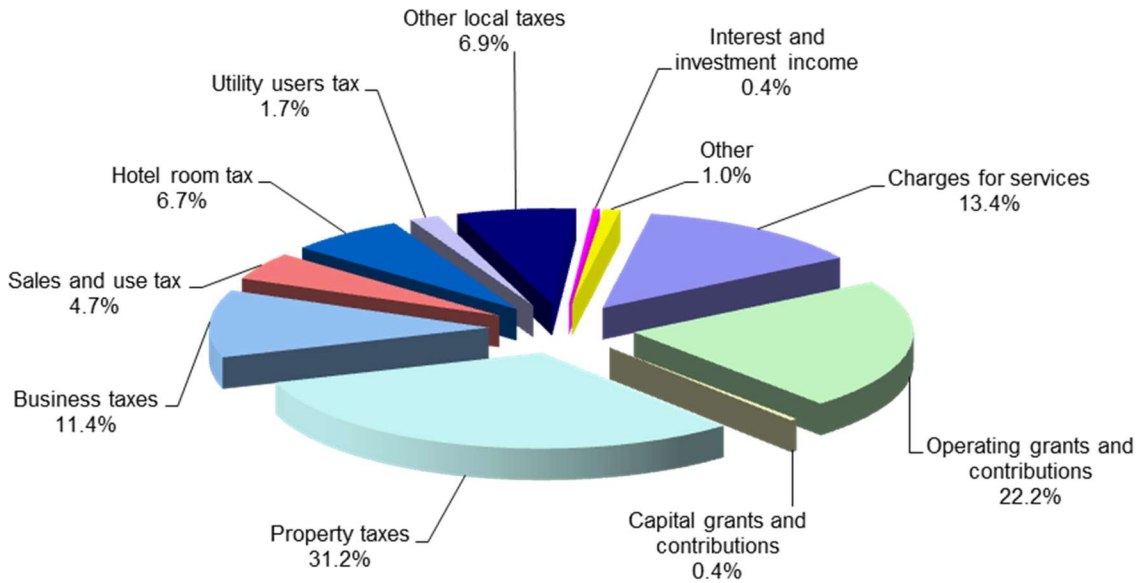
The City's governmental activities experienced a \$469.1 million or 8.8 percent growth in total revenues. This included noticeable increases in the following revenues: \$164.2 charges for services, \$124.6 million in operating grants and contributions, \$168.5 million in property taxes, \$49.0 million in business taxes and \$29.6 million in sales and use tax. These were offset by decreases of \$23.4 million in capital grants and contribution revenue and \$52.1 million in other local tax revenue. The City's governmental activities expenses reported an increase of \$405.8 million or 10.1 percent this fiscal year. The net transfer to business-type activities increased by \$166.4 million. A discussion of these and other changes is presented in the governmental activities and business-type activities sections that follow.

CITY AND COUNTY OF SAN FRANCISCO
Management's Discussion and Analysis (Unaudited) (Continued)
 Year Ended June 30, 2016

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

Governmental activities. Governmental activities increased the City's total net position by approximately \$721.8 million. Key factors contributing to this change are discussed below.

Overall, total revenues from governmental activities were \$5.80 billion, a \$469.1 million or 8.8 percent increase over the prior year. For the same period, expenses totaled \$4.41 billion before transfers of \$671.2 million, resulting in a total net position increase of \$721.8 million by June 30, 2016.

Property tax revenues increased by \$168.5 million or 10.3 percent. This growth was due in large part to regular annual tax and escape tax collections associated with higher assessed values of secured real property and unsecured property in San Francisco and also due to increase in supplemental property tax collections for both current year and prior year supplemental assessments. A decrease in real property transfer tax by \$45.5 million made up the majority of the decline in other local taxes of \$52.1 million.

Revenues from business and sales and use taxes totaled approximately \$931.0 million, a growth of \$78.6 million over the prior year. Business taxes grew by \$49.0 million due to an increase in payroll tax revenue resulting from a 5.7 percent increase in employment and a 6.1 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 \$29.6 million is primarily due to the "triple flip" unwinding, in which 0.25 percent of the 1 percent Bradley Burns allocation was directed to property tax to pay for economic recovery bonds, with the remaining 0.75 percent being allocated to local sales tax. Beginning in January 2016, the entire 1 percent of Bradley Burns revenue has been allocated as sales tax. In addition, there was approximately 1 percent of underlying growth, which was restrained by unexpectedly flat auto sales, a decline in general consumer goods-related revenue, and declines in fuel tax due to both continued low gas prices and changes in jet fuel purchasing to lower-cost states.

Hotel room tax revenues declined by \$6.6 million, or 1.7 percent, due to in prior fiscal year, the City received \$34.0 million in previously unpaid short-term rental tax obligations. Excluding this payment, hotel room tax revenue would have seen growth over the prior year of 7.6 percent. Hotel room tax revenue growth is a function of changes in occupancy, Average Daily Room Rate (ADR), and room supply. Strong demand from all segments of the market (tourist, convention, and business), combined with no additions to inventory, have exerted upward pressure on both occupancy and ADR.

Operating grants and contributions increased \$124.6 million. This was largely due to the increases from state sources, including \$24.8 million for human welfare programs, \$36.8 million for community health program grants, \$49.5 million for public works programs, \$8.9 million for public protection, \$4.9 million for culture and recreation programs and \$1.3 million for general administration and finance programs. These were offset by a slight decrease of \$1.6 million in general city responsibilities programs.

Total charges for services increased \$164.2 million, or 26.8 percent, and other revenues increased \$12.4 million. The increase in total charges for services is driven by increased fee revenues across various departments, partially due to improved economic conditions. The more significant increases are discussed as follows. The City is addressing the need for affordable housing by increasing supply resulting in a \$90 million increase in housing inclusionary fees. An increase in large housing projects in the South of Market District increased SOMA Stabilization impact fees by \$12.5 million. The Department of Building Inspection's permit revenue increased \$12.7 million due to an increase in construction permits and project completion. Fire Department charges for services increased by \$8.2 million due to ambulance billing recoveries, as well as plan check and inspection fees for developers. The Department of Public Works charges for services increased by \$4.3 million largely due to curb reconstruction and assessments, as well as encroachment assessments. The Planning Department's revenues grew by more than \$4.6 million from increased building permits and planning case volume, as well as CPI adjustments to fees. In addition, an increase of \$3.8 million in the citywide unallocated revenue was due to increased cost reimbursement of General Fund, consistent with the budgeted Full Cost Allocation Plan. The increase in other revenues is related to revenue received from the San Francisco Housing Authority much earlier than expected, as the Housing Authority's permanent financing plan was enacted.

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

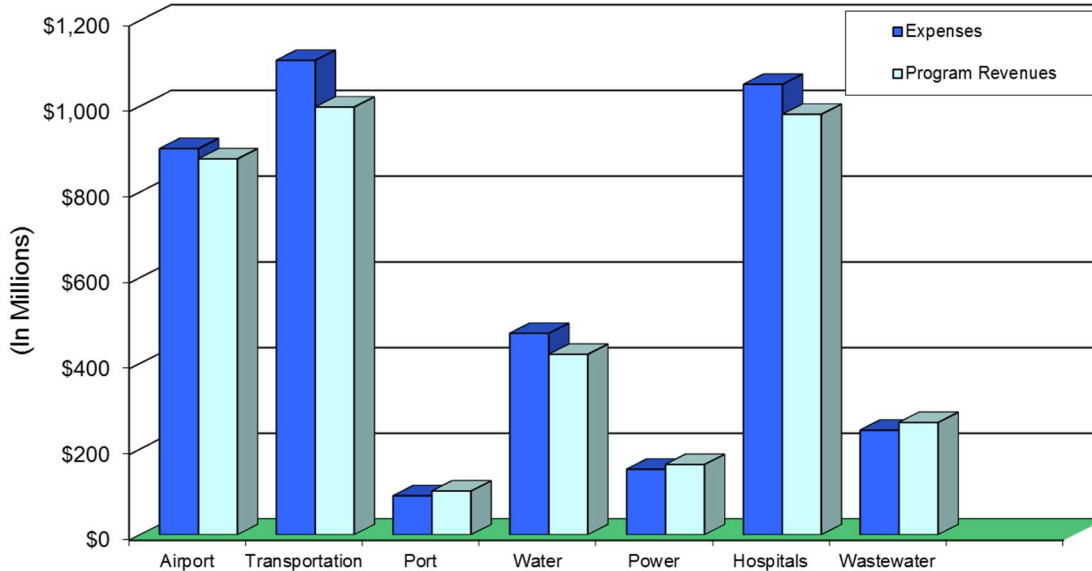
Year Ended June 30, 2016

Interest and investment income revenue increased by \$3.3 million, or 16.0 percent, due to increased balances in the City's investment pool, primarily due to an increase in property tax revenues, business and sales tax revenues, and other revenues.

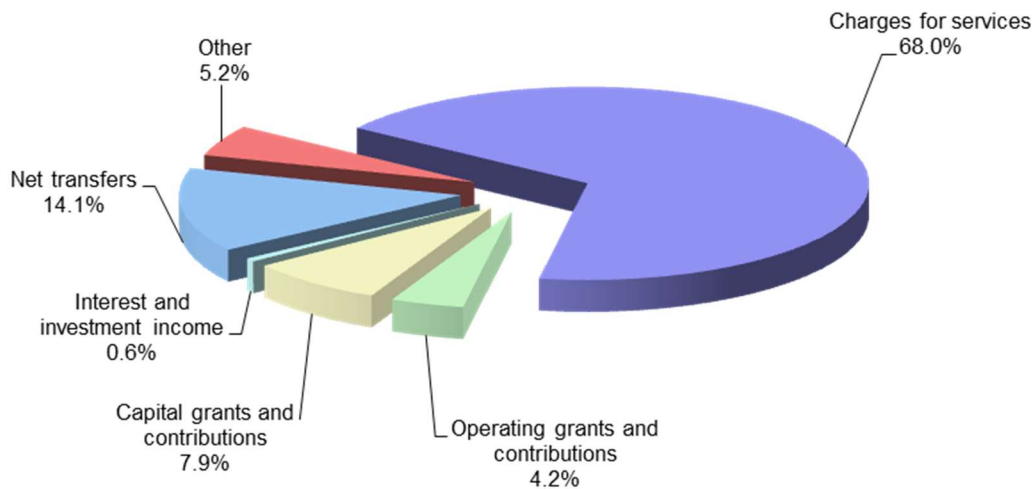
Net transfers from the governmental activities to business-type activities were \$671.2 million, a 33.0 percent or \$166.4 million increase from the prior year. This was mainly due to increased operating subsidies of \$36.7 million from the General Fund to SFMTA and \$85.1 million to SFGH, offset by a decrease of \$18.5 million in General Fund subsidies to LHH. In addition, the Water Enterprise received \$34.2 million in general obligation bond proceeds for the improvement of the Auxiliary Water Supply System, the Port received \$21.7 million for parks and open spaces projects, and SFMTA received \$61.9 million for road improvement and street safety projects.

The increase of total governmental expenses of \$405.8 million, or 10.1 percent, was primarily due to increase in demand for the government's services in almost all functional service by \$453.9 million, which was partly offset by the decrease of expenses in culture and recreation and general administrative and finance functions by \$48.1 million.

Expenses and Program Revenues - Business-Type Activities



Revenues By Source - Business-type Activities



CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

Business-type activities increased the City's net position by \$719.6 million and key factors contributing to this increase are:

- The San Francisco International Airport had an increase in net position at fiscal year-end of \$49.9 million, compared to a \$56.1 million increase in the prior year, a \$6.2 million difference. Operating revenues totaled \$867.0 million for fiscal year 2015-16, an increase of \$51.6 million or 6.3 percent over the prior year and included increases of \$30.8 million, \$2.1 million, \$11.7 million, and \$7.0 million in aviation, concession, parking and transportation, and net sales and services revenues, respectively, reflecting traffic growth at the Airport. For the same period, the Airport's operating expenses increased by \$31.4 million, or 5.2 percent, for a net operating income of \$226.5 million for the period. Net non-operating activities saw a deficit of \$144.5 million versus \$141.8 million deficit in the prior year, a \$2.6 million increase. The increase in both operating and non-operating expenses is due to increases in personnel, depreciation, and other non-operating expenses. Personnel costs increased \$14.4 million due to cost of living adjustments and additional positions. Also, capital contributions decreased by \$21.7 million due to a reduction in federal grants received.
- The City's Water Enterprise, the third largest such entity in California, reported an increase in net position of \$26.2 million at the end of fiscal year 2015-16, compared to an increase of \$97.4 million at the end of the previous year, a \$71.2 million difference. Revenues totaled \$463.2 million, expenses totaled \$470.3 million, and the net increase from capital contributions and transfers was \$33.2 million. Compared to the prior year, total revenues decreased \$24.8 million, which included \$16.1 million in non-operating revenues. The primary reason for the decrease in water service revenues was due to a \$19.3 million wholesale revenue adjustment and a 10.3% decrease in consumption, offset by adopted rate increases of 28.0% for wholesale customers and 12.0% for retail customers. Within expenses, the enterprise reported a total increase of \$28.6 million in fiscal year 2015-16. This included an \$11.3 million increase in depreciation expense from increased capitalized assets, a \$1.3 million increase in general and administrative and other expenses, a \$3.8 million increase in personnel services, \$0.7 million increase in construction and engineering contractual services, \$0.5 million increase in services provided by other departments, and \$0.2 million for building and construction supplies.
- Hetch Hetchy Water and Power ended fiscal year 2015-16 with a net position increase of \$25.7 million, compared to a \$11.1 million increase the prior year, a difference of \$14.6 million. This change consisted of increases in operating income of \$12.4 million, non-operating income of \$3.6 million, and a decrease of transfers from (to) the City of \$1.4 million. This enterprise consists of two segments: Hetchy Water upcountry operations and water system, which reported a \$2.3 million increase in change in net position, and Hetchy Power (also known as the Power Enterprise), which reported a \$23.4 million increase in change in net position. Hetchy Water operating revenues decreased by \$0.1 million while operating expenses decreased by \$2.2 million. In addition, there was a \$0.2 million decrease in water assessment fee revenue from the Water Enterprise in nonoperating revenue. Hetchy Power's total revenues increased by \$17.0 million mostly due to increases in sales of excess power of \$9.3 million, \$4.4 million from City Departments, and an increase of \$3.3 million electricity sales from CleanPowerSF. On the operating expenses side, Hetchy Power reported an increase of \$6.7 million due to increases of \$3.5 million in purchased electricity, \$3.0 million in transmission and distribution power costs, \$2.5 million in project spending, \$1.4 million in services provided by other departments, \$0.8 million in materials and electrical supplies, \$0.4 million in personnel services mainly due to cost of living adjustments and pension costs and \$0.4 million in personnel services mainly due to cost of living adjustments and pension costs and \$0.4 million higher taxes, licenses and permits related to national park service. These increases were offset by decreases of \$2.4 million in contractual services, \$1.8 million in judgments and claims mainly due to prior year one-time settlement of franchise tax fees, and \$1.1 million in depreciation.
- The City's Wastewater Enterprise's net position increased by \$13.9 million, compared to a \$29.3 million increase the prior year, a \$15.4 million change. Operating revenues increased by \$5.8 million due to a \$4.6 million increase in charges for services as a result of an average 5% adopted rate increase, a \$0.4 million increase from other City departments, as well as increased capacity fees and an increase in permit applications. Operating expenses increased by \$5.1 million due to increases of \$3.1 million in Sewer System Improvement Program (SSIP) and repair and replacement project expenses, \$2.7

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

million in personnel services mainly due to cost of living adjustments, health and pension costs, \$2.1 million in pollution remediation obligations, \$1.2 million in higher building and equipment maintenance services, \$0.5 million in depreciation expense, and \$0.4 million in materials and supplies, which were offset by decreases of \$4.9 million in general and administrative expenses mainly due to lower judgment and claims liability based on actuarial estimate. Transfers out increased by \$16.3 million due to a transfer to the General Fund in order to secure jurisdiction of the City owned property adjacent to the Southeast Water Pollution Control Plant. This was offset by a transfer in of \$0.5 million and a net nonoperating expense of \$0.3 million.

- The Port ended fiscal year 2015-16 with a net position increase of \$35.1 million, compared to a \$11.8 million increase in the previous year, a \$23.3 million difference. 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 2015-16, operating revenues increased \$4.4 million and included a net increase in property rentals of \$1.8 million and an increase in cruise revenues of \$2.7 million. Operating expenses increased \$3.1 million over the prior year. This was due in part to a \$2.0 million increase in the cost of services from other departments and a net increase of \$1.5 million in personnel and other expenses. The above changes were offset by an increase of \$0.4 million in interest expense.
- The SFMTA had an increase in net position of \$478.3 million for fiscal year 2015-16 before cumulative effect of accounting change, compared to an increase of \$294.7 million in the prior year, a \$183.6 million change. SFMTA's total operating revenues were \$495.3 million, while total operating expenses reached \$1.10 billion. Operating revenues decreased by \$4.3 million compared to the prior year and is mainly due to lower passenger fare revenue of \$8.0 million, a slight decrease in rental income of \$0.8 million, and \$3.6 million in other revenues which consists primarily of taxi medallion revenue. These decreases were offset by an increase of \$7.8 million in parking permit, fines, and penalties, and an increase in charges for services of \$0.3 million. Operating expenses increased by \$88.8 million primarily due to personnel costs. Net nonoperating revenue increased by \$39.8 million mainly due to transit impact developer fees. An increase of capital contributions of \$91.1 million is due to an increase in capital expenditures incurred and billable to grantors mostly related to Central Subway, revenue vehicles procurement, and other large projects. Net transfers in increased by \$145.8 million due to a \$36.7 million increase in transfers from the City's General Fund mainly for operating subsidies and an increase of \$99.7 million in transfers from nonmajor governmental funds and a decrease in transfers out of \$9.4 million. Transfers from nonmajor governmental funds included \$123.8 million for capital activities and street improvement projects. In fiscal year 2015-16, the City elected early implementation of GASB Statement No. 82, resulting in a restatement of SFMTA's 2014-15 results, reducing the beginning net position in the amount of \$8.6 million.
- LHH, the City's skilled nursing care hospital, had an increase in net position of \$21.6 million at the end of fiscal year 2015-16, compared to an increase of \$6.6 million at the end of the previous year, a \$15.0 million difference. The LHH's loss before capital contributions and transfers for the year was \$22.7 million versus a loss of \$61.5 million for the prior year. This change of \$38.8 million was mostly due to a \$48.8 million increase in operating revenues, a \$8.6 million increase in operating expenses, and a \$1.3 million decrease in other non-operating revenues. This was offset by a \$23.9 million decrease in net transfers from the City this fiscal year.
- SFGH, the City's acute care hospital, ended fiscal year 2015-16 with a net position increase of \$77.6 million, compared to a \$123.4 million increase the prior year, a \$45.8 million change. This was due to decreased capital contributions of \$5.0 million compared to prior year's capital contributions of \$57.4 million. However, SFGH incurred an operating loss of \$89.6 million, which was a \$66.0 million increase from the prior year. This was due to a \$21.2 million decrease in operating revenues, largely related to net patient services revenues; and increases in operating expenses mostly due to \$26.2 million in personal services, \$7.2 million in contractual services, and \$10.9 million in depreciation and amortization.

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

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 2015-16, the City governmental funds reported combined fund balances of \$2.84 billion, an increase of \$546.5 million or 23.9 percent over the prior year. Of the total fund balances, \$945.7 million is assigned and \$138.0 million is unassigned. The total of \$1.08 billion or 38.2 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 \$879.6 million. The remainder of the governmental fund balances includes \$0.1 million nonspendable for items that are not expected to be converted to cash such as inventories and long-term loans, \$1.56 billion restricted for programs at various levels and \$187.2 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 \$1.12 billion while total fund balance reached \$1.43 billion. Combined assigned and unassigned fund balances represent 33.7 percent of total expenditures, while total fund balance represents 43.0 percent of total expenditures. For the year, the General Fund's total revenues exceeded expenditures by \$1.03 billion, before transfers and other items of \$748.4 million, resulting in total fund balance increasing by \$284.0 million. Overall, the significant growth in revenues, particularly in property taxes, business taxes, sales and uses tax 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 2015-16, the unrestricted net position for the proprietary funds was as follows: Airport: \$36.0 million, Water Enterprise: \$26.5 million, Hetch Hetchy Water and Power: \$141.1 million, Wastewater Enterprise: \$38.0 million, and the Port: \$57.1 million. In addition, SFMTA, San Francisco General Hospital, and Laguna Honda Hospital had deficits in unrestricted net position of \$3.4 million, \$341.4 million, and \$185.5 million, respectively.

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

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 \$728.2 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	Change In Net Position
Airport.....	\$ 866,991	\$ 640,473	\$ 226,518	\$ (144,463)	\$ 10,424	\$ (42,542)	\$ 49,937
Water.....	419,516	314,786	104,730	(111,771)	-	33,244	26,203
Hetch Hetchy.....	164,736	148,495	16,241	8,759	-	680	25,680
Municipal Transportation Agency....	495,296	1,100,234	(604,938)	206,529	357,871	518,795	478,257
General Hospital.....	717,053	806,694	(89,641)	53,520	5,000	108,681	77,560
Wastewater Enterprise.....	261,775	221,553	40,222	(10,309)	-	(16,025)	13,888
Port.....	99,733	86,793	12,940	(3,594)	1,629	24,100	35,075
Laguna Honda Hospital.....	205,267	235,841	(30,574)	7,900	-	44,240	21,566
Total.....	<u>\$ 3,230,367</u>	<u>\$ 3,554,869</u>	<u>\$ (324,502)</u>	<u>\$ 6,571</u>	<u>\$ 374,924</u>	<u>\$ 671,173</u>	<u>\$ 728,166</u>

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 2015-16, the net position of the Retirement System, Health Service System and Retiree Health Care Trust combined totaled \$20.34 billion, representing a \$244.7 million decrease from the prior year, and 1.2 percent change. The decrease is a result of benefit payments greater than contributions offset by net investment income. The Private-Purpose Trust Fund accounts for the Successor Agency, which had a net deficit of \$377.0 million at year's end. This 11.4 percent, or \$48.4 million, decrease in the net deficit is due to increases in developer payments and the sale of the Jessie Square parking garage. The Investment Trust Fund's net position was \$743.9 million at year's end, and the 37.8 percent increase represents the excess of contributions over distribution 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 \$138.2 million higher than the final budget. The City realized \$101.3 million, \$24.6 million, \$17.4 million, \$15.4 million, \$13.6 million, and \$5.1 million more revenue than budgeted in property taxes, business taxes, other resources, charges for services, other grants and subventions, and utility users tax, respectively. These increases were partly offset by reductions of \$28.9 million, \$7.2 million, \$5.4 million, and \$5.0 million, in transfers from other funds, real property transfer tax, health and welfare realignment, and sales and use tax, respectively.

Differences between the final budget and the actual (budgetary basis) expenditures resulted in \$158.5 million in expenditure savings. Major factors include:

- \$85.3 million in savings from the Department of Public Health due to delays in contracting and hiring for vacant positions creating additional salary and fringe benefit savings, and prior year encumbrance closeouts.
- \$36.5 million in savings from the Human Services Agency, due largely to operating savings in salaries and benefits from delays in hiring, contract savings, reductions in aid assistance and aid payments resulting from a mid-year change in budgeting, and lower than expected caseload levels.

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

- \$11.8 million savings in contracts and salary and benefits mainly in General Services Administration, Treasurer/Tax Collector, Assessor/Recorder, City Planning, City Attorney, Board of Supervisors, Elections, and other departments in general administration and finance.
- \$10.1 million in salary and benefit savings mainly in Juvenile Probation, Adult Probation, Sheriff, Emergency Communications and other departments in public protection.
- The remaining lower than budgeted expenditures are savings from public works, transportation and commerce, and culture and recreation.

The net effect of substantial revenue increases, savings in expenditures and reduction in reserve deposits was a budgetary fund balance available for subsequent year appropriation of \$435.2 million at the end of fiscal year 2015-16. The City's fiscal year 2016-17 and 2017-18 Adopted Original Budget assumed an available balance of \$363.3 million fully appropriated in fiscal year 2016-17 and fiscal year 2017-18 leaving \$11.9 million available for future appropriations. (See also Note 4 to the Basic Financial Statements for additional budgetary 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, 2016, increased by \$1.20 billion, 6.1 percent, to \$20.82 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 \$250.6 million or 21.0 percent to this total increase while \$945.6 million or 79.0 percent was from business-type activities. Details are shown in the table below.

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
Land.....	\$ 334,261	\$ 299,911	\$ 217,441	\$ 217,441	\$ 551,702	\$ 517,352
Construction in progress.....	456,093	1,245,064	3,120,461	3,104,166	3,576,554	4,349,230
Facilities and improvements...	3,372,183	2,544,116	10,484,335	9,716,578	13,856,518	12,260,694
Machinery and equipment.....	201,333	76,202	1,112,860	926,979	1,314,193	1,003,181
Infrastructure.....	686,365	659,502	701,029	719,240	1,387,394	1,378,742
Intangible asset.....	75,117	49,915	59,691	65,802	134,808	115,717
Total.....	<u>\$ 5,125,352</u>	<u>\$ 4,874,710</u>	<u>\$ 15,695,817</u>	<u>\$ 14,750,206</u>	<u>\$ 20,821,169</u>	<u>\$ 19,624,916</u>

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

- Under governmental activities, net capital assets increased by \$250.6 million or 5.1 percent. The City issued \$713.4 million in Commercial Paper to provide financing for various capital projects, including the purchase of capital equipment for San Francisco General Hospital, the Veterans Building seismic upgrades, and the Moscone Center expansion. Approximately \$1.1 billion in construction in progress work was substantially completed and capitalized as facilities and improvement and infrastructure. The completed projects include capitalization of approximately \$848.0 million for the new San Francisco General Hospital Rebuild Project and approximately \$135.8 million for the seismic upgrade of the Veterans building. The remaining completed projects include public works, intangible assets, and traffic signal projects.

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

- The Water Enterprise's net capital assets increased by \$245.2 million or 5.3 percent, reflecting an increase in construction and capital improvement activities. Major additions to construction work in progress included Calaveras Dam Replacement, Regional Groundwater Storage and Recovery, the Harry Tracy Water Treatment Plant Long-Term Improvements, Auxiliary Water Supply System, San Francisco Groundwater Supply, Peninsula Pipeline Seismic Upgrade, Irvington Tunnel Alternatives, and other upgrade and improvement programs. As of June 30, 2016, the Water Enterprise is 90% through construction of its multi-billion dollar, multi-year program to upgrade the Hetch Hetchy Regional and Local Water Systems. The program consists of 35 local projects within San Francisco and 52 regional projects spread over seven different counties from the Sierra foothills to San Francisco. As of June 30, 2016, 34 local projects are completed and the target completion date is December 2016. For regional projects, 36 are completed and the expected completion date is December 2019. The Water System Improvement Program (WSIP) delivers capital improvements that enhance the Water Enterprise's ability to provide reliable, affordable, high quality drinking water to its customers.
- SFMTA's net capital assets increased by \$400.7 million or 14.6% mainly from construction in progress of \$212.7 million for the new Central Subway Project, Central Control, rail replacement, transit lane and street improvement projects. Equipment costs of \$283.1 million was incurred during the fiscal year for the procurement of new light rail vehicles, trolley and motor buses to replace the old fleet, upgrade of communications system, traffic signals, radio replacement, and various information systems development. Building cost totaling \$36.2 million was incurred in fiscal year 2016 for Islais Creek facility improvement, transit operator convenience stations, elevator and escalator modernization, and upgrade of garage facilities in various locations.
- Laguna Honda Hospital's net capital assets decreased by \$15.0 million or 2.8 percent due primarily to depreciation expense being greater than asset additions. Laguna Honda Hospital provides 780 resident beds in three state of the art buildings on Laguna Honda's 62-acre campus. The 500,000 square foot facility received silver certification by the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) program, becoming the first green-certified hospital in California.
- SFGH's net capital assets increased by \$61.0 million or 49.1 percent primarily due to the increases in the acquisition of capital assets for the hospital. As of June 30, 2016, General Obligation Bonds in the amount of \$887.4 million have been sold to fund the hospital rebuild. During the period of July 2015 - June 2016, construction of the new hospital was completed and reached substantial completion on August 18, 2015. Patients were moved into the new hospital on May 21, 2016. 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 was capitalized and recorded under governmental activities.
- The Wastewater Enterprise net capital assets reported an increase of \$126.9 million or 6.6 percent mainly in completed construction activities. These include the Northshore to Channel Force Main, Ocean Side Treatment Plant Improvements, Southeast Treatment Plant Oxygen Generate Plant Replacement, and other capital projects throughout the system. The San Francisco Public Utilities Commission is underway with the initial phase of the Sewer System Improvement Program, a multi-year and multi-billion dollar investment to upgrade the aging sewer system to provide a reliable, sustainable, and seismically safe sewer system. The \$7.0 billion program includes three phases over the span of next 20 years.
- Hetch Hetchy's net of accumulated depreciation and amortization, increased by \$30.9 million or 8.3% to \$404.2 million primarily due to additions of facilities, improvements, machinery, and equipment for Moccasin Facilities Upgrade, Transmission and Distribution System, Lower Cherry Aqueduct, Streetlight Replacement, Server Building projects, and San Joaquin Pipeline Rehabilitation. The Hetchy System Improvement Program is a long-term capital program from 2012 to 2025 and includes projects, varying in scope and complexity, to address necessary work on water transmission, hydroelectric generation and power transmission facilities in Tuolumne, Mariposa, Stanislaus, San Joaquin and Alameda counties, essential to continued delivery of both water and power.

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

- The Airport's net capital assets increased \$109.2 million or 2.8 percent primarily due to the capitalization of capital improvement project costs. The Airport has five- and ten-year Capital Plans to build new facilities, improve existing facilities, renovate buildings, repair or replace infrastructure, preserve assets, enhance safety and security, develop systems functionality, and perform needed maintenance. Significant projects in design or under construction in fiscal year 2017 include the Terminal 1 (T1) Redevelopment Program which includes the redevelopment of Boarding Area B, the expansion of the T1 Central Area, and a new baggage handling system, in addition to the Terminal 3 (T3) Redevelopment Program which creates a unified T3 checkpoint and constructs a new secure connector and office block. Other notable ongoing projects include the on-airport hotel, a new consolidated administration campus building, a second long-term parking garage, and a new industrial waste treatment plant.
- The Port's net capital assets decreased by \$13.3 million or 3.0 percent due to capitalization and depreciation of capital improvements in 2015, including the James R. Herman Cruise Terminal at Pier 27. Pier 35 Building and Roof project provided for the upgrade of two elevators and essential water intrusion work (roofing, flashing, window and door weather stripping repairs) in several areas in the Pier 35 bulkhead and the shed building. Pier 49, Wharf J1 Under-Pier Sewer Replacement project's scope included the replacement of all existing under-pier gravity main and branch sewer lines serving six Port tenant restaurants at Pier 49 Wharf J1. The security improvements through the installation and deployment of closed-circuit television (CCTV) and integrated access control/intrusion detection systems at key Port facilities continue in phases, largely based on priority and available funding. The opening of the Bayview Gateway was celebrated with a ribbon-cutting ceremony on September 18, 2015. It is a one-acre passive green open space at the intersection of Cargo Way and Third Street near Pier 90.

At the end of the year, the City's business-type activities had approximately \$1.20 billion in commitments for various capital projects. Of this, Water Enterprise had an estimated \$283.3 million, SFMTA had \$567.2 million, Wastewater had \$190.7 million, Airport had \$75.8 million, Hetch Hetchy had \$63.6 million, Port had \$15.1 million, Laguna Honda Hospital had \$0.7 million and the General Hospital had \$4.2 million. In addition, there was approximately \$88.0 million reserved for encumbrances in capital project funds for the general government projects.

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

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

Debt Administration

At the end of the June 30, 2016, the City had total long-term and commercial paper debt outstanding of \$14.39 billion. Of this amount, \$2.22 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 \$12.17 billion is revenue bonds, commercial papers, certificates of participation 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 \$516.7 million or 3.7 percent during the fiscal year.

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

The net increase in debt obligations in the governmental activities was \$152.1 million primarily due to the issuance of \$321.9 million of general obligation bonds to finance 1) the improvements to the City's transportation system, streets and roads; 2) improvements to park, open space and recreational facilities; 3) repairs and seismic improvements to better prepare San Francisco for a major earthquake or natural disaster. The City likewise issued \$150.5 million certificates of participation to refinance commercial paper notes used to finance the renovation and seismic retrofit of the War Memorial Veterans Building. The City refunded \$123.6 million certificates of participation which financed the acquisition of certain office buildings occupied by various City departments for debt service savings.

The business-type activities net debt increase was \$364.6 million primarily due to issuance of \$338.9 million commercial paper notes by the Airport, Water Enterprise, Wastewater Enterprise and the San Francisco General Hospital for interim financing of various projects. The Wastewater Enterprise issued \$308.4 million revenue bonds to finance wastewater capital projects and the Hetch Hetchy Power Enterprise issued \$4.1 million energy bonds to fund certain solar generation facilities at the Marina Middle School and the San Francisco Police Academy. The Airport issued \$232.1 million in revenue refunding bonds for economic gain.

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 \$194.30 billion in value as of the close of the fiscal year. As of June 30, 2016, the City had \$2.22 billion in authorized, outstanding general obligation bonds, which is equal to approximately 1.10 percent of gross (1.15 percent of net) taxable assessed value of property. As of June 30, 2016, there were an additional \$1.62 billion in bonds that were authorized but unissued. If all of these general obligation bonds were issued and outstanding in full, the total debt burden would be approximately 1.90 percent of gross (1.98 percent of net) taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2016 were:

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

During the fiscal year, Moody's Investors Service (Moody's) and Standard & Poor's affirmed the City's ratings of "Aa1" and "AA+", respectively, with Stable Outlook. Fitch Ratings upgraded it's rating of "AA" to "AA+", and revised the rating outlook to Stable from Positive on all the City's outstanding general obligation bonds.

The City's enterprise activities carried upgraded underlying debt ratings for the SFMTA of "Aa2" and "AA" from Moody's and Standard & Poor's, respectively. Moody's, Standard and 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 carried underlying ratings of "Aa3" and "AA-" and the Wastewater Enterprise carried underlying ratings of "Aa3" and "AA" from Moody's and Standard and Poor's respectively of June 30, 2016.

In October 2016, Moody's Investors Service upgraded the City's Lease Revenue Bonds and Certificates of Participation from Aa3 to Aa2 for those secured by "more essential assets", and also upgraded the City's Lease Revenue Refunding bonds from Aa3 to Aa2, including Series 2008-1 and 2008-2, despite the "less essential" nature of the leased assets securing the bonds, because they are a demonstrated, stable non-pledged revenue source that provides strong coverage of debt service payments. Moody's also upgraded the rating on the City's Equipment Leases from A1 to Aa2, because of the strong lease structure where the lease term matches the useful life of the leased assets.

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

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

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 2016-17 and 2017-18. 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, the Port of San Francisco and Child Support Services, which each have a fixed two-year budget.

- The City's average unemployment for fiscal year 2015-16 was 3.4 percent, a decrease of 0.5 percent from the average unemployment rate in fiscal year 2014-15.
- 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 2015-16 was \$1.1 million up 10.4 percent from the previous fiscal year. Residential and commercial rents also grew by 4.9 percent and 6.5 percent, respectively, from the prior fiscal year.
- The hotel sector saw continued growth in fiscal year 2015-16 over the prior year. Annual average hotel room occupancy grew to 87.7 percent in fiscal year 2015-16 while average daily room rates grew by 5.7 percent over the prior year.
- The City's taxable sales have also continued to grow, with fiscal year 2015-16 sales tax revenue up 11.2 percent over fiscal year 2014-15.

The Board of Supervisors approved a final two-year budget for fiscal years 2016-17 and 2017-18 in July 2016, which assumes use of prior year fund balance from General Fund of \$172.1 million and \$191.2 million, respectively.

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

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

***Zuckerberg San Francisco
General Hospital and Trauma 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, 2016
(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.....	\$ 3,314,988	\$ 2,370,166	\$ 5,685,154	\$ 11,130
Deposits and investments outside City Treasury.....	84,845	16,494	101,339	-
Receivables (net of allowance for uncollectible amounts of \$220,815 for the primary government):				
Property taxes and penalties.....	77,241	-	77,241	-
Other local taxes.....	278,763	-	278,763	-
Federal and state grants and subventions.....	303,316	225,984	529,300	-
Charges for services.....	99,972	232,251	332,223	1,130
Interest and other.....	16,455	199,453	215,908	12
Due from component units.....	2,437	594	3,031	-
Inventories.....	-	102,000	102,000	-
Other assets.....	7,121	3,163	10,284	-
Restricted assets:				
Deposits and investments with City Treasury.....	-	250,115	250,115	-
Deposits and investments outside City Treasury.....	25,349	312,380	337,729	-
Grants and other receivables.....	-	21,138	21,138	-
Total current assets.....	<u>4,210,487</u>	<u>3,733,738</u>	<u>7,944,225</u>	<u>12,272</u>
Noncurrent assets:				
Loan receivables (net of allowance for uncollectible amounts of \$1,121,995).....	81,801	-	81,801	-
Advance to component units.....	17,496	2,827	20,323	-
Other assets.....	6	12,660	12,666	-
Restricted assets:				
Deposits and investments with City Treasury.....	-	697,292	697,292	-
Deposits and investments outside City Treasury.....	-	423,364	423,364	-
Grants and other receivables.....	-	24,114	24,114	-
Capital assets:				
Land and other assets not being depreciated.....	821,524	3,349,945	4,171,469	5,529
Facilities, infrastructure and equipment, net of depreciation.....	4,303,828	12,345,872	16,649,700	17
Total capital assets.....	<u>5,125,352</u>	<u>15,695,817</u>	<u>20,821,169</u>	<u>5,546</u>
Total noncurrent assets.....	<u>5,224,655</u>	<u>16,856,074</u>	<u>22,080,729</u>	<u>5,546</u>
Total assets.....	<u>9,435,142</u>	<u>20,589,812</u>	<u>30,024,954</u>	<u>17,818</u>
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized loss on refunding of debt.....	18,373	105,229	123,602	-
Deferred outflows on derivative instruments.....	-	83,614	83,614	-
Deferred outflows related to pensions.....	386,187	301,184	687,371	22
Total deferred outflows of resources.....	<u>\$ 404,560</u>	<u>\$ 490,027</u>	<u>\$ 894,587</u>	<u>\$ 22</u>

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, 2016
(In Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Treasure Island Development Authority
LIABILITIES				
Current liabilities:				
Accounts payable.....	\$ 361,180	\$ 270,548	\$ 631,728	\$ 4,126
Accrued payroll.....	91,124	71,008	162,132	-
Accrued vacation and sick leave pay.....	85,868	64,822	150,690	-
Accrued workers' compensation.....	39,357	31,867	71,224	-
Estimated claims payable.....	53,627	52,808	106,435	-
Bonds, loans, capital leases, and other payables.....	276,685	574,729	851,414	-
Accrued interest payable.....	13,208	52,885	66,093	-
Unearned grant and subvention revenues.....	24,250	-	24,250	-
Due to primary government.....	-	-	-	420
Internal balances.....	21,995	(21,995)	-	-
Unearned revenues and other liabilities.....	494,854	621,224	1,116,078	1,488
Liabilities payable from restricted assets:				
Bonds, loans, capital leases, and other payables.....	-	373,378	373,378	-
Accrued interest payable.....	-	31,475	31,475	-
Other.....	-	173,084	173,084	-
Total current liabilities.....	<u>1,462,148</u>	<u>2,295,833</u>	<u>3,757,981</u>	<u>6,034</u>
Noncurrent liabilities:				
Accrued vacation and sick leave pay.....	65,159	43,791	108,950	-
Accrued workers' compensation.....	188,468	157,736	346,204	-
Other postemployment benefits obligation.....	1,202,986	878,590	2,081,576	-
Estimated claims payable.....	106,871	64,260	171,131	-
Bonds, loans, capital leases, and other payables.....	3,017,840	10,151,025	13,168,865	-
Advance from primary government.....	-	-	-	5,721
Unearned revenues and other liabilities.....	2,022	94,414	96,436	-
Derivative instruments liabilities.....	-	96,132	96,132	-
Net pension liability.....	1,355,280	976,938	2,332,218	24
Total noncurrent liabilities.....	<u>5,938,626</u>	<u>12,462,886</u>	<u>18,401,512</u>	<u>5,745</u>
Total liabilities.....	<u>7,400,774</u>	<u>14,758,719</u>	<u>22,159,493</u>	<u>11,779</u>
DEFERRED INFLOWS OF RESOURCES				
Unamortized gain on refunding of debt.....	236	337	573	-
Unamortized gain on leaseback transaction.....	-	4,349	4,349	-
Deferred inflows related to pensions.....	429,629	318,598	748,227	3
Total deferred inflows of resources.....	<u>429,865</u>	<u>323,284</u>	<u>753,149</u>	<u>3</u>
NET POSITION				
Net investment in capital assets, Note 10(d).....	2,750,782	5,690,741	8,151,422	5,546
Restricted for:				
Reserve for rainy day.....	120,106	-	120,106	-
Debt service.....	83,029	127,073	210,102	-
Capital projects, Note 10(d).....	198,962	340,896	423,132	-
Community development.....	433,398	-	433,398	-
Transportation Authority activities.....	15,657	-	15,657	-
Building inspection programs.....	134,663	-	134,663	-
Children and families.....	105,177	-	105,177	-
Culture and recreation.....	110,292	-	110,292	-
Grants.....	84,332	-	84,332	-
Other purposes.....	45,900	70,505	116,405	-
Total restricted.....	<u>1,331,516</u>	<u>538,474</u>	<u>1,753,264</u>	<u>-</u>
Unrestricted (deficit), Note 10(d).....	(2,073,235)	(231,379)	(1,897,787)	512
Total net position.....	<u>\$ 2,009,063</u>	<u>\$ 5,997,836</u>	<u>\$ 8,006,899</u>	<u>\$ 6,058</u>

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, 2016
 (In Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit Treasure Island Development Authority
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business- Type Activities		
Primary government:								
Governmental activities:								
Public protection.....	\$ 1,222,549	\$ 86,164	\$ 191,215	\$ -	\$ (945,170)	\$ -	\$ (945,170)	\$ -
Public works, transportation and commerce.....	418,978	130,410	125,081	22,520	(140,967)	-	(140,967)	-
Human welfare and neighborhood development.....	1,233,403	273,986	639,475	-	(319,942)	-	(319,942)	-
Community health.....	747,071	90,078	310,895	-	(346,098)	-	(346,098)	-
Culture and recreation.....	311,028	98,205	6,236	2,275	(204,312)	-	(204,312)	-
General administration and finance.....	246,383	52,417	6,680	-	(187,286)	-	(187,286)	-
General City responsibilities.....	113,490	45,922	10,320	-	(57,248)	-	(57,248)	-
Unallocated interest on long- term debt and cost of issuance...	115,357	-	-	-	(115,357)	-	(115,357)	-
Total governmental activities.....	4,408,259	777,182	1,289,902	24,795	(2,316,380)	-	(2,316,380)	-
Business-type activities:								
Airport.....	900,621	866,991	-	10,424	-	(23,206)	(23,206)	-
Transportation.....	1,106,420	495,296	144,422	357,871	-	(108,831)	(108,831)	-
Port.....	91,449	99,733	177	1,629	-	10,090	10,090	-
Water.....	470,254	419,516	1,720	-	-	(49,018)	(49,018)	-
Power.....	153,472	164,736	-	-	-	11,264	11,264	-
Hospitals.....	1,050,618	922,320	53,304	5,000	-	(69,994)	(69,994)	-
Sewer.....	244,289	261,775	-	-	-	17,486	17,486	-
Total business-type activities.....	4,017,123	3,230,367	199,623	374,924	-	(212,209)	(212,209)	-
Total primary government.....	\$ 8,425,382	\$ 4,007,549	\$ 1,489,525	\$ 399,719	(2,316,380)	(212,209)	(2,528,589)	-
Component unit:								
Treasure Island Development Authority.....	\$ 11,153	\$ 11,842	\$ -	\$ -	-	-	-	\$ 689
General Revenues								
Taxes:								
Property taxes.....					1,808,917	-	1,808,917	-
Business taxes.....					660,926	-	660,926	-
Sales and use tax.....					270,051	-	270,051	-
Hotel room tax.....					387,661	-	387,661	-
Utility users tax.....					98,651	-	98,651	-
Parking tax.....					86,012	-	86,012	-
Real property transfer tax.....					269,090	-	269,090	-
Other local taxes.....					44,780	-	44,780	-
Interest and investment income.....					24,048	28,566	52,614	62
Other.....					59,266	240,636	299,902	-
Transfers - internal activities of primary government.....					(671,173)	671,173	-	-
Total general revenues and transfers.....					3,038,229	940,375	3,978,604	62
Change in net position.....					721,849	728,166	1,450,015	751
Net position at beginning of year, as previously reported.....								
					1,287,214	5,278,250	6,565,464	5,307
Cumulative effect of accounting change.....								
					-	(8,580)	(8,580)	-
Net position at beginning of year, as restated.....								
					1,287,214	5,269,670	6,556,884	5,307
Net position at end of year.....								
					\$ 2,009,063	\$ 5,997,836	\$ 8,006,899	\$ 6,058

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, 2016

(With comparative financial information as of June 30, 2015)
(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2016	2015	2016	2015	2016	2015
Assets:						
Deposits and investments with City Treasury.....	\$ 1,723,488	\$ 1,292,562	\$ 1,556,236	\$ 1,308,000	\$ 3,279,724	\$ 2,600,562
Deposits and investments outside City Treasury.....	3,183	8,880	81,662	98,659	84,845	107,539
Receivables (net of allowance for uncollectible amounts of \$191,320 in 2016; \$155,505 in 2015):						
Property taxes and penalties.....	61,564	53,171	15,677	12,142	77,241	65,313
Other local taxes.....	260,070	249,887	18,693	28,509	278,763	278,396
Federal and state grants and subventions.....	197,391	161,373	105,925	96,195	303,316	257,568
Charges for services.....	81,303	68,318	18,616	21,326	99,919	89,644
Interest and other.....	5,014	28,184	10,808	3,327	15,822	31,511
Due from other funds.....	4,596	5,848	7,466	6,334	12,062	12,182
Due from component unit.....	920	948	1,517	2,978	2,437	3,926
Advance to component unit.....	-	23,212	17,496	19,753	17,496	42,965
Loans receivable (net of allowance for uncollectible amounts of \$1,121,995 in 2016; \$1,004,667 in 2015)	6,473	3,560	75,328	73,140	81,801	76,700
Other assets.....	15	1,193	6,840	7,570	6,855	8,763
Total assets.....	\$ 2,344,017	\$ 1,897,136	\$ 1,916,264	\$ 1,677,933	\$ 4,260,281	\$ 3,575,069
Liabilities:						
Accounts payable.....	\$ 229,248	\$ 171,002	\$ 124,473	\$ 136,739	\$ 353,721	\$ 307,741
Accrued payroll.....	74,020	57,045	15,242	12,067	89,262	69,112
Unearned grant and subvention revenues.....	6,099	5,902	18,151	13,402	24,250	19,304
Due to other funds.....	1,599	639	32,097	19,681	33,696	20,320
Unearned revenues and other liabilities.....	439,522	347,054	55,274	53,806	494,796	400,860
Bonds, loans, capital leases, and other payables.....	-	-	102,778	157,766	102,778	157,766
Total liabilities.....	750,488	581,642	348,015	393,461	1,098,503	975,103
Deferred inflows of resources.....	164,367	170,298	161,937	140,725	326,304	311,023
Fund balances:						
Nonspendable.....	522	24,786	82	329	604	25,115
Restricted.....	120,106	114,969	1,443,956	1,110,836	1,564,062	1,225,805
Committed.....	187,170	142,815	-	-	187,170	142,815
Assigned.....	879,567	705,076	66,085	66,740	945,652	771,816
Unassigned.....	241,797	157,550	(103,811)	(34,158)	137,986	123,392
Total fund balances.....	1,429,162	1,145,196	1,406,312	1,143,747	2,835,474	2,288,943
Total liabilities, deferred inflows of resources and fund balances.....	\$ 2,344,017	\$ 1,897,136	\$ 1,916,264	\$ 1,677,933	\$ 4,260,281	\$ 3,575,069

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, 2016
(In Thousands)

Fund balances – total governmental funds	\$2,835,474
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.	5,114,367
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	(4,710,404)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred inflows of resources and are recognized as revenues in the period the amounts become available in the governmental funds.	326,310
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(11,893)
Deferred outflows and inflows of resources in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	17,046
Net pension liability and pension related deferred outflows and inflows of resources are not due in the current period and therefore are not reported in the governmental funds.	(1,374,202)
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.	<u>(187,635)</u>
Net position of governmental activities	<u>\$2,009,063</u>

CITY AND COUNTY OF SAN FRANCISCO

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

Year Ended June 30, 2016

(With comparative financial information as of June 30, 2015)

(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2016	2015	2016	2015	2016	2015
Revenues:						
Property taxes.....	\$ 1,393,574	\$ 1,272,623	\$ 405,202	\$ 369,536	\$ 1,798,776	\$ 1,642,159
Business taxes.....	659,086	609,614	1,840	2,318	660,926	611,932
Sales and use tax.....	167,915	140,146	99,528	100,278	267,443	240,424
Hotel room tax.....	387,661	394,262	-	-	387,661	394,262
Utility users tax.....	98,651	98,979	-	-	98,651	98,979
Parking tax.....	86,012	87,209	-	-	86,012	87,209
Real property transfer tax.....	269,090	314,603	-	-	269,090	314,603
Other local taxes.....	44,780	50,182	-	-	44,780	50,182
Licenses, permits and franchises.....	27,909	27,789	15,813	15,170	43,722	42,959
Fines, forfeitures, and penalties.....	8,985	6,369	27,184	21,785	36,169	28,154
Interest and investment income.....	9,613	7,867	14,318	12,716	23,931	20,583
Rents and concessions.....	46,553	24,339	89,312	74,763	135,865	99,102
Intergovernmental:						
Federal.....	231,098	230,434	185,725	234,762	416,823	465,196
State.....	667,450	620,877	109,416	130,697	776,866	751,574
Other.....	2,272	3,153	83,600	12,621	85,872	15,774
Charges for services.....	233,976	215,036	158,689	144,008	392,665	359,044
Other.....	22,291	9,162	242,431	114,443	264,722	123,605
Total revenues.....	4,356,916	4,112,644	1,433,058	1,233,097	5,789,974	5,345,741
Expenditures:						
Current:						
Public protection.....	1,204,666	1,148,405	64,334	61,752	1,269,000	1,210,157
Public works, transportation and commerce.....	136,762	87,452	279,390	206,547	416,152	293,999
Human welfare and neighborhood development.....	853,924	786,362	398,664	309,057	1,252,588	1,095,419
Community health.....	666,138	650,741	110,474	103,091	776,612	753,832
Culture and recreation.....	124,515	119,278	240,394	233,574	364,909	352,852
General administration and finance.....	223,844	208,695	53,885	42,675	277,729	251,370
General City responsibilities.....	114,663	98,620	21	38	114,684	98,658
Debt service:						
Principal retirement.....	-	-	252,456	200,497	252,456	200,497
Interest and other fiscal charges.....	-	-	119,723	121,371	119,723	121,371
Bond issuance costs.....	-	-	7,108	2,734	7,108	2,734
Capital outlay.....	-	-	223,904	412,740	223,904	412,740
Total expenditures.....	3,324,512	3,099,553	1,750,353	1,694,076	5,074,865	4,793,629
Excess (deficiency) of revenues over (under) expenditures...	1,032,404	1,013,091	(317,295)	(460,979)	715,109	552,112
Other financing sources (uses):						
Transfers in.....	209,494	164,712	371,243	391,575	580,737	556,287
Transfers out.....	(962,343)	(873,741)	(289,457)	(187,345)	(1,251,800)	(1,061,086)
Issuance of bonds and loans:						
Face value of bonds issued.....	-	-	595,925	449,530	595,925	449,530
Face value of loans issued.....	-	-	-	136,763	-	136,763
Premium on issuance of bonds.....	-	-	32,845	69,833	32,845	69,833
Payment to refunded bond escrow agent.....	-	-	(131,935)	(359,225)	(131,935)	(359,225)
Other financing sources-capital leases.....	4,411	5,572	1,239	2,178	5,650	7,750
Total other financing sources (uses).....	(748,438)	(703,457)	579,860	503,309	(168,578)	(200,148)
Net changes in fund balances.....	283,966	309,634	262,565	42,330	546,531	351,964
Fund balances at beginning of year.....	1,145,196	835,562	1,143,747	1,101,417	2,288,943	1,936,979
Fund balances at end of year.....	\$ 1,429,162	\$ 1,145,196	\$ 1,406,312	\$ 1,143,747	\$ 2,835,474	\$ 2,288,943

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, 2016
(In Thousands)

Net changes in fund balances - total governmental funds \$546,531

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. 249,229

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. (155,660)

Property taxes are recognized as revenues in the period the amounts become available. This is the current period amount by which the deferred inflows of resources decreased in the governmental funds. 10,141

Other revenues that were unavailable are reported as deferred inflows of resources in the governmental funds. This is the current period amount by which deferred inflows of resources decreased in the governmental funds. 175

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. 5,068

Changes to net pension liability and pension related deferred outflows and inflows of resources do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 282,088

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. (211,534)

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. (32,845)

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. 16,063

The activities of internal service funds are reported with governmental activities. 12,593

Change in net position of governmental activities \$ 721,849

CITY AND COUNTY OF SAN FRANCISCO
Budgetary Comparison Statement - General Fund
Year Ended June 30, 2016
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Budgetary Fund Balance, July 1	\$ 183,249	\$ 1,236,090	\$ 1,236,090	\$ -
Resources (Inflows):				
Property taxes.....	1,291,000	1,291,000	1,392,278	101,278
Business taxes.....	634,460	634,460	659,086	24,626
Other local taxes:				
Sales and use tax.....	172,937	172,937	167,915	(5,022)
Hotel room tax.....	384,090	384,090	387,661	3,571
Utility users tax.....	93,550	93,550	98,651	5,101
Parking tax.....	89,727	89,727	86,012	(3,715)
Real property transfer tax.....	276,280	276,280	269,090	(7,190)
Other local taxes.....	45,951	45,951	44,780	(1,171)
Licenses, permits and franchises:				
Licenses and permits.....	10,361	10,361	10,956	595
Franchise tax.....	16,802	16,802	16,953	151
Fines, forfeitures, and penalties.....	4,577	4,550	8,985	4,435
Interest and investment income.....	10,680	10,680	15,073	4,393
Rents and concessions:				
Garages - Recreation and Park.....	8,963	8,963	9,986	1,023
Rents and concessions - Recreation and Park.....	6,009	6,009	6,525	516
Other rents and concessions.....	460	460	1,727	1,267
Intergovernmental:				
Federal grants and subventions.....	242,894	240,649	237,800	(2,849)
State subventions:				
Social service subventions.....	106,451	105,678	105,888	210
Health / mental health subventions.....	156,238	155,871	157,788	1,917
Health and welfare realignment.....	245,529	245,529	240,131	(5,398)
Public safety sales tax.....	97,957	97,957	97,039	(918)
Other grants and subventions.....	51,462	51,462	65,054	13,592
Other.....	3,656	3,851	2,639	(1,212)
Charges for services:				
General government service charges.....	66,140	66,140	69,007	2,867
Public safety service charges.....	36,543	39,547	47,106	7,559
Recreation charges - Recreation and Park.....	19,566	19,572	20,570	998
MediCal, MediCare and health service charges.....	93,236	94,369	98,350	3,981
Other financing sources:				
Transfers from other funds.....	206,782	235,416	206,499	(28,917)
Repayment of loan from Component Unit.....	918	918	-	(918)
Other resources (inflows).....	31,084	31,084	48,503	17,419
Subtotal - Resources (Inflows)	<u>4,404,303</u>	<u>4,433,863</u>	<u>4,572,052</u>	<u>138,189</u>
Total amounts available for appropriation.....	<u>4,587,552</u>	<u>5,669,953</u>	<u>5,808,142</u>	<u>138,189</u>

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

CITY AND COUNTY OF SAN FRANCISCO
Budgetary Comparison Statement - General Fund (Continued)
Year Ended June 30, 2016
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Charges to Appropriations (Outflows):				
Public Protection				
Adult Probation.....	\$ 29,748	\$ 28,866	\$ 26,809	\$ 2,057
District Attorney.....	45,890	45,756	45,550	206
Emergency Communications.....	54,021	51,229	49,732	1,497
Fire Department.....	329,039	333,066	332,821	245
Juvenile Probation.....	39,959	35,541	32,608	2,933
Police Department.....	477,298	480,431	479,929	502
Public Defender.....	31,515	31,329	30,904	425
Sheriff.....	182,424	173,053	171,491	1,562
Superior Court.....	31,715	31,736	31,034	702
Subtotal - Public Protection	<u>1,221,609</u>	<u>1,211,007</u>	<u>1,200,878</u>	<u>10,129</u>
Public Works, Transportation and Commerce				
Board of Appeals.....	929	941	861	80
Business and Economic Development.....	29,293	26,459	25,522	937
General Services Agency - Public Works.....	131,324	108,098	107,977	121
Public Utilities Commission.....	-	1,432	1,044	388
Municipal Transportation Agency.....	-	1,358	1,358	-
Subtotal - Public Works, Transportation and Commerce	<u>161,546</u>	<u>138,288</u>	<u>136,762</u>	<u>1,526</u>
Human Welfare and Neighborhood Development				
Children, Youth and Their Families.....	35,414	32,912	32,912	-
Commission on the Status of Women.....	6,399	6,573	6,568	5
County Education Office.....	116	116	116	-
Environment.....	20	123	123	-
Human Rights Commission.....	2,614	2,478	2,223	255
Human Services.....	812,492	800,743	764,273	36,470
Mayor - Housing/Neighborhoods.....	42,963	49,124	47,422	1,702
Subtotal - Human Welfare and Neighborhood Development	<u>900,018</u>	<u>892,069</u>	<u>853,637</u>	<u>38,432</u>
Community Health				
Public Health.....	787,554	751,416	666,138	85,278
Culture and Recreation				
Academy of Sciences.....	5,235	5,370	5,365	5
Arts Commission.....	10,091	9,102	9,102	-
Asian Art Museum.....	9,603	9,382	9,019	363
Fine Arts Museum.....	15,780	15,099	14,551	548
Law Library.....	1,612	1,613	1,395	218
Recreation and Park Commission.....	94,741	84,687	84,687	-
Subtotal - Culture and Recreation	<u>137,062</u>	<u>125,253</u>	<u>124,119</u>	<u>1,134</u>

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

CITY AND COUNTY OF SAN FRANCISCO
Budgetary Comparison Statement - General Fund (Continued)
Year Ended June 30, 2016
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
General Administration and Finance				
Assessor/Recorder.....	\$ 20,975	\$ 20,638	\$ 19,306	\$ 1,332
Board of Supervisors.....	14,505	14,190	13,197	993
City Attorney.....	12,550	12,761	11,677	1,084
City Planning.....	37,407	36,807	36,753	54
Civil Service.....	813	666	581	85
Controller.....	12,058	15,782	15,467	315
Elections.....	18,531	17,853	16,905	948
Ethics Commission.....	3,927	3,375	3,064	311
General Services Agency - Administrative Services.....	62,317	55,327	51,846	3,481
General Services Agency - Technology.....	5,534	2,936	2,820	116
Health Service System.....	463	438	-	438
Human Resources.....	13,226	15,811	15,646	165
Mayor.....	5,506	5,546	5,546	-
Retirement Services.....	1,132	875	875	-
Treasurer/Tax Collector.....	34,964	32,642	30,159	2,483
Subtotal - General Administration and Finance	<u>243,908</u>	<u>235,647</u>	<u>223,842</u>	<u>11,805</u>
General City Responsibilities				
General City Responsibilities.....	136,881	113,672	113,672	-
Other financing uses:				
Debt service.....	2,372	26	-	26
Transfers to other funds.....	929,615	962,511	962,264	247
Budgetary reserves and designations.....	66,987	9,907	-	9,907
Total charges to appropriations.....	<u>4,587,552</u>	<u>4,439,796</u>	<u>4,281,312</u>	<u>158,484</u>
Total Sources less Current Year Uses.....	<u>\$ -</u>	<u>\$ 1,230,157</u>	<u>\$ 1,526,830</u>	<u>\$ 296,673</u>
Budgetary fund balance, June 30 before reserves and designations			\$ 1,526,830	
Reserves and designations made from budgetary fund balance not available for appropriation			(869,272)	
Reserves for Litigation and Contingencies and General Reserves			<u>(222,356)</u>	
Net Available Budgetary Fund Balance, June 30			<u>\$ 435,202</u>	
Sources/inflows of resources				
Actual amounts (budgetary basis) "available for appropriation".....			\$ 5,808,142	
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.....				
			(1,236,090)	
Property tax revenue - Teeter Plan net change from prior year.....			1,296	
Change in unrealized gain/(loss) on investments.....			(798)	
Interest earnings / charges from other funds assigned to General Fund as interest adjustment.....			(4,662)	
Interest earnings from other funds assigned to General Fund as other revenues.....			1,746	
Grants, subventions and other receivables received after 60-day recognition period.....			(6,303)	
Prepaid lease revenue, Civic Center Garage.....			84	
Transfers from other funds are inflows of budgetary resources, but are not				
revenues for financial reporting purposes.....				
			<u>(206,499)</u>	
Total revenues as reported on the statement of revenues, expenditures and changes				
in fund balance - General Fund.....			<u>\$ 4,356,916</u>	
Uses/outflows of resources				
Actual amounts (budgetary basis) "total charges to appropriations".....			\$ 4,281,312	
Difference - budget to GAAP:				
Capital asset purchases funded under capital leases with				
Finance Corporation and other vendors.....				
			4,411	
Recognition of expenditures for advances and imprest cash and capital asset acquisition for				
internal service fund.....				
			1,053	
Transfers to other funds are outflows of budgetary resources but are not				
expenditures for financial reporting purposes.....				
			<u>(962,264)</u>	
Total expenditures as reported on the statement of revenues, expenditures and changes				
in fund balance - General Fund.....			<u>\$ 3,324,512</u>	

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, 2016
(With comparative financial information as of June 30, 2015)
(In Thousands)

	Business-Type Activities - Enterprise Funds									Governmental Activities - Internal Service Funds		
	Major Funds								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				2016
ASSETS												
Current Assets:												
Deposits and investments with City Treasury.....	\$ 410,358	\$ 323,916	\$ 194,706	\$ 811,548	\$ 339,508	\$ 159,118	\$ 131,012	\$ -	\$ 2,370,166	\$ 2,440,334	\$ 35,264	\$ 37,905
Deposits and investments outside City Treasury.....	5,937	136	10	10,271	10	123	5	2	16,494	16,355	-	-
Receivables (net of allowance for uncollectible amounts of \$29,495 and \$39,893 in 2016 and 2015, respectively):												
Federal and state grants and subventions.....	-	1,646	1,810	149,799	-	1,032	402	71,295	225,984	197,321	-	-
Charges for services.....	47,851	44,038	13,114	5,373	62,086	26,055	3,592	30,142	232,251	214,880	53	60
Interest and other.....	1,586	1,562	197	9,188	184,863	172	1,688	197	199,453	78,565	633	744
Lease receivable.....	-	-	-	-	-	-	-	-	-	-	14,409	19,227
Due from other funds.....	-	445	9,630	16,973	57	28	-	-	27,133	14,428	-	-
Due from component unit.....	-	94	418	31	-	51	-	-	594	213	-	-
Inventories.....	38	7,346	476	80,013	10,006	2,179	890	1,052	102,000	94,189	-	-
Other assets.....	1,807	-	234	780	-	89	253	-	3,163	1,714	-	-
Restricted assets:												
Deposits and investments with City Treasury.....	197,348	-	-	-	-	-	41,955	10,812	250,115	213,672	-	-
Deposits and investments outside City Treasury...	63,885	192,814	2,933	-	-	39,757	10,555	2,436	312,380	177,978	25,349	28,242
Grants and other receivables.....	21,138	-	-	-	-	-	-	-	21,138	30,215	-	-
Total current assets.....	<u>749,948</u>	<u>571,997</u>	<u>223,528</u>	<u>1,083,976</u>	<u>596,530</u>	<u>228,604</u>	<u>190,352</u>	<u>115,936</u>	<u>3,760,871</u>	<u>3,479,864</u>	<u>75,708</u>	<u>86,178</u>
Noncurrent assets:												
Other assets.....	67	7,314	1,650	-	-	2,142	1,487	-	12,660	8,130	-	-
Capital lease receivable.....	-	-	-	-	-	-	-	-	-	-	179,041	193,622
Advance to component unit.....	-	-	2,827	-	-	-	-	-	2,827	3,027	-	-
Restricted assets:												
Deposits and investments with City Treasury.....	259,134	123,328	39,849	66,645	-	208,336	-	-	697,292	705,802	-	-
Deposits and investments outside City Treasury...	381,237	-	2,577	18,091	8,557	-	-	12,902	423,364	558,543	-	4,665
Grants and other receivables.....	532	4,512	131	1,861	-	2,937	-	14,141	24,114	33,478	-	-
Capital assets:												
Land and other assets not being depreciated.....	296,183	1,015,270	91,551	1,387,285	38,105	401,741	119,488	322	3,349,945	3,333,650	-	-
Facilities, infrastructure, and equipment, net of depreciation.....	3,749,453	3,883,231	312,698	1,760,592	147,217	1,657,921	311,362	523,398	12,345,872	11,416,556	10,985	9,572
Total capital assets.....	<u>4,045,636</u>	<u>4,898,501</u>	<u>404,249</u>	<u>3,147,877</u>	<u>185,322</u>	<u>2,059,662</u>	<u>430,850</u>	<u>523,720</u>	<u>15,695,817</u>	<u>14,750,206</u>	<u>10,985</u>	<u>9,572</u>
Total noncurrent assets.....	<u>4,686,606</u>	<u>5,033,655</u>	<u>451,283</u>	<u>3,234,474</u>	<u>193,879</u>	<u>2,273,077</u>	<u>432,337</u>	<u>550,763</u>	<u>16,856,074</u>	<u>16,059,186</u>	<u>190,026</u>	<u>207,859</u>
Total assets.....	<u>5,436,554</u>	<u>5,605,652</u>	<u>674,811</u>	<u>4,318,450</u>	<u>790,409</u>	<u>2,501,681</u>	<u>622,689</u>	<u>666,699</u>	<u>20,616,945</u>	<u>19,539,050</u>	<u>265,734</u>	<u>294,037</u>
DEFERRED OUTFLOWS OF RESOURCES												
Unamortized loss on refunding of debt.....	68,100	36,184	-	-	-	945	-	-	105,229	118,867	1,091	1,171
Deferred outflows on derivative instruments.....	83,614	-	-	-	-	-	-	-	83,614	65,408	-	-
Deferred outflows related to pensions.....	43,982	32,695	8,324	98,333	67,677	14,589	6,467	29,117	301,184	259,933	7,475	6,199
Total deferred outflows of resources.....	<u>195,696</u>	<u>68,879</u>	<u>8,324</u>	<u>98,333</u>	<u>67,677</u>	<u>15,534</u>	<u>6,467</u>	<u>29,117</u>	<u>490,027</u>	<u>444,208</u>	<u>8,566</u>	<u>7,370</u>

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, 2016

(With comparative financial information as of June 30, 2015)

(In Thousands)

	Business-Type Activities - Enterprise Funds										Governmental	
	Major Funds								Total		Activities - Internal	
	San Francisco 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	2016	2015	2016	2015
LIABILITIES												
Current liabilities:												
Accounts payable.....	\$ 56,483	\$ 16,319	\$ 16,041	\$ 131,103	\$ 37,361	\$ 8,242	\$ 3,207	\$ 1,792	\$ 270,548	\$ 241,510	\$ 7,459	\$ 8,580
Accrued payroll.....	9,579	5,725	2,189	24,285	17,272	3,981	1,284	6,693	71,008	56,627	1,862	1,356
Accrued vacation and sick leave pay.....	9,714	5,924	2,275	21,759	14,285	3,784	1,295	5,786	64,822	65,754	1,804	1,744
Accrued workers' compensation.....	1,413	1,551	555	20,251	4,315	1,023	416	2,343	31,867	28,188	342	350
Estimated claims payable.....	1,346	6,094	598	37,762	-	6,383	625	-	52,808	50,390	-	-
Due to other funds.....	-	786	-	2,503	513	1,271	65	-	5,138	6,101	361	189
Unearned revenues and other liabilities.....	67,556	24,804	4,175	141,576	339,969	2,398	12,488	28,258	621,224	638,191	21,049	28,632
Accrued interest payable.....	-	36,348	534	2,996	97	9,666	1,618	1,626	52,885	53,202	1,315	1,429
Bonds, loans, capital leases, and other payables.....	163,797	279,928	2,007	7,672	30,239	82,482	2,456	6,148	574,729	526,282	14,025	18,795
Liabilities payable from restricted assets:												
Bonds, loans, capital leases, and other payables..	373,378	-	-	-	-	-	-	-	373,378	70,694	-	-
Accrued interest payable.....	31,475	-	-	-	-	-	-	-	31,475	33,587	-	-
Other.....	89,275	47,587	2,838	954	-	31,166	-	1,264	173,084	136,126	-	-
Total current liabilities.....	<u>804,016</u>	<u>425,066</u>	<u>31,212</u>	<u>390,861</u>	<u>444,051</u>	<u>150,396</u>	<u>23,454</u>	<u>53,910</u>	<u>2,322,966</u>	<u>1,906,652</u>	<u>48,217</u>	<u>61,075</u>
Noncurrent liabilities:												
Accrued vacation and sick leave pay.....	7,326	4,532	1,532	13,047	10,230	2,761	896	3,467	43,791	38,906	1,298	1,150
Accrued workers' compensation.....	5,244	7,263	2,409	97,389	25,591	4,635	2,311	12,894	157,736	143,702	1,522	1,593
Other postemployment benefits obligation.....	124,352	111,546	25,169	235,992	231,405	46,053	21,644	82,429	878,590	814,608	23,518	21,867
Estimated claims payable.....	131	10,806	1,263	41,460	-	10,250	350	-	64,260	56,780	-	-
Unearned revenue and other liabilities.....	-	16,417	-	-	-	2,621	75,376	-	94,414	89,096	-	-
Bonds, loans, capital leases, and other payables.....	4,235,551	4,331,632	73,384	198,160	15,673	1,080,081	89,006	127,538	10,151,025	10,137,573	183,192	197,733
Derivative instruments liabilities.....	96,132	-	-	-	-	-	-	-	96,132	79,321	-	-
Net pension liability.....	144,271	108,024	26,874	314,611	220,295	48,177	21,291	93,395	976,938	749,919	24,166	18,494
Total noncurrent liabilities.....	<u>4,613,007</u>	<u>4,590,220</u>	<u>130,631</u>	<u>900,659</u>	<u>503,194</u>	<u>1,194,578</u>	<u>210,874</u>	<u>319,723</u>	<u>12,462,886</u>	<u>12,109,905</u>	<u>233,696</u>	<u>240,837</u>
Total liabilities.....	<u>5,417,023</u>	<u>5,015,286</u>	<u>161,843</u>	<u>1,291,520</u>	<u>947,245</u>	<u>1,344,974</u>	<u>234,328</u>	<u>373,633</u>	<u>14,785,852</u>	<u>14,016,557</u>	<u>281,913</u>	<u>301,912</u>
DEFERRED INFLOWS OF RESOURCES												
Unamortized gain on refunding of debt.....	-	-	-	337	-	-	-	-	337	393	-	-
Unamortized gain on leaseback transaction.....	-	-	-	4,349	-	-	-	-	4,349	16,141	-	-
Deferred inflows related to pensions.....	48,154	36,577	8,678	99,620	72,374	16,301	7,158	29,736	318,598	671,917	7,829	16,569
Total deferred inflows of resources.....	<u>48,154</u>	<u>36,577</u>	<u>8,678</u>	<u>104,306</u>	<u>72,374</u>	<u>16,301</u>	<u>7,158</u>	<u>29,736</u>	<u>323,284</u>	<u>688,451</u>	<u>7,829</u>	<u>16,569</u>
NET POSITION												
Net investment in capital assets.....	(117,377)	543,327	369,764	2,938,712	147,924	1,098,723	304,396	405,272	5,690,741	5,117,679	10,985	9,572
Restricted:												
Debt service.....	35,462	12,122	306	17,999	-	981	-	60,203	127,073	100,923	-	-
Capital projects.....	212,931	40,743	1,409	-	31,882	18,205	26,152	9,574	340,896	358,745	-	-
Other purposes.....	-	-	-	67,644	-	-	-	2,861	70,505	35,986	-	-
Unrestricted (deficit).....	36,057	26,476	141,135	(3,398)	(341,339)	38,031	57,122	(185,463)	(231,379)	(335,083)	(26,427)	(26,646)
Total net position.....	<u>\$ 167,073</u>	<u>\$ 622,668</u>	<u>\$ 512,614</u>	<u>\$ 3,020,957</u>	<u>\$ (161,533)</u>	<u>\$ 1,155,940</u>	<u>\$ 387,670</u>	<u>\$ 292,447</u>	<u>\$ 5,997,836</u>	<u>\$ 5,278,250</u>	<u>\$ (15,442)</u>	<u>\$ (17,074)</u>

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 Revenues, Expenses, and Changes in Fund Net Position – Proprietary Funds
 Year Ended June 30, 2016
 (With comparative financial information as of June 30, 2015)
 (In Thousands)

	Business-Type Activities - Enterprise Funds										Governmental Activities - Internal Service Funds	
	Major Funds								Total		2016	2015
	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	2016	2015		
											2016	2015
Operating revenues:												
Aviation.....	\$ 495,439	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 495,439	\$ 464,610	\$ -	\$ -
Water and power service.....	-	393,582	164,474	-	-	-	-	-	558,056	547,595	-	-
Passenger fees.....	-	-	-	205,374	-	-	-	-	205,374	213,328	-	-
Net patient service revenue.....	-	-	-	-	709,622	-	-	203,674	913,296	886,190	-	-
Sewer service.....	-	-	-	-	-	249,203	-	-	249,203	244,604	-	-
Rents and concessions.....	146,872	12,081	262	7,766	2,588	753	74,615	-	244,937	238,823	176	156
Parking and transportation.....	136,743	-	-	221,073	-	-	21,504	-	379,320	360,677	-	-
Other charges for services.....	-	-	-	22,054	-	-	-	-	22,054	21,786	136,820	128,670
Other revenues.....	87,937	13,853	-	39,029	4,843	11,819	3,614	1,593	162,688	157,201	-	-
Total operating revenues.....	866,991	419,516	164,736	495,296	717,053	261,775	99,733	205,267	3,230,367	3,134,814	136,996	128,826
Operating expenses:												
Personal services.....	241,162	103,027	45,815	677,174	460,860	79,088	30,851	180,814	1,818,791	1,701,386	49,472	45,629
Contractual services.....	68,064	13,451	6,395	124,780	202,697	15,069	5,895	9,657	446,008	412,282	51,813	45,180
Light, heat and power.....	22,925	-	26,792	-	-	-	2,146	-	51,863	44,987	-	-
Materials and supplies.....	16,419	12,896	3,040	81,417	76,271	10,192	1,468	19,993	221,696	210,179	19,513	18,875
Depreciation and amortization.....	228,359	106,666	16,513	133,715	17,263	50,799	21,924	15,356	590,595	552,101	2,798	2,451
General and administrative.....	3,369	17,878	40,489	42,695	1,071	30,248	4,058	-	139,808	142,621	540	540
Services provided by other departments.....	19,946	60,868	9,451	61,959	48,621	36,157	19,092	10,021	266,115	249,202	5,886	6,987
Other.....	40,229	-	-	(21,506)	(89)	-	1,359	-	19,993	37,737	5,780	5,083
Total operating expenses.....	640,473	314,786	148,495	1,100,234	806,694	221,553	86,793	235,841	3,554,869	3,350,495	135,802	124,745
Operating income (loss).....	226,518	104,730	16,241	(604,938)	(89,641)	40,222	12,940	(30,574)	(324,502)	(215,681)	1,194	4,081
Nonoperating revenues (expenses):												
Operating grants:												
Federal.....	-	1,720	-	10,555	-	-	177	264	12,716	17,307	-	-
State / other.....	-	-	-	133,867	53,040	-	-	-	186,907	173,794	41	-
Interest and investment income.....	13,957	3,595	1,280	5,410	1,882	1,185	884	373	28,566	25,999	4,263	4,708
Interest expense.....	(208,597)	(153,258)	(3,355)	(6,186)	(1,402)	(22,251)	(4,656)	(6,681)	(406,386)	(390,866)	(4,589)	(5,022)
Other nonoperating revenues.....	101,728	38,382	12,456	62,883	-	11,242	1	13,944	240,636	200,148	833	1,459
Other nonoperating expenses.....	(51,551)	(2,210)	(1,622)	-	-	(485)	-	-	(55,868)	(42,938)	-	-
Total nonoperating revenues (expenses).....	(144,463)	(111,771)	8,759	206,529	53,520	(10,309)	(3,594)	7,900	6,571	(16,556)	548	1,145
Income (loss) before capital contributions and transfers.....	82,055	(7,041)	25,000	(398,409)	(36,121)	29,913	9,346	(22,674)	(317,931)	(232,237)	1,742	5,226
Capital contributions.....	10,424	-	-	357,871	5,000	-	1,629	-	374,924	357,819	-	-
Transfers in.....	-	34,368	1,385	523,489	240,120	460	24,132	51,355	875,309	669,300	5	150
Transfers out.....	(42,542)	(1,124)	(705)	(4,694)	(131,439)	(16,485)	(32)	(7,115)	(204,136)	(164,509)	(115)	(142)
Change in net position.....	49,937	26,203	25,680	478,257	77,560	13,888	35,075	21,566	728,166	630,373	1,632	5,234
Net position (deficit) at beginning of year,												
as previously reported.....	117,136	596,465	486,934	2,551,280	(239,093)	1,142,052	352,595	270,881	5,278,250	4,647,877	(17,074)	(22,308)
Cumulative effect of accounting change.....	-	-	-	(8,580)	-	-	-	-	(8,580)	-	-	-
Net position (deficit) at beginning of year, as restated...	117,136	596,465	486,934	2,542,700	(239,093)	1,142,052	352,595	270,881	5,269,670	4,647,877	(17,074)	(22,308)
Net position (deficit) at end of year.....	\$ 167,073	\$ 622,668	\$ 512,614	\$ 3,020,957	\$ (161,533)	\$ 1,155,940	\$ 387,670	\$ 292,447	\$ 5,997,836	\$ 5,278,250	\$ (15,442)	\$ (17,074)

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

CITY AND COUNTY OF SAN FRANCISCO
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2016
(With comparative financial information as of June 30, 2015)
(In Thousands)

	Business-Type Activities - Enterprise Funds								Total		Governmental Activities - Internal Service Funds	
	Major Funds											
	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	2016	2015	2016	2015
Cash flows from operating activities:												
Cash received from customers, including cash deposits.....	\$ 891,569	\$ 419,841	\$ 162,934	\$ 540,781	\$ 679,797	\$ 260,321	\$ 22,597	\$ 145,555	\$ 3,123,395	\$ 3,266,566	\$ 159,994	\$ 159,542
Cash received from tenants for rent.....	-	12,285	269	7,805	2,587	729	74,384	-	98,059	113,081	-	-
Cash paid for employees' services.....	(254,837)	(113,188)	(46,422)	(697,634)	(475,504)	(81,182)	(33,004)	(190,409)	(1,892,180)	(1,869,684)	(51,530)	(49,772)
Cash paid to suppliers for goods and services.....	(194,383)	(106,441)	(78,985)	(336,058)	(332,154)	(80,789)	(36,165)	(40,220)	(1,205,195)	(1,106,969)	(91,029)	(87,781)
Cash paid for judgments and claims.....	-	(11,561)	(4,640)	(11,714)	-	(168)	-	-	(28,083)	(27,311)	-	-
Net cash provided by (used in) operating activities.....	442,349	200,936	33,156	(496,820)	(125,274)	98,911	27,812	(85,074)	95,996	375,683	17,435	21,989
Cash flows from noncapital financing activities:												
Operating grants.....	-	117	19	141,495	54,068	3,611	310	264	199,884	202,711	41	-
Transfers in.....	-	34,368	1,385	461,622	240,120	460	-	51,355	789,310	642,548	5	150
Transfers out.....	(42,542)	(1,124)	(705)	(4,694)	(131,439)	(16,485)	(32)	(7,115)	(204,136)	(164,509)	(115)	(142)
Other noncapital financing sources.....	2,597	5,262	11,312	40,001	-	4,244	-	-	63,416	42,946	-	-
Other noncapital financing uses.....	(38,460)	(2,211)	(1,744)	-	(168)	(485)	-	-	(43,068)	(37,413)	-	-
Net cash provided by (used in) noncapital financing activities.....	(78,405)	36,412	10,267	638,424	162,581	(8,655)	278	44,504	805,406	686,283	(69)	8
Cash flows from capital and related financing activities:												
Capital grants and other proceeds restricted for capital purposes...	20,665	-	-	263,924	5,000	-	699	15,054	305,342	499,079	-	-
Transfers in.....	-	-	-	61,867	-	-	24,132	-	85,999	26,752	-	-
Transfers out.....	-	-	-	-	-	-	-	-	-	-	-	-
Bond sale proceeds and loans received.....	841	-	4,100	97	-	360,706	-	-	365,744	852,455	-	-
Proceeds from sale/transfer of capital assets.....	-	9	1	653	-	23	2	-	688	8,186	-	-
Proceeds from commercial paper borrowings.....	304,100	50,000	-	-	24,811	35,000	-	-	413,911	143,761	-	-
Proceeds from passenger facility charges.....	98,432	-	-	-	-	-	-	-	98,432	92,702	-	-
Acquisition of capital assets.....	(304,421)	(294,033)	(49,583)	(501,012)	(78,260)	(167,656)	(6,801)	(779)	(1,402,545)	(1,307,990)	(4,211)	(2,745)
Retirement of capital leases, bonds and loans.....	(209,910)	(31,894)	(4,245)	(7,361)	(2,236)	(105,696)	(2,478)	(5,879)	(369,699)	(733,150)	(18,795)	(26,440)
Bond issue costs paid.....	-	-	(130)	-	-	(1,666)	-	-	(1,796)	(3,075)	-	(15)
Interest paid on debt.....	(225,073)	(219,279)	(3,313)	(7,700)	(1,408)	(34,362)	(4,789)	(6,880)	(502,804)	(488,834)	(4,698)	(5,171)
Federal interest income subsidy from Build America Bonds.....	-	24,240	664	-	-	3,991	-	-	28,895	28,794	-	-
Other capital financing sources.....	-	-	-	16,881	-	-	554	15	17,450	-	-	-
Other capital financing uses.....	-	-	-	-	-	-	(869)	(82)	(951)	(2,921)	-	-
Net cash provided by (used in) capital and related financing activities.....	(315,366)	(470,957)	(52,506)	(172,651)	(52,093)	90,340	10,450	1,449	(961,334)	(884,241)	(27,704)	(34,371)
Cash flows from investing activities:												
Purchases of investments with trustees.....	(624,603)	(199,584)	(19,242)	-	-	(185,525)	-	-	(1,028,954)	(1,269,820)	-	-
Proceeds from sale of investments with trustees.....	635,126	281,532	16,665	-	-	192,072	-	285	1,125,680	1,279,186	4,672	-
Interest and investment income.....	4,808	4,230	1,328	5,297	1,882	1,173	830	12,836	32,384	25,744	137	154
Other investing activities.....	-	-	-	-	-	-	-	-	-	-	(5)	65
Net cash provided by (used in) investing activities.....	15,331	86,178	(1,249)	5,297	1,882	7,720	830	13,121	129,110	35,110	4,804	219
Net increase (decrease) in cash and cash equivalents.....	63,909	(147,431)	(10,332)	(25,750)	(12,904)	188,316	39,370	(26,000)	69,178	212,835	(5,534)	(12,155)
Cash and cash equivalents-beginning of year.....	809,832	787,560	247,796	932,305	360,979	218,965	143,853	52,151	3,553,441	3,340,606	66,147	78,302
Cash and cash equivalents-end of year.....	\$ 873,741	\$ 640,129	\$ 237,464	\$ 906,555	\$ 348,075	\$ 407,281	\$ 183,223	\$ 26,151	\$ 3,622,619	\$ 3,553,441	\$ 60,613	\$ 66,147

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, 2016
 (With comparative financial information as of June 30, 2015)
 (In Thousands)

	Business-Type Activities - Enterprise Funds								Total		Governmental Activities - Internal Service Funds	
	Major Funds								2016	2015	2016	2015
	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				
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:												
Operating income (loss).....	\$ 226,518	\$ 104,730	\$ 16,241	\$ (604,938)	\$ (89,641)	\$ 40,222	\$ 12,940	\$ (30,574)	\$ (324,502)	\$ (215,681)	\$ 1,194	\$ 4,081
Adjustments for non-cash and other activities:												
Depreciation and amortization.....	228,359	106,666	16,513	133,715	17,263	50,799	22,120	15,356	590,791	552,101	2,798	2,451
Provision for uncollectibles.....	581	179	-	(114)	-	(63)	(28)	-	555	27	-	-
Write-off of capital assets.....	-	423	4,908	(6,089)	-	5,549	-	-	4,791	9,388	-	-
Other.....	980	-	-	-	-	-	-	-	980	2,049	397	1,003
Changes in assets and deferred outflows of resources/liabilities and deferred inflows of resources:												
Receivables, net.....	(9,535)	(9,133)	(5,412)	299	(103,955)	(819)	(823)	(7,267)	(136,645)	31,474	18,888	26,270
Due from other funds.....	-	(68)	961	-	(28)	18	-	18,208	19,091	(47,723)	-	-
Inventories.....	4	378	(92)	(6,594)	(1,704)	381	(133)	(50)	(7,810)	(11,690)	-	-
Other assets.....	(1,188)	-	(211)	(266)	-	-	(22)	-	(1,687)	4,048	-	-
Accounts payable.....	(1,546)	(826)	197	(4,080)	(1,879)	1,052	(568)	(499)	(8,149)	29,253	(843)	(823)
Accrued payroll.....	2,209	935	511	4,506	3,600	840	181	1,195	13,977	(58,247)	506	(1,379)
Accrued vacation and sick leave pay.....	746	(309)	263	2,124	1,261	187	(28)	(292)	3,952	2,969	208	116
Accrued workers' compensation.....	576	(448)	335	14,656	1,879	138	(55)	632	17,713	10,761	(79)	176
Other postemployment benefits obligation.....	9,055	7,283	2,324	15,695	18,455	4,073	1,553	5,544	63,982	80,174	1,651	2,078
Estimated claims payable.....	-	(2,810)	(1,474)	13,742	-	3,166	(431)	-	12,193	13,577	-	-
Due to other funds.....	-	707	-	(274)	-	(168)	-	-	265	206	(52)	(9)
Unearned revenue and other liabilities.....	11,852	13,014	2,918	(3,164)	69,315	2,356	(3,007)	(70,654)	22,630	181,077	(2,889)	(6,841)
Net pension liability and pension related deferred outflows and inflows of resources.....	(26,262)	(19,785)	(4,826)	(56,038)	(39,840)	(8,820)	(3,887)	(16,673)	(176,131)	(208,080)	(4,344)	(5,134)
Total adjustments.....	215,831	96,206	16,915	108,118	(35,633)	58,689	14,872	(54,500)	420,498	591,364	16,241	17,908
Net cash provided by (used in) operating activities.....	\$ 442,349	\$ 200,936	\$ 33,156	\$ (496,820)	\$ (125,274)	\$ 98,911	\$ 27,812	\$ (85,074)	\$ 95,996	\$ 375,683	\$ 17,435	\$ 21,989
Reconciliation of cash and cash equivalents to the statement of net position:												
Deposits and investments with City Treasury:												
Unrestricted.....	\$ 410,358	\$ 323,916	\$ 194,706	\$ 811,548	\$ 339,508	\$ 159,118	\$ 131,012	\$ -	\$ 2,370,166	\$ 2,440,334	\$ 35,264	\$ 37,905
Restricted.....	456,482	123,328	39,849	66,645	-	208,336	41,955	10,812	947,407	919,474	-	-
Deposits and investments outside City Treasury:												
Unrestricted.....	5,937	136	10	10,271	10	123	5	2	16,494	16,355	-	-
Restricted.....	445,122	192,814	5,510	18,091	8,557	39,757	10,555	15,338	735,744	736,521	25,349	32,907
Total deposits and investments.....	1,317,899	640,194	240,075	906,555	348,075	407,334	183,527	26,152	4,069,811	4,112,684	60,613	70,812
Less: Investments outside City Treasury not meeting the definition of cash equivalents.....	(444,158)	(65)	(2,611)	-	-	(53)	(304)	(1)	(447,192)	(559,243)	-	(4,665)
Cash and cash equivalents at end of year on statement of cash flows.....	\$ 873,741	\$ 640,129	\$ 237,464	\$ 906,555	\$ 348,075	\$ 407,281	\$ 183,223	\$ 26,151	\$ 3,622,619	\$ 3,553,441	\$ 60,613	\$ 66,147
Non-cash capital and related financing activities:												
Acquisition of capital assets on accounts payable and capital lease.....	\$ 83,187	\$ 47,587	\$ 2,838	\$ -	\$ 3,690	\$ 31,166	\$ 1,354	\$ 466	\$ 170,288	\$ 133,772	\$ 361	\$ 424
Tenant improvements financed by rent credits.....	-	-	-	-	-	-	241	-	241	400	-	-
Net capitalized interest.....	7,700	65,076	67	2,130	-	13,220	32	-	88,225	100,043	-	-
Donated inventory.....	-	-	-	-	2,844	-	-	-	2,844	7,306	-	-
Capital contributions and other noncash capital items.....	-	-	-	-	-	-	624	-	624	(4,328)	-	-
Bond refunding.....	282,453	-	-	-	-	-	-	-	282,453	249,527	-	-
Interfund loan.....	-	786	-	-	-	1,271	-	-	2,057	1,621	-	-

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, 2016
(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.....	\$ 97,306	\$ 746,983	\$ 289,884	\$ 138,794
Deposits and investments outside City Treasury:				
Cash and deposits.....	43,521	105	4,571	817
Short-term investments.....	1,009,676	-	138,600	-
Debt securities.....	4,747,116	-	-	-
Equity securities.....	9,351,864	-	-	-
Real assets.....	2,341,500	-	-	-
Private equity.....	2,753,869	-	-	-
Foreign currency contracts, net.....	14,125	-	-	-
Invested in securities lending collateral.....	865,681	-	-	-
Receivables:				
Employer and employee contributions.....	32,424	-	-	43,571
Brokers, general partners and others.....	66,689	-	-	-
Federal and state grants and subventions.....	-	-	404	-
Interest and other.....	44,254	850	10,081	276,318
Other assets.....	-	-	702	45,538
Capital assets:				
Land and other assets not being depreciated.....	-	-	56,589	-
Facilities, infrastructure and equipment, net of depreciation.....	-	-	108,632	-
Total assets.....	<u>21,368,025</u>	<u>747,938</u>	<u>609,463</u>	<u>505,038</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions.....	-	-	1,494	-
Unamortized loss on refunding of debt.....	-	-	29,748	-
Total deferred outflows of resources.....	<u>-</u>	<u>-</u>	<u>31,242</u>	<u>-</u>
LIABILITIES				
Accounts payable.....	26,958	4,043	21,801	53,652
Estimated claims payable.....	29,347	-	-	-
Due to the primary government.....	-	-	2,611	-
Agency obligations.....	-	-	-	451,386
Bond interest payable.....	-	-	16,113	-
Payable to brokers.....	107,444	-	-	-
Deferred Retirement Option Program.....	613	-	-	-
Payable to borrowers of securities.....	863,536	-	-	-
Other liabilities.....	2,239	-	1,353	-
Advance from primary government.....	-	-	14,602	-
Long-term obligations.....	-	-	936,830	-
Net pension liability.....	-	-	16,563	-
Total liabilities.....	<u>1,030,137</u>	<u>4,043</u>	<u>1,009,873</u>	<u>505,038</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions.....	-	-	7,874	-
NET POSITION				
Restricted for pension and other employee benefits.....	20,337,888	-	-	-
Held for external pool participants.....	-	743,895	-	-
Held for Redevelopment Agency dissolution.....	-	-	(377,042)	-
Total net position.....	<u>\$ 20,337,888</u>	<u>\$ 743,895</u>	<u>\$ (377,042)</u>	<u>\$ -</u>

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, 2016
(In Thousands)

	Pension, Other Employee and Other Post- Employment Benefit Trust Funds	Investment Trust Fund	Private- Purpose Trust Fund
Additions:			
Redevelopment property tax revenues.....	\$ -	\$ -	\$ 119,302
Charges for services.....	-	-	83,559
Contributions:			
Employees' contributions.....	469,278	-	-
Employer contributions.....	1,385,104	-	-
Contributions to pooled investments.....	-	3,183,781	-
Total contributions.....	<u>1,854,382</u>	<u>3,183,781</u>	<u>202,861</u>
Investment income:			
Interest.....	190,793	3,772	1,632
Dividends.....	219,529	-	-
Net depreciation in fair value of investments.....	(215,895)	-	-
Securities lending income.....	7,562	-	-
Total investment income.....	<u>201,989</u>	<u>3,772</u>	<u>1,632</u>
Less investment expenses:			
Securities lending borrower rebates and expenses.....	(1,315)	-	-
Other investment expenses.....	(47,174)	-	-
Total investment expenses.....	<u>(48,489)</u>	<u>-</u>	<u>-</u>
Other additions.....	-	-	32,991
Total additions, net.....	<u>2,007,882</u>	<u>3,187,553</u>	<u>237,484</u>
Deductions:			
Neighborhood development.....	-	-	120,903
Depreciation.....	-	-	5,543
Interest on debt.....	-	-	52,204
Benefit payments.....	2,222,409	-	-
Refunds of contributions.....	12,886	-	-
Distribution from pooled investments.....	-	2,983,674	-
Administrative expenses.....	17,318	-	10,467
Total deductions.....	<u>2,252,613</u>	<u>2,983,674</u>	<u>189,117</u>
Change in net position.....	(244,731)	203,879	48,367
Net position at beginning of year	<u>20,582,619</u>	<u>540,016</u>	<u>(425,409)</u>
Net position at end of year.....	<u>\$ 20,337,888</u>	<u>\$ 743,895</u>	<u>\$ (377,042)</u>

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

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2016

(Dollars in Thousands)

(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 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 (SFMTA) 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 SFMTA Chief Financial Officer at 1 South Van Ness Avenue, 8th Floor, San Francisco, CA 94102.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

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.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

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, and is not at the level of detail required for a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

(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 AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

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 60 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, charges for services, rents and concessions, 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, 2016, the City adopted a new revenue recognition policy, and changed the availability period from 90 days to 60 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 \$23.7 million for the year ended June 30, 2016, and did not have a significant impact on the financial statements as of and for the year ended June 30, 2015.

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 (SFMTA). The SFMTA was established by Proposition E, passed by the City's voters in November 1999. The SFMTA includes the San Francisco Municipal Railway (Muni) and the operations of Sustainable Streets, 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 SFMTA. 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 **General Hospital Medical Center Fund** accounts for the activities of the San Francisco General Hospital (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.

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements (Continued)

June 30, 2016

(Dollars in Thousands)

- 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 **Debt Service Funds** account for the accumulation of property taxes and other revenues for periodic payment of interest and principal on general obligation and certain lease revenue bonds and related authorized costs.
- The **Capital Projects Funds** are used to account for financial resources that are restricted, committed or assigned to expenditures for the acquisition of land or acquisition and construction of major facilities other than those financed in the proprietary fund types.
- The **Special Revenue Funds** are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects
- 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 other postemployment benefit contributions from the City and the San Francisco Community College District, together with 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 and other governmental agencies; employees for payroll deductions; and human welfare, community health, and transportation programs.

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

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

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 is 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

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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 and of the Retiree Health Care Trust Fund are held by trustees.

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, 2016, involuntary participants accounted for approximately 95.6% of the pool. Voluntary

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participants accounted for 4.4% 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, 2016, \$743.9 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 9.4%. Internal participants accounted for 90.6% 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 deposit 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 real estate investments are based on net asset values provided by the investment managers. Private equity investments represent interest in limited partnerships. The fair values of private equity investments are also based on net asset values provided by the general partners. For investments that are not traded on national or international exchanges with closing market prices available data is obtained to corroborate pricing.

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, 2016 was 78 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, 2016, the weighted average maturity of the reinvested cash collateral account was 25 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.

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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* and GASB Statement No. 72 – *Fair Value Measurement and Application*. 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, if the derivatives are determined to be effective hedges, the changes in the fair value of hedging derivative instruments are reported as either deferred inflows or deferred outflows in the statement of net position, otherwise changes in fair value are recorded within the investment revenue classification.

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, SFMTA, 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, 2016, it was determined that \$1,122.0 million of the \$1,203.8 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.

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(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 proprietary and private-purpose trust funds. 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.

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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, SFMTA, and San Francisco Wastewater Enterprise are amortized over the life of the bonds using the effective interest method. The remaining bond prepaid insurance 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.

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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.

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.

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, including debt related deferred outflows and inflows of resources, 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.
- *Unrestricted Net Position* – This category represents net position of the City, not restricted for any project or other purpose.

(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 and proprietary and fiduciary funds, 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.

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(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) Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the SFERS and the California Public Employees' Retirement System ("CalPERS") plans and additions to/deductions from the plans' fiduciary net positions have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan member contributions are recognized in the period in which the contributions are due. Investments are reported at fair value.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* (GASB Statement No. 68) requires that the reported results pertain to liability and asset information within certain defined timeframes. Liabilities are based on the results of actuarial calculations performed as of June 30, 2014 and were rolled forward to June 30, 2015. For this report, the following timeframes are used for the City's pension plans:

Valuation Date (VD).....	June 30, 2014 updated to June 30, 2015
Measurement Date (MD).....	June 30, 2015
Measurement Period (MP)....	July 1, 2014 to June 30, 2015

(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 2014-15 Summarized Comparative Financial Information in the basic financial statements, have been reclassified for comparative purposes, to conform to the presentation in the 2015-16 basic financial statements.

(s) Effects of New Pronouncements

During fiscal year 2016, the City implemented the following accounting standards:

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. Statement No. 72 requires the City to use valuation techniques which are appropriate under the circumstances and are consistent with the market approach, the cost approach or the income approach. Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs. Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. Implementation of this statement did not have a significant impact on the City for the year ended June 30, 2016, however, the San Francisco International Airport restated its beginning deferred outflows on derivative instruments and derivative instruments liabilities of fiscal year 2015 by \$1.4 million. This restatement did not affect the City's beginning net position.

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In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes. The provisions in this statement are effective for the City's fiscal year ending June 30, 2016, except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for the City's fiscal year ending June 30, 2017. Partial implementation of this statement did not have a significant impact on the City for the year ended June 30, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 76 establishes the hierarchy of GAAP for state and local governments. The new standard is effective for periods beginning after June 15, 2015. Implementation of this statement did not have a significant impact on the City for the year ended June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure all their investments at amortized cost. The new standard is effective for periods beginning after June 15, 2015, except for certain provisions that will be effective for reporting periods beginning after December 15, 2015. Implementation of this statement did not have a significant impact on the City for the year ended June 30, 2016.

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. As Statement No. 82 changes the classification of these payments, commonly referred to as Employer-Paid Member Contributions, the City reclassified these payments. While the applicable requirements of this Statement are effective for reporting periods beginning after June 15, 2016, the City has elected early implementation for the year ended June 30, 2016. During the year ended June 30, 2015, the SFMTA made Employer-Paid Member Contributions to satisfy contribution requirements of the Retirement System and collective bargaining agreements. Statement No. 82 requires Employer-Paid Member contributions to be classified as employee contributions rather than classified as employer contributions. In fiscal year 2014-15, such payments were treated as employer contributions by the SFMTA as required by Statement No. 68. Therefore, early implementation of Statement No. 82, which amends Statement No. 68, resulted in a restatement which decreased beginning net position for fiscal year 2015-16 by \$8.6 million.

In addition, the City is currently analyzing its accounting practices to determine the potential impact of the following pronouncements:

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 74 revises and establishes new accounting and financial reporting requirements for postemployment benefit plans other than pensions (OPEB). Statement No. 75 revises and establishes new accounting and financial reporting requirements for governments that provide their employees with OPEB and requires additional OPEB disclosures. Statement No. 74 is effective for periods beginning after June 15, 2016 and is effective for the City's fiscal year ending June 30, 2017. Statement No. 75 is effective for periods beginning after June 15, 2017 and is effective for the City's fiscal year ending June 30, 2018.

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In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. Statement No. 77 establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The new standard is effective for periods beginning after December 15, 2015. Application of this statement is effective for the City's fiscal year ending June 30, 2017.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided by state or local governments through a cost-sharing plan that meets the criteria of Statement No. 68 and is not a state or local governmental pension plan. The new standard is effective for periods beginning after December 15, 2015. Application of this statement is effective for the City's fiscal year ending June 30, 2017.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. GASB Statement No. 81 establishes accounting and financial reporting standards for irrevocable split-interest agreements created through trusts in which a donor irrevocably transfers resources to an intermediary. The new standard is effective for periods beginning after December 15, 2016. Application of this statement is effective for the City's fiscal year ending June 30, 2018.

(t) Restricted Assets

Certain proceeds of the City's governmental activities, enterprise and internal service funds 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, proprietary, fiduciary, 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. In government-wide financial statements, deferred outflows and inflows of resources are recorded for unamortized losses and gains on refunding of debt, deferred outflows and inflows of resources related to pensions, deferred outflows of resources on derivative instruments, and deferred inflows of resources related to the SFMTA's leaseback transaction.

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(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, \$2,835,474, differs from net position of governmental activities, \$2,009,063, 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.....	\$ 3,279,724	\$ -	\$ 35,264	\$ -	\$ 3,314,988
Deposits and investments outside City Treasury.....	84,845	-	25,349	-	110,194
Receivables, net					
Property taxes and penalties.....	77,241	-	-	-	77,241
Other local taxes.....	278,763	-	-	-	278,763
Federal and state grants and subventions.....	303,316	-	-	-	303,316
Charges for services.....	99,919	-	53	-	99,972
Interest and other.....	15,822	-	633	-	16,455
Due from other funds.....	12,062	-	-	(12,062)	-
Due from component unit.....	2,437	-	-	-	2,437
Advance to component unit.....	17,496	-	-	-	17,496
Loans receivable, net.....	81,801	-	-	-	81,801
Capital assets, net.....	-	5,114,367	10,985	-	5,125,352
Other assets.....	6,855	6	266	-	7,127
Total assets.....	<u>4,260,281</u>	<u>5,114,373</u>	<u>72,550</u>	<u>(12,062)</u>	<u>9,435,142</u>
Deferred outflows of resources					
Unamortized loss on refunding of debt.....	-	17,282	1,091	-	18,373
Deferred outflows related to pensions.....	-	378,712	7,475	-	386,187
Total deferred outflows of resources.....	<u>-</u>	<u>395,994</u>	<u>8,566</u>	<u>-</u>	<u>404,560</u>
Liabilities					
Accounts payable.....	353,721	-	7,459	-	361,180
Accrued payroll.....	89,262	-	1,862	-	91,124
Accrued vacation and sick leave pay.....	-	147,925	3,102	-	151,027
Accrued workers' compensation.....	-	225,961	1,864	-	227,825
Other postemployment benefits obligation.....	-	1,179,468	23,518	-	1,202,986
Estimated claims payable.....	-	160,498	-	-	160,498
Accrued interest payable.....	-	11,893	1,315	-	13,208
Unearned grant and subvention revenues.....	24,250	-	-	-	24,250
Due to other funds.....	33,696	-	361	(12,062)	21,995
Unearned revenue and other liabilities.....	494,796	2,022	58	-	496,876
Bonds, loans, capital leases, and other payables.....	102,778	2,994,530	197,217	-	3,294,525
Net pension liability.....	-	1,331,114	24,166	-	1,355,280
Total liabilities.....	<u>1,098,503</u>	<u>6,053,411</u>	<u>260,922</u>	<u>(12,062)</u>	<u>7,400,774</u>
Deferred inflows of resources					
Unavailable revenue.....	326,304	(326,304)	-	-	-
Unamortized gain on refunding of debt.....	-	236	-	-	236
Deferred inflows related to pensions.....	-	421,800	7,829	-	429,629
Total deferred inflows of resources.....	<u>326,304</u>	<u>95,732</u>	<u>7,829</u>	<u>-</u>	<u>429,865</u>
Fund balances/ net position					
Total fund balances/ net position.....	<u>\$ 2,835,474</u>	<u>\$ (638,776)</u>	<u>\$ (187,635)</u>	<u>\$ -</u>	<u>\$ 2,009,063</u>

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
 June 30, 2016
 (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	\$ 6,682,703
Accumulated depreciation	<u>(1,568,336)</u>
	<u>\$ 5,114,367</u>

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	\$ (147,925)
Accrued workers' compensation.....	(225,961)
Other postemployment benefits obligation	(1,179,468)
Estimated claims payable.....	(160,498)
Unearned revenue and other liabilities	(2,022)
Bonds, loans, capital leases, and other payables	<u>(2,994,530)</u>
	<u>\$ (4,710,404)</u>

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. \$ (11,893)

Deferred outflows (inflows) of resources related to debt refundings in governmental activities are not financial resources, and therefore, are not reported in the governmental funds.

Unamortized loss on refunding of debt.....	\$ 17,282
Unamortized gain on refunding of debt	<u>(236)</u>
	<u>\$ 17,046</u>

Net pension liability is not due and payable in the current period, and accordingly is not reported as a fund liability. Deferred outflows (inflows) of resources related to pensions are not financial resources, and therefore, are not reported in the governmental funds.

Net pension liability.....	\$ (1,331,114)
Deferred outflows of resources related to pensions	378,712
Deferred inflows of resources related to pensions	<u>(421,800)</u>
	<u>\$ (1,374,202)</u>

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

Revenue not collected within 60 days of the end of the current fiscal period	\$ 326,304
Other postemployment benefits assets	6
	<u>\$ 326,310</u>

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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(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	\$ (15,442)
Adjustments for internal balances with the San Francisco Finance Corporation:	
Capital lease receivables from other governmental and enterprise funds	(193,450)
Other assets	266
Unearned revenue and other liabilities	20,991
	<u>\$ (187,635)</u>

In addition, intrafund receivables and payables among various internal service funds of \$24 are eliminated.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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(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, \$546,531, differs from the change in net position for governmental activities, \$721,849, 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.....	\$ 1,798,776	\$ 10,141	\$ -	\$ -	\$ -	\$ 1,808,917
Business taxes.....	660,926	-	-	-	-	660,926
Sales and use tax.....	267,443	2,608	-	-	-	270,051
Hotel room tax.....	387,661	-	-	-	-	387,661
Utility users tax.....	98,651	-	-	-	-	98,651
Parking tax.....	86,012	-	-	-	-	86,012
Real property transfer tax.....	269,090	-	-	-	-	269,090
Other local taxes.....	44,780	-	-	-	-	44,780
Licenses, permits and franchises.....	43,722	102	-	-	-	43,824
Fines, forfeitures, and penalties.....	36,169	4,046	-	-	-	40,215
Interest and investment income.....	23,931	-	-	117	-	24,048
Rents and concessions.....	135,865	(21,537)	-	-	-	114,328
Intergovernmental:						
Federal.....	416,823	16,154	-	-	-	432,977
State.....	776,866	2,372	-	-	-	779,238
Other.....	85,872	1,346	-	-	-	87,218
Charges for services.....	392,665	1,245	-	-	-	393,910
Other.....	264,722	(6,161)	-	874	-	259,435
Total revenues.....	<u>5,789,974</u>	<u>10,316</u>	<u>-</u>	<u>991</u>	<u>-</u>	<u>5,801,281</u>
Expenditures/ Expenses						
Current:						
Public Protection.....	1,269,000	(53,957)	13,739	(6,233)	-	1,222,549
Public works, transportation and commerce.....	416,152	(6,992)	10,685	(867)	-	418,978
Human welfare and neighborhood development.....	1,252,588	(19,431)	529	(283)	-	1,233,403
Community health.....	776,612	(18,481)	(11,060)	-	-	747,071
Culture and recreation.....	364,909	(10,072)	(29,295)	(14,514)	-	311,028
General administration and finance.....	277,729	(22,563)	(9,923)	1,140	-	246,383
General City responsibilities.....	114,684	-	-	(1,194)	-	113,490
Debt service:						
Principal retirement.....	252,456	-	-	-	(252,456)	-
Interest and other fiscal charges.....	119,723	-	-	4,589	(16,063)	108,249
Bond issuance costs.....	7,108	-	-	-	-	7,108
Capital outlay.....	223,904	-	(223,904)	-	-	-
Total expenditures.....	<u>5,074,865</u>	<u>(131,496)</u>	<u>(249,229)</u>	<u>(17,362)</u>	<u>(268,519)</u>	<u>4,408,259</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>715,109</u>	<u>141,812</u>	<u>249,229</u>	<u>18,353</u>	<u>268,519</u>	<u>1,393,022</u>
Other financing sources (uses) / changes in net position						
Net transfers in (out).....	(671,063)	-	-	(110)	-	(671,173)
Issuance of bonds and loans:						
Face value of bonds issued.....	595,925	-	-	-	(595,925)	-
Premium on issuance of bonds.....	32,845	-	-	-	(32,845)	-
Payment to refunded bond escrow agent.....	(131,935)	-	-	-	131,935	-
Other financing sources.....	5,650	-	-	(5,650)	-	-
Total other financing sources (uses).....	<u>(168,578)</u>	<u>-</u>	<u>-</u>	<u>(5,760)</u>	<u>(496,835)</u>	<u>(671,173)</u>
Net change for the year.....	<u>\$ 546,531</u>	<u>\$ 141,812</u>	<u>\$ 249,229</u>	<u>\$ 12,593</u>	<u>\$ (228,316)</u>	<u>\$ 721,849</u>

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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(3) Property taxes that were unavailable and are reported as deferred inflows of resources in the governmental funds are recognized as revenues in the statement of activities.	\$ 10,141
Other revenues that were unavailable and reported as deferred inflows of resources in the governmental funds are recognized as revenues in the statement of activities.	<u>175</u> \$ 10,316
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.	\$ (155,660)
Changes to net pension liability and pension related deferred outflows and inflows of resources do not provide financial resources and, therefore, are not reported as a reduction in expenditures in governmental funds.	282,088
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.	<u>5,068</u> \$ 131,496
(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	\$ 413,493
Depreciation expenses	(134,468)
Loss on disposal of capital assets	(263)
Write off construction of progress	<u>(29,533)</u>
Difference	<u>\$ 249,229</u>
(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.	\$ 12,593

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Notes to Basic Financial Statements (Continued)
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(6) 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. \$ (32,845)

Repayment of bond principal and the payment to escrow for refunding of debt are reported as expenditures and other financing uses in governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. For the City as a whole however, the principal payments and payment to escrow for refunded debt reduce the liabilities in the statement of net 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	\$ 252,456
Payments to escrow for refunded debt.....	<u>131,935</u>
	<u>384,391</u>

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.....	(321,875)
Certificates of participation	<u>(274,050)</u>
	<u>(595,925)</u>
	\$ <u>(211,534)</u>

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	\$ (825)
Loss on refundings on certificates of participation	1,359
Amortization of bond premiums and discounts	19,313
Amortization of bond refunding losses and gains.....	<u>(3,784)</u>
	<u>\$ 16,063</u>

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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(4) BUDGETARY RESULTS RECONCILED TO RESULTS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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

The fund balance of the General Fund as of June 30, 2016 on a Budget basis is reconciled to the fund balance on a GAAP basis as follows:

Fund Balance - Budget Basis.....	\$ 1,526,830
Unrealized Gains/ (Losses) on Investments.....	343
Cumulative Excess Property Tax Revenues Recognized on a Budget Basis.....	(36,008)
Cumulative Excess Health, Human Services, Franchise and Other Revenues Recognized on a Budget Basis.....	(56,709)
Pre-paid lease revenue.....	(5,816)
Nonspendable Fund Balance (Assets Reserved for Not Available for Appropriation).....	522
	<hr/>
Fund Balance - GAAP basis.....	<u>\$ 1,429,162</u>

General Fund budget basis fund balance as of June 30, 2016 is composed of the following:

Not available for appropriations:

Restricted Fund Balance:

Rainy Day - Economic Stabilization Reserve.....	\$ 74,986
Rainy Day - One Time Spending Account.....	45,120

Committed Fund Balance:

Budget Stabilization Reserve.....	178,434
Recreation and Parks Expenditure Saving Reserve.....	8,736

Assigned for Encumbrances..... 190,965

Assigned for Appropriation Carryforward..... 293,921

Assigned for Subsequent Years' Budgets:

Budget Savings Incentive Program City-wide.....	58,907
Salaries and benefits costs (MOU).....	18,203

Subtotal..... \$ 869,272

Available for appropriations:

Assigned for Litigation and Contingencies..... 145,443

Assigned balance subsequently appropriated as part of
the General Fund budget for use in fiscal year 2016-17..... 172,128

Unassigned - General Reserve..... 76,913

Unassigned - Budget for use in fiscal year 2017-18..... 191,202

Unassigned - Contingency for fiscal year 2017-18..... 60,000

Unassigned - Available for future appropriations..... 11,872

Subtotal..... 657,558

Fund Balance, June 30, 2016 - Budget basis..... \$ 1,526,830

CITY AND COUNTY OF SAN FRANCISCO
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(5) DEPOSITS AND INVESTMENTS

(a) Cash, Deposits and Investments Presentation

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

	Primary Government			Total	Component Unit
	Governmental Activities	Business-type Activities	Fiduciary Funds		TIDA
Deposits and investments with					
City Treasury.....	\$ 3,314,988	\$ 2,370,166	\$ 1,272,967	\$ 6,958,121	\$ 11,130
Deposits and investments outside					
City Treasury.....	84,845	16,494	20,405,764	20,507,103	-
Restricted assets:					
Deposits and investments with					
City Treasury.....	-	947,407	-	947,407	-
Deposits and investments outside					
City Treasury.....	25,349	735,744	-	761,093	-
Invested in securities lending collateral...	-	-	865,681	865,681	-
Total deposits & investments	<u>\$ 3,425,182</u>	<u>\$ 4,069,811</u>	<u>\$ 22,544,412</u>	<u>\$ 30,039,405</u>	<u>\$ 11,130</u>
Cash and deposits.....				\$ 228,638	\$ -
Investments.....				29,810,767	11,130
Total deposits and investments.....				<u>\$ 30,039,405</u>	<u>\$ 11,130</u>

(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 public funds. 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.

The investment policy 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 May 2016. The table also identifies certain provisions of the City's investment policy that address interest rate risk and concentration of credit risk.

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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	100%	100%
State and Local Government Agency Obligations	5 years	20%	5% *
Public Time Deposits	13 months *	None	None
Negotiable Certificates of Deposit/Yankee			
Certificates of Deposit	5 years	30%	None
Bankers Acceptances	180 days	40%	None
Commercial Paper	270 days	25% *	10%
Medium Term Notes	24 months *	25% *	10% *
Repurchase Agreements (Government Securities)	1 year	None	N/A
Repurchase Agreements (Securities permitted by CA Government Code, Sections 53601 and 53635)	1 year	10%	N/A
Reverse Repurchase Agreements / Securities Lending	45 days *	None	\$75 million *
Money Market (Institutional Government Funds)	N/A	10% *	N/A
Money Market (Institutional Prime Funds)	60 days	5%*	N/A
Supranationals	5 years	5% *	None
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.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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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 private equity investments, which include investments in a variety of commingled partnership vehicles.

The Retirement Board's asset allocation policies for the year ended June 30, 2016 are as follows:

<u>Asset Class</u>	<u>Target Allocation through January 2015</u>	<u>Target Allocation since February 2015</u>
Global Equity	47.0%	40.0%
Fixed Income	25.0%	20.0%
Private Equity	16.0%	18.0%
Real Assets	12.0%	17.0%
Hedge Funds/Absolute Return	0%	5.0%
	<u>100.0%</u>	<u>100.0%</u>

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, 2016, \$419.0 million (or 48.4% of cash collateral) consisted of such agreements.

Retiree Health Care Trust Fund

The RHCTF's investments outside of the City Treasury are invested pursuant to investment policy guidelines as established by the RHCTF Board. The objective of the policy is to manage fund assets so as to achieve the highest, reasonably prudent real return possible. The investment policy permits the RHCTF to invest in domestic and international equity securities and investment grade bonds. It also allows investments in global equity, U.S. nominal bonds, inflation-linked bonds, global real estate, and commodities, although the RHCTF does not currently hold assets in these classes. The RHCTF Board has established percentage guidelines for types of investments to ensure the portfolio is diversified, as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Range</u>
Domestic Equity	37.0%	32.0-42.0%
International Equity	37.0%	32.0-42.0%
Investment Grade Bonds	26.0%	21.0-31.0%
	<u>100.0%</u>	

CITY AND COUNTY OF SAN FRANCISCO
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(c) Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs (the City does not value any of its investments using Level 3 inputs). The inputs or methodology used for valuing securities are not an indication of risk associated with investing in those securities.

The following is a summary of inputs used in valuing the City's investments as of June 30, 2016:

	Fair Value 6/30/2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Primary Government:				
Investments in City Treasury:				
U.S. Treasury Notes	\$ 501,077	\$ 501,077	\$ -	\$ -
U.S. Agencies - Discount	296,560	296,560	-	-
U.S. Agencies - Coupon (no call option)	2,663,602	2,663,602	-	-
U.S. Agencies (callable option)	1,047,592	1,047,592	-	-
State and Local Agencies	193,556	-	193,556	-
Negotiable Certificates of Deposits	1,241,116	1,191,126	49,990	-
Corporate Notes	671,178	671,178	-	-
Supranationals	150,104	-	150,104	-
Commercial Paper	449,127	-	449,127	-
Public Time Deposits	1,440 *	-	-	-
Money Market Mutual Funds	555,450 *	-	-	-
Subtotal	<u>7,770,802</u>	<u>\$ 6,371,136</u>	<u>\$ 842,776</u>	<u>\$ -</u>
Separately managed account:				
SFRDA South Beach Harbor Revenue Bond	675			
Subtotal investments in City Treasury	<u>7,771,477</u>			
Investments Outside City Treasury:				
(Governmental and Business - Type)				
U.S. Treasury Notes	297,606	\$ 297,606	\$ -	\$ -
U.S. Agencies	184,291	184,291	-	-
Commercial Paper	16,212 *	-	-	-
Money Market Mutual Funds	468,176 *	-	-	-
Certificates of Deposit	304 *	-	-	-
Subtotal Investments Outside City Treasury	<u>966,589</u>	<u>\$ 481,897</u>	<u>\$ -</u>	<u>\$ -</u>

* Not subject to fair value hierarchy

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
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	Fair Value 6/30/2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Employees' Retirement System Investments				
Short Term Investments	\$ 1,009,676	\$ -	\$ -	\$ 1,009,676
Debt Securities:				
U.S. Government & Agency Securities	695,309	-	695,309	-
Other Debt Securities	2,246,680	-	2,134,644	112,036
Equity Securities:				
Domestic Equity	4,296,051	4,198,957	7,508	89,586
International Equity	3,087,999	3,077,546	7,961	2,492
Foreign Currency Contracts, net	14,125	-	-	14,125
Invested securities lending collateral	865,681	-	389,095	476,586
Subtotal	<u>12,215,521</u>	<u>\$ 7,276,503</u>	<u>\$ 3,234,517</u>	<u>\$ 1,704,501</u>
Investments measured at the net asset value (NAV)				
Fixed Income Funds Invested in:				
U.S. Government & Agency Securities	952,962			
Other Fixed Income	822,065			
Equity Funds Invested in:				
Domestic Equity	674,787			
International Equity	1,216,026			
Real Assets	2,341,500			
Private Equity	<u>2,750,619</u>			
Subtotal investments measured at the NAV	<u>8,757,959</u>			
Total investments in Employees' Retirement System	<u>20,973,480</u>			
Healthcare Trust (measurements at the NAV)				
Fixed Income:				
U.S. Debt Index Fund	30,100			
Equities:				
Domestic:				
S&P 500 Equity Index Fund	39,026			
International:				
EAFE Equity Index Fund	37,975			
Money Market Investments				
Treasury Money Market Fund	<u>3,250 *</u>			
Total Investments in Healthcare Trust	<u>110,351</u>			
Total Investments	<u>\$29,821,897</u>			

* Not subject to fair value hierarchy

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Investments in City Treasury

U.S. Treasury Notes, U.S. Government Agencies, Corporate Notes, and Negotiable Certificates of Deposit are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy.

State and Local agencies, Negotiable Certificates of Deposit, Commercial Paper and Supranationals are valued using a variety of techniques such as matrix pricing, market corroborated pricing inputs such as yield curve, indices, and other market related data and classified in Level 2 of the fair value hierarchy.

Money Market Funds and Public Time Deposits have maturities of one year or less from fiscal year end and are not subject to GASB Statement No. 72.

Investments Outside City Treasury

U.S. Treasury Notes and U.S. Government Agencies are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy. Commercial Paper is valued using a variety of techniques such as matrix pricing, market corroborated pricing inputs such as yield curve, indices, and other market related data and are not subject to fair value hierarchy. Money Market Funds are valued at amortized costs and are not subject to fair value hierarchy.

Employees' Retirement System investments

Investments, at Fair Value

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets issued by pricing vendors for these securities. Invested securities lending collateral and debt and equity securities classified in Level 2 of the fair value hierarchy are valued using prices determined by the use of matrix pricing techniques maintained by the various pricing vendors for these securities. Debt securities including short-term instruments are priced based on evaluated prices. Such evaluated prices may be determined by factors which include, but are not limited to, market quotations, yields, maturities, call features, ratings, institutional size trading in similar groups of securities and developments related to specific securities. For equity securities not traded on an active exchange, or if the closing price is not available, corroborated indicative quotes obtained from pricing vendors are generally used. Short-term investments and debt and equity securities classified in Level 3 of the fair value hierarchy are securities whose stated market prices are unobservable by the market place. Many of these securities are priced using uncorroborated indicative quotes, adjusted prices based on inputs from different sources, or evaluated prices using unobservable inputs, such as extrapolated data, proprietary models, and indicative quotes from pricing vendors.

Fair value is defined as the quoted market value on the last trading day of the period. In some cases, a valuation technique may have multiple inputs used to measure fair value, and each input might fall into a different level of the fair value hierarchy. The level in the fair value hierarchy within which a fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the measurement. The prices used in determining the fair value hierarchy are obtained from various pricing sources by the Retirement System's custodian bank.

Investments, at Net Asset Value (NAV)

Equity and Debt Funds

The equity and debt funds are commingled funds that are priced at net asset value by industry vendors and fund families. NAV is the market value of all securities owned by a fund, minus its total liabilities, divided by the number of shares issued and outstanding. The NAV of an open-end fund is its price.

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Notes to Basic Financial Statements (Continued)
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Real Assets, Private Equity, and Opportunistic Fixed Income Investments

The fair value of the Retirement System's investments in real assets, private equity, and opportunistic fixed income investments are based on net asset values provided by the investment managers and general partners (hereinafter collectively referred to as the "General Partners"). Such value generally represents the Retirement System's proportionate share of the net assets of the limited partnerships. The partnership financial statements are audited annually as of December 31 and the net asset value are adjusted by additional contributions to and distributions from the partnership, the Retirement System's share of net earnings and losses, and unrealized gains and losses resulting from changes in fair value, as determined by the General Partners.

The General Partners may use one or more valuation methodologies outlined in FASB ASC 820, *Fair Value Measurement*. For some investments, little market activity may exist. The General Partners' determination of fair value is then based on the best information available in the circumstances and may involve subjective assumptions and estimates, including the General Partners' assessment that market participants would use in valuing the investments. The General Partners may take into consideration a combination of internal and external factors, including but not limit to, appropriate risk adjustments for nonperformance and liquidity. Such fair value estimates involve subjective judgments of unrealized gains and losses.

The values provided by the General Partners may differ significantly from the values that would have been used had a ready market existed for these investments.

Retiree Health Care Trust Fund

Investments, at Net Asset Value (NAV)

At June 30, 2016 the Retiree Health Care Trust Fund had investments in equity and debt commingled funds index funds and the City Treasury Pool. These funds include a S&P 500 Equity Index Fund, an EAFE Equity Index Fund, a U.S. Debt Index Fund and a Money Market Fund. The funds are priced at net asset value (NAV) by industry vendors and fund families. NAV is the market value of all securities owned by a fund, minus its total liabilities, divided by the number of shares issued and outstanding. As of June 30, 2016, there are no redemption restrictions on the commingled index funds.

(d) Investment Risks

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, 2016, \$2.6 million of the business-type activities bank balances were exposed to custodial credit risk by not being insured or collateralized.

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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 interest rates. Information about the sensitivity to the fair values of the City's investments to 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 (f) of this note.

	S & P Rating	Fair Value	Investment Maturities	
			Less than 1 year	1 to 5 years
Primary Government:				
Investments in City Treasury:				
Pooled Investments:				
U.S. Treasury Notes	AA+	\$ 501,077	\$ 300,741	\$ 200,336
U.S. Agencies	NR - AA+	4,007,754	1,563,904	2,443,850
State/Local Agencies	A+ - AA-	193,556	86,247	107,309
Public time deposits	NR	1,440	1,440	-
Negotiable certificates of deposits	A+ - AA-	1,241,116	1,141,226	99,890
Commercial paper	A-1 - A-1+	449,127	449,127	-
Corporate notes	A+ - AA-	671,178	586,121	85,057
Money market mutual funds	AAAm	555,450	555,450	-
Supranationals	NR - AAA	150,104	124,994	25,110
Subtotal		7,770,802	4,809,250	2,961,552
Less: Treasure Island Development Authority				
Investments with City Treasury	n/a	(11,130)	-	(11,130)
Less: Employees' Retirement System				
Investments with City Treasury	n/a	(6,656)	-	(6,656)
Less: Health Care Trust				
Investments with City Treasury	n/a	(3,022)	-	(3,022)
Subtotal pooled investments		7,749,994	4,809,250	2,940,744
Separately managed account:				
SFRDA South Beach Harbor Revenue Bond	n/a	675	675	-
Subtotal investments in City Treasury		7,750,669	\$ 4,809,925	\$ 2,940,744
Investments Outside City Treasury:				
(Governmental and Business - Type)				
U.S. Treasury Notes	NR/AAA/AA+	\$ 297,606	\$ 104,073	\$ 193,533
U.S. Agencies - Coupon	AA+	8,108	-	8,108
U.S. Agencies - Discount	AA+/A-1+	176,183	18,635	157,548
Certificates of Deposit	NR	304	304	-
Commercial Paper	A-1+/A-1	16,212	16,212	-
Money Market Mutual Funds	AAAm	299,895	299,895	-
U.S. Treasury Money Market Funds	AAAm	168,281	168,281	-
Subtotal investments outside City Treasury		966,589	\$ 607,400	\$ 359,189
Retiree Health Care Trust investments		113,373		
Employees' Retirement System investments		20,980,136		
Total Primary Government		\$ 29,810,767		
Component Unit:				
Treasure Island Development Authority:				
Investments with City Treasury	n/a	11,130	\$ -	\$ 11,130
Total Investments		\$ 29,821,897		

As of June 30, 2016, the investments in the City Treasury had a weighted average maturity of 372 days.

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Notes to Basic Financial Statements (Continued)
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Credit Risk

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

Custodial Credit Risk for Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to 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, 2016, 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.....	19.1%
Federal Home Loan Mortgage Corporation	12.6%
Federal Home Loan Bank	11.5%
Federal National Mortgage Association	5.1%

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, 2016:

Airport:	
Federal National Mortgage Association	29.0%
Federal Home Loan Mortgage Corporation.....	7.8%
Hetch Hetchy:	
Federal Farm Credit Bank	46.8%

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(e) 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, 2016:

Statement of Net Position

Net position held in trust for all pool participants.....	\$7,916,658
Equity of internal pool participants.....	\$7,172,086
Equity of separately managed account participant.....	677
Equity of external pool participants.....	743,895
Total equity.....	<u>\$7,916,658</u>

Statement of Changes in Net Position

Net position at July 1, 2015.....	\$7,190,206
Net change in investments by pool participants.....	726,452
Net position at June 30, 2016.....	<u>\$7,916,658</u>

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2016:

Type of Investment	Rates	Maturities	Par Value	Carrying Value
Pooled Investments:				
U.S. Treasury Notes.....	0.67% - 1.21%	09/30/16 - 11/30/17	\$ 500,000	\$ 501,077
U.S. Agencies - Coupon.....	0.03% - 2.09%	07/01/16 - 12/24/20	4,003,428	4,007,754
State and local agencies.....	0.44% - 1.66%	07/14/16 - 10/01/19	191,200	193,556
Public time deposits.....	0.72% - 1.05%	08/10/16 - 06/29/17	1,440	1,440
Negotiable certificates of deposit..	0.64% - 1.17%	08/08/16 - 10/25/17	1,240,000	1,241,116
Commercial paper.....	0.50% - 1.02%	07/01/16 - 03/07/17	450,000	449,127
Corporate notes.....	0.34% - 1.36%	07/05/16 - 04/06/18	670,676	671,178
Money market mutual funds.....	0.22% - 0.30%	07/01/16 - 07/01/16	555,450	555,450
Supranationals.....	0.32% - 1.07%	07/01/16 - 10/05/18	150,000	150,104
			<u>\$ 7,762,194</u>	<u>7,770,802</u>
Segregated account:				
Local agencies.....	3.50%	12/1/2016	\$ 675	675
Carrying amount of deposits with Treasurer.....				<u>145,181</u>
Total cash and investments with Treasurer.....				<u>\$ 7,916,658</u>

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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(f) Retirement System's Investments

The Retirement System's investments as of June 30, 2016 are summarized as follows:

Fixed Income Investments:	
Short-term investments	\$ 1,009,676
Investments with City Treasury	6,656
Debt securities:	
U.S. Government and agencies	1,648,271
Other debt securities	3,068,745
Subtotal debt securities	4,717,016
Total fixed income investments	5,733,348
Equity securities:	
Domestic	4,970,838
International	4,304,025
Total equity securities	9,274,863
Real assets	2,341,500
Private equity	2,750,619
Foreign currency contracts, net	14,125
Investment in lending agent's short-term investment pool	865,681
Total Retirement System Investments	\$ 20,980,136

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, 2016:

Investment Type	Fair Value	Maturities			
		Less than 1 year	1-5 years	6-10 years	10+ years
Asset Backed Securities	\$ 178,327	\$ -	\$ 57,102	\$ 11,880	\$ 109,345
Bank Loans	139,680	1,240	106,587	31,853	-
City Investment Pool	6,656	4,119	2,537	-	-
Collateralized Bonds	167	-	-	-	167
Commercial Mortgage-Backed Commingled and Other	438,764	6,254	6,708	5,558	420,244
Fixed Income Funds	231,780	264,114	569	51	(32,954)
Corporate Bonds	1,627,327	580,310	443,592	437,779	165,646
Corporate Convertible Bonds	293,360	3,460	197,038	35,709	57,153
Foreign Currencies and Cash Equivalents	144,456	144,456	-	-	-
Government Agencies	971,329	952,962	368	-	17,999
Government Bonds	589,416	150,467	278,583	43,497	116,869
Government Mortgage Backed Securities	145,030	-	10,819	-	134,211
Index Linked Government Bonds	1,359	-	-	1,243	116
Municipal/Provincial Bonds	40,049	-	9,182	1,628	29,239
Non-Government Backed Collateralized Mortgage Obligations	59,543	-	2,376	2,033	55,134
Options	(64)	(64)	-	-	-
Short Term Investment Funds	865,219	865,219	-	-	-
Swaps	950	(78)	831	197	-
Total	\$ 5,733,348	\$ 2,972,459	\$ 1,116,292	\$ 571,428	\$ 1,073,169

CITY AND COUNTY OF SAN FRANCISCO
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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, 2016. Investments issued or explicitly guaranteed by the U.S. government of \$505.3 million as of June 30, 2016 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	\$ 164,327	3.1%
AA	72,743	1.4%
A	247,306	4.7%
BBB	683,951	13.1%
BB	322,941	6.2%
B	294,025	5.6%
CCC	79,658	1.5%
CC	1,956	0.0%
C	4,240	0.1%
D	4,159	0.1%
Not Rated	3,352,732	64.2%
Total	<u>\$ 5,228,038</u>	<u>100.0%</u>

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 2016.

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, 2016, 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, 2016, \$153.6 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.

For fiscal year 2016, 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

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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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, private equity investments, real assets, 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, 2016 are as follows:

Currency	Cash	Equities	Fixed Income	Private Equities	Real Assets	Foreign Currency Contracts	Total
Australian dollar	\$ 1,044	\$ 103,293	\$ -	\$ 10,641	\$ -	\$ 2,650	\$ 117,628
Brazilian real	(581)	26,060	19,870	-	-	(5,475)	39,874
British pound sterling	717	533,900	12,635	-	18,874	(45,288)	520,838
Canadian dollar	1,027	69,596	6,851	-	-	30,932	108,406
Chilean peso	-	2,012	-	-	-	94	2,106
Chinese yuan renminbi	-	-	-	-	-	(1,582)	(1,582)
Colombian peso	63	-	5,451	-	-	1,872	7,386
Czech koruna	101	337	-	-	-	(101)	337
Danish krone	273	39,118	-	-	-	(1,423)	37,968
Euro	(4,323)	745,341	108,816	148,583	39,685	(66,038)	972,064
HK offshore Chinese yuan renminbi	-	-	-	-	-	(1,052)	(1,052)
Hong Kong dollar	567	162,696	-	-	-	3,862	167,125
Hungarian forint	137	327	-	-	-	2,515	2,979
Indian rupee	-	-	-	-	-	564	564
Indonesian rupiah	16	11,124	10,163	-	-	1,100	22,403
Japanese yen	4,587	532,091	-	-	23,343	98,308	658,329
Malaysian ringgit	315	20,649	6,628	-	-	4,087	31,679
Mexican peso	260	34,581	9,098	-	-	4,764	48,703
New Israeli shekel	73	9,685	-	-	-	5,513	15,271
New Romanian leu	21	-	2,138	-	-	(740)	1,419
New Taiwan dollar	1,851	66,010	-	-	-	(2,758)	65,103
New Zealand dollar	47	3,174	-	-	-	53,079	56,300
Norwegian krone	360	11,966	-	-	-	(1,661)	10,665
Peruvian nuevo sol	-	-	2,398	-	-	(319)	2,079
Philippine peso	(253)	2,641	811	-	-	(272)	2,927
Polish zloty	6	-	9,510	-	-	2,280	11,796
Qatari riyal	-	5,448	-	-	-	-	5,448
Russian ruble	(571)	-	5,857	-	-	721	6,007
Singapore dollar	332	14,748	-	-	-	3,074	18,154
South African rand	(948)	24,765	8,183	-	-	2,250	34,250
South Korean won	1,361	98,501	-	-	-	(75)	99,787
Swedish krona	1,230	65,241	-	-	-	9,961	76,432
Swiss franc	279	192,496	147	-	-	(33,363)	159,559
Thai baht	14	7,354	2,198	-	-	6,696	16,262
Turkish lira	1,056	10,286	17,013	-	-	(7,381)	20,974
United Arab Emirates dirham	-	5,893	-	-	-	-	5,893
Total	\$ 9,061	\$ 2,799,333	\$ 227,767	\$ 159,224	\$ 81,902	\$ 66,794	\$ 3,344,081

Derivative Instruments

As of June 30, 2016, 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.

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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, 2016:

Derivative Type / Contracts	Notional Amount	Fair Value	Net Appreciation (Depreciation) in Fair Value
Forwards			
Foreign Exchange Contracts	(a)	\$ 14,144	\$ 14,144
Other Contracts	(a)	(114)	(114)
Options			
Foreign Exchange Contracts	\$ 8,426	(64)	4
Swaps			
Credit Contracts	2,300	(18)	12
Interest Rate Contracts	43,514	968	766
Rights/Warrants			
Equity Contracts	23,123 shares	1,857	(6,406)
Total		<u>\$ 16,773</u>	<u>\$ 8,406</u>

(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 U.S. dollar. As a result, a U.S. 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.

Counterparty Credit Risk

The Retirement System is exposed to credit risk on non-exchange traded derivative instruments that are in asset positions. As of June 30, 2016, the fair value of forward currency contracts (including foreign exchange contract options) to purchase and sell international currencies were \$14.9 million and \$0.8 million, respectively. The Retirement System's counterparties to these contracts held credit ratings of A or better on 99.6% of the positions as assigned by one or more of the major credit rating organizations (S&P, Moody's and/or Fitch) while 0.4% were not rated.

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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, 2016, 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, 2016.

Derivative Type / Contracts	Fair Value	Maturities		
		Less than 1 year	1-5 years	6-10 years
Forwards				
Foreign Exchange Contracts	\$ 14,144	\$ 14,053	\$ 91	\$ -
Options				
Foreign Exchange Contracts	(64)	(64)	-	-
Swaps				
Credit Contracts	(18)	2	(20)	-
Interest Rate Contracts	968	(80)	851	197
Total	\$ 15,030	\$ 13,911	\$ 922	\$ 197

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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, 2016:

<u>Investment Type</u>	<u>Reference Rate</u>	<u>Notional Value</u>	<u>Fair Value</u>
Interest Rate Swap	Receive Fixed 1.50%, Pay Variable 6-Month WIBOR	\$ 606	\$ (1)
Interest Rate Swap	Receive Fixed 1.93%, Pay Variable 6-Month THB	301	4
Interest Rate Swap	Receive Fixed 12.055%, Pay Variable 1-Day BIDOR	252	(2)
Interest Rate Swap	Receive Fixed 12.20%, Pay Variable 1-Day BIDOR	1,108	13
Interest Rate Swap	Receive Fixed 12.23%, Pay Variable 1-Day BIDOR	203	(1)
Interest Rate Swap	Receive Fixed 12.255%, Pay Variable 1-Day BIDOR	5,381	(71)
Interest Rate Swap	Receive Fixed 12.85%, Pay Variable 1-Day BIDOR	298	19
Interest Rate Swap	Receive Fixed 13.73%, Pay Variable 1-Day BIDOR	528	5
Interest Rate Swap	Receive Fixed 15.44%, Pay Variable 1-Day BIDOR	588	104
Interest Rate Swap	Receive Fixed 15.96%, Pay Variable 1-Day BIDOR	5,287	534
Interest Rate Swap	Receive Fixed 16.15%, Pay Variable 1-Day BIDOR	824	172
Interest Rate Swap	Receive Fixed 16.395%, Pay Variable 1-Day BIDOR	102	23
Interest Rate Swap	Receive Fixed 16.40%, Pay Variable 1-Day BIDOR	127	30
Interest Rate Swap	Receive Fixed 16.95%, Pay Variable 1-Day BIDOR	82	22
Interest Rate Swap	Receive Fixed 2.015%, Pay Variable 6-Month THB	569	10
Interest Rate Swap	Receive Fixed 2.12%, Pay Variable 6-Month THB	683	14
Interest Rate Swap	Receive Fixed 2.175%, Pay Variable 6-Month THB	643	16
Interest Rate Swap	Receive Fixed 2.19%, Pay Variable 6-Month THB	199	5
Interest Rate Swap	Receive Fixed 2.22%, Pay Variable 6-Month THB	398	10
Interest Rate Swap	Receive Fixed 2.58%, Pay Variable 6-Month THB	771	45
Interest Rate Swap	Receive Fixed 2.625%, Pay Variable 6-Month THB	1,190	75
Interest Rate Swap	Receive Fixed 2.78%, Pay Variable 6-Month THB	26	2
Interest Rate Swap	Receive Fixed 5.21%, Pay Variable 1-Day MXIBR	596	(6)
Interest Rate Swap	Receive Fixed 5.23%, Pay Variable 3-Month CIBR	124	(5)
Interest Rate Swap	Receive Fixed 5.31%, Pay Variable 3-Month CIBR	48	(2)
Interest Rate Swap	Receive Fixed 5.32%, Pay Variable 3-Month CIBR	567	(20)
Interest Rate Swap	Receive Fixed 5.33%, Pay Variable 3-Month CIBR	574	(40)
Interest Rate Swap	Receive Fixed 5.61%, Pay Variable 28-Day MXIBR	1,724	6
Interest Rate Swap	Receive Fixed 5.63%, Pay Variable 28-Day MXIBR	1,008	3
Interest Rate Swap	Receive Fixed 5.84%, Pay Variable 28-Day MXIBR	341	4
Interest Rate Swap	Receive Fixed 6.12%, Pay Variable 3-Month CIBR	112	(5)
Interest Rate Swap	Receive Fixed 6.20%, Pay Variable 3-Month CIBR	144	(5)
Interest Rate Swap	Receive Fixed 6.22%, Pay Variable 3-Month CIBR	151	(6)
Interest Rate Swap	Receive Fixed 6.24%, Pay Variable 28-Day MXIBR	136	4
Interest Rate Swap	Receive Fixed 7.50%, Pay Variable 3-Month JIBAR	868	(22)
Interest Rate Swap	Receive Fixed 8.00%, Pay Variable 3-Month JIBAR	901	4
Interest Rate Swap	Receive Fixed 8.50%, Pay Variable 3-Month JIBAR	1,831	36
Interest Rate Swap	Receive Fixed 8.75%, Pay Variable 3-Month JIBAR	1,072	37
Interest Rate Swap	Receive Fixed 9.00%, Pay Variable 3-Month JIBAR	205	9
Interest Rate Swap	Receive Fixed 9.50%, Pay Variable 3-Month JIBAR	498	38
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 11.16%	96	7
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 12.86%	651	7
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 14.205%	5,133	(9)
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 15.50%	1,125	(56)
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 15.77%	1,635	(92)
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 4.65%	423	2
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 5.66%	721	14
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 6.08%	1,241	(3)
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 6.32%	363	(8)
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 6.50%	244	(1)
Interest Rate Swap	Receive Variable 3-Month CIBR, Pay Fixed 6.42%	223	6
Interest Rate Swap	Receive Variable 3-Month CIBR, Pay Fixed 6.43%	69	2
Interest Rate Swap	Receive Fixed 2.81%, Pay Return THB	524	41
Total Interest Rate Swap		<u>\$ 43,514</u>	<u>\$ 968</u>

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
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Foreign Currency Risk

At June 30, 2016, 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, 2016:

Currency	Forwards	Rights/ Warrants	Swaps	Total
Australian dollar	\$ 2,650	\$ -	\$ -	\$ 2,650
Brazilian real	(5,349)	-	703	(4,646)
British pound sterling	(43,351)	-	-	(43,351)
Canadian dollar	31,384	-	-	31,384
Chilean peso	94	-	-	94
Chinese yuan renminbi	(1,582)	-	-	(1,582)
Colombian peso	1,872	-	(74)	1,798
Czech koruna	(45)	-	-	(45)
Danish krone	(1,423)	-	-	(1,423)
Euro	(67,878)	75	-	(67,803)
HK offshore Chinese yuan renminbi	(1,052)	-	-	(1,052)
Hong Kong dollar	3,569	-	-	3,569
Hungarian forint	2,652	-	-	2,652
Indian rupee	564	-	-	564
Indonesian rupiah	1,100	-	-	1,100
Japanese yen	100,599	-	-	100,599
Malaysian ringgit	4,087	-	-	4,087
Mexican peso	3,471	-	16	3,487
New Israeli shekel	5,513	-	-	5,513
New Romanian Leu	(740)	-	-	(740)
New Russian ruble	150	-	-	150
New Taiwan dollar	(2,758)	-	-	(2,758)
New Zealand dollar	53,079	-	-	53,079
Norwegian krone	(1,656)	87	-	(1,569)
Peruvian nuevo sol	(319)	-	-	(319)
Philippine peso	(272)	-	-	(272)
Polish zloty	1,865	-	(1)	1,864
Singapore dollar	3,074	-	-	3,074
South African rand	2,689	-	101	2,790
South Korean won	(75)	-	-	(75)
Swedish krona	10,958	-	-	10,958
Swiss franc	(33,477)	-	-	(33,477)
Thai baht	6,696	-	222	6,918
Turkish lira	(6,647)	-	-	(6,647)
Total	\$ 69,442	\$ 162	\$ 967	\$ 70,571

Contingent Features

At June 30, 2016, the Retirement System held no positions in derivatives containing contingent features.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
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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, 2016, 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, 2016, the Retirement System lent \$1.2 billion in securities and received collateral of \$0.9 billion and \$0.4 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 increase 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 gain of \$2.1 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.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

The Retirement System's securities lending transactions as of June 30, 2016, are summarized in the following table:

Investment Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Non- Cash Collateral
Securities on Loan for Cash Collateral			
International Corporate Fixed Income	\$ 5,600	\$ 5,842	\$ -
International Equities	40,741	42,797	-
International Government Fixed	1,105	1,153	-
U.S. Government Agencies	204	208	-
U.S. Corporate Fixed Income	114,536	116,353	-
U.S. Equities	439,182	445,863	-
U.S. Government Fixed Income	247,020	251,320	-
Securities on Loan for Non-Cash Collateral			
International Corporate Fixed Income	8,736	-	9,163
International Equities	295,913	-	315,144
International Government Fixed	105	-	110
U.S. Corporate Fixed Income	6,132	-	6,225
U.S. Equities	37,080	-	37,609
Total	\$ 1,196,354	\$ 863,536	\$ 368,251

The following table presents the segmented time distribution, based upon the expected maturity (in years), for investments within the short term investment pool in which the securities lending cash collateral is invested, as of June 30, 2016.

Investment Type	Fair Value	Maturity Less Than 1 Year
Commercial Paper	\$ 44,260	\$ 44,260
Negotiable Certificates of Deposit	345,116	345,116
Repurchase Agreements	419,000	419,000
Short Term Investment Funds	57,305	57,305
Total	\$ 865,681	\$ 865,681

The Retirement System's exposure to credit risk in its reinvested cash collateral account as of June 30, 2016 is as follows:

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AA	\$ 153,323	17.7%
A	337,078	38.9%
Not Rated *	375,280	43.4%
Total	\$ 865,681	100.0%

* Repurchase agreements of \$270.0 million are not rated by Moody's, but are held by counterparties with S&P ratings of A or AA.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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Investments in Real Assets Holdings

Real assets investments represent the Retirement System's interests in real assets limited partnerships and separate accounts. The changes in these investments during the year ended June 30, 2016 are summarized as follows:

Investments:	
Beginning of the year	\$ 1,975,926
Capital investments	1,318,111
Equity in net earnings	48,492
Net appreciation in fair value	168,196
Capital distributions	<u>(1,169,225)</u>
End of the year	<u>\$ 2,341,500</u>

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 \$492.2 million including \$26.7 million in recourse debt at June 30, 2016. The underlying real estate holdings are valued periodically based on appraisals performed by independent appraisers in accordance with Uniform Standards of Professional Appraisal Practice. 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.

(g) Retiree Health Care Trust Fund

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may 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. The RHCTF does not have a specific policy to manage interest rate risk.

As of June 30, 2016, the weighted average maturities in years for the RHCTF's fixed income investments were as follows:

Investment Type	Weighted Average Maturity in Years
US Debt Index Fund	7.45
City Investment Pool	1.02
Treasury Money Market Fund	0.15

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment may not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's investment pool is not rated. Although the RHCTF's fixed income investments in various commingled funds are not rated, the issuers/sponsors of the funds are rated as of June 30, 2016 as follows:

Issuer/Sponsors	Investment Type	S&P	Moody's
Northern Trust Company	Equity Index Funds, Money Market Fund	A+	A2
Blackrock	US Debt Index Fund	AA-	A1

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
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(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 \$241 million for the year ended June 30, 2016.

Taxable valuation for the year ended June 30, 2016 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Successor Agency) was approximately \$178 billion, an increase of 6.9%. The secured tax rate was \$1.1826 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 \$0.1826 for bond debt service. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 0.66% and 5.09%, respectively, of the current year tax levy, for an average delinquency rate of 0.93% of the current year tax levy.

As established by the Teeter Plan, the Controller allocates to the City and other agencies 100% of the secured property taxes billed but not yet collected by the City; in return, as the delinquent property taxes and associated penalties and interest are collected, the City retains such tax amounts in the Agency Fund. To the extent the Agency Fund balances are higher than required; transfers may be made to benefit the City's General Fund on a budgetary basis. The balance of the tax loss reserve as of June 30, 2016 was \$22.9 million, which is included in the Agency Fund for reporting purposes. The City has funded payment of accrued and current delinquencies, together with the required reserve, from interfund borrowing.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

(7) CAPITAL ASSETS

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Increases *	Decreases *	Balance June 30, 2016
Governmental Activities:				
Capital assets, not being depreciated:				
Land.....	\$ 299,911	\$ 34,350	\$ -	\$ 334,261
Intangible assets.....	8,716	28,468	(6,014)	31,170
Construction in progress.....	1,245,064	321,030	(1,110,001)	456,093
Total capital assets, not being depreciated.....	<u>1,553,691</u>	<u>383,848</u>	<u>(1,116,015)</u>	<u>821,524</u>
Capital assets, being depreciated:				
Facilities and improvements.....	3,534,003	905,660	-	4,439,663
Machinery and equipment.....	430,807	151,214	(11,073)	570,948
Infrastructure.....	799,764	57,439	-	857,203
Intangible assets.....	48,411	5,850	-	54,261
Total capital assets, being depreciated.....	<u>4,812,985</u>	<u>1,120,163</u>	<u>(11,073)</u>	<u>5,922,075</u>
Less accumulated depreciation for:				
Facilities and improvements.....	989,887	77,593	-	1,067,480
Machinery and equipment.....	354,605	25,995	(10,985)	369,615
Infrastructure.....	140,262	30,576	-	170,838
Intangible assets.....	7,212	3,102	-	10,314
Total accumulated depreciation.....	<u>1,491,966</u>	<u>137,266</u>	<u>(10,985)</u>	<u>1,618,247</u>
Total capital assets, being depreciated, net.....	<u>3,321,019</u>	<u>982,897</u>	<u>(88)</u>	<u>4,303,828</u>
Governmental activities capital assets, net.....	<u>\$ 4,874,710</u>	<u>\$ 1,366,745</u>	<u>\$ (1,116,103)</u>	<u>\$ 5,125,352</u>
Business-Type Activities:				
Capital assets, not being depreciated:				
Land.....	\$ 217,441	\$ -	\$ -	\$ 217,441
Intangible assets.....	12,043	-	-	12,043
Construction in progress.....	3,104,166	1,445,023	(1,428,728)	3,120,461
Total capital assets, not being depreciated.....	<u>3,333,650</u>	<u>1,445,023</u>	<u>(1,428,728)</u>	<u>3,349,945</u>
Capital assets, being depreciated:				
Facilities and improvements.....	15,114,928	1,165,666	(34,165)	16,246,429
Machinery and equipment.....	2,289,042	347,313	(67,314)	2,569,041
Infrastructure.....	1,270,624	19,582	-	1,290,206
Property held under Lease.....	697	-	-	697
Intangible assets.....	214,810	4,190	-	219,000
Total capital assets, being depreciated.....	<u>18,890,101</u>	<u>1,536,751</u>	<u>(101,479)</u>	<u>20,325,373</u>
Less accumulated depreciation for:				
Facilities and improvements.....	5,398,350	388,005	(24,261)	5,762,094
Machinery and equipment.....	1,362,063	154,496	(60,378)	1,456,181
Infrastructure.....	551,384	37,793	-	589,177
Property held under lease.....	697	-	-	697
Intangible assets.....	161,051	10,301	-	171,352
Total accumulated depreciation.....	<u>7,473,545</u>	<u>590,595</u>	<u>(84,639)</u>	<u>7,979,501</u>
Total capital assets, being depreciated, net.....	<u>11,416,556</u>	<u>946,156</u>	<u>(16,840)</u>	<u>12,345,872</u>
Business-type activities capital assets, net.....	<u>\$ 14,750,206</u>	<u>\$ 2,391,179</u>	<u>\$ (1,445,568)</u>	<u>\$ 15,695,817</u>

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

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Public protection.....	\$ 24,247
Public works transportation and commerce.....	29,285
Human welfare and neighborhood development.....	629
Community Health.....	4,145
Culture and recreation.....	52,210
General administration and finance.....	23,952
Capital assets held by the City's internal service funds charged to the various functions on a prorated bases.....	2,798
Total depreciation expense - governmental activities.....	\$ 137,266
Business-type activities:	
Airport.....	\$ 228,359
Water.....	106,666
Power.....	16,513
Transportation.....	133,715
Hospitals.....	32,619
Wastewater.....	50,799
Port.....	21,924
Total depreciation expense - business-type activities.....	\$ 590,595

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 \$3.7 billion as of June 30, 2016. 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, 2016. The Airport had \$6.9 million in intangible assets of permanent easements. In addition, the Water Enterprise had utility type assets with useful lives over 100 years, which totaled \$6.8 million as of June 30, 2016.

In fiscal year 2015-16, the Airport had write-offs and loss on disposal in the amount of \$13.1 million primarily due to disposal. During fiscal year ended June 30, 2016, the Water Enterprise, Hetch Hetchy, and the Wastewater Enterprise expensed \$0.4 million, \$4.9 million, and \$5.5 million, respectively, related to capitalized design and planning costs on certain projects that were discontinued.

During the fiscal year ended June 30, 2016, the City's enterprise funds incurred total interest expense and interest income of approximately \$494.6 million and \$25.8 million, respectively. Of these amounts, interest expense of approximately \$88.2 million was capitalized.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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(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, 2016, are as follows:

Type of Obligation	July 1, 2015	Additional Obligation	Current Maturities	June 30, 2016
Governmental activities:				
Commercial paper				
Multiple Capital Projects	\$ 157,766	\$ 684,861	\$ (739,849)	\$ 102,778
Governmental activities short-term obligations	<u>\$ 157,766</u>	<u>\$ 684,861</u>	<u>\$ (739,849)</u>	<u>\$ 102,778</u>
Business-type activities:				
Commercial paper				
San Francisco General Hospital.....	\$ 3,761	\$ 28,572	\$ (3,761)	\$ 28,572
San Francisco International Airport.....	40,000	304,100	(1,050)	343,050
San Francisco Water Enterprise.....	186,000	236,000	(186,000)	236,000
San Francisco Wastewater Enterprise.....	100,000	61,000	(100,000)	61,000
Business-type activities short-term obligations	<u>\$ 329,761</u>	<u>\$ 629,672</u>	<u>\$ (290,811)</u>	<u>\$ 668,622</u>

City and County of San Francisco Commercial Paper Program

The City launched its commercial paper (CP) program to pay for project costs in connection with the acquisition, improvement, renovation and construction of real property and the acquisition of capital equipment and vehicles (Resolution No. 85-09). Pursuant to Resolution No. 85-09 approved in March 2009, the Board of Supervisors established a \$150.0 million commercial paper program. Pursuant to Resolution 247-13, the authorization of the commercial paper program was increased to \$250.0 million from \$150.0 million. The City currently has letters of credit supporting the \$250.0 million program.

The CP is an alternative form of short-term (or interim) financing for capital projects that permits the City to pay project costs as project expenditures are incurred. The CP notes are issued and short-term debt is incurred only when needed to pay project costs as they are incurred. The CP has a fixed maturity date from one to 270 days and generally matures in 270 days. The CP notes are supported by two Revolving Credit Agreements (RCA) issued by State Street Bank and Trust Company ("State Street Bank") and U.S. Bank N.A. with a fee of 0.45% and 0.45%, respectively and a Letter of Credit Agreement (LOC) issued by State Street Bank with a fee of 0.50%. The State Street Bank and US Bank N.A. RCAs are scheduled to expire in May 2021 and the State Street Bank LOC is scheduled to expire in February 2019.

In fiscal year 2016, the City retired \$743.6 million and issued \$713.4 million CP to provide interim financing for the acquisition and improvement of various approved capital projects: the purchase of capital equipment for the San Francisco General Hospital and Trauma Center, rebuilding of severely distressed public housing sites while increasing affordable housing and ownership opportunities and improving the quality of life for existing residents and the surrounding communities (HOPE SF), War Memorial Veterans Building seismic retrofit and Moscone Center expansion. As of June 30, 2016, the outstanding principal amount of tax exempt and taxable CP was \$119.9 million and \$11.5 million, respectively. The tax exempt and taxable CP bear interest rates ranging from 0.43% to 0.47% and 0.53%, respectively.

CITY AND COUNTY OF SAN FRANCISCO
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San Francisco International Airport

In May 1997, the Airport adopted Resolution No. 97-0146, as amended and supplemented (the "Note Resolution"), authorizing the issuance of 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 series that are subdivided into subseries according to tax status and that are secured by direct-pay LOC. 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 amounts specified in the Note Resolution), 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.

During fiscal year 2016, the CP program was supported by two \$100.0 million principal amount direct-pay LOC issued by State Street Bank and Trust Company and Wells Fargo Bank, National Association, with expiration dates of May 2, 2019, and May 31 2019, respectively, and a third LOC issued by Royal Bank of Canada in the principal amount of \$200.0 million with expiration date of May 19, 2017. Each of the 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, 2016.

As of June 30, 2016, there were no obligations other than the CP notes outstanding under the Note Resolution.

During fiscal year 2016, the Airport issued \$280.4 million of new money CP (AMT) and \$22.7 million (Non-AMT) to fund capital improvement projects. The Airport also issued and retired \$1.1 million of new money CP (taxable) during fiscal year 2016 to fund costs related to various bond and note transactions. As of June 30, 2016, the interest rates on taxable, AMT and Non-AMT CP were 0.55%, 0.02% to 0.58%, and 0.05% to 0.52%, 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 voter-approved 2002 Proposition A, and \$250.0 million pursuant to voter-approved Proposition E. As of June 30, 2016, no CP was outstanding under Proposition A. Amounts outstanding under Proposition E were \$236.0 million at June 30, 2016. CP interest rates ranged from 0.1% to 0.6%. 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.

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Hetch Hetchy Water and Power

Effective December 2015, under Charter Sections 9.107(6) and 9.107(8), the San Francisco Public Utilities Commission and Board of Supervisors authorized the issuance of up to \$90.0 million in CP for the purpose of reconstruction or replacement of existing generation, transmission and distribution facilities of the Hetch Hetchy Power. Hetch Hetchy Water and Power had no commercial paper outstanding as of June 30, 2016.

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 \$500.0 million in CP for the purpose of reconstructing, expanding, repairing, or improving the Wastewater Enterprise's facilities. The Enterprise had \$61.0 million CP outstanding as June 30, 2016.

San Francisco Municipal Transportation Agency

In June 2013, pursuant to the City Charter Section 8A.102 (b) 13, the SFMTA Board of Directors authorized the issuance of CP notes in an aggregate principal amount not to exceed \$100.0 million. In July 2013, the Board of Supervisors concurred with the issuance. The CP is secured by an irrevocable LOC 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 LOC 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 SFMTA. OPF will be initiating the issuance of CP with the dealers and reporting on the CP program. The CP 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. SFMTA will be requesting drawdowns based on cash flow needs and expenditures schedules. No CP notes have been drawn or outstanding as of June 30, 2016.

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Long-Term Obligations

The following is a summary of long-term obligations of the City as of June 30, 2016:

GOVERNMENTAL ACTIVITIES

<u>Type Of Obligation and Purpose</u>	<u>Final Maturity Date</u>	<u>Remaining Interest Rates</u>	<u>Amount</u>
GENERAL OBLIGATION BONDS ^(a) :			
Earthquake safety and emergency response.....	2035	2.25% - 5.00%	\$ 469,540
Parks and playgrounds	2035	2.00% - 6.26%	175,050
Road repaving and street safety	2035	2.00% - 5.00%	176,250
San Francisco General Hospital.....	2033	3.25% - 6.26%	573,085
Seismic safety loan program	2035	1.037% - 5.83%*	46,767
Transportation and road improvement	2035	2.75% - 5.00%	47,005
Refunding	2030	4.00% - 5.00%	523,360
General obligation bonds			2,011,057
LEASE REVENUE BONDS:			
San Francisco Finance Corporation ^{(b), (e) & (f)}	2034	0.425% - 5.75% **	196,055
CERTIFICATES OF PARTICIPATION:			
Certificates of participation ^{(c) & (d)}	2045	1.096% - 5.00%	589,580
OTHER LONG TERM OBLIGATIONS:			
Loans ^{(d) & (f)}	2045	2.00% - 5.74%	28,395
Revolving credit agreement loan - Transportation Authority ^(c) .	2018	0.62% ***	114,664
Governmental activities total long-term obligations.....			\$ 2,939,751

* Includes the 1992 Seismic Safety Loan Program GOB Series 2015A which bears variable interest rate that resets monthly. The rate for GOB Series 2015A at June 30, 2016 was 1.037%.

** 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, 2016 for Series 2008 -1 & 2 averaged to 0.425%.

*** The Revolving credit agreement loan interest rate equals to the sum of 70% of 1-month LIBOR plus 30%.

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) Sales tax revenues recorded in the Transportation Authority Special Revenue Fund.
- (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.

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BUSINESS-TYPE ACTIVITIES

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
San Francisco International Airport:			
Revenue bonds *	2044	2.00% - 6.00%*	\$ 4,234,725
San Francisco Water Enterprise:			
Revenue bonds	2051	1.80% - 6.95%	4,075,890
Certificates of participation	2042	2.00% - 6.49%	111,405
Accreted interest	2019	-	5,860
Hetch Hetchy Water and Power:			
Energy and revenue bonds	2046	0.00% - 5.00%	55,599
Certificates of participation	2042	2.00% - 6.49%	15,167
Municipal Transportation Agency:			
Revenue bonds	2044	3.00% - 5.00%	185,835
Loans	2019	2.86%	76
San Francisco General Hospital Medical Center:			
Certificates of participation	2026	5.55%	17,082
Capital leases	2017	2.41% - 2.66%	258
San Francisco Wastewater Enterprise:			
Revenue bonds	2047	1.00% - 5.82%	978,135
Certificates of participation	2042	2.00% - 6.49%	29,458
Port of San Francisco:			
Revenue bonds	2044	1.60% - 7.408%	54,125
Certificates of participation	2038	4.00% - 5.25%	33,335
Loans	2029	4.50%	2,244
Laguna Honda Hospital:			
Certificates of participation	2031	4.30% - 5.25%	131,710
Capital leases	2017	4.00%	8
Business-type activities total long-term obligations			\$ 9,930,912

* 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, 2016, the average interest rates on Issue 36A, 36B, 36C and 37C were 0.12%, 0.11%, 0.12%, & 0.11%, respectively; for Issue 2010A-1, 2010A-2 and 2010A-3 rates were 0.12%, 0.12% and 0.12%, respectively.

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

Debt Compliance

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, 2016, the City's debt limit (3% of valuation subject to taxation) was \$5.83 billion. The total amount of debt applicable to the debt limit was \$2.23 billion. The resulting legal debt margin was \$3.60 billion.

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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 issued and the Finance Corporation has evaluated each lease revenue bonds. The City and the Finance Corporation do not have rebatable arbitrage liability as of June 30, 2016. Each enterprise fund has performed 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 City and County of San Francisco Special Tax District No. 2009-1 (San Francisco Sustainable Financing) 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. The bonded indebtedness issued by the Special District for the improvement area under the program are payable solely from special taxes levied and collected on property in the improvement area and are not considered obligation of the City. Assessments for the 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 District No. 2009-1.

In October 2012, the City issued \$1.4 million Special Tax Bonds Series A for the Area No.1 and in November 2014, the City issued \$1.8 million Special Tax Bonds Series A for the Area No.2 of the Special District. As of June 30, 2016, the amount outstanding on the Area No. 1 and No. 2 bonds was \$1.3 million and \$1.8 million, respectively.

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 and are not considered obligation of the City. The bonds mature from September 1998 through September 2026 bearing interest rates 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, 2016, the principal amount of bonds outstanding was \$0.6 million.

Mortgage Revenue Bonds

The City, through the Mayor's Office of Housing and Community Development and the former San Francisco Redevelopment Agency has issued various mortgage revenue bonds and community district facility bonds for the financing of multifamily rental housing, below-market rate mortgage for first time homebuyers 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, 2016, the total obligation outstanding was \$711.5 million.

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Changes in Long-Term Obligations

The changes in long-term obligations for the year ended June 30, 2016, are as follows:

	July 1, 2015	Additional Obligations, and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2016	Amounts Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 1,881,110	\$ 321,875	\$ (191,928)	\$ 2,011,057	\$ 120,004
Lease revenue bonds.....	214,850	-	(18,795)	196,055	14,025
Certificates of participation	487,215	274,050	(171,685)	589,580	39,075
Subtotal.....	2,583,175	595,925	(382,408)	2,796,692	173,104
Issuance premiums / discounts:					
Add: unamortized premiums	239,215	32,845	(19,860)	252,200	-
Less: unamortized discounts	(1,594)	-	1,390	(204)	-
Total bonds payable, net.....	2,820,796	628,770	(400,878)	3,048,688	173,104
Loans.....	163,837	-	(20,778)	143,059	803
Accrued vacation and sick leave pay.....	149,874	110,753	(109,600)	151,027	85,868
Accrued workers' compensation.....	223,684	50,897	(46,756)	227,825	39,357
Estimated claims payable.....	157,660	30,978	(28,140)	160,498	53,627
Governmental activity long-term obligations.....	<u>\$ 3,515,851</u>	<u>\$ 821,398</u>	<u>\$ (606,152)</u>	<u>\$ 3,731,097</u>	<u>\$ 352,759</u>
	July 1, 2015	Additional Obligations, and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2016	Amounts Due Within One Year
Total Business-type Activities:					
Bonds payable:					
Revenue bonds	\$ 9,551,350	\$ 540,475	\$ (563,115)	\$ 9,528,710	\$ 265,515
Clean renewable energy bonds.....	55,445	4,100	(3,946)	55,599	1,692
Certificates of participation	349,465	-	(11,308)	338,157	11,849
Subtotal.....	9,956,260	544,575	(578,369)	9,922,466	279,056
Issuance premiums / discounts:					
Add: unamortized premiums	440,114	103,525	(43,471)	500,168	-
Less: unamortized discounts	(601)	-	31	(570)	-
Total bonds payable, net	10,395,773	648,100	(621,809)	10,422,064	279,056
Accreted interest payable.....	5,471	389	-	5,860	-
Notes, loans, and other payables.....	2,369	97	(146)	2,320	163
Capital leases	1,174	-	(908)	266	266
Accrued vacation and sick leave pay.....	104,662	56,756	(52,805)	108,613	64,822
Accrued workers' compensation.....	171,890	57,863	(40,150)	189,603	31,867
Estimated claims payable.....	107,170	37,837	(27,939)	117,068	52,808
Long-term obligations.....	<u>\$10,788,509</u>	<u>\$ 801,042</u>	<u>\$ (743,757)</u>	<u>\$10,845,794</u>	<u>\$ 428,982</u>

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.

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Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2016 for governmental and business-type activities are as follows:

Governmental Activities ⁽¹⁾								
Fiscal Year Ending June 30	General Obligation		Lease Revenue		Other Long-Term		Total	
	Bonds		Bonds		Obligations			
	Principal	Interest ⁽²⁾	Principal	Interest ⁽³⁾	Principal	Interest ⁽⁴⁾	Principal	Interest
2017.....	\$ 120,004	\$ 89,914	\$ 14,025	\$ 4,973	\$ 39,878	\$ 26,768	\$ 173,907	\$ 121,655
2018.....	117,298	83,995	10,880	4,578	155,681	25,315	283,859	113,888
2019.....	117,396	78,362	12,595	4,287	30,905	22,974	160,896	105,623
2020.....	116,436	72,607	6,110	3,999	22,721	21,757	145,267	98,363
2021.....	114,695	66,943	12,740	3,728	23,256	20,747	150,691	91,418
2022-2026....	618,208	249,785	70,275	13,692	114,440	88,624	802,923	352,101
2027-2031...	603,745	108,004	62,795	5,254	125,813	62,235	792,353	175,493
2032-2036...	203,275	14,189	6,635	777	114,866	33,231	324,776	48,197
2037-2041...	-	-	-	-	71,594	15,044	71,594	15,044
2042-2045...	-	-	-	-	33,485	3,494	33,485	3,494
Total.....	<u>\$ 2,011,057</u>	<u>\$ 763,799</u>	<u>\$ 196,055</u>	<u>\$ 41,288</u>	<u>\$ 732,639</u>	<u>\$ 320,189</u>	<u>\$ 2,939,751</u>	<u>\$ 1,125,276</u>

Business-Type Activity ⁽¹⁾								
Fiscal Year Ending June 30	Clean Renewable Energy							
	Revenue Bonds ^{(5) (6)}		Certificates of Participation ⁽⁶⁾		Other Long-Term		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017.....	\$ 265,515	\$ 477,197	\$ 13,541	\$ 21,285	\$ 429	\$ 147	\$ 279,485	\$ 498,629
2018.....	279,235	467,033	14,862	20,624	170	97	294,267	487,754
2019.....	309,000	450,632	15,512	19,936	154	90	324,666	470,658
2020.....	344,020	435,602	16,213	19,187	149	82	360,382	454,871
2021.....	364,960	418,833	16,849	18,398	156	76	381,965	437,307
2022-2026....	1,969,965	1,812,548	89,361	78,920	891	267	2,060,217	1,891,735
2027-2031...	1,759,370	1,318,043	95,447	54,597	637	58	1,855,454	1,372,698
2032-2036...	1,544,180	899,452	48,073	32,539	-	-	1,592,253	931,991
2037-2041...	1,708,045	485,640	59,335	16,365	-	-	1,767,380	502,005
2042-2046...	844,790	125,742	24,563	2,046	-	-	869,353	127,788
2047-2051...	139,630	21,908	-	-	-	-	139,630	21,908
Total.....	<u>\$ 9,528,710</u>	<u>\$ 6,912,630</u>	<u>\$ 393,756</u>	<u>\$ 283,897</u>	<u>\$ 2,586</u>	<u>\$ 817</u>	<u>\$ 9,925,052</u>	<u>\$ 7,197,344</u>

- (1) The specific year for payment of estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.
- (2) The interest is before federal subsidy for the General Obligation Bonds Series 2010 C and Series 2010 D. The subsidy is approximately \$32.2 million and \$6.6 million, respectively, through the year ending 2030. The payment of subsidy by the IRS in fiscal year 2016 was reduced by 6.8% 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 bear interest at a weekly rate. An assumed rate of 0.425%, together with liquidity fee of 0.350% and remarketing fee of 0.0725% were used to project the interest rate payment in this table.
- (4) The San Francisco County Transportation Authority variable interest rate revolving loan expires on June 8, 2018 and has a rate of interest equal to the sum of 70% of 1-month LIBOR plus 0.30%. An assumed rate of 0.62% was used to project the interest rate payment in this table.

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- (5) Debt service for the Airport is per debt service requirement. In the event the letters of credit securing the Airport's outstanding variable rate bonds had to be withdrawn upon to pay such bonds and the amount drawn had to be repaid by the Airport pursuant to the terms of the related agreement with banks providing such letters of credit, the total interest would be \$108.9 million less.
- (6) The interest payment is before federal subsidy. The federal subsidy for the San Francisco Water Enterprise, San Francisco Wastewater and Hetch Hetchy Water and Power were \$472.5 million, \$68.0 million and \$7.3 million through the fiscal year ending 2051, respectively. The payment of subsidy by the IRS in fiscal year 2016 was reduced by 6.8% due to federal sequestration. Future interest subsidy may be reduced as well.

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, 2016, are as follows:

Governmental Activities - General Obligation Bonds

Authorized and unissued as of June 30, 2015.....	\$ 1,285,100
Increases in authorization this fiscal year:	
Affordable Housing	310,000
Public Health and Safety	350,000
Bonds issued:	
Series 2015B Transportation and Road Improvements	(67,005)
Series 2015A Seismic Safety Loan Program	(24,000)
Series 2016A Clean and Safe Neighborhood Parks.....	(8,695)
Series 2016B Clean and Safe Neighborhood Parks.....	(43,220)
Series 2016C Earthquake Safety and Emergency Response	(25,215)
Series 2016D Earthquake Safety and Emergency Response	(109,595)
Series 2016E Road Repaving and Street Safety.....	(44,145)
Net authorized and unissued as of June 30, 2016.....	<u>\$ 1,623,225</u>

The increase in authorized amount of \$310.0 million of Affordable Housing and \$350.0 million of Public Health and Safety General Obligation Bonds was approved by at least two-third votes on Proposition A at an election held on November 3, 2015 and June 7, 2016, respectively. The proceeds of the Affordable Housing bonds will be used to finance the City's various affordable housing programs. The Public Health and Safety bonds will finance the acquisition and improvement of facilities for emergency response and safety, health care and homeless services.

In July 2015, the City issued Transportation and Road Improvement General Obligation Bonds Series 2015B in the amount of \$67.0 million with interest rates ranging from 2.0% to 5.0% and maturity from June 2016 through June 2035. The proceeds of the Series 2015B will be used to finance the improvements to the City's transportation system, streets and roads and to pay certain costs related to the issuance of the Series 2015B.

In August 2015, the City issued Seismic Safety Loan Program General Obligation Bonds Series 2015A in the amount of \$24.0 million to provide funds for loans for the seismic strengthening of privately-owned unreinforced masonry buildings within the City and to pay for the costs of issuance of the Series 2015A bonds. On the date of issuance, the Series 2015A shall be Index Rate Bonds and bear interest at the LIBOR Index Rate; provided that from the date of issuance to but not including the first business day of the next succeeding month, the Series 2015A shall bear interest at the rate as set in the Declaration of Trust. The initial index rate period shall commence on and be effective from the date of

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issuance of the Series 2015A and shall continue through the end of the initial period. The index rate shall be determined in accordance with the Declaration of Trust. At the option of the City, the interest rate with respect to all (but not less than all) Series 2015A may be (a) on any LIBOR Index Reset Date, converted from an Index Rate to a new Index Rate or (2) converted to a Fixed Rate, in each case in accordance with the Declaration of Trust. The Series 2015A will mature from June 2019 through June 2035.

In February 2016, the City issued Clean and Safe Neighborhood Parks General Obligation Bonds Series 2016A and 2016B in the amount of \$8.7 million and \$43.2 million, respectively. The proceeds of the Series 2016A and 2016B bonds will be used to finance improvements to park, open space and recreational facilities and to pay certain costs related to the issuance of the Series 2016A and 2016B bonds. Interest rates on both series range from 2.0% to 5.0% with principal amortizing from June 2016 through June 2035.

In April 2016, the City issued General Obligation Bonds Earthquake Safety and Emergency Response Series 2016C in the amount of \$25.2 million, Earthquake Safety and Emergency Response Series 2016D in the amount of \$109.6 million and Road Repaving and Street Safety Series 2016E in the amount of \$44.1 million. The Series 2016C, 2016D and 2016E bonds bear rates ranging from 2.25% to 5.0% with principal amortizing from June 2016 through June 2035. The proceeds of the Series 2016C and 2016D bonds will be used to finance improvements to earthquake safety and emergency responsiveness facilities and infrastructure and to pay certain costs related to the issuance of the Series 2016C and 2016D bonds. The proceeds of the Series 2016E bonds will be used to finance the repaving and reconstruction of various roads; the rehabilitation and seismic improvement of street structures; the replacement of sidewalks; the installation and renovation of curb ramps; the redesign of streetscapes to include pedestrian and bicycle safety improvements; and the construction, rehabilitation and renovation of traffic infrastructure within the City and to pay certain costs related to the issuance of the Series 2016E bonds.

The debt service payments on the general obligation bonds are funded through ad valorem taxes on property.

Certificates of Participation

In July 2015, the City issued Certificates of Participation (War Memorial Veterans Building Seismic Upgrade and Improvements) Series 2015A and Series 2015B (the "Series 2015AB") for \$112.1 million and \$22.2 million respectively. The Series 2015AB were sold to provide funds to: 1) finance or refinance the costs of the seismic retrofit, construction, reconstruction, installation, equipping, improvement or rehabilitation of the War Memorial Veterans Building and related property owned by the City and located at 401 Van Ness Avenue, San Francisco; 2) fund capitalized interest payable with respect to the Series 2015AB through September 2015; 3) fund the 2015 Reserve Account of the Reserve Fund established under the Trust Agreement for the Series 2015AB; and 4) to pay costs of the execution and delivery of the Series 2015AB. The Series 2015A bears interest rates ranging from 4.0% to 5.0% with principal amortizing from April 2023 through April 2045. The Series 2015B bears interest rates ranging from 2.0% to 4.0% with principal amortizing from April 2016 through April 2024.

In October 2015, the City issued Refunding Certificates of Participation Series 2015-R1 (City Office Buildings-Multiple Properties Project) (the "Series 2015-R1") for \$123.6 million to prepay a portion of certain outstanding certificates of participation the proceeds of which financed the acquisition of and capital improvements to certain office buildings occupied by various City departments or certain tenants which are qualified as non-profit organizations exempt from Federal income taxes pursuant to Section 501 (c)(3) of the Code ("501(c)(3) Tenants"); fund a debt service reserve for the Series 2015-R1; and pay costs of execution and delivery of the Series 2015-R1. The Series 2015-R1 matures from September 2016 through September 2040 with interest rate ranging from of 4.0% to 5.0%. The refunding resulted in the recognition of deferred accounting loss of \$1.4 million and reduced the City's

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aggregate debt service payment by \$18.1 million over the next 25 years and obtained net present value savings of \$11.9 million or 9.0% of refunded bond.

In June 2016, the City issued Certificates of Participation, (War Memorial Veterans Building Seismic Upgrade and Improvements) Series 2016A (the "Series 2016A") for \$16.1 million to provide funds to: 1) reimburse the City for certain costs of the seismic retrofit, construction reconstruction, installation, equipping, improvement or rehabilitation of the War Memorial Veterans Building and related property owned by the City and located at 401 Van Ness Avenue, San Francisco; 2) fund the 2016 Reserve Account of the Reserve Fund established under the Trust Agreement for the Series 2016A; and 3) pay costs of the execution and delivery of the Series 2016A. The Series 2016A were issued with interest rates ranging from 1.096% to 3.771% and matures from April 2017 through April 2032.

At June 30, 2016, the City has a total of \$589.6 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 \$888.2 million payable through April 1, 2045. For the fiscal year ended June 30, 2016, principal and interest paid by the City totaled \$39.8 million and \$25.3 million, respectively.

Lease Revenue Bonds

The changes in authorized and unissued lease revenue bonds -- governmental activities for the year ended June 30, 2016 were as follows:

Authorized and unissued as of June 30, 2015.....	\$ 164,432
Increase in authorization in this fiscal year:	
Current year annual increase in Finance Corporation's equipment program.	3,225
Current year maturities in Finance Corporation's equipment program.....	7,725
Net authorized and unissued as of June 30, 2016.....	\$ 175,382

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 unearned revenues in the internal service fund until such time as it is used for its intended purpose. The unearned amounts 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 bonds is \$237.3 million payable through June 2034. For the fiscal year ended June 30, 2016, principal and interest paid by the Corporation in the form of lease payments made by the City totaled \$18.8 million and \$4.7 million, respectively.

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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, 2016, the amount authorized and outstanding was \$67.7 million, and \$6.5 million, respectively.

San Francisco County Transportation Authority Revolving Credit Agreement

In June 2015, the Transportation Authority substituted its \$200.0 million commercial paper notes (Limited Tax Bonds), Series A and B with a \$140.0 million tax-exempt revolving credit agreement (Revolving Credit Agreement). The commercial paper notes provided a source of financing for the Transportation Authority's voter-approved Proposition K Expenditure Plan. The Revolving Credit Agreement expires on June 8, 2018 and has a rate of interest equal to the sum of 70% of 1-month LIBOR plus 0.30%. The interest payments are due the first business day of each month and the outstanding principal payment is required to be paid at the end of the agreement June 8, 2018. The Revolving Credit Agreement is secured by a first lien gross pledge of the Transportation Authority's sales tax. The Transportation Authority paid \$20.0 million of the outstanding balance of \$134.7 million as of July 1, 2015. Annual principal and interest payments were \$20.8 million in FY2015-16 and pledged revenues were \$99.5 million for the year ended June 30, 2016. As of June 30, 2016, \$114.7 million of the Revolving Credit Agreement balance was outstanding, with an interest rate of 0.62%.

Business-Type Activities Long-Term Liabilities

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

San Francisco International Airport

Second Series Revenue Bonds (Capital Plan Bonds)

Pursuant to resolutions approved in fiscal years 2008, 2012, 2014 and 2016, the Airport has authorized the issuance of up to \$5.0 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, 2016, \$3.4 billion of the authorized capital plan bonds remained unissued.

In September 2015, the Airport authorized the issuance of an additional \$243.0 million of San Francisco International Airport Second Series Revenue Bonds (Capital Plan Bonds) and \$225.0 million of San Francisco International Airport Hotel Special Facility Revenue Bonds to finance the development and construction of a new Airport-owned hotel and related AirTrain station. The Airport also designated the planned hotel as a "special facility" under the 1991 Master Resolution, which will allow the hotel revenues to be segregated from the Airport's other revenues and used to pay hotel operating expenses and debt service on the Hotel Special Facility Bonds. In order to obtain the lowest cost of financing, the Airport does not plan to sell the Hotel Special Facility Bonds to investors, but will purchase them itself with a portion of the proceeds of the Capital Plan Bonds, which will be sold to investors. The total net proceeds of the two bond issuances are expected to be approximately \$243.0 million, which will be applied to the \$225.0 million construction costs of the hotel and AirTrain station, capitalized interest and other costs of issuance. In December 2015, the City's Board of Supervisors authorized the issuance of such Hotel Special Facility Bonds and Capital Plan Bonds for the hotel and AirTrain station. Airport approval of the bond sale is required before such bonds can be issued.

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Second Series Revenue Refunding Bonds

Pursuant to sale resolutions approved between fiscal years 2005 through 2016, the Airport has authorized the issuance of up to \$8.4 billion of San Francisco International Airport Second Series Revenue Refunding Bonds for the purposes of refunding outstanding 1991 Resolution Bonds and outstanding subordinate CP notes, funding debt service reserves, and paying costs of issuance, including any related bond redemption premiums. In February 2016, the Airport issued its Second Series Revenue Refunding Bonds, Series 2016A (Non-AMT/Governmental Purpose), in the principal amount of \$232.1 million to refund \$66.5 million of its Issue 32F, \$155.3 million of its Issue 32G and \$63.1 million of its Issue 34D long-term fixed rate bonds for debt service savings. As of June 30, 2016, net of expired sale authorizations, \$1.2 billion of such refunding bonds remained authorized but unissued.

Variable Rate Demand Bonds

As of June 30, 2016, the Airport had outstanding aggregate principal amount of \$477.9 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 0.45% and 0.63% per annum. As of June 30, 2016, there were no unreimbursed draws under these facilities.

In June 2016, the Airport closed a new irrevocable LOC issued by Wells Fargo Bank, National Association, supporting the Second Series Variable Rate Revenue Refunding Bonds, Issue 36A. The LOC will expire June 29, 2018. In June 2016, the Airport closed a new irrevocable LOC issued by Bank of America, N.A., supporting the Second Series Variable Rate Revenue Refunding Bonds Series 2010A. The LOC expires June 29, 2020. The LOC securing the Variable Rate Bonds included in long-term debt as of June 30, 2016, are as follows:

Variable rate bonds

	<u>Issue 36A</u>	<u>Issue 36B</u>	<u>Issue 36C</u>	<u>Issue 37C</u>	<u>Series 2010A</u>
Principal Amount	\$ 100,000	\$ 40,620	\$ 36,145	\$ 88,650	\$ 212,475
Expiration Date	June 29, 2018	April 25, 2018	April 25, 2018	January 28, 2019	June 29, 2020
Credit Provider	Wells Fargo ⁽¹⁾	BTMU ⁽²⁾	BTMU ⁽²⁾	MUFG Union Bank ⁽³⁾	Bank of America ⁽⁴⁾

(1) Wells Fargo Bank, National Association

(2) The Bank of Tokyo-Mitsubishi UFJ, Ltd.

(3) Formerly Union Bank, N.A.

(4) Bank of America, National Association

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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 notional amount of \$405.0 million, in connection with the anticipated issuance of Second Series Variable Rate Revenue Refunding Bonds, Issue 32A-E in February 2005, and Second Series Variable Rate Revenue Refunding Bonds, Issue 33 in February 2006. The swap structure was intended as a means to increase the Airport's debt service savings when compared with fixed rate refunding bonds at the time of issuance. The expiration date of the 2004 swaps is May 1, 2026.

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

In September 2011, the Airport refunded the Issue 36D Bonds with proceeds of the San Francisco International 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 63.50% 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.

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As of June 30, 2016, 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, 2016.

#	Current Bonds	Initial Notional Amount	Notional Amount June 30, 2016	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 (37B)*	79,684	79,684	5/15/2008
5	37C	89,856	88,616	5/15/2008
6	2010A**	143,947	142,383	2/1/2010
	Total	\$ 483,417	\$ 480,613	

* The Issue 37B Bonds that are hedged by this swap agreement were purchased with proceeds of the Series 2008B Notes, which the Airport subsequently refunded, and the Issue 37B Bonds are held in trust. The swap is now indirectly hedging the Series 2010A-3 Bonds for accounting purposes.

** Hedges Series 2010-1 and 2010A-2.

Fair Value

The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All 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 to arrive at the so-called "settlement amount", i.e. the approximate amount a party would have to pay or would receive if the swap was terminated.

In addition, pursuant to GASB Statement No. 72, the settlement amounts are then adjusted for the non-performance risk of each party to the swap to arrive at the fair value. For each swap, the non-performance risk was computed as the total cost of the transactions required to hedge the default exposure, i.e., a series of European swaptions, exercisable on each of the future payment exchange dates under the swap that are structured to reverse the remaining future cash flow obligations as of such dates, adjusted by probability of default on each future date. Default probabilities were derived from recovery rate adjusted credit default swap quotes or generic ratings based borrowing curves that fall into Level 2 of the GASB Statement No. 72 fair value hierarchy.

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As of June 30, 2016, 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/AA-	3.444%	\$ (8,963)
2	36AB	J.P. Morgan Chase Bank, N.A.	A+/Aa3/AA-	3.445%	(8,965)
3	36C	J.P. Morgan Chase Bank, N.A.	A+/Aa3/AA-	3.444%	(3,842)
4	2010A (37B)**	Merrill Lynch Capital Services, Inc./ Merrill Lynch Derivative Products AG	AA-/Aa3/NR*	3.773%	(17,705)
5	37C	J.P. Morgan Chase Bank, N.A.	A+/Aa3/AA-	3.898%	(20,588)
6	2010A***	Goldman Sachs Bank USA/ Goldman Sachs Group, Inc.	BBB+/A3/A*	3.925%	(36,069)
					\$ (96,132)

* Reflects ratings of the guarantor.

** The issue 37B Bonds that are hedged by this swap agreement were purchased with proceeds of the Series 2008B Notes, which the Airport subsequently refunded, and the Issue 37B are held in trust. The swap is now indirectly hedging the Series 2010A-3 Bonds for accounting purpose

*** Hedges Series 2010A - 1 and 2010A - 2.

Fair Value Hierarchy

	Fair Value Measurement Using	
	Fair Value 6/30/2016	Significant Other Observable Inputs (Level 2)
Interest rate swaps	\$ (96,132)	\$ (96,132)

The impact of the interest rate swaps on the financial statements for the fiscal year ended June 30, 2016 is as follows:

	Deferred outflows on derivative instruments	Derivative instruments
Balance as of June 30, 2015 (as restated)	\$ 65,408	\$ 79,321
Change in fair value to year end	18,206	16,811
Balance as of June 30, 2016	\$ 83,614	\$ 96,132

The fair value of the interest rate swap portfolio is recorded as a liability (since the Airport would owe a termination payment to the counterparty) in the statements 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 a termination payment would be due to the counterparty) or inflow liability (if a termination payment would be due to the Airport). The off-market portions of the Airport's swaps are recorded as carrying costs with respect to various refunded bond issues. Unlike fair value and deferred inflow/outflow values, the balance of remaining off-market portions are valued on a present value, or fixed yield, to maturity basis. The difference between the deferred outflows and derivative instruments presented in the table above constitutes the unamortized off-market portions of the swaps as of June 30, 2016.

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Basis Risk – The Airport has chosen a variable rate index based on a percentage of London Interbank Offered Rate (LIBOR) plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Airport is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable bond rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. During the fiscal year ended June 30, 2016, the Airport paid a total of \$2.0 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, 2016, 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, 2016, 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).

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, 2016 (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

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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 nonpayment 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.

Goldman Sachs Group, Inc., which is the guarantor of the Airport's swap counterparty Goldman Sachs Bank USA, was downgraded to BBB+ by S&P during the year ended June 30, 2016.

Merrill Lynch Derivative Products AG, which is the guarantor of the Airport's swap counterparty Merrill Lynch Capital Services, Inc., was upgraded by one or more of the rating agencies during the year ended June 30, 2016.

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, 2016, the fair value of each swap was negative to the Airport as shown above.

San Francisco Wastewater Enterprise

In May 2016, the San Francisco Wastewater Enterprise issued tax-exempt revenue bonds 2016 Series A (Green Bonds) in the amount of \$240.6 million with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects, to pay off \$53.4 million of outstanding commercial paper notes, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of "AA" and "Aa3" from S&P and Moody's, respectively and mature through October 1, 2046. The bonds have a true interest cost of 3.2%. As of June 30, 2016, the principal amount outstanding of the 2016 Series A bonds was \$240.6 million. Also in May 2016, the Wastewater Enterprise issued tax-exempt revenue bonds 2016 Series B in the amount of \$67.8 million with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects, to pay off \$20.6 million of outstanding commercial paper notes, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of "AA" and "Aa3" from S&P and Moody's, respectively and mature through October 1, 2046. The bonds have a true interest cost of 3.2%. As of June 30, 2016, the principal amount outstanding of the 2016 Series B bonds was \$67.8 million.

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Hetch Hetchy Water and Power

In October 2015, Hetch Hetchy Power issued \$4.1 million of taxable 2015 New Clean Renewable Energy Bonds (NCREB). The NCREB were issued to fund certain qualified clean, renewable energy solar generation facilities at the Marina Middle School and the San Francisco Police Academy. The 2015 NCREBs were non-rated and privately-placed with Bank of America Leasing. The NCREB bears interest rate of 4.62%, with net effective interest rate of 1.4% after the federal tax subsidy and matures through fiscal year 2033.

(9) EMPLOYEE BENEFIT PROGRAMS

(a) Retirement Plans

General Information About the Pension Plans – The San Francisco City and County Employees' Retirement System (Retirement System) administers a cost-sharing multiple-employer defined benefit pension plan (SFERS Plan), which covers substantially all of the employees of the City and County of San Francisco, 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. 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 SFERS Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the SFERS 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.

In addition, some City employees are eligible to participate in the Public Employees' Retirement Fund (PERF) of the California Public Employees' Retirement System (CalPERS) Safety Plan, an agent multiple-employer pension plan, or the CalPERS Miscellaneous Plan, a cost-sharing multiple-employer pension plan. Some employees of the Transportation Authority, a blended component unit, are eligible to participate in a CalPERS Miscellaneous Plan or a CalPERS PEPRA Miscellaneous Plan, both are cost-sharing multiple-employer pension plans. In addition, some employees of the Successor Agency, a fiduciary component unit, are eligible to participate in a CalPERS Miscellaneous Plan or a CalPERS PEPRA Miscellaneous Plan, both are cost-sharing multiple-employer pension plans. Lastly, some employees of the Treasure Island Development Authority, a discretely presented component unit, are eligible to participate in the CalPERS Miscellaneous cost-sharing multiple-employer pension plan.

CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. Benefit provisions and other requirements are established by State statute, employer contract with CalPERS and by City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

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Benefits

SFERS – The SFERS Plan provides service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments (COLA) after retirement. The SFERS Plan also provides pension continuation benefits to qualified survivors. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City. The four main categories of SFERS Plan members are:

- Miscellaneous Non-Safety Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.
- Sheriff's Department and Miscellaneous Safety Members – sheriffs assuming office on and after January 7, 2012, and undersheriffs, deputized personnel of the Sheriff's Department, and miscellaneous safety employees hired on and after January 7, 2012.
- Firefighter Members – firefighters and other employees whose principal duties are in fire prevention and suppression work or who occupy positions designated by law as firefighter member positions.
- Police Members – police officers and other employees whose principal duties are in active law enforcement or who occupy positions designated by law as police member positions.

The membership groups and the related service retirement benefits are summarized as follows:

Miscellaneous Non-Safety Members who became members prior to July 1, 2010 qualify for a service retirement benefit if they are at least 50 years old and have at least 20 years of credited service or if they are at least 60 years old and have at least 10 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest one-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation.

Miscellaneous Non-Safety Members who became members on or after July 1, 2010 and prior to January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 20 years of credited service or if they are at least 60 years old and have at least 10 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest two-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation.

Miscellaneous Non-Safety Members who became members on or after January 7, 2012 qualify for a service retirement benefit if they are at least 53 years old and have at least 20 years of credited service or if they are at least 60 years old and have at least 10 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest three-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation.

Sheriff's Department Members and Miscellaneous Safety Members who were hired on or after January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest three-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

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Firefighter Members and Police Members who became members before November 2, 1976 qualify for a service retirement benefit if they are at least 50 years old and have at least 25 years of credited service. The service retirement benefit is calculated using the member's final compensation (monthly salary earnable at the rank or position the member held for at least one year immediately prior to retiring) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

Firefighter Members and Police Members who became members on or after November 2, 1976 and prior to July 1, 2010 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest one-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

Firefighter Members and Police Members who became members on or after July 1, 2010 and prior to January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest two-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

Firefighter Members and Police Members who became members on or after January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest three-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

All members are eligible to apply for a disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that prevents them from performing their duties. Safety members are eligible to apply for an industrial disability retirement benefit from their first day on the job if their disability is caused by an illness or injury that they receive while performing their duties.

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in CPI with increases capped at 2%. Effective July 1, 2012, the SFERS Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the SFERS Plan and the SFERS Plan is fully funded on a market value of assets basis. The maximum benefit adjustment is 3.5% including the Basic COLA. For members hired on or after January 7, 2012, Supplemental COLAs will not be permanent adjustments to retirement benefits.

CalPERS – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on a final compensation which is the highest average pay rate and special compensation during any consecutive one-year or three-year period. The cost of living adjustments for the CalPERS plans are applied as specified by the Public Employees' Retirement Law. The California Public Employees' Pension Reform Act (PEPRA), which took effect in January 2013, changes the way CalPERS retirement and health benefits are applied, and places compensation limits on members. As such, members who established CalPERS membership on or after January 1, 2013 are known as "PEPRA" members.

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The CalPERS' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	City Miscellaneous Plan		City Safety Plan	
	Prior to January 1, 2013	On or after January 1, 2013*	Prior to January 1, 2013	On or after January 1, 2013
Hire date				
Benefit formula	2% @ 60		2% @ 50, 2% @ 55, or 3% @ 55	2% @ 57, or 2.7% @ 57
Benefit vesting schedule	5 years of service		5 years of service	5 years of service
Benefit payments	Monthly for life		Monthly for life	Monthly for life
Required employee contribution rates	5.00%		7.00% to 12.25%	10.00% to 12.25%
Required employer contribution rates	9.96%		24.73%	24.73%
	Transportation Authority Miscellaneous Plan		Successor Agency Miscellaneous Plan	
	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Hire date				
Benefit formula	2.0% @ 55	2% @ 62	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life	Monthly for life
Required employee contribution rates	7.00%	6.25%	7.00%	6.50%
Required employer contribution rates	8.51%	6.24%	22.76%	9.52%

* For the City Miscellaneous Plan, there are no current active employees hired on or after January 1, 2013. For the Treasure Island Miscellaneous Plan, there are no current active employees.

At June 30, 2016, the CalPERS' City Safety Plan had a total of 2,311 members who were covered by these benefits, which includes 944 inactive employees or beneficiaries currently receiving benefits, 329 inactive employees entitled to but not yet receiving benefits, and 1,038 active employees.

Contributions

For the years ended June 30, 2016 and 2015, the City's actuarial determined contributions were as follows:

	2016	2015
SFERS Plan.....	\$ 496,343	\$ 556,511 *
City CalPERS Miscellaneous Plan.....	33	31
City CalPERS Safety Plan.....	23,629	20,718 **
Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans.....	280	400
Successor Agency CalPERS Classic & PEPRA Miscellaneous Plans.....	828	598
Treasure Island Development Authority CalPERS Miscellaneous Plan.....	2	2
	\$ 521,115	\$ 578,260

* Fiscal Year 2015 SFERS Plan balance was decreased by \$8.6 million as a result of early implementation of GASB Statement No. 82. Specifically, the 'employer pickup' amount which posted as an employer contribution was retroactively adjusted. This amount is now considered an employee contribution consistent with Statement No. 82.

** In Fiscal Year 2015 this amount was based on an estimate. A \$102K adjustment was made to align the estimated employer contribution amount with the actual employer contribution per the June 30, 2015 Agent Multiple-Employer CalPERS report.

SFERS – Contributions are made to the basic SFERS Plan by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal year 2016 varied from 7.5% to 13.0% as a percentage of gross covered salary. For fiscal year ended June 30, 2016, 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, 2014 actuarial report, the required employer contribution rates for fiscal year 2016 were 18.3% to 22.8%.

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CalPERS – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the PERF is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by public employees during the year, with an additional amount to finance any unfunded accrued liability.

Net Pension Liability

The table below shows how the net pension liability (NPL) as of June 30, 2016 is distributed.

Governmental activities.....	\$ 1,355,280
Business-type activities.....	976,938
Fiduciary funds.....	16,563
Component Unit - Treasure Island Development Authority...	24
Total.....	<u>\$ 2,348,805</u>

As of June 30, 2016, the City’s NPL is comprised of the following:

	Proportionate Share	Share of Net Pension Liability (Asset)
SFERS Plan.....	93.9032%	\$ 2,156,049
City CalPERS Miscellaneous Plan.....	-0.2033%	(13,956)
City CalPERS Safety Plan.....	N/A	188,837
Transportation Authority CalPERS Classic & PEPRAs Miscellaneous Plans....	0.0188%	1,288
Successor Agency CalPERS Classic & PEPRAs Miscellaneous Plans.....	0.2413%	16,563
Treasure Island Development Authority CalPERS Miscellaneous Plan.....	0.0004%	24
Total.....		<u>\$ 2,348,805</u>

The City’s NPL for each of its cost-sharing plans is measured as a proportionate share of the plans’ NPL. The City’s NPL of each of its cost-sharing plans is measured as of June 30, 2015, and the total pension liability for each cost-sharing plan used to calculate the NPLs was determined by an actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, using standard update procedures. The City’s proportion of the NPL for the SFERS Plan was based on the City’s long-term share of contributions to SFERS relative to the projected contributions of all participating employers, actuarially determined. The City’s proportions of the NPL for the CalPERS plans were actuarially determined as of the valuation date.

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The City's proportionate share and NPL of each of its cost-sharing plans as of June 30, 2015 and 2014 were as follows:

	June 30, 2015 (Measurement Date)		June 30, 2014		Change (Decrease)
	Proportionate Share	Share of Net Pension Liability (Asset)	Proportionate Share	Share of Net Pension Liability (Asset)	
SFERS Plan.....	93.9032%	\$ 2,156,049	93.7829%	\$ 1,660,365	\$ 495,684
City CalPERS Miscellaneous Plan.....	-0.2033%	(13,956)	-0.1829%	(11,381)	(2,575)
Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans.....	0.0188%	1,288	0.0208%	1,299	(11)
Successor Agency Classic & PEPRA CalPERS Miscellaneous Plans.....	0.2413%	16,563	0.2550%	15,869	694
Treasure Island Development Authority CalPERS Miscellaneous Plan.....	0.0004%	24	0.0000%	-	24
Total.....		<u>\$ 2,159,968</u>		<u>\$ 1,666,152</u>	<u>\$ 493,816</u>

The City's NPL for the CalPERS City Safety Plan (agent plan) is measured as the total pension liability, less the CalPERS Safety Plan's fiduciary net position. The change in the NPL for the City CalPERS Safety Plan is as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2014 (VD).....	\$ 1,087,527	\$ 920,371	\$ 167,156
Change in year:			
Service cost.....	30,987	-	30,987
Interest on the total pension liability.....	80,057	-	80,057
Changes of assumptions.....	(19,949)	-	(19,949)
Difference between expected and actual experience.....	(14,218)	-	(14,218)
Plan to plan resource movement.....	-	(4)	4
Contributions from the employer.....	-	20,718	(20,718)
Contributions from employees.....	-	15,061	(15,061)
Net investment income.....	-	20,469	(20,469)
Benefit payments, including refunds of employee contributions.....	(44,699)	(44,699)	-
Administrative expense.....	-	(1,048)	1,048
Net changes during measurement period.....	<u>32,178</u>	<u>10,497</u>	<u>21,681</u>
Balance at June 30, 2015 (MD)	<u>\$ 1,119,705</u>	<u>\$ 930,868</u>	<u>\$ 188,837</u>

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Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the City recognized pension expense including amortization of deferred outflows/inflows related to pension items as follows:

	Primary Government			Component Unit	
	Governmental Activities	Business-type Activities	Fiduciary Funds	Treasure Island Development Authority	Total
SFERS Plan.....	\$ 56,971	\$ 49,528	\$ -	\$ -	\$ 106,499
City CalPERS Miscellaneous Plan.....	(429)	-	-	-	(429)
City CalPERS Safety Plan.....	13,168	-	-	-	13,168
Transportation Authority CalPERS Classic & PEPRM Miscellaneous Plans..	(108)	-	-	-	(108)
Successor Agency CalPERS Classic & PEPRM Miscellaneous Plans.....	-	-	1,681	-	1,681
Treasure Island District Authority CalPERS Miscellaneous Plan	-	-	-	7	7
Total pension expense	<u>\$ 69,602</u>	<u>\$ 49,528</u>	<u>\$ 1,681</u>	<u>\$ 7</u>	<u>\$ 120,818</u>

At June 30, 2016, the City's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	SFERS Plan		CalPERS Miscellaneous Plans		City CalPERS Safety Plan		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date.....	\$ 496,343	\$ -	\$ 1,143	\$ -	\$ 23,629	\$ -	\$ 521,115	\$ -
Change in assumptions.....	162,900	41,307	-	629	-	15,310	162,900	57,246
Difference between expected and actual experience.....	-	148,728	67	-	-	10,912	67	159,640
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions.....	3,221	7,698	1,584	12,259	-	-	4,805	19,957
Net differences between projected and actual earnings on plan investments.....	-	510,360	-	316	-	8,585	-	519,261
Total	<u>\$ 662,464</u>	<u>\$ 708,093</u>	<u>\$ 2,794</u>	<u>\$ 13,204</u>	<u>\$ 23,629</u>	<u>\$ 34,807</u>	<u>\$ 688,887</u>	<u>\$ 756,104</u>

At June 30, 2016, the City reported \$521.1 million as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as a reduction to net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30	Deferred Outflows/ (Inflows) of Resources
2017.....	\$ (246,999)
2018.....	(246,965)
2019.....	(246,049)
2020.....	151,681
Total	<u>\$ (588,332)</u>

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Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2015 is provided below, including any assumptions that differ from those used in the July 1, 2014 actuarial valuation.

	<u>SFERS Plan Actuarial Assumptions</u>	<u>CalPERS Miscellaneous and Safety Plans</u>
Valuation date.....	June 30, 2014 updated to June 30, 2015	June 30, 2014 updated to June 30, 2015
Measurement date.....	June 30, 2015	June 30, 2015
Actuarial cost method.....	Entry-age normal cost method	Entry-age normal cost method
Investment rate of return.....	7.50%, net of pension plan investment expenses	7.65%, net of pension plan investment expense, including inflation
Municipal bond yield.....	4.31% as of June 30, 2014 3.85% as of June 30, 2015 Bond Buyer 20-Bond GO Index, July 2, 2014 and July 2, 2015	
Inflation.....	3.33%	2.75%
Projected salary increases.....	3.83% plus merit component based on employee classification and years of service	Varies by Entry Age and Service
Discount rate.....	7.46% as of June 30, 2015	7.65% as of June 30, 2015
Basic COLA.....	Old Miscellaneous and All New Plans..... 2.00% Old Police and Fire: Pre 7/1/75 Retirements..... 3.00% Chapters A8.595 and A8.596.... 4.00% Chapters A8.559 and A8.585.... 5.00%	Contract COLA up to 2.75% until Purchasing Protection Allowance Floor on Purchasing Power applies. 2.75% thereafter.

Mortality rates for SFERS active members were based upon the RP-2000 Employee Tables for Males and Females projected using Scale AA to 2030 for females and to 2005 for males. Mortality rates for SFERS healthy annuitants were based upon the RP-2000 Healthy Annuitant Tables for Males and Females projected using Scale AA to 2020. Refer to SFERS's July 1, 2014 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System website.

The actuarial assumptions used in the SFERS June 30, 2014 valuation were based upon the results of an experience study for the period July 1, 2004 through June 30, 2009.

For CalPERS, the mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. All other actuarial assumptions used in the CalPERS June 30, 2014 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

GASB Statement No. 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The CalPERS discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

Discount Rates

SFERS – The beginning and end of year measurements are based on different assumptions and contribution methods that result in different discount rates. The discount rate was 7.58% as of June 30, 2014 and 7.46% as of June 30, 2015.

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The discount rate used to measure SFERS's total pension liability as of June 30, 2015 was 7.46%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2014 actuarial valuation. That policy includes contributions equal to the employer portion of the entry age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability. The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. All amortization schedules are established as a level percentage of payroll so payments increase 3.75% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

While the contributions and measure of the actuarial liability in the valuation do not anticipate any Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLAs for current members when they are expected to be granted. For a Supplemental COLA to be granted, the market value of assets must exceed the actuarial liability at the beginning of the year and the actual investment earnings during the year must exceed the expected investment earnings on the actuarial value of assets. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. In most cases, the large majority of members receive a 1.50% Supplemental COLA.

Because the probability of a Supplemental COLA depends on the current funded level of the Retirement System, the Retirement System developed an assumption as of June 30, 2015, of the probability and amount of Supplemental COLA for each future year. The table below shows the net assumed Supplemental COLAs for members with a 2.00% basic COLA for sample years.

Year Ending	Assumption
June 30	
2016	0.000%
2021	0.345%
2026	0.375%
2031	0.375%
2036+	0.375%

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year end 2076 when only a portion of the projected benefit payments are expected to be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.85% to the extent they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2015 is 7.46%.

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The long-term expected rate of return on pension plan investments was 7.50%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	40.0%	5.1%
Fixed income	20.0%	1.2%
Private equity	18.0%	7.5%
Real assets	17.0%	4.1%
Hedge Funds/Absolute Return	5.0%	3.5%

CalPERS - The discount rate used to measure each of the CalPERS Miscellaneous Plans and the Safety Plan total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB Statement No. 68 section.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

Asset Class	Target Allocation	Real Return Years 1 - 10 ⁽¹⁾	Real Return Years 11+ ⁽²⁾
Global equity	51.0%	5.25%	5.71%
Global fixed income	19.0%	0.99%	2.43%
Inflation sensitive	6.0%	0.45%	3.36%
Private equity	10.0%	6.83%	6.95%
Real estate	10.0%	4.50%	5.13%
Infrastructure and forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%

(1) An expected inflation of 2.5% used for this period.

(2) An expected inflation of 3.0% used for this period.

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the NPL for each of the City's cost sharing retirement plans, calculated using the discount rate, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

Cost-Sharing Pension Plans	1% Decrease Share of NPL @ 6.46%	Current Share of NPL @ 7.46%	1% Increase Share of NPL @ 8.46%
Proportionate Share of Net Pension Liability			
SFERS.....	\$ 4,767,771	\$ 2,156,049	\$ (34,278)
	1% Decrease Share of NPL @ 6.65%	Current Share of NPL @ 7.65%	1% Increase Share of NPL @ 8.65%
City CalPERS Miscellaneous Plan.....	\$ (11,026)	\$ (13,956)	\$ (16,375)
Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans.....	2,349	1,289	413
Successor Agency CalPERS Classic & PEPRA Miscellaneous Plans.....	31,054	16,563	4,600
Treasure Island District Authority CalPERS Miscellaneous Plans.....	35	24	16

The following presents the NPL, calculated using the discount rate of 7.65% in effect as of the measurement date, as well as what the NPL would be if they were calculated using discount rates that are 1.00% lower (6.65%) or 1.00% higher (8.65%) than the rates used, for the City's agent-multiple employer plan:

Agent Pension Plan	1% Decrease @ 6.65%	Measurement Date @ 7.65%	1% Increase @ 8.65%
City CalPERS Safety Plan - Net Pension Liability.....	\$ 342,724	\$ 188,837	\$ 61,895

Detailed information about the CalPERS Safety Plan's fiduciary net position is available in a separately issued CalPERS financial report, copies may be obtained from the CalPERS website at www.calpers.ca.gov.

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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.

Health Service System

The Health Service System was established in 1937. Health care benefits of employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the Health Service System. The employers' contribution, which includes the San Francisco Community College District, San Francisco Unified School District and the San Francisco Superior Court, amounted to approximately \$674.6 million in fiscal year 2015-16. The employers' contribution is mandated and determined by Charter provision based on similar contributions made by the ten most populous counties in California and the contribution models negotiated with the unions. Included in this amount is \$193.8 million to provide postemployment health care benefits for 27,126 retired participants, of which \$158.4 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 from the City's website.

(b) 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 prefunds its OPEB obligations through the Retiree Health Care Trust Fund (RHCTF), an irrevocable trust fund that allows participating employers to prefund certain postemployment benefits other than pensions for their covered employees. The RHCTF is an agent multiple-employer trust and has two participating employers: the City and the San Francisco Community College District (Community College District). From the most recent actuarial valuation reports as of July 1, 2014, there were 29,001 active members, 25,919 retirees and beneficiaries, and 2,843 vested, terminated members for the City. The Community College District had 1,369 active members and 1,041 eligible retirees.

The RHCTF is administered by the City and is presented as an other post-employment benefit trust fund. It is governed by a Retiree Health Care Board of Administration consisting of five trustees: one selected by the City Controller, one by the City Treasurer, one by the Executive Director of the San Francisco Employees' Retirement System, and two elected by the active and retired members of the City's Health Service System. The RHCTF issues a publicly available financial report consisting of financial statements and required supplementary information for the RHCTF in aggregate. The report may be obtained from City Hall, Room 316, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

Funding Policy – The contribution requirements of plan members and the City are based on a pay-as-you-go basis. For the year ended June 30, 2016, the City paid \$158.4 million for postemployment

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healthcare benefits on behalf of its retirees and contributed \$10.5 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, 2014 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	\$	354,540
Interest on Net OPEB obligation		89,557
Adjustment to annual required contribution		<u>(117,964)</u>
Annual OPEB cost		326,133
Contribution made		<u>(168,855)</u>
Increase in net OPEB obligation		157,278
Net OPEB obligation - beginning of year		<u>1,990,156</u>
Net OPEB obligation - end of year		<u><u>\$ 2,147,434</u></u>

The table below shows how the total net OPEB obligation as of June 30, 2016, is distributed.

Governmental activities	\$	1,202,986
Business-type activities		878,590
Fiduciary funds		<u>65,858</u>
Net OPEB obligation - end of year		<u><u>\$ 2,147,434</u></u>

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
6/30/2014	\$ 353,251	47.2%	\$ 1,793,753
6/30/2015	363,643	46.0%	1,990,155
6/30/2016	326,133	51.8%	2,147,434

Funded Status and Funding Progress – The unfunded actuarial accrued liability is being amortized as a level percentage of expected payroll over an open thirty-year period. As of July 1, 2014, the most recent actuarial valuation date, the funded status of the Retiree Health Care Benefits was 1.1%. The actuarial accrued liability for benefits was \$4.26 billion, and the actuarial value of assets was \$49.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$4.21 billion. As of July 1, 2014, the estimated covered payroll (annual payroll of active employees covered by the plan) was \$2.62 billion and the ratio of the UAAL to the covered payroll was 160.8%.

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

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

In the actuarial valuation as of July 1, 2014, 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 4.50% investment rate of return on investment; 3.25% inflation rate; 3.75% payroll growth; and actual medical premiums from 2014 through 2017 and grading down to an ultimate trend rate beginning in 2032 of 4.50%.

The San Francisco Retiree Health Care Trust Fund (RHCTF) was established in December 2010 by the Retiree Health Trust Fund Board of the City. 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 did not have a net OPEB obligation as of June 30, 2016. The Transportation Authority's most recent actuarial valuation was performed as of June 30, 2015, covering the year ended June 30, 2016. The Transportation Authority's OPEB plan is for retiree healthcare benefits and was 57.3% funded and the unfunded actuarial accrued liability was \$0.9 million. As of June 30, 2015, the estimated covered payroll was \$3.9 million and the ratio of the UAAL was 22.2%. Details of the Transportation Authority's OPEB plan may be found in its financial statements for the year ended June 30, 2016. Financial statements

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for the Transportation Authority can be obtained from their finance and administrative offices at 1455 Market Street, 22nd Floor, San Francisco, CA 94103 or the Transportation Authority's website.

For the year ended June 30, 2016, the Transportation Authority's annual OPEB expense of \$200.7 was greater than the ARC. Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 138.4	100%	\$ -
6/30/2015	138.4	100%	-
6/30/2016	200.7	103%	(5.8)

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) healthcare plan, which is administered by CalPERS. The Successor Agency pays monthly retiree medical benefit contributions to PEMHCA. 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 CalPERS and is an agent multiple-employer trust. Copies of CalPERS' financial report may be obtained from CalPERS website at www.calpers.ca.gov or from CalPERS at 400 Q Street, Sacramento, California 95811.

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 (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. During the year ended June 30, 2016, the Successor Agency contributed \$1.2 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 ARC of the employer. 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.

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The following table shows the components of the Successor Agency's annual OPEB cost for the year ended June 30, 2016, and the changes in the net OPEB obligation:

Annual required contribution	\$ 813
Interest on Net OPEB obligation	58
Adjustment to annual required contribution	(75)
Annual OPEB cost	796
Contribution made	(1,199)
Decrease in net OPEB obligation	(403)
Net OPEB obligation - beginning of year	833
Net OPEB obligation - end of year	\$ 430

Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 912	139%	\$ 867
6/30/2015	918	104%	833
6/30/2016	796	151%	430

Funded Status and Funding Progress – The funded status of the plan of the Successor Agency as of July 1, 2015, the plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 10,998
Actuarial value of plan assets	2,833
Unfunded actuarial accrued liability (UAAL)	\$ 8,165
Funded ratio (actuarial value of plan assets/AAL)	25.8%
Covered payroll (active plan members)	\$ 4,261
UAAL as a percentage of covered payroll	191.6%

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 ARC for the year ended June 30, 2016 and the funding status of the plan was determined based on the July 1, 2015 actuarial valuation using the entry age normal actuarial cost method. Actuarial assumptions include (a) investment return and discount rate of 7.0%; (b) medical costs trend increases of 4%; (c) inflation rate of 2.75%; (d) payroll growth of 2.75%; and (e) 2014 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 22 years, respectively.

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(10) FUND EQUITY

(a) Governmental Fund Balance

Fund balances for all the major and nonmajor governmental funds as of June 30, 2016, were distributed as follows:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Imprest Cash, Prepays, and Deposits.....	\$ 522	\$ 82	\$ 604
Restricted			
Rainy Day.....	120,106	43,131	163,237
Public Protection			
Police.....	-	19,107	19,107
Sheriff.....	-	1,203	1,203
Other Public Protection.....	-	15,257	15,257
Public Works, Transportation & Commerce.....	-	201,781	201,781
Human Welfare & Neighborhood Development.....	-	226,831	226,831
Affordable Housing.....	-	256,381	256,381
Community Health.....	-	26,683	26,683
Culture & Recreation.....	-	129,394	129,394
General Administration & Finance.....	-	20,400	20,400
Capital Projects.....	-	383,267	383,267
Debt Service.....	-	120,521	120,521
Total Restricted.....	<u>120,106</u>	<u>1,443,956</u>	<u>1,564,062</u>
Committed			
Budget Stabilization.....	178,434	-	178,434
Recreation and Parks Expenditure Savings.....	8,736	-	8,736
Total Committed.....	<u>187,170</u>	<u>-</u>	<u>187,170</u>
Assigned			
Public Protection			
Police.....	8,071	857	8,928
Sheriff.....	4,349	2,156	6,505
Other Public Protection.....	16,923	-	16,923
Public Works, Transportation & Commerce.....	65,614	34,248	99,862
Human Welfare & Neighborhood Development.....	52,727	5,060	57,787
Affordable Housing.....	22,498	-	22,498
Community Health.....	64,943	-	64,943
Culture & Recreation.....	15,750	11,866	27,616
General Administration & Finance.....	54,329	11,898	66,227
General City Responsibilities.....	54,575	-	54,575
Capital Projects.....	125,107	-	125,107
Litigation and Contingencies.....	145,443	-	145,443
Subsequent Year's Budget.....	249,238	-	249,238
Total Assigned.....	<u>879,567</u>	<u>66,085</u>	<u>945,652</u>
Unassigned.....	241,797	(103,811)	137,986
Total.....	<u>\$ 1,429,162</u>	<u>\$ 1,406,312</u>	<u>\$ 2,835,474</u>

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(b) 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, with separate accounts for the benefit of the City (the “City Reserve”) and the San Francisco Unified School District (the “School Reserve”). 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. Seventy-five percent of the deposit is placed in the City Reserve and twenty-five percent is placed in the School Reserve. The total amount of money in the Rainy Day Reserve may not exceed ten percent of the City’s actual total General Fund revenues. The City may spend money from the City 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 City 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 School District may withdraw up to half the money in the School Reserve when it expects to collect less money per student than the previous fiscal year and would have to lay off a significant number of employees. The School District’s Board can override those limits and withdraw any amount in the School Reserve by a two-thirds vote. The City does not expect to routinely spend money from the Rainy Day Reserve after evaluating its recent General Fund revenues trends and its most recent update to the Five-Year Financial Plan covering fiscal years 2015-16 through 2019-20.

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 most recent update to the Five-Year Financial Plan covering fiscal years 2015-16 through 2019-20.

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.

(c) Encumbrances

At June 30, 2016, encumbrances recorded in the General Fund and nonmajor governmental funds were \$191.0 million and \$259.2 million, respectively.

(d) Restricted Net Position

At June 30, 2016, the government-wide statement of net position reported restricted net position of \$1,331.5 million in governmental activities and \$538.5 million in business-type activities, of which \$15.7 million and \$67.6 million are restricted by enabling legislation in governmental activities and business-type activities, respectively.

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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 SFMTA. 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 \$406.8 million of unrestricted net position of governmental activities, of which \$290.1 million reduced net investment in capital assets and \$116.7 million reduced net position restricted for capital projects to reflect the total column of the primary government as a whole perspective.

(e) Deficit Fund Balances and Net Position

The Environmental Protection Fund, Human Welfare Fund, and Senior Citizens' Program Fund had deficits of \$0.1 million, \$2.0 million, and \$0.3 million, respectively, as of June 30, 2016. The deficits relate to unavailable revenue in various programs which is expected to be collected beyond 60 days of the end of fiscal year 2016.

The Moscone Convention Center Fund had a \$101.4 million deficit as of June 30, 2016. The deficit is primarily related to the issuance of commercial paper for construction and will be covered by refinancing commercial paper as long term debt.

The Central Shops and Telecommunications and Information Internal Service Funds had deficits in total net position of \$10.8 million and \$6.9 million, respectively, as of June 30, 2016 mainly due to the other postemployment benefits liability accrued per GASB Statement No. 45 and the net pension liability and pension-related deferred inflows per GASB Statement No. 68. The operating 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, 2016, the Successor Agency has a deficit of \$377.0 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.

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(11) UNAVAILABLE RESOURCES IN GOVERNMENTAL FUNDS

The deferred inflows of resources balance in governmental funds as of June 30, 2016 consists of the following unavailable resources:

	General Fund	Other Governmental Funds	Total Governmental Funds
Grant and subvention revenues.....	\$ 56,709	\$ 59,021	\$ 115,730
Property Tax.....	53,829	12,986	66,815
Teeter Plan.....	36,008	-	36,008
SB 90.....	8,218	-	8,218
Advances to Successor Agency.....	-	14,602	14,602
Franchise tax.....	3,130	-	3,130
Loans.....	6,473	75,328	81,801
Total.....	\$ 164,367	\$ 161,937	\$ 326,304

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 inflows 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.

(12) 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 were 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. The Transportation Authority administers the following programs:

Sales Tax Program. 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 Muni Metro Network; B) construction of the Muni Central Subway (Third Street Light Rail Project–Phase 2); C) construction of the Caltrain Downtown Extension to a rebuilt Transbay Terminal; and D) South Approach to the Golden Gate Bridge: Doyle Drive Replacement Project (re-envisioned as the Presidio Parkway). 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

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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.

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 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 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 Administrator of County Vehicle Registration Fee Program. On November 2, 2010, San Francisco voters approved Proposition 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. Proposition 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 Proposition 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 Proposition AA program is a pay-as-you-go program.

Treasure Island Mobility Management Authority (TIMMA). The Treasure Island Transportation Management Act of 2008 (AB 981) authorizes the creation or designation of a Treasure Island-specific transportation management agency. On April 1, 2014, the City's Board of Supervisors approved a resolution designating the Transportation Authority as the TIMMA to implement the Treasure Island Transportation Implementation Plan in support of the Treasure Island/Yerba Buena Island Development Project. In September 2014, Governor Brown signed Assembly Bill 141, establishing TIMMA as a legal entity distinct from the Transportation Authority to help firewall the Transportation Authority's other functions. The eleven members of the Transportation Authority Board act as the Board of Commissioners for TIMMA. The Transportation Authority financial statements include TIMMA as a blended special revenue component unit.

Loan Agreement with Treasure Island Development Authority. In July 2008, the Transportation Authority entered into a loan agreement with the Treasure Island Development Authority (TIDA) for the repayment of project management oversight, engineering and environmental costs for the Yerba Buena Island (YBI) Ramps Improvement Project.

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(13) 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 2015 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 sixteenth 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.

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 2016, 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	\$ 232,075
Bond principal and interest remaining due at end of the fiscal year	6,705,026
Commercial paper issued with subordinate revenue pledge	304,100
Commercial paper principal and interest remaining due at end of the fiscal year ...	343,050
Net revenues	473,086
Bond principal and interest paid in the fiscal year	416,610
Commercial paper principal and interest paid in the fiscal year	3,900

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.

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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. As of June 30, 2016, the FAA has approved several Airport applications to collect and use passenger facility charges (from PFC #2 to PFC #6) in a total cumulative amount of \$1.7 billion, with a final charge expiration date estimated to be March 1, 2026. The Airport is working with the FAA to change the expiration date for PFC #3 and the charge effective date for PFC #5 from January 1, 2017 to November 1, 2013, because PFC #3 was fully collected earlier than originally anticipated due to increased passenger levels. For the year ended June 30, 2016, the Airport reported approximately \$99.1 million of PFC revenue, which is included in other nonoperating revenues in the accompanying basic financial statements.

Commitments and Contingencies – In addition to the long-term obligations discussed in Note 8, there were \$73.2 million of Special Facilities Lease Revenue Bonds outstanding as of June 30, 2016, 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, 2016 are as follows:

Construction	\$ 75,769
Operating	<u>15,810</u>
Total	<u>\$ 91,579</u>

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, 2016 was \$42.5 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, 2016 was \$140.7 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, 2016, revenues realized from the following Airport tenant exceeded five percent of the Airport's total operating revenues:

United Airlines	23.5%
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(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 13% 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 \$95.6 million. The principal and interest payments made in 2016 were \$4.2 million and pledged revenues (total net revenues calculated in accordance with the bond indenture) for the year ended June 30, 2016 were \$33.3 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 \$3.0 million. Annual principal and interest payments were \$0.23 million in 2016 and pledged harbor revenues were \$0.14 million for the year ended June 30, 2016.

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, 2016, the Port had purchase commitments for construction-related services, materials and supplies, and other services were \$15.1 million for capital projects and \$2.6 million for general operations.

Under an agreement with the San Francisco Bay Conservation and Development Commission (BCDC), the Port is committed to fund and expend up to \$30.0 million over a 20-year period for pier removal, parks and plazas, and other public access improvements. As of June 30, 2016, \$47.2 million of Port funds have been appropriated and \$46.6 million 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.

Transactions with Other Funds – The Port receives from, and provides services to, various City departments. In 2016, the \$19.1 million in services provided by other City departments included \$2.9 million of insurance premiums and \$0.5 million in workers' compensation expense.

Pursuant to a memorandum of understanding dated August 31, 2015, a jurisdiction transfer from the Port to the San Francisco Real Estate Division of property commonly known as Daggett Street was completed to facilitate an open space improvement in connection with an adjacent residential development project. In fiscal year 2016 and in connection with all secured approvals, the Port received a transfer fee of \$1,675,000.

General Obligation Bonds for Parks – 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

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allocated for parks and open space projects on Port property. In February 2016, the Port received \$13.2 million of proceeds from the 2012 bond and \$8.5 million from the 2008 bond for waterfront projects. Certain of these projects are in progress at June 30, 2016.

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. In 2015, the Port and the Office of Community Investment and Infrastructure, Successor Agency to the Redevelopment Agency, completed discussions concerning the transition, termination of Port agreements, and the transfer of operations, assets, and certain associated obligations. The resultant memorandum of agreement has received essential approvals and is in executory status, pending the completion of several closing conditions.

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. 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. The Regional Water Quality Control Board approved the Risk Management Plan in January 2014. The Risk Management Plan provides 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.

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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 polychlorinated biphenyls 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 \$11.0 million at June 30, 2016.

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.

A summary of environmental liabilities, included in noncurrent liabilities, at June 30 2016, is as follows:

	Environmental Remediation	Monitoring and Compliance	Total
Environmental liabilities at July 1, 2015	\$ 10,703	\$ 71	\$ 10,774
Current year claims and changes in estimates	266	1	267
Vendor payments	-	(12)	(12)
Environmental liabilities at June 30, 2016	<u>\$ 10,969</u>	<u>\$ 60</u>	<u>\$ 11,029</u>

(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 2016, the Water Enterprise sold water, approximately 62,501 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 2016 and applicable revenues for 2016 are as follows:

Bonds issued with revenue pledge	\$ 4,288,095
Bond principal and interest remaining due at end of the fiscal year	7,599,211
Net revenues	229,160*
Bond principal and interest paid in the fiscal year	219,195
Funds available for revenue debt service	391,893

*Net revenues included appropriated available funds.

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During fiscal year 2016, the wholesale revenue requirement, net of adjustments, charged to wholesale customers was \$209.1 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, 2016, the City owed the Wholesale Customers \$21.5 million under the Water Supply Agreement.

Commitments and Contingencies – As of June 30, 2016, the Water Enterprise had outstanding commitments with third parties of \$283.3 million for various capital projects and for materials and supplies.

Environmental Issue – As of June 30, 2016, the total pollution remediation liability was \$3.0 million, consisting of \$1.7 million for the excavation of contaminated soil that contained polycyclic aromatic hydrocarbons from a gun club site in the Lake Merced area, \$1.2 million for the 17th and Folsom site and \$0.1 million for the Pulgas Dechloramination Facility and the Harry Tracy Water Treatment Plant.

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 \$36.6 million and \$8.3 million, respectively, for the year ended June 30, 2016, 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 \$16.0 million for the year ended June 30, 2016 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, as well as the City Power services including energy efficiency and renewables. The CleanPowerSF, launched in May 2016, provides green electricity from renewable sources to residential and commercial customers in San Francisco and is reported as part of Hetch Hetchy Power.

Approximately 70% 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 30% 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 sold into the California Independent System Operator (CAISO). Hetch Hetchy operation is an integrated 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 CAISO, and the Federal Energy

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Regulatory Commission (FERC). Therefore, Hetch Hetchy serves as the City's representative at CPUC, CAISO, and FERC forums and continues to monitor regulatory proceedings.

Segment Information – Hetch Hetchy Power issued debt to finance its improvements. Both the Hetch Hetchy Water fund and the Hetch Hetchy Power fund are reported for in a single enterprise (i.e., Hetch Hetchy Water and Power Enterprise). CleanPowerSF is presented as part of Hetch Hetchy Power. 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.....	\$ 35,353	\$ 178,127	\$ 213,480
Receivables from other funds and component units....	-	12,875	12,875
Noncurrent restricted cash and investments.....	1,669	40,757	42,426
Other noncurrent assets.....	173	1,608	1,781
Capital assets.....	113,867	290,382	404,249
Total assets.....	<u>151,062</u>	<u>523,749</u>	<u>674,811</u>
 Deferred outflows of resources related to pensions	 <u>3,746</u>	 <u>4,578</u>	 <u>8,324</u>
Liabilities:			
Current liabilities.....	4,638	26,574	31,212
Noncurrent liabilities.....	23,554	107,077	130,631
Total liabilities.....	<u>28,192</u>	<u>133,651</u>	<u>161,843</u>
 Deferred inflows of resources related to pensions	 <u>3,905</u>	 <u>4,773</u>	 <u>8,678</u>
Net position:			
Net investment in capital assets.....	113,867	255,897	369,764
Restricted for capital projects.....	1,409	-	1,409
Restricted for debt service.....	-	306	306
Unrestricted.....	7,435	133,700	141,135
Total net position.....	<u>\$ 122,711</u>	<u>\$ 389,903</u>	<u>\$ 512,614</u>

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Condensed Statements of Revenues, Expenses, and Changes in Fund Net Position	Hetch Hetchy		Total
	Water	Power	
Operating revenues.....	\$ 38,742	\$ 125,994	\$ 164,736
Depreciation expense.....	(3,874)	(12,639)	(16,513)
Other operating expenses.....	(32,662)	(99,320)	(131,982)
Operating income.....	2,206	14,035	16,241
Nonoperating revenues (expenses):.....			
Interest and investment income (loss).....	(38)	1,318	1,280
Interest expense.....	-	(3,355)	(3,355)
Other nonoperating revenues	132	10,702	10,834
Transfers in (out), net.....	-	680	680
Change in net position.....	2,300	23,380	25,680
Net position at beginning of year, as restated.....	120,411	366,523	486,934
Net position at end of year.....	\$ 122,711	\$ 389,903	\$ 512,614

Condensed Statements of Cash Flows	Hetch Hetchy		Total
	Water	Power	
Net cash provided by (used in):			
Operating activities.....	\$ 6,245	\$ 26,911	\$ 33,156
Noncapital financing activities.....	132	10,135	10,267
Capital and related financing activities.....	(15,558)	(36,948)	(52,506)
Investing activities.....	9	(1,258)	(1,249)
Decrease in cash and cash equivalents.....	(9,172)	(1,160)	(10,332)
Cash and cash equivalents at beginning of year.....	45,539	202,257	247,796
Cash and cash equivalents at end of year.....	\$ 36,367	\$ 201,097	\$ 237,464

Pledged Revenues – Hetch Hetchy Power has pledged future power revenues to repay the 2008 Clean Renewable Energy Bonds (CREBs), the 2011 Qualified Energy Conservation Bonds (QECBs), the 2012 New Clean Renewable Energy Bonds (NCREBs), and the 2015 NCREBs. Additionally, Hetch Hetchy Power has pledged future power revenues for 2015 Series AB power revenue bonds. Proceeds from the bonds provided financing for various capital construction and facility energy efficiency projects. The Series 2015 AB power revenue bonds are payable through fiscal year 2046 and are solely payable from net revenues of Hetch Hetchy Power on a senior lien basis to the 2008 CREBs, the 2011 QECBs, the 2012 NCREBs, and the 2015 NCREBs.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid, during 2016, and applicable revenues for 2016 are as follows:

Hetch Hetchy Power (excluding CleanPowerSF)	
Bonds issued with revenue pledge	\$ 64,871
Bond principal and interest remaining due at end of the fiscal year	95,688
Net revenues.....	19,070
Bond principal and interest paid in the fiscal year	2,014
Funds available for revenue debt service	33,044

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Commitments and Contingencies – As of June 30, 2016, Hetch Hetchy Water and Power had outstanding commitments with third parties of \$63.6 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 \$4.7 million in fiscal year 2016. 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, Hetch Hetchy Power entered into two separate long-term power sales agreements (the Agreement) with the two irrigation districts, the MID and TID, which expired June 30, 2015. In April 2015, the Commission and the Board of Supervisors approved the extension of both agreements for one year to June 30, 2016. A second extension agreement has been subsequently approved to continue the current terms and conditions for MID through June 30, 2017. The second extension agreement for TID proposes to remove the district's rights to excess energy from the project and terminate those conditions with the first extension agreement on June 30, 2016. The Commission 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 Commission's municipal load obligations.

For fiscal year 2016, energy sales to the Districts totaled 377,981 Megawatt hours (MWh) or \$13.7 million.

In 1987, the City entered into an interconnection agreement with PG&E to provide transmission, distribution, and other support services for the City's use of PG&E's transmission and distribution system to deliver power to the City's customers. The renegotiated agreement in 2007 expired on July 1, 2015. In December 2014, PG&E filed several separate replacement service and facilities agreements with the FERC for its approval. By FERC order, the City is currently taking transmission service on PG&E's transmission system using the CAISO Open-Access Transmission Tariff and is taking distribution service under PG&E's Wholesale Distribution Tariff pursuant to PG&E's replacement agreements, but subject to waiver of certain terms and conditions and subject to refund by PG&E, pending the FERC's final decision. During fiscal year 2016, Hetch Hetchy Power purchased \$4.9 million of transmission, distribution services, and other support services from PG&E under the terms of the replacement agreements and the 1987 Interconnection Agreement.

The Interconnection Agreement with PG&E also contains a contractual provision allowing Hetch Hetchy to bank Hetch Hetchy Power produced in excess of its load obligations, with a maximum of 110,000 MWh. At June 30, 2016, the balance in the bank was zero MWh, or \$0. The banking provisions expired with the expiration of the Interconnection Agreement and have not been replaced; power produced in excess of the City's load obligations is sold to third parties eligible to purchase such power under the Raker Act.

In January 2016, Hetch Hetchy Power entered into an Irrevocable Direct-Pay Letter of Credit with J.P. Morgan Chase in an aggregate amount of \$17.0 million. The Letter of Credit guarantees payment of any termination payment obligations of CleanPowerSF pursuant to the aforementioned Power Purchase Agreements. The Letter of Credit is secured by Hetch Hetchy Power revenue at the 11th lien level under the Hetch Hetchy Power Indenture.

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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.

CleanPowerSF

CleanPowerSF launched in May 2016 and entered into contracts with Calpine Energy Services L.P. (Calpine) and Shiloh I Wind Project LLC (Shiloh) to purchase renewable and conventional energy and resource adequacy capacity to meet its retail sales obligations. Both contracts feature 10-year master agreements under which multiple transactions may be executed. CleanPowerSF has executed two multi-year transactions with Calpine (three-year term) and Shiloh (five-year term). The Calpine transaction requires a reserve balance equivalent to two months' worth of estimated payment obligations. At June 30, 2016, total electricity purchased from Calpine and Shiloh was \$1.6 million.

CleanPowerSF entered into contract with Noble Americas in November 2015 for a three-year term, not to exceed \$5.6 million to provide administrative and customer care services related to electricity data management, billing, call center and related services. During fiscal year 2016, amount paid was \$0.024 million and included in Hetchy Power's start-up costs for CleanPowerSF.

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 \$36.6 million and purchased electricity for \$8.3 million for the year ended June 30, 2016. In addition, the Wastewater Enterprise purchases power from Hetch Hetchy Power totaling \$9.9 million for the year ended June 30, 2016. Included in 2016 operating revenues are sales of power to departments within the City of \$84.3 million.

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 \$9.5 million for the year ended June 30, 2016 and have been included in services provided by other departments.

(e) San Francisco Municipal Transportation Agency

The San Francisco Municipal Transportation Agency (SFMTA) is governed by the SFMTA Board of Directors who are appointed by the Mayor and Board of Supervisors. The SFMTA financial statements include the entire San Francisco's (the City's) surface transportation network that encompasses pedestrians, bicycling, transit (Muni), traffic and off and on street 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 VIII A to the Charter of the City (the "Charter") in 1999 (Proposition E). The purpose of the Charter amendment was to consolidate all surface 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 additional Charter amendments: (1) in 2007 (Proposition A), which increased the autonomy of and revenues to the SFMTA; (2) in 2010 (Proposition G), which increased management flexibility related to labor contracts; (3) in 2014 (Proposition A), which approved \$500 million in General Obligation Bonds for transportation and street infrastructure, and (4) in 2014 (Proposition B), which increases General Fund allocation to SFMTA based on the City's population increase.

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 222 million boardings annually. Operating

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

Three nonprofit corporations provide operational oversight to four parking garages: Japan Center, Sutter-Stockton, Union Square, and Portsmouth. Of these four parking garages, Union Square and Portsmouth are owned by the City’s Recreation and Park Department but managed by the SFMTA. The activities of these parking garages are accounted for in SFMTA’s parking garage accounts.

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 2044.

Annual principal and interest payments for fiscal year 2016 were 29.5% 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 2016 and applicable revenues are as follows:

Bonds issued with revenue pledge	\$ 209,840
Bond principal and interest remaining due at end of the fiscal year	311,365
Net revenues	39,405
Bond principal and interest paid in the fiscal year	16,495
Funds available for revenue debt service	55,900

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 \$381.3 million in fiscal year 2016. The General Fund subsidy includes a total revenue baseline transfer of \$284.7 million, as required by the City Charter, \$68.9 million from an allocation of the City’s parking tax. Proposition B, approved by the voters in November 2014, provides additional City General Funds to address transportation needs tied to the City population growth. In fiscal year 2016, SFMTA received \$27.7 million from this source.

The SFMTA receives capital grants from various federal, state, and local agencies to finance transit-related property and equipment purchases. As of June 30, 2016, the SFMTA had approved capital grants with unused balances amounting to \$906.4 million. Capital grants receivable as of June 30, 2016 totaled \$136.1 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, 2016, the SFMTA had various operating grants receivable of \$30.7 million. In fiscal year 2016, the SFMTA’s operating assistance from BART’s Americans with Disability Act (ADA) related support of \$1.6 million, and other federal, state, and local grants of \$8.5 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

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(PTMISEA) and the Transit Security & Safety Account that are funding solely for public transit projects. The SFMTA received cash totaling \$12.6 million in fiscal year 2016 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 Budget Act of 2013 further extended the date to June 30, 2018. 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 2016, \$69.7 million in drawdowns were made from the funds for various eligible projects costs.

Commitments and Contingencies – The SFMTA has outstanding contract commitments of approximately \$567.2 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 \$53.1 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 a result of the cash transactions above, Muni recorded \$35.5 million and \$4.4 million in fiscal year 2002 and 2003 respectively, representing the difference between (a) the amounts received of \$388.2 million and \$72.6 million, and (b) the amounts of \$352.7 million and \$67.5 million paid to the escrows, the debt payment undertaker and for certain transaction expenses. These amounts have been classified as deferred inflows of resources in fiscal year 2016 and will be amortized over the life of each sublease unless the purchase option is executed or sublease is otherwise terminated before its expiration date. The deferred inflows of resources amortized amounts were \$9.4 million and \$2.4 million for the Tranche 1 Equipment and Tranche 2 Equipment in fiscal year 2016.

On March 17, 2014, Muni terminated leveraged lease transactions with respect to 30 items of Tranche 1 Equipment having an initial transaction value of \$99.3 million. On May 24, 2016, Muni terminated leveraged lease transactions with respect to 28 items of Tranche 1 Equipment having an initial transaction value of \$89.6 million and 21 items of Tranche 2 Equipment having an initial transaction

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value of \$72.6 million. On June 27, 2016, Muni terminated leveraged lease transactions with respect to 31 items of Tranche 1 Equipment having an initial transaction value of \$100.4 million. As of June 30, 2016, one leveraged lease transaction with respect to 29 items of Tranche 1 Equipment having an initial transaction value of \$98.7 million remains outstanding.

(f) Laguna Honda Hospital

General Fund Subsidy - The Laguna Honda Hospital (LHH) is a skilled nursing facility which specializes in serving elderly and disabled residents. The operations of LHH are subsidized by the City's General Fund. It is the City's policy to fund operating deficits of the enterprise on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the year ended June 30, 2016, the subsidy for LHH was \$51.3 million.

Net Patient Service Revenue - Net patient service 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 contractals 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, 2016, LHH's patient receivables and charges for services were as follows:

Patient Receivables, net				
	Medi-Cal	Medicare	Other	Total
Gross Accounts Receivable	\$ 81,015	\$ 5,034	\$ 2,723	\$ 88,772
Less:				
Provision for Contractual Allowances	(53,508)	(3,324)	(1,798)	(58,630)
Total, net	<u>\$ 27,507</u>	<u>\$ 1,710</u>	<u>\$ 925</u>	<u>\$ 30,142</u>

Net Patient Service Revenue				
	Medi-Cal	Medicare	Other	Total
Gross Revenue	\$ 406,764	\$ 24,618	\$ 13,317	\$ 444,699
Less:				
Provision for Contractual Allowances	(212,223)	(16,189)	(12,613)	(241,025)
Total, net	<u>\$ 194,541</u>	<u>\$ 8,429</u>	<u>\$ 704</u>	<u>\$ 203,674</u>

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Because Medi-Cal reimbursement rates are less than LHH's established charges rates, LHH is eligible to receive supplemental federal funding. As of June 30, 2016, LHH recorded \$71.3 million of subvention receivable for matching federal funds to local funds.

Unearned Credits and Other Liabilities - As of June 30, 2016, LHH recorded approximately \$28.3 million in other liabilities for third-party payor settlements payable.

Transactions with Other Funds - A variety of other City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, human resources, and public protection to LHH and charge amounts designed to recover those departments' costs. These charges total approximately \$10.0 million for the year ended June 30, 2016 and have been included in services provided by other departments.

Commitments and Contingencies - As of June 30, 2016, LHH has entered into various purchase contracts totaling approximately \$0.7 million that are related to the old building remodel phase of the Replacement Project.

(g) San Francisco General Hospital

General Fund Subsidy - San Francisco General Hospital (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 fiscal year ended June 30, 2016, the subsidy for SFGH was \$240.1 million.

Net Patient Service Revenue - Net patient service 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 receivables are recorded net of estimated allowances, which include allowances for contractals, 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.

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During the year ended June 30, 2016, SFGH's patient receivables and charges for services were as follows:

Patient Receivables, Net				
	Medi-Cal	Medicare	Other	Total
Gross Accounts Receivable.....	\$ 248,465	\$ 124,029	\$ 131,638	\$ 504,132
Less:				
Contractual Allowances.....	(221,716)	(113,886)	(83,383)	(418,985)
Provision for Bad Debt.....	-	-	(23,061)	(23,061)
Total, Net Accounts Receivable.....	<u>\$ 26,749</u>	<u>\$ 10,143</u>	<u>\$ 25,194</u>	<u>\$ 62,086</u>

Patient Service Revenue, Net				
	Medi-Cal	Medicare	Other	Total
Gross Patient Service Revenue.....	\$ 1,642,905	\$ 685,408	\$ 891,771	\$ 3,220,084
Less:				
Contractual Allowances.....	(1,496,445)	(566,949)	(361,200)	(2,424,594)
Bad Debt Write off.....	-	-	(85,868)	(85,868)
Total, Net Patient Service Revenue...	<u>\$ 146,460</u>	<u>\$ 118,459</u>	<u>\$ 444,703</u>	<u>\$ 709,622</u>

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 (LIHP). 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 \$17.8 million for the year ended June 30, 2016. 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 Bridge to Health Care Reform waiver expired October 31, 2015. On December 30, 2015, the Centers for Medicare and Medicaid Services (CMS) approved Medi-Cal 2020, a five-year renewal of California's Section 1115 Medicaid Waiver, which provides California public hospitals new federal funding through programs that are designed to shift the focus away from hospital-based and inpatient care, towards outpatient, primary and preventative care. A renewal of California's Medicaid Waiver was a fundamental component to public hospital's ability to continue to successfully implement the Affordable Care Act (ACA) beyond the primary step of coverage expansion.

The Medi-Cal 2020 waiver features four new programs: (1) a pay-for-performance delivery system transformation and alignment program that is considered the successor to the 2010 Bridge to Reform waiver's DSRIP, known as PRIME (Public Hospital Redesign and Incentives in Medi-Cal); (2) Global Payment Program (GPP) for services to the uninsured in designated public hospital systems; (3) Whole Person Care Pilot Program which would be a county-based, voluntary program to target providing more integrated care for high-risk, vulnerable populations; and (4) Dental Transformation Incentive Program, an optional incentive program to increase the frequency and quality of dental care provided to children.

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Payments received under Medi-Cal 2020 Waiver's GPP are utilization based and not dependent on Certified Public Expenditures (CPEs). However, GPP claims are subject to State and federal audit and final reconciliation. SFGH has established reserves for the uncertainty of future financial impact of potential audit and reconciliation adjustments. Revenues recognized under Medi-Cal 2020 approximated \$129.5 million for the fiscal year ended June 30, 2016.

The City submitted an application to participate in the Whole Person Care Pilot Program. The State Department of Health Care Services is reviewing all applications and counties will be notified of their decision in early December 2016.

In addition, SFGH was reimbursed by the State, 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 fiscal year ended June 30, 2016, 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, 2016, SFGH recorded approximately \$340 million in unearned credits and other liabilities, which was comprised of \$299.2 million in unearned credits mainly related to receipts under DSH/Safety Net Care Pool, the LIHP, and AB915 programs, and \$40.8 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 \$216.3 million and estimated costs and expenses to provide charity care were \$59.8 million in fiscal year 2016.

Other Revenues – SFGH recognized \$52.2 million of realignment funding for the year ended June 30, 2016. 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% of the savings realized by the county. The State predetermined an amount of health realignment to be redirected of \$12 million in FY15-16 for the City and withheld those amounts from health realignment remittances to the City. A reconciliation using actual experience will be concluded within two years after June 30, 2015 for FY14-15 and within two years after June 30, 2016 for FY15-16.

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, 2016, was approximately \$156.9 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.

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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. \$887.4 million of General Obligation Bonds were issued to fund the hospital rebuild. The new hospital was constructed and reached substantial completion on August 18, 2015. Patients were moved into the new hospital on May 21, 2016.

The General Obligation Bonds are accounted for as a governmental activity and transactions are accounted for in the City's Governmental Capital Projects Funds. The new facility is capitalized and also recorded under governmental activities.

Gift – SFGH received a gift in the amount of \$5.0 million and \$57.4 million, in FY15-16 and FY14-15, respectively, from the San Francisco General Hospital Foundation for the acquisition of furniture, fixtures and equipment (FF&E) for the new hospital. As of June 30, 2016, SFGH has spent \$30.5 million from the gift on acquisition of FF&E as stipulated by the donor and recorded the remaining \$31.9 million as restricted funds.

Commitments and Contingencies – As of June 30, 2016, SFGH has approximately \$4.2 million in commitments for various capital projects.

(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 147,430 residential accounts, which discharge about 15.8 million units of sanitary flow per year (measured in hundreds of cubic feet, or ccf) and approximately 16,151 non-residential accounts, which discharge about 8 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 2047.

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The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during fiscal year 2016, applicable net revenues, and funds available for bond debt service are as follows:

Bonds issued with revenue pledge	\$ 1,072,950
Bond principal and interest remaining due at end of the fiscal year	1,730,167
Net revenues	100,084
Bond principal and interest paid in the fiscal year	60,022
Funds available for revenue debt service	239,931

Commitments and Contingencies – As of June 30, 2016, the Wastewater Enterprise had outstanding commitments, with third parties, for capital projects and for materials and services totaling \$190.7 million.

Pollution Remediation Obligations – As of June 30, 2016, the Wastewater Enterprise recorded \$2.6 million in pollution remediation liability, consisting of \$2 million cleanup cost estimate at the Yosemite Creek site, \$0.6 million at the Southeast and Oceanside Treatment sites, and \$0.01 million for the hazardous materials at the Southeast plant. The pollution remediation obligation reported in the accompanying statements of net position is based on estimated contractual costs.

Transactions with Other Funds –The Wastewater Enterprise purchases power from Hetch Hetchy Power totaling \$9.9 million for the year ended June 30, 2016. 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 \$26.2 million for the year ended June 30, 2016 and have been included in services provided by other departments.

(14) 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’s 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 California Department of Finance (DOF) granted a Finding of Completion for the Successor Agency. Pursuant to Health and Safety Code (HSC) section 34179.7, the DOF 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 Recognized Obligation Payments Schedule (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.

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In addition, the receipt of the Finding of Completion allowed the Successor Agency to submit a Long Range Property Management Plan (LRPMP) to the Oversight Board and the DOF for approval. The LRPMP pertains to the disposition and use of real properties held by the Successor Agency. Part 1 of the LRPMP, which addresses the disposition of property located at 706 Mission Street, was approved by the DOF on October 4, 2013. During fiscal year 2016, the property was transferred in accordance with the terms and closing conditions of the 706 Mission Purchase and Sale Agreement. After incorporating feedback from the DOF, the remainder of the LRPMP was approved by the Oversight Board on November 23, 2015, and by the DOF on December 7, 2015.

In September 2015, the State passed Senate Bill 107 (SB 107) which clarifies and updates existing law governing the dissolution of redevelopment agencies. SB 107 includes specific language that allows the Successor Agency to issue bonds or other indebtedness for the purposes of low and moderate income housing and infrastructure in the City by allowing the pledge of revenues available in the Trust Fund that are not otherwise pledged subject to the approval of the Oversight Board. SB 107 also declares that Mission Bay North, Mission Bay South, Hunters Point Shipyard Phase 1, Candlestick Point - Hunters Point Shipyard Phase 2, and Transbay projects are finally and conclusively approved as enforceable obligations.

(a) Capital Assets Held by the Successor Agency

For the year ended June 30, 2016, the summary of changes in capital assets is as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets not being depreciated:				
Land held for lease	\$ 54,769	\$ -	\$ -	\$ 54,769
Construction in progress	633	1,187	-	1,820
Total capital assets not being depreciated	<u>55,402</u>	<u>1,187</u>	<u>-</u>	<u>56,589</u>
Capital assets being depreciated:				
Furniture and equipment - General	8,144	-	-	8,144
Building and improvements	227,843	-	(25,791)	202,052
Total capital assets being depreciated	<u>235,987</u>	<u>-</u>	<u>(25,791)</u>	<u>210,196</u>
Less accumulated depreciation for:				
Furniture and equipment	(8,093)	(11)	-	(8,104)
Building and improvements	(95,200)	(5,532)	7,272	(93,460)
Total accumulated depreciation	<u>(103,293)</u>	<u>(5,543)</u>	<u>7,272</u>	<u>(101,564)</u>
Total capital assets being depreciated, net	<u>132,694</u>	<u>(5,543)</u>	<u>(18,519)</u>	<u>108,632</u>
Total capital assets, net	<u>\$ 188,096</u>	<u>\$ (4,356)</u>	<u>\$ (18,519)</u>	<u>\$ 165,221</u>

During the year ended June 30, 2016, the Successor Agency sold a property with a book value of \$18.5 million to a developer. The purchase price was \$37.5 million, of which \$25.2 million was used to pay off advances from the City, \$8.9 million was used to partially pay off Tax Allocation Bonds Series 2003 B, and \$3.3 million was used to pay off Tax Allocation Bonds Series 2014 A. The gain from the sale of the property was recorded as an other addition in the Statement of Changes in Fiduciary Net Position.

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

<u>Entity and Type of Obligation</u>	<u>Final Maturity Date</u>	<u>Remaining Interest Rate</u>	<u>Amount</u>
Hotel tax revenue bonds ^(a)	2025	4.00% - 5.00%	\$ 34,260
Tax allocation revenue bonds ^(b)	2044	0.57% - 9.00%	804,659
South Beach Harbor Variable Rate Refunding bonds ^(c)	2017	3.50%	675
California Department of Boating and Waterways Loan ^(d)	2037	4.50%	6,857
Total long-term bonds and loans			<u>\$ 846,451</u>

Debt service payments are made from the following sources:

- (a) Hotel taxes from the occupancy of guest rooms in the hotels within the City.
- (b) Redevelopment property tax revenues from the Bayview Hunters Point, Western Addition, Rincon Point South Beach, Yerba Buena Center, India Basin, South of Market, Golden Gateway, Mission Bay South, Transbay, and Mission Bay North project areas.
- (c) South Beach Harbor Project cash reserves, redevelopment property tax revenues, and project revenues transferred from the capital projects fund.
- (d) 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 bonds by the Successor Agency. On April 21, 2016, the Successor Agency issued two refunding bonds, Tax Allocation Refunding Bonds Series 2016 A (2016 Series A Bonds) for \$73.9 million and Tax Allocation Refunding Bonds Series 2016 C (2016 Series C Bonds) for \$73.2 million and one new issuance, Mission Bay South Redevelopment Project Series 2016 B (2016 Series B Bonds) for \$45.0 million.

Proceeds from the 2016 Series A Bonds plus original issue premium of \$15.6 million and funds on hand from the refunded bonds of \$17.3 million were used to fully refund 2005 Series D, 2006 Series B, 2009 Series C, and 2011 Series C bonds in the amount of \$12.9 million, \$29.5 million, \$25.3 million, and \$25.7 million, respectively, plus accrued interest and issuance costs. The refunding resulted in net present value savings of \$19.6 million and an accounting loss of \$11.5 million. The 2016 Series A Bonds bear fixed interest rates of 3.00% to 5.00% and reach final maturity on August 1, 2041.

Proceeds from the 2016 Series C Bonds of \$73.2 million plus original issue premium of \$13.9 million and funds on hand from the refunded bonds in the amount of \$11.3 million were used to fully refund 2009 Series D Bonds and 2011 Series D Bonds in the amount of \$45.0 million and \$34.9 million, respectively, plus accrued interest and issuance costs. The refunding resulted in net present value savings of \$15.9 million and an accounting loss of \$17.2 million. The 2016 Series C Bonds bear fixed interest rates of 2.00% to 5.00% and reach final maturity on August 1, 2041.

Proceeds from the 2016 Series B Bonds plus original issue premium of \$8.4 million will be used to finance redevelopment activities of the Successor Agency within or of benefit to the Mission Bay South Redevelopment Project Area. The 2016 Series B Bonds bear fixed interest rate of 2.00% to 5.00% and reach final maturity on August 1, 2043.

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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., the 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 \$1.46 billion. The redevelopment property tax revenues recognized during the year ended June 30, 2016, were \$119.3 million against the total debt service payment of \$97.9 million.

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 of the bonds. The total principal and interest remaining on the Hotel Tax Revenue Bonds is approximately \$43.1 million. The hotel tax revenue recognized during the year ended June 30, 2016 was \$5.0 million which equaled the total debt service payment.

The changes in long-term obligations for the Successor Agency for the year ended June 30, 2016, are as follows:

	July 1, 2015	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2016
Bonds payable:				
Tax revenue bonds	\$ 889,174	\$ 192,120	\$ (241,700)	\$ 839,594
Less unamortized amounts:				
For issuance premiums	13,558	37,924	(1,701)	49,781
For issuance discounts	(4,365)	-	1,417	(2,948)
Total bonds payable	898,367	230,044	(241,984)	886,427
Accreted interest payable.....	37,501	4,714	-	42,215 ⁽¹⁾
Notes, loans, and other payables.....	7,075	-	(218)	6,857
Accrued vacation and sick leave pay.....	639	349	(87)	901
Other postemployment benefits obligation.....	833	796	(1,199)	430
Successor Agency - long term obligations...	\$ 944,415	\$ 235,903	\$ (243,488)	\$ 936,830

(1) Amounts represent interest accretion Capital Appreciation Bonds.

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As of June 30, 2016, the debt service requirements to maturity for the Successor Agency, excluding accrued vacation and sick leave, are as follows:

Fiscal Year Ending June 30	Tax Revenue Bonds		Other Long-Term Obligations		Total	
	Principal	Interest*	Principal	Interest	Principal	Interest
2017.....	\$ 48,230	\$ 41,523	\$ 227	\$ 309	\$ 48,457	\$ 41,832
2018.....	51,465	41,453	238	298	51,703	41,751
2019.....	61,815	38,958	248	288	62,063	39,246
2020.....	46,477	39,463	260	276	46,737	39,739
2021.....	32,507	38,243	271	265	32,778	38,508
2022-2026.....	152,303	199,386	1,550	1,130	153,853	200,516
2027-2031.....	132,422	132,443	1,932	748	134,354	133,191
2032-2036.....	142,419	93,881	2,108	272	144,527	94,153
2037-2041.....	127,701	34,719	23	1	127,724	34,720
2042-2044.....	44,255	2,862	-	-	44,255	2,862
Total.....	\$ 839,594	\$ 662,931	\$ 6,857	\$ 3,587	\$ 846,451	\$ 666,518

* Includes payment of accreted interest

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 property tax 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. In accordance with HSC Section 34191.4(b)(3), interest shall be accrued quarterly at an annual rate of 3% on the principal balance due to the City. The City and the Successor Agency have accrued interest at the Local Agency Investment Fund (LAIF) rate, which was less than the statutory rate as of June 30, 2015. During the year ended June 30, 2016, the Successor Agency retroactively applied the 3% interest rate and increased the balance by \$2.2 million. Also during the same fiscal year, the City advanced \$0.7 million in property tax revenues to the Successor Agency for debt service payments. Interest in the amount of \$0.6 million was accrued based on the balance due to the City, and the Successor Agency has made payments in the amount of \$26.8 million to the City to fully repay the advances.

During the year ended June 30, 2010, the former Agency borrowed \$16.5 million from the Low and Moderate Income Housing Fund (LMIHF) to make payment of \$28.7 million to the Supplemental Education Revenue Augmentation Funds (SERAF) to meet the State's Proposition 98 obligations to schools. Upon dissolution of the former Agency, the City elected to become the Housing Successor Agency and retained the former Agency's housing assets and functions, rights, powers, duties, and obligations. In accordance with HSC Section 34191.4(b)(3), interest is accrued quarterly at an annual rate of 3% on the principal balance due to the City. For the year ended June 30, 2016, interest in the amount of \$0.4 million was accrued, and the Successor Agency made payments in the amount of \$1.8 million to the City. The outstanding payable balance at June 30, 2016, was \$14.6 million, which was comprised of principal of \$11.8 million and accrued interest of \$2.8 million.

As of June 30, 2016, the Successor Agency also has a payable to the City in the amount of \$2,611 which consists of \$554 for Jessie Square cost reimbursements and \$2,057 for other services provided.

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(c) Commitments and Contingencies Related to the Successor Agency

Encumbrances - At June 30, 2016, the Successor Agency had outstanding encumbrances totaling approximately \$63.0 million.

Risk Management - 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; these are enforceable obligations of the Successor Agency. As of June 30, 2016, the Successor Agency has exercised several of the lease options. The leases require the following minimum annual payments:

Fiscal Years			Fiscal Years		
2017.....	\$	1,341	2022-2026.....	\$	4,351
2018.....		870	2027-2031.....		4,351
2019.....		870	2032-2036.....		4,351
2020.....		870	2037-2041.....		4,351
2021.....		870	2042-2046.....		4,351
			2047-2051.....		2,828
			Total.....	\$	29,404

Rent payments totaling \$1.4 million are included in the Successor Agency's financial statements for the year ended June 30, 2016.

Regarding rental income, the Successor Agency has noncancelable operating leases on various facilities within project areas. The minimum future rental income are as follows:

Fiscal Years			Fiscal Years		
2017.....	\$	4,506	2027-2031.....	\$	21,757
2018.....		4,486	2032-2036.....		22,830
2019.....		4,362	2037-2041.....		20,037
2020.....		4,248	2042-2046.....		19,834
2021.....		4,269	2047-2050.....		2,819
2022-2026.....		22,000			
			Total.....	\$	131,148

For the year ended June 30, 2016, operating lease rental income for noncancelable operating leases was \$11.3 million, of which \$7.1 million represents contingent rental income received. At June 30, 2016, the leased assets had a net book value of \$35.3 million.

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Notes and Mortgages Receivable – During the process of selling land to developers and issuing mortgage revenue bonds, the Successor Agency may defer receipt of land sale proceeds and mortgage revenue bond financing fees from various private developers in exchange for notes receivable, which aids the developers' financing arrangements. The Successor Agency recognizes all revenues and interest on the above-described arrangements when earned, net of any amounts deemed to be uncollectible. During the year ended June 30, 2016, the Successor Agency disbursed \$47.7 million to the developers through this arrangement and recorded an allowance against these receivables. This allowance is recorded as deductions in the financial statements. At June 30, 2016, the gross value of the notes and mortgage receivable was \$110.7 million and the allowance for uncollectible amounts was \$109.0 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. At June 30, 2016, the Successor Agency had outstanding community facility district bonds totaling \$191.4 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, 2016, the Successor Agency received \$1.6 million from a developer and distributed the funds to the TJPA. The payment was recorded as a neighborhood development deduction on the statement of changes in fiduciary net position.

(15) 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.

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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; leasing approximately 700 existing 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 for 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 substantial step towards implementation of the project.

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 for land uses, phasing, infrastructure, transportation, sustainability, housing – including affordable housing, jobs and equal opportunity programs, community facilities and project financing. Collectively, the entitlements 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 and approved the project entitlements. These project approvals established the framework and cleared the way for realization of a new environmentally sustainable community on Treasure Island and the thousands of construction and permanent jobs the construction will bring.

On May 29, 2015, the Navy made the first transfer of property to TIDA consisting of 290 acres on Yerba Buena and Treasure Islands and the offshore submerged lands. Existing structures on Yerba Buena were demolished between February and August 2016, and demolition of structures in the first area of development on Treasure Island began in July 2016. The first infrastructure construction projects – new water reservoirs and new roadways, utilities, and related facilities on Yerba Buena Island – have been awarded and will mobilize in November 2016, with vertical construction beginning in 2017, and the first new homes ready for occupancy in 2019. The complete build-out of the project is anticipated to occur over fifteen to twenty years.

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In July 2008, and amended several times over the intervening years, 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. 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. The repayment to the Transportation Authority was structured to be paid by TIDA in three installments with the first installment equal to 50% of the current balance being due 30 days after the first close of escrow for transfer of the Naval Station Treasure Island to TIDA from the Navy. The second installment is due on the anniversary of the first installment in an amount of 50% of the then current balance, and a final payment of the remaining balance of the loan is due thereafter. 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. Under the Disposition and Development Agreement between TIDA and Treasure Island Community Development, LLC (TICD), the master developer for Treasure Island and Yerba Buena Island, TICD is committed to fulfill TIDA's obligations under the loan agreement between TIDA and the Transportation Authority. On June 26, 2015, TICD made a payment directly to the Transportation Authority on TIDA's behalf in the amount of \$5.4 million. On June 28, 2016, TICD made a payment to TIDA in the amount of \$2.8 million which TIDA, in turn, paid to the Transportation Authority on June 30, 2016.

As of June 30, 2016, TIDA has the following payables to other City departments:

Payable to	Purpose	6/30/2016		Total
		Current	Noncurrent	
SFCTA	YBI Loan Agreement	\$ -	\$ 2,894	\$ 2,894
SFCTA	YBI and mobility management expenses	220	-	220
Hetch Hetchy	Utility operations under MOU	200	228	428
Hetch Hetchy	Energy efficiency project	-	2,599	2,599
		<u>\$ 420</u>	<u>\$ 5,721</u>	<u>\$ 6,141</u>

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(16) 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, 2016 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ 4,366
	San Francisco Water Enterprise	230
		4,596
Nonmajor Governmental Funds	General Fund	1,380
	Nonmajor Governmental Funds	3,213
	Internal Service Funds	361
	Municipal Transportation Agency	2,503
	San Francisco Wastewater Enterprise	2
	San Francisco Water Enterprise	7
		7,466
General Hospital Medical Center	General Fund	55
	Nonmajor Governmental Funds	2
		57
San Francisco Water Enterprise	General Fund	141
	Nonmajor Governmental Funds	304
		445
Hetch Hetchy Water and Power Enterprise	General Fund	14
	Nonmajor Governmental Funds	7,220
	Port of San Francisco	65
	General Hospital Medical Center	513
	San Francisco Wastewater Enterprise	1,269
	San Francisco Water Enterprise	549
		9,630
Municipal Transportation Agency	Nonmajor Governmental Funds	16,973
San Francisco Wastewater Enterprise	General Fund	9
	Nonmajor Governmental Funds	19
		28
Total		\$ 39,195

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 (SEA) 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, 2016, Hetch Hetchy loaned \$8.4 million to other City funds. Hetch Hetchy is also due \$1.2 million from the Wastewater Enterprise for its share of costs relating to 525 Golden Gate Headquarters project for equipment.

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The SFMTA has a receivable from nonmajor governmental funds of \$17.0 million for capital and operating grants.

Due from component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>	
Hetch Hetchy Water and Power Enterprise	Component unit – TIDA	\$ 200	(1)
Nonmajor Governmental Funds	Component unit – TIDA	220	(1)
General Fund	Successor Agency	920	(2)
Nonmajor Governmental Funds	Successor Agency	1,297	(2)
Municipal Transportation Agency	Successor Agency	31	(2)
San Francisco Water Enterprise	Successor Agency	94	(2)
Hetch Hetchy Water and Power Enterprise	Successor Agency	218	(2)
San Francisco Wastewater Enterprise	Successor Agency	51	(2)

Advance to component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>	
Hetch Hetchy Water and Power Enterprise	Component unit – TIDA	\$ 2,827	(1)
Nonmajor Governmental Funds	Component unit – TIDA	2,894	(1)
Nonmajor Governmental Funds	Successor Agency	14,602	(2)

(1) See discussion at Note 15.

(2) See discussion at Note 14(b) related to the Due to/Advances from the Primary Government.

<u>Transfers In: Funds (in thousands)</u>											
<u>Transfers Out: Funds</u>	General Fund	Nonmajor Governmental Funds	Internal Service Funds	Water Enterprise	Hetch Hetchy Water and Power Enterprise	Municipal Transportation Agency	San Francisco General Hospital Medical Center	Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	Total
General Fund.....	\$ -	\$ 289,079	\$ 5	\$ 200	\$ 110	\$ 381,342	\$ 240,120	\$ 80	\$ 80	\$ 51,327	\$ 962,343
Nonmajor governmental funds.....	8,636	78,799	-	34,168	1,275	142,147	-	380	24,052	-	289,457
Internal Service Funds.....	115	-	-	-	-	-	-	-	-	-	115
San Francisco International Airport.....	42,542	-	-	-	-	-	-	-	-	-	42,542
Water Enterprise.....	214	910	-	-	-	-	-	-	-	-	1,124
Hetch Hetchy Water and Power Enterprise.....	673	32	-	-	-	-	-	-	-	-	705
Municipal Transportation Agency.....	2,335	2,359	-	-	-	-	-	-	-	-	4,694
San Francisco General Hospital Medical Center.....	131,411	-	-	-	-	-	-	-	-	28	131,439
Wastewater Enterprise.....	16,453	32	-	-	-	-	-	-	-	-	16,485
Port of San Francisco.....	-	32	-	-	-	-	-	-	-	-	32
Laguna Honda Hospital.....	7,115	-	-	-	-	-	-	-	-	-	7,115
Total transfers out	\$ 209,494	\$ 371,243	\$ 5	\$ 34,368	\$ 1,385	\$ 523,489	\$ 240,120	\$ 460	\$ 24,132	\$ 51,355	\$ 1,456,051

The \$962.3 million General Fund transfer out includes a total of \$672.7 million in operating subsidies to SFMTA, SFGH, and Laguna Honda Hospital (note 13). The transfer of \$289.1 million from the General Fund to the nonmajor governmental funds is to provide support to various City programs such as the Public Library and Children and Families Fund, as well as to provide resources for the payment of debt service. The transfers between the nonmajor governmental funds are to provide support for various City programs and to provide resources for the payment of debt service.

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San Francisco International Airport transferred \$42.5 million to the General Fund, representing a portion of concession revenues (note 13(a)). The General Fund received transfers in of \$110.2 million from SFGH for the Safety Net Care Pool (SNCP) and Delivery System Reform Incentive Program (DSRIP) intergovernmental transfers (IGT), \$1.9 million for interest earned by the SFGH but credited to General Fund (note 13(g)), \$1.9 million for COLA adjustment allocation to various Department of Public Health (DPH) division. SFGH transferred to General Fund \$0.2 million for equipment lease payments, \$0.2 million for primary care center projects and offset by \$1.0 million transfer from General Fund for Healthy San Francisco. The General Fund also received \$18 million from SFGH and \$7 million from Laguna Honda Hospital to fund the DPH project and \$0.1 million for interest earned by the Laguna Honda Hospital funds but credited to General Fund.

SFMTA received \$142.1 million transfers from nonmajor governmental funds, of which \$61.9 million was for capital activities, \$18.3 million was for operating activities, and \$61.9 million to fund various street improvement projects. In turn, the SFMTA transferred \$2.4 million to nonmajor governmental funds to pay for various street improvement projects. On the other hand, the SFMTA transferred \$2.3 million to the General Fund for reimbursement on the 4th Street Bridge project.

The Water Enterprise received \$34.4 million from transfers in, of which included \$34.2 million in general obligation bond proceeds for the Auxiliary Water Supply System Earthquake Safety and Emergency Response project and \$0.2 million from General Fund for the San Francisco War Memorial Veterans Building project.

The Wastewater Enterprise transferred \$16.5 million to the General Fund in order to secure jurisdiction of the City owned property adjacent to the Southeast Water Pollution Control Plant ("Southeast Plant"). On the other hand, the Wastewater Enterprise received \$0.4 million from the Department of Public Works for the Ocean Beach project and community projects.

The Port of San Francisco received \$24.1 million transfer in, of which include a transfer fee of \$1.7 million for a jurisdiction transfer to the San Francisco Real Estate Division of property to facilitate open space improvements in connection with as adjacent residential development project, \$0.7 million for Port's capital project, \$13.2 million and \$8.5 million of proceeds from the 2012 and 2008 San Francisco Clean and Safe Neighborhood Parks Bond, respectively, for waterfront projects.

The \$1.4 million Hetch Hetchy transfers represents \$1.3 million from nonmajor funds for the Lighting and Traffic Safety project, and \$0.1 million from the General Fund for energy efficiency project. In turn, Hetch Hetchy transferred \$0.7 million to the General Fund for Lighting Energy Efficiency projects, Heating, Ventilating and Air Conditioning (HVAC) projects.

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(17) COMMITMENTS AND CONTINGENT LIABILITIES

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

Governmental Activities

Fiscal Years		
2017.....	\$	41,033
2018.....		37,032
2019.....		29,528
2020.....		26,016
2021.....		19,137
2022-2026.....		43,856
2027-2031.....		974
2032-2034.....		260
Total.....	<u>\$</u>	<u>197,836</u>

Operating leases expense incurred for fiscal year 2015-16 was approximately \$36.9 million.

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	Municipal Transportation Agency (MTA)	Total Business-type Activities
2017.....	\$ 162	\$ 2,712	\$ 12,419	\$ 15,293
2018.....	73	2,712	12,661	15,446
2019.....	-	2,712	12,816	15,528
2020.....	-	2,712	12,611	15,323
2021.....	-	2,712	13,099	15,811
2022-2026....	-	13,558	62,679	76,237
2027-2031....	-	13,558	70,306	83,864
2032-2036....	-	13,558	68,899	82,457
2037-2041....	-	13,558	74,473	88,031
2042-2046....	-	13,558	91,136	104,694
2047-2051....	-	13,558	-	13,558
2052-2056....	-	13,558	-	13,558
2057-2061.....	-	13,558	-	13,558
2062-2065.....	-	8,360	-	8,360
Total.....	<u>\$ 235</u>	<u>\$ 130,384</u>	<u>\$ 431,099</u>	<u>\$ 561,718</u>

Operating lease expense incurred for the Airport, Port, and SFMTA for fiscal year 2015-16 was \$0.2 million, \$2.8 million, and \$17.1 million, respectively.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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Several City departments lease land and various facilities to tenants and concessionaires who will provide the following minimum annual payments:

Primary Government

Governmental Activities

<u>Fiscal Years</u>		
2017.....	\$	2,641
2018.....		1,927
2019.....		856
2020.....		750
2021.....		603
2022-2026.....		824
2027-2031.....		450
Total.....	<u>\$</u>	<u>8,051</u>

Business-type Activities

<u>Fiscal Years</u>	<u>San Francisco International Airport</u>	<u>Port of San Francisco</u>	<u>San Francisco General Hospital</u>	<u>Municipal Transportation Agency</u>	<u>Total Business-type Activities</u>
2017.....	\$ 104,343	\$ 41,305	\$ 1,526	\$ 4,539	\$ 151,713
2018.....	88,223	32,949	1,572	4,489	127,233
2019.....	50,050	29,467	1,619	4,085	85,221
2020.....	23,159	26,237	1,668	3,103	54,167
2021.....	16,757	24,761	1,718	2,450	45,686
2022-2026.....	34,731	100,434	9,395	7,488	152,048
2027-2031.....	-	84,110	-	6,267	90,377
2032-2036.....	-	77,111	-	6,250	83,361
2037-2041.....	-	49,518	-	6,250	55,768
2042-2046.....	-	39,431	-	6,250	45,681
2047-2051.....	-	31,582	-	6,250	37,832
2052-2056.....	-	19,017	-	5,833	24,850
2057-2061.....	-	17,231	-	-	17,231
2062-2066.....	-	17,231	-	-	17,231
2067-2071.....	-	11,302	-	-	11,302
2072-2076.....	-	10,208	-	-	10,208
2077-2081.....	-	699	-	-	699
Total.....	<u>\$ 317,263</u>	<u>\$ 612,593</u>	<u>\$ 17,498</u>	<u>\$ 63,254</u>	<u>\$ 1,010,608</u>

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 \$26.3 million and \$18.7 million, respectively, in fiscal year 2015-16. The Airport also exercised a five-year car rental lease agreement option 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

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

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 \$43.3 million for fiscal year 2015-16.

Other Commitments

The Retirement System has commitments to contribute capital for real assets and private equity investments in the aggregate amount of approximately \$4.7 billion at June 30, 2016.

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.

In April 2001, the City, the Alameda-Contra Costa Transit District and the Peninsula Corridor Joint Powers Board executed a Joint Powers Agreement which created and established the Transbay Joint Powers Authority (TJPA). The TJPA has primary jurisdiction with respect to all matters concerning the financing, design, development, construction, and operation of the new Transbay Transit Center, which will replace the former Transbay Terminal in downtown San Francisco with a modern transit hub. In May 2016, the City's Board of Supervisors adopted Resolution 166-16 approving and authorizing the execution and delivery of Tax Exempt and/or Taxable Lease Revenue Commercial Paper Certificates of Participation and Tax Exempt and/or Taxable Direct Placement Revolving Certificates of Participation in a combined aggregate principal of amount not to exceed \$260 million to provide interim financing for the Transbay Transit Center construction project. As of June 30, 2016, the City has not issued the Certificates of Participation related to this resolution.

(18) 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 with \$250.0 million in War Perils Liability, 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 and target range liability for the San Francisco Police Department's firearms range located at the Airport. The Airport has no liability insurance coverage for losses due to land movement or seismic activity, war, terrorism and hijacking.

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June 30, 2016

(Dollars in Thousands)

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 \$1.1 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 \$75 per occurrence and changes in insurance coverage to reflect current insurer appraisal values and best available policy. 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 \$3.0 million. As of June 30, 2016, the reserve was \$20.1 million. Claim liabilities are actuarially determined anticipated claims and projected timing of disbursement, considering recent claim settlement trends, inflation, and other economic social factors.

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.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
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Estimated Claims Payable

Numerous lawsuits are pending or threatened against the City. The City's liability as of June 30, 2016 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 July 1, 2014, resulted from the following activity:

<u>Fiscal Year</u>	<u>Beginning Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Fiscal Year Liability</u>
2014-2015	\$ 247,059	\$ 87,834	\$ (70,063)	\$ 264,830
2015-2016	264,830	68,815	(56,079)	277,566

Breakdown of the estimated claims payable at June 30, 2016 is follows:

<u>Governmental activities:</u>	
Current portion of estimated claims payables.....	\$ 53,627
Long-term portion of estimated claims payable.....	106,871
Total	<u>\$ 160,498</u>
<u>Business-type activities:</u>	
Current portion of estimated claims payables.....	\$ 52,808
Long-term portion of estimated claims payable.....	64,260
Total	<u>\$ 117,068</u>

Workers' Compensation

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2016 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, 2016 was \$417.4 million which is reported in the appropriate individual funds in accordance with the City's accounting policies.

Changes in the reported accrued workers' compensation since July 1, 2014, resulted from the following activity:

<u>Fiscal Year</u>	<u>Beginning Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Fiscal Year Liability</u>
2014-2015	\$ 383,876	\$ 94,397	\$ (82,699)	\$ 395,574
2015-2016	395,574	108,760	(86,906)	417,428

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

Breakdown of the accrued workers' compensation liability at June 30, 2016 is as follows:

Governmental activities:	
Current portion of accrued workers' compensation liability.....	\$ 39,357
Long-term portion of accrued workers' compensation liability..	188,468
Total	\$ 227,825
Business-type activities:	
Current portion of accrued workers' compensation liability.....	\$ 31,867
Long-term portion of accrued workers' compensation liability..	157,736
Total	\$ 189,603

(19) SUBSEQUENT EVENTS

(a) Long-term Debt Issuance

In July 2016, the City issued a total of \$91.4 million tax-exempt and \$13.0 million taxable commercial paper (CP) with interest rates ranging from 0.44% to 0.45% and 0.58%, respectively and maturity of September 2016. The CP was issued to refund \$99.8 million of maturing CP and obtain \$4.5 million new funding for the Moscone Expansion and affordable housing (HOPE SF) projects. The refinanced CP was issued to provide interim funding for Moscone expansion project, the purchase of capital equipment for the San Francisco General Hospital and Trauma Center, and the rebuilding of distressed public housing sites to increase affordable housing (HOPE SF).

In August 2016, the City refinanced maturing notes by issuing a total of \$31.6 million tax exempt CP with interest rate ranging from 0.43% to 0.47% to mature September and October 2016. The CP was issued to provide interim funding for Moscone expansion project and capital equipment for the San Francisco General Hospital and Trauma Center.

In September 2016, the City issued \$10.0 million tax-exempt CP for the Moscone Expansion project and rolled over a total of \$13.0 million taxable and \$106.1 million tax-exempt maturing CP. The taxable CP bears interest rate of 0.72% and the tax-exempt CP bears interest rates ranging from 0.69% to 0.82%. The CP matures October and November 2016.

In September 2016, the Airport issued its Second Series Revenue Bonds, Series 2016B (AMT) and Series 2016C (Non-AMT), in the aggregate principal amount of \$740.1 million to finance and refinance (through the repayment of subordinate commercial paper notes) a portion of the capital plan. It also issued its Second Series Revenue Refunding Bonds, Series 2016D (Non-AMT/Governmental Purpose) in the amount of \$147.8 million to refund a portion of the Series 2010C, 2011D, and 2011G bonds. The Series 2016BCD bonds are uninsured, long-term, fixed rate bonds. The Series 2016B bonds mature between May 2038 and May 2046 with a coupon of 5%. The Series 2016C Bonds mature in May 2046 with a coupon of 5%. The Series 2016D Bonds mature between 2017 and 2031 with a coupon of 5%. The net proceeds of the Series 2016BC bonds (\$779.2 million) were used to repay the entire outstanding balance of subordinate commercial paper notes (\$343.0 million), and make a deposit into the Airport's construction accounts to fund capital projects at the Airport. As of October 7, 2016, the Airport had no subordinate commercial paper notes outstanding.

In October 2016, the San Francisco Public Utilities Commission issued \$893.8 million of San Francisco Water Revenue Bonds, Series 2016 A and B. The Series 2016 A and B Bonds refunded all or a portion of the following outstanding series of Water Revenue Bonds – 2006 B, 2006 C, 2009 A, 2009 B, 2010 A and 2010 F Bonds. The issuance resulted in approximately \$107.0 million of net present value debt service savings for the Water Enterprise Fund.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

In October 2016, the City issued \$115.4 million tax-exempt CP to refinance \$113.7 maturing notes for the Moscone Expansion Project, San Francisco General Hospital capital equipment purchase and HOPE SF, and \$1.5 million in new funding for the Moscone Expansion project. The CP bears interest rate ranging from 0.80% to 0.95% will mature in December 2016 and January 2017.

In November 2016, the City issued General Obligation Bonds Series 2016F (Affordable Housing) in the amount of \$75.1 million to finance the construction, development, acquisition, and preservation of housing affordable to low- and middle-income households through programs that will prioritize vulnerable populations such as San Francisco's working families, veterans, seniors, disabled persons; to assist in the acquisition, rehabilitation, and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents; to repair and reconstruct dilapidated public housing; to fund a middle income rental program; and to provide for homeownership down payment assistance opportunities for educators and middle-income households; to pay certain costs related to the issuance of Series 2016F. The bonds mature from June 2017 through June 2036 with interest rates ranging from 2.0% to 3.1%. Debt service payments for the Series 2016F are funded through ad valorem taxes on property.

In November 2016, the City issued \$50.4 million tax-exempt CP to refinance \$32.7 million maturing CP and \$17.4 million in new funding for the Moscone Expansion and HOPE SF projects. The CP bears interest rate of 0.60% and 0.65% and will mature in January 2017.

(b) Elections

On November 8, 2016 the San Francisco voters approved the following propositions that will have a fiscal impact on the City:

Proposition C – An ordinance that authorizes the City to use the remaining \$261.0 million in unissued general obligation bonds approved under the 1992 ordinance to acquire, improve and rehabilitate at-risk multi-unit residential buildings in need of seismic, fire, health and safety upgrades or other major rehabilitation; and convert those buildings to permanent affordable housing.

Proposition E – An ordinance that transfers the responsibility from property owners to the City for maintaining trees and sidewalks damaged by trees. The City would then be liable for injuries and property damage resulting from failure to maintain the trees and to repair sidewalks damaged by trees. The City would pay for maintaining these trees and sidewalks by setting aside \$19.0 million per year from the City's General Fund, adjusted annually based on the City's revenue. Included in this proposition is an early termination clause that at any time before January 1, 2017, the Mayor, after consulting with the Budget Director and the Controller, and after taking into account the City's projected revenues and expenditures in the City's financial plans, may terminate implementation of sections of this charter amendment (Section 16.129 – Street Tree Maintenance).

Proposition I – A charter amendment that creates a Dignity Fund and set aside at least \$38.0 million a year, plus scheduled increases, from the General Fund to provide guaranteed funding for programs and services to seniors and adults with disabilities. This fund will expire on June 30, 2037.

Proposition J – A charter amendment that creates a Homeless Housing and Services Fund, which will provide services to the homeless including housing and navigation centers, programs to prevent homelessness and assistance to transitioning out of homelessness by allocating \$50.0 million per year for 24 years, adjusted annually; and create a Transportation Improvement Fund, which will be used to improve the City's transportation network by allocating \$101.6 million per year for 24 years, adjusted annually. Included in this proposition is an early termination clause that at any time before January 1, 2017, the Mayor, after consulting with the Budget Director and the Controller, and after taking into account the City's projected revenues and expenditures in the City's financial plans, may terminate sections of this charter amendment (Section 16.135 – Transportation Improvement Fund).

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

Proposition V – A City’s Business Tax and Regulation Code amendment to impose a one cent per fluid ounce tax on the initial distribution within the City of sugar sweetened beverages beginning January 1, 2018.

Proposition W – An ordinance that increases the transfer tax rate for real property with a sales price of more than \$5.0 million, including leases of 35 years or more. The current tax rate will not change.

(c) Net Pension Liability

Subsequent to the fiscal year ended June 30, 2016, a GASB Statement No. 67/68 report for the San Francisco Employees’ Retirement System (SFERS) dated November 2016 was issued by Cheiron, SFERS’ actuary, resulting in a significant increase in the City’s net pension liability. Based on this new report, the City’s net pension liability is approximately \$5.48 billion, which will be reported in the City’s financial statements for the fiscal year ending June 30, 2017 in accordance with GASB Statement No. 68. This increase is due to investment losses, the Appeals Court’s elimination of the full funding requirement for certain members, and the impact of the revised demographic assumptions and change in discount rate.

(d) Property Transactions

On September 19, 2016, U.S. Department of the Navy transferred to the Treasure Island Development Authority (TIDA) portions of the former Naval Station Treasure Island including Site 27 Parcel (Clipper Cove), consisting of approximately 20.27 acres and Site 21 Parcel and Building 3, consisting of approximately 6.67 acres. This is the second transfer of Navy land to TIDA. The first transfer occurred on May 29, 2015. Both transfers are part of the Economic Development Conveyance Memorandum of Agreement between the United States of America, acting by and through the Department of the Navy and TIDA for the Conveyance of the Naval Station Treasure Island dated July 2, 2014.

CITY AND COUNTY OF SAN FRANCISCO
Required Supplementary Information (Unaudited) –
Schedules of the City's Proportionate Share of the Net Pension Liability
June 30, 2016
(Dollars in Thousands)

	For the year ended June 30, 2016				
	CalPERS Miscellaneous Plans				
	City SFERS Plan	City	Transportation Authority Classic & PEPRA	Successor Agency Classic & PEPRA	Treasure Island
Proportion of net pension liability	93.9032%	-0.2033%	0.0188%	0.2413%	0.0004%
Proportionate share of the net pension liability (asset)	\$ 2,156,049	\$ (13,956)	\$ 1,288	\$ 16,563	\$ 24
Covered payroll **	\$ 2,529,879	\$ 319	\$ 3,684	\$ 3,427	\$ -
Proportionate share of the net pension liability as a percentage of covered payroll	85.22%	-4374.92%	34.96%	483.31%	0.00%
Plan fiduciary net position as a percentage of total pension liability	89.90%	78.40%	78.40%	78.40%	78.40%

	For the year ended June 30, 2015				
	CalPERS Miscellaneous Plans				
	City SFERS Plan	City	Transportation Authority Classic & PEPRA	Successor Agency Classic & PEPRA	Treasure Island
Proportion of net pension liability	93.7829%	-0.1829%	0.0208%	0.2550%	N/A
Proportionate share of the net pension liability (asset)	\$ 1,660,365	\$ (11,381)	\$ 1,299	\$ 15,870	\$ -
Covered payroll **	\$ 2,398,979	\$ 303	\$ 3,264	\$ 3,962	\$ -
Proportionate share of the net pension liability as a percentage of covered payroll	69.21%	-3756.11%	39.80%	400.56%	-
Plan fiduciary net position as a percentage of total pension liability	91.84%	80.43%	80.43%	80.43%	-

Notes to Schedule:

SFERS Plan

Benefit Change – There were no changes in benefits during the year.

Changes of Assumptions – The discount rate was reduced from 7.58% to 7.46%.

CalPERS Miscellaneous Plans

Benefit Changes – The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumption – The discount rate was changed from 7.5 percent (net of administrative expense) in fiscal year 2015 to 7.65 percent in fiscal year 2016 to correct for an adjustment to exclude administrative expense.

* Fiscal year 2014-15 was the first year of implementation of GASB No. 68, therefore only two years of information is shown.

** Due to early implementation of GASB Statement No. 82, the City updated covered employee payroll with covered payroll.

CITY AND COUNTY OF SAN FRANCISCO

**Required Supplementary Information (Unaudited) –
Schedule of Changes in Net Pension Liability and Related Ratios**
June 30, 2016*
(Dollars in Thousands)

City CalPERS Safety Plan	2016	2015
Total pension liability:		
Service cost.....	\$ 30,987	\$ 32,688
Interest on the total pension liability.....	80,057	76,177
Changes of assumptions.....	(19,949)	-
Difference between expected and actual experience.....	(14,218)	-
Benefit payments, including refunds of.....		
employee contributions.....	<u>(44,699)</u>	<u>(41,387)</u>
Net change in total pension liability.....	32,178	67,478
Total pension liability, beginning.....	1,087,527	1,020,049
Total pension liability, ending.....	<u>\$ 1,119,705</u>	<u>\$ 1,087,527</u>
 Plan fiduciary net position:		
Plan to plan resource movement.....	\$ (4)	\$ -
Contributions from the employer.....	20,718	20,613
Contributions from employees.....	15,061	15,216
Net investment income.....	20,469	138,628
Benefit payments, including refunds of.....		
employee contributions.....	(44,699)	(41,387)
Administrative expenses.....	<u>(1,048)</u>	<u>-</u>
Net change in plan fiduciary net position.....	10,497	133,070
Plan fiduciary net position, beginning.....	920,371	787,301
Plan fiduciary net position, ending.....	<u>\$ 930,868</u>	<u>\$ 920,371</u>
 Plan net pension liability, ending.....	 <u>\$ 188,837</u>	 <u>\$ 167,156</u>
 Plan fiduciary net position as a percentage of the total pension liability.....	 83.14%	 84.63%
 Covered payroll **.....	 \$ 109,462	 \$ 111,311
 Plan net pension liability as a percentage of the covered payroll.....	 172.51%	 150.17%

Notes to Schedule:

Benefit Changes – The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions – The discount rate was changed from 7.5 percent (net of administrative expense) in fiscal year 2015 to 7.65 percent in fiscal year 2016.

* Fiscal year 2014-15 was the first year of implementation of GASB No. 68, therefore only two years of information is shown.

** Due to early implementation of GASB Statement No. 82, the City updated covered employee payroll with covered payroll.

CITY AND COUNTY OF SAN FRANCISCO
Required Supplementary Information (Unaudited) –
Schedules of Employer Contributions – Pension Plans
June 30, 2016*
(Dollars in Thousands)

	For the year ended June 30, 2016					
	CalPERS Miscellaneous Plans					
	City SFERS Plan	City	Transportation Authority	Successor Agency	Treasure Island	CalPERS Safety Plan
Actuarially determined contributions ⁽¹⁾	\$ 496,343	\$ 33	\$ 280	\$ 828	\$ 2	\$ 23,629
Contributions in relation to the actuarially determined contributions ⁽¹⁾	(496,343)	(33)	(280)	(828)	(2)	(23,629)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll **	\$ 2,681,695	\$ 329	\$ 3,644	\$ 3,769	\$ -	\$ 95,552
Contributions as a percentage of covered payroll	18.51%	10.03%	7.68%	21.97%	0.00%	24.73%
	For the year ended June 30, 2015					
	CalPERS Miscellaneous Plans					
	City SFERS Plan	City	Transportation Authority	Successor Agency	Treasure Island	CalPERS Safety Plan
Actuarially determined contributions ^{(1), ***}	\$ 556,511	\$ 31	\$ 400	\$ 598	\$ 2	\$ 20,718
Contributions in relation to the actuarially determined contributions ⁽¹⁾	(556,511)	(31)	(400)	(598)	(2)	(20,718)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll**	\$ 2,529,879	\$ 319	\$ 3,684	\$ 3,427	\$ -	\$ 109,462
Contributions as a percentage of covered payroll	22.00%	9.72%	10.86%	17.45%	0.00%	18.93%

⁽¹⁾ Contractually required contributions is an actuarial determined contribution for all cost-sharing plans.

* Fiscal year 2014-15 was the first year of implementation of GASB Statement No. 68, therefore only two years of information is shown.

** Due to early implementation of GASB Statement No. 82, the City updated covered employee payroll with covered payroll.

*** In fiscal year 2014-15, the actuarially determined contributions were based on an estimate. The City made a \$0.1 million adjustment to align the estimated employer contribution amount with the actual employer contribution per the 2015 agent-multiple employer CalPERS report for the CalPERS Safety Plan. Due to the early implementation of GASB Statement No. 82, the City decreased the actuarially determined contributions for the City SFERS Plan to deduct the employer pickup in the amount of \$8.6 million.

CITY AND COUNTY OF SAN FRANCISCO
Required Supplementary Information (Unaudited) –
Schedules of Employer Contributions – Pension Plans (Continued)
 June 30, 2016*
 (Dollars in Thousands)

Methods and assumptions used to determine FY 2015-16 contribution rates to SFERS Plan

Valuation date.....	July 1, 2014
Actuarial cost method.....	Entry age normal cost method
Amortization method.....	Level annual percentage of payroll
Remaining amortization period.....	Closed 15 year period
Asset valuation method.....	5 year smoothing method
Investment rate of return.....	7.50% (net of investment expenses)
Inflation.....	3.25% compounded annually
Projected salary increase.....	Wage inflation component: 3.75%

Methods and assumptions used to determine FY 2015-16 contribution rates to CalPERS plans

Valuation date.....	June 30, 2013
Actuarial cost method.....	Entry age normal cost method
Amortization method.....	Level percent of payroll
Amortization period.....	Gains and losses over a fixed 30-year period with increases or decreases in the rate spread directly over a 5-year period (Miscellaneous) Experience gains and losses over a fixed 30-year period and spread rate increases or decreases over a 5-year period (Safety).
Asset valuation method.....	Market Value
Investment rate of return.....	7.50% (net of administrative expenses)
Projected salary increase.....	3.30% to 14.20% depending on age, service, and type of employment
Inflation.....	2.75%
Payroll growth.....	3.00%
Individual salary growth.....	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

CITY AND COUNTY OF SAN FRANCISCO
Required Supplementary Information (Unaudited) –
Schedules of Funding Progress and Employer Contributions
Other Postemployment Healthcare Benefits
June 30, 2016
(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 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.

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
07/01/10 ⁽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%
07/01/14	48,988	4,260,256	(4,211,268)	1.1%	2,618,426	160.8%

(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
2014	\$ 341,377	48.8%
2015	350,389	47.7%
2016	354,540	47.6%

CITY AND COUNTY OF SAN FRANCISCO

**Required Supplementary Information (Unaudited) –
Schedules of Funding Progress and Employer Contributions
Other Postemployment Healthcare Benefits (Continued)**

June 30, 2016
(Dollars in Thousands)

**Schedule of Funding Progress – San Francisco County Transportation Authority –
Other Postemployment Health Care Benefits**

Actuarial Valuation Date ⁽¹⁾	Actuarial Asset Value	Actuarial Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
06/30/11	\$ 405	\$ 671	\$ (266)	60.4%	\$ 3,251	8.2%
06/30/13	760	1,124	(364)	67.6%	3,253	11.2%
06/30/15	1,170	2,042	(872)	57.3%	3,930	22.2%

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

Schedule of Employer Contributions – San Francisco County Transportation Authority

Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
06/30/14	\$ 138,000	\$ 138,000	100.0%
06/30/15	138,000	138,000	100.0%
06/30/16	200,700	206,513	102.9%

**Schedule of Funding Progress – Successor Agency –
Other Postemployment Health Care Benefits**

Actuarial Valuation Date ⁽¹⁾	Actuarial Asset Value	Accrued Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
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%
07/01/15	2,833	10,998	(8,165)	25.8%	4,261	191.6%

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

CITY AND COUNTY OF SAN FRANCISCO

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects.

Building Inspection Fund – Accounts for the revenues and expenditures of the Bureau of Building Inspection which provides enforcement and implementation of laws regulating the use, occupancy, location and maintenance of buildings. This fund shall be used by the Department of Building Inspection to defray the costs of the Bureau of Building Inspection in processing and reviewing permits applications and plans, filed inspections, code enforcement and reproduction of documents.

Children and Families Fund – Accounts for property tax revenues, tobacco tax funding from Proposition 10 and interest earnings designated by Charter provision. Monies in this fund are used as specified in the Charter and Proposition 10 to provide services to children less than eighteen years old, and to promote, support and improve the early development of children from the prenatal stage to five years of age.

Community/Neighborhood Development Fund – Accounts for various grants primarily from the Department of Housing and Urban Development including federal grants administered by the former Redevelopment Agency to provide for community development of rundown areas; to promote new housing, child care centers and public recreation areas; to provide a variety of social programs for the underprivileged and provide loans for various community development activities. This fund also includes proceeds from a bond issuance to benefit the Seismic Safety Loan Program which provides loans for seismic strengthening of privately-owned unreinforced masonry buildings in the City.

Community Health Services Fund – Accounts for state and federal grants used to promote public health and mental health programs.

Convention Facilities Fund – Accounts for operating revenues of the convention facilities: Moscone Center, Brooks Hall and Civic Auditorium. In addition to transfers for lease payments of the Moscone Center, this fund provides for operating costs of the various convention facilities and the San Francisco Convention and Visitors Bureau.

Court's Fund – Accounts for a portion of revenues from court filing fees that are specifically dedicated for Courthouse costs.

Culture and Recreation Fund – Accounts for revenues received from a variety of cultural and recreational funds such as Public Arts, Youth Arts and Yacht Harbor with revenues used for certain specified operating costs.

Environmental Protection Fund – Accounts for revenues received from state, federal and other sources for the preservation of the environment, recycling, and reduction of toxic waste from the City's waste stream.

Gasoline Tax Fund – Accounts for the subventions received from state gas taxes under the provision of the Streets and Highways Code and for operating transfers from other funds which are used for the same purposes. State subventions are restricted to uses related to local streets and highways, acquisitions of real property, construction and improvements, and maintenance and repairs.

General Services Fund – Accounts for the activities of several non-grant activities, generally established by administrative action.

Gift and Other Expendable Trusts Fund – Accounts for certain cash gifts which have been accepted by the Board of Supervisors on behalf of the City and the operations of two smaller funds that cannot properly be grouped into the Gift Fund because of their specific terms. Disbursements are made by departments, boards and commissions in accordance with the purposes, if any, specified by the donor. Activities are controlled by project accounting procedures maintained by the Controller.

Golf Fund – Accounts for the revenue and expenditures related to the City's six golf courses.

Human Welfare Fund – Accounts for state and federal grants used to promote education and discourage domestic violence.

Low and Moderate Income Housing Asset Fund – Accounts for the former Redevelopment Agency's affordable housing assets upon its dissolution on January 31, 2012.

CITY AND COUNTY OF SAN FRANCISCO

NONMAJOR GOVERNMENTAL FUNDS

SPECIAL REVENUE FUNDS (Continued)

Open Space and Park Fund – Accounts for property tax revenues designated by Charter provision, interest earnings and miscellaneous service charges and gifts. Monies in this fund are used as specified in the Charter for acquisition and development of parks and open space parcels, for renovation of existing parks and recreation facilities, for maintenance of properties acquired and for after-school recreation programs.

Public Library Fund – Accounts for property tax revenues and interest earnings designated by Charter provision. Monies in this fund are to be expended or used exclusively by the library department to provide library services and materials and to operate library facilities.

Public Protection Fund – Accounts for grants received and revenues and expenditures of 21 special revenue funds including fingerprinting, vehicle theft crimes, peace officer training and other activities related to public protection.

Public Works, Transportation and Commerce Fund – Accounts for the revenues and expenditures of 13 special revenue funds including construction inspection, engineering inspection and other activities related to public works projects. In addition, the fund accounts for various grants from federal and state agencies expended for specific purposes, activities or facilities related to transportation and commerce.

Real Property Fund – Accounts for the lease revenue from real property purchased with the proceeds from certificates of participation. The lease revenue is used for operations and to pay for debt service of the certificates of participation. Sales and disposals of real property are also accounted for in this fund.

San Francisco County Transportation Authority Fund – Accounts for the proceeds of a one-half of one percent increase in local sales tax authorized by the voters for mass transit and other traffic and transportation purposes.

Senior Citizens' Program Fund – Accounts for grant revenues from the federal and state government to be used to promote the well-being of San Francisco senior citizens.

War Memorial Fund – Accounts for the costs of maintaining, operating and caring for the War Memorial buildings and grounds.

DEBT SERVICE FUNDS

The Debt Service Funds account for the accumulation of property taxes and other revenues for periodic payment of interest and principal on general obligation and certain lease revenue bonds and related authorized costs.

General Obligation Bond Fund – Accounts for property taxes and other revenues, (including the tobacco settlement revenues in excess of the \$100 million required to fund the Laguna Honda Hospital construction project) for periodic payment of interest and principal of general obligation bonds and related costs. Provisions are made in the general property tax levy for monies sufficient to meet these requirements in accordance with Article XIII of the State Constitution (Proposition 13).

Certificates of Participation (COP) Funds – Accounts for Base Rental payments from the various Special Revenue Funds and General Fund which provide for periodic payments of interest and principal. The COPs are being sold to provide funds to finance the acquisition of existing office buildings and certain improvements thereto, or the construction of City buildings such as the Courthouse, to be leased to the City for use of certain City departments as office space.

Other Bond Funds – Accounts for funds and debt service for the revolving fund loans operated and managed by the Mayor's Office of Community Development to assist with economic development efforts in low income neighborhoods (Facade Improvement Program) and for loans under the U.S. Department of Housing and Urban Development section 108 of the Housing and Community Development Act of 1974 (Fillmore Renaissance Center and Boys and Girls Club Hunters' Point Clubhouse).

CITY AND COUNTY OF SAN FRANCISCO

NONMAJOR GOVERNMENTAL FUNDS

CAPITAL PROJECTS FUNDS

Capital Projects Funds are used to account for financial resources that are restricted, committed or assigned to expenditures for the acquisition of land or acquisition and construction of major facilities other than those financed in the proprietary fund types.

City Facilities Improvement Fund – Accounts for bond proceeds, capital lease financing, federal and local funds and transfers from other funds which are designated for various buildings and general improvements. Expenditures for acquisition and construction of public buildings and improvements are made in accordance with bond requirements and appropriation ordinances.

Earthquake Safety Improvement Fund – Accounts for bond proceeds, Federal/State grants and private gifts which are designated for earthquake facilities improvements to various City buildings and facilities. Expenditures for construction are made in accordance with bond requirements and grant regulations.

Fire Protection Systems Improvement Fund – Accounts for bond proceeds which are designated for improvements in fire protection facilities. Expenditures for construction are made in accordance with bond requirements.

Moscone Convention Center Fund – Accounts for proceeds from Moscone Convention Center Lease Revenue Bonds and transfers from the General Fund and Convention Facilities Special Revenue Fund. Expenditures are for construction of the George R. Moscone Convention Center and for related administrative costs.

Public Library Improvement Fund – Accounts for bond proceeds and private gifts which are designated for construction of public library facilities. Expenditures for construction are made in accordance with bond requirements and private funds agreements.

Recreation and Park Projects Fund – Accounts for bond proceeds, Federal and state grants, gifts and transfers from other funds which are designated for various recreation and park additions and development. Expenditures for acquisition and construction of recreation and park facilities are made in accordance with bond requirements and appropriation ordinances.

Street Improvement Fund – Accounts for gas tax subventions, bond fund proceeds and other revenues which are designated for general street improvements. Expenditures for land acquisition and construction of designated improvements are made in accordance with applicable state codes, City charter provisions and bond requirements.

PERMANENT FUND

Permanent funds are used to report resources that are legally restricted to the extent that only earnings, not principal, may be used for purposes that support the reporting government's programs.

Bequest Fund – Accounts for income and disbursements of bequests accepted by the City. Disbursements are made in accordance with terms of the bequests.

CITY AND COUNTY OF SAN FRANCISCO

**Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2016
(In Thousands)**

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Permanent Fund Bequest Fund	Total Nonmajor Governmental Funds
Assets:					
Deposits and investments with City Treasury.....	\$ 1,065,140	\$ 91,214	\$ 393,343	\$ 6,539	\$ 1,556,236
Deposits and investments outside City Treasury.....	22,504	33,806	25,352	-	81,662
Receivables:					
Property taxes and penalties.....	6,368	9,309	-	-	15,677
Other local taxes.....	18,693	-	-	-	18,693
Federal and state grants and subventions.....	96,539	-	9,386	-	105,925
Charges for services.....	18,500	-	116	-	18,616
Interest and other.....	10,187	241	373	7	10,808
Due from other funds.....	4,931	-	2,535	-	7,466
Due from component unit.....	1,481	-	36	-	1,517
Advance to component unit.....	17,496	-	-	-	17,496
Loans receivable (net of allowance for uncollectible amounts).....	75,328	-	-	-	75,328
Other assets.....	6,840	-	-	-	6,840
Total assets.....	<u>\$ 1,344,007</u>	<u>\$ 134,570</u>	<u>\$ 431,141</u>	<u>\$ 6,546</u>	<u>\$ 1,916,264</u>
Liabilities:					
Accounts payable.....	\$ 87,050	\$ 47	\$ 37,318	\$ 58	\$ 124,473
Accrued payroll.....	13,986	-	1,256	-	15,242
Unearned grant and subvention revenue.....	16,477	-	1,674	-	18,151
Due to other funds.....	24,592	-	7,505	-	32,097
Unearned revenues and other liabilities.....	46,432	6,278	2,524	40	55,274
Bonds, loans, capital leases, and other payables.....	11,479	-	91,299	-	102,778
Total liabilities.....	<u>200,016</u>	<u>6,325</u>	<u>141,576</u>	<u>98</u>	<u>348,015</u>
Deferred inflows of resources.....	146,542	7,724	7,671	-	161,937
Fund balances:					
Nonspendable.....	82	-	-	-	82
Restricted.....	933,720	120,521	383,267	6,448	1,443,956
Assigned.....	66,085	-	-	-	66,085
Unassigned.....	(2,438)	-	(101,373)	-	(103,811)
Total fund balances.....	<u>997,449</u>	<u>120,521</u>	<u>281,894</u>	<u>6,448</u>	<u>1,406,312</u>
Total liabilities, deferred inflows of resources and fund balances.....	<u>\$ 1,344,007</u>	<u>\$ 134,570</u>	<u>\$ 431,141</u>	<u>\$ 6,546</u>	<u>\$ 1,916,264</u>

CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Revenues, Expenditures and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2016
(In Thousands)**

	<u>Special Revenue Funds</u>	<u>Debt Service Funds</u>	<u>Capital Projects Funds</u>	<u>Permanent Fund Bequest Fund</u>	<u>Total Nonmajor Governmental Funds</u>
Revenues:					
Property taxes.....	\$ 164,162	\$ 241,040	\$ -	\$ -	\$ 405,202
Business taxes.....	1,840	-	-	-	1,840
Sales and use tax.....	99,528	-	-	-	99,528
Licenses, permits, and franchises.....	15,813	-	-	-	15,813
Fines, forfeitures, and penalties.....	12,324	14,860	-	-	27,184
Interest and investment income.....	11,510	1,085	1,686	37	14,318
Rents and concessions.....	88,214	728	181	189	89,312
Intergovernmental:					
Federal.....	182,660	-	3,065	-	185,725
State.....	105,859	755	2,802	-	109,416
Other.....	83,301	-	299	-	83,600
Charges for services.....	158,689	-	-	-	158,689
Other.....	<u>231,882</u>	<u>3,754</u>	<u>6,779</u>	<u>16</u>	<u>242,431</u>
Total revenues.....	<u>1,155,782</u>	<u>262,222</u>	<u>14,812</u>	<u>242</u>	<u>1,433,058</u>
Expenditures:					
Current:					
Public protection.....	64,334	-	-	-	64,334
Public works, transportation and commerce.....	279,390	-	-	-	279,390
Human welfare and neighborhood development.....	398,664	-	-	-	398,664
Community health.....	110,474	-	-	-	110,474
Culture and recreation.....	239,164	-	-	1,230	240,394
General administration and finance.....	53,885	-	-	-	53,885
General City responsibilities.....	21	-	-	-	21
Debt service:					
Principal retirement.....	20,390	232,066	-	-	252,456
Interest and other fiscal charges.....	2,698	116,179	846	-	119,723
Bond issuance costs.....	375	1,443	5,290	-	7,108
Capital outlay.....	-	-	223,904	-	223,904
Total expenditures.....	<u>1,169,395</u>	<u>349,688</u>	<u>230,040</u>	<u>1,230</u>	<u>1,750,353</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>(13,613)</u>	<u>(87,466)</u>	<u>(215,228)</u>	<u>(988)</u>	<u>(317,295)</u>
Other financing sources (uses):					
Transfers in.....	263,805	84,931	22,507	-	371,243
Transfers out.....	(148,972)	-	(140,481)	(4)	(289,457)
Issuance of bonds and loans:					
Face value of bonds issued.....	24,000	123,600	448,325	-	595,925
Premium on issuance of bonds.....	-	10,104	22,741	-	32,845
Payment to refunded bond escrow agent.....	-	(131,935)	-	-	(131,935)
Other financing sources-capital leases.....	-	-	1,239	-	1,239
Total other financing sources (uses).....	<u>138,833</u>	<u>86,700</u>	<u>354,331</u>	<u>(4)</u>	<u>579,860</u>
Net changes in fund balances.....	125,220	(766)	139,103	(992)	262,565
Fund balances at beginning of year.....	<u>872,229</u>	<u>121,287</u>	<u>142,791</u>	<u>7,440</u>	<u>1,143,747</u>
Fund balances at end of year.....	<u>\$ 997,449</u>	<u>\$ 120,521</u>	<u>\$ 281,894</u>	<u>\$ 6,448</u>	<u>\$ 1,406,312</u>

CITY AND COUNTY OF SAN FRANCISCO

**Combining Balance Sheet
Nonmajor Governmental Funds – Special Revenue Funds
June 30, 2016
(In Thousands)**

	Building Inspection Fund	Children and Families Fund	Community/ Neighborhood Development Fund	Community Health Services Fund	Convention Facilities Fund	Court's Fund
Assets:						
Deposits and investments with City Treasury.....	\$ 163,071	\$ 123,204	\$ 389,622	\$ 33,773	\$ 26,288	\$ -
Deposits and investments outside City Treasury.....	5	-	6,853	2	-	-
Receivables:						
Property taxes and penalties.....	-	2,420	-	-	-	-
Other local taxes.....	-	-	-	-	-	-
Federal and state grants and subventions.....	-	5,203	10,861	25,888	-	-
Charges for services.....	279	-	-	6	4,254	147
Interest and other.....	165	134	360	31	-	-
Due from other funds.....	-	1,774	2,978	-	-	-
Due from component unit.....	-	-	-	-	-	-
Advance to component unit.....	-	-	-	-	-	-
Loans receivable (net of allowance for uncollectible amounts).....	234	-	74,648	-	-	-
Other assets.....	-	-	64	-	-	-
Total assets.....	<u>\$ 163,754</u>	<u>\$ 132,735</u>	<u>\$ 485,386</u>	<u>\$ 59,700</u>	<u>\$ 30,542</u>	<u>\$ 147</u>
Liabilities:						
Accounts payable.....	\$ 1,854	\$ 20,641	\$ 14,501	\$ 13,199	\$ 2,330	\$ 1
Accrued payroll.....	1,395	603	583	1,320	18	-
Unearned grant and subvention revenues.....	-	1,577	1,538	4,608	-	-
Due to other funds.....	-	898	-	324	-	75
Unearned revenues and other liabilities.....	25,608	1,842	1,041	782	1,427	-
Bonds, loans, capital leases, and other payables.....	-	-	11,479	-	-	-
Total liabilities.....	<u>28,857</u>	<u>25,561</u>	<u>29,142</u>	<u>20,233</u>	<u>3,775</u>	<u>76</u>
Deferred inflows of resources.....	234	4,662	75,691	12,784	1,675	-
Fund balances:						
Nonspendable.....	-	-	-	-	-	-
Restricted.....	134,663	102,512	375,493	26,683	25,092	71
Assigned.....	-	-	5,060	-	-	-
Unassigned.....	-	-	-	-	-	-
Total fund balances.....	<u>134,663</u>	<u>102,512</u>	<u>380,553</u>	<u>26,683</u>	<u>25,092</u>	<u>71</u>
Total liabilities, deferred inflows of resources and fund balances.....	<u>\$ 163,754</u>	<u>\$ 132,735</u>	<u>\$ 485,386</u>	<u>\$ 59,700</u>	<u>\$ 30,542</u>	<u>\$ 147</u>

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

**Combining Balance Sheet
Nonmajor Governmental Funds – Special Revenue Funds (Continued)**
June 30, 2016
(In Thousands)

	Culture and Recreation Fund	Environmental Protection Fund	Gasoline Tax Fund	General Services Fund	Gift and Other Expendable Trusts Fund	Golf Fund
Assets:						
Deposits and investments with City Treasury.....	\$ 13,434	\$ 876	\$ 25,233	\$ 22,836	\$ 8,756	\$ 5,931
Deposits and investments outside City Treasury.....	516	-	-	-	3	-
Receivables:						
Property taxes and penalties.....	-	-	-	-	-	-
Other local taxes.....	-	-	-	-	-	-
Federal and state grants and subventions.....	1,038	1,621	2,078	100	416	-
Charges for services.....	290	-	376	1,969	685	344
Interest and other.....	5	-	28	739	1	5
Due from other funds.....	-	28	-	-	-	-
Due from component unit.....	-	-	-	-	-	-
Advance to component unit.....	-	-	-	-	-	-
Loans receivable (net of allowance for uncollectible amounts).....	-	-	-	-	-	-
Other assets.....	-	-	-	-	-	-
Total assets.....	<u>\$ 15,283</u>	<u>\$ 2,525</u>	<u>\$ 27,715</u>	<u>\$ 25,644</u>	<u>\$ 9,861</u>	<u>\$ 6,280</u>
Liabilities:						
Accounts payable.....	\$ 1,649	\$ 402	\$ 844	\$ 1,579	\$ 89	\$ 522
Accrued payroll.....	149	127	743	323	32	167
Unearned grant and subvention revenues.....	152	823	-	426	527	-
Due to other funds.....	-	-	-	-	-	-
Unearned revenues and other liabilities.....	1	-	1	125	-	-
Bonds, loans, capital leases, and other payables.....	-	-	-	-	-	-
Total liabilities.....	<u>1,951</u>	<u>1,352</u>	<u>1,588</u>	<u>2,453</u>	<u>648</u>	<u>689</u>
Deferred inflows of resources.....	<u>1,037</u>	<u>1,290</u>	<u>-</u>	<u>20</u>	<u>16</u>	<u>-</u>
Fund balances:						
Nonspendable.....	-	-	-	-	-	-
Restricted.....	7,242	-	26,127	11,273	9,197	-
Assigned.....	5,053	-	-	11,898	-	5,591
Unassigned.....	-	(117)	-	-	-	-
Total fund balances.....	<u>12,295</u>	<u>(117)</u>	<u>26,127</u>	<u>23,171</u>	<u>9,197</u>	<u>5,591</u>
Total liabilities, deferred inflows of resources and fund balances.....	<u>\$ 15,283</u>	<u>\$ 2,525</u>	<u>\$ 27,715</u>	<u>\$ 25,644</u>	<u>\$ 9,861</u>	<u>\$ 6,280</u>

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

**Combining Balance Sheet
Nonmajor Governmental Funds – Special Revenue Funds (Continued)**
June 30, 2016
(In Thousands)

	Human Welfare Fund	Low and Moderate Income Housing Asset Fund	Open Space and Park Fund	Public Library Fund	Public Protection Fund	Public Works, Transportation and Commerce Fund
Assets:						
Deposits and investments with City Treasury.....	\$ -	\$ 52,331	\$ 35,218	\$ 48,019	\$ 34,204	\$ 40,532
Deposits and investments outside City Treasury.....	-	-	1	1	-	-
Receivables:						
Property taxes and penalties.....	-	-	1,974	1,974	-	-
Other local taxes.....	-	-	-	-	-	-
Federal and state grants and subventions.....	6,043	-	-	-	18,169	240
Charges for services.....	202	374	-	3	3,240	6,133
Interest and other.....	-	55	34	57	4,120	-
Due from other funds.....	-	-	-	-	-	55
Due from component unit.....	-	-	-	-	-	1,154
Advance to component unit.....	-	14,602	-	-	-	-
Loans receivable (net of allowance for uncollectible amounts).....	-	446	-	-	-	-
Other assets.....	70	2,697	406	-	-	3,521
Total assets.....	\$ 6,315	\$ 70,505	\$ 37,633	\$ 50,054	\$ 59,733	\$ 51,635
Liabilities:						
Accounts payable.....	\$ 2,396	\$ 1,545	\$ 228	\$ 1,994	\$ 3,392	\$ 2,868
Accrued payroll.....	51	53	777	2,663	857	2,675
Unearned grant and subvention revenues.....	7	-	-	-	6,811	-
Due to other funds.....	2,994	-	-	-	-	465
Unearned revenues and other liabilities.....	-	5,521	1,519	1,519	18	5,963
Bonds, loans, capital leases, and other payables.....	-	-	-	-	-	-
Total liabilities.....	5,448	7,119	2,524	6,176	11,078	11,971
Deferred inflows of resources.....	2,874	15,048	1,632	1,632	10,146	4,726
Fund balances:						
Nonspendable.....	-	-	-	-	-	-
Restricted.....	-	48,338	33,477	41,024	35,496	690
Assigned.....	-	-	-	1,222	3,013	34,248
Unassigned.....	(2,007)	-	-	-	-	-
Total fund balances.....	(2,007)	48,338	33,477	42,246	38,509	34,938
Total liabilities, deferred inflows of resources and fund balances.....	\$ 6,315	\$ 70,505	\$ 37,633	\$ 50,054	\$ 59,733	\$ 51,635

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

**Combining Balance Sheet
Nonmajor Governmental Funds – Special Revenue Funds (Continued)**
June 30, 2016
(In Thousands)

	Real Property Fund	San Francisco County Transportation Authority Fund	Senior Citizens' Program Fund	War Memorial Fund	Total
Assets:					
Deposits and investments with City Treasury.....	\$ 12,154	\$ 22,067	\$ -	\$ 7,591	\$ 1,065,140
Deposits and investments outside City Treasury.....	-	15,123	-	-	22,504
Receivables:					
Property taxes and penalties.....	-	-	-	-	6,368
Other local taxes.....	-	18,693	-	-	18,693
Federal and state grants and subventions.....	-	24,555	327	-	96,539
Charges for services.....	176	-	-	22	18,500
Interest and other.....	-	4,442	-	11	10,187
Due from other funds.....	-	96	-	-	4,931
Due from component unit.....	-	327	-	-	1,481
Advance to component unit.....	-	2,894	-	-	17,496
Loans receivable (net of allowance for uncollectible amounts).....	-	-	-	-	75,328
Other assets.....	-	82	-	-	6,840
Total assets.....	\$ 12,330	\$ 88,279	\$ 327	\$ 7,624	\$ 1,344,007
Liabilities:					
Accounts payable.....	\$ 1,394	\$ 15,226	\$ 224	\$ 172	\$ 87,050
Accrued payroll.....	999	168	-	283	13,986
Unearned grant and subvention revenues.....	-	-	8	-	16,477
Due to other funds.....	-	19,741	95	-	24,592
Unearned revenues and other liabilities.....	810	-	-	255	46,432
Bonds, loans, capital leases, and other payables.....	-	-	-	-	11,479
Total liabilities.....	3,203	35,135	327	710	200,016
Deferred inflows of resources.....	-	12,761	314	-	146,542
Fund balances:					
Nonspendable.....	-	82	-	-	82
Restricted.....	9,127	40,301	-	6,914	933,720
Assigned.....	-	-	-	-	66,085
Unassigned.....	-	-	(314)	-	(2,438)
Total fund balances.....	9,127	40,383	(314)	6,914	997,449
Total liabilities, deferred inflows of resources and fund balances.....	\$ 12,330	\$ 88,279	\$ 327	\$ 7,624	\$ 1,344,007

CITY AND COUNTY OF SAN FRANCISCO
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds – Special Revenue Funds
Year Ended June 30, 2016
(In Thousands)

	Building Inspection Fund	Children and Families Fund	Community / Neighborhood Development Fund	Community Health Services Fund	Convention Facilities Fund	Court's Fund
Revenues:						
Property taxes.....	\$ -	\$ 64,454	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	1,840	-	-	-
Sales and use tax.....	-	-	-	-	-	-
Licenses, permits, and franchises.....	6,633	-	-	-	-	-
Fines, forfeitures, and penalties.....	-	-	215	2,481	-	44
Interest and investment income.....	821	690	5,334	402	140	7
Rents and concessions.....	-	-	277	-	25,659	-
Intergovernmental:						
Federal.....	-	9,763	38,104	56,082	-	-
State.....	105	18,872	7,061	34,616	-	-
Other.....	-	-	2,966	-	-	-
Charges for services.....	78,138	-	16,719	4,184	-	2,477
Other.....	7	766	202,930	440	217	-
Total revenues.....	<u>85,704</u>	<u>94,545</u>	<u>275,446</u>	<u>98,205</u>	<u>26,016</u>	<u>2,528</u>
Expenditures:						
Current:						
Public protection.....	-	-	-	-	-	373
Public works, transportation and commerce.....	60,507	-	9,417	75	104	-
Human welfare and neighborhood development.....	-	183,004	139,388	-	152	-
Community health.....	-	-	-	104,163	-	-
Culture and recreation.....	-	-	280	-	46,632	-
General administration and finance.....	-	-	2,518	-	-	-
General City responsibilities.....	-	-	-	-	-	-
Debt service:						
Principal retirement.....	-	-	-	-	-	-
Interest and other fiscal charges.....	-	-	665	-	-	-
Bond issuance costs.....	-	-	375	-	-	-
Total expenditures.....	<u>60,507</u>	<u>183,004</u>	<u>152,643</u>	<u>104,238</u>	<u>46,888</u>	<u>373</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>25,197</u>	<u>(88,459)</u>	<u>122,803</u>	<u>(6,033)</u>	<u>(20,872)</u>	<u>2,155</u>
Other financing sources (uses):						
Transfers in.....	-	96,329	677	-	42,777	212
Transfers out.....	(46)	(6)	(3,845)	(352)	(24,590)	(2,346)
Issuance of bonds and loans						
Face value of bonds issued.....	-	-	24,000	-	-	-
Total other financing sources (uses).....	<u>(46)</u>	<u>96,323</u>	<u>20,832</u>	<u>(352)</u>	<u>18,187</u>	<u>(2,134)</u>
Net changes in fund balances.....	25,151	7,864	143,635	(6,385)	(2,685)	21
Fund balances at beginning of year.....	<u>109,512</u>	<u>94,648</u>	<u>236,918</u>	<u>33,068</u>	<u>27,777</u>	<u>50</u>
Fund balances at end of year.....	<u>\$ 134,663</u>	<u>\$ 102,512</u>	<u>\$ 380,553</u>	<u>\$ 26,683</u>	<u>\$ 25,092</u>	<u>\$ 71</u>

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds – Special Revenue Funds (Continued)
Year Ended June 30, 2016
(In Thousands)

	Culture and Recreation Fund	Environmental Protection Fund	Gasoline Tax Fund	General Services Fund	Gift and Other Expendable Trusts Fund	Golf Fund
Revenues:						
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-
Licenses, permits, and franchises.....	196	-	-	2,808	-	-
Fines, forfeitures, and penalties.....	6	-	-	-	612	-
Interest and investment income.....	79	1	138	56	681	26
Rents and concessions.....	411	-	-	1,458	-	3,656
Intergovernmental:						
Federal.....	133	150	-	420	-	-
State.....	121	6,549	23,041	549	-	-
Other.....	-	96	-	-	-	-
Charges for services.....	8,079	-	666	2,035	48	6,779
Other.....	2,139	21	-	964	5,011	-
Total revenues.....	11,164	6,817	23,845	8,290	6,352	10,461
Expenditures:						
Current:						
Public protection.....	-	-	-	229	202	-
Public works, transportation and commerce.....	1,007	-	23,752	7	1,841	-
Human welfare and neighborhood development.....	780	7,309	-	-	117	-
Community health.....	-	-	-	-	6,311	-
Culture and recreation.....	11,866	-	-	1,294	2,193	13,852
General administration and finance.....	13,768	82	-	5,527	98	-
General City responsibilities.....	-	-	-	21	-	-
Debt service:						
Principal retirement.....	390	-	-	-	-	-
Interest and other fiscal charges.....	1,069	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-
Total expenditures.....	28,880	7,391	23,752	7,078	10,762	13,852
Excess (deficiency) of revenues over (under) expenditures.....	(17,716)	(574)	93	1,212	(4,410)	(3,391)
Other financing sources (uses):						
Transfers in.....	19,128	150	-	2,606	25	5,942
Transfers out.....	(189)	(666)	-	-	(65)	(1,268)
Issuance of bonds and loans						
Face value of bonds issued.....	-	-	-	-	-	-
Total other financing sources (uses).....	18,939	(516)	-	2,606	(40)	4,674
Net changes in fund balances.....	1,223	(1,090)	93	3,818	(4,450)	1,283
Fund balances at beginning of year.....	11,072	973	26,034	19,353	13,647	4,308
Fund balances at end of year.....	\$ 12,295	\$ (117)	\$ 26,127	\$ 23,171	\$ 9,197	\$ 5,591

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds – Special Revenue Funds (Continued)
Year Ended June 30, 2016
(In Thousands)

	Human Welfare Fund	Low and Moderate Income Housing Asset Fund	Open Space and Park Fund	Public Library Fund	Public Protection Fund	Public Works, Transportation and Commerce Fund
Revenues:						
Property taxes.....	\$ -	\$ -	\$ 49,854	\$ 49,854	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-
Licenses, permits, and franchises.....	303	-	-	-	511	-
Fines, forfeitures, and penalties.....	17	-	-	-	8,720	229
Interest and investment income.....	-	1,901	88	200	171	304
Rents and concessions.....	-	6,528	-	-	-	109
Intergovernmental:						
Federal.....	19,559	-	-	-	39,157	-
State.....	294	-	167	240	11,931	53
Other.....	46	710	-	-	20	704
Charges for services.....	359	-	-	753	16,006	21,300
Other.....	-	18,771	-	-	87	420
Total revenues.....	20,578	27,910	50,109	51,047	76,603	23,119
Expenditures:						
Current:						
Public protection.....	-	-	-	-	63,530	-
Public works, transportation and commerce.....	-	-	769	472	-	18,024
Human welfare and neighborhood development.....	26,946	20,828	-	-	3,152	11,222
Community health.....	-	-	-	-	-	-
Culture and recreation.....	-	-	42,295	106,308	-	-
General administration and finance.....	-	-	49	2	3,283	47
General City responsibilities.....	-	-	-	-	-	-
Debt service:						
Principal retirement.....	-	-	-	-	-	-
Interest and other fiscal charges.....	-	-	25	-	-	-
Bond issuance costs.....	-	-	-	-	-	-
Total expenditures.....	26,946	20,828	43,138	106,782	69,965	29,293
Excess (deficiency) of revenues over (under) expenditures.....	(6,368)	7,082	6,971	(55,735)	6,638	(6,174)
Other financing sources (uses):						
Transfers in.....	3,505	-	1,268	70,805	301	1,148
Transfers out.....	-	-	-	(5,200)	(1,965)	(318)
Issuance of bonds and loans						
Face value of bonds issued.....	-	-	-	-	-	-
Total other financing sources (uses).....	3,505	-	1,268	65,605	(1,664)	830
Net changes in fund balances.....	(2,863)	7,082	8,239	9,870	4,974	(5,344)
Fund balances at beginning of year.....	856	41,256	25,238	32,376	33,535	40,282
Fund balances at end of year.....	\$ (2,007)	\$ 48,338	\$ 33,477	\$ 42,246	\$ 38,509	\$ 34,938

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds – Special Revenue Funds (Continued)
Year Ended June 30, 2016
(In Thousands)

	Real Property Fund	San Francisco County Transportation Authority Fund	Senior Citizens' Program Fund	War Memorial Fund	Total
Revenues:					
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ 164,162
Business taxes.....	-	-	-	-	1,840
Sales and use tax.....	-	99,528	-	-	99,528
Licenses, permits, and franchises.....	-	5,362	-	-	15,813
Fines, forfeitures, and penalties.....	-	-	-	-	12,324
Interest and investment income.....	-	383	-	88	11,510
Rents and concessions.....	47,271	-	-	2,845	88,214
Intergovernmental:					
Federal.....	-	14,276	5,016	-	182,660
State.....	-	1,509	751	-	105,859
Other.....	452	78,307	-	-	83,301
Charges for services.....	738	-	-	408	158,689
Other.....	-	85	24	-	231,882
Total revenues.....	<u>48,461</u>	<u>199,450</u>	<u>5,791</u>	<u>3,341</u>	<u>1,155,782</u>
Expenditures:					
Current:					
Public protection.....	-	-	-	-	64,334
Public works, transportation and commerce.....	366	158,069	-	4,980	279,390
Human welfare and neighborhood development.....	-	-	5,766	-	398,664
Community health.....	-	-	-	-	110,474
Culture and recreation.....	-	-	-	14,444	239,164
General administration and finance.....	28,511	-	-	-	53,885
General City responsibilities.....	-	-	-	-	21
Debt service:					
Principal retirement.....	-	20,000	-	-	20,390
Interest and other fiscal charges.....	-	794	-	145	2,698
Bond issuance costs.....	-	-	-	-	375
Total expenditures.....	<u>28,877</u>	<u>178,863</u>	<u>5,766</u>	<u>19,569</u>	<u>1,169,395</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>19,584</u>	<u>20,587</u>	<u>25</u>	<u>(16,228)</u>	<u>(13,613)</u>
Other financing sources (uses):					
Transfers in.....	17	-	9	18,906	263,805
Transfers out.....	(12,231)	(88,215)	-	(7,670)	(148,972)
Issuance of bonds and loans					
Face value of bonds issued.....	-	-	-	-	24,000
Total other financing sources (uses).....	<u>(12,214)</u>	<u>(88,215)</u>	<u>9</u>	<u>11,236</u>	<u>138,833</u>
Net changes in fund balances.....	7,370	(67,628)	34	(4,992)	125,220
Fund balances at beginning of year.....	1,757	108,011	(348)	11,906	872,229
Fund balances at end of year.....	<u>\$ 9,127</u>	<u>\$ 40,383</u>	<u>\$ (314)</u>	<u>\$ 6,914</u>	<u>\$ 997,449</u>

CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Revenues, Expenditures and Changes
in Fund Balances – Budget and Actual – Budget Basis
Nonmajor Governmental Funds – Special Revenue Funds
Year Ended June 30, 2016
(In Thousands)**

	Building Inspection Fund				Children and Families Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ 59,920	\$ 59,920	\$ 64,454	\$ 4,534
Business taxes.....	-	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	6,696	6,696	6,633	(63)	-	-	-	-
Fines, forfeitures, and penalties.....	-	-	-	-	-	-	-	-
Interest and investment income.....	559	559	823	264	329	319	720	401
Rents and concessions.....	-	-	-	-	-	-	-	-
Intergovernmental:								
Federal.....	-	-	-	-	11,281	10,151	9,946	(205)
State.....	-	-	105	105	12,825	18,562	15,110	(3,452)
Other.....	-	-	-	-	-	-	-	-
Charges for services.....	54,217	54,217	78,138	23,921	-	-	-	-
Other.....	-	-	7	7	165	766	766	-
Total revenues.....	<u>61,472</u>	<u>61,472</u>	<u>85,706</u>	<u>24,234</u>	<u>84,520</u>	<u>89,718</u>	<u>90,996</u>	<u>1,278</u>
Expenditures:								
Current:								
Public protection.....	-	-	-	-	-	-	-	-
Public works, transportation and commerce.....	70,168	65,792	60,507	5,285	-	-	-	-
Human welfare and neighborhood development.....	-	-	-	-	195,108	183,004	183,004	-
Community health.....	-	-	-	-	-	-	-	-
Culture and recreation.....	-	-	-	-	-	-	-	-
General administration and finance.....	-	-	-	-	-	-	-	-
Debt service:								
Principal retirement.....	-	-	-	-	-	-	-	-
Interest and other fiscal charges.....	-	-	-	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-	-	-
Total expenditures.....	<u>70,168</u>	<u>65,792</u>	<u>60,507</u>	<u>5,285</u>	<u>195,108</u>	<u>183,004</u>	<u>183,004</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>(8,696)</u>	<u>(4,320)</u>	<u>25,199</u>	<u>29,519</u>	<u>(110,588)</u>	<u>(93,286)</u>	<u>(92,008)</u>	<u>1,278</u>
Other financing sources (uses):								
Transfers in.....	-	-	-	-	95,110	96,329	96,329	-
Transfers out.....	-	-	-	-	-	-	-	-
Issuance of commercial paper.....	-	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-	-
Budget reserves and designations.....	(1,750)	-	-	-	-	-	-	-
Total other financing sources (uses).....	<u>(1,750)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>95,110</u>	<u>96,329</u>	<u>96,329</u>	<u>-</u>
Net changes in fund balances.....	<u>(10,446)</u>	<u>(4,320)</u>	<u>25,199</u>	<u>29,519</u>	<u>(15,478)</u>	<u>3,043</u>	<u>4,321</u>	<u>1,278</u>
Budgetary fund balances, July 1.....	10,446	109,411	109,411	-	15,478	100,796	100,796	-
Budgetary fund balances, June 30.....	<u>\$ -</u>	<u>\$ 105,091</u>	<u>\$ 134,610</u>	<u>\$ 29,519</u>	<u>\$ -</u>	<u>\$ 103,839</u>	<u>\$ 105,117</u>	<u>\$ 1,278</u>

CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Revenues, Expenditures and Changes
in Fund Balances – Budget and Actual – Budget Basis
Nonmajor Governmental Funds – Special Revenue Funds (Continued)
Year Ended June 30, 2016
(In Thousands)**

	Community / Neighborhood Development Fund				Community Health Services Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	1,900	1,900	1,840	(60)	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties.....	-	-	215	215	2,613	2,721	2,481	(240)
Interest and investment income.....	9	4,803	5,335	532	218	435	374	(61)
Rents and concessions.....	-	277	277	-	-	-	-	-
Intergovernmental:								
Federal.....	6,152	38,221	38,221	-	67,126	58,646	58,646	-
State.....	885	6,386	6,386	-	39,881	35,506	35,506	-
Other.....	8,300	3,015	3,015	-	-	-	-	-
Charges for services.....	6,811	9,441	16,719	7,278	130	4,012	4,184	172
Other.....	16,614	192,932	202,930	9,998	441	440	440	-
Total revenues.....	<u>40,671</u>	<u>256,975</u>	<u>274,938</u>	<u>17,963</u>	<u>110,409</u>	<u>101,760</u>	<u>101,631</u>	<u>(129)</u>
Expenditures:								
Current:								
Public protection.....	-	-	-	-	-	-	-	-
Public works, transportation and commerce.....	12,177	9,417	9,417	-	-	75	75	-
Human welfare and neighborhood development.....	44,195	139,339	138,938	401	-	-	-	-
Community health.....	-	-	-	-	110,409	104,163	104,163	-
Culture and recreation.....	6,637	280	280	-	-	-	-	-
General administration and finance.....	5,909	2,518	2,518	-	-	-	-	-
Debt service:								
Principal retirement.....	-	-	-	-	-	-	-	-
Interest and other fiscal charges.....	-	665	665	-	-	-	-	-
Bond issuance costs.....	3,125	375	375	-	-	-	-	-
Total expenditures.....	<u>72,043</u>	<u>152,594</u>	<u>152,193</u>	<u>401</u>	<u>110,409</u>	<u>104,238</u>	<u>104,238</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>(31,372)</u>	<u>104,381</u>	<u>122,745</u>	<u>18,364</u>	<u>-</u>	<u>(2,478)</u>	<u>(2,607)</u>	<u>(129)</u>
Other financing sources (uses):								
Transfers in.....	1	677	677	-	-	-	-	-
Transfers out.....	(10)	(3,780)	(3,780)	-	-	(311)	(311)	-
Issuance of commercial paper.....	-	8,411	8,411	-	-	-	-	-
Issuance of bonds.....	28,125	24,000	24,000	-	-	-	-	-
Budget reserves and designations.....	-	-	-	-	-	-	-	-
Total other financing sources (uses).....	<u>28,116</u>	<u>29,308</u>	<u>29,308</u>	<u>-</u>	<u>-</u>	<u>(311)</u>	<u>(311)</u>	<u>-</u>
Net changes in fund balances.....	<u>(3,256)</u>	<u>133,689</u>	<u>152,053</u>	<u>18,364</u>	<u>-</u>	<u>(2,789)</u>	<u>(2,918)</u>	<u>(129)</u>
Budgetary fund balances, July 1.....	<u>3,256</u>	<u>245,807</u>	<u>245,807</u>	<u>-</u>	<u>-</u>	<u>42,380</u>	<u>42,380</u>	<u>-</u>
Budgetary fund balances, June 30.....	<u>\$ -</u>	<u>\$ 379,496</u>	<u>\$ 397,860</u>	<u>\$ 18,364</u>	<u>\$ -</u>	<u>\$ 39,591</u>	<u>\$ 39,462</u>	<u>\$ (129)</u>

CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Revenues, Expenditures and Changes
in Fund Balances – Budget and Actual – Budget Basis
Nonmajor Governmental Funds – Special Revenue Funds (Continued)
Year Ended June 30, 2016
(In Thousands)**

	Convention Facilities Fund				Court's Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties.....	-	-	-	-	33	33	44	11
Interest and investment income.....	-	-	20	20	-	-	5	5
Rents and concessions.....	24,805	24,805	27,334	2,529	-	-	-	-
Intergovernmental:								
Federal.....	-	-	-	-	-	-	-	-
State.....	-	-	-	-	-	-	-	-
Other.....	-	-	-	-	-	-	-	-
Charges for services.....	-	-	-	-	2,525	2,524	2,477	(47)
Other.....	150	252	217	(35)	-	-	-	-
Total revenues.....	<u>24,955</u>	<u>25,057</u>	<u>27,571</u>	<u>2,514</u>	<u>2,558</u>	<u>2,557</u>	<u>2,526</u>	<u>(31)</u>
Expenditures:								
Current:								
Public protection.....	-	-	-	-	2,770	425	373	52
Public works, transportation and commerce.....	-	104	104	-	-	-	-	-
Human welfare and neighborhood development.....	-	152	152	-	-	-	-	-
Community health.....	-	-	-	-	-	-	-	-
Culture and recreation.....	80,201	49,634	46,632	3,002	-	-	-	-
General administration and finance.....	-	-	-	-	-	-	-	-
Debt service:								
Principal retirement.....	506	506	506	-	-	-	-	-
Interest and other fiscal charges.....	-	-	-	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-	-	-
Total expenditures.....	<u>80,707</u>	<u>50,396</u>	<u>47,394</u>	<u>3,002</u>	<u>2,770</u>	<u>425</u>	<u>373</u>	<u>52</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>(55,752)</u>	<u>(25,339)</u>	<u>(19,823)</u>	<u>5,516</u>	<u>(212)</u>	<u>2,132</u>	<u>2,153</u>	<u>21</u>
Other financing sources (uses):								
Transfers in.....	42,777	42,777	42,777	-	212	212	212	-
Transfers out.....	-	(23,964)	(23,964)	-	-	(2,344)	(2,344)	-
Issuance of commercial paper.....	-	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-	-
Budget reserves and designations.....	-	-	-	-	-	-	-	-
Total other financing sources (uses).....	<u>42,777</u>	<u>18,813</u>	<u>18,813</u>	<u>-</u>	<u>212</u>	<u>(2,132)</u>	<u>(2,132)</u>	<u>-</u>
Net changes in fund balances.....	<u>(12,975)</u>	<u>(6,526)</u>	<u>(1,010)</u>	<u>5,516</u>	<u>-</u>	<u>-</u>	<u>21</u>	<u>21</u>
Budgetary fund balances, July 1.....	<u>12,975</u>	<u>32,543</u>	<u>32,543</u>	<u>-</u>	<u>-</u>	<u>59</u>	<u>59</u>	<u>-</u>
Budgetary fund balances, June 30.....	<u>\$ -</u>	<u>\$ 26,017</u>	<u>\$ 31,533</u>	<u>\$ 5,516</u>	<u>\$ -</u>	<u>\$ 59</u>	<u>\$ 80</u>	<u>\$ 21</u>

CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Revenues, Expenditures and Changes
in Fund Balances – Budget and Actual – Budget Basis
Nonmajor Governmental Funds – Special Revenue Funds (Continued)
Year Ended June 30, 2016
(In Thousands)**

	Culture and Recreation Fund				Environmental Protection Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	268	268	196	(72)	-	-	-	-
Fines, forfeitures, and penalties.....	-	-	6	6	-	-	-	-
Interest and investment income.....	25	25	23	(2)	-	-	-	-
Rents and concessions.....	377	377	411	34	-	-	-	-
Intergovernmental:								
Federal.....	-	133	133	-	-	458	458	-
State.....	-	1,131	1,131	-	773	7,454	7,454	-
Other.....	-	-	-	-	824	108	108	-
Charges for services.....	7,154	8,033	8,084	51	238	238	-	(238)
Other.....	1,252	3,499	2,139	(1,360)	1,787	1,798	19	(1,779)
Total revenues.....	9,076	13,466	12,123	(1,343)	3,622	10,056	8,039	(2,017)
Expenditures:								
Current:								
Public protection.....	-	-	-	-	-	-	-	-
Public works, transportation and commerce.....	1,050	1,007	1,007	-	-	-	-	-
Human welfare and neighborhood development.....	-	780	780	-	3,702	8,974	7,309	1,665
Community health.....	-	-	-	-	-	-	-	-
Culture and recreation.....	11,374	11,978	11,866	112	-	-	-	-
General administration and finance.....	13,345	13,768	13,768	-	-	82	82	-
Debt service:								
Principal retirement.....	676	390	390	-	-	-	-	-
Interest and other fiscal charges.....	1,049	1,385	1,353	32	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-	-	-
Total expenditures.....	27,494	29,308	29,164	144	3,702	9,056	7,391	1,665
Excess (deficiency) of revenues over (under) expenditures.....	(18,418)	(15,842)	(17,041)	(1,199)	(80)	1,000	648	(352)
Other financing sources (uses):								
Transfers in.....	18,048	19,128	19,128	-	80	150	150	-
Transfers out.....	(55)	(131)	(131)	-	-	(665)	(665)	-
Issuance of commercial paper.....	-	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-	-
Budget reserves and designations.....	(170)	-	-	-	-	-	-	-
Total other financing sources (uses).....	17,823	18,997	18,997	-	80	(515)	(515)	-
Net changes in fund balances.....	(595)	3,155	1,956	(1,199)	-	485	133	(352)
Budgetary fund balances, July 1.....	595	15,457	15,457	-	-	1,039	1,039	-
Budgetary fund balances, June 30.....	\$ -	\$ 18,612	\$ 17,413	\$ (1,199)	\$ -	\$ 1,524	\$ 1,172	\$ (352)

CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Revenues, Expenditures and Changes
in Fund Balances – Budget and Actual – Budget Basis
Nonmajor Governmental Funds – Special Revenue Funds (Continued)
Year Ended June 30, 2016
(In Thousands)**

	Gasoline Tax Fund				General Services Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	-	-	-	-	3,091	3,091	2,808	(283)
Fines, forfeitures, and penalties.....	-	-	-	-	-	-	-	-
Interest and investment income.....	42	42	147	105	45	45	60	15
Rents and concessions.....	-	-	-	-	-	1,458	1,458	-
Intergovernmental:								
Federal.....	-	-	-	-	140	322	322	-
State.....	21,794	21,795	23,041	1,246	460	549	549	-
Other.....	-	-	-	-	-	-	-	-
Charges for services.....	800	800	666	(134)	1,832	1,875	2,035	160
Other.....	-	-	-	-	1,441	964	964	-
Total revenues.....	22,636	22,637	23,854	1,217	7,009	8,304	8,196	(108)
Expenditures:								
Current:								
Public protection.....	-	-	-	-	280	229	229	-
Public works, transportation and commerce.....	22,636	23,858	23,752	106	-	7	7	-
Human welfare and neighborhood development.....	-	-	-	-	-	-	-	-
Community health.....	-	-	-	-	-	-	-	-
Culture and recreation.....	-	-	-	-	-	1,294	1,294	-
General administration and finance.....	-	-	-	-	6,888	5,527	5,527	-
Debt service:								
Principal retirement.....	-	-	-	-	-	-	-	-
Interest and other fiscal charges.....	-	-	-	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-	-	-
Total expenditures.....	22,636	23,858	23,752	106	7,168	7,057	7,057	-
Excess (deficiency) of revenues over (under) expenditures.....	-	(1,221)	102	1,323	(159)	1,247	1,139	(108)
Other financing sources (uses):								
Transfers in.....	-	-	-	-	159	2,585	2,585	-
Transfers out.....	-	-	-	-	-	-	-	-
Issuance of commercial paper.....	-	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-	-
Budget reserves and designations.....	-	-	-	-	-	-	-	-
Total other financing sources (uses).....	-	-	-	-	159	2,585	2,585	-
Net changes in fund balances.....	-	(1,221)	102	1,323	-	3,832	3,724	(108)
Budgetary fund balances, July 1.....	-	26,018	26,018	-	-	19,473	19,473	-
Budgetary fund balances, June 30.....	\$ -	\$ 24,797	\$ 26,120	\$ 1,323	\$ -	\$ 23,305	\$ 23,197	\$ (108)

CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Revenues, Expenditures and Changes
in Fund Balances – Budget and Actual – Budget Basis
Nonmajor Governmental Funds – Special Revenue Funds (Continued)
Year Ended June 30, 2016
(In Thousands)**

	Gift and Other Expendable Trusts Fund				Golf Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties.....	-	376	612	236	-	-	-	-
Interest and investment income.....	-	44	616	572	20	20	27	7
Rents and concessions.....	-	-	-	-	3,276	3,276	3,656	380
Intergovernmental:								
Federal.....	-	-	-	-	-	-	-	-
State.....	-	-	-	-	-	-	-	-
Other.....	-	-	-	-	-	-	-	-
Charges for services.....	-	48	48	-	6,931	6,931	6,779	(152)
Other.....	2,875	5,809	5,027	(782)	-	-	-	-
Total revenues.....	2,875	6,277	6,303	26	10,227	10,227	10,462	235
Expenditures:								
Current:								
Public protection.....	500	202	202	-	-	-	-	-
Public works, transportation and commerce.....	-	1,841	1,841	-	-	-	-	-
Human welfare and neighborhood development.....	546	117	117	-	-	-	-	-
Community health.....	-	6,311	6,311	-	-	-	-	-
Culture and recreation.....	1,829	2,193	2,193	-	14,901	14,785	13,852	933
General administration and finance.....	-	98	98	-	-	-	-	-
Debt service:								
Principal retirement.....	-	-	-	-	-	-	-	-
Interest and other fiscal charges.....	-	-	-	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-	-	-
Total expenditures.....	2,875	10,762	10,762	-	14,901	14,785	13,852	933
Excess (deficiency) of revenues over (under) expenditures.....	-	(4,485)	(4,459)	26	(4,674)	(4,558)	(3,390)	1,168
Other financing sources (uses):								
Transfers in.....	-	25	25	-	5,942	5,942	5,942	-
Transfers out.....	-	-	-	-	(1,268)	(1,268)	(1,268)	-
Issuance of commercial paper.....	-	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-	-
Budget reserves and designations.....	-	-	-	-	-	-	-	-
Total other financing sources (uses).....	-	25	25	-	4,674	4,674	4,674	-
Net changes in fund balances.....	-	(4,460)	(4,434)	26	-	116	1,284	1,168
Budgetary fund balances, July 1.....	-	13,634	13,634	-	-	4,309	4,309	-
Budgetary fund balances, June 30.....	\$ -	\$ 9,174	\$ 9,200	\$ 26	\$ -	\$ 4,425	\$ 5,593	\$ 1,168

CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Revenues, Expenditures and Changes
in Fund Balances – Budget and Actual – Budget Basis
Nonmajor Governmental Funds – Special Revenue Funds (Continued)
Year Ended June 30, 2016
(In Thousands)**

	Human Welfare Fund				Low and Moderate Income Housing Asset Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	240	240	303	63	-	-	-	-
Fines, forfeitures, and penalties.....	-	-	17	17	-	-	-	-
Interest and investment income.....	-	-	-	-	-	1,912	1,912	-
Rents and concessions.....	-	-	-	-	7,500	7,500	5,342	(2,158)
Intergovernmental:								
Federal.....	34,770	22,218	22,218	-	-	-	-	-
State.....	139	310	310	-	-	-	-	-
Other.....	100	44	44	-	1,772	710	710	-
Charges for services.....	161	337	359	22	-	-	-	-
Other.....	551	-	-	-	-	18,776	20,199	1,423
Total revenues.....	35,961	23,149	23,251	102	9,272	28,898	28,163	(735)
Expenditures:								
Current:								
Public protection.....	-	-	-	-	-	-	-	-
Public works, transportation and commerce.....	-	-	-	-	-	-	-	-
Human welfare and neighborhood development.....	39,501	26,936	26,923	13	9,272	20,784	20,784	-
Community health.....	-	-	-	-	-	-	-	-
Culture and recreation.....	-	-	-	-	-	-	-	-
General administration and finance.....	-	-	-	-	-	-	-	-
Debt service:								
Principal retirement.....	-	-	-	-	-	-	-	-
Interest and other fiscal charges.....	-	-	-	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-	-	-
Total expenditures.....	39,501	26,936	26,923	13	9,272	20,784	20,784	-
Excess (deficiency) of revenues over (under) expenditures.....	(3,540)	(3,787)	(3,672)	115	-	8,114	7,379	(735)
Other financing sources (uses):								
Transfers in.....	3,481	3,481	3,481	-	-	-	-	-
Transfers out.....	-	-	-	-	-	-	-	-
Issuance of commercial paper.....	-	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-	-
Budget reserves and designations.....	-	-	-	-	-	-	-	-
Total other financing sources (uses).....	3,481	3,481	3,481	-	-	-	-	-
Net changes in fund balances.....	(59)	(306)	(191)	115	-	8,114	7,379	(735)
Budgetary fund balances, July 1.....	59	1,055	1,055	-	-	43,320	43,320	-
Budgetary fund balances, June 30.....	\$ -	\$ 749	\$ 864	\$ 115	\$ -	\$ 51,434	\$ 50,699	\$ (735)

CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Revenues, Expenditures and Changes
in Fund Balances – Budget and Actual – Budget Basis
Nonmajor Governmental Funds – Special Revenue Funds (Continued)
Year Ended June 30, 2016
(In Thousands)**

	Open Space and Park Fund				Public Library Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes.....	\$ 46,092	\$ 46,092	\$ 49,854	\$ 3,762	\$ 46,092	\$ 46,092	\$ 49,854	\$ 3,762
Business taxes.....	-	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties.....	-	-	-	-	-	-	-	-
Interest and investment income.....	320	320	100	(220)	222	222	194	(28)
Rents and concessions.....	-	-	-	-	1,755	1,755	-	(1,755)
Intergovernmental:								
Federal.....	-	-	-	-	-	-	-	-
State.....	170	170	167	(3)	220	239	240	1
Other.....	-	-	-	-	-	-	-	-
Charges for services.....	-	-	-	-	750	751	753	2
Other.....	-	-	-	-	-	-	-	-
Total revenues.....	46,582	46,582	50,121	3,539	49,039	49,059	51,041	1,982
Expenditures:								
Current:								
Public protection.....	-	-	-	-	-	-	-	-
Public works, transportation and commerce.....	-	769	769	-	-	472	472	-
Human welfare and neighborhood development.....	-	-	-	-	-	-	-	-
Community health.....	-	-	-	-	-	-	-	-
Culture and recreation.....	47,855	44,987	42,295	2,692	109,073	108,629	106,308	2,321
General administration and finance.....	-	49	49	-	-	2	2	-
Debt service:								
Principal retirement.....	-	3,064	3,064	-	-	-	-	-
Interest and other fiscal charges.....	-	25	25	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-	-	-
Total expenditures.....	47,855	48,894	46,202	2,692	109,073	109,103	106,782	2,321
Excess (deficiency) of revenues over (under) expenditures.....	(1,273)	(2,312)	3,919	6,231	(60,034)	(60,044)	(55,741)	4,303
Other financing sources (uses):								
Transfers in.....	1,268	1,268	1,268	-	67,600	70,805	70,805	-
Transfers out.....	-	-	-	-	-	(5,180)	(5,180)	-
Issuance of commercial paper.....	-	14	14	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-	-
Budget reserves and designations.....	-	-	-	-	(7,566)	-	-	-
Total other financing sources (uses).....	1,268	1,282	1,282	-	60,034	65,625	65,625	-
Net changes in fund balances.....	(5)	(1,030)	5,201	6,231	-	5,581	9,884	4,303
Budgetary fund balances, July 1.....	5	28,263	28,263	-	-	35,111	35,111	-
Budgetary fund balances, June 30.....	\$ -	\$ 27,233	\$ 33,464	\$ 6,231	\$ -	\$ 40,692	\$ 44,995	\$ 4,303

CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Revenues, Expenditures and Changes
in Fund Balances – Budget and Actual – Budget Basis
Nonmajor Governmental Funds – Special Revenue Funds (Continued)
Year Ended June 30, 2016
(In Thousands)**

	Public Protection Fund				Public Works, Transportation and Commerce Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	501	501	511	10	-	-	-	-
Fines, forfeitures, and penalties.....	2,201	2,201	12,720	10,519	-	-	275	275
Interest and investment income.....	24	45	78	33	-	-	-	-
Rents and concessions.....	-	-	-	-	-	-	109	109
Intergovernmental:								
Federal.....	30,910	38,688	38,688	-	-	-	-	-
State.....	13,943	12,047	12,047	-	-	-	53	53
Other.....	15	20	20	-	139	2,074	2,074	-
Charges for services.....	1,953	16,438	16,336	(102)	13,041	25,874	21,160	(4,714)
Other.....	2	92	92	-	637	2,397	732	(1,665)
Total revenues.....	49,549	70,032	80,492	10,460	13,817	30,345	24,403	(5,942)
Expenditures:								
Current:								
Public protection.....	46,230	63,530	63,530	-	-	-	-	-
Public works, transportation and commerce.....	-	-	-	-	1,970	18,024	18,024	-
Human welfare and neighborhood development.....	3,402	3,152	3,152	-	11,708	11,257	11,222	35
Community health.....	-	-	-	-	-	-	-	-
Culture and recreation.....	-	-	-	-	-	-	-	-
General administration and finance.....	4,522	3,283	3,283	-	139	47	47	-
Debt service:								
Principal retirement.....	-	-	-	-	-	-	-	-
Interest and other fiscal charges.....	-	-	-	-	-	-	-	-
Bond issuance costs.....	-	-	-	-	-	-	-	-
Total expenditures.....	54,154	69,965	69,965	-	13,817	29,328	29,293	35
Excess (deficiency) of revenues over (under) expenditures.....	(4,605)	67	10,527	10,460	-	1,017	(4,890)	(5,907)
Other financing sources (uses):								
Transfers in.....	-	301	301	-	-	1,148	1,148	-
Transfers out.....	(1,898)	(1,866)	(1,866)	-	-	(14)	(14)	-
Issuance of commercial paper.....	-	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-	-
Budget reserves and designations.....	-	-	-	-	-	-	-	-
Total other financing sources (uses).....	(1,898)	(1,565)	(1,565)	-	-	1,134	1,134	-
Net changes in fund balances.....	(6,503)	(1,498)	8,962	10,460	-	2,151	(3,756)	(5,907)
Budgetary fund balances, July 1.....	6,503	40,261	40,261	-	-	41,786	41,786	-
Budgetary fund balances, June 30.....	\$ -	\$ 38,763	\$ 49,223	\$ 10,460	\$ -	\$ 43,937	\$ 38,030	\$ (5,907)

CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Revenues, Expenditures and Changes
in Fund Balances – Budget and Actual – Budget Basis
Nonmajor Governmental Funds – Special Revenue Funds (Continued)
Year Ended June 30, 2016
(In Thousands)**

	Real Property Fund				San Francisco County Transportation Authority Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	101,293	101,293	99,528	(1,765)
Licenses, permits, and franchises.....	-	-	-	-	4,777	4,777	5,362	585
Fines, forfeitures, and penalties.....	-	-	-	-	-	-	-	-
Interest and investment income.....	-	-	-	-	335	335	383	48
Rents and concessions.....	7,203	49,580	47,271	(2,309)	-	-	-	-
Intergovernmental:								
Federal.....	-	-	-	-	25,778	24,555	14,276	(10,279)
State.....	-	-	-	-	3,010	2,705	1,509	(1,196)
Other.....	453	453	452	(1)	76,676	77,454	78,307	853
Charges for services.....	1,175	1,179	738	(441)	-	-	-	-
Other.....	206	206	-	(206)	2,916	49	85	36
Total revenues.....	<u>9,037</u>	<u>51,418</u>	<u>48,461</u>	<u>(2,957)</u>	<u>214,785</u>	<u>211,168</u>	<u>199,450</u>	<u>(11,718)</u>
Expenditures:								
Current:								
Public protection.....	-	-	-	-	-	-	-	-
Public works, transportation and commerce.....	-	664	366	298	251,321	275,469	246,284	29,185
Human welfare and neighborhood development.....	-	-	-	-	-	-	-	-
Community health.....	-	-	-	-	-	-	-	-
Culture and recreation.....	-	-	-	-	-	-	-	-
General administration and finance.....	12,162	32,463	28,499	3,964	-	-	-	-
Debt service:								
Principal retirement.....	-	-	-	-	20,000	20,000	20,000	-
Interest and other fiscal charges.....	-	-	-	-	1,760	960	794	166
Bond issuance costs.....	-	-	-	-	-	-	-	-
Total expenditures.....	<u>12,162</u>	<u>33,127</u>	<u>28,865</u>	<u>4,262</u>	<u>273,081</u>	<u>296,429</u>	<u>267,078</u>	<u>29,351</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>(3,125)</u>	<u>18,291</u>	<u>19,596</u>	<u>1,305</u>	<u>(58,296)</u>	<u>(85,261)</u>	<u>(67,628)</u>	<u>17,633</u>
Other financing sources (uses):								
Transfers in.....	-	5	5	-	-	-	-	-
Transfers out.....	-	(12,231)	(12,231)	-	-	-	-	-
Issuance of commercial paper.....	-	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-	-
Budget reserves and designations.....	-	-	-	-	-	-	-	-
Total other financing sources (uses).....	<u>-</u>	<u>(12,226)</u>	<u>(12,226)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net changes in fund balances.....	<u>(3,125)</u>	<u>6,065</u>	<u>7,370</u>	<u>1,305</u>	<u>(58,296)</u>	<u>(85,261)</u>	<u>(67,628)</u>	<u>17,633</u>
Budgetary fund balances, July 1.....	3,125	1,340	1,340	-	108,011	108,011	108,011	-
Budgetary fund balances, June 30.....	<u>\$ -</u>	<u>\$ 7,405</u>	<u>\$ 8,710</u>	<u>\$ 1,305</u>	<u>\$ 49,715</u>	<u>\$ 22,750</u>	<u>\$ 40,383</u>	<u>\$ 17,633</u>

CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Revenues, Expenditures and Changes
in Fund Balances – Budget and Actual – Budget Basis
Nonmajor Governmental Funds – Special Revenue Funds (Continued)
Year Ended June 30, 2016
(In Thousands)**

	Senior Citizens' Program Fund				War Memorial Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:								
Property taxes.....	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Business taxes.....	-	-	-	-	-	-	-	-
Sales and use tax.....	-	-	-	-	-	-	-	-
Licenses, permits, and franchises.....	-	-	-	-	-	-	-	-
Fines, forfeitures, and penalties.....	-	-	-	-	-	-	-	-
Interest and investment income.....	-	-	-	-	-	51	82	31
Rents and concessions.....	-	-	-	-	2,253	2,710	2,845	135
Intergovernmental:								
Federal.....	4,745	4,914	4,914	-	-	-	-	-
State.....	1,623	819	819	-	-	-	-	-
Other.....	-	-	-	-	-	-	-	-
Charges for services.....	-	-	-	-	272	330	408	78
Other.....	-	24	24	-	-	-	-	-
Total revenues.....	6,368	5,757	5,757	-	2,525	3,091	3,335	244
Expenditures:								
Current:								
Public protection.....	-	-	-	-	-	-	-	-
Public works, transportation and commerce.....	-	-	-	-	-	4,980	4,980	-
Human welfare and neighborhood development.....	6,368	5,757	5,757	-	-	-	-	-
Community health.....	-	-	-	-	-	-	-	-
Culture and recreation.....	-	-	-	-	14,824	15,024	14,444	580
General administration and finance.....	-	-	-	-	-	-	-	-
Debt service:								
Principal retirement.....	-	-	-	-	8,052	247	-	247
Interest and other fiscal charges.....	-	-	-	-	-	145	145	-
Bond issuance costs.....	-	-	-	-	-	-	-	-
Total expenditures.....	6,368	5,757	5,757	-	22,876	20,396	19,569	827
Excess (deficiency) of revenues over (under) expenditures.....	-	-	-	-	(20,351)	(17,305)	(16,234)	1,071
Other financing sources (uses):								
Transfers in.....	-	-	-	-	19,153	19,153	18,906	(247)
Transfers out.....	-	-	-	-	-	(7,659)	(7,659)	-
Issuance of commercial paper.....	-	-	-	-	-	-	-	-
Issuance of bonds.....	-	-	-	-	-	-	-	-
Budget reserves and designations.....	-	-	-	-	-	-	-	-
Total other financing sources (uses).....	-	-	-	-	19,153	11,494	11,247	(247)
Net changes in fund balances.....	-	-	-	-	(1,198)	(5,811)	(4,987)	824
Budgetary fund balances, July 1.....	-	2	2	-	1,198	11,861	11,861	-
Budgetary fund balances, June 30.....	\$ -	\$ 2	\$ 2	\$ -	\$ -	\$ 6,050	\$ 6,874	\$ 824

CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Revenues, Expenditures and Changes
in Fund Balances – Budget and Actual – Budget Basis
Nonmajor Governmental Funds – Special Revenue Funds (Continued)**
Year Ended June 30, 2016
(In Thousands)

	Total			Variance Positive (Negative)
	Original Budget	Final Budget	Actual	
Revenues:				
Property taxes.....	\$ 152,104	\$ 152,104	\$ 164,162	\$ 12,058
Business taxes.....	1,900	1,900	1,840	(60)
Sales and use tax.....	101,293	101,293	99,528	(1,765)
Licenses, permits, and franchises.....	15,573	15,573	15,813	240
Fines, forfeitures, and penalties.....	4,847	5,331	16,370	11,039
Interest and investment income.....	2,148	9,177	10,899	1,722
Rents and concessions.....	47,169	91,738	88,703	(3,035)
Intergovernmental:				
Federal.....	180,902	198,306	187,822	(10,484)
State.....	95,723	107,673	104,427	(3,246)
Other.....	88,279	83,878	84,730	852
Charges for services.....	97,990	133,028	158,884	25,856
Other.....	29,037	228,004	233,641	5,637
Total revenues.....	<u>816,965</u>	<u>1,128,005</u>	<u>1,166,819</u>	<u>38,814</u>
Expenditures:				
Current:				
Public protection.....	49,780	64,386	64,334	52
Public works, transportation and commerce.....	359,322	402,479	367,605	34,874
Human welfare and neighborhood development.....	313,802	400,252	398,138	2,114
Community health.....	110,409	110,474	110,474	-
Culture and recreation.....	286,694	248,804	239,164	9,640
General administration and finance.....	42,965	57,837	53,873	3,964
Debt service:				
Principal retirement.....	29,234	24,207	23,960	247
Interest and other fiscal charges.....	2,809	3,180	2,982	198
Bond issuance costs.....	3,125	375	375	-
Total expenditures.....	<u>1,198,140</u>	<u>1,311,994</u>	<u>1,260,905</u>	<u>51,089</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>(381,175)</u>	<u>(183,989)</u>	<u>(94,086)</u>	<u>89,903</u>
Other financing sources (uses):				
Transfers in.....	253,831	263,986	263,739	(247)
Transfers out.....	(3,231)	(59,413)	(59,413)	-
Issuance of commercial paper.....	-	8,425	8,425	-
Issuance of bonds.....	28,125	24,000	24,000	-
Budget reserves and designations.....	(9,486)	-	-	-
Total other financing sources (uses).....	<u>269,239</u>	<u>236,998</u>	<u>236,751</u>	<u>(247)</u>
Net changes in fund balances.....	<u>(111,936)</u>	<u>53,009</u>	<u>142,665</u>	<u>89,656</u>
Budgetary fund balances, July 1.....	161,651	921,936	921,936	-
Budgetary fund balances, June 30.....	<u>\$ 49,715</u>	<u>\$ 974,945</u>	<u>\$ 1,064,601</u>	<u>\$ 89,656</u>

CITY AND COUNTY OF SAN FRANCISCO

**Schedule of Expenditures by Department
Budget and Actual – Budget Basis
Nonmajor Governmental Funds – Special Revenue Funds
Year Ended June 30, 2016
(In Thousands)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
BUILDING INSPECTION FUND				
Public Works, Transportation and Commerce				
Building Inspection.....	\$ 70,168	\$ 64,891	\$ 59,606	\$ 5,285
Public Utilities Commission.....	-	410	410	-
Public Works.....	-	491	491	-
Total Building Inspection Fund.....	<u>70,168</u>	<u>65,792</u>	<u>60,507</u>	<u>5,285</u>
CHILDREN AND FAMILIES FUND				
Human Welfare and Neighborhood Development				
Child Support Services.....	12,880	12,568	12,568	-
Children and Families Commission.....	11,902	9,495	9,495	-
Human Services.....	40,977	29,977	29,977	-
Mayor's Office.....	129,349	130,964	130,964	-
Total Children and Families Fund.....	<u>195,108</u>	<u>183,004</u>	<u>183,004</u>	<u>-</u>
COMMUNITY / NEIGHBORHOOD DEVELOPMENT FUND				
Public Works, Transportation and Commerce				
Mayor's Office.....	6,077	7,211	7,211	-
Municipal Transportation Agency.....	-	2	2	-
Public Works.....	6,100	2,204	2,204	-
	<u>12,177</u>	<u>9,417</u>	<u>9,417</u>	<u>-</u>
Human Welfare and Neighborhood Development				
Human Services.....	2,757	2,579	2,579	-
Mayor's Office.....	34,496	129,772	129,772	-
Rent Arbitration Board.....	6,942	6,988	6,587	401
	<u>44,195</u>	<u>139,339</u>	<u>138,938</u>	<u>401</u>
Culture and Recreation				
Arts Commission.....	20	18	18	-
Recreation and Park Commission.....	6,617	262	262	-
	<u>6,637</u>	<u>280</u>	<u>280</u>	<u>-</u>
General Administration and Finance				
Administrative Services.....	2,780	1,022	1,022	-
City Planning.....	3,129	1,496	1,496	-
	<u>5,909</u>	<u>2,518</u>	<u>2,518</u>	<u>-</u>
Total Community / Neighborhood Development Fund.....	<u>68,918</u>	<u>151,554</u>	<u>151,153</u>	<u>401</u>
COMMUNITY HEALTH SERVICES FUND				
Public Works, Transportation and Commerce				
Public Works.....	-	75	75	-
Community Health				
Community Health Network.....	110,409	104,163	104,163	-
Total Community Health Services Fund.....	<u>110,409</u>	<u>104,238</u>	<u>104,238</u>	<u>-</u>
CONVENTION FACILITIES FUND				
Public Works, Transportation and Commerce				
Public Utilities Commission.....	-	78	78	-
Public Works.....	-	26	26	-
	<u>-</u>	<u>104</u>	<u>104</u>	<u>-</u>
Human Welfare and Neighborhood Development				
Mayor's Office.....	-	152	152	-
Culture and Recreation				
Arts Commission.....	-	1	1	-
Administrative Services.....	80,201	49,633	46,631	3,002
	<u>80,201</u>	<u>49,634</u>	<u>46,632</u>	<u>3,002</u>
Total Convention Facilities Fund.....	<u>80,201</u>	<u>49,890</u>	<u>46,888</u>	<u>3,002</u>

CITY AND COUNTY OF SAN FRANCISCO

**Schedule of Expenditures by Department
Budget and Actual – Budget Basis
Nonmajor Governmental Funds – Special Revenue Funds (Continued)
Year Ended June 30, 2016
(In Thousands)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
COURT'S FUND				
Public Protection				
Trial Courts.....	2,770	425	373	52
Total Court's Fund.....	<u>2,770</u>	<u>425</u>	<u>373</u>	<u>52</u>
CULTURE AND RECREATION FUND				
Public Works, Transportation and Commerce				
Mayor's Office.....	1,050	999	999	-
Public Works.....	-	8	8	-
	<u>1,050</u>	<u>1,007</u>	<u>1,007</u>	<u>-</u>
Human Welfare and Neighborhood Development				
Mayor's Office.....	-	780	780	-
Culture and Recreation				
Arts Commission.....	4,329	4,831	4,831	-
Asian Art Museum.....	686	463	463	-
Fine Arts Museums.....	2,304	3,013	3,013	-
Recreation and Park Commission.....	4,055	3,671	3,559	112
	<u>11,374</u>	<u>11,978</u>	<u>11,866</u>	<u>112</u>
General Administration and Finance				
City Planning.....	-	250	250	-
Administrative Services.....	13,345	13,518	13,518	-
	<u>13,345</u>	<u>13,768</u>	<u>13,768</u>	<u>-</u>
Total Culture and Recreation Fund.....	<u>25,769</u>	<u>27,533</u>	<u>27,421</u>	<u>112</u>
ENVIRONMENTAL PROTECTION FUND				
Human Welfare and Neighborhood Development				
Mayor's Office.....	3,702	8,974	7,309	1,665
General Administration and Finance				
City Planning.....	-	82	82	-
Total Environmental Protection Fund.....	<u>3,702</u>	<u>9,056</u>	<u>7,391</u>	<u>1,665</u>
GASOLINE TAX FUND				
Public Works, Transportation and Commerce				
Municipal Transportation Agency.....	-	311	311	-
Public Utilities Commission.....	-	1,699	1,699	-
Public Works.....	22,636	21,848	21,742	106
Total Gasoline Tax Fund.....	<u>22,636</u>	<u>23,858</u>	<u>23,752</u>	<u>106</u>
GENERAL SERVICES FUND				
Public Protection				
District Attorney.....	-	29	29	-
Trial Courts.....	280	200	200	-
	<u>280</u>	<u>229</u>	<u>229</u>	<u>-</u>
Public Works, Transportation and Commerce				
Public Works.....	-	7	7	-
Culture and Recreation				
Fine Arts Museum.....	-	1,294	1,294	-
General Administration and Finance				
Administrative Services.....	493	511	511	-
Assessor/Recorder.....	1,820	1,805	1,805	-
Board of Supervisors.....	18	15	15	-
Elections.....	-	20	20	-
Human Resources.....	-	22	22	-
Mayor's Office.....	215	168	168	-
Telecommunications and Information Services.....	3,275	2,645	2,645	-
Treasurer/Tax Collector.....	1,067	341	341	-
	<u>6,888</u>	<u>5,527</u>	<u>5,527</u>	<u>-</u>
Total General Services Fund.....	<u>7,168</u>	<u>7,057</u>	<u>7,057</u>	<u>-</u>

CITY AND COUNTY OF SAN FRANCISCO

**Schedule of Expenditures by Department
Budget and Actual – Budget Basis
Nonmajor Governmental Funds – Special Revenue Funds (Continued)
Year Ended June 30, 2016
(In Thousands)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
GIFT AND OTHER EXPENDABLE TRUSTS FUND				
Public Protection				
District Attorney.....	-	2	2	-
Fire Department.....	-	191	191	-
Police Department.....	500	9	9	-
	<u>500</u>	<u>202</u>	<u>202</u>	<u>-</u>
Public Works, Transportation and Commerce				
Public Works.....	-	1,841	1,841	-
	-	<u>1,841</u>	<u>1,841</u>	<u>-</u>
Human Welfare and Neighborhood Development				
Mayor's Office.....	-	18	18	-
Social Services.....	484	56	56	-
Children; Youth & Their Families.....	40	40	40	-
Commission on Status of Women.....	22	3	3	-
	<u>546</u>	<u>117</u>	<u>117</u>	<u>-</u>
Community Health				
Community Health Network.....	-	6,311	6,311	-
Culture and Recreation				
Arts Commission.....	-	92	92	-
Fine Arts Museums.....	-	1,631	1,631	-
Public Library.....	10	100	100	-
Recreation and Park Commission.....	471	370	370	-
War Memorial.....	1,348	-	-	-
	<u>1,829</u>	<u>2,193</u>	<u>2,193</u>	<u>-</u>
General Administration and Finance				
Administrative Services.....	-	96	96	-
Telecommunications and Information Services.....	-	2	2	-
	-	98	98	-
Total Gift and Other Expendable Trusts Fund.....	<u>2,875</u>	<u>10,762</u>	<u>10,762</u>	<u>-</u>
GOLF FUND				
Culture and Recreation				
Recreation and Park Commission.....	14,901	14,785	13,852	933
Total Golf Fund.....	<u>14,901</u>	<u>14,785</u>	<u>13,852</u>	<u>933</u>
HUMAN WELFARE FUND				
Human Welfare and Neighborhood Development				
Commission on Status of Women.....	299	316	303	13
Social Services.....	39,202	26,620	26,620	-
Total Human Welfare Fund.....	<u>39,501</u>	<u>26,936</u>	<u>26,923</u>	<u>13</u>
LOW AND MODERATE INCOME HOUSING ASSET FUND				
Human Welfare and Neighborhood Development				
Mayor's Office.....	9,272	20,784	20,784	-
Total Low and Moderate Income Housing Asset Fund.....	<u>9,272</u>	<u>20,784</u>	<u>20,784</u>	<u>-</u>

CITY AND COUNTY OF SAN FRANCISCO

**Schedule of Expenditures by Department
Budget and Actual – Budget Basis
Nonmajor Governmental Funds – Special Revenue Funds (Continued)
Year Ended June 30, 2016
(In Thousands)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
OPEN SPACE AND PARK FUND				
Public Works, Transportation and Commerce				
Public Works.....	-	769	769	-
Culture and Recreation				
Arts Commission.....	-	1	1	-
Recreation and Park Commission.....	47,855	44,986	42,294	2,692
	<u>47,855</u>	<u>44,987</u>	<u>42,295</u>	<u>2,692</u>
General Administration and Finance				
City Planning.....	-	49	49	-
Total Open Space and Park Fund.....	<u>47,855</u>	<u>45,805</u>	<u>43,113</u>	<u>2,692</u>
PUBLIC LIBRARY FUND				
Public Works, Transportation and Commerce				
Public Utilities Commission.....	-	27	27	-
Public Works.....	-	445	445	-
	-	<u>472</u>	<u>472</u>	-
Culture and Recreation				
Arts Commission.....	-	1	1	-
Public Library.....	109,073	108,628	106,307	2,321
	<u>109,073</u>	<u>108,629</u>	<u>106,308</u>	<u>2,321</u>
General Administration and Finance				
City Attorney.....	-	2	2	-
Total Public Library Fund.....	<u>109,073</u>	<u>109,103</u>	<u>106,782</u>	<u>2,321</u>
PUBLIC PROTECTION FUND				
Public Protection				
Adult Probation.....	3,798	2,474	2,474	-
District Attorney.....	4,826	5,746	5,746	-
Emergency Communications Department.....	24,932	23,751	23,751	-
Fire Department.....	-	6,351	6,351	-
Juvenile Probation.....	2,121	1,033	1,033	-
Mayor's Office.....	-	5	5	-
Police Commission.....	6,085	21,213	21,213	-
Public Defender.....	225	409	409	-
Sheriff.....	4,243	2,548	2,548	-
	<u>46,230</u>	<u>63,530</u>	<u>63,530</u>	-
Human Welfare and Neighborhood Development				
Mayor's Office.....	3,402	3,100	3,100	-
Commission on Status of Women.....	-	52	52	-
	<u>3,402</u>	<u>3,152</u>	<u>3,152</u>	-
General Administration and Finance				
Administrative Services	-	5	5	-
City Attorney.....	4,522	3,278	3,278	-
	<u>4,522</u>	<u>3,283</u>	<u>3,283</u>	-
Total Public Protection Fund.....	<u>54,154</u>	<u>69,965</u>	<u>69,965</u>	-

CITY AND COUNTY OF SAN FRANCISCO

**Schedule of Expenditures by Department
Budget and Actual – Budget Basis
Nonmajor Governmental Funds – Special Revenue Funds (Continued)
Year Ended June 30, 2016
(In Thousands)**

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
PUBLIC WORKS, TRANSPORTATION AND COMMERCE FUND				
Public Works, Transportation and Commerce				
Public Works.....	1,970	18,024	18,024	-
Human Welfare and Neighborhood Development				
Mayor's Office.....	11,708	11,257	11,222	35
General Administration and Finance				
City Planning.....	139	47	47	-
Total Public Works, Transportation and Commerce Fund.....	<u>13,817</u>	<u>29,328</u>	<u>29,293</u>	<u>35</u>
REAL PROPERTY FUND				
Public Works, Transportation and Commerce				
Public Utilities Commission.....	-	361	361	-
Public Works.....	-	303	5	298
	-	664	366	298
General Administration and Finance				
Administrative Services.....	12,162	32,463	28,499	3,964
Total Real Property Fund.....	<u>12,162</u>	<u>33,127</u>	<u>28,865</u>	<u>4,262</u>
SAN FRANCISCO COUNTY TRANSPORTATION AUTHORITY FUND				
Public Works, Transportation and Commerce				
Board of Supervisors.....	251,321	275,469	246,284	29,185
Total SF County Transportation Authority Fund.....	<u>251,321</u>	<u>275,469</u>	<u>246,284</u>	<u>29,185</u>
SENIOR CITIZENS' PROGRAM FUND				
Human Welfare and Neighborhood Development				
Social Services Department.....	6,368	5,757	5,757	-
Total Senior Citizens' Program Fund.....	<u>6,368</u>	<u>5,757</u>	<u>5,757</u>	<u>-</u>
WAR MEMORIAL FUND				
Culture and Recreation				
War Memorial.....	14,824	15,024	14,444	580
Public Works, Transportation and Commerce				
Public Utilities Commission.....	-	88	88	-
Public Works.....	-	4,892	4,892	-
	-	4,980	4,980	-
Total War Memorial Fund.....	<u>14,824</u>	<u>20,004</u>	<u>19,424</u>	<u>580</u>
Total Special Revenue Funds With Legally Adopted Budgets ..	<u>\$ 1,162,972</u>	<u>\$ 1,284,232</u>	<u>\$ 1,233,588</u>	<u>\$ 50,644</u>

CITY AND COUNTY OF SAN FRANCISCO

**Combining Balance Sheet
Nonmajor Governmental Funds – Debt Service Funds**

June 30, 2016
(In Thousands)

	General Obligation Bond Fund	Certificates of Participation Funds	Other Bond Funds	Total
Assets:				
Deposits and investments with City Treasury.....	\$ 91,211	\$ -	\$ 3	\$ 91,214
Deposits and investments outside City Treasury.....	-	33,806	-	33,806
Receivables:				
Property taxes and penalties.....	9,309	-	-	9,309
Interest and other.....	236	5	-	241
Total assets.....	<u>\$ 100,756</u>	<u>\$ 33,811</u>	<u>\$ 3</u>	<u>\$ 134,570</u>
Liabilities:				
Accounts payable.....	\$ -	\$ 44	\$ 3	\$ 47
Unearned revenues and other liabilities.....	6,278	-	-	6,278
Total liabilities.....	<u>6,278</u>	<u>44</u>	<u>3</u>	<u>6,325</u>
Deferred inflows of resources.....	<u>7,724</u>	-	-	<u>7,724</u>
Fund balances:				
Restricted.....	<u>86,754</u>	<u>33,767</u>	-	<u>120,521</u>
Total liabilities, deferred inflows of resources and fund balances.....	<u>\$ 100,756</u>	<u>\$ 33,811</u>	<u>\$ 3</u>	<u>\$ 134,570</u>

CITY AND COUNTY OF SAN FRANCISCO
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds – Debt Service Funds
Year Ended June 30, 2016
(In Thousands)

	General Obligation Bond Fund	Certificates of Participation Funds	Other Bond Funds	Total
Revenues:				
Property taxes.....	\$ 241,040	\$ -	\$ -	\$ 241,040
Fines, forfeitures, and penalties.....	14,860	-	-	14,860
Interest and investment income.....	925	160	-	1,085
Rents and concessions.....	-	728	-	728
Intergovernmental				
State.....	755	-	-	755
Other.....	3,754	-	-	3,754
Total revenues.....	<u>261,334</u>	<u>888</u>	<u>-</u>	<u>262,222</u>
Expenditures:				
Debt service:				
Principal retirement.....	191,928	39,750	388	232,066
Interest and other fiscal charges.....	90,649	25,253	277	116,179
Bond issuance costs.....	74	1,369	-	1,443
Total expenditures.....	<u>282,651</u>	<u>66,372</u>	<u>665</u>	<u>349,688</u>
Deficiency of revenues under expenditures.....	<u>(21,317)</u>	<u>(65,484)</u>	<u>(665)</u>	<u>(87,466)</u>
Other financing sources (uses):				
Transfers in.....	16,779	67,487	665	84,931
Issuance of bonds and loans:				
Face value of bonds issued.....	-	123,600	-	123,600
Premium on issuance of bonds.....	-	10,104	-	10,104
Payment to refunded bond escrow agent.....	-	(131,935)	-	(131,935)
Total other financing sources, net.....	<u>16,779</u>	<u>69,256</u>	<u>665</u>	<u>86,700</u>
Net changes in fund balances.....	<u>(4,538)</u>	<u>3,772</u>	<u>-</u>	<u>(766)</u>
Fund balances at beginning of year.....	<u>91,292</u>	<u>29,995</u>	<u>-</u>	<u>121,287</u>
Fund balances at end of year.....	<u>\$ 86,754</u>	<u>\$ 33,767</u>	<u>\$ -</u>	<u>\$ 120,521</u>

CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Revenues, Expenditures and Changes
in Fund Balances – Budget and Actual – Budget Basis
Nonmajor Governmental Funds – Debt Service Funds
Year Ended June 30, 2016
(In Thousands)**

	General Obligation Bond Fund			
	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues:				
Property taxes.....	\$ 186,714	\$ 186,714	\$ 241,040	\$ 54,326
Fines, forfeitures, and penalties.....	15,040	15,040	14,860	(180)
Interest and investment income.....	-	-	967	967
Intergovernmental				
State.....	800	800	755	(45)
Other.....	-	3,740	3,754	14
Total revenues.....	<u>202,554</u>	<u>206,294</u>	<u>261,376</u>	<u>55,082</u>
Expenditures:				
Debt service:				
Principal retirement.....	201,642	191,928	191,928	-
Interest and other fiscal charges.....	9,318	90,649	90,649	-
Bond issuance costs.....	-	74	74	-
Total expenditures.....	<u>210,960</u>	<u>282,651</u>	<u>282,651</u>	<u>-</u>
Deficiency of revenues under expenditures.....	<u>(8,406)</u>	<u>(76,357)</u>	<u>(21,275)</u>	<u>55,082</u>
Other financing sources:				
Transfers in.....	4,203	16,779	16,779	-
Net changes in fund balances.....	<u>(4,203)</u>	<u>(59,578)</u>	<u>(4,496)</u>	<u>55,082</u>
Budgetary fund balance, July 1.....	4,203	99,389	99,389	-
Budgetary fund balance, June 30.....	<u>\$ -</u>	<u>\$ 39,811</u>	<u>\$ 94,893</u>	<u>\$ 55,082</u>

CITY AND COUNTY OF SAN FRANCISCO

**Combining Balance Sheet
Nonmajor Governmental Funds – Capital Projects Funds
June 30, 2016
(In Thousands)**

	City Facilities Improvement Fund	Earthquake Safety Improvement Fund	Fire Protection Systems Improvement Fund	Moscone Convention Center Fund
Assets:				
Deposits and investments with City Treasury.....	\$ 217,767	\$ 17	\$ 7,039	\$ -
Deposits and investments outside City Treasury.....	15,750	-	-	6,572
Receivables:				
Federal and state grants and subventions.....	-	-	-	-
Charges for services.....	116	-	-	-
Interest and other.....	188	-	8	-
Due from other funds.....	-	-	-	-
Due from component unit.....	-	-	-	36
Total assets.....	<u>\$ 233,821</u>	<u>\$ 17</u>	<u>\$ 7,047</u>	<u>\$ 6,608</u>
Liabilities:				
Accounts payable.....	\$ 19,491	\$ -	\$ 81	\$ 9,132
Accrued payroll.....	434	-	10	87
Unearned grant and subvention revenue.....	-	-	-	-
Due to other funds.....	-	-	-	7,463
Unearned revenues and other liabilities.....	1,883	-	-	-
Bonds, loans, capital leases, and other payables.....	-	-	-	91,299
Total liabilities.....	<u>21,808</u>	<u>-</u>	<u>91</u>	<u>107,981</u>
Deferred inflows of resources.....	-	-	-	-
Fund balances:				
Restricted.....	212,013	17	6,956	-
Unassigned.....	-	-	-	(101,373)
Total fund balances.....	<u>212,013</u>	<u>17</u>	<u>6,956</u>	<u>(101,373)</u>
Total liabilities, deferred inflows of resources and fund balances.....	<u>\$ 233,821</u>	<u>\$ 17</u>	<u>\$ 7,047</u>	<u>\$ 6,608</u>

(Continued)

CITY AND COUNTY OF SAN FRANCISCO

**Combining Balance Sheet
Nonmajor Governmental Funds – Capital Projects Funds (Continued)**
June 30, 2016
(In Thousands)

	Public Library Improvement Fund	Recreation and Park Projects	Street Improvement Fund	Total
Assets:				
Deposits and investments with City Treasury.....	\$ 416	\$ 68,289	\$ 99,815	\$ 393,343
Deposits and investments outside City Treasury.....	-	-	3,030	25,352
Receivables:				
Federal and state grants and subventions.....	-	6,250	3,136	9,386
Charges for services.....	-	-	-	116
Interest and other.....	1	77	99	373
Due from other funds.....	-	361	2,174	2,535
Due from component unit.....	-	-	-	36
Total assets.....	<u>\$ 417</u>	<u>\$ 74,977</u>	<u>\$ 108,254</u>	<u>\$ 431,141</u>
Liabilities:				
Accounts payable.....	\$ -	\$ 3,661	\$ 4,953	\$ 37,318
Accrued payroll.....	-	226	499	1,256
Unearned grant and subvention revenue.....	-	1,614	60	1,674
Due to other funds.....	-	-	42	7,505
Unearned revenues and other liabilities.....	-	10	631	2,524
Bonds, loans, capital leases, and other payables.....	-	-	-	91,299
Total liabilities.....	<u>-</u>	<u>5,511</u>	<u>6,185</u>	<u>141,576</u>
Deferred inflows of resources.....	<u>-</u>	<u>5,579</u>	<u>2,092</u>	<u>7,671</u>
Fund balances:				
Restricted.....	417	63,887	99,977	383,267
Unassigned.....	-	-	-	(101,373)
Total fund balances.....	<u>417</u>	<u>63,887</u>	<u>99,977</u>	<u>281,894</u>
Total liabilities, deferred inflows of resources and fund balances.....	<u>\$ 417</u>	<u>\$ 74,977</u>	<u>\$ 108,254</u>	<u>\$ 431,141</u>

CITY AND COUNTY OF SAN FRANCISCO
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds – Capital Projects Funds
Year Ended June 30, 2016
(In Thousands)

	City Facilities Improvement Fund	Earthquake Safety Improvement Fund	Fire Protection Systems Improvement Fund	Moscone Convention Center Fund
Revenues:				
Interest and investment income.....	\$ 834	\$ -	\$ 39	\$ -
Rents and concessions.....	-	-	-	-
Intergovernmental:				
Federal.....	-	-	-	-
State.....	-	-	-	-
Other.....	-	-	-	-
Other.....	6,355	-	-	-
Total revenues.....	<u>7,189</u>	<u>-</u>	<u>39</u>	<u>-</u>
Expenditures:				
Debt service:				
Interest and other fiscal charges.....	101	-	-	742
Bond issuance costs.....	3,301	-	-	-
Capital outlay.....	78,222	-	522	67,291
Total expenditures.....	<u>81,624</u>	<u>-</u>	<u>522</u>	<u>68,033</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>(74,435)</u>	<u>-</u>	<u>(483)</u>	<u>(68,033)</u>
Other financing sources (uses):				
Transfers in.....	13,396	-	-	514
Transfers out.....	(47,820)	-	-	(44)
Issuance of bonds and loans:				
Face value of bonds issued.....	285,260	-	-	-
Premium on issuance of bonds.....	14,365	-	-	-
Other financing sources-capital leases.....	-	-	-	-
Total other financing sources, net.....	<u>265,201</u>	<u>-</u>	<u>-</u>	<u>470</u>
Net changes in fund balances.....	190,766	-	(483)	(67,563)
Fund balances at beginning of year.....	21,247	17	7,439	(33,810)
Fund balances at end of year.....	<u>\$ 212,013</u>	<u>\$ 17</u>	<u>\$ 6,956</u>	<u>\$ (101,373)</u>

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
Combining Statement of Revenues, Expenditures
and Changes in Fund Balances
Nonmajor Governmental Funds – Capital Projects Funds (Continued)
Year Ended June 30, 2016
(In Thousands)

	Public Library Improvement Fund	Recreation and Park Projects	Street Improvement Fund	Total
Revenues:				
Interest and investment income.....	\$ 5	\$ 349	\$ 459	\$ 1,686
Rents and concessions.....	-	-	181	181
Intergovernmental:				
Federal.....	-	-	3,065	3,065
State.....	-	2,275	527	2,802
Other.....	-	-	299	299
Other.....	-	382	42	6,779
Total revenues.....	<u>5</u>	<u>3,006</u>	<u>4,573</u>	<u>14,812</u>
Expenditures:				
Debt service:				
Interest and other fiscal charges.....	-	1	2	846
Bond issuance costs.....	-	860	1,129	5,290
Capital outlay.....	553	28,690	48,626	223,904
Total expenditures.....	<u>553</u>	<u>29,551</u>	<u>49,757</u>	<u>230,040</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>(548)</u>	<u>(26,545)</u>	<u>(45,184)</u>	<u>(215,228)</u>
Other financing sources (uses):				
Transfers in.....	-	62	8,535	22,507
Transfers out.....	-	(24,249)	(68,368)	(140,481)
Issuance of bonds and loans:				
Face value of bonds issued.....	-	51,915	111,150	448,325
Premium on issuance of bonds.....	-	2,463	5,913	22,741
Other financing sources-capital leases.....	70	1,169	-	1,239
Total other financing sources, net.....	<u>70</u>	<u>31,360</u>	<u>57,230</u>	<u>354,331</u>
Net changes in fund balances.....	(478)	4,815	12,046	139,103
Fund balances at beginning of year.....	895	59,072	87,931	142,791
Fund balances at end of year.....	<u>\$ 417</u>	<u>\$ 63,887</u>	<u>\$ 99,977</u>	<u>\$ 281,894</u>



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CITY AND COUNTY OF SAN FRANCISCO

INTERNAL SERVICE FUNDS

Internal Service Funds are used to account for the financing of goods and services provided by one department or agency to other departments or agencies on a cost reimbursement basis.

Central Shops Fund – Accounts for Central Shops equipment (primarily vehicle) maintenance service charges and the related billings to various departments.

Finance Corporation – Accounts for the lease financing services provided by the Finance Corporation to City departments. On July 1, 2001 the City established the Finance Corporation Internal Service fund because its sole purpose is to provide lease financing to the City. Previously, the activities of the Finance Corporation were reported within governmental funds.

Reproduction Fund – Accounts for printing, design and mail services required by various City departments and agencies.

Telecommunications and Information Fund – Accounts for centralized telecommunications activities in the City's Wide Area Network, radio communication and telephone systems. In addition, it accounts for application support provided to many department-specific and citywide systems, management of the City's Web site, operations of the City's mainframe computers and technology training provided to city the related billings to various departments for specific services performed and operating support from the General Fund.

CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Net Position
Internal Service Funds**

June 30, 2016
(In Thousands)

	<u>Central Shops Fund</u>	<u>Finance Corporation</u>	<u>Reproduction Fund</u>	<u>Telecom- munications & Information Fund</u>	<u>Total</u>
Assets:					
Current assets:					
Deposits and investments with City Treasury.....	\$ 3,198	\$ -	\$ 1,993	\$ 30,073	\$ 35,264
Receivables:					
Charges for services.....	-	-	53	-	53
Interest and other.....	-	3	-	630	633
Due from other funds.....	-	24	-	-	24 ⁽¹⁾
Capital leases receivable.....	-	14,409	-	-	14,409
Restricted assets:					
Deposits and investments outside City Treasury	-	25,349	-	-	25,349
Total current assets.....	<u>3,198</u>	<u>39,785</u>	<u>2,046</u>	<u>30,703</u>	<u>75,732</u>
Noncurrent assets:					
Capital leases receivable.....	-	179,041	-	-	179,041
Capital assets:					
Facilities and equipment, net of depreciation.....	564	-	411	10,010	10,985
Total noncurrent assets.....	<u>564</u>	<u>179,041</u>	<u>411</u>	<u>10,010</u>	<u>190,026</u>
Total assets.....	<u>3,762</u>	<u>218,826</u>	<u>2,457</u>	<u>40,713</u>	<u>265,758</u>
Deferred outflows of resources:					
Unamortized loss on refunding of debt.....	-	1,091	-	-	1,091
Deferred outflows related to pensions.....	2,163	-	-	5,312	7,475
Total deferred outflows of resources.....	<u>2,163</u>	<u>1,091</u>	<u>-</u>	<u>5,312</u>	<u>8,566</u>
Liabilities:					
Current liabilities:					
Accounts payable.....	1,223	9	142	6,085	7,459
Accrued payroll.....	441	-	62	1,359	1,862
Accrued vacation and sick leave pay.....	461	-	-	1,343	1,804
Accrued workers' compensation.....	-	-	-	342	342
Bonds, loans, capital leases, and other payables..	-	14,025	-	-	14,025
Accrued interest payable.....	-	1,315	-	-	1,315
Due to other funds.....	15	361	-	9	385 ⁽¹⁾
Unearned revenues and other liabilities.....	-	21,015	-	34	21,049
Total current liabilities.....	<u>2,140</u>	<u>36,725</u>	<u>204</u>	<u>9,172</u>	<u>48,241</u>
Noncurrent liabilities:					
Accrued vacation and sick leave pay.....	306	-	-	992	1,298
Accrued workers' compensation.....	-	-	-	1,522	1,522
Other postemployment benefits obligation.....	5,232	-	-	18,286	23,518
Bonds, loans, capital leases, and other payables..	-	183,192	-	-	183,192
Net pension liability.....	6,901	-	-	17,265	24,166
Total noncurrent liabilities.....	<u>12,439</u>	<u>183,192</u>	<u>-</u>	<u>38,065</u>	<u>233,696</u>
Total liabilities.....	<u>14,579</u>	<u>219,917</u>	<u>204</u>	<u>47,237</u>	<u>281,937</u>
Deferred inflows of resources:					
Deferred inflows related to pensions.....	2,173	-	-	5,656	7,829
Net position:					
Net investment in capital assets.....	564	-	411	10,010	10,985
Unrestricted (deficit).....	(11,391)	-	1,842	(16,878)	(26,427)
Total net position.....	<u>\$ (10,827)</u>	<u>\$ -</u>	<u>\$ 2,253</u>	<u>\$ (6,868)</u>	<u>\$ (15,442)</u>

Notes:

(1) Intra-entity due to and due from eliminated for presentation in the Statement of Net Position - Proprietary funds on page 33-34.

CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Revenues, Expenses
and Changes in Fund Net Position
Internal Service Funds
Year Ended June 30, 2016
(In Thousands)**

	Central Shops Fund	Finance Corporation	Reproduction Fund	Telecom- munications & Information Fund	Total
Operating revenues:					
Charges for services.....	\$ 30,815	\$ -	\$ 7,569	\$ 98,436	\$ 136,820
Rents and concessions.....	-	-	-	176	176
Total operating revenues.....	<u>30,815</u>	<u>-</u>	<u>7,569</u>	<u>98,612</u>	<u>136,996</u>
Operating expenses:					
Personal services.....	12,711	-	1,924	34,837	49,472
Contractual services.....	3,603	-	4,671	43,539	51,813
Materials and supplies.....	10,935	-	246	8,332	19,513
Depreciation and amortization.....	158	-	54	2,586	2,798
General and administrative.....	105	-	2	433	540
Services provided by other departments..	1,340	-	453	4,093	5,886
Other.....	-	-	130	5,650	5,780
Total operating expenses.....	<u>28,852</u>	<u>-</u>	<u>7,480</u>	<u>99,470</u>	<u>135,802</u>
Operating income(loss).....	<u>1,963</u>	<u>-</u>	<u>89</u>	<u>(858)</u>	<u>1,194</u>
Nonoperating revenues (expenses):					
Operating grants.....	41	-	-	-	41
Interest and investment income.....	-	4,148	6	109	4,263
Interest expense.....	(5)	(4,584)	-	-	(4,589)
Other, net.....	-	436	4	393	833
Total nonoperating revenues (expenses)	<u>36</u>	<u>-</u>	<u>10</u>	<u>502</u>	<u>548</u>
Income(loss) before transfers.....	1,999	-	99	(356)	1,742
Transfers in.....	5	-	-	-	5
Transfers out.....	-	-	(6)	(109)	(115)
Change in net position.....	2,004	-	93	(465)	1,632
Net position (deficit) at beginning of year	<u>(12,831)</u>	<u>-</u>	<u>2,160</u>	<u>(6,403)</u>	<u>(17,074)</u>
Net position (deficit) at end of year.....	<u>\$ (10,827)</u>	<u>\$ -</u>	<u>\$ 2,253</u>	<u>\$ (6,868)</u>	<u>\$ (15,442)</u>

CITY AND COUNTY OF SAN FRANCISCO

**Combining Statement of Cash Flows
Internal Service Funds
Year Ended June 30, 2016
(In Thousands)**

	Central Shops Fund	Finance Corporation	Reproduction Fund	Telecom- munications & Information Fund	Total
Cash flows from operating activities:					
Cash received from customers.....	\$ 30,815	\$ 22,508	\$ 7,580	\$ 99,091	\$ 159,994
Cash paid for employees' services.....	(13,660)	-	(1,913)	(35,957)	(51,530)
Cash paid to suppliers for goods and services.....	(16,947)	(6,602)	(5,664)	(61,816)	(91,029)
Net cash provided by operating activities.....	<u>208</u>	<u>15,906</u>	<u>3</u>	<u>1,318</u>	<u>17,435</u>
Cash flows from noncapital financing activities:					
Operating grants.....	41	-	-	-	41
Transfers in.....	5	-	-	-	5
Transfers out.....	-	-	(6)	(109)	(115)
Net cash provided by (used in) noncapital financing activities.....	<u>46</u>	<u>-</u>	<u>(6)</u>	<u>(109)</u>	<u>(69)</u>
Cash flows from capital and related financing activities:					
Acquisition of capital assets.....	(174)	-	(41)	(3,996)	(4,211)
Retirement of capital lease obligation.....	-	(18,795)	-	-	(18,795)
Interest paid on long-term debt.....	-	(4,698)	-	-	(4,698)
Net cash used in capital and related financing activities.....	<u>(174)</u>	<u>(23,493)</u>	<u>(41)</u>	<u>(3,996)</u>	<u>(27,704)</u>
Cash flows from investing activities:					
Proceeds from sale of investments with trustees.....	-	4,672	-	-	4,672
Interest and investment income.....	-	22	6	109	137
Other investing activities.....	(5)	-	-	-	(5)
Net cash provided by (used in) investing activities.....	<u>(5)</u>	<u>4,694</u>	<u>6</u>	<u>109</u>	<u>4,804</u>
Change in cash and cash equivalents.....	75	(2,893)	(38)	(2,678)	(5,534)
Cash and cash equivalents at beginning of year.....	3,123	28,242	2,031	32,751	66,147
Cash and cash equivalents at end of year.....	<u>\$ 3,198</u>	<u>\$ 25,349</u>	<u>\$ 1,993</u>	<u>\$ 30,073</u>	<u>\$ 60,613</u>
Reconciliation of operating income(loss) to net cash provided by operating activities:					
Operating income(loss).....	\$ 1,963	\$ -	\$ 89	\$ (858)	\$ 1,194
Adjustments for non-cash and other activities:					
Depreciation and amortization.....	158	-	54	2,586	2,798
Other.....	-	-	4	393	397
Changes in assets and deferred outflows of resources/liabilities and deferred inflows of resources:					
Receivables, net.....	-	18,795	7	86	18,888
Accounts payable.....	(942)	-	(162)	261	(843)
Accrued payroll.....	66	-	11	429	506
Accrued vacation and sick leave pay.....	17	-	-	191	208
Accrued workers' compensation.....	-	-	-	(79)	(79)
Other postemployment benefits obligation.....	194	-	-	1,457	1,651
Due to other funds.....	(22)	-	-	(30)	(52)
Unearned revenue and other liabilities.....	-	(2,889)	-	-	(2,889)
Net pension liability and pension related deferred outflows and inflows of resources.....	<u>(1,226)</u>	<u>-</u>	<u>-</u>	<u>(3,118)</u>	<u>(4,344)</u>
Total adjustments.....	<u>(1,755)</u>	<u>15,906</u>	<u>(86)</u>	<u>2,176</u>	<u>16,241</u>
Net cash provided by operating activities.....	<u>\$ 208</u>	<u>\$ 15,906</u>	<u>\$ 3</u>	<u>\$ 1,318</u>	<u>\$ 17,435</u>
Reconciliation of cash and cash equivalents to the combining statement of net position:					
Deposits and investments with City Treasury:					
Unrestricted.....	\$ 3,198	\$ -	\$ 1,993	\$ 30,073	\$ 35,264
Deposits and investments outside City Treasury:					
Restricted.....	-	25,349	-	-	25,349
Cash and cash equivalents at end of year on statement of cash flows.....	<u>\$ 3,198</u>	<u>\$ 25,349</u>	<u>\$ 1,993</u>	<u>\$ 30,073</u>	<u>\$ 60,613</u>
Non-cash capital and related financing activities:					
Acquisition of capital assets on accounts payable and capital lease.....	\$ -	\$ 361	\$ -	\$ -	\$ 361

CITY AND COUNTY OF SAN FRANCISCO

FIDUCIARY FUNDS

Fiduciary Funds include all Trust and Agency Funds which account for assets held by the City as a trustee or as an agent for individuals or other governmental units

Trust Funds

Employees' Retirement System – Accounts for the contributions from employees, City contributions and the earnings and profits from investments of monies. Disbursements are made for retirements, withdrawal, disability, and death benefits of the employees as well as administrative expenses.

Health Service System – Accounts for the contributions from active and retired employees, and surviving spouses, City contributions and the earnings and profits from investment of monies. Disbursements are made for medical expenses and to various health plans of the beneficiaries.

Retiree Health Care Trust - Accounts for the contributions from employees, City contributions and the earnings and profits from investment of monies. Disbursements are to be made for benefits, expenses and other charges properly allocable to the trust fund.

Agency Funds

Agency Funds are custodial in nature and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time.

Assistance Program Fund – Accounts for collections and advances received as an agent under various human welfare and community health programs. Monies are disbursed in accordance with legal requirements and program regulations.

Deposits Fund – Accounts for all deposits under the control of the City departments. Dispositions of the deposits are governed by the terms of the statutes and ordinances establishing the deposit requirement.

Payroll Deduction Fund – Accounts for monies held for payroll charges including federal, state and other payroll related deductions.

State Revenue Collection Fund – Accounts for various fees, fines and penalties collected by City departments for the State of California which are passed through to the State.

Tax Collection Fund – Accounts for monies received for current and delinquent taxes which must be held pending authority for distribution. Included are prepaid taxes, disputed taxes, duplicate payment of taxes, etc. This fund also accounts for monies deposited by third parties pending settlement of litigation and claims. Upon final settlement, monies are disbursed as directed by the courts or by parties to the dispute.

Transit Fund – Accounts for the quarter of one percent sales tax collected by the State Board of Equalization and deposited with the County of origin for local transportation support. The Metropolitan Transportation Commission, the regional agency responsible for administration of these monies, directs their use and distribution.

Other Agency Funds – Accounts for monies held as agent for a variety of purposes.

CITY AND COUNTY OF SAN FRANCISCO
Combining Statement of Fiduciary Net Position
Fiduciary Funds
Pension and Other Employee Benefit Trust Funds
June 30, 2016
(In Thousands)

	Pension Trust Fund	Other Employee Benefit Trust Fund	Other Post- employment Benefit Trust Fund	Total
	Employees' Retirement System	Health Service System	Retiree Health Care	
Assets				
Deposits and investments with City Treasury.....	\$ 6,656	\$ 87,628	\$ 3,022	\$ 97,306
Deposits and investments outside City Treasury:				
Cash and deposits.....	43,521	-	-	43,521
Short term investments.....	1,009,676	-	-	1,009,676
Debt securities.....	4,717,016	-	30,100	4,747,116
Equity securities.....	9,274,863	-	77,001	9,351,864
Real assets.....	2,341,500	-	-	2,341,500
Private equity.....	2,750,619	-	3,250	2,753,869
Foreign currency contracts, net.....	14,125	-	-	14,125
Invested in securities lending collateral.....	865,681	-	-	865,681
Receivables:				
Employer and employee contributions.....	10,908	20,265	1,251	32,424
Brokers, general partners and others.....	66,689	-	-	66,689
Interest and other.....	43,115	971	168	44,254
Total assets.....	<u>21,144,369</u>	<u>108,864</u>	<u>114,792</u>	<u>21,368,025</u>
Liabilities				
Accounts payable.....	18,273	8,675	10	26,958
Estimated claims payable.....	-	29,347	-	29,347
Payable to brokers.....	107,444	-	-	107,444
Deferred Retirement Option Program.....	613	-	-	613
Payable to borrowers of securities.....	863,536	-	-	863,536
Other liabilities.....	-	2,239	-	2,239
Total liabilities.....	<u>989,866</u>	<u>40,261</u>	<u>10</u>	<u>1,030,137</u>
Net Position				
Restricted for pension and other employee benefits..	<u>\$ 20,154,503</u>	<u>\$ 68,603</u>	<u>\$ 114,782</u>	<u>\$ 20,337,888</u>

CITY AND COUNTY OF SAN FRANCISCO
Combining Statement of Changes in Fiduciary Net Position
Fiduciary Funds
Pension and Other Employee Benefit Trust Funds
Year Ended June 30, 2016
(In Thousands)

	Pension Trust Fund	Other Employee Benefit Trust Fund	Other Post- employment Benefit Trust Fund	Total
	Employees' Retirement System	Health Service System	Retiree Health Care	
Additions:				
Employees' contributions.....	\$ 322,764	\$ 125,348	\$ 21,166	\$ 469,278
Employer contributions.....	526,805	674,556	183,743	1,385,104
Total contributions.....	<u>849,569</u>	<u>799,904</u>	<u>204,909</u>	<u>1,854,382</u>
Investment income/loss:				
Interest.....	188,292	381	2,120	190,793
Dividends.....	219,529	-	-	219,529
Net appreciation (depreciation) in fair value of investments...	(216,852)	(48)	1,005	(215,895)
Securities lending and other income.....	7,562	-	-	7,562
Total investment income.....	<u>198,531</u>	<u>333</u>	<u>3,125</u>	<u>201,989</u>
Less investment expenses:				
Securities lending borrower rebates and expenses.....	(1,315)	-	-	(1,315)
Other investment expenses.....	(47,026)	-	(148)	(47,174)
Total investment expenses.....	<u>(48,341)</u>	<u>-</u>	<u>(148)</u>	<u>(48,489)</u>
Total additions, net.....	<u>999,759</u>	<u>800,237</u>	<u>207,886</u>	<u>2,007,882</u>
Deductions:				
Benefit payments.....	1,243,260	813,164	165,985	2,222,409
Refunds of contributions.....	12,886	-	-	12,886
Administrative expenses.....	17,179	-	139	17,318
Total deductions.....	<u>1,273,325</u>	<u>813,164</u>	<u>166,124</u>	<u>2,252,613</u>
Change in net position.....	(273,566)	(12,927)	41,762	(244,731)
Net position at beginning of year.....	<u>20,428,069</u>	<u>81,530</u>	<u>73,020</u>	<u>20,582,619</u>
Net position at end of year.....	<u>\$20,154,503</u>	<u>\$ 68,603</u>	<u>\$ 114,782</u>	<u>\$ 20,337,888</u>

CITY AND COUNTY OF SAN FRANCISCO

Combining Statement of Changes in Assets and Liabilities

Agency Funds

Year Ended June 30, 2016

(In Thousands)

	<u>Balance July 1, 2015</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2016</u>
Assistance Program Fund				
Assets				
Deposits and investments with City Treasury.....	\$ 20,764	\$ 3,465	\$ 3,960	\$ 20,269
Receivables:				
Interest and other.....	20	118	116	22
Total assets.....	<u>\$ 20,784</u>	<u>\$ 3,583</u>	<u>\$ 4,076</u>	<u>\$ 20,291</u>
Liabilities				
Accounts payable.....	\$ 11	\$ 804	\$ 793	\$ 22
Agency obligations.....	20,773	5,445	5,949	20,269
Total liabilities.....	<u>\$ 20,784</u>	<u>\$ 6,249</u>	<u>\$ 6,742</u>	<u>\$ 20,291</u>
Deposits Fund				
Assets				
Deposits and investments with City Treasury.....	\$ 15,155	\$ 34,264	\$ 32,958	\$ 16,461
Deposits and investments outside City Treasury..	36	1	36	1
Receivables:				
Interest and other.....	26	52	48	30
Other assets.....	45,538	-	-	45,538
Total assets.....	<u>\$ 60,755</u>	<u>\$ 34,317</u>	<u>\$ 33,042</u>	<u>\$ 62,030</u>
Liabilities				
Accounts payable.....	\$ 1,366	\$ 13,423	\$ 14,055	\$ 734
Agency obligations.....	59,389	33,314	31,407	61,296
Total liabilities.....	<u>\$ 60,755</u>	<u>\$ 46,737</u>	<u>\$ 45,462</u>	<u>\$ 62,030</u>
Payroll Deduction Fund				
Assets				
Deposits and investments with City Treasury.....	\$ 55,864	\$ -	\$ 37,395	\$ 18,469
Receivables:				
Employer and employee contributions.....	30,822	12,749	-	43,571
Total assets.....	<u>\$ 86,686</u>	<u>\$ 12,749</u>	<u>\$ 37,395</u>	<u>\$ 62,040</u>
Liabilities				
Accounts payable.....	\$ 51,554	\$ -	\$ 7,959	\$ 43,595
Agency obligations.....	35,132	5,155	21,842	18,445
Total liabilities.....	<u>\$ 86,686</u>	<u>\$ 5,155</u>	<u>\$ 29,801</u>	<u>\$ 62,040</u>

CITY AND COUNTY OF SAN FRANCISCO
Combining Statement of Changes in Assets and Liabilities
Agency Funds (Continued)
Year Ended June 30, 2016
(In Thousands)

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
State Revenue Collection Fund				
Assets				
Deposits and investments with City Treasury.....	\$ 987	\$ 20,202	\$ 18,098	\$ 3,091
Deposits and investments outside City Treasury..	1	1	1	1
Receivables:				
Interest and other.....	-	1	1	-
Total assets.....	<u>\$ 988</u>	<u>\$ 20,204</u>	<u>\$ 18,100</u>	<u>\$ 3,092</u>
Liabilities				
Accounts payable.....	\$ 260	\$ 18,512	\$ 18,593	\$ 179
Agency obligations.....	728	20,729	18,544	2,913
Total liabilities.....	<u>\$ 988</u>	<u>\$ 39,241</u>	<u>\$ 37,137</u>	<u>\$ 3,092</u>
Tax Collection Fund				
Assets				
Deposits and investments with City Treasury.....	\$ 57,400	\$3,947,662	\$3,975,483	\$ 29,579
Deposits and investments outside City Treasury..	-	762	-	762
Receivables:				
Interest and other.....	206,986	2,347,048	2,278,080	275,954
Total assets.....	<u>\$264,386</u>	<u>\$6,295,472</u>	<u>\$6,253,563</u>	<u>\$306,295</u>
Liabilities				
Accounts payable.....	\$ 1,778	\$ 65,453	\$ 66,867	\$ 364
Agency obligations.....	262,608	3,042,471	2,999,148	305,931
Total liabilities.....	<u>\$264,386</u>	<u>\$3,107,924</u>	<u>\$3,066,015</u>	<u>\$306,295</u>
Transit Fund				
Assets				
Deposits and investments with City Treasury.....	\$ 7,052	\$ 70,002	\$ 73,552	\$ 3,502
Receivables:				
Interest and other.....	3	19	19	3
Total assets.....	<u>\$ 7,055</u>	<u>\$ 70,021</u>	<u>\$ 73,571</u>	<u>\$ 3,505</u>
Liabilities				
Accounts payable.....	\$ 1,938	\$ 19,677	\$ 19,356	\$ 2,259
Agency obligations.....	5,117	52,235	56,106	1,246
Total liabilities.....	<u>\$ 7,055</u>	<u>\$ 71,912</u>	<u>\$ 75,462</u>	<u>\$ 3,505</u>

CITY AND COUNTY OF SAN FRANCISCO
Combining Statement of Changes in Assets and Liabilities
Agency Funds (Continued)
Year Ended June 30, 2016
(In Thousands)

	Balance July 1, 2015	Additions	Deductions	Balance June 30, 2016
Other Agency Funds				
Assets				
Deposits and investments with City Treasury.....	\$ 32,995	\$ 393,602	\$ 379,174	\$ 47,423
Deposits and investments outside City Treasury..	-	53	-	53
Receivables:				
Interest and other.....	217	349	257	309
Total assets.....	<u>\$ 33,212</u>	<u>\$ 394,004</u>	<u>\$ 379,431</u>	<u>\$ 47,785</u>
Liabilities				
Accounts payable.....	\$ 5,336	\$ 128,990	\$ 127,827	\$ 6,499
Agency obligations.....	27,876	392,948	379,538	41,286
Total liabilities.....	<u>\$ 33,212</u>	<u>\$ 521,938</u>	<u>\$ 507,365</u>	<u>\$ 47,785</u>
Total Agency Funds				
Assets				
Deposits and investments with City Treasury.....	\$ 190,217	\$ 4,469,197	\$ 4,520,620	\$ 138,794
Deposits and investments outside City Treasury..	37	817	37	817
Receivables:				
Employer and employee contributions.....	30,822	12,749	-	43,571
Interest and other.....	207,252	2,347,587	2,278,521	276,318
Other assets.....	45,538	-	-	45,538
Total assets.....	<u>\$ 473,866</u>	<u>\$ 6,830,350</u>	<u>\$ 6,799,178</u>	<u>\$ 505,038</u>
Liabilities				
Accounts payable.....	\$ 62,243	\$ 246,859	\$ 255,450	\$ 53,652
Agency obligations.....	411,623	3,552,297	3,512,534	451,386
Total liabilities.....	<u>\$ 473,866</u>	<u>\$ 3,799,156</u>	<u>\$ 3,767,984</u>	<u>\$ 505,038</u>

CITY AND COUNTY OF SAN FRANCISCO

Statistical Section

This section of the City's comprehensive annual financial report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue sources, the property tax.

Debt Capacity

These schedules present information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

Demographic and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

Operating Information

These schedules contain information about the City's operations and resources to help the reader understand how the City's financial information relates to the services the City provides and the activities it performs.

Sources:

Unless otherwise noted, the information in these schedules is derived from the comprehensive annual financial reports for the relevant year.



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CITY AND COUNTY OF SAN FRANCISCO

NET POSITION BY COMPONENT

Last Ten Fiscal Years
(Accrual Basis of Accounting)
(In Thousands)

	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013 ⁽¹⁾	2014	2015 ⁽²⁾	2016
Governmental activities										
Net investment in capital assets.....	\$ 1,454,614	\$ 1,436,842	\$ 1,725,203	\$ 1,833,733	\$ 1,910,341	\$ 2,199,316	\$ 2,275,963	\$ 2,483,086	\$ 2,684,808	\$ 2,750,782
Restricted for:										
Reserve for rainy day.....	133,622	117,792	98,297	39,582	33,439	34,109	26,339	83,194	114,969	120,106
Debt service.....	28,310	23,130	30,724	34,308	36,805	48,202	98,754	91,900	87,772	83,029
Capital projects.....	19,128	-	-	63,323	82,315	91,997	154,502	110,608	28,263	198,962
Community development.....	63,043	95,136	64,031	66,251	59,763	240,771	109,423	200,640	297,094	433,398
Transportation Authority activities.....	10,390	1,693	2,515	1,966	1,386	6,705	10,924	12,496	13,486	15,657
Building inspection programs.....	17,213	16,475	13,959	21,837	32,112	49,364	71,131	97,928	109,512	134,663
Children and families.....	45,531	43,666	46,273	40,886	45,827	53,632	56,170	59,572	100,892	105,177
Culture, recreation, grants and other purposes.....	113,606	112,219	116,032	113,917	155,152	150,383	158,973	206,368	209,399	240,524
Unrestricted (deficit).....	(14,446)	(261,897)	(791,831)	(1,062,818)	(1,046,861)	(954,469)	(1,142,020)	(1,004,161)	(2,358,981)	(2,073,235)
Total governmental activities net position.....	<u>\$ 1,871,011</u>	<u>\$ 1,585,056</u>	<u>\$ 1,305,203</u>	<u>\$ 1,152,985</u>	<u>\$ 1,310,279</u>	<u>\$ 1,920,010</u>	<u>\$ 1,820,159</u>	<u>\$ 2,341,631</u>	<u>\$ 1,287,214</u>	<u>\$ 2,009,063</u>
Business-type activities										
Net investment in capital assets.....	\$ 3,795,006	\$ 3,935,008	\$ 4,204,644	\$ 4,277,799	\$ 4,481,404	\$ 4,538,990	\$ 4,519,090	\$ 4,832,659	\$ 5,117,679	\$ 5,690,741
Restricted for:										
Debt service.....	249,656	282,187	58,716	71,128	62,421	53,951	53,951	64,143	100,923	127,073
Capital projects.....	75,771	111,463	140,932	188,580	161,580	176,570	176,570	363,601	358,745	340,896
Other purposes.....	23,709	28,254	31,459	18,854	18,741	18,913	18,913	24,721	35,986	70,505
Unrestricted.....	567,122	491,437	324,395	259,533	268,328	242,842	262,742	732,736	(335,083)	(231,379)
Total business-type activities net position.....	<u>\$ 4,711,264</u>	<u>\$ 4,848,349</u>	<u>\$ 4,760,146</u>	<u>\$ 4,815,894</u>	<u>\$ 4,992,474</u>	<u>\$ 5,031,266</u>	<u>\$ 5,031,266</u>	<u>\$ 6,017,860</u>	<u>\$ 5,278,250</u>	<u>\$ 5,997,836</u>
Primary government										
Net investment in capital assets ⁽³⁾	\$ 5,249,620	\$ 5,371,850	\$ 5,630,550	\$ 5,735,844	\$ 5,993,892	\$ 6,459,434	\$ 6,692,499	\$ 7,032,674	\$ 7,520,698	\$ 8,151,422
Restricted for:										
Reserve for rainy day.....	133,622	117,792	98,297	39,582	33,439	34,109	26,339	83,194	114,969	120,106
Debt service.....	277,966	305,317	89,440	105,436	99,226	102,153	157,724	156,043	188,695	210,102
Capital projects ⁽³⁾	94,899	111,463	140,932	239,209	223,694	246,027	356,002	418,103	330,213	423,132
Community development.....	63,043	95,136	64,031	66,251	59,763	240,771	109,423	200,640	297,094	433,398
Transportation Authority activities.....	10,390	1,693	2,515	1,966	1,386	6,705	10,924	12,496	13,486	15,657
Building inspection programs.....	17,213	16,475	13,959	21,837	32,112	49,364	71,131	97,928	109,512	134,663
Children and families.....	45,531	43,666	46,273	40,886	45,827	53,632	56,170	59,572	100,892	105,177
Culture, recreation, grants and other purposes.....	137,315	140,473	147,491	132,771	173,893	169,296	172,019	231,089	245,385	311,029
Unrestricted (deficit) ⁽³⁾	552,676	229,540	(168,139)	(414,903)	(360,479)	(410,215)	(157,970)	67,752	(2,355,480)	(1,897,787)
Total primary activities net position.....	<u>\$ 6,582,275</u>	<u>\$ 6,433,405</u>	<u>\$ 6,065,349</u>	<u>\$ 5,968,879</u>	<u>\$ 6,302,753</u>	<u>\$ 6,951,276</u>	<u>\$ 7,494,261</u>	<u>\$ 8,359,491</u>	<u>\$ 6,565,464</u>	<u>\$ 8,006,899</u>

Notes:

- (1) Effective with the implementation of GASB Statement No. 63, in fiscal year 2013, Net Assets was renamed Net Position.
- (2) In fiscal year 2015, the City adopted the provisions of GASB Statement Nos. 68 and 71. As restatement of all prior periods is not practical, the cumulative effect of applying these statements is reported as a restatement of beginning net position as of July 1, 2014.
- (3) Certain net position reclassifications were made to reflect the primary government as a whole perspective since fiscal year 2009. See Note 10(d) in the Notes to Basic Financial Statements for details.

CITY AND COUNTY OF SAN FRANCISCO

CHANGES IN NET POSITION

Last Ten Fiscal Years
(Accrual basis of accounting)
(In Thousands)

	Fiscal Year									
	2007	2008	2009 ⁽¹⁾	2010	2011	2012	2013	2014	2015 ⁽²⁾	2016
Expenses										
Governmental activities:										
Public protection.....	\$ 861,689	\$ 1,020,457	\$ 1,109,311	\$ 1,089,309	\$ 1,099,791	\$ 1,158,618	\$ 1,236,922	\$ 1,229,591	\$ 1,108,200	\$ 1,222,549
Public works, transportation and commerce.....	309,095	342,411	254,955	225,589	239,230	210,415	189,124	200,712	270,454	418,978
Human welfare and neighborhood development.....	751,034	848,195	908,449	933,039	885,194	942,523	946,562	1,009,190	1,073,652	1,233,403
Community health.....	516,321	567,410	608,733	599,741	613,883	673,905	751,491	786,761	735,040	747,071
Culture and recreation.....	290,547	347,433	319,994	310,063	318,083	307,269	338,042	357,620	355,676	311,028
General administration and finance.....	194,653	250,295	238,601	221,471	224,027	237,818	249,271	298,563	249,823	246,383
General City responsibilities.....	67,948	80,887	72,634	80,246	84,444	96,147	83,895	85,239	94,577	113,490
Unallocated Interest on long-term debt and cost of issuance ⁽¹⁾	94,060	97,694	93,387	102,635	110,142	110,145	107,790	115,880	115,030	115,357
Total governmental activities expenses.....	3,085,347	3,554,782	3,606,064	3,562,093	3,574,794	3,736,840	3,903,097	4,083,556	4,002,452	4,408,259
Business-type activities:										
Airport.....	624,832	651,581	683,335	662,347	690,875	746,610	756,961	827,658	853,338	900,621
Transportation.....	726,053	830,411	863,218	905,694	905,218	959,088	1,026,726	1,037,368	1,018,251	1,106,420
Port.....	61,937	67,495	71,778	73,573	68,661	72,307	81,422	88,551	88,436	91,449
Water.....	236,824	252,802	277,162	325,242	362,802	431,248	445,804	470,200	438,885	470,254
Power.....	95,020	109,436	96,228	119,109	119,282	130,709	129,790	137,639	149,438	153,472
Hospitals.....	714,349	812,399	820,236	842,488	885,294	954,566	992,687	1,011,452	996,395	1,050,618
Sewer.....	168,954	182,712	184,977	201,403	201,629	214,593	223,727	243,466	239,556	244,289
Market.....	1,061	1,052	1,144	1,119	1,152	1,138	1,231	120	-	-
Total business-type activities expenses.....	2,629,030	2,907,888	2,998,078	3,130,975	3,234,913	3,510,259	3,658,348	3,816,454	3,784,299	4,017,123
Total primary government expenses.....	\$ 5,714,377	\$ 6,462,670	\$ 6,604,142	\$ 6,693,068	\$ 6,809,707	\$ 7,247,099	\$ 7,561,445	\$ 7,900,010	\$ 7,786,751	\$ 8,425,382
Program Revenues										
Governmental activities:										
Charges for services:										
Public protection.....	\$ 58,979	\$ 66,343	\$ 90,044	\$ 58,980	\$ 62,105	\$ 61,412	\$ 60,190	\$ 69,673	\$ 70,444	\$ 86,164
Public works, transportation and commerce.....	111,364	115,939	72,287	71,288	101,846	93,809	105,981	135,842	128,661	130,410
Human welfare and neighborhood development.....	56,367	108,956	33,988	25,813	56,628	68,794	69,997	99,848	96,012	273,986
Community health.....	50,266	52,455	60,708	65,756	64,419	58,864	60,856	67,680	93,130	90,078
Culture and recreation.....	65,407	70,576	74,477	81,855	76,528	78,828	93,612	89,969	98,302	98,205
General administration and finance.....	10,502	20,376	33,530	35,190	37,601	44,358	76,903	66,071	89,403	52,417
General City responsibilities.....	29,604	26,980	27,377	37,806	29,316	29,142	50,121	39,445	37,031	45,922
Operating Grants and Contributions.....	927,256	926,089	909,695	997,091	1,040,116	998,701	1,086,154	1,142,094	1,165,340	1,289,902
Capital Grants and Contributions.....	50,479	36,079	44,048	50,349	57,719	41,174	29,718	39,379	48,233	24,795
Total Governmental activities program revenues.....	1,360,224	1,423,793	1,346,154	1,424,128	1,526,278	1,475,082	1,633,532	1,750,001	1,826,556	2,091,879
Business-type activities:										
Charges for services:										
Airport.....	503,914	535,771	551,283	578,041	607,323	668,672	726,358	770,691	815,364	866,991
Transportation.....	222,115	257,341	257,083	311,311	334,140	350,464	494,805	521,628	499,584	495,296
Port.....	61,193	64,498	66,438	66,579	72,266	77,260	80,202	85,019	95,296	99,733
Water.....	216,531	234,216	265,781	265,218	288,395	342,101	721,470	379,882	426,047	419,516
Power.....	108,224	119,855	115,274	128,590	140,035	127,309	133,927	134,438	147,803	164,736
Hospitals.....	515,092	558,167	568,210	606,276	726,522	740,920	868,244	951,038	894,718	922,320
Sewer.....	193,411	202,549	208,654	209,843	229,216	244,155	252,554	260,097	256,002	261,775
Market.....	1,567	1,564	1,546	1,681	1,655	1,672	1,715	141	-	-
Operating Grants and Contributions.....	183,301	181,725	186,805	182,572	204,153	200,318	224,382	190,351	191,101	199,623
Capital Grants and Contributions.....	150,080	152,511	107,118	180,253	213,364	173,975	251,753	515,445	357,819	374,924
Total business-type activities program revenues.....	2,155,428	2,308,197	2,328,192	2,530,364	2,817,069	2,926,846	3,755,410	3,808,730	3,683,734	3,804,914
Total primary government program revenues.....	\$ 3,515,652	\$ 3,731,990	\$ 3,674,346	\$ 3,954,492	\$ 4,343,347	\$ 4,401,928	\$ 5,388,942	\$ 5,558,731	\$ 5,510,290	\$ 5,896,793

Notes:

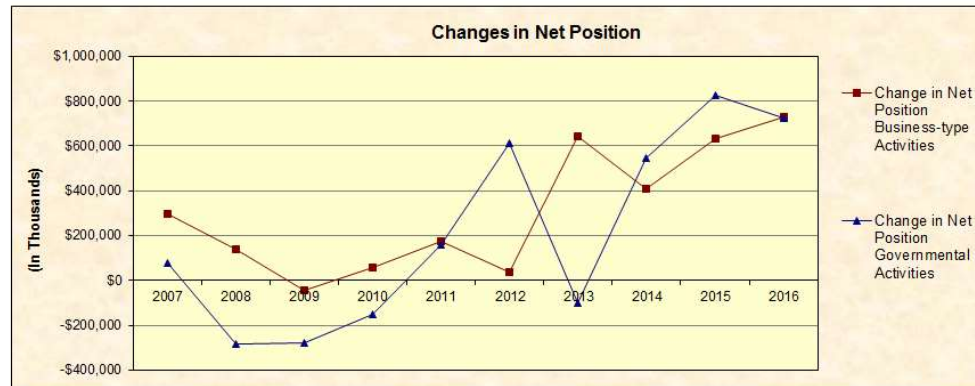
- (1) The City adopted GASB Statement No. 65 in fiscal year 2014 and began reporting the cost of issuance as an expense. Prior fiscal years have not been restated.
- (2) In fiscal year 2015, the City adopted the provisions of GASB Statement Nos. 68 and 71. As restatement of all prior periods is not practical, the cumulative effect of applying these statements is reported as a restatement of beginning net position as of July 1, 2014.

CITY AND COUNTY OF SAN FRANCISCO

CHANGES IN NET POSITION (Continued)

Last Ten Fiscal Years
(Accrual basis of accounting)
(In Thousands)

	Fiscal Year									
	2007	2008	2009 ⁽¹⁾	2010	2011	2012	2013	2014	2015 ⁽²⁾	2016
Net (expenses)/revenue										
Governmental activities.....	\$ (1,725,123)	\$ (2,130,989)	\$ (2,259,910)	\$ (2,137,965)	\$ (2,048,516)	\$ (2,261,758)	\$ (2,269,565)	\$ (2,333,555)	\$ (2,175,896)	\$ (2,316,380)
Business-type activities.....	(473,602)	(599,691)	(669,886)	(600,611)	(417,844)	(583,413)	97,062	(7,724)	(100,565)	(212,209)
Total primary government net expenses.....	\$ (2,198,725)	\$ (2,730,680)	\$ (2,929,796)	\$ (2,738,576)	\$ (2,466,360)	\$ (2,845,171)	\$ (2,172,503)	\$ (2,341,279)	\$ (2,276,461)	\$ (2,528,589)
General Revenues and Other Changes in Net Position										
Governmental activities:										
Taxes										
Property taxes.....	\$ 1,126,992	\$ 1,189,511	\$ 1,302,071	\$ 1,345,040	\$ 1,340,590	\$ 1,355,855	\$ 1,415,068	\$ 1,521,471	\$ 1,640,383	\$ 1,808,917
Business taxes.....	337,592	396,025	388,653	354,019	391,779	437,678	480,131	563,406	611,932	660,926
Sales and use tax.....	184,723	190,967	172,794	164,769	181,474	198,236	208,025	227,636	240,424	270,051
Hotel room tax.....	194,290	219,089	214,460	186,849	209,962	239,567	238,782	310,052	394,262	387,661
Utility users tax.....	78,729	86,964	89,801	94,537	91,683	91,676	91,871	86,810	98,979	98,651
Other local taxes.....	211,082	155,951	126,017	194,070	251,285	353,746	359,808	391,638	451,994	399,882
Interest and investment income.....	86,233	57,929	35,434	27,877	17,645	31,453	7,862	21,887	20,737	24,048
Other.....	33,046	25,939	44,086	54,410	58,524	91,236	52,865	70,024	46,906	59,266
Transfers - internal activities of primary government.....	(451,171)	(477,341)	(393,259)	(435,824)	(337,132)	(251,088)	(483,028)	(311,627)	(504,791)	(671,173)
Extraordinary gain (loss).....	-	-	-	-	-	323,130	(201,670)	-	-	-
Total governmental activities.....	1,801,516	1,845,034	1,980,057	1,985,747	2,205,810	2,871,489	2,169,714	2,881,297	3,000,826	3,038,229
Business-type activities:										
Interest and investment income.....	85,692	67,217	49,691	44,471	42,299	82,533	1,009	29,843	25,999	28,566
Other.....	218,184	233,244	181,759	176,064	214,993	288,584	61,737	82,737	200,148	240,636
Special item.....	17,386	(41,026)	-	-	-	-	-	-	-	-
Transfers - internal activities of primary government.....	451,171	477,341	393,259	435,824	337,132	251,088	483,028	311,627	504,791	671,173
Extraordinary gain (loss).....	-	-	-	-	-	-	-	(6,843)	-	-
Total business-type activities.....	772,433	736,776	624,709	656,359	594,424	622,205	545,774	417,364	730,938	940,375
Total primary government.....	\$ 2,573,949	\$ 2,581,810	\$ 2,604,766	\$ 2,642,106	\$ 2,800,234	\$ 3,493,694	\$ 2,715,488	\$ 3,298,661	\$ 3,731,764	\$ 3,978,604
Change in Net Position										
Governmental activities.....	\$ 76,393	\$ (285,955)	\$ (279,853)	\$ (152,218)	\$ 157,294	\$ 609,731	\$ (99,851)	\$ 547,742	\$ 824,930	\$ 721,849
Business-type activities.....	298,831	137,085	(45,177)	55,748	176,580	38,792	642,836	409,640	630,373	728,166
Total primary government.....	\$ 375,224	\$ (148,870)	\$ (325,030)	\$ (96,470)	\$ 333,874	\$ 648,523	\$ 542,985	\$ 957,382	\$ 1,455,303	\$ 1,450,015



Notes:

- (1) In fiscal year 2008-2009, the City transferred its Emergency Communications Department and General Service Agency - Technology's function from Public Works, Transportation and Commerce to Public Protection and General Administration and Finance.
- (2) In fiscal year 2014-15, the City adopted the provisions of GASB Statement Nos. 68 and 71. As restatement of all prior periods is not practical, the cumulative effect of applying these statements is reported as a restatement of beginning net position as of July 1, 2014



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CITY AND COUNTY OF SAN FRANCISCO
FUND BALANCES OF GOVERNMENTAL FUNDS
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)
 (In Thousands)

	Fiscal Year									
	2007	2008	2009	2010 ⁽¹⁾	2011	2012	2013	2014	2015	2016
General Fund										
Reserved for rainy day.....	\$ 133,622	\$ 117,792	\$ 98,297							
Reserved for assets not available for appropriation.....	12,665	11,358	11,307							
Reserved for encumbrances.....	60,948	63,068	65,902							
Reserved for appropriation carryforward.....	161,127	99,959	91,075							
Reserved for subsequent years' budgets.....	32,062	36,341	6,891							
Unreserved.....	<u>141,037</u>	<u>77,117</u>	<u>28,203</u>							
Total general fund.....	<u>\$ 541,461</u>	<u>\$ 405,635</u>	<u>\$ 301,675</u>							
All other governmental funds										
Reserved for assets not available for appropriation.....	\$ 19,413	\$ 19,814	\$ 19,781							
Reserved for debt service.....	51,299	47,334	75,886							
Reserved for encumbrances.....	288,948	193,461	167,169							
Reserved for appropriation carryforward.....	292,234	314,051	501,006							
Reserved for subsequent years' budgets.....	8,004	13,504	11,245							
Unreserved reported in:										
Special revenue funds.....	47,445	(27,758)	(69,468)							
Capital projects funds.....	(373)	2,126	(26,153)							
Permanent fund.....	<u>3,508</u>	<u>3,502</u>	<u>3,871</u>							
Total other governmental funds.....	<u>\$ 710,478</u>	<u>\$ 566,034</u>	<u>\$ 683,337</u>							
General Fund										
Nonspendable.....	\$ 14,874	\$ 20,501	\$ 19,598	\$ 23,854	\$ 24,022	\$ 24,786	\$ 24,786	\$ 24,786	\$ 24,786	\$ 522
Restricted.....	39,582	33,439	34,109	26,339	83,194	114,969	114,969	114,969	114,969	120,106
Committed.....	4,677	33,431	79,276	137,487	145,126	142,815	142,815	142,815	142,815	187,170
Assigned.....	132,645	240,635	305,413	353,191	508,903	705,076	705,076	705,076	705,076	879,567
Unassigned.....	-	-	17,329	-	74,317	157,550	157,550	157,550	157,550	241,797
Total general fund.....	<u>\$ 191,778</u>	<u>\$ 328,006</u>	<u>\$ 455,725</u>	<u>\$ 540,871</u>	<u>\$ 835,562</u>	<u>\$ 1,145,196</u>	<u>\$ 1,145,196</u>	<u>\$ 1,145,196</u>	<u>\$ 1,145,196</u>	<u>\$ 1,429,162</u>
All other governmental funds										
Nonspendable.....	\$ 192	\$ 192	\$ 1,104	\$ 274	\$ 441	\$ 329	\$ 329	\$ 329	\$ 329	\$ 82
Restricted.....	861,188	831,269	1,189,102	1,191,189	1,115,226	1,110,836	1,110,836	1,110,836	1,110,836	1,443,956
Assigned.....	27,493	27,622	28,006	30,759	50,733	66,740	66,740	66,740	66,740	66,085
Unassigned.....	<u>(81,566)</u>	<u>(59,523)</u>	<u>(136,856)</u>	<u>(94,532)</u>	<u>(64,983)</u>	<u>(34,158)</u>	<u>(34,158)</u>	<u>(34,158)</u>	<u>(34,158)</u>	<u>(103,811)</u>
Total other governmental funds.....	<u>\$ 807,307</u>	<u>\$ 799,560</u>	<u>\$ 1,081,356</u>	<u>\$ 1,127,690</u>	<u>\$ 1,101,417</u>	<u>\$ 1,143,747</u>	<u>\$ 1,143,747</u>	<u>\$ 1,143,747</u>	<u>\$ 1,143,747</u>	<u>\$ 1,406,312</u>

Notes:

⁽¹⁾ The City implemented GASB Statement No. 54 in fiscal year 2011 and restated the presentation for fiscal year 2010.

CITY AND COUNTY OF SAN FRANCISCO
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)
 (In Thousands)

	Fiscal Year									
	2007	2008	2009 ⁽¹⁾	2010	2011	2012	2013	2014	2015	2016
Revenues:										
Property taxes.....	\$ 1,107,864	\$ 1,179,688	\$ 1,272,385	\$ 1,331,957	\$ 1,380,356	\$ 1,352,857	\$ 1,421,764	\$ 1,517,261	\$ 1,642,159	\$ 1,798,776
Business taxes.....	337,592	396,025	388,653	354,019	391,779	437,678	480,131	563,406	611,932	660,926
Sales and use tax.....	184,723	190,967	172,794	164,769	181,474	198,236	208,025	227,636	240,424	267,443
Hotel room tax.....	194,290	219,089	214,460	186,849	209,962	239,567	238,782	310,052	394,262	387,661
Utility users tax.....	78,729	86,964	89,801	94,537	91,683	91,676	91,871	86,810	98,979	98,651
Other local taxes.....	211,082	155,951	126,017	194,070	251,285	353,889	359,808	391,638	451,994	399,882
Licenses, permits and franchises.....	27,428	30,943	32,153	33,625	35,977	39,770	40,901	42,371	42,959	43,722
Fines, forfeitures and penalties.....	8,871	13,217	9,694	22,255	11,770	30,090	49,841	28,425	28,154	36,169
Interest and investment income.....	83,846	54,256	33,547	27,038	17,041	31,371	7,489	21,678	20,583	23,931
Rent and concessions.....	52,493	70,160	77,014	78,527	78,995	89,183	98,770	90,712	99,102	135,865
Intergovernmental:										
Federal.....	381,688	328,315	362,582	448,890	484,704	420,974	420,775	426,314	465,196	416,823
State.....	582,666	561,095	575,774	552,641	581,119	588,532	656,141	721,735	751,574	776,866
Other.....	15,689	15,907	15,186	7,397	32,017	33,181	41,789	9,408	15,774	85,872
Charges for services.....	273,057	288,689	280,407	243,128	258,015	264,856	296,059	333,904	359,044	392,665
Other.....	44,084	81,321	30,318	51,023	97,194	83,634	81,014	134,923	123,605	264,722
Total revenues.....	<u>3,584,102</u>	<u>3,672,587</u>	<u>3,680,785</u>	<u>3,790,725</u>	<u>4,103,371</u>	<u>4,255,494</u>	<u>4,493,160</u>	<u>4,906,273</u>	<u>5,345,741</u>	<u>5,789,974</u>
Expenditures										
Public protection.....	865,556	1,018,212	999,518	1,021,505	1,031,181	1,079,203	1,145,884	1,172,497	1,210,157	1,269,000
Public works, transportation and commerce.....	280,907	236,569	248,161	243,454	226,920	250,879	223,218	232,005	293,999	416,152
Human welfare and neighborhood development.....	740,171	828,903	886,686	918,301	870,091	918,414	945,106	995,192	1,095,419	1,252,588
Community health.....	509,844	543,046	578,828	581,392	595,222	653,263	734,736	761,439	753,832	776,612
Culture and recreation.....	286,135	309,612	313,442	303,134	310,392	311,156	328,794	331,914	352,852	364,909
General administration and finance.....	167,505	215,054	190,680	187,221	191,641	203,157	211,138	233,977	251,370	277,729
General City responsibilities	57,532	71,205	73,147	86,498	85,463	96,150	81,775	86,996	98,658	114,684
Debt service:										
Principal retirement.....	98,169	106,580	126,501	154,051	148,231	167,465	154,542	190,266	200,497	252,456
Interest and fiscal charges.....	71,266	75,844	74,466	89,946	101,716	103,706	108,189	119,142	121,371	119,723
Bond issuance costs.....	3,683	1,090	4,746	2,145	2,161	5,386	2,913	2,185	2,734	7,108
Capital outlay.....	283,370	133,155	152,473	182,448	214,817	270,094	410,994	449,726	412,740	223,904
Total expenditures.....	<u>3,364,138</u>	<u>3,539,270</u>	<u>3,648,648</u>	<u>3,770,095</u>	<u>3,777,835</u>	<u>4,058,873</u>	<u>4,347,289</u>	<u>4,575,339</u>	<u>4,793,629</u>	<u>5,074,865</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>219,964</u>	<u>133,317</u>	<u>32,137</u>	<u>20,630</u>	<u>325,536</u>	<u>196,621</u>	<u>145,871</u>	<u>330,934</u>	<u>552,112</u>	<u>715,109</u>

CITY AND COUNTY OF SAN FRANCISCO
CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS (Continued)
 Last Ten Fiscal Years
 (Modified Accrual Basis of Accounting)
 (In Thousands)

	Fiscal Year									
	2007	2008	2009 ⁽¹⁾	2010	2011	2012	2013	2014	2015	2016
Other financing sources (uses):										
Transfers in.....	217,298	244,770	352,693	302,790	304,682	335,600	447,734	563,283	556,287	580,737
Transfers out.....	(668,847)	(724,172)	(746,178)	(740,349)	(630,625)	(742,719)	(930,793)	(875,296)	(1,061,086)	(1,251,800)
Issuance of bonds and loans:										
Face value of bonds issued.....	312,955	310,155	456,935	393,010	232,965	804,090	557,490	257,175	449,530	595,925
Face value of loans issued.....	141	1,829	-	599	1,813	4,359	5,890	8,735	136,763	-
Premium on issuance of bonds.....	3,521	13,071	12,875	16,647	16,799	89,336	64,469	19,773	69,833	32,845
Discount on issuance of bonds.....	(1,856)	-	-	-	-	-	-	-	-	-
Payment to refunded bond escrow agent.....	(159,610)	(283,494)	(120,000)	-	(142,458)	(487,390)	-	(49,055)	(359,225)	(131,935)
Other financing sources - capital leases.....	12,789	24,254	24,881	20,746	19,769	12,304	13,470	12,869	7,750	5,650
Total other financing sources (uses).....	<u>(283,609)</u>	<u>(413,587)</u>	<u>(18,794)</u>	<u>(6,557)</u>	<u>(197,055)</u>	<u>15,580</u>	<u>158,260</u>	<u>(62,516)</u>	<u>(200,148)</u>	<u>(168,578)</u>
Extraordinary gain (loss).....	-	-	-	-	-	197,314	(172,651)	-	-	-
Net change in fund balances.....	<u>\$ (63,645)</u>	<u>\$ (280,270)</u>	<u>\$ 13,343</u>	<u>\$ 14,073</u>	<u>\$ 128,481</u>	<u>\$ 409,515</u>	<u>\$ 131,480</u>	<u>\$ 268,418</u>	<u>351,964</u>	<u>546,531</u>
Debt service as a percentage of noncapital expenditures.....	5.51%	5.34%	5.79%	6.90%	7.07%	7.30%	6.80%	7.61%	7.55%	7.98%
Debt service as a percentage of total expenditures.....	5.04%	5.15%	5.51%	6.47%	6.62%	6.68%	6.04%	6.76%	6.71%	7.33%

Notes:

⁽¹⁾ In fiscal year 2008-2009, the City transferred its Emergency Communications Department and General Service Agency - Technology's function from Public Works, Transportation and Commerce to Public Protection and General Administration and Finance.

CITY AND COUNTY OF SAN FRANCISCO
ASSESSED VALUE OF TAXABLE PROPERTY (1)(3)(4)
 Last Ten Fiscal Years
 (In Thousands)

Fiscal Year (4)	Assessed Value (1)			Exemptions (2)			Total Taxable Assessed Value (3)	Total Direct Tax Rate
	Real Property	Personal Property	Total	Non-reim-bursable	Reim-bursable	Redevelopment Tax Increments		
2007.....	\$ 126,074,101	\$ 3,524,897	\$ 129,598,998	\$ 4,617,851	\$ 657,144	\$ 7,333,916	\$ 116,990,087	1.00%
2008.....	136,887,654	3,807,362	140,695,016	5,687,576	652,034	10,134,313	124,221,093	1.00%
2009.....	152,150,004	3,943,357	156,093,361	6,193,368	657,320	8,860,502	140,382,171	1.00%
2010.....	164,449,745	4,093,813	168,543,558	6,751,558	660,435	9,289,538	151,842,027	1.00%
2011.....	162,347,329	4,066,754	166,414,083	6,910,812	663,664	11,540,067	147,299,540	1.00%
2012.....	168,914,782	3,716,092	172,630,874	7,205,992	660,247	13,842,390	150,922,245	1.00%
2013.....	171,327,361	3,801,645	175,129,006	7,460,708	660,566	14,032,211	152,975,521	1.00%
2014.....	179,368,068	4,101,609	183,469,677	7,494,941	657,439	15,962,884	159,354,413	1.00%
2015.....	186,530,855	4,392,133	190,922,988	8,173,599	656,490	15,730,217	166,362,682	1.00%
2016.....	197,889,670	4,667,489	202,557,159	8,252,472	654,116	15,798,019	177,852,552	1.00%

Source:

Controller, City and County of San Francisco

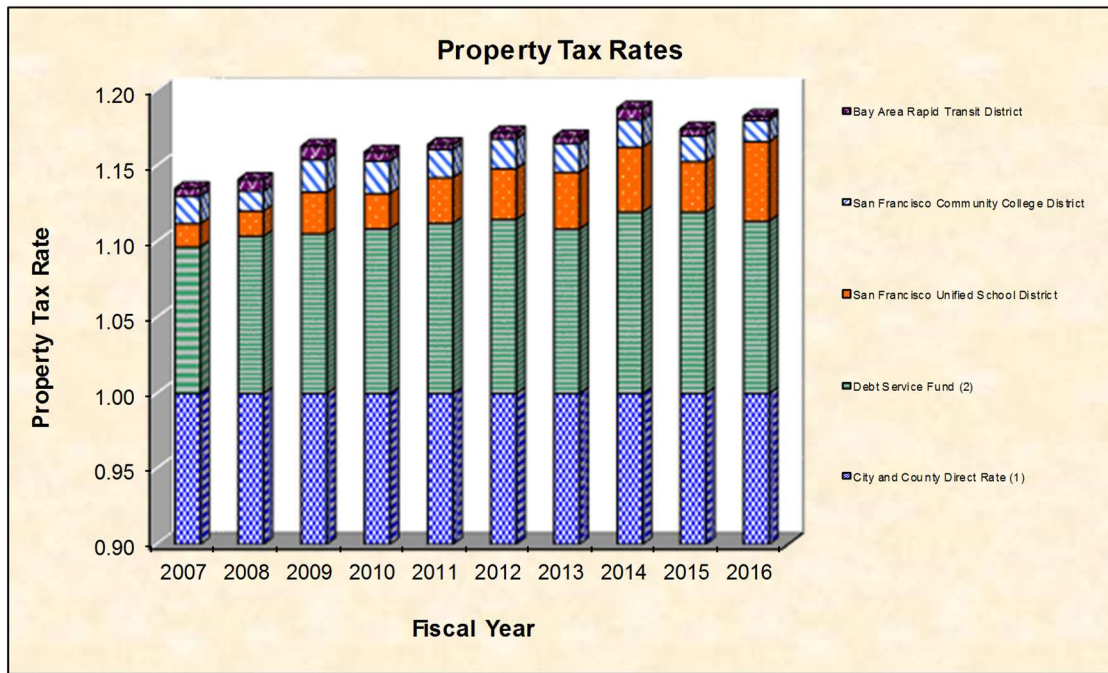
Notes:

- (1) Assessed value of taxable property represents all property within the City. The maximum tax rate is 1% of the full cash value or \$1/\$100 of the assessed value, excluding the tax rate for debt service.
- (2) Exemptions are summarized as follows:
 - (a) Non-reimbursable exemptions are revenues lost to the City because of provisions of California Constitution, Article XIII(3).
 - (b) Reimbursable exemptions arise from Article XII(25) which reimburses local governments for revenues lost through the homeowners' exemption in Article XIII(3) (k).
 - (c) Tax increments were allocations made to the former San Francisco Redevelopment Agency under authority of California Constitution, Article XVI and Section 33675 of the California Health & Safety Code. Actual allocations are limited under an indebtedness agreement between the City and Redevelopment Agency.
- (3) Based on certified assessed values.
- (4) Based on year end actual assessed values.

CITY AND COUNTY OF SAN FRANCISCO
DIRECT AND OVERLAPPING PROPERTY TAX RATES

Last Ten Fiscal Years
(Rate Per \$1,000 of Assessed Value)

Fiscal Year	City and County Direct Rate (1)	Overlapping Rates				Total
		Debt Service Fund (2)	San Francisco Unified School District	San Francisco Community College District	Bay Area Rapid Transit District	
2007	1.00000000	0.09657879	0.01532351	0.01809770	0.00500000	1.1350
2008	1.00000000	0.10365766	0.01666683	0.01307551	0.00760000	1.1410
2009	1.00000000	0.10532566	0.02737873	0.02129561	0.00900000	1.1630
2010	1.00000000	0.10839903	0.02336031	0.02154066	0.00570000	1.1590
2011	1.00000000	0.11210000	0.03020000	0.01860000	0.00310000	1.1640
2012	1.00000000	0.11470000	0.03340000	0.01960000	0.00410000	1.1718
2013	1.00000000	0.10830000	0.03750000	0.01900000	0.00430000	1.1691
2014	1.00000000	0.11947956	0.04288739	0.01813305	0.00750000	1.1880
2015	1.00000000	0.11945760	0.03326497	0.01707743	0.00450000	1.1743
2016	1.00000000	0.11346583	0.05246647	0.01407283	0.00260000	1.1826



Notes:

- (1) Proposition 13 allows each county to levy a maximum tax of \$1 per \$100 of full cash value. Full cash value is equivalent to assessed value pursuant to Statutes of 1978, Senate Bill 1656.
- (2) On June 6, 1978, California voters approved a constitutional amendment to Article XIII A of the California Constitution, commonly known as Proposition 13, that limits the taxing power of California public agencies. Legislation enacted to implement Article XIII A (Statutes of 1978, Chapter 292, as amended) provides that notwithstanding any other law, local agencies may not levy property taxes except to pay debt service on indebtedness approved by voters prior to July 1, 1978 or any bonded indebtedness for the acquisition or improvement of real property approved on or after July 1, 1978 by two-thirds of the voting public.

CITY AND COUNTY OF SAN FRANCISCO

PRINCIPAL PROPERTY ASSESSEES
 Current Fiscal Year and Nine Fiscal Years Ago
 (Dollar in Thousands)

Assessee	Type of Business	Fiscal Year 2016			Fiscal Year 2007		
		Taxable Assessed Value (1)	Rank	Percentage of Total Taxable Assessed Value (2)	Taxable Assessed Value	Rank	Percentage of Total Taxable Assessed Value (2)
HWA 555 Owners LLC	Office, Commercial	\$ 964,169	1	0.49%	\$ 868,020	1	0.74%
PPF Paramount One Market Plaza Owner LP	Office, Commercial	789,865	2	0.40%	433,499	2	0.37%
Union Investment Real Estate GMBH	Office, Commercial	466,712	3	0.24%	-	-	-
Emporium Mall LLC	Retail, Commercial	441,260	4	0.23%	293,703	9	0.25%
SPF China Basin Holdings LLC	Office, Commercial	433,697	5	0.22%	-	-	-
SHC Embarcadero LLC	Office, Commercial	408,713	6	0.21%	-	-	-
Wells REIT II - 333 Market St LLC	Office, Commercial	404,977	7	0.21%	-	-	-
SF Hilton Inc.	Hotel	399,884	8	0.21%	-	-	-
Post-Montgomery Associates	Office, Commercial	396,798	9	0.20%	355,945	5	0.30%
PPF Off One Maritime Plaza LP	Office, Commercial	376,426	10	0.19%	-	-	-
Four Embarcadero Center Venture	Office, Commercial	-	-	-	365,081	4	0.31%
One Embarcadero Center Venture	Office, Commercial	-	-	-	314,699	6	0.27%
Three Embarcadero Center Venture	Office, Commercial	-	-	-	296,043	7	0.25%
Embarcadero Center Associates	Office, Commercial	-	-	-	294,873	8	0.25%
Marriott Hotel	Hotel	-	-	-	405,542	3	0.35%
101 California Venture	Office, Commercial	-	-	-	293,372	10	0.25%
Total		\$ 5,082,501		2.60%	\$ 3,920,777		3.34%

Source: Assessor, City and County of San Francisco

Notes:

- (1) Data for fiscal year 2015-2016 updated as of July 1, 2015.
- (2) Assessed values for fiscal years 2015-2016 and 2006-2007 are from the tax rolls of calendar years 2015 and 2006, respectively.

CITY AND COUNTY OF SAN FRANCISCO
PROPERTY TAX LEVIES AND COLLECTIONS ^{(1) (2)}
 Last Ten Fiscal Years
 (In Thousands)

Fiscal Year	Total Adjusted Levy	Collected within the Fiscal Year of the Levy		Collections in Subsequent Years (3)	Total Collections to Date	
		Amount	Percentage of Original Levy		Amount	Percentage of Adjusted Levy
2007	\$1,411,316	\$ 1,372,174	97.23%	\$ 5,959	\$ 1,378,133	97.65%
2008	1,530,484	1,487,715	97.21	20,781	1,508,496	98.56
2009	1,731,668	1,658,599	95.78	21,463	1,680,062	97.02
2010	1,868,098	1,787,809	95.70	40,111	1,827,920	97.85
2011	1,849,132	1,799,523	97.32	45,787	1,845,310	99.79
2012	1,922,368	1,883,666	97.99	37,566	1,921,232	99.94
2013	1,952,525	1,919,060	98.29	31,580	1,950,640	99.90
2014	2,138,245	2,113,284	98.83	23,009	2,136,293	99.91
2015	2,139,050	2,113,968	98.83	21,166	2,135,134	99.82
2016	2,290,280	2,268,876	99.07	19,156	2,288,032	99.90



Source: Controller, City and County of San Francisco

Notes:

- (1) Includes San Francisco Unified School District, San Francisco Community College District, Bay Area Rapid Transit District, Bay Area Air Quality Management District, the former San Francisco Redevelopment Agency, and the Successor Agency to San Francisco Redevelopment Agency.
- (2) Does not include SB-813 supplemental property taxes.
- (3) Collections in subsequent years reflect assessment appeals reduction.

CITY AND COUNTY OF SAN FRANCISCO

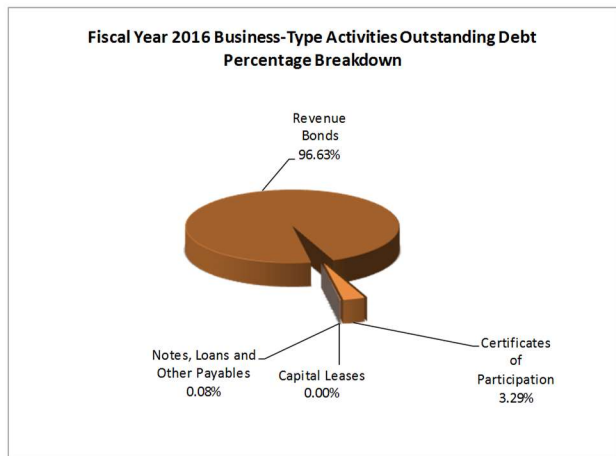
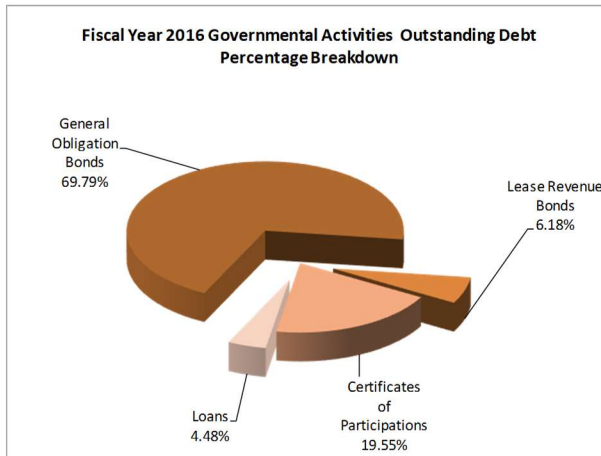
RATIOS OF OUTSTANDING DEBT BY TYPE

Last Ten Fiscal Years

(In Thousands, except per capita amount)

Governmental Activities							
Fiscal Year ⁽¹⁾	General Obligation Bonds	Lease Revenue Bonds	Certificates of			Settlement Obligation	Subtotal
			Participations	Loans	Capital Leases		
2007.....	\$ 1,181,588	\$ 250,095	\$ 417,063	\$ 11,640	\$ 185,736	\$ 27,353	\$ 2,073,475
2008.....	1,135,205	283,469	408,745	12,495	174,149	20,779	2,034,842
2009.....	1,208,353	294,973	564,754	11,329	164,383	14,019	2,257,811
2010.....	1,442,448	286,653	591,613	10,607	152,273	7,105	2,490,699
2011.....	1,411,769	283,155	587,121	10,072	141,377	-	2,433,494
2012.....	1,617,397	275,876	552,998	13,878	22,878	-	2,483,027
2013.....	2,052,155	264,828	574,683	19,184	9,741	-	2,920,591
2014.....	2,105,885	243,503	544,817	27,441	3,085	-	2,924,731
2015.....	2,096,765	216,527	507,504	163,837	-	-	2,984,633
2016.....	2,227,515	197,217	623,956	143,059	-	-	3,191,747

Business-Type Activities									
Fiscal Year	Revenue Bonds	State of California - Revolving Fund Loans	Certificates of Participation	Notes, Loans and Other Payables	Capital Leases	Subtotal	Total Primary Government	Percentage of Personal Income ⁽¹⁾	Per Capita ⁽¹⁾
2007.....	\$ 5,437,855	\$ 102,438	\$ -	\$ 18,447	\$ 4,499	\$ 5,563,239	\$ 7,636,714	13.56	9,556
2008.....	5,373,878	89,101	-	13,749	3,843	5,480,571	7,515,413	12.91	9,301
2009.....	4,928,729	75,339	-	324,042	2,635	5,330,745	7,588,556	13.66	9,307
2010.....	7,152,582	61,140	194,112	73,322	1,416	7,482,572	9,973,271	17.31	12,386
2011.....	8,090,624	46,492	193,579	32,434	652	8,363,781	10,797,275	17.11	13,284
2012.....	9,280,580	36,898	348,641	7,163	3,155	9,676,437	12,159,464	17.23	14,723
2013.....	9,342,222	-	339,007	7,370	3,606	9,692,205	12,612,796	17.31	14,995
2014.....	9,668,418	-	365,867	7,596	2,512	10,044,393	12,969,124	16.79	15,214
2015.....	10,404,660	-	355,113	7,840	1,174	10,404,787	13,389,420	16.30	15,482
2016.....	10,078,794	-	343,270	8,180	266	10,430,510	13,622,257	16.21	15,536



Notes:

⁽¹⁾ See Demographic and Economic Statistics, for personal income and population data. Fiscal years 2009 to 2014 are updated from last year's CAFR with newly available data.

CITY AND COUNTY OF SAN FRANCISCO
RATIOS OF GENERAL BONDED DEBT OUTSTANDING
 Last Ten Fiscal Years
 (In Thousands, except per capita amount)

Fiscal Year	General Obligation Bonds ⁽¹⁾	Less: Amounts Restricted for Debt Service	Total	Per Capita ^{(2) (3)}	Percentage of Taxable Assessed Value ⁽⁴⁾
2007	\$ 1,181,588	\$ 35,249	\$ 1,146,339	\$ 1,434	0.92%
2008	1,135,205	31,883	1,103,322	1,365	0.82
2009	1,208,353	40,907	1,167,446	1,432	0.78
2010	1,442,448	36,901	1,405,547	1,746	0.87
2011	1,411,769	39,330	1,372,439	1,688	0.86
2012	1,617,397	51,033	1,566,364	1,897	0.95
2013	2,052,155	102,188	1,949,967	2,318	1.16
2014	2,105,885	95,451	2,010,434	2,358	1.14
2015	2,096,765	91,292	2,005,473	2,319	1.10
2016	2,227,515	86,754	2,140,761	2,442	1.10

Notes:

- (1) Details regarding the City's outstanding debt can be found in the notes to the financial statements. In compliance with GASB Statement No. 65, the amount for general obligation bonds was restricted to exclude bond refunding gains or losses.
- (2) Population data can be found in Demographic and Economic Statistics.
- (3) FY 2015 updated with newly available data.
- (4) Taxable property data can be found in Assessed Value of Taxable Property.

CITY AND COUNTY OF SAN FRANCISCO

LEGAL DEBT MARGIN INFORMATION

Last Ten Fiscal Years
(In Thousands)

	Fiscal Year				
	2007	2008	2009	2010	2011
Debt limit	\$ 3,749,434	\$ 4,050,223	\$ 4,497,000	\$ 4,853,760	\$ 4,785,098
Total net debt applicable to limit ⁽¹⁾	1,181,588	1,135,205	1,208,353	1,442,448	1,411,769
Legal debt margin	<u>\$ 2,567,846</u>	<u>\$ 2,915,018</u>	<u>\$ 3,288,647</u>	<u>\$ 3,411,312</u>	<u>\$ 3,373,329</u>
Total net debt applicable to the limit as a percentage of debt limit	31.51%	28.03%	26.87%	29.72%	29.50%

	Fiscal Year				
	2012	2013	2014	2015	2016
Debt limit	\$ 4,962,746	\$ 5,030,049	\$ 5,279,242	\$ 5,482,482	\$ 5,829,141
Total net debt applicable to limit ⁽¹⁾	1,617,397	2,052,155	2,105,885	2,096,765	2,227,515
Legal debt margin	<u>\$ 3,345,349</u>	<u>\$ 2,977,894</u>	<u>\$ 3,173,357</u>	<u>\$ 3,385,717</u>	<u>\$ 3,601,626</u>
Total net debt applicable to the limit as a percentage of debt limit	32.59%	40.80%	39.89%	38.24%	38.21%

Legal Debt Margin Calculation for Fiscal Year 2016

Total assessed value	\$ 202,557,159
Less: non-reimbursable exemptions ⁽²⁾	<u>8,252,472</u>
Assessed value ⁽²⁾	<u>\$ 194,304,687</u>
Debt limit (three percent of valuation subject to taxation) ⁽³⁾	\$ 5,829,141
Debt applicable to limit - general obligation bonds	<u>2,227,515</u>
Legal debt margin	<u>\$ 3,601,626</u>

Notes:

⁽¹⁾ Per outstanding general obligation bonds and reinstated to exclude refunding gain or loss.

⁽²⁾ Source: Assessor, City and County of San Francisco

⁽³⁾ City's Administrative Code Section 2.60 Limitations on Bonded Indebtedness.

"There shall be a limit on outstanding general obligation bond indebtedness of three percent of the assessed value of all taxable real and personal property, located within the City and County."

CITY AND COUNTY OF SAN FRANCISCO

DIRECT AND OVERLAPPING DEBT

June 30, 2016

Debts	Total Debt Outstanding (In thousands)	Estimated Percentage Applicable to City and County ⁽¹⁾	Estimated Share of Overlapping Debt (In thousands)
Direct Debt			
General Obligation Bonds			\$ 2,227,515
Lease Revenue Bonds.....	\$ 197,217	100.00%	197,217
Certificates of Participation.....	623,956	100.00%	623,956
Loans.....	143,059	100.00%	143,059
Total Direct Debt			<u>3,191,747</u>
Overlapping Debt			
General Obligation Bonds			
San Francisco Unified School District.....	997,013	100.00%	997,013
San Francisco Community College District.....	303,209	100.00%	303,209
Bay Area Rapid Transit District.....	603,495	32.00%	193,118
Total Overlapping Debt.....			<u>1,493,340</u>
Total Direct and Overlapping Debt.....			<u>\$ 4,685,087</u>
Assessed valuation (net of non- reimbursable exemption).....			\$ 194,304,687
Population - 2016 ⁽²⁾			876,799
Percentage of direct and overlapping general obligation debt per assessed valuation.....			1.91%
Percentage of total direct and overlapping debt per assessed valuation.....			2.41%
Estimated total direct and overlapping total debt per capita			\$5.343

Note: Overlapping districts are those that coincide, at least in part, with the geographic boundaries of the City. This schedule estimates the portion of the outstanding debt of those overlapping districts that is borne by the residents and businesses of the City. This process recognizes that, when considering the City's ability to issue and repay long-term debt, the entire debt burden borne by the residents and businesses should be taken into account.

⁽¹⁾ The percentage of overlapping debt applicable is estimated using taxable assessed property value. Applicable percentages were estimated by determining the portion of the City's taxable assessed value that is within the districts boundaries and dividing it by the City's total taxable assessed value.

⁽²⁾ Sources: US Census Bureau

CITY AND COUNTY OF SAN FRANCISCO

PLEGGED-REVENUE COVERAGE

Last Ten Fiscal Years

(In Thousands)

San Francisco International Airport ⁽¹⁾

Fiscal Year	Operating Revenues ⁽²⁾	Less: Operating Expenses ⁽³⁾	Net Available		Debt Service			Coverage
			Revenue	Principal	Interest	Total		
2007	\$ 540,186	\$ 284,692	\$ 255,494	\$ 79,415	\$ 192,746	\$ 272,161	0.94	
2008	565,139	295,849	269,290	75,510	214,839	290,349	0.93	
2009	574,088	315,823	258,265	88,205	178,372	266,577	0.97	
2010	597,429	305,995	269,290	97,715	190,490	288,205	0.93	
2011	622,709	331,399	291,310	134,800	177,581	312,381	0.93	
2012	701,025	369,376	291,434	135,760	189,696	288,205	1.01	
2013	728,044	380,543	347,501	152,355	185,000	337,355	1.03	
2014	776,116	402,176	373,940	163,095	202,219	365,314	1.02	
2015	824,482	392,361	432,121	181,645	211,804	393,449	1.10	
2016	880,948	411,789	469,159	208,860	185,297	394,157	1.19	

- (1) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the Airport Commission's 1991 Master Bond Resolution which authorized the sale and issuance of these bonds.
- (2) Operating revenues consist of Airport operating revenues and interest and investment income.
- (3) In accordance with GASB Statement No. 44, Airport operating expenses related to the pledged revenues exclude interest, depreciation and amortization.

San Francisco Water Department ⁽⁴⁾

Fiscal Year	Gross Revenues ⁽⁵⁾	Less: Operating Expenses ⁽⁶⁾	Net Available		Debt Service			Coverage
			Adjustments ⁽⁸⁾	Revenue	Principal	Interest	Total	
2007	\$ 241,078	\$ 202,498	\$ 112,101	\$ 150,681	\$ 16,160	\$ 48,955	\$ 65,115	2.31
2008	246,885	223,052	134,215	158,048	19,170	45,023	64,193	2.46
2009	272,869	248,315	125,203	149,757	25,520	44,065	69,585	2.15
2010	275,041	277,970	141,615	138,686	26,605	42,990	69,595	1.99
2011	305,678	261,927	126,126	169,877	27,795	58,759 ⁽⁷⁾	86,554	1.96
2012	375,551	304,562	115,667	186,656	44,050	78,239 ⁽⁷⁾	122,289	1.53
2013	721,189	303,739	157,518	574,968	45,965	93,569 ⁽⁷⁾	139,534	4.12
2014	390,789	333,555	426,527	483,761	25,850	115,476 ⁽⁷⁾	141,326	3.42
2015	431,836	296,950	310,139	445,025	25,850	166,462 ⁽⁷⁾	192,312	2.31
2016	423,111	314,786	283,568	391,893	29,695	189,500 ⁽⁷⁾	219,195	1.79

- (4) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differ significantly from those calculated in accordance with the bond indenture.
- (5) Gross Revenue consists of charges for services, rental income and other income, investing activities and capacity fees.
- (6) In accordance with GASB Statement No. 44, Water Department operating expenses related to the pledged revenues exclude interest.
- (7) Interest payment was restated to exclude capitalized interest in FY 2011 through FY 2012. FY2012 through FY2015 also includes "springing" amendments.
- (8) Adjustments column included adjustment to investing activities, depreciation and non-cash expenses, changes in working capital and other available funds presented in the published Annual Disclosure Reports.

Municipal Transportation Agency

Fiscal Year	Base Rental Payment and Gross Meter Revenue Charges ⁽⁹⁾⁽¹⁰⁾	Less: Operating Expenses ⁽¹¹⁾⁽¹²⁾	Net Available		Debt Service			Coverage
			Revenue	Principal	Interest	Total		
2007	\$ 31,801	\$ 16,907	\$ 14,894	\$ 5,734	\$ 1,989	\$ 7,723	1.93	
2008	33,091	18,038	15,053	6,017	1,747	7,764	1.94	
2009	33,970	18,879	15,091	5,165	1,395	6,560	2.30	
2010	39,538	19,018	20,520	2,680	1,149	3,829	5.36	
2011	41,204	21,077	20,127	1,615	1,068	2,683	7.50	
2012	47,810	19,419	28,391	1,685	995	2,680	10.59	
2013	607,125	471,490	135,635	3,075	1,856	4,931	27.51	
2014	642,614	509,762	132,853	5,895	3,686	9,581	13.87	
2015	626,312	527,125	99,187	7,695	6,945	14,640	6.78	
2016	619,650	563,750	55,900	7,340	9,155	16,495	3.39	

- (9) Prior to FY2013 revenue bonds were issued by the Parking Authority. The Parking Authority leased North Beach, Moscone, and San Francisco Hospital garages to the City. In return, the City pledged to pay off the debt service with a base (lease) rental payment. The gross revenue reflects base rental payments plus revenue from all meters in San Francisco except the meters on Port property. All the related revenue bonds were defeased/paid off in FY2013.
- (10) In July 2012, the SFMTA issued its first revenue bonds, Series 2012A and B. Series 2012A refunded the bonds described above in Note (9) plus bonds issued by the City's nonprofit garage corporations. The gross pledged revenues consist of transit fares, parking fines and fees, rental income, investment income plus operating grants from Transportation Development Act (codified as Sections 99200 et seq. of the California Public Utilities Code) (the "TDA"), AB 1107 (codified at Section 29140 et seq. of the Public Utilities Code (the "AB 1107")), and State Transit Assistance.
- (11) Prior to FY2013, the operating expense includes only the costs related to parking meter program excluding debt service payments.
- (12) Effective FY2013, related to the new bonds as described in Note (10), the operating expense excludes expenses funded by the City's General Fund support paratransit restricted grants. In accordance with GASB Statement No. 44, operating expenses related to the pledged revenues exclude interest, depreciation and non-cash expense.

CITY AND COUNTY OF SAN FRANCISCO
PLEDGED-REVENUE COVERAGE (Continued)
Last Ten Fiscal Years
(In Thousands)

San Francisco Wastewater Enterprise ⁽¹³⁾

Fiscal Year	Gross Revenues ⁽¹⁴⁾	Less:		Net Available		Debt Service			Coverage ⁽¹⁷⁾
		Operating Expenses ⁽¹⁵⁾	Adjustments ⁽¹⁶⁾	Revenue ⁽¹⁷⁾	Principal	Interest ⁽¹⁷⁾	Total ⁽¹⁷⁾		
2007	\$ 199,160	\$ 151,600	\$ 49,600	\$ 97,160	\$ 33,445	\$ 16,718	\$ 50,163	1.94	
2008	206,648	165,245	66,109	107,512	34,500	15,698	50,198	2.14	
2009	210,646	169,300	77,800	119,146	35,665	14,646	50,311	2.37	
2010	211,899	185,512	86,880	113,267	37,130	13,183	50,313	2.25	
2011	231,143	179,084	56,239	108,298	26,320	18,563 ⁽¹⁸⁾	44,883	2.41	
2012	247,936	195,857	107,125	159,204	22,010	20,180 ⁽¹⁸⁾	42,190	3.77	
2013	253,078	208,260	109,323	154,141	23,095	15,655 ⁽¹⁸⁾	38,750	3.98	
2014	262,497	216,340	172,831	218,988	32,805	32,047 ⁽¹⁸⁾	64,852	3.38	
2015	257,209	216,485	190,236	230,960	30,895	30,006 ⁽¹⁸⁾	60,901	3.79	
2016	262,960	221,553	198,524	239,931	31,115	28,907 ⁽¹⁸⁾	60,022	4.00	

(13) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the bond indenture.

(14) Gross revenue consists of charges for services, rental income and other income.

(15) In accordance with GASB Statement No. 44, Wastewater Enterprise operating expenses related to the pledged revenues exclude interest.

(16) Adjustments includes Depreciation and Non-Cash Expense, Changes in Working Capital, Investment Income, SRF Loan Payments, and other available Funds that are printed in published Annual Disclosure Reports.

(17) Restated to match the published Annual Disclosure Reports for FY 2007, 2008, 2009.

(18) Interest payment was restated to exclude capitalized interest in FY 2011 through FY 2012. FY2012 through FY2015 also includes a "springing" amendment.

Port of San Francisco ⁽¹⁹⁾

Fiscal Year	Total Operating Revenues ⁽²⁰⁾	Less:		Net Available Revenue	Debt Service			Coverage
		Operating Expenses ⁽²¹⁾			Principal	Interest	Total	
2007	\$ 65,416	\$ 50,887	\$ 14,529	\$ 3,975	\$ 453	\$ 4,428	3.28	
2008	68,111	56,406	11,705	4,070	348	4,418	2.65	
2009	68,722	57,574	11,148	4,185	222	4,407	2.53	
2010	68,892	58,756	10,136	4,320	75	4,395	2.31	
2011	73,774	51,788	21,986	485	2,358	2,843	7.73	
2012	79,819	55,470	24,349	670	2,175	2,845	8.56	
2013	81,536	63,615	17,921	695	2,151	2,846	6.30	
2014	87,213	63,410	23,803	725	2,122	2,847	8.36	
2015	96,266	60,836	35,430	1,400	2,771	4,171	8.49	
2016	100,653	64,896	35,757	1,225	2,951	4,176	8.56	

(19) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the bond indenture.

(20) Total revenues consist of operating revenues and interest and investment income.

(21) In accordance with GASB Statement No. 44, operating expenses related to the pledged-revenue stream exclude interest, depreciation and amortization. Details regarding outstanding debt can be found in the notes to the financial statements. Operating expenses, as defined by the bond indenture, also excludes amortized dredging costs.

Hetch Hetchy Water and Power ^{(22) (23)}

Fiscal Year	Gross Revenues ⁽²⁴⁾	Less:		Net Available		Debt Service			Coverage
		Operating Expenses ⁽²⁵⁾	Adjustments ⁽²⁶⁾	Revenue	Principal	Interest	Total		
2007	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	-	
2008	-	-	-	-	-	-	-	-	
2009	97,671	49,337	4,907	48,334	422	-	422	114.54	
2010	105,711	86,334	14,521	33,898	422	-	422	80.33	
2011	113,253	86,266	14,786	41,773	422	-	422	98.99	
2012	100,622	93,607	13,536	20,551	422	-	422	48.70	
2013	101,191	93,259	6,765	14,697	1,009	898	1,907	7.71	
2014	105,767	101,041	11,726	16,452	1,308	667	1,975	8.33	
2015	117,704	105,222	38,714	51,196	1,321	625	1,946	26.31	
2016	122,954	110,012	20,102	33,044	1,422	2,364	3,786	8.73	

(22) The pledged-revenue coverage calculations presented in this schedule conform to the requirements of GASB Statement No. 44 and as such differs significantly from those calculated in accordance with the bond indenture.

(23) There were no Hetch Hetchy bonds from 2006 to 2008.

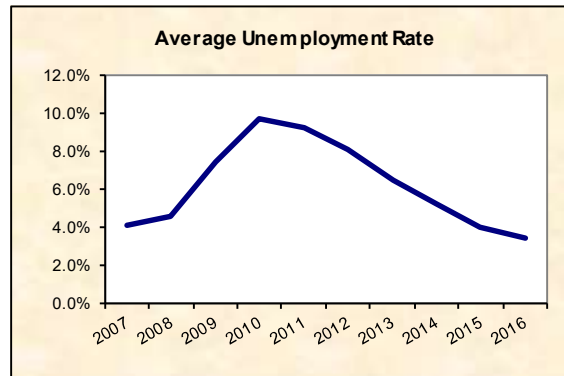
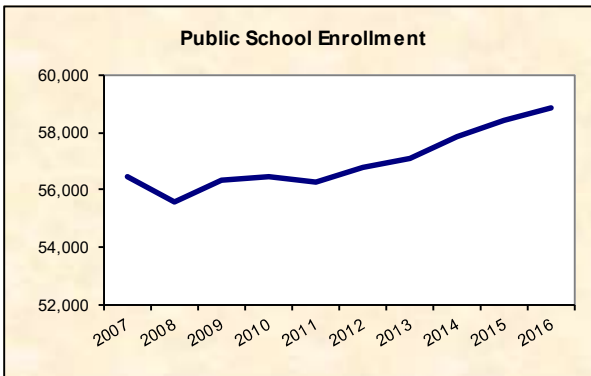
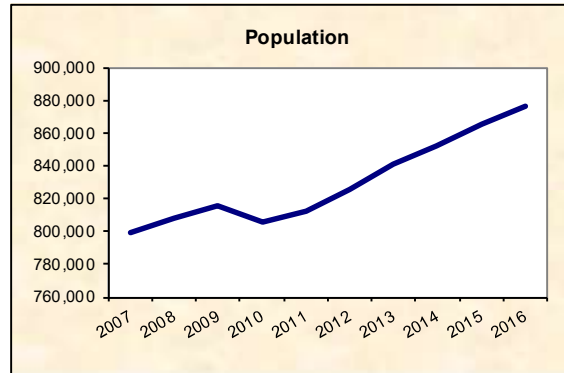
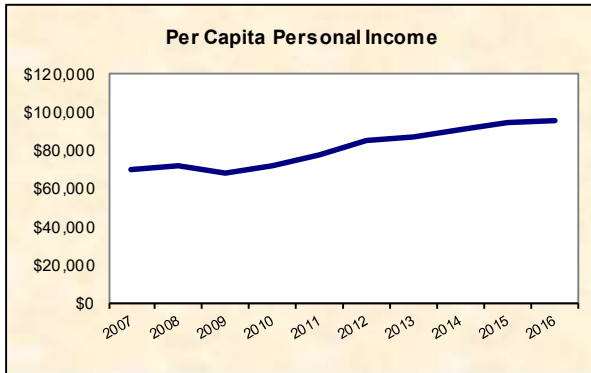
(24) Gross revenues consists of charges for power services, rental income and other income.

(25) Operating expenses only include power operating expense.

(26) Adjustments include adjustments to investment income, depreciation, non-cash items and changes to working capital.

CITY AND COUNTY OF SAN FRANCISCO
DEMOGRAPHIC AND ECONOMIC STATISTICS
 Last Ten Fiscal Years

Fiscal Year	Population (1)	Personal Income (In Thousands) (2)	Per Capita Personal Income (3)	Median Age (4)	Public School Enrollment (5)	Average Unemployment Rate (6)
2007	799,185	\$56,306,703	\$70,455	39.4	56,459	4.1%
2008	808,001	58,199,006	72,028	40.0	55,590	4.6%
2009	815,358	55,559,545	68,141	40.4	56,315	7.4%
2010	805,235	57,619,120	71,556	38.5	56,454	9.7%
2011	812,826	63,102,121	77,633	37.3	56,299	9.2%
2012	825,863	70,573,974	85,455	38.5	56,758	8.1%
2013	841,138	72,858,445	86,619	37.9	57,105	6.5%
2014	852,469	77,233,279	90,600	37.4	57,860	5.2%
2015	864,816 ⁽⁷⁾	82,143,355 ⁽⁸⁾	94,984 ⁽⁹⁾	37.8 ⁽¹⁰⁾	58,414	4.0%
2016	876,799 ⁽⁷⁾	84,010,283 ⁽⁸⁾	95,815 ⁽⁹⁾	37.8 ⁽¹⁰⁾	58,865	3.4%



Sources:

- (1) US Census Bureau. Fiscal year 2015 is updated from last year's CAFR with newly available data.
- (2) US Bureau of Economic Analysis. Fiscal years 2009 to 2014 are updated from last year's CAFR with newly available data.
- (3) US Bureau of Economic Analysis. Fiscal years 2009 to 2014 are updated from last year's CAFR with newly available data.
- (4) US Census Bureau, American Community Survey
- (5) California Department of Education
- (6) California Employment Development Department

Note:

- (7) 2015 is updated from last year's CAFR with newly available data. 2016 population was estimated by multiplying the estimated 2016 population by the 2014 - 2015 population growth rate.
- (8) Personal income was estimated by assuming that its percentage of state personal income in 2015 and 2016 remained at the 2014 level of 3.90 percent. Fiscal years 2009 to 2014 are updated from last year's CAFR with newly available data.
- (9) Per capita personal income for 2015 and 2016 was estimated by dividing the estimated personal income for 2015 and 2016 by the reported and estimated population in 2015 and 2016, respectively. Fiscal years 2009 to 2014 is updated from last year's CAFR with newly available data.
- (10) Median age for 2015 and 2016 was estimated by averaging the median age in 2014 and 2015.

CITY AND COUNTY OF SAN FRANCISCO

Principal Employers Current Year and Nine Years Ago

Employer	Year 2015 ⁽¹⁾			Year 2006		
	Employees	Rank	Percentage of Total City Employment	Employees	Rank	Percentage of Total City Employment
City and County of San Francisco.....	28,846	1	5.46%	29,500	1	7.41%
University of California, San Francisco.....	24,304	2	4.60%	17,500	2	4.39%
San Francisco Unified School District.....	9,483	3	1.80%	5,557	6	1.40%
Wells Fargo & Co.....	8,245	4	1.56%	8,139	3	2.04%
California Pacific Medical Center.....	6,000	5	1.14%	6,115	5	1.54%
Salesforce.....	5,331	6	1.01%	-	-	-
Kaiser Permanente.....	5,249	7	0.99%	3,918	10	0.98%
PG&E Corporation.....	4,381	8	0.83%	4,800	8	1.21%
Gap, Inc.....	4,268	9	0.81%	4,075	9	1.02%
Dignity Health.....	2,550	10	0.48%	-	-	-
State of California.....	-	-	-	6,226	4	1.56%
United States Postal Service.....	-	-	-	4,935	7	1.24%
Total.....	98,657		18.68%	90,765		22.79%

Source: Total City and County of San Francisco employee count is obtained from the State of California Employee Development Department. All other data is obtained from the San Francisco Business Times Book of Lists.

Note:

(1) The latest data as of calendar year-end 2015 is presented.

CITY AND COUNTY OF SAN FRANCISCO
FULL-TIME EQUIVALENT CITY GOVERNMENT EMPLOYEES BY FUNCTION ⁽¹⁾
 Last Ten Fiscal Years

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Public Protection										
Fire Department.....	1,665	1,726	1,602	1,532	1,512	1,474	1,463	1,464	1,494	1,575
Police.....	2,765	2,870	2,949	2,757	2,681	2,665	2,655	2,727	2,784	2,871
Sheriff.....	939	951	1,016	1,048	953	1,010	1,013	984	1,015	1,006
Other.....	978	1,019	996	981	969	956	1,021	1,032	1,049	1,077
Total Public Protection.....	6,347	6,566	6,563	6,318	6,115	6,105	6,152	6,207	6,342	6,529
Public Works, Transportation and Commerce										
Municipal Transportation Agency.....	4,374	4,358	4,528	4,358	4,160	4,141	4,388	4,484	4,685	4,931
Airport Commission.....	1,220	1,228	1,248	1,233	1,294	1,377	1,443	1,460	1,473	1,493
Department of Public Works.....	1,040	1,060	1,030	822	791	783	808	825	852	925
Public Utilities Commission.....	1,596	1,609	1,580	1,549	1,584	1,616	1,620	1,621	2,002	2,023
Other.....	538	543	565	490	508	536	583	612	626	627
Total Public Works, Transportation and Commerce.....	8,768	8,798	8,951	8,452	8,337	8,453	8,842	9,002	9,638	9,999
Community Health										
Public Health.....	5,988	6,196	6,023	5,838	5,696	5,671	5,800	6,126	6,284	6,602
Total Community Health.....	5,988	6,196	6,023	5,838	5,696	5,671	5,800	6,126	6,284	6,602
Human Welfare and Neighborhood Development										
Human Services.....	1,745	1,812	1,810	1,662	1,685	1,691	1,750	1,855	1,964	2,046
Other.....	313	312	309	296	284	269	244	244	246	242
Total Human Welfare and Neighborhood Development.....	2,058	2,124	2,119	1,958	1,969	1,960	1,994	2,099	2,210	2,288
Culture and Recreation										
Recreation and Park Commission.....	922	942	919	898	851	834	841	870	905	923
Public Library.....	631	641	649	649	645	628	640	652	661	662
War Memorial.....	96	96	97	63	63	63	63	57	58	65
Other.....	199	204	203	199	201	199	210	213	214	214
Total Culture and Recreation.....	1,848	1,883	1,868	1,809	1,760	1,724	1,754	1,792	1,838	1,864
General Administration and Finance										
Administrative Services.....	438	505	539	647	616	637	723	716	751	804
City Attorney.....	324	327	318	306	300	299	303	308	308	306
Telecommunications and Information Services.....	270	307	265	252	210	196	199	216	209	221
Controller.....	184	188	198	180	194	201	198	204	219	253
Human Resources.....	156	155	144	138	119	123	124	135	157	166
Treasurer/Tax Collector.....	208	208	212	220	211	208	202	211	225	218
Mayor.....	51	57	55	49	42	37	49	49	50	55
Other.....	520	571	547	554	540	567	561	602	615	658
Total General Administration and Finance.....	2,151	2,318	2,278	2,346	2,232	2,268	2,359	2,441	2,534	2,681
General City Responsibility										
Subtotal annually funded positions.....	27,160	27,885	27,802	26,721	26,109	26,181	26,901	27,667	28,846	29,962
Capital project funded positions.....	1,628	1,750	1,519	1,928	1,885	1,892	1,486	1,569	1,310	1,380
Total annually funded positions.....	28,788	29,635	29,321	28,649	27,994	28,073	28,387	29,236	30,156	31,342

Source: Controller, City and County of San Francisco

Note:

(1) Data represent budgeted and funded full-time equivalent positions.

CITY AND COUNTY OF SAN FRANCISCO

OPERATING INDICATORS BY FUNCTION

Last Ten Fiscal Years

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Public Protection										
Fire and Emergency Communications										
Total response time of first unit to highest priority incidents requiring possible medical care, 90th percentile	8:04	7:36	7:06	7:10	7:19	7:18	7:30	7:57	8:12	7:68
Police										
Average time from dispatch to arrival on scene for highest priority calls ⁽¹⁾	3:15	4:08	3:49	3:33	4:07	4:15	4:59	4:20	4:55	2:07
Number of homicides per 100,000 population ⁽²⁾	9.6	11.8	8.2	5.3	6.3	7.4	6.2	4.7	6.6	N/A
Percentage of San Franciscans who report feeling safe or very safe crossing the street	48%	N/A	56%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Public Works, Transportation, and Commerce										
General Services Agency - Public Works										
Percentage of San Franciscans who rate cleanliness of neighborhood streets as good or very good	49%	N/A	50%	N/A	52%	N/A	N/A	N/A	54%	N/A
Number of blocks of City streets repaved	243	334	310	312	427	346	521	323	474	721
Municipal Transportation Agency										
Average rating of Muni's timeliness and reliability by residents of San Francisco (1=very poor, 5=very good)	2.84	N/A	2.98	N/A	3.55	3.02	3.38	N/A	N/A	N/A
Percentage of vehicles that run on time according to published schedules (no more than 4 minutes late or 1 minute early) measured at terminals and established intermediate points	70.8%	70.6%	74.4%	73.5%	72.9%	61.9%	59.3%	58.8%	56.1%	59.9%
Percentage of scheduled service hours delivered ⁽³⁾	94.3%	95.9%	96.9%	96.6%	96.2%	97.5%	97.6%	90.7%	97.0%	99.0%
Airport										
Percent change in air passenger volume	2.8%	8.4%	-0.8%	4.8%	5.3%	8.0%	4.0%	3.2%	4.5%	6.7%
Human Welfare and Neighborhood Development										
Environment										
Percentage of total solid waste materials diverted in a calendar year	69%	70%	72%	77%	78%	80%	N/A	N/A	N/A	N/A
Culture and Recreation										
Recreation and Park										
Percentage of San Franciscans who rate the quality of the City's park grounds (landscaping) as good or very good	57%	N/A	65%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Citywide percentage of park maintenance standards met for all parks inspected	86%	88%	89%	91%	90%	91%	91%	91%	85%	86%
Public Library										
Percentage of San Franciscans who rate the quality of library staff assistance as good or very good	75%	N/A	79%	N/A	79%	N/A	85%	N/A	92%	N/A
Circulation of materials at San Francisco libraries	7,685,892	8,334,391	9,638,160	10,849,582	10,679,061	10,971,974	10,587,213	10,844,953	10,684,760	10,778,428
Asian and Fine Arts Museums										
Number of visitors to City-owned art museums ⁽⁴⁾	1,879,868	1,739,096	2,693,469	2,599,322	2,426,861	1,779,573	1,865,259	2,042,135	1,712,076	1,830,284

Source: Controller, City and County of San Francisco

Notes:

- (1) Measure changed from median time to average time in FY 2008. Values for FY 2006 through FY 2007 reflect median time, FY 2008 through FY 2016 reflects average time.
- (2) Value for FY 2008 is based on a different source for population data than prior fiscal years. FY 2008 and FY 2010 have been restated.
- (3) Values for FY 2006 have been restated to be consistent as annual average for fiscal year from the MTA service standards reports.
- (4) The California Academy of Sciences opened on September 27, 2008.

N/A = Information is not available. Note that in most cases this is due to the fact that the City Survey, which was administered annually until 2005, then biennially afterwards, is the data source.

CITY AND COUNTY OF SAN FRANCISCO

CAPITAL ASSET STATISTICS BY FUNCTION

Last Ten Fiscal Years

Function	Fiscal Year									
	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
Police protection (1)										
Number of stations.....	10	10	10	10	10	10	10	10	10	10
Number of police officers.....	2,304	2,455	2,356	2,261	2,288	2,243	2,164	2,130	2,203	2,332
Fire protection (2)										
Number of stations.....	42	42	42	42	46	46	46	46	47	47
Number of firefighters.....	1,012	978	809	768	778	718	817	896	907	995
Public works										
Miles of street (3).....	1,051	1,291	1,318	1,317	1,317	1,315	1,315	1,299	1,287	1,287
Number of streetlights (4).....	42,029	42,957	43,492	43,973	44,530	44,594	44,655	44,656	44,907	44,498
Water (4)										
Number of services.....	170,873	172,471	172,885	172,680	173,033	173,454	173,744	173,970	174,111	174,083
Average daily										
consumption (million gallons).....	247.1	247.5	236.6	219.9	213.6	212.0	215.1	217	190	171
Miles of water mains.....	1,457	1,457	1,465	1,465	1,473	1,488	1,488	1,488	1,499	1,489
Sewers (4)										
Miles of collecting sewers.....	993	993	993	993	993	959	986	993	993	993
Miles of transport/storage sewers.....	15	17	17	17	17	17	24	17	17	17
Recreation and cultures										
Number of parks (5).....	209	222	222	220	220	220	221	221	220	220
Number of libraries (6).....	28	28	28	28	28	28	28	28	28	28
Number of library										
volumes (million) (6).....	2.7	2.8	2.9	3.3	3.5	3.6	3.5	3.6	3.6	3.8
Public school education (7)										
Attendance centers.....	112	112	112	115	115	115	115	116	116	117
Number of classrooms.....	3,256	3,269	2,723	2,779	2,797	2,797	2,877	3,135	3,160	3,219
Number of teachers,										
full-time equivalent.....	3,103	3,113	3,167	3,312	3,132	3,245	3,129	3,129	3,281	3,339
Number of students.....	55,497	56,259	55,272	55,779	55,571	56,310	56,970	57,620	58,414	58,865

Sources:

- (1) Police Commission, City and County of San Francisco
- (2) Fire Commission, City and County of San Francisco - Includes fire fighters/paramedics, and incident support specialists
- (3) Department of Public Works, City and County of San Francisco
- (4) Public Utilities Commission, City and County of San Francisco
- (5) Parks and Recreation Commission, City and County of San Francisco
- (6) Library Commission, City and County of San Francisco
- (7) San Francisco Unified School District

CITY AND COUNTY OF SAN FRANCISCO

BASIC FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORTS

FOR THE YEAR ENDED JUNE 30, 2016



Certified
Public
Accountants

**CITY AND COUNTY OF SAN FRANCISCO
 BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS
 FOR THE YEAR ENDED JUNE 30, 2016**

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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, each major fund, and the aggregate discretely presented component unit and remaining fund information, of the City and County of San Francisco (City), as of and for the year ended June 30, 2016, 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 County Transportation Authority, 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
Governmental activities	1.0%	3.1%	3.5%
Business-type activities	89.9%	91.4%	73.0%
Aggregate discretely presented component unit and remaining fund information	0.8%	0.5%	14.6%

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, each major fund, and the aggregate remaining fund information and the discretely presented component unit, of the City as of June 30, 2016, 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, effective July 1, 2015, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 72, *Fair Value Measurement and Application*, and GASB Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. 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, 2015, from which such partial and summarized information was derived.

We have previously audited the City's 2015 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 23, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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 schedule of the City's proportionate share of the net pension liability, the schedule of changes in the net pension liability and related ratios, the schedule of employer contributions – pension plans, and the schedules of funding progress and employer contributions – other postemployment healthcare benefits, 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 Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* 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 18, 2016 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.



San Francisco, California

November 18, 2016, except for our report on the schedule of expenditures of federal awards, as to which the date is January 20, 2017

CITY AND COUNTY OF SAN FRANCISCO
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2016

This section of the City and County of San Francisco's (the City) basic financial statements presents a narrative overview and analysis of the financial activities of the City for the year ended June 30, 2016. We encourage readers to consider the information presented here in conjunction with additional information in our transmittal letter. Certain amounts presented as fiscal year 2014-15 summarized comparative financial information in the basic financial statements have been reclassified to conform to the presentation in the fiscal year 2015-16 basic financial statements.

FINANCIAL HIGHLIGHTS

The assets and deferred outflows of resources of the City exceeded its liabilities and deferred inflows of resources at the end of the fiscal year by approximately \$8.00 billion (net position). Of this balance, \$8.15 billion represents the City's net investment in capital assets, \$1.75 billion represents restricted net position, and unrestricted net position has a deficit of \$1.90 billion. The City's total net position increased by \$1.44 billion, or 22.0 percent, from the previous fiscal year. Of this amount, total net investment in capital assets, restricted net position and unrestricted net position increased by \$630.7 million or 8.4 percent, \$353.0 million or 25.2 percent and \$457.7 million or 19.4 percent, respectively.

The City's governmental funds reported total revenues of \$5.79 billion, which is a \$444.2 million or 8.3 percent increase over the prior year. Within this, revenues from property taxes, business taxes, sales and use tax, intergovernmental grants, and other revenues grew by approximately \$156.6 million, \$49.0 million, \$27.0 million, \$47.0 million, and \$141.1 million, respectively. At the same time, there was a decline in revenues from real property transfer tax of \$45.5 million and hotel room tax of \$6.6 million. Governmental funds expenditures totaled \$5.07 billion for this period, a \$281.2 million or 5.9 percent increase, reflecting increases in demand for governmental services of \$415.3 million, an increase in debt service of \$54.7 million and a decrease in capital outlay of \$188.8 million.

At the end of the fiscal year, total fund balances for the governmental funds amounted to \$2.84 billion, an increase of \$546.5 million or 23.9 percent from prior year, primarily due to a strong growth in most revenues over a moderate increase of expenditures 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 \$516.7 million during this fiscal year. The City issued a total of \$1.14 billion in bonds, certificates of participation and loans this year. Of this amount, a total of \$321.9 million in general obligation bonds were issued for transportation and road improvement projects, seismic safety loan program, clean and safe neighborhood parks projects, earthquake safety and response projects and road repaving and street safety projects. The City also issued \$123.6 million in refunding certifications of participation and \$150.5 million in certificates of participation for War Memorial Veteran Building Seismic Upgrade and Improvements projects. The San Francisco International Airport issued \$232.1 million in refunding revenue bonds for debt service savings. The Hetch Hetchy Power Enterprise issued \$4.1 million new clean renewable energy bonds to fund certain qualified clean, renewable energy solar generation facilities in the City. The San Francisco Wastewater Enterprise issued \$308.4 million in revenue refunding bonds to fund capital projects and pay off outstanding commercial paper notes. The balance of commercial paper issued to finance and refinance capital projects increased by \$283.9 million in this fiscal year. Of this increase, \$338.9 million represented business-type activities while net decreases of \$55.0 million represented governmental activities.

The City early implemented the provisions of Governmental Accounting Standards Board (GASB) Statement No. 82, *Pension Issues – an amendment of GASB Statements No. 67, No. 68, and No. 73 Accounting and Financial Reporting for Pensions*. Statement No 82, treats Employer-Paid Member contributions as employee contributions rather than employer contributions. This resulted in a restatement due to change in accounting principle decreasing net position as of July 1, 2015 by \$8.6 million.

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

OVERVIEW OF THE FINANCIAL STATEMENTS

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

Organization of City and County of San Francisco Basic Financial Statements

Financial Section	Management's Discussion and Analysis (MD&A)			
	Government - wide Financial Statements	Fund Financial Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
	Statement of net position	Balance sheet	Statement of net position	Statement of fiduciary net position
		Statement of revenues, expenditures, and changes in fund balances	Statement of revenues, expenses, and changes in fund net position	
	Statement of activities	Budgetary comparison statement	Statement of cash flows	Statement of changes in fiduciary net position
		Notes to the Financial Statements		
	Required Supplementary Information Other Than MD&A			

CITY AND COUNTY OF SAN FRANCISCO

Management’s Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

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.

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

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 (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 (Successor 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.

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

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

The City adopts a rolling two-year budget for its General Fund. A budgetary comparison statement has been provided for the General Fund to demonstrate compliance with this budget.

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

- **Enterprise funds** are used to report the same functions presented as business-type activities in the government-wide financial statements. The City uses enterprise funds to account for the operations of the San Francisco International Airport (SFO or Airport), San Francisco Water Enterprise (Water), Hetch Hetchy Water and Power (Hetch Hetchy), San Francisco Municipal Transportation Agency (SFMTA), San Francisco General Hospital (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, 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 net pension liability, pension contributions and progress in funding its obligation to provide other postemployment benefits to its employees and the City's schedule of contributions for its employees' other postemployment benefits.

CITY AND COUNTY OF SAN FRANCISCO
Management's Discussion and Analysis (Unaudited) (Continued)
Year Ended June 30, 2016

Net Position
(in thousands)

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Assets:						
Current and other assets.....	\$4,309,790	\$3,635,676	\$ 4,893,995	\$ 4,774,416	\$ 9,203,785	\$ 8,410,092
Capital assets.....	5,125,352	4,874,710	15,695,817	14,750,206	20,821,169	19,624,916
Total assets.....	<u>9,435,142</u>	<u>8,510,386</u>	<u>20,589,812</u>	<u>19,524,622</u>	<u>30,024,954</u>	<u>28,035,008</u>
Deferred outflows of resources	<u>404,560</u>	<u>346,493</u>	<u>490,027</u>	<u>444,208</u>	<u>894,587</u>	<u>790,701</u>
Liabilities:						
Current liabilities.....	1,462,148	1,345,352	2,295,833	1,892,224	3,757,981	3,237,576
Noncurrent liabilities.....	5,938,626	5,340,775	12,462,886	12,109,905	18,401,512	17,450,680
Total liabilities.....	<u>7,400,774</u>	<u>6,686,127</u>	<u>14,758,719</u>	<u>14,002,129</u>	<u>22,159,493</u>	<u>20,688,256</u>
Deferred inflows of resources	<u>429,865</u>	<u>883,538</u>	<u>323,284</u>	<u>688,451</u>	<u>753,149</u>	<u>1,571,989</u>
Net position:						
Net investment in capital assets*.....	2,750,782	2,684,808	5,690,741	5,117,679	8,151,422	7,520,698
Restricted *.....	1,331,516	961,387	538,474	495,654	1,753,264	1,400,246
Unrestricted (deficit) *.....	<u>(2,073,235)</u>	<u>(2,358,981)</u>	<u>(231,379)</u>	<u>(335,083)</u>	<u>(1,897,787)</u>	<u>(2,355,480)</u>
Total net position.....	<u>\$2,009,063</u>	<u>\$1,287,214</u>	<u>\$ 5,997,836</u>	<u>\$ 5,278,250</u>	<u>\$ 8,006,899</u>	<u>\$ 6,565,464</u>

* See note 10(d) 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 \$8.00 billion at the end of fiscal year 2015-16, a 22.0 percent increase over the prior year. The City's governmental activities account for \$2.00 billion of this total and \$6.00 billion stem from its business-type activities.

The largest portion of the City's net position is the \$8.15 billion in net investment in capital assets (e.g. land, buildings, and equipment). This reflects a \$630.7 million or 8.4 percent increase over the prior year, and is due to the growth seen in the governmental activities and increases in all business-type activities. 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 \$1.75 billion that represents restricted resources that are subject to external limitations regarding their use. The remaining portion of total net position is a deficit of \$1.90 billion, which consists of a \$2.07 billion deficit in governmental activities and \$231.4 million deficit in business-type activities. The governmental activities and business-type activities deficit is largely due to recording net pension liability (see note 9). The governmental activities deficit also included \$406.8 million in long-term bonds liabilities that fund the LHH rebuild 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 10(d)).

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

	Governmental activities		Business-type activities		Total	
	2016	2015	2016	2015	2016	2015
Revenues						
Program revenues:						
Charges for services.....	\$ 777,182	\$ 612,983	\$ 3,230,367	\$ 3,134,814	\$ 4,007,549	\$ 3,747,797
Operating grants and contributions.....	1,289,902	1,165,340	199,623	191,101	1,489,525	1,356,441
Capital grants and contributions.....	24,795	48,233	374,924	357,819	399,719	406,052
General revenues:						
Property taxes.....	1,808,917	1,640,383	-	-	1,808,917	1,640,383
Business taxes.....	660,926	611,932	-	-	660,926	611,932
Sales and use tax.....	270,051	240,424	-	-	270,051	240,424
Hotel room tax.....	387,661	394,262	-	-	387,661	394,262
Utility users tax.....	98,651	98,979	-	-	98,651	98,979
Other local taxes.....	399,882	451,994	-	-	399,882	451,994
Interest and investment income.....	24,048	20,737	28,566	25,999	52,614	46,736
Other.....	59,266	46,906	240,636	200,148	299,902	247,054
Total revenues.....	<u>5,801,281</u>	<u>5,332,173</u>	<u>4,074,116</u>	<u>3,909,881</u>	<u>9,875,397</u>	<u>9,242,054</u>
Expenses						
Public protection.....	1,222,549	1,108,200	-	-	1,222,549	1,108,200
Public works, transportation and commerce.....	418,978	270,454	-	-	418,978	270,454
Human welfare and neighborhood development.....	1,233,403	1,073,652	-	-	1,233,403	1,073,652
Community health.....	747,071	735,040	-	-	747,071	735,040
Culture and recreation.....	311,028	355,676	-	-	311,028	355,676
General administration and finance.....	246,383	249,823	-	-	246,383	249,823
General City responsibilities.....	113,490	94,577	-	-	113,490	94,577
Unallocated Interest on long-term debt.....	115,357	115,030	-	-	115,357	115,030
Airport.....	-	-	900,621	853,338	900,621	853,338
Transportation.....	-	-	1,106,420	1,018,251	1,106,420	1,018,251
Port.....	-	-	91,449	88,436	91,449	88,436
Water.....	-	-	470,254	438,885	470,254	438,885
Power.....	-	-	153,472	149,438	153,472	149,438
Hospitals.....	-	-	1,050,618	996,395	1,050,618	996,395
Sewer.....	-	-	244,289	239,556	244,289	239,556
Total expenses.....	<u>4,408,259</u>	<u>4,002,452</u>	<u>4,017,123</u>	<u>3,784,299</u>	<u>8,425,382</u>	<u>7,786,751</u>
Increase/(decrease) in net position before transfers.....	1,393,022	1,329,721	56,993	125,582	1,450,015	1,455,303
Transfers.....	(671,173)	(504,791)	671,173	504,791	-	-
Change in net position.....	<u>721,849</u>	<u>824,930</u>	<u>728,166</u>	<u>630,373</u>	<u>1,450,015</u>	<u>1,455,303</u>
Net position at beginning of year, as previously reported.....	<u>1,287,214</u>	<u>462,284</u>	<u>5,278,250</u>	<u>4,647,877</u>	<u>6,565,464</u>	<u>5,110,161</u>
Cumulative effect of accounting change.....	-	-	(8,580)	-	(8,580)	-
Net position at beginning of year, as restated.....	<u>1,287,214</u>	<u>462,284</u>	<u>5,269,670</u>	<u>4,647,877</u>	<u>6,556,884</u>	<u>5,110,161</u>
Net position at end of year.....	<u>\$ 2,009,063</u>	<u>\$ 1,287,214</u>	<u>\$ 5,997,836</u>	<u>\$ 5,278,250</u>	<u>\$ 8,006,899</u>	<u>\$ 6,565,464</u>

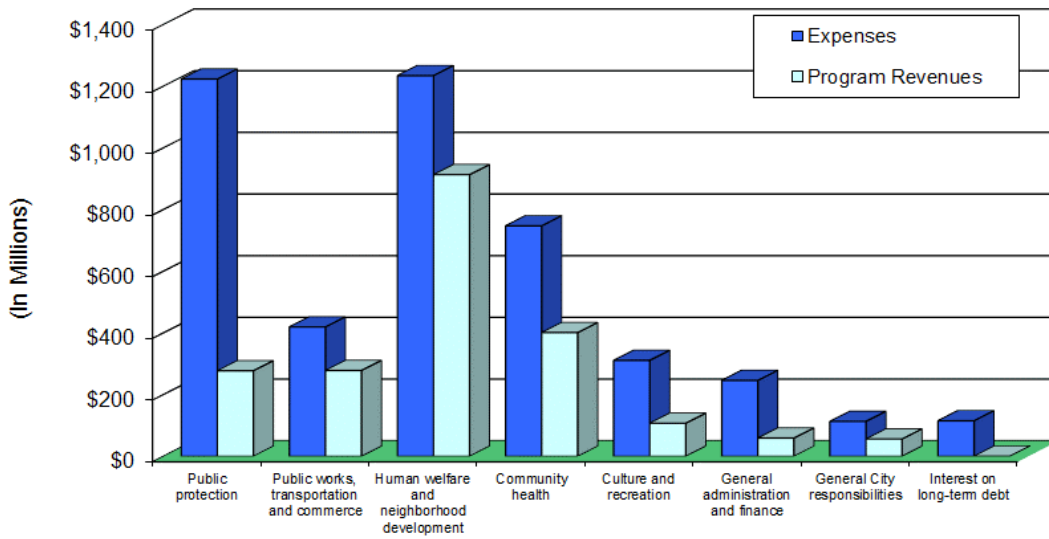
Analysis of Changes in Net Position

The City's Change in Net Position decreased by \$5.3 million in fiscal year 2015-16, a 0.4 percent decrease from the prior fiscal year, as noted above. The decrease in the change in net position was due to a \$97.8 million increase from business-type activities offset by a \$103.1 million decrease from governmental activities.

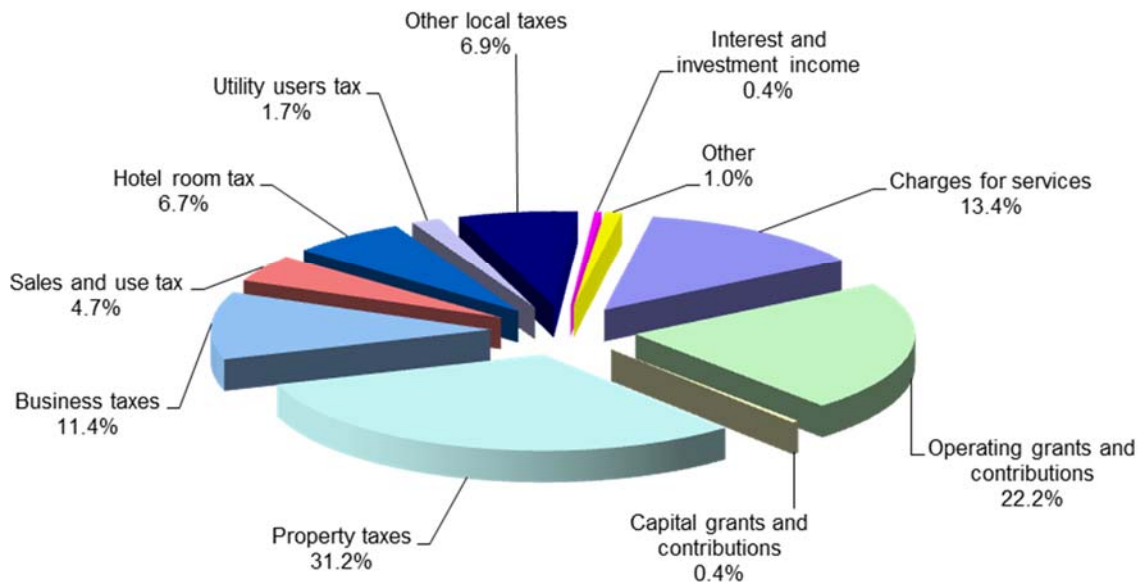
The City's governmental activities experienced a \$469.1 million or 8.8 percent growth in total revenues. This included noticeable increases in the following revenues: \$164.2 charges for services, \$124.6 million in operating grants and contributions, \$168.5 million in property taxes, \$49.0 million in business taxes and \$29.6 million in sales and use tax. These were offset by decreases of \$23.4 million in capital grants and contribution revenue and \$52.1 million in other local tax revenue. The City's governmental activities expenses reported an increase of \$405.8 million or 10.1 percent this fiscal year. The net transfer to business-type activities increased by \$166.4 million. A discussion of these and other changes is presented in the governmental activities and business-type activities sections that follow.

CITY AND COUNTY OF SAN FRANCISCO
Management's Discussion and Analysis (Unaudited) (Continued)
 Year Ended June 30, 2016

Expenses and Program Revenues - Governmental Activities



Revenues By Source - Governmental Activities



CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

Governmental activities. Governmental activities increased the City's total net position by approximately \$721.8 million. Key factors contributing to this change are discussed below.

Overall, total revenues from governmental activities were \$5.80 billion, a \$469.1 million or 8.8 percent increase over the prior year. For the same period, expenses totaled \$4.41 billion before transfers of \$671.2 million, resulting in a total net position increase of \$721.8 million by June 30, 2016.

Property tax revenues increased by \$168.5 million or 10.3 percent. This growth was due in large part to regular annual tax and escape tax collections associated with higher assessed values of secured real property and unsecured property in San Francisco and also due to increase in supplemental property tax collections for both current year and prior year supplemental assessments. A decrease in real property transfer tax by \$45.5 million made up the majority of the decline in other local taxes of \$52.1 million.

Revenues from business and sales and use taxes totaled approximately \$931.0 million, a growth of \$78.6 million over the prior year. Business taxes grew by \$49.0 million due to an increase in payroll tax revenue resulting from a 5.7 percent increase in employment and a 6.1 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 \$29.6 million is primarily due to the "triple flip" unwinding, in which 0.25 percent of the 1 percent Bradley Burns allocation was directed to property tax to pay for economic recovery bonds, with the remaining 0.75 percent being allocated to local sales tax. Beginning in January 2016, the entire 1 percent of Bradley Burns revenue has been allocated as sales tax. In addition, there was approximately 1 percent of underlying growth, which was restrained by unexpectedly flat auto sales, a decline in general consumer goods-related revenue, and declines in fuel tax due to both continued low gas prices and changes in jet fuel purchasing to lower-cost states.

Hotel room tax revenues declined by \$6.6 million, or 1.7 percent, due to in prior fiscal year, the City received \$34.0 million in previously unpaid short-term rental tax obligations. Excluding this payment, hotel room tax revenue would have seen growth over the prior year of 7.6 percent. Hotel room tax revenue growth is a function of changes in occupancy, Average Daily Room Rate (ADR), and room supply. Strong demand from all segments of the market (tourist, convention, and business), combined with no additions to inventory, have exerted upward pressure on both occupancy and ADR.

Operating grants and contributions increased \$124.6 million. This was largely due to the increases from state sources, including \$24.8 million for human welfare programs, \$36.8 million for community health program grants, \$49.5 million for public works programs, \$8.9 million for public protection, \$4.9 million for culture and recreation programs and \$1.3 million for general administration and finance programs. These were offset by a slight decrease of \$1.6 million in general city responsibilities programs.

Total charges for services increased \$164.2 million, or 26.8 percent, and other revenues increased \$12.4 million. The increase in total charges for services is driven by increased fee revenues across various departments, partially due to improved economic conditions. The more significant increases are discussed as follows. The City is addressing the need for affordable housing by increasing supply resulting in a \$90 million increase in housing inclusionary fees. An increase in large housing projects in the South of Market District increased SOMA Stabilization impact fees by \$12.5 million. The Department of Building Inspection's permit revenue increased \$12.7 million due to an increase in construction permits and project completion. Fire Department charges for services increased by \$8.2 million due to ambulance billing recoveries, as well as plan check and inspection fees for developers. The Department of Public Works charges for services increased by \$4.3 million largely due to curb reconstruction and assessments, as well as encroachment assessments. The Planning Department's revenues grew by more than \$4.6 million from increased building permits and planning case volume, as well as CPI adjustments to fees. In addition, an increase of \$3.8 million in the citywide unallocated revenue was due to increased cost reimbursement of General Fund, consistent with the budgeted Full Cost Allocation Plan. The increase in other revenues is related to revenue received from the San Francisco Housing Authority much earlier than expected, as the Housing Authority's permanent financing plan was enacted.

CITY AND COUNTY OF SAN FRANCISCO

Management’s Discussion and Analysis (Unaudited) (Continued)

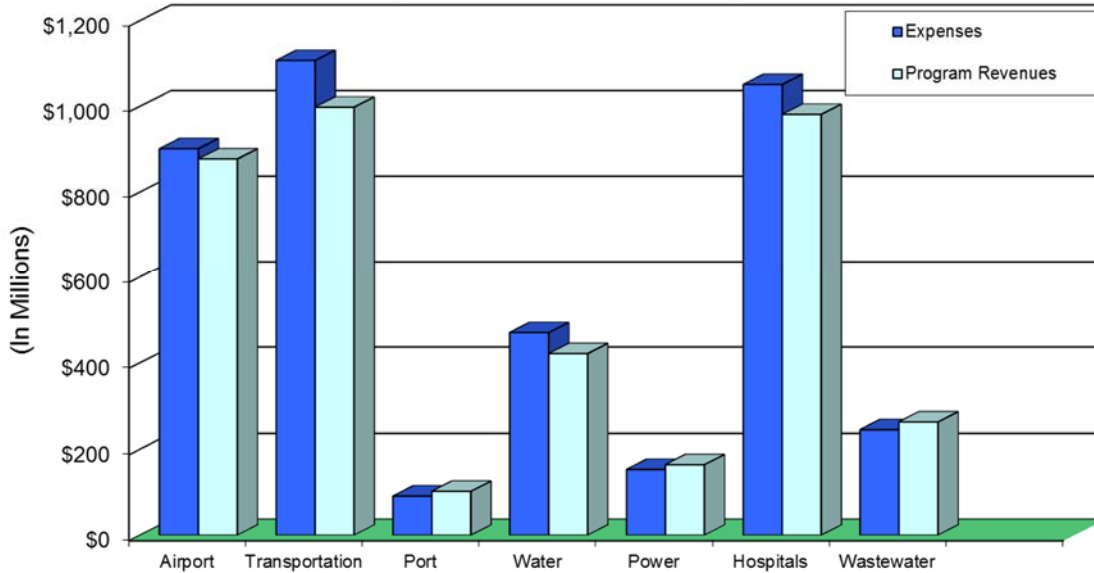
Year Ended June 30, 2016

Interest and investment income revenue increased by \$3.3 million, or 16.0 percent, due to increased balances in the City’s investment pool, primarily due to an increase in property tax revenues, business and sales tax revenues, and other revenues.

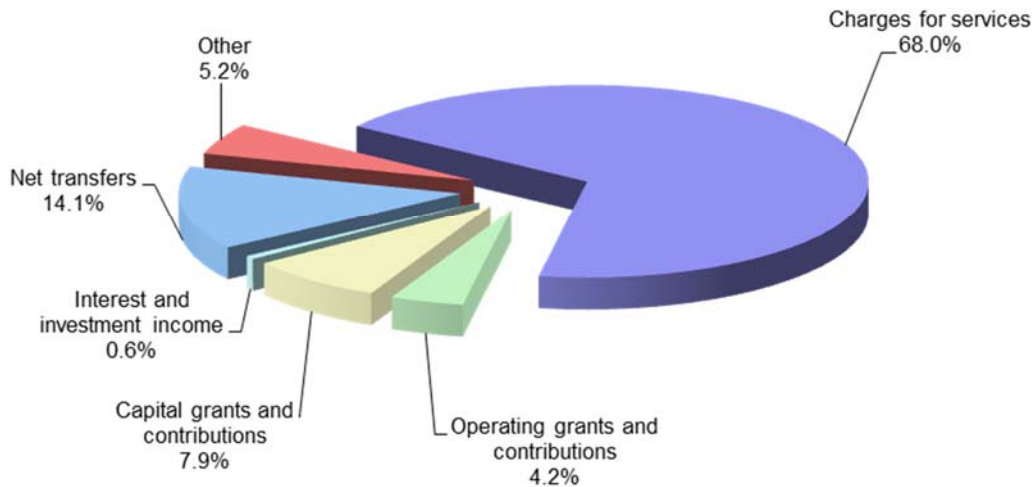
Net transfers from the governmental activities to business-type activities were \$671.2 million, a 33.0 percent or \$166.4 million increase from the prior year. This was mainly due to increased operating subsidies of \$36.7 million from the General Fund to SFMTA and \$85.1 million to SFGH, offset by a decrease of \$18.5 million in General Fund subsidies to LHH. In addition, the Water Enterprise received \$34.2 million in general obligation bond proceeds for the improvement of the Auxiliary Water Supply System, the Port received \$21.7 million for parks and open spaces projects, and SFMTA received \$61.9 million for road improvement and street safety projects.

The increase of total governmental expenses of \$405.8 million, or 10.1 percent, was primarily due to increase in demand for the government’s services in almost all functional service by \$453.9 million, which was partly offset by the decrease of expenses in culture and recreation and general administrative and finance functions by \$48.1 million.

Expenses and Program Revenues - Business-Type Activities



Revenues By Source - Business-type Activities



CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

Business-type activities increased the City's net position by \$719.6 million and key factors contributing to this increase are:

- The San Francisco International Airport had an increase in net position at fiscal year-end of \$49.9 million, compared to a \$56.1 million increase in the prior year, a \$6.2 million difference. Operating revenues totaled \$867.0 million for fiscal year 2015-16, an increase of \$51.6 million or 6.3 percent over the prior year and included increases of \$30.8 million, \$2.1 million, \$11.7 million, and \$7.0 million in aviation, concession, parking and transportation, and net sales and services revenues, respectively, reflecting traffic growth at the Airport. For the same period, the Airport's operating expenses increased by \$31.4 million, or 5.2 percent, for a net operating income of \$226.5 million for the period. Net non-operating activities saw a deficit of \$144.5 million versus \$141.8 million deficit in the prior year, a \$2.6 million increase. The increase in both operating and non-operating expenses is due to increases in personnel, depreciation, and other non-operating expenses. Personnel costs increased \$14.4 million due to cost of living adjustments and additional positions. Also, capital contributions decreased by \$21.7 million due to a reduction in federal grants received.
- The City's Water Enterprise, the third largest such entity in California, reported an increase in net position of \$26.2 million at the end of fiscal year 2015-16, compared to an increase of \$97.4 million at the end of the previous year, a \$71.2 million difference. Revenues totaled \$463.2 million, expenses totaled \$470.3 million, and the net increase from capital contributions and transfers was \$33.2 million. Compared to the prior year, total revenues decreased \$24.8 million, which included \$16.1 million in non-operating revenues. The primary reason for the decrease in water service revenues was due to a \$19.3 million wholesale revenue adjustment and a 10.3% decrease in consumption, offset by adopted rate increases of 28.0% for wholesale customers and 12.0% for retail customers. Within expenses, the enterprise reported a total increase of \$28.6 million in fiscal year 2015-16. This included an \$11.3 million increase in depreciation expense from increased capitalized assets, a \$1.3 million increase in general and administrative and other expenses, a \$3.8 million increase in personnel services, \$0.7 million increase in construction and engineering contractual services, \$0.5 million increase in services provided by other departments, and \$0.2 million for building and construction supplies.
- Hetch Hetchy Water and Power ended fiscal year 2015-16 with a net position increase of \$25.7 million, compared to a \$11.1 million increase the prior year, a difference of \$14.6 million. This change consisted of increases in operating income of \$12.4 million, non-operating income of \$3.6 million, and a decrease of transfers from (to) the City of \$1.4 million. This enterprise consists of two segments: Hetchy Water upcountry operations and water system, which reported a \$2.3 million increase in change in net position, and Hetchy Power (also known as the Power Enterprise), which reported a \$23.4 million increase in change in net position. Hetchy Water operating revenues decreased by \$0.1 million while operating expenses decreased by \$2.2 million. In addition, there was a \$0.2 million decrease in water assessment fee revenue from the Water Enterprise in nonoperating revenue. Hetchy Power's total revenues increased by \$17.0 million mostly due to increases in sales of excess power of \$9.3 million, \$4.4 million from City Departments, and an increase of \$3.3 million electricity sales from CleanPowerSF. On the operating expenses side, Hetchy Power reported an increase of \$6.7 million due to increases of \$3.5 million in purchased electricity, \$3.0 million in transmission and distribution power costs, \$2.5 million in project spending, \$1.4 million in services provided by other departments, \$0.8 million in materials and electrical supplies, \$0.4 million in personnel services mainly due to cost of living adjustments and pension costs and \$0.4 million in personnel services mainly due to cost of living adjustments and pension costs and \$0.4 million higher taxes, licenses and permits related to national park service. These increases were offset by decreases of \$2.4 million in contractual services, \$1.8 million in judgments and claims mainly due to prior year one-time settlement of franchise tax fees, and \$1.1 million in depreciation.
- The City's Wastewater Enterprise's net position increased by \$13.9 million, compared to a \$29.3 million increase the prior year, a \$15.4 million change. Operating revenues increased by \$5.8 million due to a \$4.6 million increase in charges for services as a result of an average 5% adopted rate increase, a \$0.4 million increase from other City departments, as well as increased capacity fees and an increase in permit applications. Operating expenses increased by \$5.1 million due to increases of \$3.1 million in Sewer System Improvement Program (SSIP) and repair and replacement project expenses, \$2.7

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

million in personnel services mainly due to cost of living adjustments, health and pension costs, \$2.1 million in pollution remediation obligations, \$1.2 million in higher building and equipment maintenance services, \$0.5 million in depreciation expense, and \$0.4 million in materials and supplies, which were offset by decreases of \$4.9 million in general and administrative expenses mainly due to lower judgment and claims liability based on actuarial estimate. Transfers out increased by \$16.3 million due to a transfer to the General Fund in order to secure jurisdiction of the City owned property adjacent to the Southeast Water Pollution Control Plant. This was offset by a transfer in of \$0.5 million and a net nonoperating expense of \$0.3 million.

- The Port ended fiscal year 2015-16 with a net position increase of \$35.1 million, compared to a \$11.8 million increase in the previous year, a \$23.3 million difference. 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 2015-16, operating revenues increased \$4.4 million and included a net increase in property rentals of \$1.8 million and an increase in cruise revenues of \$2.7 million. Operating expenses increased \$3.1 million over the prior year. This was due in part to a \$2.0 million increase in the cost of services from other departments and a net increase of \$1.5 million in personnel and other expenses. The above changes were offset by an increase of \$0.4 million in interest expense.
- The SFMTA had an increase in net position of \$478.3 million for fiscal year 2015-16 before cumulative effect of accounting change, compared to an increase of \$294.7 million in the prior year, a \$183.6 million change. SFMTA's total operating revenues were \$495.3 million, while total operating expenses reached \$1.10 billion. Operating revenues decreased by \$4.3 million compared to the prior year and is mainly due to lower passenger fare revenue of \$8.0 million, a slight decrease in rental income of \$0.8 million, and \$3.6 million in other revenues which consists primarily of taxi medallion revenue. These decreases were offset by an increase of \$7.8 million in parking permit, fines, and penalties, and an increase in charges for services of \$0.3 million. Operating expenses increased by \$88.8 million primarily due to personnel costs. Net nonoperating revenue increased by \$39.8 million mainly due to transit impact developer fees. An increase of capital contributions of \$91.1 million is due to an increase in capital expenditures incurred and billable to grantors mostly related to Central Subway, revenue vehicles procurement, and other large projects. Net transfers in increased by \$145.8 million due to a \$36.7 million increase in transfers from the City's General Fund mainly for operating subsidies and an increase of \$99.7 million in transfers from nonmajor governmental funds and a decrease in transfers out of \$9.4 million. Transfers from nonmajor governmental funds included \$123.8 million for capital activities and street improvement projects. In fiscal year 2015-16, the City elected early implementation of GASB Statement No. 82, resulting in a restatement of SFMTA's 2014-15 results, reducing the beginning net position in the amount of \$8.6 million.
- LHH, the City's skilled nursing care hospital, had an increase in net position of \$21.6 million at the end of fiscal year 2015-16, compared to an increase of \$6.6 million at the end of the previous year, a \$15.0 million difference. The LHH's loss before capital contributions and transfers for the year was \$22.7 million versus a loss of \$61.5 million for the prior year. This change of \$38.8 million was mostly due to a \$48.8 million increase in operating revenues, a \$8.6 million increase in operating expenses, and a \$1.3 million decrease in other non-operating revenues. This was offset by a \$23.9 million decrease in net transfers from the City this fiscal year.
- SFGH, the City's acute care hospital, ended fiscal year 2015-16 with a net position increase of \$77.6 million, compared to a \$123.4 million increase the prior year, a \$45.8 million change. This was due to decreased capital contributions of \$5.0 million compared to prior year's capital contributions of \$57.4 million. However, SFGH incurred an operating loss of \$89.6 million, which was a \$66.0 million increase from the prior year. This was due to a \$21.2 million decrease in operating revenues, largely related to net patient services revenues; and increases in operating expenses mostly due to \$26.2 million in personal services, \$7.2 million in contractual services, and \$10.9 million in depreciation and amortization.

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Management's Discussion and Analysis (Unaudited) (Continued)
Year Ended June 30, 2016

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 2015-16, the City governmental funds reported combined fund balances of \$2.84 billion, an increase of \$546.5 million or 23.9 percent over the prior year. Of the total fund balances, \$945.7 million is assigned and \$138.0 million is unassigned. The total of \$1.08 billion or 38.2 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 \$879.6 million. The remainder of the governmental fund balances includes \$0.1 million nonspendable for items that are not expected to be converted to cash such as inventories and long-term loans, \$1.56 billion restricted for programs at various levels and \$187.2 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 \$1.12 billion while total fund balance reached \$1.43 billion. Combined assigned and unassigned fund balances represent 33.7 percent of total expenditures, while total fund balance represents 43.0 percent of total expenditures. For the year, the General Fund's total revenues exceeded expenditures by \$1.03 billion, before transfers and other items of \$748.4 million, resulting in total fund balance increasing by \$284.0 million. Overall, the significant growth in revenues, particularly in property taxes, business taxes, sales and uses tax 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 2015-16, the unrestricted net position for the proprietary funds was as follows: Airport: \$36.0 million, Water Enterprise: \$26.5 million, Hetch Hetchy Water and Power: \$141.1 million, Wastewater Enterprise: \$38.0 million, and the Port: \$57.1 million. In addition, SFMTA, San Francisco General Hospital, and Laguna Honda Hospital had deficits in unrestricted net position of \$3.4 million, \$341.4 million, and \$185.5 million, respectively.

CITY AND COUNTY OF SAN FRANCISCO

Management’s Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

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 \$728.2 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	Change In Net Position
Airport.....	\$ 866,991	\$ 640,473	\$ 226,518	\$ (144,463)	\$ 10,424	\$ (42,542)	\$ 49,937
Water.....	419,516	314,786	104,730	(111,771)	-	33,244	26,203
Hetch Hetchy.....	164,736	148,495	16,241	8,759	-	680	25,680
Municipal Transportation Agency....	495,296	1,100,234	(604,938)	206,529	357,871	518,795	478,257
General Hospital.....	717,053	806,694	(89,641)	53,520	5,000	108,681	77,560
Wastewater Enterprise.....	261,775	221,553	40,222	(10,309)	-	(16,025)	13,888
Port.....	99,733	86,793	12,940	(3,594)	1,629	24,100	35,075
Laguna Honda Hospital.....	205,267	235,841	(30,574)	7,900	-	44,240	21,566
Total.....	<u>\$ 3,230,367</u>	<u>\$ 3,554,869</u>	<u>\$ (324,502)</u>	<u>\$ 6,571</u>	<u>\$ 374,924</u>	<u>\$ 671,173</u>	<u>\$ 728,166</u>

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 2015-16, the net position of the Retirement System, Health Service System and Retiree Health Care Trust combined totaled \$20.34 billion, representing a \$244.7 million decrease from the prior year, and 1.2 percent change. The decrease is a result of benefit payments greater than contributions offset by net investment income. The Private-Purpose Trust Fund accounts for the Successor Agency, which had a net deficit of \$377.0 million at year’s end. This 11.4 percent, or \$48.4 million, decrease in the net deficit is due to increases in developer payments and the sale of the Jessie Square parking garage. The Investment Trust Fund’s net position was \$743.9 million at year’s end, and the 37.8 percent increase represents the excess of contributions over distribution 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 \$138.2 million higher than the final budget. The City realized \$101.3 million, \$24.6 million, \$17.4 million, \$15.4 million, \$13.6 million, and \$5.1 million more revenue than budgeted in property taxes, business taxes, other resources, charges for services, other grants and subventions, and utility users tax, respectively. These increases were partly offset by reductions of \$28.9 million, \$7.2 million, \$5.4 million, and \$5.0 million, in transfers from other funds, real property transfer tax, health and welfare realignment, and sales and use tax, respectively.

Differences between the final budget and the actual (budgetary basis) expenditures resulted in \$158.5 million in expenditure savings. Major factors include:

- \$85.3 million in savings from the Department of Public Health due to delays in contracting and hiring for vacant positions creating additional salary and fringe benefit savings, and prior year encumbrance closeouts.
- \$36.5 million in savings from the Human Services Agency, due largely to operating savings in salaries and benefits from delays in hiring, contract savings, reductions in aid assistance and aid payments resulting from a mid-year change in budgeting, and lower than expected caseload levels.

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Management’s Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

- \$11.8 million savings in contracts and salary and benefits mainly in General Services Administration, Treasurer/Tax Collector, Assessor/Recorder, City Planning, City Attorney, Board of Supervisors, Elections, and other departments in general administration and finance.
- \$10.1 million in salary and benefit savings mainly in Juvenile Probation, Adult Probation, Sheriff, Emergency Communications and other departments in public protection.
- The remaining lower than budgeted expenditures are savings from public works, transportation and commerce, and culture and recreation.

The net effect of substantial revenue increases, savings in expenditures and reduction in reserve deposits was a budgetary fund balance available for subsequent year appropriation of \$435.2 million at the end of fiscal year 2015-16. The City’s fiscal year 2016-17 and 2017-18 Adopted Original Budget assumed an available balance of \$363.3 million fully appropriated in fiscal year 2016-17 and fiscal year 2017-18 leaving \$11.9 million available for future appropriations. (See also Note 4 to the Basic Financial Statements for additional budgetary 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, 2016, increased by \$1.20 billion, 6.1 percent, to \$20.82 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 \$250.6 million or 21.0 percent to this total increase while \$945.6 million or 79.0 percent was from business-type activities. Details are shown in the table below.

	Governmental Activities		Business-type Activities		Total	
	2016	2015	2016	2015	2016	2015
	Land.....	\$ 334,261	\$ 299,911	\$ 217,441	\$ 217,441	\$ 551,702
Construction in progress.....	456,093	1,245,064	3,120,461	3,104,166	3,576,554	4,349,230
Facilities and improvements...	3,372,183	2,544,116	10,484,335	9,716,578	13,856,518	12,260,694
Machinery and equipment.....	201,333	76,202	1,112,860	926,979	1,314,193	1,003,181
Infrastructure.....	686,365	659,502	701,029	719,240	1,387,394	1,378,742
Intangible asset.....	75,117	49,915	59,691	65,802	134,808	115,717
Total.....	<u>\$ 5,125,352</u>	<u>\$ 4,874,710</u>	<u>\$ 15,695,817</u>	<u>\$ 14,750,206</u>	<u>\$ 20,821,169</u>	<u>\$ 19,624,916</u>

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

- Under governmental activities, net capital assets increased by \$250.6 million or 5.1 percent. The City issued \$713.4 million in Commercial Paper to provide financing for various capital projects, including the purchase of capital equipment for San Francisco General Hospital, the Veterans Building seismic upgrades, and the Moscone Center expansion. Approximately \$1.1 billion in construction in progress work was substantially completed and capitalized as facilities and improvement and infrastructure. The completed projects include capitalization of approximately \$848.0 million for the new San Francisco General Hospital Rebuild Project and approximately \$135.8 million for the seismic upgrade of the Veterans building. The remaining completed projects include public works, intangible assets, and traffic signal projects.

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Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

- The Water Enterprise's net capital assets increased by \$245.2 million or 5.3 percent, reflecting an increase in construction and capital improvement activities. Major additions to construction work in progress included Calaveras Dam Replacement, Regional Groundwater Storage and Recovery, the Harry Tracy Water Treatment Plant Long-Term Improvements, Auxiliary Water Supply System, San Francisco Groundwater Supply, Peninsula Pipeline Seismic Upgrade, Irvington Tunnel Alternatives, and other upgrade and improvement programs. As of June 30, 2016, the Water Enterprise is 90% through construction of its multi-billion dollar, multi-year program to upgrade the Hetch Hetchy Regional and Local Water Systems. The program consists of 35 local projects within San Francisco and 52 regional projects spread over seven different counties from the Sierra foothills to San Francisco. As of June 30, 2016, 34 local projects are completed and the target completion date is December 2016. For regional projects, 36 are completed and the expected completion date is December 2019. The Water System Improvement Program (WSIP) delivers capital improvements that enhance the Water Enterprise's ability to provide reliable, affordable, high quality drinking water to its customers.
- SFMTA's net capital assets increased by \$400.7 million or 14.6% mainly from construction in progress of \$212.7 million for the new Central Subway Project, Central Control, rail replacement, transit lane and street improvement projects. Equipment costs of \$283.1 million was incurred during the fiscal year for the procurement of new light rail vehicles, trolley and motor buses to replace the old fleet, upgrade of communications system, traffic signals, radio replacement, and various information systems development. Building cost totaling \$36.2 million was incurred in fiscal year 2016 for Islais Creek facility improvement, transit operator convenience stations, elevator and escalator modernization, and upgrade of garage facilities in various locations.
- Laguna Honda Hospital's net capital assets decreased by \$15.0 million or 2.8 percent due primarily to depreciation expense being greater than asset additions. Laguna Honda Hospital provides 780 resident beds in three state of the art buildings on Laguna Honda's 62-acre campus. The 500,000 square foot facility received silver certification by the U.S. Green Building Council's Leadership in Energy and Environmental Design (LEED) program, becoming the first green-certified hospital in California.
- SFGH's net capital assets increased by \$61.0 million or 49.1 percent primarily due to the increases in the acquisition of capital assets for the hospital. As of June 30, 2016, General Obligation Bonds in the amount of \$887.4 million have been sold to fund the hospital rebuild. During the period of July 2015 - June 2016, construction of the new hospital was completed and reached substantial completion on August 18, 2015. Patients were moved into the new hospital on May 21, 2016. 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 was capitalized and recorded under governmental activities.
- The Wastewater Enterprise net capital assets reported an increase of \$126.9 million or 6.6 percent mainly in completed construction activities. These include the Northshore to Channel Force Main, Ocean Side Treatment Plant Improvements, Southeast Treatment Plant Oxygen Generate Plant Replacement, and other capital projects throughout the system. The San Francisco Public Utilities Commission is underway with the initial phase of the Sewer System Improvement Program, a multi-year and multi-billion dollar investment to upgrade the aging sewer system to provide a reliable, sustainable, and seismically safe sewer system. The \$7.0 billion program includes three phases over the span of next 20 years.
- Hetch Hetchy's net of accumulated depreciation and amortization, increased by \$30.9 million or 8.3% to \$404.2 million primarily due to additions of facilities, improvements, machinery, and equipment for Moccasin Facilities Upgrade, Transmission and Distribution System, Lower Cherry Aqueduct, Streetlight Replacement, Server Building projects, and San Joaquin Pipeline Rehabilitation. The Hetchy System Improvement Program is a long-term capital program from 2012 to 2025 and includes projects, varying in scope and complexity, to address necessary work on water transmission, hydroelectric generation and power transmission facilities in Tuolumne, Mariposa, Stanislaus, San Joaquin and Alameda counties, essential to continued delivery of both water and power.

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Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

- The Airport's net capital assets increased \$109.2 million or 2.8 percent primarily due to the capitalization of capital improvement project costs. The Airport has five- and ten-year Capital Plans to build new facilities, improve existing facilities, renovate buildings, repair or replace infrastructure, preserve assets, enhance safety and security, develop systems functionality, and perform needed maintenance. Significant projects in design or under construction in fiscal year 2017 include the Terminal 1 (T1) Redevelopment Program which includes the redevelopment of Boarding Area B, the expansion of the T1 Central Area, and a new baggage handling system, in addition to the Terminal 3 (T3) Redevelopment Program which creates a unified T3 checkpoint and constructs a new secure connector and office block. Other notable ongoing projects include the on-airport hotel, a new consolidated administration campus building, a second long-term parking garage, and a new industrial waste treatment plant.
- The Port's net capital assets decreased by \$13.3 million or 3.0 percent due to capitalization and depreciation of capital improvements in 2015, including the James R. Herman Cruise Terminal at Pier 27. Pier 35 Building and Roof project provided for the upgrade of two elevators and essential water intrusion work (roofing, flashing, window and door weather stripping repairs) in several areas in the Pier 35 bulkhead and the shed building. Pier 49, Wharf J1 Under-Pier Sewer Replacement project's scope included the replacement of all existing under-pier gravity main and branch sewer lines serving six Port tenant restaurants at Pier 49 Wharf J1. The security improvements through the installation and deployment of closed-circuit television (CCTV) and integrated access control/intrusion detection systems at key Port facilities continue in phases, largely based on priority and available funding. The opening of the Bayview Gateway was celebrated with a ribbon-cutting ceremony on September 18, 2015. It is a one-acre passive green open space at the intersection of Cargo Way and Third Street near Pier 90.

At the end of the year, the City's business-type activities had approximately \$1.20 billion in commitments for various capital projects. Of this, Water Enterprise had an estimated \$283.3 million, SFMTA had \$567.2 million, Wastewater had \$190.7 million, Airport had \$75.8 million, Hetch Hetchy had \$63.6 million, Port had \$15.1 million, Laguna Honda Hospital had \$0.7 million and the General Hospital had \$4.2 million. In addition, there was approximately \$88.0 million reserved for encumbrances in capital project funds for the general government projects.

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

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

Debt Administration

At the end of the June 30, 2016, the City had total long-term and commercial paper debt outstanding of \$14.39 billion. Of this amount, \$2.22 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 \$12.17 billion is revenue bonds, commercial papers, certificates of participation 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 \$516.7 million or 3.7 percent during the fiscal year.

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Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

The net increase in debt obligations in the governmental activities was \$152.1 million primarily due to the issuance of \$321.9 million of general obligation bonds to finance 1) the improvements to the City's transportation system, streets and roads; 2) improvements to park, open space and recreational facilities; 3) repairs and seismic improvements to better prepare San Francisco for a major earthquake or natural disaster. The City likewise issued \$150.5 million certificates of participation to refinance commercial paper notes used to finance the renovation and seismic retrofit of the War Memorial Veterans Building. The City refunded \$123.6 million certificates of participation which financed the acquisition of certain office buildings occupied by various City departments for debt service savings.

The business-type activities net debt increase was \$364.6 million primarily due to issuance of \$338.9 million commercial paper notes by the Airport, Water Enterprise, Wastewater Enterprise and the San Francisco General Hospital for interim financing of various projects. The Wastewater Enterprise issued \$308.4 million revenue bonds to finance wastewater capital projects and the Hetch Hetchy Power Enterprise issued \$4.1 million energy bonds to fund certain solar generation facilities at the Marina Middle School and the San Francisco Police Academy. The Airport issued \$232.1 million in revenue refunding bonds for economic gain.

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 \$194.30 billion in value as of the close of the fiscal year. As of June 30, 2016, the City had \$2.22 billion in authorized, outstanding general obligation bonds, which is equal to approximately 1.10 percent of gross (1.15 percent of net) taxable assessed value of property. As of June 30, 2016, there were an additional \$1.62 billion in bonds that were authorized but unissued. If all of these general obligation bonds were issued and outstanding in full, the total debt burden would be approximately 1.90 percent of gross (1.98 percent of net) taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2016 were:

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

During the fiscal year, Moody's Investors Service (Moody's) and Standard & Poor's affirmed the City's ratings of "Aa1" and "AA+", respectively, with Stable Outlook. Fitch Ratings upgraded it's rating of "AA" to "AA+", and revised the rating outlook to Stable from Positive on all the City's outstanding general obligation bonds.

The City's enterprise activities carried upgraded underlying debt ratings for the SFMTA of "Aa2" and "AA" from Moody's and Standard & Poor's, respectively. Moody's, Standard and 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 carried underlying ratings of "Aa3" and "AA-" and the Wastewater Enterprise carried underlying ratings of "Aa3" and "AA" from Moody's and Standard and Poor's respectively of June 30, 2016.

In October 2016, Moody's Investors Service upgraded the City's Lease Revenue Bonds and Certificates of Participation from Aa3 to Aa2 for those secured by "more essential assets", and also upgraded the City's Lease Revenue Refunding bonds from Aa3 to Aa2, including Series 2008-1 and 2008-2, despite the "less essential" nature of the leased assets securing the bonds, because they are a demonstrated, stable non-pledged revenue source that provides strong coverage of debt service payments. Moody's also upgraded the rating on the City's Equipment Leases from A1 to Aa2, because of the strong lease structure where the lease term matches the useful life of the leased assets.

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

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Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

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 2016-17 and 2017-18. 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, the Port of San Francisco and Child Support Services, which each have a fixed two-year budget.

- The City's average unemployment for fiscal year 2015-16 was 3.4 percent, a decrease of 0.5 percent from the average unemployment rate in fiscal year 2014-15.
- 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 2015-16 was \$1.1 million up 10.4 percent from the previous fiscal year. Residential and commercial rents also grew by 4.9 percent and 6.5 percent, respectively, from the prior fiscal year.
- The hotel sector saw continued growth in fiscal year 2015-16 over the prior year. Annual average hotel room occupancy grew to 87.7 percent in fiscal year 2015-16 while average daily room rates grew by 5.7 percent over the prior year.
- The City's taxable sales have also continued to grow, with fiscal year 2015-16 sales tax revenue up 11.2 percent over fiscal year 2014-15.

The Board of Supervisors approved a final two-year budget for fiscal years 2016-17 and 2017-18 in July 2016, which assumes use of prior year fund balance from General Fund of \$172.1 million and \$191.2 million, respectively.

CITY AND COUNTY OF SAN FRANCISCO

Management's Discussion and Analysis (Unaudited) (Continued)

Year Ended June 30, 2016

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

***Zuckerberg San Francisco
General Hospital and Trauma 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

WWW.SFGOV.ORG

CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Position

June 30, 2016

(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.....	\$ 3,314,988	\$ 2,370,166	\$ 5,685,154	\$ 11,130
Deposits and investments outside City Treasury.....	84,845	16,494	101,339	-
Receivables (net of allowance for uncollectible amounts of \$220,815 for the primary government):				
Property taxes and penalties.....	77,241	-	77,241	-
Other local taxes.....	278,763	-	278,763	-
Federal and state grants and subventions.....	303,316	225,984	529,300	-
Charges for services.....	99,972	232,251	332,223	1,130
Interest and other.....	16,455	199,453	215,908	12
Due from component units.....	2,437	594	3,031	-
Inventories.....	-	102,000	102,000	-
Other assets.....	7,121	3,163	10,284	-
Restricted assets:				
Deposits and investments with City Treasury.....	-	250,115	250,115	-
Deposits and investments outside City Treasury.....	25,349	312,380	337,729	-
Grants and other receivables.....	-	21,138	21,138	-
Total current assets.....	<u>4,210,487</u>	<u>3,733,738</u>	<u>7,944,225</u>	<u>12,272</u>
Noncurrent assets:				
Loan receivables (net of allowance for uncollectible amounts of \$1,121,995).....	81,801	-	81,801	-
Advance to component units.....	17,496	2,827	20,323	-
Other assets.....	6	12,660	12,666	-
Restricted assets:				
Deposits and investments with City Treasury.....	-	697,292	697,292	-
Deposits and investments outside City Treasury.....	-	423,364	423,364	-
Grants and other receivables.....	-	24,114	24,114	-
Capital assets:				
Land and other assets not being depreciated.....	821,524	3,349,945	4,171,469	5,529
Facilities, infrastructure and equipment, net of depreciation.....	4,303,828	12,345,872	16,649,700	17
Total capital assets.....	<u>5,125,352</u>	<u>15,695,817</u>	<u>20,821,169</u>	<u>5,546</u>
Total noncurrent assets.....	<u>5,224,655</u>	<u>16,856,074</u>	<u>22,080,729</u>	<u>5,546</u>
Total assets.....	<u>9,435,142</u>	<u>20,589,812</u>	<u>30,024,954</u>	<u>17,818</u>
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized loss on refunding of debt.....	18,373	105,229	123,602	-
Deferred outflows on derivative instruments.....	-	83,614	83,614	-
Deferred outflows related to pensions.....	386,187	301,184	687,371	22
Total deferred outflows of resources.....	<u>\$ 404,560</u>	<u>\$ 490,027</u>	<u>\$ 894,587</u>	<u>\$ 22</u>

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, 2016
(In Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business- Type Activities	Total	Treasure Island Development Authority
LIABILITIES				
Current liabilities:				
Accounts payable.....	\$ 361,180	\$ 270,548	\$ 631,728	\$ 4,126
Accrued payroll.....	91,124	71,008	162,132	-
Accrued vacation and sick leave pay.....	85,868	64,822	150,690	-
Accrued workers' compensation.....	39,357	31,867	71,224	-
Estimated claims payable.....	53,627	52,808	106,435	-
Bonds, loans, capital leases, and other payables.....	276,685	574,729	851,414	-
Accrued interest payable.....	13,208	52,885	66,093	-
Unearned grant and subvention revenues.....	24,250	-	24,250	-
Due to primary government.....	-	-	-	420
Internal balances.....	21,995	(21,995)	-	-
Unearned revenues and other liabilities.....	494,854	621,224	1,116,078	1,488
Liabilities payable from restricted assets:				
Bonds, loans, capital leases, and other payables.....	-	373,378	373,378	-
Accrued interest payable.....	-	31,475	31,475	-
Other.....	-	173,084	173,084	-
Total current liabilities.....	<u>1,462,148</u>	<u>2,295,833</u>	<u>3,757,981</u>	<u>6,034</u>
Noncurrent liabilities:				
Accrued vacation and sick leave pay.....	65,159	43,791	108,950	-
Accrued workers' compensation.....	188,468	157,736	346,204	-
Other postemployment benefits obligation.....	1,202,986	878,590	2,081,576	-
Estimated claims payable.....	106,871	64,260	171,131	-
Bonds, loans, capital leases, and other payables.....	3,017,840	10,151,025	13,168,865	-
Advance from primary government.....	-	-	-	5,721
Unearned revenues and other liabilities.....	2,022	94,414	96,436	-
Derivative instruments liabilities.....	-	96,132	96,132	-
Net pension liability.....	1,355,280	976,938	2,332,218	24
Total noncurrent liabilities.....	<u>5,938,626</u>	<u>12,462,886</u>	<u>18,401,512</u>	<u>5,745</u>
Total liabilities.....	<u>7,400,774</u>	<u>14,758,719</u>	<u>22,159,493</u>	<u>11,779</u>
DEFERRED INFLOWS OF RESOURCES				
Unamortized gain on refunding of debt.....	236	337	573	-
Unamortized gain on leaseback transaction.....	-	4,349	4,349	-
Deferred inflows related to pensions.....	429,629	318,598	748,227	3
Total deferred inflows of resources.....	<u>429,865</u>	<u>323,284</u>	<u>753,149</u>	<u>3</u>
NET POSITION				
Net investment in capital assets, Note 10(d).....	2,750,782	5,690,741	8,151,422	5,546
Restricted for:				
Reserve for rainy day.....	120,106	-	120,106	-
Debt service.....	83,029	127,073	210,102	-
Capital projects, Note 10(d).....	198,962	340,896	423,132	-
Community development.....	433,398	-	433,398	-
Transportation Authority activities.....	15,657	-	15,657	-
Building inspection programs.....	134,663	-	134,663	-
Children and families.....	105,177	-	105,177	-
Culture and recreation.....	110,292	-	110,292	-
Grants.....	84,332	-	84,332	-
Other purposes.....	45,900	70,505	116,405	-
Total restricted.....	<u>1,331,516</u>	<u>538,474</u>	<u>1,753,264</u>	<u>-</u>
Unrestricted (deficit), Note 10(d).....	<u>(2,073,235)</u>	<u>(231,379)</u>	<u>(1,897,787)</u>	<u>512</u>
Total net position.....	<u>\$ 2,009,063</u>	<u>\$ 5,997,836</u>	<u>\$ 8,006,899</u>	<u>\$ 6,058</u>

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, 2016
 (In Thousands)

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Position			Component Unit Treasure Island Development Authority
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government		Total	
					Governmental Activities	Business- Type Activities		
Primary government:								
Governmental activities:								
Public protection.....	\$ 1,222,549	\$ 86,164	\$ 191,215	\$ -	\$ (945,170)	\$ -	\$ (945,170)	\$ -
Public works, transportation and commerce.....	418,978	130,410	125,081	22,520	(140,967)	-	(140,967)	-
Human welfare and neighborhood development.....	1,233,403	273,986	639,475	-	(319,942)	-	(319,942)	-
Community health.....	747,071	90,078	310,895	-	(346,098)	-	(346,098)	-
Culture and recreation.....	311,028	98,205	6,236	2,275	(204,312)	-	(204,312)	-
General administration and finance.....	246,383	52,417	6,680	-	(187,286)	-	(187,286)	-
General City responsibilities.....	113,490	45,922	10,320	-	(57,248)	-	(57,248)	-
Unallocated interest on long- term debt and cost of issuance...	115,357	-	-	-	(115,357)	-	(115,357)	-
Total governmental activities.....	4,408,259	777,182	1,289,902	24,795	(2,316,380)	-	(2,316,380)	-
Business-type activities:								
Airport.....	900,621	866,991	-	10,424	-	(23,206)	(23,206)	-
Transportation.....	1,106,420	495,296	144,422	357,871	-	(108,831)	(108,831)	-
Port.....	91,449	99,733	177	1,629	-	10,090	10,090	-
Water.....	470,254	419,516	1,720	-	-	(49,018)	(49,018)	-
Power.....	153,472	164,736	-	-	-	11,264	11,264	-
Hospitals.....	1,050,618	922,320	53,304	5,000	-	(69,994)	(69,994)	-
Sewer.....	244,289	261,775	-	-	-	17,486	17,486	-
Total business-type activities.....	4,017,123	3,230,367	199,623	374,924	-	(212,209)	(212,209)	-
Total primary government.....	\$ 8,425,382	\$ 4,007,549	\$ 1,489,525	\$ 399,719	(2,316,380)	(212,209)	(2,528,589)	-
Component unit:								
Treasure Island Development Authority.....	\$ 11,153	\$ 11,842	\$ -	\$ -	-	-	-	\$ 689
General Revenues								
Taxes:								
Property taxes.....					1,808,917	-	1,808,917	-
Business taxes.....					660,926	-	660,926	-
Sales and use tax.....					270,051	-	270,051	-
Hotel room tax.....					387,661	-	387,661	-
Utility users tax.....					98,651	-	98,651	-
Parking tax.....					86,012	-	86,012	-
Real property transfer tax.....					269,090	-	269,090	-
Other local taxes.....					44,780	-	44,780	-
Interest and investment income.....					24,048	28,566	52,614	62
Other.....					59,266	240,636	299,902	-
Transfers - internal activities of primary government.....					(671,173)	671,173	-	-
Total general revenues and transfers.....					3,038,229	940,375	3,978,604	62
Change in net position.....					721,849	728,166	1,450,015	751
Net position at beginning of year, as previously reported.....								
					1,287,214	5,278,250	6,565,464	5,307
Cumulative effect of accounting change.....								
					-	(8,580)	(8,580)	-
Net position at beginning of year, as restated.....								
					1,287,214	5,269,670	6,556,884	5,307
Net position at end of year.....								
					\$ 2,009,063	\$ 5,997,836	\$ 8,006,899	\$ 6,058

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, 2016

(With comparative financial information as of June 30, 2015)
(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2016	2015	2016	2015	2016	2015
Assets:						
Deposits and investments with City Treasury.....	\$ 1,723,488	\$ 1,292,562	\$ 1,556,236	\$ 1,308,000	\$ 3,279,724	\$ 2,600,562
Deposits and investments outside City Treasury.....	3,183	8,880	81,662	98,659	84,845	107,539
Receivables (net of allowance for uncollectible amounts of \$191,320 in 2016; \$155,505 in 2015):						
Property taxes and penalties.....	61,564	53,171	15,677	12,142	77,241	65,313
Other local taxes.....	260,070	249,887	18,693	28,509	278,763	278,396
Federal and state grants and subventions.....	197,391	161,373	105,925	96,195	303,316	257,568
Charges for services.....	81,303	68,318	18,616	21,326	99,919	89,644
Interest and other.....	5,014	28,184	10,808	3,327	15,822	31,511
Due from other funds.....	4,596	5,848	7,466	6,334	12,062	12,182
Due from component unit.....	920	948	1,517	2,978	2,437	3,926
Advance to component unit.....	-	23,212	17,496	19,753	17,496	42,965
Loans receivable (net of allowance for uncollectible amounts of \$1,121,995 in 2016; \$1,004,667 in 2015)	6,473	3,560	75,328	73,140	81,801	76,700
Other assets.....	15	1,193	6,840	7,570	6,855	8,763
Total assets.....	\$ 2,344,017	\$ 1,897,136	\$ 1,916,264	\$ 1,677,933	\$ 4,260,281	\$ 3,575,069
Liabilities:						
Accounts payable.....	\$ 229,248	\$ 171,002	\$ 124,473	\$ 136,739	\$ 353,721	\$ 307,741
Accrued payroll.....	74,020	57,045	15,242	12,067	89,262	69,112
Unearned grant and subvention revenues.....	6,099	5,902	18,151	13,402	24,250	19,304
Due to other funds.....	1,599	639	32,097	19,681	33,696	20,320
Unearned revenues and other liabilities.....	439,522	347,054	55,274	53,806	494,796	400,860
Bonds, loans, capital leases, and other payables.....	-	-	102,778	157,766	102,778	157,766
Total liabilities.....	750,488	581,642	348,015	393,461	1,098,503	975,103
Deferred inflows of resources.....	164,367	170,298	161,937	140,725	326,304	311,023
Fund balances:						
Nonspendable.....	522	24,786	82	329	604	25,115
Restricted.....	120,106	114,969	1,443,956	1,110,836	1,564,062	1,225,805
Committed.....	187,170	142,815	-	-	187,170	142,815
Assigned.....	879,567	705,076	66,085	66,740	945,652	771,816
Unassigned.....	241,797	157,550	(103,811)	(34,158)	137,986	123,392
Total fund balances.....	1,429,162	1,145,196	1,406,312	1,143,747	2,835,474	2,288,943
Total liabilities, deferred inflows of resources and fund balances.....	\$ 2,344,017	\$ 1,897,136	\$ 1,916,264	\$ 1,677,933	\$ 4,260,281	\$ 3,575,069

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, 2016
(In Thousands)

Fund balances – total governmental funds	\$2,835,474
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.	5,114,367
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	(4,710,404)
Other long-term assets are not available to pay for current-period expenditures and, therefore, are deferred inflows of resources and are recognized as revenues in the period the amounts become available in the governmental funds.	326,310
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(11,893)
Deferred outflows and inflows of resources in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	17,046
Net pension liability and pension related deferred outflows and inflows of resources are not due in the current period and therefore are not reported in the governmental funds.	(1,374,202)
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.	<u>(187,635)</u>
Net position of governmental activities	<u><u>\$2,009,063</u></u>

CITY AND COUNTY OF SAN FRANCISCO

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

Year Ended June 30, 2016

(With comparative financial information as of June 30, 2015)

(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2016	2015	2016	2015	2016	2015
Revenues:						
Property taxes.....	\$ 1,393,574	\$ 1,272,623	\$ 405,202	\$ 369,536	\$ 1,798,776	\$ 1,642,159
Business taxes.....	659,086	609,614	1,840	2,318	660,926	611,932
Sales and use tax.....	167,915	140,146	99,528	100,278	267,443	240,424
Hotel room tax.....	387,661	394,262	-	-	387,661	394,262
Utility users tax.....	98,651	98,979	-	-	98,651	98,979
Parking tax.....	86,012	87,209	-	-	86,012	87,209
Real property transfer tax.....	269,090	314,603	-	-	269,090	314,603
Other local taxes.....	44,780	50,182	-	-	44,780	50,182
Licenses, permits and franchises.....	27,909	27,789	15,813	15,170	43,722	42,959
Fines, forfeitures, and penalties.....	8,985	6,369	27,184	21,785	36,169	28,154
Interest and investment income.....	9,613	7,867	14,318	12,716	23,931	20,583
Rents and concessions.....	46,553	24,339	89,312	74,763	135,865	99,102
Intergovernmental:						
Federal.....	231,098	230,434	185,725	234,762	416,823	465,196
State.....	667,450	620,877	109,416	130,697	776,866	751,574
Other.....	2,272	3,153	83,600	12,621	85,872	15,774
Charges for services.....	233,976	215,036	158,689	144,008	392,665	359,044
Other.....	22,291	9,162	242,431	114,443	264,722	123,605
Total revenues.....	4,356,916	4,112,644	1,433,058	1,233,097	5,789,974	5,345,741
Expenditures:						
Current:						
Public protection.....	1,204,666	1,148,405	64,334	61,752	1,269,000	1,210,157
Public works, transportation and commerce.....	136,762	87,452	279,390	206,547	416,152	293,999
Human welfare and neighborhood development.....	853,924	786,362	398,664	309,057	1,252,588	1,095,419
Community health.....	666,138	650,741	110,474	103,091	776,612	753,832
Culture and recreation.....	124,515	119,278	240,394	233,574	364,909	352,852
General administration and finance.....	223,844	208,695	53,885	42,675	277,729	251,370
General City responsibilities.....	114,663	98,620	21	38	114,684	98,658
Debt service:						
Principal retirement.....	-	-	252,456	200,497	252,456	200,497
Interest and other fiscal charges.....	-	-	119,723	121,371	119,723	121,371
Bond issuance costs.....	-	-	7,108	2,734	7,108	2,734
Capital outlay.....	-	-	223,904	412,740	223,904	412,740
Total expenditures.....	3,324,512	3,099,553	1,750,353	1,694,076	5,074,865	4,793,629
Excess (deficiency) of revenues over (under) expenditures...	1,032,404	1,013,091	(317,295)	(460,979)	715,109	552,112
Other financing sources (uses):						
Transfers in.....	209,494	164,712	371,243	391,575	580,737	556,287
Transfers out.....	(962,343)	(873,741)	(289,457)	(187,345)	(1,251,800)	(1,061,086)
Issuance of bonds and loans:						
Face value of bonds issued.....	-	-	595,925	449,530	595,925	449,530
Face value of loans issued.....	-	-	-	136,763	-	136,763
Premium on issuance of bonds.....	-	-	32,845	69,833	32,845	69,833
Payment to refunded bond escrow agent.....	-	-	(131,935)	(359,225)	(131,935)	(359,225)
Other financing sources-capital leases.....	4,411	5,572	1,239	2,178	5,650	7,750
Total other financing sources (uses).....	(748,438)	(703,457)	579,860	503,309	(168,578)	(200,148)
Net changes in fund balances.....	283,966	309,634	262,565	42,330	546,531	351,964
Fund balances at beginning of year.....	1,145,196	835,562	1,143,747	1,101,417	2,288,943	1,936,979
Fund balances at end of year.....	\$ 1,429,162	\$ 1,145,196	\$ 1,406,312	\$ 1,143,747	\$ 2,835,474	\$ 2,288,943

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, 2016
(In Thousands)

Net changes in fund balances - total governmental funds \$546,531

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. 249,229

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. (155,660)

Property taxes are recognized as revenues in the period the amounts become available. This is the current period amount by which the deferred inflows of resources decreased in the governmental funds. 10,141

Other revenues that were unavailable are reported as deferred inflows of resources in the governmental funds. This is the current period amount by which deferred inflows of resources decreased in the governmental funds. 175

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. 5,068

Changes to net pension liability and pension related deferred outflows and inflows of resources do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. 282,088

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. (211,534)

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. (32,845)

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. 16,063

The activities of internal service funds are reported with governmental activities. 12,593

Change in net position of governmental activities \$ 721,849

CITY AND COUNTY OF SAN FRANCISCO
Budgetary Comparison Statement - General Fund
Year Ended June 30, 2016
(In Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
Budgetary Fund Balance, July 1	\$ 183,249	\$ 1,236,090	\$ 1,236,090	\$ -
Resources (Inflows):				
Property taxes.....	1,291,000	1,291,000	1,392,278	101,278
Business taxes.....	634,460	634,460	659,086	24,626
Other local taxes:				
Sales and use tax.....	172,937	172,937	167,915	(5,022)
Hotel room tax.....	384,090	384,090	387,661	3,571
Utility users tax.....	93,550	93,550	98,651	5,101
Parking tax.....	89,727	89,727	86,012	(3,715)
Real property transfer tax.....	276,280	276,280	269,090	(7,190)
Other local taxes.....	45,951	45,951	44,780	(1,171)
Licenses, permits and franchises:				
Licenses and permits.....	10,361	10,361	10,956	595
Franchise tax.....	16,802	16,802	16,953	151
Fines, forfeitures, and penalties.....	4,577	4,550	8,985	4,435
Interest and investment income.....	10,680	10,680	15,073	4,393
Rents and concessions:				
Garages - Recreation and Park.....	8,963	8,963	9,986	1,023
Rents and concessions - Recreation and Park.....	6,009	6,009	6,525	516
Other rents and concessions.....	460	460	1,727	1,267
Intergovernmental:				
Federal grants and subventions.....	242,894	240,649	237,800	(2,849)
State subventions:				
Social service subventions.....	106,451	105,678	105,888	210
Health / mental health subventions.....	156,238	155,871	157,788	1,917
Health and welfare realignment.....	245,529	245,529	240,131	(5,398)
Public safety sales tax.....	97,957	97,957	97,039	(918)
Other grants and subventions.....	51,462	51,462	65,054	13,592
Other.....	3,656	3,851	2,639	(1,212)
Charges for services:				
General government service charges.....	66,140	66,140	69,007	2,867
Public safety service charges.....	36,543	39,547	47,106	7,559
Recreation charges - Recreation and Park.....	19,566	19,572	20,570	998
MediCal, MediCare and health service charges.....	93,236	94,369	98,350	3,981
Other financing sources:				
Transfers from other funds.....	206,782	235,416	206,499	(28,917)
Repayment of loan from Component Unit.....	918	918	-	(918)
Other resources (inflows).....	31,084	31,084	48,503	17,419
Subtotal - Resources (Inflows)	<u>4,404,303</u>	<u>4,433,863</u>	<u>4,572,052</u>	<u>138,189</u>
Total amounts available for appropriation.....	<u>4,587,552</u>	<u>5,669,953</u>	<u>5,808,142</u>	<u>138,189</u>

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

CITY AND COUNTY OF SAN FRANCISCO
Budgetary Comparison Statement - General Fund (Continued)
Year Ended June 30, 2016
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Charges to Appropriations (Outflows):				
Public Protection				
Adult Probation.....	\$ 29,748	\$ 28,866	\$ 26,809	\$ 2,057
District Attorney.....	45,890	45,756	45,550	206
Emergency Communications.....	54,021	51,229	49,732	1,497
Fire Department.....	329,039	333,066	332,821	245
Juvenile Probation.....	39,959	35,541	32,608	2,933
Police Department.....	477,298	480,431	479,929	502
Public Defender.....	31,515	31,329	30,904	425
Sheriff.....	182,424	173,053	171,491	1,562
Superior Court.....	31,715	31,736	31,034	702
Subtotal - Public Protection	<u>1,221,609</u>	<u>1,211,007</u>	<u>1,200,878</u>	<u>10,129</u>
Public Works, Transportation and Commerce				
Board of Appeals.....	929	941	861	80
Business and Economic Development.....	29,293	26,459	25,522	937
General Services Agency - Public Works.....	131,324	108,098	107,977	121
Public Utilities Commission.....	-	1,432	1,044	388
Municipal Transportation Agency.....	-	1,358	1,358	-
Subtotal - Public Works, Transportation and Commerce	<u>161,546</u>	<u>138,288</u>	<u>136,762</u>	<u>1,526</u>
Human Welfare and Neighborhood Development				
Children, Youth and Their Families.....	35,414	32,912	32,912	-
Commission on the Status of Women.....	6,399	6,573	6,568	5
County Education Office.....	116	116	116	-
Environment.....	20	123	123	-
Human Rights Commission.....	2,614	2,478	2,223	255
Human Services.....	812,492	800,743	764,273	36,470
Mayor - Housing/Neighborhoods.....	42,963	49,124	47,422	1,702
Subtotal - Human Welfare and Neighborhood Development	<u>900,018</u>	<u>892,069</u>	<u>853,637</u>	<u>38,432</u>
Community Health				
Public Health.....	787,554	751,416	666,138	85,278
Culture and Recreation				
Academy of Sciences.....	5,235	5,370	5,365	5
Arts Commission.....	10,091	9,102	9,102	-
Asian Art Museum.....	9,603	9,382	9,019	363
Fine Arts Museum.....	15,780	15,099	14,551	548
Law Library.....	1,612	1,613	1,395	218
Recreation and Park Commission.....	94,741	84,687	84,687	-
Subtotal - Culture and Recreation	<u>137,062</u>	<u>125,253</u>	<u>124,119</u>	<u>1,134</u>

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

CITY AND COUNTY OF SAN FRANCISCO
Budgetary Comparison Statement - General Fund (Continued)
Year Ended June 30, 2016
(In Thousands)

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Budgetary Basis</u>	<u>Variance Positive (Negative)</u>
General Administration and Finance				
Assessor/Recorder.....	\$ 20,975	\$ 20,638	\$ 19,306	\$ 1,332
Board of Supervisors.....	14,505	14,190	13,197	993
City Attorney.....	12,550	12,761	11,677	1,084
City Planning.....	37,407	36,807	36,753	54
Civil Service.....	813	666	581	85
Controller.....	12,058	15,782	15,467	315
Elections.....	18,531	17,853	16,905	948
Ethics Commission.....	3,927	3,375	3,064	311
General Services Agency - Administrative Services.....	62,317	55,327	51,846	3,481
General Services Agency - Technology.....	5,534	2,936	2,820	116
Health Service System.....	463	438	-	438
Human Resources.....	13,226	15,811	15,646	165
Mayor.....	5,506	5,546	5,546	-
Retirement Services.....	1,132	875	875	-
Treasurer/Tax Collector.....	34,964	32,642	30,159	2,483
Subtotal - General Administration and Finance	<u>243,908</u>	<u>235,647</u>	<u>223,842</u>	<u>11,805</u>
General City Responsibilities				
General City Responsibilities.....	136,881	113,672	113,672	-
Other financing uses:				
Debt service.....	2,372	26	-	26
Transfers to other funds.....	929,615	962,511	962,264	247
Budgetary reserves and designations.....	66,987	9,907	-	9,907
Total charges to appropriations.....	<u>4,587,552</u>	<u>4,439,796</u>	<u>4,281,312</u>	<u>158,484</u>
Total Sources less Current Year Uses.....	<u>\$ -</u>	<u>\$ 1,230,157</u>	<u>\$ 1,526,830</u>	<u>\$ 296,673</u>
Budgetary fund balance, June 30 before reserves and designations			\$ 1,526,830	
Reserves and designations made from budgetary fund balance not available for appropriation			(869,272)	
Reserves for Litigation and Contingencies and General Reserves			<u>(222,356)</u>	
Net Available Budgetary Fund Balance, June 30			<u>\$ 435,202</u>	
Sources/inflows of resources				
Actual amounts (budgetary basis) "available for appropriation".....			\$ 5,808,142	
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.....				
			(1,236,090)	
Property tax revenue - Teeter Plan net change from prior year.....			1,296	
Change in unrealized gain/(loss) on investments.....			(798)	
Interest earnings / charges from other funds assigned to General Fund as interest adjustment.....			(4,662)	
Interest earnings from other funds assigned to General Fund as other revenues.....			1,746	
Grants, subventions and other receivables received after 60-day recognition period.....			(6,303)	
Prepaid lease revenue, Civic Center Garage.....			84	
Transfers from other funds are inflows of budgetary resources, but are not				
revenues for financial reporting purposes.....				
			<u>(206,499)</u>	
Total revenues as reported on the statement of revenues, expenditures and changes				
in fund balance - General Fund.....			<u>\$ 4,356,916</u>	
Uses/outflows of resources				
Actual amounts (budgetary basis) "total charges to appropriations".....			\$ 4,281,312	
Difference - budget to GAAP:				
Capital asset purchases funded under capital leases with				
Finance Corporation and other vendors.....				
			4,411	
Recognition of expenditures for advances and imprest cash and capital asset acquisition for				
internal service fund.....				
			1,053	
Transfers to other funds are outflows of budgetary resources but are not				
expenditures for financial reporting purposes.....				
			<u>(962,264)</u>	
Total expenditures as reported on the statement of revenues, expenditures and changes				
in fund balance - General Fund.....			<u>\$ 3,324,512</u>	

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, 2016
(With comparative financial information as of June 30, 2015)
(In Thousands)

	Business-Type Activities - Enterprise Funds										Governmental Activities - Internal Service Funds	
	Major Funds								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	2016	2015	2016	2015
ASSETS												
Current Assets:												
Deposits and investments with City Treasury.....	\$ 410,358	\$ 323,916	\$ 194,706	\$ 811,548	\$ 339,508	\$ 159,118	\$ 131,012	\$ -	\$ 2,370,166	\$ 2,440,334	\$ 35,264	\$ 37,905
Deposits and investments outside City Treasury.....	5,937	136	10	10,271	10	123	5	2	16,494	16,355	-	-
Receivables (net of allowance for uncollectible amounts of \$29,495 and \$39,893 in 2016 and 2015, respectively):												
Federal and state grants and subventions.....	-	1,646	1,810	149,799	-	1,032	402	71,295	225,984	197,321	-	-
Charges for services.....	47,851	44,038	13,114	5,373	62,086	26,055	3,592	30,142	232,251	214,880	53	60
Interest and other.....	1,586	1,562	197	9,188	184,863	172	1,688	197	199,453	78,565	633	744
Lease receivable.....	-	-	-	-	-	-	-	-	-	-	14,409	19,227
Due from other funds.....	-	445	9,630	16,973	57	28	-	-	27,133	14,428	-	-
Due from component unit.....	-	94	418	31	-	51	-	-	594	213	-	-
Inventories.....	38	7,346	476	80,013	10,006	2,179	890	1,052	102,000	94,189	-	-
Other assets.....	1,807	-	234	780	-	89	253	-	3,163	1,714	-	-
Restricted assets:												
Deposits and investments with City Treasury.....	197,348	-	-	-	-	-	41,955	10,812	250,115	213,672	-	-
Deposits and investments outside City Treasury...	63,885	192,814	2,933	-	-	39,757	10,555	2,436	312,380	177,978	25,349	28,242
Grants and other receivables.....	21,138	-	-	-	-	-	-	-	21,138	30,215	-	-
Total current assets.....	<u>749,948</u>	<u>571,997</u>	<u>223,528</u>	<u>1,083,976</u>	<u>596,530</u>	<u>228,604</u>	<u>190,352</u>	<u>115,936</u>	<u>3,760,871</u>	<u>3,479,864</u>	<u>75,708</u>	<u>86,178</u>
Noncurrent assets:												
Other assets.....	67	7,314	1,650	-	-	2,142	1,487	-	12,660	8,130	-	-
Capital lease receivable.....	-	-	-	-	-	-	-	-	-	-	179,041	193,622
Advance to component unit.....	-	-	2,827	-	-	-	-	-	2,827	3,027	-	-
Restricted assets:												
Deposits and investments with City Treasury.....	259,134	123,328	39,849	66,645	-	208,336	-	-	697,292	705,802	-	-
Deposits and investments outside City Treasury...	381,237	-	2,577	18,091	8,557	-	-	12,902	423,364	558,543	-	4,665
Grants and other receivables.....	532	4,512	131	1,861	-	2,937	-	14,141	24,114	33,478	-	-
Capital assets:												
Land and other assets not being depreciated.....	296,183	1,015,270	91,551	1,387,285	38,105	401,741	119,488	322	3,349,945	3,333,650	-	-
Facilities, infrastructure, and equipment, net of depreciation.....	3,749,453	3,883,231	312,698	1,760,592	147,217	1,657,921	311,362	523,398	12,345,872	11,416,556	10,985	9,572
Total capital assets.....	<u>4,045,636</u>	<u>4,898,501</u>	<u>404,249</u>	<u>3,147,877</u>	<u>185,322</u>	<u>2,059,662</u>	<u>430,850</u>	<u>523,720</u>	<u>15,695,817</u>	<u>14,750,206</u>	<u>10,985</u>	<u>9,572</u>
Total noncurrent assets.....	<u>4,686,606</u>	<u>5,033,655</u>	<u>451,283</u>	<u>3,234,474</u>	<u>193,879</u>	<u>2,273,077</u>	<u>432,337</u>	<u>550,763</u>	<u>16,856,074</u>	<u>16,059,186</u>	<u>190,026</u>	<u>207,859</u>
Total assets.....	<u>5,436,554</u>	<u>5,605,652</u>	<u>674,811</u>	<u>4,318,450</u>	<u>790,409</u>	<u>2,501,681</u>	<u>622,689</u>	<u>666,699</u>	<u>20,616,945</u>	<u>19,539,050</u>	<u>265,734</u>	<u>294,037</u>
DEFERRED OUTFLOWS OF RESOURCES												
Unamortized loss on refunding of debt.....	68,100	36,184	-	-	-	945	-	-	105,229	118,867	1,091	1,171
Deferred outflows on derivative instruments.....	83,614	-	-	-	-	-	-	-	83,614	65,408	-	-
Deferred outflows related to pensions.....	43,982	32,695	8,324	98,333	67,677	14,589	6,467	29,117	301,184	259,933	7,475	6,199
Total deferred outflows of resources.....	<u>195,696</u>	<u>68,879</u>	<u>8,324</u>	<u>98,333</u>	<u>67,677</u>	<u>15,534</u>	<u>6,467</u>	<u>29,117</u>	<u>490,027</u>	<u>444,208</u>	<u>8,566</u>	<u>7,370</u>

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, 2016

(With comparative financial information as of June 30, 2015)

(In Thousands)

	Business-Type Activities - Enterprise Funds										Governmental Activities - Internal Service Funds	
	Major Funds								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	2016	2015	2016	2015
LIABILITIES												
Current liabilities:												
Accounts payable.....	\$ 56,483	\$ 16,319	\$ 16,041	\$ 131,103	\$ 37,361	\$ 8,242	\$ 3,207	\$ 1,792	\$ 270,548	\$ 241,510	\$ 7,459	\$ 8,580
Accrued payroll.....	9,579	5,725	2,189	24,285	17,272	3,981	1,284	6,693	71,008	56,627	1,862	1,356
Accrued vacation and sick leave pay.....	9,714	5,924	2,275	21,759	14,285	3,784	1,295	5,786	64,822	65,754	1,804	1,744
Accrued workers' compensation.....	1,413	1,551	555	20,251	4,315	1,023	416	2,343	31,867	28,188	342	350
Estimated claims payable.....	1,346	6,094	598	37,762	-	6,383	625	-	52,808	50,390	-	-
Due to other funds.....	-	786	-	2,503	513	1,271	65	-	5,138	6,101	361	189
Unearned revenues and other liabilities.....	67,556	24,804	4,175	141,576	339,969	2,398	12,488	28,258	621,224	638,191	21,049	28,632
Accrued interest payable.....	-	36,348	534	2,996	97	9,666	1,618	1,626	52,885	53,202	1,315	1,429
Bonds, loans, capital leases, and other payables.....	163,797	279,928	2,007	7,672	30,239	82,482	2,456	6,148	574,729	526,282	14,025	18,795
Liabilities payable from restricted assets:												
Bonds, loans, capital leases, and other payables..	373,378	-	-	-	-	-	-	-	373,378	70,694	-	-
Accrued interest payable.....	31,475	-	-	-	-	-	-	-	31,475	33,587	-	-
Other.....	89,275	47,587	2,838	954	-	31,166	-	1,264	173,084	136,126	-	-
Total current liabilities.....	<u>804,016</u>	<u>425,066</u>	<u>31,212</u>	<u>390,861</u>	<u>444,051</u>	<u>150,396</u>	<u>23,454</u>	<u>53,910</u>	<u>2,322,966</u>	<u>1,906,652</u>	<u>48,217</u>	<u>61,075</u>
Noncurrent liabilities:												
Accrued vacation and sick leave pay.....	7,326	4,532	1,532	13,047	10,230	2,761	896	3,467	43,791	38,906	1,298	1,150
Accrued workers' compensation.....	5,244	7,263	2,409	97,389	25,591	4,635	2,311	12,894	157,736	143,702	1,522	1,593
Other postemployment benefits obligation.....	124,352	111,546	25,169	235,992	231,405	46,053	21,644	82,429	878,590	814,608	23,518	21,867
Estimated claims payable.....	131	10,806	1,263	41,460	-	10,250	350	-	64,260	56,780	-	-
Unearned revenue and other liabilities.....	-	16,417	-	-	-	2,621	75,376	-	94,414	89,096	-	-
Bonds, loans, capital leases, and other payables.....	4,235,551	4,331,632	73,384	198,160	15,673	1,080,081	89,006	127,538	10,151,025	10,137,573	183,192	197,733
Derivative instruments liabilities.....	96,132	-	-	-	-	-	-	-	96,132	79,321	-	-
Net pension liability.....	144,271	108,024	26,874	314,611	220,295	48,177	21,291	93,395	976,938	749,919	24,166	18,494
Total noncurrent liabilities.....	<u>4,613,007</u>	<u>4,590,220</u>	<u>130,631</u>	<u>900,659</u>	<u>503,194</u>	<u>1,194,578</u>	<u>210,874</u>	<u>319,723</u>	<u>12,462,886</u>	<u>12,109,905</u>	<u>233,696</u>	<u>240,837</u>
Total liabilities.....	<u>5,417,023</u>	<u>5,015,286</u>	<u>161,843</u>	<u>1,291,520</u>	<u>947,245</u>	<u>1,344,974</u>	<u>234,328</u>	<u>373,633</u>	<u>14,785,852</u>	<u>14,016,557</u>	<u>281,913</u>	<u>301,912</u>
DEFERRED INFLOWS OF RESOURCES												
Unamortized gain on refunding of debt.....	-	-	-	337	-	-	-	-	337	393	-	-
Unamortized gain on leaseback transaction.....	-	-	-	4,349	-	-	-	-	4,349	16,141	-	-
Deferred inflows related to pensions.....	48,154	36,577	8,678	99,620	72,374	16,301	7,158	29,736	318,598	671,917	7,829	16,569
Total deferred inflows of resources.....	<u>48,154</u>	<u>36,577</u>	<u>8,678</u>	<u>104,306</u>	<u>72,374</u>	<u>16,301</u>	<u>7,158</u>	<u>29,736</u>	<u>323,284</u>	<u>688,451</u>	<u>7,829</u>	<u>16,569</u>
NET POSITION												
Net investment in capital assets.....	(117,377)	543,327	369,764	2,938,712	147,924	1,098,723	304,396	405,272	5,690,741	5,117,679	10,985	9,572
Restricted:												
Debt service.....	35,462	12,122	306	17,999	-	981	-	60,203	127,073	100,923	-	-
Capital projects.....	212,931	40,743	1,409	-	31,882	18,205	26,152	9,574	340,896	358,745	-	-
Other purposes.....	-	-	-	67,644	-	-	-	2,861	70,505	35,986	-	-
Unrestricted (deficit).....	36,057	26,476	141,135	(3,398)	(341,339)	38,031	57,122	(185,463)	(231,379)	(335,083)	(26,427)	(26,646)
Total net position.....	<u>\$ 167,073</u>	<u>\$ 622,668</u>	<u>\$ 512,614</u>	<u>\$ 3,020,957</u>	<u>\$ (161,533)</u>	<u>\$ 1,155,940</u>	<u>\$ 387,670</u>	<u>\$ 292,447</u>	<u>\$ 5,997,836</u>	<u>\$ 5,278,250</u>	<u>\$ (15,442)</u>	<u>\$ (17,074)</u>

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, 2016
 (With comparative financial information as of June 30, 2015)
 (In Thousands)

	Business-Type Activities - Enterprise Funds										Governmental Activities - Internal Service Funds	
	Major Funds								Total		2016	2015
	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	2016	2015		
Operating revenues:												
Aviation.....	\$ 495,439	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 495,439	\$ 464,610	\$ -	\$ -
Water and power service.....	-	393,582	164,474	-	-	-	-	-	558,056	547,595	-	-
Passenger fees.....	-	-	-	205,374	-	-	-	-	205,374	213,328	-	-
Net patient service revenue.....	-	-	-	-	709,622	-	-	203,674	913,296	886,190	-	-
Sewer service.....	-	-	-	-	-	249,203	-	-	249,203	244,604	-	-
Rents and concessions.....	146,872	12,081	262	7,766	2,588	753	74,615	-	244,937	238,823	176	156
Parking and transportation.....	136,743	-	-	221,073	-	-	21,504	-	379,320	360,677	-	-
Other charges for services.....	-	-	-	22,054	-	-	-	-	22,054	21,786	136,820	128,670
Other revenues.....	87,937	13,853	-	39,029	4,843	11,819	3,614	1,593	162,688	157,201	-	-
Total operating revenues.....	<u>866,991</u>	<u>419,516</u>	<u>164,736</u>	<u>495,296</u>	<u>717,053</u>	<u>261,775</u>	<u>99,733</u>	<u>205,267</u>	<u>3,230,367</u>	<u>3,134,814</u>	<u>136,996</u>	<u>128,826</u>
Operating expenses:												
Personal services.....	241,162	103,027	45,815	677,174	460,860	79,088	30,851	180,814	1,818,791	1,701,386	49,472	45,629
Contractual services.....	68,064	13,451	6,395	124,780	202,697	15,069	5,895	9,657	446,008	412,282	51,813	45,180
Light, heat and power.....	22,925	-	26,792	-	-	-	2,146	-	51,863	44,987	-	-
Materials and supplies.....	16,419	12,896	3,040	81,417	76,271	10,192	1,468	19,993	221,696	210,179	19,513	18,875
Depreciation and amortization.....	228,359	106,666	16,513	133,715	17,263	50,799	21,924	15,356	590,595	552,101	2,798	2,451
General and administrative.....	3,369	17,878	40,489	42,695	1,071	30,248	4,058	-	139,808	142,621	540	540
Services provided by other departments.....	19,946	60,868	9,451	61,959	48,621	36,157	19,092	10,021	266,115	249,202	5,886	6,987
Other.....	40,229	-	-	(21,506)	(89)	-	1,359	-	19,993	37,737	5,780	5,083
Total operating expenses.....	<u>640,473</u>	<u>314,786</u>	<u>148,495</u>	<u>1,100,234</u>	<u>806,694</u>	<u>221,553</u>	<u>86,793</u>	<u>235,841</u>	<u>3,554,869</u>	<u>3,350,495</u>	<u>135,802</u>	<u>124,745</u>
Operating income (loss).....	<u>226,518</u>	<u>104,730</u>	<u>16,241</u>	<u>(604,938)</u>	<u>(89,641)</u>	<u>40,222</u>	<u>12,940</u>	<u>(30,574)</u>	<u>(324,502)</u>	<u>(215,681)</u>	<u>1,194</u>	<u>4,081</u>
Nonoperating revenues (expenses):												
Operating grants:												
Federal.....	-	1,720	-	10,555	-	-	177	264	12,716	17,307	-	-
State / other.....	-	-	-	133,867	53,040	-	-	-	186,907	173,794	41	-
Interest and investment income.....	13,957	3,595	1,280	5,410	1,882	1,185	884	373	28,566	25,999	4,263	4,708
Interest expense.....	(208,597)	(153,258)	(3,355)	(6,186)	(1,402)	(22,251)	(4,656)	(6,681)	(406,386)	(390,866)	(4,589)	(5,022)
Other nonoperating revenues.....	101,728	38,382	12,456	62,883	-	11,242	1	13,944	240,636	200,148	833	1,459
Other nonoperating expenses.....	(51,551)	(2,210)	(1,622)	-	-	(485)	-	-	(55,868)	(42,938)	-	-
Total nonoperating revenues (expenses).....	<u>(144,463)</u>	<u>(111,771)</u>	<u>8,759</u>	<u>206,529</u>	<u>53,520</u>	<u>(10,309)</u>	<u>(3,594)</u>	<u>7,900</u>	<u>6,571</u>	<u>(16,556)</u>	<u>548</u>	<u>1,145</u>
Income (loss) before capital contributions and transfers.....	82,055	(7,041)	25,000	(398,409)	(36,121)	29,913	9,346	(22,674)	(317,931)	(232,237)	1,742	5,226
Capital contributions.....	10,424	-	-	357,871	5,000	-	1,629	-	374,924	357,819	-	-
Transfers in.....	-	34,368	1,385	523,489	240,120	460	24,132	51,355	875,309	669,300	5	150
Transfers out.....	(42,542)	(1,124)	(705)	(4,694)	(131,439)	(16,485)	(32)	(7,115)	(204,136)	(164,509)	(115)	(142)
Change in net position.....	<u>49,937</u>	<u>26,203</u>	<u>25,680</u>	<u>478,257</u>	<u>77,560</u>	<u>13,888</u>	<u>35,075</u>	<u>21,566</u>	<u>728,166</u>	<u>630,373</u>	<u>1,632</u>	<u>5,234</u>
Net position (deficit) at beginning of year,												
as previously reported.....	117,136	596,465	486,934	2,551,280	(239,093)	1,142,052	352,595	270,881	5,278,250	4,647,877	(17,074)	(22,308)
Cumulative effect of accounting change.....	-	-	-	(8,580)	-	-	-	-	(8,580)	-	-	-
Net position (deficit) at beginning of year, as restated...	<u>117,136</u>	<u>596,465</u>	<u>486,934</u>	<u>2,542,700</u>	<u>(239,093)</u>	<u>1,142,052</u>	<u>352,595</u>	<u>270,881</u>	<u>5,269,670</u>	<u>4,647,877</u>	<u>(17,074)</u>	<u>(22,308)</u>
Net position (deficit) at end of year.....	<u>\$ 167,073</u>	<u>\$ 622,668</u>	<u>\$ 512,614</u>	<u>\$ 3,020,957</u>	<u>\$ (161,533)</u>	<u>\$ 1,155,940</u>	<u>\$ 387,670</u>	<u>\$ 292,447</u>	<u>\$ 5,997,836</u>	<u>\$ 5,278,250</u>	<u>\$ (15,442)</u>	<u>\$ (17,074)</u>

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

CITY AND COUNTY OF SAN FRANCISCO
Statement of Cash Flows – Proprietary Funds
Year Ended June 30, 2016
(With comparative financial information as of June 30, 2015)
(In Thousands)

	Business-Type Activities - Enterprise Funds								Total		Governmental Activities - Internal Service Funds	
	Major Funds											
	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	2016	2015	2016	2015
Cash flows from operating activities:												
Cash received from customers, including cash deposits.....	\$ 891,569	\$ 419,841	\$ 162,934	\$ 540,781	\$ 679,797	\$ 260,321	\$ 22,597	\$ 145,555	\$ 3,123,395	\$ 3,266,566	\$ 159,994	\$ 159,542
Cash received from tenants for rent.....	-	12,285	269	7,805	2,587	729	74,384	-	98,059	113,081	-	-
Cash paid for employees' services.....	(254,837)	(113,188)	(46,422)	(697,634)	(475,504)	(81,182)	(33,004)	(190,409)	(1,892,180)	(1,869,684)	(51,530)	(49,772)
Cash paid to suppliers for goods and services.....	(194,383)	(106,441)	(78,985)	(336,058)	(332,154)	(80,789)	(36,165)	(40,220)	(1,205,195)	(1,106,969)	(91,029)	(87,781)
Cash paid for judgments and claims.....	-	(11,561)	(4,640)	(11,714)	-	(168)	-	-	(28,083)	(27,311)	-	-
Net cash provided by (used in) operating activities.....	442,349	200,936	33,156	(496,820)	(125,274)	98,911	27,812	(85,074)	95,996	375,683	17,435	21,989
Cash flows from noncapital financing activities:												
Operating grants.....	-	117	19	141,495	54,068	3,611	310	264	199,884	202,711	41	-
Transfers in.....	-	34,368	1,385	461,622	240,120	460	-	51,355	789,310	642,548	5	150
Transfers out.....	(42,542)	(1,124)	(705)	(4,694)	(131,439)	(16,485)	(32)	(7,115)	(204,136)	(164,509)	(115)	(142)
Other noncapital financing sources.....	2,597	5,262	11,312	40,001	-	4,244	-	-	63,416	42,946	-	-
Other noncapital financing uses.....	(38,460)	(2,211)	(1,744)	-	(168)	(485)	-	-	(43,068)	(37,413)	-	-
Net cash provided by (used in) noncapital financing activities.....	(78,405)	36,412	10,267	638,424	162,581	(8,655)	278	44,504	805,406	686,283	(69)	8
Cash flows from capital and related financing activities:												
Capital grants and other proceeds restricted for capital purposes...	20,665	-	-	263,924	5,000	-	699	15,054	305,342	499,079	-	-
Transfers in.....	-	-	-	61,867	-	-	24,132	-	85,999	26,752	-	-
Transfers out.....	-	-	-	-	-	-	-	-	-	-	-	-
Bond sale proceeds and loans received.....	841	-	4,100	97	-	360,706	-	-	365,744	852,455	-	-
Proceeds from sale/transfer of capital assets.....	-	9	1	653	-	23	2	-	688	8,186	-	-
Proceeds from commercial paper borrowings.....	304,100	50,000	-	-	24,811	35,000	-	-	413,911	143,761	-	-
Proceeds from passenger facility charges.....	98,432	-	-	-	-	-	-	-	98,432	92,702	-	-
Acquisition of capital assets.....	(304,421)	(294,033)	(49,583)	(501,012)	(78,260)	(167,656)	(6,801)	(779)	(1,402,545)	(1,307,990)	(4,211)	(2,745)
Retirement of capital leases, bonds and loans.....	(209,910)	(31,894)	(4,245)	(7,361)	(2,236)	(105,696)	(2,478)	(5,879)	(369,699)	(733,150)	(18,795)	(26,440)
Bond issue costs paid.....	-	-	(130)	-	-	(1,666)	-	-	(1,796)	(3,075)	-	(15)
Interest paid on debt.....	(225,073)	(219,279)	(3,313)	(7,700)	(1,408)	(34,362)	(4,789)	(6,880)	(502,804)	(488,834)	(4,698)	(5,171)
Federal interest income subsidy from Build America Bonds.....	-	24,240	664	-	-	3,991	-	-	28,895	28,794	-	-
Other capital financing sources.....	-	-	-	16,881	-	-	554	15	17,450	-	-	-
Other capital financing uses.....	-	-	-	-	-	-	(869)	(82)	(951)	(2,921)	-	-
Net cash provided by (used in) capital and related financing activities.....	(315,366)	(470,957)	(52,506)	(172,651)	(52,093)	90,340	10,450	1,449	(961,334)	(884,241)	(27,704)	(34,371)
Cash flows from investing activities:												
Purchases of investments with trustees.....	(624,603)	(199,584)	(19,242)	-	-	(185,525)	-	-	(1,028,954)	(1,269,820)	-	-
Proceeds from sale of investments with trustees.....	635,126	281,532	16,665	-	-	192,072	-	285	1,125,680	1,279,186	4,672	-
Interest and investment income.....	4,808	4,230	1,328	5,297	1,882	1,173	830	12,836	32,384	25,744	137	154
Other investing activities.....	-	-	-	-	-	-	-	-	-	-	(5)	65
Net cash provided by (used in) investing activities.....	15,331	86,178	(1,249)	5,297	1,882	7,720	830	13,121	129,110	35,110	4,804	219
Net increase (decrease) in cash and cash equivalents.....	63,909	(147,431)	(10,332)	(25,750)	(12,904)	188,316	39,370	(26,000)	69,178	212,835	(5,534)	(12,155)
Cash and cash equivalents-beginning of year.....	809,832	787,560	247,796	932,305	360,979	218,965	143,853	52,151	3,553,441	3,340,606	66,147	78,302
Cash and cash equivalents-end of year.....	\$ 873,741	\$ 640,129	\$ 237,464	\$ 906,555	\$ 348,075	\$ 407,281	\$ 183,223	\$ 26,151	\$ 3,622,619	\$ 3,553,441	\$ 60,613	\$ 66,147

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, 2016
(With comparative financial information as of June 30, 2015)
(In Thousands)

	Business-Type Activities - Enterprise Funds								Total		Governmental Activities - Internal Service Funds	
	Major Funds											
	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	2016	2015	2016	2015
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:												
Operating income (loss).....	\$ 226,518	\$ 104,730	\$ 16,241	\$ (604,938)	\$ (89,641)	\$ 40,222	\$ 12,940	\$ (30,574)	\$ (324,502)	\$ (215,681)	\$ 1,194	\$ 4,081
Adjustments for non-cash and other activities:												
Depreciation and amortization.....	228,359	106,666	16,513	133,715	17,263	50,799	22,120	15,356	590,791	552,101	2,798	2,451
Provision for uncollectibles.....	581	179	-	(114)	-	(63)	(28)	-	555	27	-	-
Write-off of capital assets.....	-	423	4,908	(6,089)	-	5,549	-	-	4,791	9,388	-	-
Other.....	980	-	-	-	-	-	-	-	980	2,049	397	1,003
Changes in assets and deferred outflows of resources/liabilities and deferred inflows of resources:												
Receivables, net.....	(9,535)	(9,133)	(5,412)	299	(103,955)	(819)	(823)	(7,267)	(136,645)	31,474	18,888	26,270
Due from other funds.....	-	(68)	961	-	(28)	18	-	18,208	19,091	(47,723)	-	-
Inventories.....	4	378	(92)	(6,594)	(1,704)	381	(133)	(50)	(7,810)	(11,690)	-	-
Other assets.....	(1,188)	-	(211)	(266)	-	-	(22)	-	(1,687)	4,048	-	-
Accounts payable.....	(1,546)	(826)	197	(4,080)	(1,879)	1,052	(568)	(499)	(8,149)	29,253	(843)	(823)
Accrued payroll.....	2,209	935	511	4,506	3,600	840	181	1,195	13,977	(58,247)	506	(1,379)
Accrued vacation and sick leave pay.....	746	(309)	263	2,124	1,261	187	(28)	(292)	3,952	2,969	208	116
Accrued workers' compensation.....	576	(448)	335	14,656	1,879	138	(55)	632	17,713	10,761	(79)	176
Other postemployment benefits obligation.....	9,055	7,283	2,324	15,695	18,455	4,073	1,553	5,544	63,982	80,174	1,651	2,078
Estimated claims payable.....	-	(2,810)	(1,474)	13,742	-	3,166	(431)	-	12,193	13,577	-	-
Due to other funds.....	-	707	-	(274)	-	(168)	-	-	265	206	(52)	(9)
Unearned revenue and other liabilities.....	11,852	13,014	2,918	(3,164)	69,315	2,356	(3,007)	(70,654)	22,630	181,077	(2,889)	(6,841)
Net pension liability and pension related deferred outflows and inflows of resources.....	(26,262)	(19,785)	(4,826)	(56,038)	(39,840)	(8,820)	(3,887)	(16,673)	(176,131)	(208,080)	(4,344)	(5,134)
Total adjustments.....	215,831	96,206	16,915	108,118	(35,633)	58,689	14,872	(54,500)	420,498	591,364	16,241	17,908
Net cash provided by (used in) operating activities.....	\$ 442,349	\$ 200,936	\$ 33,156	\$ (496,820)	\$ (125,274)	\$ 98,911	\$ 27,812	\$ (85,074)	\$ 95,996	\$ 375,683	\$ 17,435	\$ 21,989
Reconciliation of cash and cash equivalents to the statement of net position:												
Deposits and investments with City Treasury:												
Unrestricted.....	\$ 410,358	\$ 323,916	\$ 194,706	\$ 811,548	\$ 339,508	\$ 159,118	\$ 131,012	\$ -	\$ 2,370,166	\$ 2,440,334	\$ 35,264	\$ 37,905
Restricted.....	456,482	123,328	39,849	66,645	-	208,336	41,955	10,812	947,407	919,474	-	-
Deposits and investments outside City Treasury:												
Unrestricted.....	5,937	136	10	10,271	10	123	5	2	16,494	16,355	-	-
Restricted.....	445,122	192,814	5,510	18,091	8,557	39,757	10,555	15,338	735,744	736,521	25,349	32,907
Total deposits and investments.....	1,317,899	640,194	240,075	906,555	348,075	407,334	183,527	26,152	4,069,811	4,112,684	60,613	70,812
Less: Investments outside City Treasury not meeting the definition of cash equivalents.....	(444,158)	(65)	(2,611)	-	-	(53)	(304)	(1)	(447,192)	(559,243)	-	(4,665)
Cash and cash equivalents at end of year on statement of cash flows.....	\$ 873,741	\$ 640,129	\$ 237,464	\$ 906,555	\$ 348,075	\$ 407,281	\$ 183,223	\$ 26,151	\$ 3,622,619	\$ 3,553,441	\$ 60,613	\$ 66,147
Non-cash capital and related financing activities:												
Acquisition of capital assets on accounts payable and capital lease.....	\$ 83,187	\$ 47,587	\$ 2,838	\$ -	\$ 3,690	\$ 31,166	\$ 1,354	\$ 466	\$ 170,288	\$ 133,772	\$ 361	\$ 424
Tenant improvements financed by rent credits.....	-	-	-	-	-	-	241	-	241	400	-	-
Net capitalized interest.....	7,700	65,076	67	2,130	-	13,220	32	-	88,225	100,043	-	-
Donated inventory.....	-	-	-	-	2,844	-	-	-	2,844	7,306	-	-
Capital contributions and other noncash capital items.....	-	-	-	-	-	-	624	-	624	(4,328)	-	-
Bond refunding.....	282,453	-	-	-	-	-	-	-	282,453	249,527	-	-
Interfund loan.....	-	786	-	-	-	1,271	-	-	2,057	1,621	-	-

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, 2016
(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.....	\$ 97,306	\$ 746,983	\$ 289,884	\$ 138,794
Deposits and investments outside City Treasury:				
Cash and deposits.....	43,521	105	4,571	817
Short-term investments.....	1,009,676	-	138,600	-
Debt securities.....	4,747,116	-	-	-
Equity securities.....	9,351,864	-	-	-
Real assets.....	2,341,500	-	-	-
Private equity.....	2,753,869	-	-	-
Foreign currency contracts, net.....	14,125	-	-	-
Invested in securities lending collateral.....	865,681	-	-	-
Receivables:				
Employer and employee contributions.....	32,424	-	-	43,571
Brokers, general partners and others.....	66,689	-	-	-
Federal and state grants and subventions.....	-	-	404	-
Interest and other.....	44,254	850	10,081	276,318
Other assets.....	-	-	702	45,538
Capital assets:				
Land and other assets not being depreciated.....	-	-	56,589	-
Facilities, infrastructure and equipment, net of depreciation.....	-	-	108,632	-
Total assets.....	<u>21,368,025</u>	<u>747,938</u>	<u>609,463</u>	<u>505,038</u>
DEFERRED OUTFLOWS OF RESOURCES				
Deferred outflows related to pensions.....	-	-	1,494	-
Unamortized loss on refunding of debt.....	-	-	29,748	-
Total deferred outflows of resources.....	<u>-</u>	<u>-</u>	<u>31,242</u>	<u>-</u>
LIABILITIES				
Accounts payable.....	26,958	4,043	21,801	53,652
Estimated claims payable.....	29,347	-	-	-
Due to the primary government.....	-	-	2,611	-
Agency obligations.....	-	-	-	451,386
Bond interest payable.....	-	-	16,113	-
Payable to brokers.....	107,444	-	-	-
Deferred Retirement Option Program.....	613	-	-	-
Payable to borrowers of securities.....	863,536	-	-	-
Other liabilities.....	2,239	-	1,353	-
Advance from primary government.....	-	-	14,602	-
Long-term obligations.....	-	-	936,830	-
Net pension liability.....	-	-	16,563	-
Total liabilities.....	<u>1,030,137</u>	<u>4,043</u>	<u>1,009,873</u>	<u>505,038</u>
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions.....	-	-	7,874	-
NET POSITION				
Restricted for pension and other employee benefits.....	20,337,888	-	-	-
Held for external pool participants.....	-	743,895	-	-
Held for Redevelopment Agency dissolution.....	-	-	(377,042)	-
Total net position.....	<u>\$ 20,337,888</u>	<u>\$ 743,895</u>	<u>\$ (377,042)</u>	<u>\$ -</u>

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, 2016
(In Thousands)

	Pension, Other Employee and Other Post- Employment Benefit Trust Funds	Investment Trust Fund	Private- Purpose Trust Fund
Additions:			
Redevelopment property tax revenues.....	\$ -	\$ -	\$ 119,302
Charges for services.....	-	-	83,559
Contributions:			
Employees' contributions.....	469,278	-	-
Employer contributions.....	1,385,104	-	-
Contributions to pooled investments.....	-	3,183,781	-
Total contributions.....	<u>1,854,382</u>	<u>3,183,781</u>	<u>202,861</u>
Investment income:			
Interest.....	190,793	3,772	1,632
Dividends.....	219,529	-	-
Net depreciation in fair value of investments.....	(215,895)	-	-
Securities lending income.....	7,562	-	-
Total investment income.....	<u>201,989</u>	<u>3,772</u>	<u>1,632</u>
Less investment expenses:			
Securities lending borrower rebates and expenses.....	(1,315)	-	-
Other investment expenses.....	(47,174)	-	-
Total investment expenses.....	<u>(48,489)</u>	<u>-</u>	<u>-</u>
Other additions.....	-	-	32,991
Total additions, net.....	<u>2,007,882</u>	<u>3,187,553</u>	<u>237,484</u>
Deductions:			
Neighborhood development.....	-	-	120,903
Depreciation.....	-	-	5,543
Interest on debt.....	-	-	52,204
Benefit payments.....	2,222,409	-	-
Refunds of contributions.....	12,886	-	-
Distribution from pooled investments.....	-	2,983,674	-
Administrative expenses.....	17,318	-	10,467
Total deductions.....	<u>2,252,613</u>	<u>2,983,674</u>	<u>189,117</u>
Change in net position.....	(244,731)	203,879	48,367
Net position at beginning of year	<u>20,582,619</u>	<u>540,016</u>	<u>(425,409)</u>
Net position at end of year.....	<u>\$ 20,337,888</u>	<u>\$ 743,895</u>	<u>\$ (377,042)</u>

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

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements

June 30, 2016

(Dollars in Thousands)

(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 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 (SFMTA) 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 SFMTA Chief Financial Officer at 1 South Van Ness Avenue, 8th Floor, San Francisco, CA 94102.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

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.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

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, and is not at the level of detail required for a presentation in accordance with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the City's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

(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 AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
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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 60 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, charges for services, rents and concessions, 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, 2016, the City adopted a new revenue recognition policy, and changed the availability period from 90 days to 60 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 \$23.7 million for the year ended June 30, 2016, and did not have a significant impact on the financial statements as of and for the year ended June 30, 2015.

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 (SFMTA). The SFMTA was established by Proposition E, passed by the City's voters in November 1999. The SFMTA includes the San Francisco Municipal Railway (Muni) and the operations of Sustainable Streets, 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 SFMTA. 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 **General Hospital Medical Center Fund** accounts for the activities of the San Francisco General Hospital (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.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

- 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 **Debt Service Funds** account for the accumulation of property taxes and other revenues for periodic payment of interest and principal on general obligation and certain lease revenue bonds and related authorized costs.
- The **Capital Projects Funds** are used to account for financial resources that are restricted, committed or assigned to expenditures for the acquisition of land or acquisition and construction of major facilities other than those financed in the proprietary fund types.
- The **Special Revenue Funds** are used to account for the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects
- 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 other postemployment benefit contributions from the City and the San Francisco Community College District, together with 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 and other governmental agencies; employees for payroll deductions; and human welfare, community health, and transportation programs.

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

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
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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 is 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

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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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 and of the Retiree Health Care Trust Fund are held by trustees.

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, 2016, involuntary participants accounted for approximately 95.6% of the pool. Voluntary

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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participants accounted for 4.4% 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, 2016, \$743.9 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 9.4%. Internal participants accounted for 90.6% 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 deposit 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 real estate investments are based on net asset values provided by the investment managers. Private equity investments represent interest in limited partnerships. The fair values of private equity investments are also based on net asset values provided by the general partners. For investments that are not traded on national or international exchanges with closing market prices available data is obtained to corroborate pricing.

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, 2016 was 78 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, 2016, the weighted average maturity of the reinvested cash collateral account was 25 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.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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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* and GASB Statement No. 72 – *Fair Value Measurement and Application*. 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, if the derivatives are determined to be effective hedges, the changes in the fair value of hedging derivative instruments are reported as either deferred inflows or deferred outflows in the statement of net position, otherwise changes in fair value are recorded within the investment revenue classification.

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, SFMTA, 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, 2016, it was determined that \$1,122.0 million of the \$1,203.8 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.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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(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 proprietary and private-purpose trust funds. 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.

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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, SFMTA, and San Francisco Wastewater Enterprise are amortized over the life of the bonds using the effective interest method. The remaining bond prepaid insurance 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.

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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.

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.

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, including debt related deferred outflows and inflows of resources, 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.
- *Unrestricted Net Position* – This category represents net position of the City, not restricted for any project or other purpose.

(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 and proprietary and fiduciary funds, 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.

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(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) Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the fiduciary net position of the SFERS and the California Public Employees' Retirement System ("CalPERS") plans and additions to/deductions from the plans' fiduciary net positions have been determined on the same basis as they are reported by the plans. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Plan member contributions are recognized in the period in which the contributions are due. Investments are reported at fair value.

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB Statement No. 27* (GASB Statement No. 68) requires that the reported results pertain to liability and asset information within certain defined timeframes. Liabilities are based on the results of actuarial calculations performed as of June 30, 2014 and were rolled forward to June 30, 2015. For this report, the following timeframes are used for the City's pension plans:

Valuation Date (VD).....	June 30, 2014 updated to June 30, 2015
Measurement Date (MD).....	June 30, 2015
Measurement Period (MP)...	July 1, 2014 to June 30, 2015

(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 2014-15 Summarized Comparative Financial Information in the basic financial statements, have been reclassified for comparative purposes, to conform to the presentation in the 2015-16 basic financial statements.

(s) Effects of New Pronouncements

During fiscal year 2016, the City implemented the following accounting standards:

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. Statement No. 72 requires the City to use valuation techniques which are appropriate under the circumstances and are consistent with the market approach, the cost approach or the income approach. Statement No. 72 establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs. Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. Implementation of this statement did not have a significant impact on the City for the year ended June 30, 2016, however, the San Francisco International Airport restated its beginning deferred outflows on derivative instruments and derivative instruments liabilities of fiscal year 2015 by \$1.4 million. This restatement did not affect the City's beginning net position.

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In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68*. This statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes. The provisions in this statement are effective for the City's fiscal year ending June 30, 2016, except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for the City's fiscal year ending June 30, 2017. Partial implementation of this statement did not have a significant impact on the City for the year ended June 30, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. GASB Statement No. 76 establishes the hierarchy of GAAP for state and local governments. The new standard is effective for periods beginning after June 15, 2015. Implementation of this statement did not have a significant impact on the City for the year ended June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. GASB Statement No. 79 establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure all their investments at amortized cost. The new standard is effective for periods beginning after June 15, 2015, except for certain provisions that will be effective for reporting periods beginning after December 15, 2015. Implementation of this statement did not have a significant impact on the City for the year ended June 30, 2016.

In March 2016, the GASB issued Statement No. 82, *Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73*. GASB Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. As Statement No. 82 changes the classification of these payments, commonly referred to as Employer-Paid Member Contributions, the City reclassified these payments. While the applicable requirements of this Statement are effective for reporting periods beginning after June 15, 2016, the City has elected early implementation for the year ended June 30, 2016. During the year ended June 30, 2015, the SFMTA made Employer-Paid Member Contributions to satisfy contribution requirements of the Retirement System and collective bargaining agreements. Statement No. 82 requires Employer-Paid Member contributions to be classified as employee contributions rather than classified as employer contributions. In fiscal year 2014-15, such payments were treated as employer contributions by the SFMTA as required by Statement No. 68. Therefore, early implementation of Statement No. 82, which amends Statement No. 68, resulted in a restatement which decreased beginning net position for fiscal year 2015-16 by \$8.6 million.

In addition, the City is currently analyzing its accounting practices to determine the potential impact of the following pronouncements:

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* and Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Statement No. 74 revises and establishes new accounting and financial reporting requirements for postemployment benefit plans other than pensions (OPEB). Statement No. 75 revises and establishes new accounting and financial reporting requirements for governments that provide their employees with OPEB and requires additional OPEB disclosures. Statement No. 74 is effective for periods beginning after June 15, 2016 and is effective for the City's fiscal year ending June 30, 2017. Statement No. 75 is effective for periods beginning after June 15, 2017 and is effective for the City's fiscal year ending June 30, 2018.

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In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. Statement No. 77 establishes financial reporting standards for tax abatement agreements entered into by state and local governments. The new standard is effective for periods beginning after December 15, 2015. Application of this statement is effective for the City's fiscal year ending June 30, 2017.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*. GASB Statement No. 78 establishes accounting and financial reporting standards for defined benefit pensions provided by state or local governments through a cost-sharing plan that meets the criteria of Statement No. 68 and is not a state or local governmental pension plan. The new standard is effective for periods beginning after December 15, 2015. Application of this statement is effective for the City's fiscal year ending June 30, 2017.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. GASB Statement No. 81 establishes accounting and financial reporting standards for irrevocable split-interest agreements created through trusts in which a donor irrevocably transfers resources to an intermediary. The new standard is effective for periods beginning after December 15, 2016. Application of this statement is effective for the City's fiscal year ending June 30, 2018.

(t) Restricted Assets

Certain proceeds of the City's governmental activities, enterprise and internal service funds 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, proprietary, fiduciary, 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. In government-wide financial statements, deferred outflows and inflows of resources are recorded for unamortized losses and gains on refunding of debt, deferred outflows and inflows of resources related to pensions, deferred outflows of resources on derivative instruments, and deferred inflows of resources related to the SFMTA's leaseback transaction.

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(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, \$2,835,474, differs from net position of governmental activities, \$2,009,063, 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.....	\$ 3,279,724	\$ -	\$ 35,264	\$ -	\$ 3,314,988
Deposits and investments outside City Treasury.....	84,845	-	25,349	-	110,194
Receivables, net					
Property taxes and penalties.....	77,241	-	-	-	77,241
Other local taxes.....	278,763	-	-	-	278,763
Federal and state grants and subventions.....	303,316	-	-	-	303,316
Charges for services.....	99,919	-	53	-	99,972
Interest and other.....	15,822	-	633	-	16,455
Due from other funds.....	12,062	-	-	(12,062)	-
Due from component unit.....	2,437	-	-	-	2,437
Advance to component unit.....	17,496	-	-	-	17,496
Loans receivable, net.....	81,801	-	-	-	81,801
Capital assets, net.....	-	5,114,367	10,985	-	5,125,352
Other assets.....	6,855	6	266	-	7,127
Total assets.....	<u>4,260,281</u>	<u>5,114,373</u>	<u>72,550</u>	<u>(12,062)</u>	<u>9,435,142</u>
Deferred outflows of resources					
Unamortized loss on refunding of debt.....	-	17,282	1,091	-	18,373
Deferred outflows related to pensions.....	-	378,712	7,475	-	386,187
Total deferred outflows of resources.....	<u>-</u>	<u>395,994</u>	<u>8,566</u>	<u>-</u>	<u>404,560</u>
Liabilities					
Accounts payable.....	353,721	-	7,459	-	361,180
Accrued payroll.....	89,262	-	1,862	-	91,124
Accrued vacation and sick leave pay.....	-	147,925	3,102	-	151,027
Accrued workers' compensation.....	-	225,961	1,864	-	227,825
Other postemployment benefits obligation.....	-	1,179,468	23,518	-	1,202,986
Estimated claims payable.....	-	160,498	-	-	160,498
Accrued interest payable.....	-	11,893	1,315	-	13,208
Unearned grant and subvention revenues.....	24,250	-	-	-	24,250
Due to other funds.....	33,696	-	361	(12,062)	21,995
Unearned revenue and other liabilities.....	494,796	2,022	58	-	496,876
Bonds, loans, capital leases, and other payables.....	102,778	2,994,530	197,217	-	3,294,525
Net pension liability.....	-	1,331,114	24,166	-	1,355,280
Total liabilities.....	<u>1,098,503</u>	<u>6,053,411</u>	<u>260,922</u>	<u>(12,062)</u>	<u>7,400,774</u>
Deferred inflows of resources					
Unavailable revenue.....	326,304	(326,304)	-	-	-
Unamortized gain on refunding of debt.....	-	236	-	-	236
Deferred inflows related to pensions.....	-	421,800	7,829	-	429,629
Total deferred inflows of resources.....	<u>326,304</u>	<u>95,732</u>	<u>7,829</u>	<u>-</u>	<u>429,865</u>
Fund balances/ net position					
Total fund balances/ net position.....	<u>\$ 2,835,474</u>	<u>\$ (638,776)</u>	<u>\$ (187,635)</u>	<u>\$ -</u>	<u>\$ 2,009,063</u>

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(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	\$ 6,682,703
Accumulated depreciation	<u>(1,568,336)</u>
	<u>\$ 5,114,367</u>

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	\$ (147,925)
Accrued workers' compensation.....	(225,961)
Other postemployment benefits obligation	(1,179,468)
Estimated claims payable.....	(160,498)
Unearned revenue and other liabilities	(2,022)
Bonds, loans, capital leases, and other payables	<u>(2,994,530)</u>
	<u>\$ (4,710,404)</u>

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. \$ (11,893)

Deferred outflows (inflows) of resources related to debt refundings in governmental activities are not financial resources, and therefore, are not reported in the governmental funds.

Unamortized loss on refunding of debt.....	\$ 17,282
Unamortized gain on refunding of debt	<u>(236)</u>
	<u>\$ 17,046</u>

Net pension liability is not due and payable in the current period, and accordingly is not reported as a fund liability. Deferred outflows (inflows) of resources related to pensions are not financial resources, and therefore, are not reported in the governmental funds.

Net pension liability.....	\$ (1,331,114)
Deferred outflows of resources related to pensions.....	378,712
Deferred inflows of resources related to pensions	<u>(421,800)</u>
	<u>\$ (1,374,202)</u>

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

Revenue not collected within 60 days of the end of the current fiscal period	\$ 326,304
Other postemployment benefits assets	6
	<u>\$ 326,310</u>

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(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	\$ (15,442)
Adjustments for internal balances with the San Francisco Finance Corporation:	
Capital lease receivables from other governmental and enterprise funds	(193,450)
Other assets	266
Unearned revenue and other liabilities	20,991
	<u>\$ (187,635)</u>

In addition, intrafund receivables and payables among various internal service funds of \$24 are eliminated.

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(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, \$546,531, differs from the change in net position for governmental activities, \$721,849, 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.....	\$ 1,798,776	\$ 10,141	\$ -	\$ -	\$ -	\$ 1,808,917
Business taxes.....	660,926	-	-	-	-	660,926
Sales and use tax.....	267,443	2,608	-	-	-	270,051
Hotel room tax.....	387,661	-	-	-	-	387,661
Utility users tax.....	98,651	-	-	-	-	98,651
Parking tax.....	86,012	-	-	-	-	86,012
Real property transfer tax.....	269,090	-	-	-	-	269,090
Other local taxes.....	44,780	-	-	-	-	44,780
Licenses, permits and franchises.....	43,722	102	-	-	-	43,824
Fines, forfeitures, and penalties.....	36,169	4,046	-	-	-	40,215
Interest and investment income.....	23,931	-	-	117	-	24,048
Rents and concessions.....	135,865	(21,537)	-	-	-	114,328
Intergovernmental:						
Federal.....	416,823	16,154	-	-	-	432,977
State.....	776,866	2,372	-	-	-	779,238
Other.....	85,872	1,346	-	-	-	87,218
Charges for services.....	392,665	1,245	-	-	-	393,910
Other.....	264,722	(6,161)	-	874	-	259,435
Total revenues.....	<u>5,789,974</u>	<u>10,316</u>	<u>-</u>	<u>991</u>	<u>-</u>	<u>5,801,281</u>
Expenditures/ Expenses						
Current:						
Public Protection.....	1,269,000	(53,957)	13,739	(6,233)	-	1,222,549
Public works, transportation and commerce.....	416,152	(6,992)	10,685	(867)	-	418,978
Human welfare and neighborhood development.....	1,252,588	(19,431)	529	(283)	-	1,233,403
Community health.....	776,612	(18,481)	(11,060)	-	-	747,071
Culture and recreation.....	364,909	(10,072)	(29,295)	(14,514)	-	311,028
General administration and finance.....	277,729	(22,563)	(9,923)	1,140	-	246,383
General City responsibilities.....	114,684	-	-	(1,194)	-	113,490
Debt service:						
Principal retirement.....	252,456	-	-	-	(252,456)	-
Interest and other fiscal charges.....	119,723	-	-	4,589	(16,063)	108,249
Bond issuance costs.....	7,108	-	-	-	-	7,108
Capital outlay.....	223,904	-	(223,904)	-	-	-
Total expenditures.....	<u>5,074,865</u>	<u>(131,496)</u>	<u>(249,229)</u>	<u>(17,362)</u>	<u>(268,519)</u>	<u>4,408,259</u>
Excess (deficiency) of revenues over (under) expenditures.....	<u>715,109</u>	<u>141,812</u>	<u>249,229</u>	<u>18,353</u>	<u>268,519</u>	<u>1,393,022</u>
Other financing sources (uses) / changes in net position						
Net transfers in (out).....	(671,063)	-	-	(110)	-	(671,173)
Issuance of bonds and loans:						
Face value of bonds issued.....	595,925	-	-	-	(595,925)	-
Premium on issuance of bonds.....	32,845	-	-	-	(32,845)	-
Payment to refunded bond escrow agent.....	(131,935)	-	-	-	131,935	-
Other financing sources.....	5,650	-	-	(5,650)	-	-
Total other financing sources (uses).....	<u>(168,578)</u>	<u>-</u>	<u>-</u>	<u>(5,760)</u>	<u>(496,835)</u>	<u>(671,173)</u>
Net change for the year.....	\$ 546,531	\$ 141,812	\$ 249,229	\$ 12,593	\$ (228,316)	\$ 721,849

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(3) Property taxes that were unavailable and are reported as deferred inflows of resources in the governmental funds are recognized as revenues in the statement of activities. \$ 10,141

Other revenues that were unavailable and reported as deferred inflows of resources in the governmental funds are recognized as revenues in the statement of activities. 175
\$ 10,316

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. \$ (155,660)

Changes to net pension liability and pension related deferred outflows and inflows of resources do not provide financial resources and, therefore, are not reported as a reduction in expenditures in governmental funds. 282,088

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. 5,068
\$ 131,496

(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	\$ 413,493
Depreciation expenses	(134,468)
Loss on disposal of capital assets	(263)
Write off construction of progress	<u>(29,533)</u>
Difference	<u>\$ 249,229</u>

(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. \$ 12,593

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(6) 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. \$ (32,845)

Repayment of bond principal and the payment to escrow for refunding of debt are reported as expenditures and other financing uses in governmental funds and, thus, have the effect of reducing fund balance because current financial resources have been used. For the City as a whole however, the principal payments and payment to escrow for refunded debt reduce the liabilities in the statement of net 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	\$ 252,456
Payments to escrow for refunded debt.....	<u>131,935</u>
	<u>384,391</u>

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.....	(321,875)
Certificates of participation	<u>(274,050)</u>
	<u>(595,925)</u>
	\$ <u>(211,534)</u>

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	\$ (825)
Loss on refundings on certificates of participation	1,359
Amortization of bond premiums and discounts	19,313
Amortization of bond refunding losses and gains.....	<u>(3,784)</u>
	<u>\$ 16,063</u>

CITY AND COUNTY OF SAN FRANCISCO
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(4) BUDGETARY RESULTS RECONCILED TO RESULTS IN ACCORDANCE WITH GENERALLY ACCEPTED ACCOUNTING PRINCIPLES

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

The fund balance of the General Fund as of June 30, 2016 on a Budget basis is reconciled to the fund balance on a GAAP basis as follows:

Fund Balance - Budget Basis.....	\$ 1,526,830
Unrealized Gains/ (Losses) on Investments.....	343
Cumulative Excess Property Tax Revenues Recognized on a Budget Basis.....	(36,008)
Cumulative Excess Health, Human Services, Franchise and Other Revenues Recognized on a Budget Basis.....	(56,709)
Pre-paid lease revenue.....	(5,816)
Nonspendable Fund Balance (Assets Reserved for Not Available for Appropriation).....	522
	<hr/>
Fund Balance - GAAP basis.....	<u>\$ 1,429,162</u>

General Fund budget basis fund balance as of June 30, 2016 is composed of the following:

Not available for appropriations:

Restricted Fund Balance:

Rainy Day - Economic Stabilization Reserve.....	\$ 74,986
Rainy Day - One Time Spending Account.....	45,120

Committed Fund Balance:

Budget Stabilization Reserve.....	178,434
Recreation and Parks Expenditure Saving Reserve.....	8,736
Assigned for Encumbrances.....	190,965
Assigned for Appropriation Carryforward.....	293,921

Assigned for Subsequent Years' Budgets:

Budget Savings Incentive Program City-wide.....	58,907
Salaries and benefits costs (MOU).....	18,203

Subtotal..... \$ 869,272

Available for appropriations:

Assigned for Litigation and Contingencies.....	145,443
Assigned balance subsequently appropriated as part of the General Fund budget for use in fiscal year 2016-17.....	172,128
Unassigned - General Reserve.....	76,913
Unassigned - Budget for use in fiscal year 2017-18.....	191,202
Unassigned - Contingency for fiscal year 2017-18.....	60,000
Unassigned - Available for future appropriations.....	11,872
	<hr/>
Subtotal.....	657,558

Fund Balance, June 30, 2016 - Budget basis..... \$ 1,526,830

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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(5) DEPOSITS AND INVESTMENTS

(a) Cash, Deposits and Investments Presentation

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

	Primary Government			Total	Component Unit
	Governmental Activities	Business-type Activities	Fiduciary Funds		TIDA
Deposits and investments with					
City Treasury.....	\$ 3,314,988	\$ 2,370,166	\$ 1,272,967	\$ 6,958,121	\$ 11,130
Deposits and investments outside					
City Treasury.....	84,845	16,494	20,405,764	20,507,103	-
Restricted assets:					
Deposits and investments with					
City Treasury.....	-	947,407	-	947,407	-
Deposits and investments outside					
City Treasury.....	25,349	735,744	-	761,093	-
Invested in securities lending collateral..	-	-	865,681	865,681	-
Total deposits & investments	<u>\$ 3,425,182</u>	<u>\$ 4,069,811</u>	<u>\$ 22,544,412</u>	<u>\$ 30,039,405</u>	<u>\$ 11,130</u>
Cash and deposits.....				\$ 228,638	\$ -
Investments.....				29,810,767	11,130
Total deposits and investments.....				<u>\$ 30,039,405</u>	<u>\$ 11,130</u>

(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 public funds. 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.

The investment policy 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 May 2016. The table also identifies certain provisions of the City's investment policy that address interest rate risk and concentration of credit risk.

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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	100%	100%
State and Local Government Agency Obligations	5 years	20%	5% *
Public Time Deposits	13 months *	None	None
Negotiable Certificates of Deposit/Yankee			
Certificates of Deposit	5 years	30%	None
Bankers Acceptances	180 days	40%	None
Commercial Paper	270 days	25% *	10%
Medium Term Notes	24 months *	25% *	10% *
Repurchase Agreements (Government Securities)	1 year	None	N/A
Repurchase Agreements (Securities permitted by CA Government Code, Sections 53601 and 53635)	1 year	10%	N/A
Reverse Repurchase Agreements / Securities Lending	45 days *	None	\$75 million *
Money Market (Institutional Government Funds)	N/A	10% *	N/A
Money Market (Institutional Prime Funds)	60 days	5% *	N/A
Supranationals	5 years	5% *	None
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.

CITY AND COUNTY OF SAN FRANCISCO
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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 private equity investments, which include investments in a variety of commingled partnership vehicles.

The Retirement Board's asset allocation policies for the year ended June 30, 2016 are as follows:

<u>Asset Class</u>	<u>Target Allocation through January 2015</u>	<u>Target Allocation since February 2015</u>
Global Equity	47.0%	40.0%
Fixed Income	25.0%	20.0%
Private Equity	16.0%	18.0%
Real Assets	12.0%	17.0%
Hedge Funds/Absolute Return	0%	5.0%
	<u>100.0%</u>	<u>100.0%</u>

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, 2016, \$419.0 million (or 48.4% of cash collateral) consisted of such agreements.

Retiree Health Care Trust Fund

The RHCTF's investments outside of the City Treasury are invested pursuant to investment policy guidelines as established by the RHCTF Board. The objective of the policy is to manage fund assets so as to achieve the highest, reasonably prudent real return possible. The investment policy permits the RHCTF to invest in domestic and international equity securities and investment grade bonds. It also allows investments in global equity, U.S. nominal bonds, inflation-linked bonds, global real estate, and commodities, although the RHCTF does not currently hold assets in these classes. The RHCTF Board has established percentage guidelines for types of investments to ensure the portfolio is diversified, as follows:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Range</u>
Domestic Equity	37.0%	32.0-42.0%
International Equity	37.0%	32.0-42.0%
Investment Grade Bonds	26.0%	21.0-31.0%
	<u>100.0%</u>	

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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(c) Fair Value Hierarchy

The City categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure fair value of the assets. Level 1 inputs are quoted prices in an active market for identical assets; Level 2 inputs are significant other observable inputs; and Level 3 inputs are significant unobservable inputs (the City does not value any of its investments using Level 3 inputs). The inputs or methodology used for valuing securities are not an indication of risk associated with investing in those securities.

The following is a summary of inputs used in valuing the City's investments as of June 30, 2016:

	Fair Value 6/30/2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Primary Government:				
Investments in City Treasury:				
U.S. Treasury Notes	\$ 501,077	\$ 501,077	\$ -	\$ -
U.S. Agencies - Discount	296,560	296,560	-	-
U.S. Agencies - Coupon (no call option)	2,663,602	2,663,602	-	-
U.S. Agencies (callable option)	1,047,592	1,047,592	-	-
State and Local Agencies	193,556	-	193,556	-
Negotiable Certificates of Deposits	1,241,116	1,191,126	49,990	-
Corporate Notes	671,178	671,178	-	-
Supranationals	150,104	-	150,104	-
Commercial Paper	449,127	-	449,127	-
Public Time Deposits	1,440 *	-	-	-
Money Market Mutual Funds	555,450 *	-	-	-
Subtotal	<u>7,770,802</u>	<u>\$ 6,371,136</u>	<u>\$ 842,776</u>	<u>\$ -</u>
Separately managed account:				
SFRDA South Beach Harbor Revenue Bond	675			
Subtotal investments in City Treasury	<u>7,771,477</u>			
Investments Outside City Treasury:				
(Governmental and Business - Type)				
U.S. Treasury Notes	297,606	\$ 297,606	\$ -	\$ -
U.S. Agencies	184,291	184,291	-	-
Commercial Paper	16,212 *	-	-	-
Money Market Mutual Funds	468,176 *	-	-	-
Certificates of Deposit	304 *	-	-	-
Subtotal Investments Outside City Treasury	<u>966,589</u>	<u>\$ 481,897</u>	<u>\$ -</u>	<u>\$ -</u>

* Not subject to fair value hierarchy

(Continued)

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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	Fair Value 6/30/2016	Fair Value Measurements Using		
		Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Unobservable Inputs (Level 3)
Employees' Retirement System Investments				
Short Term Investments	\$ 1,009,676	\$ -	\$ -	\$ 1,009,676
Debt Securities:				
U.S. Government & Agency Securities	695,309	-	695,309	-
Other Debt Securities	2,246,680	-	2,134,644	112,036
Equity Securities:				
Domestic Equity	4,296,051	4,198,957	7,508	89,586
International Equity	3,087,999	3,077,546	7,961	2,492
Foreign Currency Contracts, net	14,125	-	-	14,125
Invested securities lending collateral	865,681	-	389,095	476,586
Subtotal	<u>12,215,521</u>	<u>\$ 7,276,503</u>	<u>\$ 3,234,517</u>	<u>\$ 1,704,501</u>
Investments measured at the net asset value (NAV)				
Fixed Income Funds Invested in:				
U.S. Government & Agency Securities	952,962			
Other Fixed Income	822,065			
Equity Funds Invested in:				
Domestic Equity	674,787			
International Equity	1,216,026			
Real Assets	2,341,500			
Private Equity	<u>2,750,619</u>			
Subtotal investments measured at the NAV	<u>8,757,959</u>			
Total investments in Employees' Retirement System	<u>20,973,480</u>			
Healthcare Trust (measurements at the NAV)				
Fixed Income:				
U.S. Debt Index Fund	30,100			
Equities:				
Domestic:				
S&P 500 Equity Index Fund	39,026			
International:				
EAFE Equity Index Fund	37,975			
Money Market Investments				
Treasury Money Market Fund	<u>3,250 *</u>			
Total Investments in Healthcare Trust	<u>110,351</u>			
Total Investments	<u>\$29,821,897</u>			

* Not subject to fair value hierarchy

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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Investments in City Treasury

U.S. Treasury Notes, U.S. Government Agencies, Corporate Notes, and Negotiable Certificates of Deposit are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy.

State and Local agencies, Negotiable Certificates of Deposit, Commercial Paper and Supranationals are valued using a variety of techniques such as matrix pricing, market corroborated pricing inputs such as yield curve, indices, and other market related data and classified in Level 2 of the fair value hierarchy.

Money Market Funds and Public Time Deposits have maturities of one year or less from fiscal year end and are not subject to GASB Statement No. 72.

Investments Outside City Treasury

U.S. Treasury Notes and U.S. Government Agencies are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy. Commercial Paper is valued using a variety of techniques such as matrix pricing, market corroborated pricing inputs such as yield curve, indices, and other market related data and are not subject to fair value hierarchy. Money Market Funds are valued at amortized costs and are not subject to fair value hierarchy.

Employees' Retirement System investments

Investments, at Fair Value

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets issued by pricing vendors for these securities. Invested securities lending collateral and debt and equity securities classified in Level 2 of the fair value hierarchy are valued using prices determined by the use of matrix pricing techniques maintained by the various pricing vendors for these securities. Debt securities including short-term instruments are priced based on evaluated prices. Such evaluated prices may be determined by factors which include, but are not limited to, market quotations, yields, maturities, call features, ratings, institutional size trading in similar groups of securities and developments related to specific securities. For equity securities not traded on an active exchange, or if the closing price is not available, corroborated indicative quotes obtained from pricing vendors are generally used. Short-term investments and debt and equity securities classified in Level 3 of the fair value hierarchy are securities whose stated market prices are unobservable by the market place. Many of these securities are priced using uncorroborated indicative quotes, adjusted prices based on inputs from different sources, or evaluated prices using unobservable inputs, such as extrapolated data, proprietary models, and indicative quotes from pricing vendors.

Fair value is defined as the quoted market value on the last trading day of the period. In some cases, a valuation technique may have multiple inputs used to measure fair value, and each input might fall into a different level of the fair value hierarchy. The level in the fair value hierarchy within which a fair value measurement falls in its entirety is determined based on the lowest level input that is significant to the measurement. The prices used in determining the fair value hierarchy are obtained from various pricing sources by the Retirement System's custodian bank.

Investments, at Net Asset Value (NAV)

Equity and Debt Funds

The equity and debt funds are commingled funds that are priced at net asset value by industry vendors and fund families. NAV is the market value of all securities owned by a fund, minus its total liabilities, divided by the number of shares issued and outstanding. The NAV of an open-end fund is its price.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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Real Assets, Private Equity, and Opportunistic Fixed Income Investments

The fair value of the Retirement System's investments in real assets, private equity, and opportunistic fixed income investments are based on net asset values provided by the investment managers and general partners (hereinafter collectively referred to as the "General Partners"). Such value generally represents the Retirement System's proportionate share of the net assets of the limited partnerships. The partnership financial statements are audited annually as of December 31 and the net asset value are adjusted by additional contributions to and distributions from the partnership, the Retirement System's share of net earnings and losses, and unrealized gains and losses resulting from changes in fair value, as determined by the General Partners.

The General Partners may use one or more valuation methodologies outlined in FASB ASC 820, *Fair Value Measurement*. For some investments, little market activity may exist. The General Partners' determination of fair value is then based on the best information available in the circumstances and may involve subjective assumptions and estimates, including the General Partners' assessment that market participants would use in valuing the investments. The General Partners may take into consideration a combination of internal and external factors, including but not limit to, appropriate risk adjustments for nonperformance and liquidity. Such fair value estimates involve subjective judgments of unrealized gains and losses.

The values provided by the General Partners may differ significantly from the values that would have been used had a ready market existed for these investments.

Retiree Health Care Trust Fund

Investments, at Net Asset Value (NAV)

At June 30, 2016 the Retiree Health Care Trust Fund had investments in equity and debt commingled funds index funds and the City Treasury Pool. These funds include a S&P 500 Equity Index Fund, an EAFE Equity Index Fund, a U.S. Debt Index Fund and a Money Market Fund. The funds are priced at net asset value (NAV) by industry vendors and fund families. NAV is the market value of all securities owned by a fund, minus its total liabilities, divided by the number of shares issued and outstanding. As of June 30, 2016, there are no redemption restrictions on the commingled index funds.

(d) Investment Risks

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, 2016, \$2.6 million of the business-type activities bank balances were exposed to custodial credit risk by not being insured or collateralized.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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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 interest rates. Information about the sensitivity to the fair values of the City's investments to 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 (f) of this note.

	S & P Rating	Fair Value	Investment Maturities	
			Less than 1 year	1 to 5 years
Primary Government:				
Investments in City Treasury:				
Pooled Investments:				
U.S. Treasury Notes	AA+	\$ 501,077	\$ 300,741	\$ 200,336
U.S. Agencies	NR - AA+	4,007,754	1,563,904	2,443,850
State/Local Agencies	A+ - AA-	193,556	86,247	107,309
Public time deposits	NR	1,440	1,440	-
Negotiable certificates of deposits	A+ - AA-	1,241,116	1,141,226	99,890
Commercial paper	A-1 - A-1+	449,127	449,127	-
Corporate notes	A+ - AA-	671,178	586,121	85,057
Money market mutual funds	AAA _m	555,450	555,450	-
Supranationals	NR - AAA	150,104	124,994	25,110
Subtotal		7,770,802	4,809,250	2,961,552
Less: Treasure Island Development Authority				
Investments with City Treasury	n/a	(11,130)	-	(11,130)
Less: Employees' Retirement System				
Investments with City Treasury	n/a	(6,656)	-	(6,656)
Less: Health Care Trust				
Investments with City Treasury	n/a	(3,022)	-	(3,022)
Subtotal pooled investments		7,749,994	4,809,250	2,940,744
Separately managed account:				
SFRDA South Beach Harbor Revenue Bond	n/a	675	675	-
Subtotal investments in City Treasury		7,750,669	\$ 4,809,925	\$ 2,940,744
Investments Outside City Treasury:				
(Governmental and Business - Type)				
U.S. Treasury Notes	NR/AAA/AA+	\$ 297,606	\$ 104,073	\$ 193,533
U.S. Agencies - Coupon	AA+	8,108	-	8,108
U.S. Agencies - Discount	AA+/A-1+	176,183	18,635	157,548
Certificates of Deposit	NR	304	304	-
Commercial Paper	A-1+/A-1	16,212	16,212	-
Money Market Mutual Funds	AAA _m	299,895	299,895	-
U.S. Treasury Money Market Funds	AAA _m	168,281	168,281	-
Subtotal investments outside City Treasury		966,589	\$ 607,400	\$ 359,189
Retiree Health Care Trust investments		113,373		
Employees' Retirement System investments		20,980,136		
Total Primary Government		\$ 29,810,767		
Component Unit:				
Treasure Island Development Authority:				
Investments with City Treasury	n/a	11,130	\$ -	\$ 11,130
Total Investments		\$ 29,821,897		

As of June 30, 2016, the investments in the City Treasury had a weighted average maturity of 372 days.

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Credit Risk

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

Custodial Credit Risk for Investments

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to 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, 2016, 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.....	19.1%
Federal Home Loan Mortgage Corporation	12.6%
Federal Home Loan Bank	11.5%
Federal National Mortgage Association	5.1%

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, 2016:

Airport:	
Federal National Mortgage Association	29.0%
Federal Home Loan Mortgage Corporation.....	7.8%
Hetch Hetchy:	
Federal Farm Credit Bank	46.8%

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(e) 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, 2016:

Statement of Net Position

Net position held in trust for all pool participants.....	\$7,916,658
Equity of internal pool participants.....	\$7,172,086
Equity of separately managed account participant.....	677
Equity of external pool participants.....	743,895
Total equity.....	<u>\$7,916,658</u>

Statement of Changes in Net Position

Net position at July 1, 2015.....	\$7,190,206
Net change in investments by pool participants.....	726,452
Net position at June 30, 2016.....	<u>\$7,916,658</u>

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2016:

Type of Investment	Rates	Maturities	Par Value	Carrying Value
Pooled Investments:				
U.S. Treasury Notes.....	0.67% - 1.21%	09/30/16 - 11/30/17	\$ 500,000	\$ 501,077
U.S. Agencies - Coupon.....	0.03% - 2.09%	07/01/16 - 12/24/20	4,003,428	4,007,754
State and local agencies.....	0.44% - 1.66%	07/14/16 - 10/01/19	191,200	193,556
Public time deposits.....	0.72% - 1.05%	08/10/16 - 06/29/17	1,440	1,440
Negotiable certificates of deposit..	0.64% - 1.17%	08/08/16 - 10/25/17	1,240,000	1,241,116
Commercial paper.....	0.50% - 1.02%	07/01/16 - 03/07/17	450,000	449,127
Corporate notes.....	0.34% - 1.36%	07/05/16 - 04/06/18	670,676	671,178
Money market mutual funds.....	0.22% - 0.30%	07/01/16 - 07/01/16	555,450	555,450
Supranationals.....	0.32% - 1.07%	07/01/16 - 10/05/18	150,000	150,104
			<u>\$ 7,762,194</u>	<u>7,770,802</u>
Segregated account:				
Local agencies.....	3.50%	12/1/2016	\$ 675	675
Carrying amount of deposits with Treasurer.....				<u>145,181</u>
Total cash and investments with Treasurer.....				<u>\$ 7,916,658</u>

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(f) Retirement System's Investments

The Retirement System's investments as of June 30, 2016 are summarized as follows:

Fixed Income Investments:	
Short-term investments	\$ 1,009,676
Investments with City Treasury	6,656
Debt securities:	
U.S. Government and agencies	1,648,271
Other debt securities	3,068,745
Subtotal debt securities	4,717,016
Total fixed income investments	5,733,348
Equity securities:	
Domestic	4,970,838
International	4,304,025
Total equity securities	9,274,863
Real assets	2,341,500
Private equity	2,750,619
Foreign currency contracts, net	14,125
Investment in lending agent's short-term investment pool	865,681
Total Retirement System Investments	\$ 20,980,136

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, 2016:

Investment Type	Fair Value	Maturities			
		Less than 1 year	1-5 years	6-10 years	10+ years
Asset Backed Securities	\$ 178,327	\$ -	\$ 57,102	\$ 11,880	\$ 109,345
Bank Loans	139,680	1,240	106,587	31,853	-
City Investment Pool	6,656	4,119	2,537	-	-
Collateralized Bonds	167	-	-	-	167
Commercial Mortgage-Backed Commingled and Other	438,764	6,254	6,708	5,558	420,244
Fixed Income Funds	231,780	264,114	569	51	(32,954)
Corporate Bonds	1,627,327	580,310	443,592	437,779	165,646
Corporate Convertible Bonds	293,360	3,460	197,038	35,709	57,153
Foreign Currencies and Cash Equivalents	144,456	144,456	-	-	-
Government Agencies	971,329	952,962	368	-	17,999
Government Bonds	589,416	150,467	278,583	43,497	116,869
Government Mortgage Backed Securities	145,030	-	10,819	-	134,211
Index Linked Government Bonds	1,359	-	-	1,243	116
Municipal/Provincial Bonds	40,049	-	9,182	1,628	29,239
Non-Government Backed Collateralized Mortgage Obligations	59,543	-	2,376	2,033	55,134
Options	(64)	(64)	-	-	-
Short Term Investment Funds	865,219	865,219	-	-	-
Swaps	950	(78)	831	197	-
Total	\$ 5,733,348	\$ 2,972,459	\$ 1,116,292	\$ 571,428	\$ 1,073,169

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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, 2016. Investments issued or explicitly guaranteed by the U.S. government of \$505.3 million as of June 30, 2016 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	\$ 164,327	3.1%
AA	72,743	1.4%
A	247,306	4.7%
BBB	683,951	13.1%
BB	322,941	6.2%
B	294,025	5.6%
CCC	79,658	1.5%
CC	1,956	0.0%
C	4,240	0.1%
D	4,159	0.1%
Not Rated	3,352,732	64.2%
Total	<u>\$ 5,228,038</u>	<u>100.0%</u>

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 2016.

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, 2016, 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, 2016, \$153.6 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.

For fiscal year 2016, 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

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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, private equity investments, real assets, 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, 2016 are as follows:

Currency	Cash	Equities	Fixed Income	Private Equities	Real Assets	Foreign Currency Contracts	Total
Australian dollar	\$ 1,044	\$ 103,293	\$ -	\$ 10,641	\$ -	\$ 2,650	\$ 117,628
Brazilian real	(581)	26,060	19,870	-	-	(5,475)	39,874
British pound sterling	717	533,900	12,635	-	18,874	(45,288)	520,838
Canadian dollar	1,027	69,596	6,851	-	-	30,932	108,406
Chilean peso	-	2,012	-	-	-	94	2,106
Chinese yuan renminbi	-	-	-	-	-	(1,582)	(1,582)
Colombian peso	63	-	5,451	-	-	1,872	7,386
Czech koruna	101	337	-	-	-	(101)	337
Danish krone	273	39,118	-	-	-	(1,423)	37,968
Euro	(4,323)	745,341	108,816	148,583	39,685	(66,038)	972,064
HK offshore Chinese yuan renminbi	-	-	-	-	-	(1,052)	(1,052)
Hong Kong dollar	567	162,696	-	-	-	3,862	167,125
Hungarian forint	137	327	-	-	-	2,515	2,979
Indian rupee	-	-	-	-	-	564	564
Indonesian rupiah	16	11,124	10,163	-	-	1,100	22,403
Japanese yen	4,587	532,091	-	-	23,343	98,308	658,329
Malaysian ringgit	315	20,649	6,628	-	-	4,087	31,679
Mexican peso	260	34,581	9,098	-	-	4,764	48,703
New Israeli shekel	73	9,685	-	-	-	5,513	15,271
New Romanian leu	21	-	2,138	-	-	(740)	1,419
New Taiwan dollar	1,851	66,010	-	-	-	(2,758)	65,103
New Zealand dollar	47	3,174	-	-	-	53,079	56,300
Norwegian krone	360	11,966	-	-	-	(1,661)	10,665
Peruvian nuevo sol	-	-	2,398	-	-	(319)	2,079
Philippine peso	(253)	2,641	811	-	-	(272)	2,927
Polish zloty	6	-	9,510	-	-	2,280	11,796
Qatari riyal	-	5,448	-	-	-	-	5,448
Russian ruble	(571)	-	5,857	-	-	721	6,007
Singapore dollar	332	14,748	-	-	-	3,074	18,154
South African rand	(948)	24,765	8,183	-	-	2,250	34,250
South Korean won	1,361	98,501	-	-	-	(75)	99,787
Swedish krona	1,230	65,241	-	-	-	9,961	76,432
Swiss franc	279	192,496	147	-	-	(33,363)	159,559
Thai baht	14	7,354	2,198	-	-	6,696	16,262
Turkish lira	1,056	10,286	17,013	-	-	(7,381)	20,974
United Arab Emirates dirham	-	5,893	-	-	-	-	5,893
Total	\$ 9,061	\$ 2,799,333	\$ 227,767	\$ 159,224	\$ 81,902	\$ 66,794	\$ 3,344,081

Derivative Instruments

As of June 30, 2016, 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.

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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, 2016:

Derivative Type / Contracts	Notional Amount	Fair Value	Net Appreciation (Depreciation) in Fair Value
Forwards			
Foreign Exchange Contracts	(a)	\$ 14,144	\$ 14,144
Other Contracts	(a)	(114)	(114)
Options			
Foreign Exchange Contracts	\$ 8,426	(64)	4
Swaps			
Credit Contracts	2,300	(18)	12
Interest Rate Contracts	43,514	968	766
Rights/Warrants			
Equity Contracts	23,123 shares	1,857	(6,406)
Total		<u>\$ 16,773</u>	<u>\$ 8,406</u>

(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 U.S. dollar. As a result, a U.S. 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.

Counterparty Credit Risk

The Retirement System is exposed to credit risk on non-exchange traded derivative instruments that are in asset positions. As of June 30, 2016, the fair value of forward currency contracts (including foreign exchange contract options) to purchase and sell international currencies were \$14.9 million and \$0.8 million, respectively. The Retirement System's counterparties to these contracts held credit ratings of A or better on 99.6% of the positions as assigned by one or more of the major credit rating organizations (S&P, Moody's and/or Fitch) while 0.4% were not rated.

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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, 2016, 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, 2016.

<u>Derivative Type / Contracts</u>	<u>Fair Value</u>	<u>Maturities</u>		
		<u>Less than 1 year</u>	<u>1-5 years</u>	<u>6-10 years</u>
Forwards				
Foreign Exchange Contracts	\$ 14,144	\$ 14,053	\$ 91	\$ -
Options				
Foreign Exchange Contracts	(64)	(64)	-	-
Swaps				
Credit Contracts	(18)	2	(20)	-
Interest Rate Contracts	968	(80)	851	197
Total	<u>\$ 15,030</u>	<u>\$ 13,911</u>	<u>\$ 922</u>	<u>\$ 197</u>

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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, 2016:

Investment Type	Reference Rate	Notional Value	Fair Value
Interest Rate Swap	Receive Fixed 1.50%, Pay Variable 6-Month WIBOR	\$ 606	\$ (1)
Interest Rate Swap	Receive Fixed 1.93%, Pay Variable 6-Month THB	301	4
Interest Rate Swap	Receive Fixed 12.055%, Pay Variable 1-Day BIDOR	252	(2)
Interest Rate Swap	Receive Fixed 12.20%, Pay Variable 1-Day BIDOR	1,108	13
Interest Rate Swap	Receive Fixed 12.23%, Pay Variable 1-Day BIDOR	203	(1)
Interest Rate Swap	Receive Fixed 12.255%, Pay Variable 1-Day BIDOR	5,381	(71)
Interest Rate Swap	Receive Fixed 12.85%, Pay Variable 1-Day BIDOR	298	19
Interest Rate Swap	Receive Fixed 13.73%, Pay Variable 1-Day BIDOR	528	5
Interest Rate Swap	Receive Fixed 15.44%, Pay Variable 1-Day BIDOR	588	104
Interest Rate Swap	Receive Fixed 15.96%, Pay Variable 1-Day BIDOR	5,287	534
Interest Rate Swap	Receive Fixed 16.15%, Pay Variable 1-Day BIDOR	824	172
Interest Rate Swap	Receive Fixed 16.395%, Pay Variable 1-Day BIDOR	102	23
Interest Rate Swap	Receive Fixed 16.40%, Pay Variable 1-Day BIDOR	127	30
Interest Rate Swap	Receive Fixed 16.95%, Pay Variable 1-Day BIDOR	82	22
Interest Rate Swap	Receive Fixed 2.015%, Pay Variable 6-Month THB	569	10
Interest Rate Swap	Receive Fixed 2.12%, Pay Variable 6-Month THB	683	14
Interest Rate Swap	Receive Fixed 2.175%, Pay Variable 6-Month THB	643	16
Interest Rate Swap	Receive Fixed 2.19%, Pay Variable 6-Month THB	199	5
Interest Rate Swap	Receive Fixed 2.22%, Pay Variable 6-Month THB	398	10
Interest Rate Swap	Receive Fixed 2.58%, Pay Variable 6-Month THB	771	45
Interest Rate Swap	Receive Fixed 2.625%, Pay Variable 6-Month THB	1,190	75
Interest Rate Swap	Receive Fixed 2.78%, Pay Variable 6-Month THB	26	2
Interest Rate Swap	Receive Fixed 5.21%, Pay Variable 1-Day MXIBR	596	(6)
Interest Rate Swap	Receive Fixed 5.23%, Pay Variable 3-Month CIBR	124	(5)
Interest Rate Swap	Receive Fixed 5.31%, Pay Variable 3-Month CIBR	48	(2)
Interest Rate Swap	Receive Fixed 5.32%, Pay Variable 3-Month CIBR	567	(20)
Interest Rate Swap	Receive Fixed 5.33%, Pay Variable 3-Month CIBR	574	(40)
Interest Rate Swap	Receive Fixed 5.61%, Pay Variable 28-Day MXIBR	1,724	6
Interest Rate Swap	Receive Fixed 5.63%, Pay Variable 28-Day MXIBR	1,008	3
Interest Rate Swap	Receive Fixed 5.84%, Pay Variable 28-Day MXIBR	341	4
Interest Rate Swap	Receive Fixed 6.12%, Pay Variable 3-Month CIBR	112	(5)
Interest Rate Swap	Receive Fixed 6.20%, Pay Variable 3-Month CIBR	144	(5)
Interest Rate Swap	Receive Fixed 6.22%, Pay Variable 3-Month CIBR	151	(6)
Interest Rate Swap	Receive Fixed 6.24%, Pay Variable 28-Day MXIBR	136	4
Interest Rate Swap	Receive Fixed 7.50%, Pay Variable 3-Month JIBAR	868	(22)
Interest Rate Swap	Receive Fixed 8.00%, Pay Variable 3-Month JIBAR	901	4
Interest Rate Swap	Receive Fixed 8.50%, Pay Variable 3-Month JIBAR	1,831	36
Interest Rate Swap	Receive Fixed 8.75%, Pay Variable 3-Month JIBAR	1,072	37
Interest Rate Swap	Receive Fixed 9.00%, Pay Variable 3-Month JIBAR	205	9
Interest Rate Swap	Receive Fixed 9.50%, Pay Variable 3-Month JIBAR	498	38
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 11.16%	96	7
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 12.86%	651	7
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 14.205%	5,133	(9)
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 15.50%	1,125	(56)
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 15.77%	1,635	(92)
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 4.65%	423	2
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 5.66%	721	14
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 6.08%	1,241	(3)
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 6.32%	363	(8)
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 6.50%	244	(1)
Interest Rate Swap	Receive Variable 3-Month CIBR, Pay Fixed 6.42%	223	6
Interest Rate Swap	Receive Variable 3-Month CIBR, Pay Fixed 6.43%	69	2
Interest Rate Swap	Receive Fixed 2.81%, Pay Return THB	524	41
Total Interest Rate Swap		<u>\$ 43,514</u>	<u>\$ 968</u>

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Foreign Currency Risk

At June 30, 2016, 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, 2016:

Currency	Forwards	Rights/ Warrants	Swaps	Total
Australian dollar	\$ 2,650	\$ -	\$ -	\$ 2,650
Brazilian real	(5,349)	-	703	(4,646)
British pound sterling	(43,351)	-	-	(43,351)
Canadian dollar	31,384	-	-	31,384
Chilean peso	94	-	-	94
Chinese yuan renminbi	(1,582)	-	-	(1,582)
Colombian peso	1,872	-	(74)	1,798
Czech koruna	(45)	-	-	(45)
Danish krone	(1,423)	-	-	(1,423)
Euro	(67,878)	75	-	(67,803)
HK offshore Chinese yuan renminbi	(1,052)	-	-	(1,052)
Hong Kong dollar	3,569	-	-	3,569
Hungarian forint	2,652	-	-	2,652
Indian rupee	564	-	-	564
Indonesian rupiah	1,100	-	-	1,100
Japanese yen	100,599	-	-	100,599
Malaysian ringgit	4,087	-	-	4,087
Mexican peso	3,471	-	16	3,487
New Israeli shekel	5,513	-	-	5,513
New Romanian Leu	(740)	-	-	(740)
New Russian ruble	150	-	-	150
New Taiwan dollar	(2,758)	-	-	(2,758)
New Zealand dollar	53,079	-	-	53,079
Norwegian krone	(1,656)	87	-	(1,569)
Peruvian nuevo sol	(319)	-	-	(319)
Philippine peso	(272)	-	-	(272)
Polish zloty	1,865	-	(1)	1,864
Singapore dollar	3,074	-	-	3,074
South African rand	2,689	-	101	2,790
South Korean won	(75)	-	-	(75)
Swedish krona	10,958	-	-	10,958
Swiss franc	(33,477)	-	-	(33,477)
Thai baht	6,696	-	222	6,918
Turkish lira	(6,647)	-	-	(6,647)
Total	\$ 69,442	\$ 162	\$ 967	\$ 70,571

Contingent Features

At June 30, 2016, the Retirement System held no positions in derivatives containing contingent features.

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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, 2016, 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, 2016, the Retirement System lent \$1.2 billion in securities and received collateral of \$0.9 billion and \$0.4 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 increase 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 gain of \$2.1 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.

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The Retirement System's securities lending transactions as of June 30, 2016, are summarized in the following table:

Investment Type	Fair Value of Loaned Securities	Cash Collateral	Fair Value of Non- Cash Collateral
Securities on Loan for Cash Collateral			
International Corporate Fixed Income	\$ 5,600	\$ 5,842	\$ -
International Equities	40,741	42,797	-
International Government Fixed	1,105	1,153	-
U.S. Government Agencies	204	208	-
U.S. Corporate Fixed Income	114,536	116,353	-
U.S. Equities	439,182	445,863	-
U.S. Government Fixed Income	247,020	251,320	-
Securities on Loan for Non-Cash Collateral			
International Corporate Fixed Income	8,736	-	9,163
International Equities	295,913	-	315,144
International Government Fixed	105	-	110
U.S. Corporate Fixed Income	6,132	-	6,225
U.S. Equities	37,080	-	37,609
Total	\$ 1,196,354	\$ 863,536	\$ 368,251

The following table presents the segmented time distribution, based upon the expected maturity (in years), for investments within the short term investment pool in which the securities lending cash collateral is invested, as of June 30, 2016.

Investment Type	Fair Value	Maturity Less Than 1 Year
Commercial Paper	\$ 44,260	\$ 44,260
Negotiable Certificates of Deposit	345,116	345,116
Repurchase Agreements	419,000	419,000
Short Term Investment Funds	57,305	57,305
Total	\$ 865,681	\$ 865,681

The Retirement System's exposure to credit risk in its reinvested cash collateral account as of June 30, 2016 is as follows:

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AA	\$ 153,323	17.7%
A	337,078	38.9%
Not Rated *	375,280	43.4%
Total	\$ 865,681	100.0%

* Repurchase agreements of \$270.0 million are not rated by Moody's, but are held by counterparties with S&P ratings of A or AA.

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Investments in Real Assets Holdings

Real assets investments represent the Retirement System's interests in real assets limited partnerships and separate accounts. The changes in these investments during the year ended June 30, 2016 are summarized as follows:

Investments:	
Beginning of the year	\$ 1,975,926
Capital investments	1,318,111
Equity in net earnings	48,492
Net appreciation in fair value	168,196
Capital distributions	<u>(1,169,225)</u>
End of the year	<u>\$ 2,341,500</u>

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 \$492.2 million including \$26.7 million in recourse debt at June 30, 2016. The underlying real estate holdings are valued periodically based on appraisals performed by independent appraisers in accordance with Uniform Standards of Professional Appraisal Practice. 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.

(g) Retiree Health Care Trust Fund

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may 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. The RHCTF does not have a specific policy to manage interest rate risk.

As of June 30, 2016, the weighted average maturities in years for the RHCTF's fixed income investments were as follows:

Investment Type	Weighted Average Maturity in Years
US Debt Index Fund	7.45
City Investment Pool	1.02
Treasury Money Market Fund	0.15

Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment may not fulfill its obligations. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The City's investment pool is not rated. Although the RHCTF's fixed income investments in various commingled funds are not rated, the issuers/sponsors of the funds are rated as of June 30, 2016 as follows:

Issuer/Sponsors	Investment Type	S&P	Moody's
Northern Trust Company	Equity Index Funds, Money Market Fund	A+	A2
Blackrock	US Debt Index Fund	AA-	A1

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

(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 \$241 million for the year ended June 30, 2016.

Taxable valuation for the year ended June 30, 2016 (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Successor Agency) was approximately \$178 billion, an increase of 6.9%. The secured tax rate was \$1.1826 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 \$0.1826 for bond debt service. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 0.66% and 5.09%, respectively, of the current year tax levy, for an average delinquency rate of 0.93% of the current year tax levy.

As established by the Teeter Plan, the Controller allocates to the City and other agencies 100% of the secured property taxes billed but not yet collected by the City; in return, as the delinquent property taxes and associated penalties and interest are collected, the City retains such tax amounts in the Agency Fund. To the extent the Agency Fund balances are higher than required; transfers may be made to benefit the City's General Fund on a budgetary basis. The balance of the tax loss reserve as of June 30, 2016 was \$22.9 million, which is included in the Agency Fund for reporting purposes. The City has funded payment of accrued and current delinquencies, together with the required reserve, from interfund borrowing.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

(7) CAPITAL ASSETS

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2016 was as follows:

	Balance July 1, 2015	Increases *	Decreases *	Balance June 30, 2016
Governmental Activities:				
Capital assets, not being depreciated:				
Land.....	\$ 299,911	\$ 34,350	\$ -	\$ 334,261
Intangible assets.....	8,716	28,468	(6,014)	31,170
Construction in progress.....	1,245,064	321,030	(1,110,001)	456,093
Total capital assets, not being depreciated.....	<u>1,553,691</u>	<u>383,848</u>	<u>(1,116,015)</u>	<u>821,524</u>
Capital assets, being depreciated:				
Facilities and improvements.....	3,534,003	905,660	-	4,439,663
Machinery and equipment.....	430,807	151,214	(11,073)	570,948
Infrastructure.....	799,764	57,439	-	857,203
Intangible assets.....	48,411	5,850	-	54,261
Total capital assets, being depreciated.....	<u>4,812,985</u>	<u>1,120,163</u>	<u>(11,073)</u>	<u>5,922,075</u>
Less accumulated depreciation for:				
Facilities and improvements.....	989,887	77,593	-	1,067,480
Machinery and equipment.....	354,605	25,995	(10,985)	369,615
Infrastructure.....	140,262	30,576	-	170,838
Intangible assets.....	7,212	3,102	-	10,314
Total accumulated depreciation.....	<u>1,491,966</u>	<u>137,266</u>	<u>(10,985)</u>	<u>1,618,247</u>
Total capital assets, being depreciated, net.....	<u>3,321,019</u>	<u>982,897</u>	<u>(88)</u>	<u>4,303,828</u>
Governmental activities capital assets, net.....	<u>\$ 4,874,710</u>	<u>\$ 1,366,745</u>	<u>\$ (1,116,103)</u>	<u>\$ 5,125,352</u>
Business-Type Activities:				
Capital assets, not being depreciated:				
Land.....	\$ 217,441	\$ -	\$ -	\$ 217,441
Intangible assets.....	12,043	-	-	12,043
Construction in progress.....	3,104,166	1,445,023	(1,428,728)	3,120,461
Total capital assets, not being depreciated.....	<u>3,333,650</u>	<u>1,445,023</u>	<u>(1,428,728)</u>	<u>3,349,945</u>
Capital assets, being depreciated:				
Facilities and improvements.....	15,114,928	1,165,666	(34,165)	16,246,429
Machinery and equipment.....	2,289,042	347,313	(67,314)	2,569,041
Infrastructure.....	1,270,624	19,582	-	1,290,206
Property held under Lease.....	697	-	-	697
Intangible assets.....	214,810	4,190	-	219,000
Total capital assets, being depreciated.....	<u>18,890,101</u>	<u>1,536,751</u>	<u>(101,479)</u>	<u>20,325,373</u>
Less accumulated depreciation for:				
Facilities and improvements.....	5,398,350	388,005	(24,261)	5,762,094
Machinery and equipment.....	1,362,063	154,496	(60,378)	1,456,181
Infrastructure.....	551,384	37,793	-	589,177
Property held under lease.....	697	-	-	697
Intangible assets.....	161,051	10,301	-	171,352
Total accumulated depreciation.....	<u>7,473,545</u>	<u>590,595</u>	<u>(84,639)</u>	<u>7,979,501</u>
Total capital assets, being depreciated, net.....	<u>11,416,556</u>	<u>946,156</u>	<u>(16,840)</u>	<u>12,345,872</u>
Business-type activities capital assets, net.....	<u>\$ 14,750,206</u>	<u>\$ 2,391,179</u>	<u>\$ (1,445,568)</u>	<u>\$ 15,695,817</u>

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

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
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Depreciation expense was charged to functions/programs of the primary government as follows:

Governmental Activities:	
Public protection.....	\$ 24,247
Public works transportation and commerce.....	29,285
Human welfare and neighborhood development.....	629
Community Health.....	4,145
Culture and recreation.....	52,210
General administration and finance.....	23,952
Capital assets held by the City's internal service funds charged to the various functions on a prorated bases.....	2,798
Total depreciation expense - governmental activities.....	\$ 137,266
Business-type activities:	
Airport.....	\$ 228,359
Water.....	106,666
Power.....	16,513
Transportation.....	133,715
Hospitals.....	32,619
Wastewater.....	50,799
Port.....	21,924
Total depreciation expense - business-type activities.....	\$ 590,595

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 \$3.7 billion as of June 30, 2016. 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, 2016. The Airport had \$6.9 million in intangible assets of permanent easements. In addition, the Water Enterprise had utility type assets with useful lives over 100 years, which totaled \$6.8 million as of June 30, 2016.

In fiscal year 2015-16, the Airport had write-offs and loss on disposal in the amount of \$13.1 million primarily due to disposal. During fiscal year ended June 30, 2016, the Water Enterprise, Hetch Hetchy, and the Wastewater Enterprise expensed \$0.4 million, \$4.9 million, and \$5.5 million, respectively, related to capitalized design and planning costs on certain projects that were discontinued.

During the fiscal year ended June 30, 2016, the City's enterprise funds incurred total interest expense and interest income of approximately \$494.6 million and \$25.8 million, respectively. Of these amounts, interest expense of approximately \$88.2 million was capitalized.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(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, 2016, are as follows:

Type of Obligation	July 1, 2015	Additional Obligation	Current Maturities	June 30, 2016
Governmental activities:				
Commercial paper				
Multiple Capital Projects	\$ 157,766	\$ 684,861	\$ (739,849)	\$ 102,778
Governmental activities short-term obligations	<u>\$ 157,766</u>	<u>\$ 684,861</u>	<u>\$ (739,849)</u>	<u>\$ 102,778</u>
Business-type activities:				
Commercial paper				
San Francisco General Hospital	\$ 3,761	\$ 28,572	\$ (3,761)	\$ 28,572
San Francisco International Airport	40,000	304,100	(1,050)	343,050
San Francisco Water Enterprise	186,000	236,000	(186,000)	236,000
San Francisco Wastewater Enterprise	100,000	61,000	(100,000)	61,000
Business-type activities short-term obligations	<u>\$ 329,761</u>	<u>\$ 629,672</u>	<u>\$ (290,811)</u>	<u>\$ 668,622</u>

City and County of San Francisco Commercial Paper Program

The City launched its commercial paper (CP) program to pay for project costs in connection with the acquisition, improvement, renovation and construction of real property and the acquisition of capital equipment and vehicles (Resolution No. 85-09). Pursuant to Resolution No. 85-09 approved in March 2009, the Board of Supervisors established a \$150.0 million commercial paper program. Pursuant to Resolution 247-13, the authorization of the commercial paper program was increased to \$250.0 million from \$150.0 million. The City currently has letters of credit supporting the \$250.0 million program.

The CP is an alternative form of short-term (or interim) financing for capital projects that permits the City to pay project costs as project expenditures are incurred. The CP notes are issued and short-term debt is incurred only when needed to pay project costs as they are incurred. The CP has a fixed maturity date from one to 270 days and generally matures in 270 days. The CP notes are supported by two Revolving Credit Agreements (RCA) issued by State Street Bank and Trust Company ("State Street Bank") and U.S. Bank N.A. with a fee of 0.45% and 0.45%, respectively and a Letter of Credit Agreement (LOC) issued by State Street Bank with a fee of 0.50%. The State Street Bank and US Bank N.A. RCAs are scheduled to expire in May 2021 and the State Street Bank LOC is scheduled to expire in February 2019.

In fiscal year 2016, the City retired \$743.6 million and issued \$713.4 million CP to provide interim financing for the acquisition and improvement of various approved capital projects: the purchase of capital equipment for the San Francisco General Hospital and Trauma Center, rebuilding of severely distressed public housing sites while increasing affordable housing and ownership opportunities and improving the quality of life for existing residents and the surrounding communities (HOPE SF), War Memorial Veterans Building seismic retrofit and Moscone Center expansion. As of June 30, 2016, the outstanding principal amount of tax exempt and taxable CP was \$119.9 million and \$11.5 million, respectively. The tax exempt and taxable CP bear interest rates ranging from 0.43% to 0.47% and 0.53%, respectively.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
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San Francisco International Airport

In May 1997, the Airport adopted Resolution No. 97-0146, as amended and supplemented (the "Note Resolution"), authorizing the issuance of 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 series that are subdivided into subseries according to tax status and that are secured by direct-pay LOC. 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 amounts specified in the Note Resolution), 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.

During fiscal year 2016, the CP program was supported by two \$100.0 million principal amount direct-pay LOC issued by State Street Bank and Trust Company and Wells Fargo Bank, National Association, with expiration dates of May 2, 2019, and May 31 2019, respectively, and a third LOC issued by Royal Bank of Canada in the principal amount of \$200.0 million with expiration date of May 19, 2017. Each of the 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, 2016.

As of June 30, 2016, there were no obligations other than the CP notes outstanding under the Note Resolution.

During fiscal year 2016, the Airport issued \$280.4 million of new money CP (AMT) and \$22.7 million (Non-AMT) to fund capital improvement projects. The Airport also issued and retired \$1.1 million of new money CP (taxable) during fiscal year 2016 to fund costs related to various bond and note transactions. As of June 30, 2016, the interest rates on taxable, AMT and Non-AMT CP were 0.55%, 0.02% to 0.58%, and 0.05% to 0.52%, 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 voter-approved 2002 Proposition A, and \$250.0 million pursuant to voter-approved Proposition E. As of June 30, 2016, no CP was outstanding under Proposition A. Amounts outstanding under Proposition E were \$236.0 million at June 30, 2016. CP interest rates ranged from 0.1% to 0.6%. 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.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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Hetch Hetchy Water and Power

Effective December 2015, under Charter Sections 9.107(6) and 9.107(8), the San Francisco Public Utilities Commission and Board of Supervisors authorized the issuance of up to \$90.0 million in CP for the purpose of reconstruction or replacement of existing generation, transmission and distribution facilities of the Hetch Hetchy Power. Hetch Hetchy Water and Power had no commercial paper outstanding as of June 30, 2016.

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 \$500.0 million in CP for the purpose of reconstructing, expanding, repairing, or improving the Wastewater Enterprise's facilities. The Enterprise had \$61.0 million CP outstanding as June 30, 2016.

San Francisco Municipal Transportation Agency

In June 2013, pursuant to the City Charter Section 8A.102 (b) 13, the SFMTA Board of Directors authorized the issuance of CP notes in an aggregate principal amount not to exceed \$100.0 million. In July 2013, the Board of Supervisors concurred with the issuance. The CP is secured by an irrevocable LOC 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 LOC 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 SFMTA. OPF will be initiating the issuance of CP with the dealers and reporting on the CP program. The CP 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. SFMTA will be requesting drawdowns based on cash flow needs and expenditures schedules. No CP notes have been drawn or outstanding as of June 30, 2016.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

Long-Term Obligations

The following is a summary of long-term obligations of the City as of June 30, 2016:

GOVERNMENTAL ACTIVITIES

Type Of Obligation and Purpose	Final Maturity Date	Remaining Interest Rates	Amount
GENERAL OBLIGATION BONDS ^(a) :			
Earthquake safety and emergency response.....	2035	2.25% - 5.00%	\$ 469,540
Parks and playgrounds	2035	2.00% - 6.26%	175,050
Road repaving and street safety	2035	2.00% - 5.00%	176,250
San Francisco General Hospital.....	2033	3.25% - 6.26%	573,085
Seismic safety loan program	2035	1.037% - 5.83%*	46,767
Transportation and road improvement	2035	2.75% - 5.00%	47,005
Refunding	2030	4.00% - 5.00%	523,360
General obligation bonds			2,011,057
LEASE REVENUE BONDS:			
San Francisco Finance Corporation ^{(b), (e) & (f)}	2034	0.425% - 5.75% **	196,055
CERTIFICATES OF PARTICIPATION:			
Certificates of participation ^{(c) & (d)}	2045	1.096% - 5.00%	589,580
OTHER LONG TERM OBLIGATIONS:			
Loans ^{(d) & (f)}	2045	2.00% - 5.74%	28,395
Revolving credit agreement loan - Transportation Authority ^(c) .	2018	0.62% ***	114,664
Governmental activities total long-term obligations.....			\$ 2,939,751

* Includes the 1992 Seismic Safety Loan Program GOB Series 2015A which bears variable interest rate that resets monthly. The rate for GOB Series 2015A at June 30, 2016 was 1.037%.

** 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, 2016 for Series 2008 - 1 & 2 averaged to 0.425%.

*** The Revolving credit agreement loan interest rate equals to the sum of 70% of 1-month LIBOR plus 30%.

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) Sales tax revenues recorded in the Transportation Authority Special Revenue Fund.
- (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.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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(Dollars in Thousands)

BUSINESS-TYPE ACTIVITIES

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
San Francisco International Airport:			
Revenue bonds *	2044	2.00% - 6.00%*	\$ 4,234,725
San Francisco Water Enterprise:			
Revenue bonds	2051	1.80% - 6.95%	4,075,890
Certificates of participation	2042	2.00% - 6.49%	111,405
Accreted interest	2019	-	5,860
Hetch Hetchy Water and Power:			
Energy and revenue bonds	2046	0.00% - 5.00%	55,599
Certificates of participation	2042	2.00% - 6.49%	15,167
Municipal Transportation Agency:			
Revenue bonds	2044	3.00% - 5.00%	185,835
Loans	2019	2.86%	76
San Francisco General Hospital Medical Center:			
Certificates of participation	2026	5.55%	17,082
Capital leases	2017	2.41% - 2.66%	258
San Francisco Wastewater Enterprise:			
Revenue bonds	2047	1.00% - 5.82%	978,135
Certificates of participation	2042	2.00% - 6.49%	29,458
Port of San Francisco:			
Revenue bonds	2044	1.60% - 7.408%	54,125
Certificates of participation	2038	4.00% - 5.25%	33,335
Loans	2029	4.50%	2,244
Laguna Honda Hospital:			
Certificates of participation	2031	4.30% - 5.25%	131,710
Capital leases	2017	4.00%	8
Business-type activities total long-term obligations			\$ 9,930,912

* 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, 2016, the average interest rates on Issue 36A, 36B, 36C and 37C were 0.12%, 0.11%, 0.12%, & 0.11%, respectively; for Issue 2010A-1, 2010A-2 and 2010A-3 rates were 0.12%, 0.12% and 0.12%, respectively.

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

Debt Compliance

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, 2016, the City's debt limit (3% of valuation subject to taxation) was \$5.83 billion. The total amount of debt applicable to the debt limit was \$2.23 billion. The resulting legal debt margin was \$3.60 billion.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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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 issued and the Finance Corporation has evaluated each lease revenue bonds. The City and the Finance Corporation do not have rebatable arbitrage liability as of June 30, 2016. Each enterprise fund has performed 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 City and County of San Francisco Special Tax District No. 2009-1 (San Francisco Sustainable Financing) 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. The bonded indebtedness issued by the Special District for the improvement area under the program are payable solely from special taxes levied and collected on property in the improvement area and are not considered obligation of the City. Assessments for the 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 District No. 2009-1.

In October 2012, the City issued \$1.4 million Special Tax Bonds Series A for the Area No.1 and in November 2014, the City issued \$1.8 million Special Tax Bonds Series A for the Area No.2 of the Special District. As of June 30, 2016, the amount outstanding on the Area No. 1 and No. 2 bonds was \$1.3 million and \$1.8 million, respectively.

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 and are not considered obligation of the City. The bonds mature from September 1998 through September 2026 bearing interest rates 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, 2016, the principal amount of bonds outstanding was \$0.6 million.

Mortgage Revenue Bonds

The City, through the Mayor's Office of Housing and Community Development and the former San Francisco Redevelopment Agency has issued various mortgage revenue bonds and community district facility bonds for the financing of multifamily rental housing, below-market rate mortgage for first time homebuyers 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, 2016, the total obligation outstanding was \$711.5 million.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
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Changes in Long-Term Obligations

The changes in long-term obligations for the year ended June 30, 2016, are as follows:

	July 1, 2015	Additional Obligations, and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2016	Amounts Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	\$ 1,881,110	\$ 321,875	\$ (191,928)	\$ 2,011,057	\$ 120,004
Lease revenue bonds.....	214,850	-	(18,795)	196,055	14,025
Certificates of participation	487,215	274,050	(171,685)	589,580	39,075
Subtotal.....	2,583,175	595,925	(382,408)	2,796,692	173,104
Issuance premiums / discounts:					
Add: unamortized premiums	239,215	32,845	(19,860)	252,200	-
Less: unamortized discounts	(1,594)	-	1,390	(204)	-
Total bonds payable, net.....	2,820,796	628,770	(400,878)	3,048,688	173,104
Loans.....	163,837	-	(20,778)	143,059	803
Accrued vacation and sick leave pay.....	149,874	110,753	(109,600)	151,027	85,868
Accrued workers' compensation.....	223,684	50,897	(46,756)	227,825	39,357
Estimated claims payable.....	157,660	30,978	(28,140)	160,498	53,627
Governmental activity long-term obligations.....	<u>\$ 3,515,851</u>	<u>\$ 821,398</u>	<u>\$ (606,152)</u>	<u>\$ 3,731,097</u>	<u>\$ 352,759</u>
	July 1, 2015	Additional Obligations, and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2016	Amounts Due Within One Year
Total Business-type Activities:					
Bonds payable:					
Revenue bonds	\$ 9,551,350	\$ 540,475	\$ (563,115)	\$ 9,528,710	\$ 265,515
Clean renewable energy bonds.....	55,445	4,100	(3,946)	55,599	1,692
Certificates of participation	349,465	-	(11,308)	338,157	11,849
Subtotal.....	9,956,260	544,575	(578,369)	9,922,466	279,056
Issuance premiums / discounts:					
Add: unamortized premiums	440,114	103,525	(43,471)	500,168	-
Less: unamortized discounts	(601)	-	31	(570)	-
Total bonds payable, net	10,395,773	648,100	(621,809)	10,422,064	279,056
Accreted interest payable.....	5,471	389	-	5,860	-
Notes, loans, and other payables.....	2,369	97	(146)	2,320	163
Capital leases	1,174	-	(908)	266	266
Accrued vacation and sick leave pay.....	104,662	56,756	(52,805)	108,613	64,822
Accrued workers' compensation.....	171,890	57,863	(40,150)	189,603	31,867
Estimated claims payable.....	107,170	37,837	(27,939)	117,068	52,808
Long-term obligations.....	<u>\$10,788,509</u>	<u>\$ 801,042</u>	<u>\$ (743,757)</u>	<u>\$10,845,794</u>	<u>\$ 428,982</u>

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.

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Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2016 for governmental and business-type activities are as follows:

Governmental Activities ⁽¹⁾								
Fiscal Year Ending June 30	General Obligation		Lease Revenue		Other Long-Term		Total	
	Bonds		Bonds		Obligations			
	Principal	Interest ⁽²⁾	Principal	Interest ⁽³⁾	Principal	Interest ⁽⁴⁾	Principal	Interest
2017.....	\$ 120,004	\$ 89,914	\$ 14,025	\$ 4,973	\$ 39,878	\$ 26,768	\$ 173,907	\$ 121,655
2018.....	117,298	83,995	10,880	4,578	155,681	25,315	283,859	113,888
2019.....	117,396	78,362	12,595	4,287	30,905	22,974	160,896	105,623
2020.....	116,436	72,607	6,110	3,999	22,721	21,757	145,267	98,363
2021.....	114,695	66,943	12,740	3,728	23,256	20,747	150,691	91,418
2022-2026...	618,208	249,785	70,275	13,692	114,440	88,624	802,923	352,101
2027-2031...	603,745	108,004	62,795	5,254	125,813	62,235	792,353	175,493
2032-2036...	203,275	14,189	6,635	777	114,866	33,231	324,776	48,197
2037-2041...	-	-	-	-	71,594	15,044	71,594	15,044
2042-2045...	-	-	-	-	33,485	3,494	33,485	3,494
Total.....	<u>\$ 2,011,057</u>	<u>\$ 763,799</u>	<u>\$ 196,055</u>	<u>\$ 41,288</u>	<u>\$ 732,639</u>	<u>\$ 320,189</u>	<u>\$ 2,939,751</u>	<u>\$ 1,125,276</u>

Business-Type Activity ⁽¹⁾								
Fiscal Year Ending June 30	Clean Renewable Energy							
	Revenue Bonds ^{(5) (6)}		Certificates of Participation ⁽⁶⁾		Other Long-Term		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2017.....	\$ 265,515	\$ 477,197	\$ 13,541	\$ 21,285	\$ 429	\$ 147	\$ 279,485	\$ 498,629
2018.....	279,235	467,033	14,862	20,624	170	97	294,267	487,754
2019.....	309,000	450,632	15,512	19,936	154	90	324,666	470,658
2020.....	344,020	435,602	16,213	19,187	149	82	360,382	454,871
2021.....	364,960	418,833	16,849	18,398	156	76	381,965	437,307
2022-2026...	1,969,965	1,812,548	89,361	78,920	891	267	2,060,217	1,891,735
2027-2031...	1,759,370	1,318,043	95,447	54,597	637	58	1,855,454	1,372,698
2032-2036...	1,544,180	899,452	48,073	32,539	-	-	1,592,253	931,991
2037-2041...	1,708,045	485,640	59,335	16,365	-	-	1,767,380	502,005
2042-2046...	844,790	125,742	24,563	2,046	-	-	869,353	127,788
2047-2051...	139,630	21,908	-	-	-	-	139,630	21,908
Total.....	<u>\$ 9,528,710</u>	<u>\$ 6,912,630</u>	<u>\$ 393,756</u>	<u>\$ 283,897</u>	<u>\$ 2,586</u>	<u>\$ 817</u>	<u>\$ 9,925,052</u>	<u>\$ 7,197,344</u>

- (1) The specific year for payment of estimated claims payable, accrued vacation and sick leave pay and accrued workers' compensation is not practicable to determine.
- (2) The interest is before federal subsidy for the General Obligation Bonds Series 2010 C and Series 2010 D. The subsidy is approximately \$32.2 million and \$6.6 million, respectively, through the year ending 2030. The payment of subsidy by the IRS in fiscal year 2016 was reduced by 6.8% 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 bear interest at a weekly rate. An assumed rate of 0.425%, together with liquidity fee of 0.350% and remarketing fee of 0.0725% were used to project the interest rate payment in this table.
- (4) The San Francisco County Transportation Authority variable interest rate revolving loan expires on June 8, 2018 and has a rate of interest equal to the sum of 70% of 1-month LIBOR plus 0.30%. An assumed rate of 0.62% was used to project the interest rate payment in this table.

CITY AND COUNTY OF SAN FRANCISCO
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- (5) Debt service for the Airport is per debt service requirement. In the event the letters of credit securing the Airport's outstanding variable rate bonds had to be withdrawn upon to pay such bonds and the amount drawn had to be repaid by the Airport pursuant to the terms of the related agreement with banks providing such letters of credit, the total interest would be \$108.9 million less.
- (6) The interest payment is before federal subsidy. The federal subsidy for the San Francisco Water Enterprise, San Francisco Wastewater and Hetch Hetchy Water and Power were \$472.5 million, \$68.0 million and \$7.3 million through the fiscal year ending 2051, respectively. The payment of subsidy by the IRS in fiscal year 2016 was reduced by 6.8% due to federal sequestration. Future interest subsidy may be reduced as well.

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, 2016, are as follows:

Governmental Activities - General Obligation Bonds

Authorized and unissued as of June 30, 2015.....	\$ 1,285,100
Increases in authorization this fiscal year:	
Affordable Housing	310,000
Public Health and Safety	350,000
Bonds issued:	
Series 2015B Transportation and Road Improvements	(67,005)
Series 2015A Seismic Safety Loan Program	(24,000)
Series 2016A Clean and Safe Neighborhood Parks	(8,695)
Series 2016B Clean and Safe Neighborhood Parks	(43,220)
Series 2016C Earthquake Safety and Emergency Response	(25,215)
Series 2016D Earthquake Safety and Emergency Response	(109,595)
Series 2016E Road Repaving and Street Safety.....	<u>(44,145)</u>
Net authorized and unissued as of June 30, 2016.....	<u>\$ 1,623,225</u>

The increase in authorized amount of \$310.0 million of Affordable Housing and \$350.0 million of Public Health and Safety General Obligation Bonds was approved by at least two-third votes on Proposition A at an election held on November 3, 2015 and June 7, 2016, respectively. The proceeds of the Affordable Housing bonds will be used to finance the City's various affordable housing programs. The Public Health and Safety bonds will finance the acquisition and improvement of facilities for emergency response and safety, health care and homeless services.

In July 2015, the City issued Transportation and Road Improvement General Obligation Bonds Series 2015B in the amount of \$67.0 million with interest rates ranging from 2.0% to 5.0% and maturity from June 2016 through June 2035. The proceeds of the Series 2015B will be used to finance the improvements to the City's transportation system, streets and roads and to pay certain costs related to the issuance of the Series 2015B.

In August 2015, the City issued Seismic Safety Loan Program General Obligation Bonds Series 2015A in the amount of \$24.0 million to provide funds for loans for the seismic strengthening of privately-owned unreinforced masonry buildings within the City and to pay for the costs of issuance of the Series 2015A bonds. On the date of issuance, the Series 2015A shall be Index Rate Bonds and bear interest at the LIBOR Index Rate; provided that from the date of issuance to but not including the first business day of the next succeeding month, the Series 2015A shall bear interest at the rate as set in the Declaration of Trust. The initial index rate period shall commence on and be effective from the date of

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issuance of the Series 2015A and shall continue through the end of the initial period. The index rate shall be determined in accordance with the Declaration of Trust. At the option of the City, the interest rate with respect to all (but not less than all) Series 2015A may be (a) on any LIBOR Index Reset Date, converted from an Index Rate to a new Index Rate or (2) converted to a Fixed Rate, in each case in accordance with the Declaration of Trust. The Series 2015A will mature from June 2019 through June 2035.

In February 2016, the City issued Clean and Safe Neighborhood Parks General Obligation Bonds Series 2016A and 2016B in the amount of \$8.7 million and \$43.2 million, respectively. The proceeds of the Series 2016A and 2016B bonds will be used to finance improvements to park, open space and recreational facilities and to pay certain costs related to the issuance of the Series 2016A and 2016B bonds. Interest rates on both series range from 2.0% to 5.0% with principal amortizing from June 2016 through June 2035.

In April 2016, the City issued General Obligation Bonds Earthquake Safety and Emergency Response Series 2016C in the amount of \$25.2 million, Earthquake Safety and Emergency Response Series 2016D in the amount of \$109.6 million and Road Repaving and Street Safety Series 2016E in the amount of \$44.1 million. The Series 2016C, 2016D and 2016E bonds bear rates ranging from 2.25% to 5.0% with principal amortizing from June 2016 through June 2035. The proceeds of the Series 2016C and 2016D bonds will be used to finance improvements to earthquake safety and emergency responsiveness facilities and infrastructure and to pay certain costs related to the issuance of the Series 2016C and 2016D bonds. The proceeds of the Series 2016E bonds will be used to finance the repaving and reconstruction of various roads; the rehabilitation and seismic improvement of street structures; the replacement of sidewalks; the installation and renovation of curb ramps; the redesign of streetscapes to include pedestrian and bicycle safety improvements; and the construction, rehabilitation and renovation of traffic infrastructure within the City and to pay certain costs related to the issuance of the Series 2016E bonds.

The debt service payments on the general obligation bonds are funded through ad valorem taxes on property.

Certificates of Participation

In July 2015, the City issued Certificates of Participation (War Memorial Veterans Building Seismic Upgrade and Improvements) Series 2015A and Series 2015B (the "Series 2015AB") for \$112.1 million and \$22.2 million respectively. The Series 2015AB were sold to provide funds to: 1) finance or refinance the costs of the seismic retrofit, construction, reconstruction, installation, equipping, improvement or rehabilitation of the War Memorial Veterans Building and related property owned by the City and located at 401 Van Ness Avenue, San Francisco; 2) fund capitalized interest payable with respect to the Series 2015AB through September 2015; 3) fund the 2015 Reserve Account of the Reserve Fund established under the Trust Agreement for the Series 2015AB; and 4) to pay costs of the execution and delivery of the Series 2015AB. The Series 2015A bears interest rates ranging from 4.0% to 5.0% with principal amortizing from April 2023 through April 2045. The Series 2015B bears interest rates ranging from 2.0% to 4.0% with principal amortizing from April 2016 through April 2024.

In October 2015, the City issued Refunding Certificates of Participation Series 2015-R1 (City Office Buildings-Multiple Properties Project) (the "Series 2015-R1") for \$123.6 million to prepay a portion of certain outstanding certificates of participation the proceeds of which financed the acquisition of and capital improvements to certain office buildings occupied by various City departments or certain tenants which are qualified as non-profit organizations exempt from Federal income taxes pursuant to Section 501 (c)(3) of the Code ("501(c)(3) Tenants"); fund a debt service reserve for the Series 2015-R1; and pay costs of execution and delivery of the Series 2015-R1. The Series 2015-R1 matures from September 2016 through September 2040 with interest rate ranging from of 4.0% to 5.0%. The refunding resulted in the recognition of deferred accounting loss of \$1.4 million and reduced the City's

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aggregate debt service payment by \$18.1 million over the next 25 years and obtained net present value savings of \$11.9 million or 9.0% of refunded bond.

In June 2016, the City issued Certificates of Participation, (War Memorial Veterans Building Seismic Upgrade and Improvements) Series 2016A (the "Series 2016A") for \$16.1 million to provide funds to: 1) reimburse the City for certain costs of the seismic retrofit, construction reconstruction, installation, equipping, improvement or rehabilitation of the War Memorial Veterans Building and related property owned by the City and located at 401 Van Ness Avenue, San Francisco; 2) fund the 2016 Reserve Account of the Reserve Fund established under the Trust Agreement for the Series 2016A; and 3) pay costs of the execution and delivery of the Series 2016A. The Series 2016A were issued with interest rates ranging from 1.096% to 3.771% and matures from April 2017 through April 2032.

At June 30, 2016, the City has a total of \$589.6 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 \$888.2 million payable through April 1, 2045. For the fiscal year ended June 30, 2016, principal and interest paid by the City totaled \$39.8 million and \$25.3 million, respectively.

Lease Revenue Bonds

The changes in authorized and unissued lease revenue bonds -- governmental activities for the year ended June 30, 2016 were as follows:

Authorized and unissued as of June 30, 2015.....	\$ 164,432	
Increase in authorization in this fiscal year:		
Current year annual increase in Finance Corporation's equipment program.	3,225	
Current year maturities in Finance Corporation's equipment program.....	7,725	
Net authorized and unissued as of June 30, 2016.....	<table style="width: 100%; border-collapse: collapse; margin-left: auto;"> <tr> <td style="border-top: 1px solid black; border-bottom: 3px double black;">\$ 175,382</td> </tr> </table>	\$ 175,382
\$ 175,382		

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 unearned revenues in the internal service fund until such time as it is used for its intended purpose. The unearned amounts 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 bonds is \$237.3 million payable through June 2034. For the fiscal year ended June 30, 2016, principal and interest paid by the Corporation in the form of lease payments made by the City totaled \$18.8 million and \$4.7 million, respectively.

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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, 2016, the amount authorized and outstanding was \$67.7 million, and \$6.5 million, respectively.

San Francisco County Transportation Authority Revolving Credit Agreement

In June 2015, the Transportation Authority substituted its \$200.0 million commercial paper notes (Limited Tax Bonds), Series A and B with a \$140.0 million tax-exempt revolving credit agreement (Revolving Credit Agreement). The commercial paper notes provided a source of financing for the Transportation Authority's voter-approved Proposition K Expenditure Plan. The Revolving Credit Agreement expires on June 8, 2018 and has a rate of interest equal to the sum of 70% of 1-month LIBOR plus 0.30%. The interest payments are due the first business day of each month and the outstanding principal payment is required to be paid at the end of the agreement June 8, 2018. The Revolving Credit Agreement is secured by a first lien gross pledge of the Transportation Authority's sales tax. The Transportation Authority paid \$20.0 million of the outstanding balance of \$134.7 million as of July 1, 2015. Annual principal and interest payments were \$20.8 million in FY2015-16 and pledged revenues were \$99.5 million for the year ended June 30, 2016. As of June 30, 2016, \$114.7 million of the Revolving Credit Agreement balance was outstanding, with an interest rate of 0.62%.

Business-Type Activities Long-Term Liabilities

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

San Francisco International Airport

Second Series Revenue Bonds (Capital Plan Bonds)

Pursuant to resolutions approved in fiscal years 2008, 2012, 2014 and 2016, the Airport has authorized the issuance of up to \$5.0 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, 2016, \$3.4 billion of the authorized capital plan bonds remained unissued.

In September 2015, the Airport authorized the issuance of an additional \$243.0 million of San Francisco International Airport Second Series Revenue Bonds (Capital Plan Bonds) and \$225.0 million of San Francisco International Airport Hotel Special Facility Revenue Bonds to finance the development and construction of a new Airport-owned hotel and related AirTrain station. The Airport also designated the planned hotel as a "special facility" under the 1991 Master Resolution, which will allow the hotel revenues to be segregated from the Airport's other revenues and used to pay hotel operating expenses and debt service on the Hotel Special Facility Bonds. In order to obtain the lowest cost of financing, the Airport does not plan to sell the Hotel Special Facility Bonds to investors, but will purchase them itself with a portion of the proceeds of the Capital Plan Bonds, which will be sold to investors. The total net proceeds of the two bond issuances are expected to be approximately \$243.0 million, which will be applied to the \$225.0 million construction costs of the hotel and AirTrain station, capitalized interest and other costs of issuance. In December 2015, the City's Board of Supervisors authorized the issuance of such Hotel Special Facility Bonds and Capital Plan Bonds for the hotel and AirTrain station. Airport approval of the bond sale is required before such bonds can be issued.

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Second Series Revenue Refunding Bonds

Pursuant to sale resolutions approved between fiscal years 2005 through 2016, the Airport has authorized the issuance of up to \$8.4 billion of San Francisco International Airport Second Series Revenue Refunding Bonds for the purposes of refunding outstanding 1991 Resolution Bonds and outstanding subordinate CP notes, funding debt service reserves, and paying costs of issuance, including any related bond redemption premiums. In February 2016, the Airport issued its Second Series Revenue Refunding Bonds, Series 2016A (Non-AMT/Governmental Purpose), in the principal amount of \$232.1 million to refund \$66.5 million of its Issue 32F, \$155.3 million of its Issue 32G and \$63.1 million of its Issue 34D long-term fixed rate bonds for debt service savings. As of June 30, 2016, net of expired sale authorizations, \$1.2 billion of such refunding bonds remained authorized but unissued.

Variable Rate Demand Bonds

As of June 30, 2016, the Airport had outstanding aggregate principal amount of \$477.9 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 0.45% and 0.63% per annum. As of June 30, 2016, there were no unreimbursed draws under these facilities.

In June 2016, the Airport closed a new irrevocable LOC issued by Wells Fargo Bank, National Association, supporting the Second Series Variable Rate Revenue Refunding Bonds, Issue 36A. The LOC will expire June 29, 2018. In June 2016, the Airport closed a new irrevocable LOC issued by Bank of America, N.A., supporting the Second Series Variable Rate Revenue Refunding Bonds Series 2010A. The LOC expires June 29, 2020. The LOC securing the Variable Rate Bonds included in long-term debt as of June 30, 2016, are as follows:

Variable rate bonds

	<u>Issue 36A</u>	<u>Issue 36B</u>	<u>Issue 36C</u>	<u>Issue 37C</u>	<u>Series 2010A</u>
Principal Amount	\$ 100,000	\$ 40,620	\$ 36,145	\$ 88,650	\$ 212,475
Expiration Date	June 29, 2018	April 25, 2018	April 25, 2018	January 28, 2019	June 29, 2020
Credit Provider	Wells Fargo ⁽¹⁾	BTMU ⁽²⁾	BTMU ⁽²⁾	MUFJ Union Bank ⁽³⁾	Bank of America ⁽⁴⁾

(1) Wells Fargo Bank, National Association

(2) The Bank of Tokyo-Mitsubishi UFJ, Ltd.

(3) Formerly Union Bank, N.A.

(4) Bank of America, National Association

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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 notional amount of \$405.0 million, in connection with the anticipated issuance of Second Series Variable Rate Revenue Refunding Bonds, Issue 32A-E in February 2005, and Second Series Variable Rate Revenue Refunding Bonds, Issue 33 in February 2006. The swap structure was intended as a means to increase the Airport's debt service savings when compared with fixed rate refunding bonds at the time of issuance. The expiration date of the 2004 swaps is May 1, 2026.

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

In September 2011, the Airport refunded the Issue 36D Bonds with proceeds of the San Francisco International 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 63.50% 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.

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As of June 30, 2016, 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, 2016.

#	Current Bonds	Initial Notional Amount	Notional Amount June 30, 2016	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 (37B)*	79,684	79,684	5/15/2008
5	37C	89,856	88,616	5/15/2008
6	2010A**	143,947	142,383	2/1/2010
	Total	\$ 483,417	\$ 480,613	

* The Issue 37B Bonds that are hedged by this swap agreement were purchased with proceeds of the Series 2008B Notes, which the Airport subsequently refunded, and the Issue 37B Bonds are held in trust. The swap is now indirectly hedging the Series 2010A-3 Bonds for accounting purposes.

** Hedges Series 2010-1 and 2010A-2.

Fair Value

The fair values take into consideration the prevailing interest rate environment and the specific terms and conditions of each swap. All 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 to arrive at the so-called "settlement amount", i.e. the approximate amount a party would have to pay or would receive if the swap was terminated.

In addition, pursuant to GASB Statement No. 72, the settlement amounts are then adjusted for the non-performance risk of each party to the swap to arrive at the fair value. For each swap, the non-performance risk was computed as the total cost of the transactions required to hedge the default exposure, i.e., a series of European swaptions, exercisable on each of the future payment exchange dates under the swap that are structured to reverse the remaining future cash flow obligations as of such dates, adjusted by probability of default on each future date. Default probabilities were derived from recovery rate adjusted credit default swap quotes or generic ratings based borrowing curves that fall into Level 2 of the GASB Statement No. 72 fair value hierarchy.

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As of June 30, 2016, 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/AA-	3.444%	\$ (8,963)
2	36AB	J.P. Morgan Chase Bank, N.A.	A+/Aa3/AA-	3.445%	(8,965)
3	36C	J.P. Morgan Chase Bank, N.A.	A+/Aa3/AA-	3.444%	(3,842)
4	2010A (37B)**	Merrill Lynch Capital Services, Inc./ Merrill Lynch Derivative Products AG	AA-/Aa3/NR*	3.773%	(17,705)
5	37C	J.P. Morgan Chase Bank, N.A.	A+/Aa3/AA-	3.898%	(20,588)
6	2010A***	Goldman Sachs Bank USA/ Goldman Sachs Group, Inc.	BBB+/A3/A*	3.925%	(36,069)
					\$ (96,132)

* Reflects ratings of the guarantor.

** The issue 37B Bonds that are hedged by this swap agreement were purchased with proceeds of the Series 2008B Notes, which the Airport subsequently refunded, and the Issue 37B are held in trust. The swap is now indirectly hedging the Series 2010A-3 Bonds for accounting purpose

*** Hedges Series 2010A - 1 and 2010A - 2.

Fair Value Hierarchy

	Fair Value Measurement Using	
	Fair Value 6/30/2016	Significant Other Observable Inputs (Level 2)
Interest rate swaps	\$ (96,132)	\$ (96,132)

The impact of the interest rate swaps on the financial statements for the fiscal year ended June 30, 2016 is as follows:

	Deferred outflows on derivative instruments	Derivative instruments
Balance as of June 30, 2015 (as restated)	\$ 65,408	\$ 79,321
Change in fair value to year end	18,206	16,811
Balance as of June 30, 2016	\$ 83,614	\$ 96,132

The fair value of the interest rate swap portfolio is recorded as a liability (since the Airport would owe a termination payment to the counterparty) in the statements 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 a termination payment would be due to the counterparty) or inflow liability (if a termination payment would be due to the Airport). The off-market portions of the Airport's swaps are recorded as carrying costs with respect to various refunded bond issues. Unlike fair value and deferred inflow/outflow values, the balance of remaining off-market portions are valued on a present value, or fixed yield, to maturity basis. The difference between the deferred outflows and derivative instruments presented in the table above constitutes the unamortized off-market portions of the swaps as of June 30, 2016.

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Basis Risk – The Airport has chosen a variable rate index based on a percentage of London Interbank Offered Rate (LIBOR) plus a spread, which historically has closely approximated the variable rates payable on the related bonds. However, the Airport is subject to the risk that a change in the relationship between the LIBOR-based swap rate and the variable bond rates would cause a material mismatch between the two rates. Changes that cause the payments received from the counterparty to be insufficient to make the payments due on the associated bonds result in an increase in the synthetic interest rate on the bonds, while changes that cause the counterparty payments to exceed the payments due on the associated bonds result in a decrease in the synthetic interest rate on the bonds. During the fiscal year ended June 30, 2016, the Airport paid a total of \$2.0 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, 2016, 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, 2016, 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).

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, 2016 (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

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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 nonpayment 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.

Goldman Sachs Group, Inc., which is the guarantor of the Airport's swap counterparty Goldman Sachs Bank USA, was downgraded to BBB+ by S&P during the year ended June 30, 2016.

Merrill Lynch Derivative Products AG, which is the guarantor of the Airport's swap counterparty Merrill Lynch Capital Services, Inc., was upgraded by one or more of the rating agencies during the year ended June 30, 2016.

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, 2016, the fair value of each swap was negative to the Airport as shown above.

San Francisco Wastewater Enterprise

In May 2016, the San Francisco Wastewater Enterprise issued tax-exempt revenue bonds 2016 Series A (Green Bonds) in the amount of \$240.6 million with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects, to pay off \$53.4 million of outstanding commercial paper notes, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of "AA" and "Aa3" from S&P and Moody's, respectively and mature through October 1, 2046. The bonds have a true interest cost of 3.2%. As of June 30, 2016, the principal amount outstanding of the 2016 Series A bonds was \$240.6 million. Also in May 2016, the Wastewater Enterprise issued tax-exempt revenue bonds 2016 Series B in the amount of \$67.8 million with interest rates ranging from 4.0% to 5.0%. Proceeds from the bonds were used for Wastewater capital projects, to pay off \$20.6 million of outstanding commercial paper notes, to fund capitalized interest, and pay the costs of issuing the bonds. The bonds carried ratings of "AA" and "Aa3" from S&P and Moody's, respectively and mature through October 1, 2046. The bonds have a true interest cost of 3.2%. As of June 30, 2016, the principal amount outstanding of the 2016 Series B bonds was \$67.8 million.

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Hetch Hetchy Water and Power

In October 2015, Hetch Hetchy Power issued \$4.1 million of taxable 2015 New Clean Renewable Energy Bonds (NCREB). The NCREB were issued to fund certain qualified clean, renewable energy solar generation facilities at the Marina Middle School and the San Francisco Police Academy. The 2015 NCREBs were non-rated and privately-placed with Bank of America Leasing. The NCREB bears interest rate of 4.62%, with net effective interest rate of 1.4% after the federal tax subsidy and matures through fiscal year 2033.

(9) EMPLOYEE BENEFIT PROGRAMS

(a) Retirement Plans

General Information About the Pension Plans – The San Francisco City and County Employees' Retirement System (Retirement System) administers a cost-sharing multiple-employer defined benefit pension plan (SFERS Plan), which covers substantially all of the employees of the City and County of San Francisco, 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. 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 SFERS Plan. The Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the SFERS 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.

In addition, some City employees are eligible to participate in the Public Employees' Retirement Fund (PERF) of the California Public Employees' Retirement System (CalPERS) Safety Plan, an agent multiple-employer pension plan, or the CalPERS Miscellaneous Plan, a cost-sharing multiple-employer pension plan. Some employees of the Transportation Authority, a blended component unit, are eligible to participate in a CalPERS Miscellaneous Plan or a CalPERS PEPRA Miscellaneous Plan, both are cost-sharing multiple-employer pension plans. In addition, some employees of the Successor Agency, a fiduciary component unit, are eligible to participate in a CalPERS Miscellaneous Plan or a CalPERS PEPRA Miscellaneous Plan, both are cost-sharing multiple-employer pension plans. Lastly, some employees of the Treasure Island Development Authority, a discretely presented component unit, are eligible to participate in the CalPERS Miscellaneous cost-sharing multiple-employer pension plan.

CalPERS acts as a common investment and administrative agent for various local and state governmental agencies within the State of California. Benefit provisions and other requirements are established by State statute, employer contract with CalPERS and by City resolution. CalPERS issues publicly available reports that include a full description of the pension plans regarding benefit provisions, assumptions and membership information that can be found on the CalPERS website at www.calpers.ca.gov.

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Benefits

SFERS – The SFERS Plan provides service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and provides annual cost-of-living adjustments (COLA) after retirement. The SFERS Plan also provides pension continuation benefits to qualified survivors. The Retirement System pays benefits according to the category of employment and the type of benefit coverage provided by the City. The four main categories of SFERS Plan members are:

- Miscellaneous Non-Safety Members – staff, operational, supervisory, and all other eligible employees who are not in special membership categories.
- Sheriff's Department and Miscellaneous Safety Members – sheriffs assuming office on and after January 7, 2012, and undersheriffs, deputized personnel of the Sheriff's Department, and miscellaneous safety employees hired on and after January 7, 2012.
- Firefighter Members – firefighters and other employees whose principal duties are in fire prevention and suppression work or who occupy positions designated by law as firefighter member positions.
- Police Members – police officers and other employees whose principal duties are in active law enforcement or who occupy positions designated by law as police member positions.

The membership groups and the related service retirement benefits are summarized as follows:

Miscellaneous Non-Safety Members who became members prior to July 1, 2010 qualify for a service retirement benefit if they are at least 50 years old and have at least 20 years of credited service or if they are at least 60 years old and have at least 10 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest one-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation.

Miscellaneous Non-Safety Members who became members on or after July 1, 2010 and prior to January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 20 years of credited service or if they are at least 60 years old and have at least 10 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest two-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation.

Miscellaneous Non-Safety Members who became members on or after January 7, 2012 qualify for a service retirement benefit if they are at least 53 years old and have at least 20 years of credited service or if they are at least 60 years old and have at least 10 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest three-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 75% of the member's final compensation.

Sheriff's Department Members and Miscellaneous Safety Members who were hired on or after January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest three-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

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Firefighter Members and Police Members who became members before November 2, 1976 qualify for a service retirement benefit if they are at least 50 years old and have at least 25 years of credited service. The service retirement benefit is calculated using the member's final compensation (monthly salary earnable at the rank or position the member held for at least one year immediately prior to retiring) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

Firefighter Members and Police Members who became members on or after November 2, 1976 and prior to July 1, 2010 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest one-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

Firefighter Members and Police Members who became members on or after July 1, 2010 and prior to January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest two-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

Firefighter Members and Police Members who became members on or after January 7, 2012 qualify for a service retirement benefit if they are at least 50 years old and have at least 5 years of credited service. The service retirement benefit is calculated using the member's final compensation (highest three-year average monthly compensation) multiplied by the member's years of credited service times the member's age factor up to a maximum of 90% of the member's final compensation.

All members are eligible to apply for a disability retirement benefit, regardless of age, when they have 10 or more years of credited service and they sustain an injury or illness that prevents them from performing their duties. Safety members are eligible to apply for an industrial disability retirement benefit from their first day on the job if their disability is caused by an illness or injury that they receive while performing their duties.

All retired members receive a benefit adjustment each July 1, which is the Basic COLA. The majority of adjustments are determined by changes in CPI with increases capped at 2%. Effective July 1, 2012, the SFERS Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the SFERS Plan and the SFERS Plan is fully funded on a market value of assets basis. The maximum benefit adjustment is 3.5% including the Basic COLA. For members hired on or after January 7, 2012, Supplemental COLAs will not be permanent adjustments to retirement benefits.

CalPERS – CalPERS provides service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on a final compensation which is the highest average pay rate and special compensation during any consecutive one-year or three-year period. The cost of living adjustments for the CalPERS plans are applied as specified by the Public Employees' Retirement Law. The California Public Employees' Pension Reform Act (PEPRA), which took effect in January 2013, changes the way CalPERS retirement and health benefits are applied, and places compensation limits on members. As such, members who established CalPERS membership on or after January 1, 2013 are known as "PEPRA" members.

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The CalPERS' provisions and benefits in effect at June 30, 2016, are summarized as follows:

	City Miscellaneous Plan		City Safety Plan	
	Prior to January 1, 2013	On or after January 1, 2013*	Prior to January 1, 2013	On or after January 1, 2013
Hire date				
Benefit formula	2% @ 60		2% @ 50, 2% @ 55, or 3% @ 55	2% @ 57, or 2.7% @ 57
Benefit vesting schedule	5 years of service		5 years of service	5 years of service
Benefit payments	Monthly for life		Monthly for life	Monthly for life
Required employee contribution rates	5.00%		7.00% to 12.25%	10.00% to 12.25%
Required employer contribution rates	9.96%		24.73%	24.73%
	Transportation Authority Miscellaneous Plan		Successor Agency Miscellaneous Plan	
	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Hire date				
Benefit formula	2.0% @ 55	2% @ 62	2% @ 55	2% @ 62
Benefit vesting schedule	5 years of service	5 years of service	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life	Monthly for life	Monthly for life
Required employee contribution rates	7.00%	6.25%	7.00%	6.50%
Required employer contribution rates	8.51%	6.24%	22.76%	9.52%

* For the City Miscellaneous Plan, there are no current active employees hired on or after January 1, 2013. For the Treasure Island Miscellaneous Plan, there are no current active employees.

At June 30, 2016, the CalPERS' City Safety Plan had a total of 2,311 members who were covered by these benefits, which includes 944 inactive employees or beneficiaries currently receiving benefits, 329 inactive employees entitled to but not yet receiving benefits, and 1,038 active employees.

Contributions

For the years ended June 30, 2016 and 2015, the City's actuarial determined contributions were as follows:

	2016	2015
SFERS Plan.....	\$ 496,343	\$ 556,511 *
City CalPERS Miscellaneous Plan.....	33	31
City CalPERS Safety Plan.....	23,629	20,718 **
Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans.....	280	400
Successor Agency CalPERS Classic & PEPRA Miscellaneous Plans.....	828	598
Treasure Island Development Authority CalPERS Miscellaneous Plan.....	2	2
	\$ 521,115	\$ 578,260

* Fiscal Year 2015 SFERS Plan balance was decreased by \$8.6 million as a result of early implementation of GASB Statement No. 82. Specifically, the 'employer pickup' amount which posted as an employer contribution was retroactively adjusted. This amount is now considered an employee contribution consistent with Statement No. 82.

** In Fiscal Year 2015 this amount was based on an estimate. A \$102K adjustment was made to align the estimated employer contribution amount with the actual employer contribution per the June 30, 2015 Agent Multiple-Employer CalPERS report.

SFERS – Contributions are made to the basic SFERS Plan by both the City and the participating employees. Employee contributions are mandatory as required by the Charter. Employee contribution rates for fiscal year 2016 varied from 7.5% to 13.0% as a percentage of gross covered salary. For fiscal year ended June 30, 2016, 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, 2014 actuarial report, the required employer contribution rates for fiscal year 2016 were 18.3% to 22.8%.

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CalPERS – Section 20814(c) of the California Public Employees’ Retirement Law requires that the employer contribution rates for all public employers be determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Funding contributions for the PERF is determined annually on an actuarial basis as of June 30 by CalPERS. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by public employees during the year, with an additional amount to finance any unfunded accrued liability.

Net Pension Liability

The table below shows how the net pension liability (NPL) as of June 30, 2016 is distributed.

Governmental activities.....	\$	1,355,280
Business-type activities.....		976,938
Fiduciary funds.....		16,563
Component Unit - Treasure Island Development Authority...		24
Total.....	\$	<u>2,348,805</u>

As of June 30, 2016, the City’s NPL is comprised of the following:

	Proportionate Share	Share of Net Pension Liability (Asset)
SFERS Plan.....	93.9032%	\$ 2,156,049
City CalPERS Miscellaneous Plan.....	-0.2033%	(13,956)
City CalPERS Safety Plan.....	N/A	188,837
Transportation Authority CalPERS Classic & PEPRAs Miscellaneous Plans....	0.0188%	1,288
Successor Agency CalPERS Classic & PEPRAs Miscellaneous Plans.....	0.2413%	16,563
Treasure Island Development Authority CalPERS Miscellaneous Plan.....	0.0004%	24
Total.....		<u>\$ 2,348,805</u>

The City’s NPL for each of its cost-sharing plans is measured as a proportionate share of the plans’ NPL. The City’s NPL of each of its cost-sharing plans is measured as of June 30, 2015, and the total pension liability for each cost-sharing plan used to calculate the NPLs was determined by an actuarial valuation as of June 30, 2014, rolled forward to June 30, 2015, using standard update procedures. The City’s proportion of the NPL for the SFERS Plan was based on the City’s long-term share of contributions to SFERS relative to the projected contributions of all participating employers, actuarially determined. The City’s proportions of the NPL for the CalPERS plans were actuarially determined as of the valuation date.

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The City's proportionate share and NPL of each of its cost-sharing plans as of June 30, 2015 and 2014 were as follows:

	June 30, 2015 (Measurement Date)		June 30, 2014		Change (Decrease)
	Proportionate Share	Share of Net Pension Liability (Asset)	Proportionate Share	Share of Net Pension Liability (Asset)	
SFERS Plan.....	93.9032%	\$ 2,156,049	93.7829%	\$ 1,660,365	\$ 495,684
City CalPERS Miscellaneous Plan.....	-0.2033%	(13,956)	-0.1829%	(11,381)	(2,575)
Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans.....	0.0188%	1,288	0.0208%	1,299	(11)
Successor Agency Classic & PEPRA CalPERS Miscellaneous Plans.....	0.2413%	16,563	0.2550%	15,869	694
Treasure Island Development Authority CalPERS Miscellaneous Plan.....	0.0004%	24	0.0000%	-	24
Total.....		<u>\$ 2,159,968</u>		<u>\$ 1,666,152</u>	<u>\$ 493,816</u>

The City's NPL for the CalPERS City Safety Plan (agent plan) is measured as the total pension liability, less the CalPERS Safety Plan's fiduciary net position. The change in the NPL for the City CalPERS Safety Plan is as follows:

	Increase (Decrease)		
	Total Pension Liability	Plan Fiduciary Net Position	Net Pension Liability (Asset)
Balance at June 30, 2014 (VD).....	\$ 1,087,527	\$ 920,371	\$ 167,156
Change in year:			
Service cost.....	30,987	-	30,987
Interest on the total pension liability.....	80,057	-	80,057
Changes of assumptions.....	(19,949)	-	(19,949)
Difference between expected and actual experience.....	(14,218)	-	(14,218)
Plan to plan resource movement.....	-	(4)	4
Contributions from the employer.....	-	20,718	(20,718)
Contributions from employees.....	-	15,061	(15,061)
Net investment income	-	20,469	(20,469)
Benefit payments, including refunds of employee contributions.....	(44,699)	(44,699)	-
Administrative expense.....	-	(1,048)	1,048
Net changes during measurement period.....	<u>32,178</u>	<u>10,497</u>	<u>21,681</u>
Balance at June 30, 2015 (MD)	<u>\$ 1,119,705</u>	<u>\$ 930,868</u>	<u>\$ 188,837</u>

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Pension Expenses and Deferred Outflows/Inflows of Resources Related to Pensions

For the year ended June 30, 2016, the City recognized pension expense including amortization of deferred outflows/inflows related to pension items as follows:

	Primary Government			Component Unit	
	Governmental Activities	Business-type Activities	Fiduciary Funds	Treasure Island Development Authority	Total
SFERS Plan.....	\$ 56,971	\$ 49,528	\$ -	\$ -	\$ 106,499
City CalPERS Miscellaneous Plan.....	(429)	-	-	-	(429)
City CalPERS Safety Plan.....	13,168	-	-	-	13,168
Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans..	(108)	-	-	-	(108)
Successor Agency CalPERS Classic & PEPRA Miscellaneous Plans.....	-	-	1,681	-	1,681
Treasure Island District Authority CalPERS Miscellaneous Plan	-	-	-	7	7
Total pension expense	<u>\$ 69,602</u>	<u>\$ 49,528</u>	<u>\$ 1,681</u>	<u>\$ 7</u>	<u>\$ 120,818</u>

At June 30, 2016, the City's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	SFERS Plan		CaPERS Miscellaneous Plans		City CalPERS Safety Plan		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date.....	\$ 496,343	\$ -	\$ 1,143	\$ -	\$ 23,629	\$ -	\$ 521,115	\$ -
Change in assumptions.....	162,900	41,307	-	629	-	15,310	162,900	57,246
Difference between expected and actual experience.....	-	148,728	67	-	-	10,912	67	159,640
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions.....	3,221	7,698	1,584	12,259	-	-	4,805	19,957
Net differences between projected and actual earnings on plan investments.....	-	510,360	-	316	-	8,585	-	519,261
Total	<u>\$ 662,464</u>	<u>\$ 708,093</u>	<u>\$ 2,794</u>	<u>\$ 13,204</u>	<u>\$ 23,629</u>	<u>\$ 34,807</u>	<u>\$ 688,887</u>	<u>\$ 756,104</u>

At June 30, 2016, the City reported \$521.1 million as deferred outflows of resources related to contributions subsequent to the measurement date, which will be recognized as a reduction to net pension liability in the year ending June 30, 2017. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized as pension expense as follows:

Year Ending June 30	Deferred Outflows/ (Inflows) of Resources
2017.....	\$ (246,999)
2018.....	(246,965)
2019.....	(246,049)
2020.....	151,681
Total	<u>\$ (588,332)</u>

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Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2015 is provided below, including any assumptions that differ from those used in the July 1, 2014 actuarial valuation.

	<u>SFERS Plan Actuarial Assumptions</u>	<u>CalPERS Miscellaneous and Safety Plans</u>
Valuation date.....	June 30, 2014 updated to June 30, 2015	June 30, 2014 updated to June 30, 2015
Measurement date.....	June 30, 2015	June 30, 2015
Actuarial cost method.....	Entry-age normal cost method	Entry-age normal cost method
Investment rate of return.....	7.50%, net of pension plan investment expenses	7.65%, net of pension plan investment expense, including inflation
Municipal bond yield.....	4.31% as of June 30, 2014 3.85% as of June 30, 2015 Bond Buyer 20-Bond GO Index, July 2, 2014 and July 2, 2015	
Inflation.....	3.33%	2.75%
Projected salary increases.....	3.83% plus merit component based on employee classification and years of service	Varies by Entry Age and Service
Discount rate.....	7.46% as of June 30, 2015	7.65% as of June 30, 2015
Basic COLA.....	Old Miscellaneous and All New Plans..... 2.00% Old Police and Fire: Pre 7/1/75 Retirements..... 3.00% Chapters A8.595 and A8.596.... 4.00% Chapters A8.559 and A8.585.... 5.00%	Contract COLA up to 2.75% until Purchasing Protection Allowance Floor on Purchasing Power applies. 2.75% thereafter.

Mortality rates for SFERS active members were based upon the RP-2000 Employee Tables for Males and Females projected using Scale AA to 2030 for females and to 2005 for males. Mortality rates for SFERS healthy annuitants were based upon the RP-2000 Healthy Annuitant Tables for Males and Females projected using Scale AA to 2020. Refer to SFERS's July 1, 2014 actuarial valuation report for a complete description of all other assumptions, which can be found on the Retirement System website.

The actuarial assumptions used in the SFERS June 30, 2014 valuation were based upon the results of an experience study for the period July 1, 2004 through June 30, 2009.

For CalPERS, the mortality table used was developed based on CalPERS' specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB. All other actuarial assumptions used in the CalPERS June 30, 2014 valuation were based on the results of an actuarial experience study for the period 1997 to 2011, including updates to salary increase, mortality and retirement rates. The Experience Study report can be obtained at CalPERS' website under Forms and Publications.

GASB Statement No. 68 states that the long-term expected rate of return should be determined net of pension plan investment expense but without reduction for pension plan administrative expense. The CalPERS discount rate was changed from 7.50 percent (net of administrative expense in 2014) to 7.65 percent as of the June 30, 2015 measurement date to correct the adjustment which previously reduced the discount rate for administrative expense.

Discount Rates

SFERS – The beginning and end of year measurements are based on different assumptions and contribution methods that result in different discount rates. The discount rate was 7.58% as of June 30, 2014 and 7.46% as of June 30, 2015.

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The discount rate used to measure SFERS's total pension liability as of June 30, 2015 was 7.46%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2014 actuarial valuation. That policy includes contributions equal to the employer portion of the entry age normal costs for members as of the valuation date, a payment for the expected administrative expenses, and an amortization payment on the unfunded actuarial liability. The amortization payment is based on closed periods that vary in length depending on the source. Charter amendments prior to July 1, 2014 are amortized over 20 years. After July 1, 2014, any Charter changes to active member benefits are amortized over 15 years and changes to inactive member benefits, including Supplemental COLAs, are amortized over 5 years. The remaining unfunded actuarial liability not attributable to Charter amendments as of July 1, 2013 is amortized over a 19-year period commencing July 1, 2014. Experience gains and losses and assumption or method changes on or after July 1, 2014 are amortized over 20 years. All amortization schedules are established as a level percentage of payroll so payments increase 3.75% each year. The unfunded actuarial liability is based on an actuarial value of assets that smooths investment gains and losses over five years and a measurement of the actuarial liability that excludes the value of any future Supplemental COLAs.

While the contributions and measure of the actuarial liability in the valuation do not anticipate any Supplemental COLAs, the projected contributions for the determination of the discount rate include the anticipated future amortization payments on future Supplemental COLAs for current members when they are expected to be granted. For a Supplemental COLA to be granted, the market value of assets must exceed the actuarial liability at the beginning of the year and the actual investment earnings during the year must exceed the expected investment earnings on the actuarial value of assets. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. In most cases, the large majority of members receive a 1.50% Supplemental COLA.

Because the probability of a Supplemental COLA depends on the current funded level of the Retirement System, the Retirement System developed an assumption as of June 30, 2015, of the probability and amount of Supplemental COLA for each future year. The table below shows the net assumed Supplemental COLAs for members with a 2.00% basic COLA for sample years.

Year Ending	
June 30	Assumption
2016	0.000%
2021	0.345%
2026	0.375%
2031	0.375%
2036+	0.375%

The projection of benefit payments to current members for determining the discount rate includes the payment of anticipated future Supplemental COLAs.

Based on these assumptions, the Retirement System's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year end 2076 when only a portion of the projected benefit payments are expected to be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.85% to the extent they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2015 is 7.46%.

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The long-term expected rate of return on pension plan investments was 7.50%. It was set by the Retirement Board after consideration of both expected future returns and historical returns experienced by the by the Retirement System. Expected future returns were determined by using a building-block method in which best-estimate ranges of expected future real rates of return were developed for each major asset class. These ranges were combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation.

Target allocation and best estimates of geometric long-term expected real rates of return (net of pension plan investment expense and inflation) for each major asset class are summarized in the following table.

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Global equity	40.0%	5.1%
Fixed income	20.0%	1.2%
Private equity	18.0%	7.5%
Real assets	17.0%	4.1%
Hedge Funds/Absolute Return	5.0%	3.5%

CalPERS - The discount rate used to measure each of the CalPERS Miscellaneous Plans and the Safety Plan total pension liability was 7.65 percent. To determine whether the municipal bond rate should be used in the calculation of a discount rate for each plan, CalPERS stress tested plans that would most likely result in a discount rate that would be different from the actuarially assumed discount rate. Based on the testing, none of the tested plans run out of assets. Therefore, the current 7.65 percent discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.65 percent is applied to all plans in the Public Employees Retirement Fund. The stress test results are presented in a detailed report called "GASB Crossover Testing Report" that can be obtained at CalPERS' website under the GASB Statement No. 68 section.

The long-term expected rate of return on pension plan investments was determined using a building block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Such cash flows were developed assuming that both members and employers will make their required contributions on time and as scheduled in all future years. Using historical returns of all the funds' asset classes, expected compound (geometric) returns were calculated over the short-term (first 10 years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent.

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The table below reflects long-term expected real rate of return by asset class. The rate of return was calculated using the capital market assumptions applied to determine the discount rate and asset allocation.

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Real Return Years 1 - 10 ⁽¹⁾</u>	<u>Real Return Years 11+ ⁽²⁾</u>
Global equity	51.0%	5.25%	5.71%
Global fixed income	19.0%	0.99%	2.43%
Inflation sensitive	6.0%	0.45%	3.36%
Private equity	10.0%	6.83%	6.95%
Real estate	10.0%	4.50%	5.13%
Infrastructure and forestland	2.0%	4.50%	5.09%
Liquidity	2.0%	-0.55%	-1.05%

(1) An expected inflation of 2.5% used for this period.

(2) An expected inflation of 3.0% used for this period.

Sensitivity of Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the City's proportionate share of the NPL for each of the City's cost sharing retirement plans, calculated using the discount rate, as well as what the City's proportionate share of the net pension liability (asset) would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate.

<u>Cost-Sharing Pension Plans</u> <u>Proportionate Share of Net Pension Liability</u>	<u>1% Decrease Share of NPL @ 6.46%</u>	<u>Current Share of NPL @ 7.46%</u>	<u>1% Increase Share of NPL @ 8.46%</u>
SFERS.....	\$ 4,767,771	\$ 2,156,049	\$ (34,278)
	<u>1% Decrease Share of NPL @ 6.65%</u>	<u>Current Share of NPL @ 7.65%</u>	<u>1% Increase Share of NPL @ 8.65%</u>
City CalPERS Miscellaneous Plan.....	\$ (11,026)	\$ (13,956)	\$ (16,375)
Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans.....	2,349	1,289	413
Successor Agency CalPERS Classic & PEPRA Miscellaneous Plans.....	31,054	16,563	4,600
Treasure Island District Authority CalPERS Miscellaneous Plans.....	35	24	16

The following presents the NPL, calculated using the discount rate of 7.65% in effect as of the measurement date, as well as what the NPL would be if they were calculated using discount rates that are 1.00% lower (6.65%) or 1.00% higher (8.65%) than the rates used, for the City's agent-multiple employer plan:

<u>Agent Pension Plan</u>	<u>1% Decrease @ 6.65%</u>	<u>Measurement Date @ 7.65%</u>	<u>1% Increase @ 8.65%</u>
City CalPERS Safety Plan - Net Pension Liability.....	\$ 342,724	\$ 188,837	\$ 61,895

Detailed information about the CalPERS Safety Plan's fiduciary net position is available in a separately issued CalPERS financial report, copies may be obtained from the CalPERS website at www.calpers.ca.gov.

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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.

Health Service System

The Health Service System was established in 1937. Health care benefits of employees, retired employees and surviving spouses are financed by beneficiaries and by the City through the Health Service System. The employers' contribution, which includes the San Francisco Community College District, San Francisco Unified School District and the San Francisco Superior Court, amounted to approximately \$674.6 million in fiscal year 2015-16. The employers' contribution is mandated and determined by Charter provision based on similar contributions made by the ten most populous counties in California and the contribution models negotiated with the unions. Included in this amount is \$193.8 million to provide postemployment health care benefits for 27,126 retired participants, of which \$158.4 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 from the City's website.

(b) 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 prefunds its OPEB obligations through the Retiree Health Care Trust Fund (RHCTF), an irrevocable trust fund that allows participating employers to prefund certain postemployment benefits other than pensions for their covered employees. The RHCTF is an agent multiple-employer trust and has two participating employers: the City and the San Francisco Community College District (Community College District). From the most recent actuarial valuation reports as of July 1, 2014, there were 29,001 active members, 25,919 retirees and beneficiaries, and 2,843 vested, terminated members for the City. The Community College District had 1,369 active members and 1,041 eligible retirees.

The RHCTF is administered by the City and is presented as an other post-employment benefit trust fund. It is governed by a Retiree Health Care Board of Administration consisting of five trustees: one selected by the City Controller, one by the City Treasurer, one by the Executive Director of the San Francisco Employees' Retirement System, and two elected by the active and retired members of the City's Health Service System. The RHCTF issues a publicly available financial report consisting of financial statements and required supplementary information for the RHCTF in aggregate. The report may be obtained from City Hall, Room 316, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

Funding Policy – The contribution requirements of plan members and the City are based on a pay-as-you-go basis. For the year ended June 30, 2016, the City paid \$158.4 million for postemployment

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healthcare benefits on behalf of its retirees and contributed \$10.5 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, 2014 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	\$ 354,540
Interest on Net OPEB obligation	89,557
Adjustment to annual required contribution	<u>(117,964)</u>
Annual OPEB cost	326,133
Contribution made	<u>(168,855)</u>
Increase in net OPEB obligation	157,278
Net OPEB obligation - beginning of year	<u>1,990,156</u>
Net OPEB obligation - end of year	<u><u>\$ 2,147,434</u></u>

The table below shows how the total net OPEB obligation as of June 30, 2016, is distributed.

Governmental activities	\$ 1,202,986
Business-type activities	878,590
Fiduciary funds	<u>65,858</u>
Net OPEB obligation - end of year	<u><u>\$ 2,147,434</u></u>

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
6/30/2014	\$ 353,251	47.2%	\$ 1,793,753
6/30/2015	363,643	46.0%	1,990,155
6/30/2016	326,133	51.8%	2,147,434

Funded Status and Funding Progress – The unfunded actuarial accrued liability is being amortized as a level percentage of expected payroll over an open thirty-year period. As of July 1, 2014, the most recent actuarial valuation date, the funded status of the Retiree Health Care Benefits was 1.1%. The actuarial accrued liability for benefits was \$4.26 billion, and the actuarial value of assets was \$49.0 million, resulting in an unfunded actuarial accrued liability (UAAL) of \$4.21 billion. As of July 1, 2014, the estimated covered payroll (annual payroll of active employees covered by the plan) was \$2.62 billion and the ratio of the UAAL to the covered payroll was 160.8%.

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

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

In the actuarial valuation as of July 1, 2014, 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 4.50% investment rate of return on investment; 3.25% inflation rate; 3.75% payroll growth; and actual medical premiums from 2014 through 2017 and grading down to an ultimate trend rate beginning in 2032 of 4.50%.

The San Francisco Retiree Health Care Trust Fund (RHCTF) was established in December 2010 by the Retiree Health Trust Fund Board of the City. 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 did not have a net OPEB obligation as of June 30, 2016. The Transportation Authority's most recent actuarial valuation was performed as of June 30, 2015, covering the year ended June 30, 2016. The Transportation Authority's OPEB plan is for retiree healthcare benefits and was 57.3% funded and the unfunded actuarial accrued liability was \$0.9 million. As of June 30, 2015, the estimated covered payroll was \$3.9 million and the ratio of the UAAL was 22.2%. Details of the Transportation Authority's OPEB plan may be found in its financial statements for the year ended June 30, 2016. Financial statements

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for the Transportation Authority can be obtained from their finance and administrative offices at 1455 Market Street, 22nd Floor, San Francisco, CA 94103 or the Transportation Authority’s website.

For the year ended June 30, 2016, the Transportation Authority’s annual OPEB expense of \$200.7 was greater than the ARC. Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 138.4	100%	\$ -
6/30/2015	138.4	100%	-
6/30/2016	200.7	103%	(5.8)

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) healthcare plan, which is administered by CalPERS. The Successor Agency pays monthly retiree medical benefit contributions to PEMHCA. 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 CalPERS and is an agent multiple-employer trust. Copies of CalPERS’ financial report may be obtained from CalPERS website at www.calpers.ca.gov or from CalPERS at 400 Q Street, Sacramento, California 95811.

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 (ARC) is an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. During the year ended June 30, 2016, the Successor Agency contributed \$1.2 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 ARC of the employer. 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.

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The following table shows the components of the Successor Agency's annual OPEB cost for the year ended June 30, 2016, and the changes in the net OPEB obligation:

Annual required contribution	\$ 813
Interest on Net OPEB obligation	58
Adjustment to annual required contribution	<u>(75)</u>
Annual OPEB cost	796
Contribution made	<u>(1,199)</u>
Decrease in net OPEB obligation	(403)
Net OPEB obligation - beginning of year	<u>833</u>
Net OPEB obligation - end of year	<u><u>\$ 430</u></u>

Three-year trend information is as follows:

Fiscal Year Ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
6/30/2014	\$ 912	139%	\$ 867
6/30/2015	918	104%	833
6/30/2016	796	151%	430

Funded Status and Funding Progress – The funded status of the plan of the Successor Agency as of July 1, 2015, the plan's most recent actuarial valuation date, was as follows:

Actuarial accrued liability (AAL)	\$ 10,998
Actuarial value of plan assets	2,833
Unfunded actuarial accrued liability (UAAL)	<u>\$ 8,165</u>
Funded ratio (actuarial value of plan assets/AAL)	25.8%
Covered payroll (active plan members)	\$ 4,261
UAAL as a percentage of covered payroll	191.6%

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 ARC for the year ended June 30, 2016 and the funding status of the plan was determined based on the July 1, 2015 actuarial valuation using the entry age normal actuarial cost method. Actuarial assumptions include (a) investment return and discount rate of 7.0%; (b) medical costs trend increases of 4%; (c) inflation rate of 2.75%; (d) payroll growth of 2.75%; and (e) 2014 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 22 years, respectively.

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(10) FUND EQUITY

(a) Governmental Fund Balance

Fund balances for all the major and nonmajor governmental funds as of June 30, 2016, were distributed as follows:

	<u>General Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
Nonspendable			
Imprest Cash, Prepaids, and Deposits.....	\$ 522	\$ 82	\$ 604
Restricted			
Rainy Day.....	120,106	43,131	163,237
Public Protection			
Police.....	-	19,107	19,107
Sheriff.....	-	1,203	1,203
Other Public Protection.....	-	15,257	15,257
Public Works, Transportation & Commerce.....	-	201,781	201,781
Human Welfare & Neighborhood Development.....	-	226,831	226,831
Affordable Housing.....	-	256,381	256,381
Community Health.....	-	26,683	26,683
Culture & Recreation.....	-	129,394	129,394
General Administration & Finance.....	-	20,400	20,400
Capital Projects.....	-	383,267	383,267
Debt Service.....	-	120,521	120,521
Total Restricted.....	<u>120,106</u>	<u>1,443,956</u>	<u>1,564,062</u>
Committed			
Budget Stabilization.....	178,434	-	178,434
Recreation and Parks Expenditure Savings.....	8,736	-	8,736
Total Committed.....	<u>187,170</u>	<u>-</u>	<u>187,170</u>
Assigned			
Public Protection			
Police.....	8,071	857	8,928
Sheriff.....	4,349	2,156	6,505
Other Public Protection.....	16,923	-	16,923
Public Works, Transportation & Commerce.....	65,614	34,248	99,862
Human Welfare & Neighborhood Development.....	52,727	5,060	57,787
Affordable Housing.....	22,498	-	22,498
Community Health.....	64,943	-	64,943
Culture & Recreation.....	15,750	11,866	27,616
General Administration & Finance.....	54,329	11,898	66,227
General City Responsibilities.....	54,575	-	54,575
Capital Projects.....	125,107	-	125,107
Litigation and Contingencies.....	145,443	-	145,443
Subsequent Year's Budget.....	249,238	-	249,238
Total Assigned.....	<u>879,567</u>	<u>66,085</u>	<u>945,652</u>
Unassigned.....	241,797	(103,811)	137,986
Total.....	<u>\$ 1,429,162</u>	<u>\$ 1,406,312</u>	<u>\$ 2,835,474</u>

CITY AND COUNTY OF SAN FRANCISCO
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(b) 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, with separate accounts for the benefit of the City (the “City Reserve”) and the San Francisco Unified School District (the “School Reserve”). 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. Seventy-five percent of the deposit is placed in the City Reserve and twenty-five percent is placed in the School Reserve. The total amount of money in the Rainy Day Reserve may not exceed ten percent of the City’s actual total General Fund revenues. The City may spend money from the City 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 City 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 School District may withdraw up to half the money in the School Reserve when it expects to collect less money per student than the previous fiscal year and would have to lay off a significant number of employees. The School District’s Board can override those limits and withdraw any amount in the School Reserve by a two-thirds vote. The City does not expect to routinely spend money from the Rainy Day Reserve after evaluating its recent General Fund revenues trends and its most recent update to the Five-Year Financial Plan covering fiscal years 2015-16 through 2019-20.

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 most recent update to the Five-Year Financial Plan covering fiscal years 2015-16 through 2019-20.

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.

(c) Encumbrances

At June 30, 2016, encumbrances recorded in the General Fund and nonmajor governmental funds were \$191.0 million and \$259.2 million, respectively.

(d) Restricted Net Position

At June 30, 2016, the government-wide statement of net position reported restricted net position of \$1,331.5 million in governmental activities and \$538.5 million in business-type activities, of which \$15.7 million and \$67.6 million are restricted by enabling legislation in governmental activities and business-type activities, respectively.

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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 SFMTA. 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 \$406.8 million of unrestricted net position of governmental activities, of which \$290.1 million reduced net investment in capital assets and \$116.7 million reduced net position restricted for capital projects to reflect the total column of the primary government as a whole perspective.

(e) Deficit Fund Balances and Net Position

The Environmental Protection Fund, Human Welfare Fund, and Senior Citizens' Program Fund had deficits of \$0.1 million, \$2.0 million, and \$0.3 million, respectively, as of June 30, 2016. The deficits relate to unavailable revenue in various programs which is expected to be collected beyond 60 days of the end of fiscal year 2016.

The Moscone Convention Center Fund had a \$101.4 million deficit as of June 30, 2016. The deficit is primarily related to the issuance of commercial paper for construction and will be covered by refinancing commercial paper as long term debt.

The Central Shops and Telecommunications and Information Internal Service Funds had deficits in total net position of \$10.8 million and \$6.9 million, respectively, as of June 30, 2016 mainly due to the other postemployment benefits liability accrued per GASB Statement No. 45 and the net pension liability and pension-related deferred inflows per GASB Statement No. 68. The operating 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, 2016, the Successor Agency has a deficit of \$377.0 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.

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(11) UNAVAILABLE RESOURCES IN GOVERNMENTAL FUNDS

The deferred inflows of resources balance in governmental funds as of June 30, 2016 consists of the following unavailable resources:

	General Fund	Other Governmental Funds	Total Governmental Funds
Grant and subvention revenues.....	\$ 56,709	\$ 59,021	\$ 115,730
Property Tax.....	53,829	12,986	66,815
Teeter Plan.....	36,008	-	36,008
SB 90.....	8,218	-	8,218
Advances to Successor Agency.....	-	14,602	14,602
Franchise tax.....	3,130	-	3,130
Loans.....	6,473	75,328	81,801
Total.....	<u>\$ 164,367</u>	<u>\$ 161,937</u>	<u>\$ 326,304</u>

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 inflows 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.

(12) 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 were 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. The Transportation Authority administers the following programs:

Sales Tax Program. 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 Muni Metro Network; B) construction of the Muni Central Subway (Third Street Light Rail Project–Phase 2); C) construction of the Caltrain Downtown Extension to a rebuilt Transbay Terminal; and D) South Approach to the Golden Gate Bridge: Doyle Drive Replacement Project (re-envisioned as the Presidio Parkway). 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

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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.

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 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 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 Administrator of County Vehicle Registration Fee Program. On November 2, 2010, San Francisco voters approved Proposition 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. Proposition 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 Proposition 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 Proposition AA program is a pay-as-you-go program.

Treasure Island Mobility Management Authority (TIMMA). The Treasure Island Transportation Management Act of 2008 (AB 981) authorizes the creation or designation of a Treasure Island-specific transportation management agency. On April 1, 2014, the City's Board of Supervisors approved a resolution designating the Transportation Authority as the TIMMA to implement the Treasure Island Transportation Implementation Plan in support of the Treasure Island/Yerba Buena Island Development Project. In September 2014, Governor Brown signed Assembly Bill 141, establishing TIMMA as a legal entity distinct from the Transportation Authority to help firewall the Transportation Authority's other functions. The eleven members of the Transportation Authority Board act as the Board of Commissioners for TIMMA. The Transportation Authority financial statements include TIMMA as a blended special revenue component unit.

Loan Agreement with Treasure Island Development Authority. In July 2008, the Transportation Authority entered into a loan agreement with the Treasure Island Development Authority (TIDA) for the repayment of project management oversight, engineering and environmental costs for the Yerba Buena Island (YBI) Ramps Improvement Project.

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(13) 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 2015 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 sixteenth 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.

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 2016, 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	\$ 232,075
Bond principal and interest remaining due at end of the fiscal year	6,705,026
Commercial paper issued with subordinate revenue pledge	304,100
Commercial paper principal and interest remaining due at end of the fiscal year ...	343,050
Net revenues	473,086
Bond principal and interest paid in the fiscal year	416,610
Commercial paper principal and interest paid in the fiscal year	3,900

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.

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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. As of June 30, 2016, the FAA has approved several Airport applications to collect and use passenger facility charges (from PFC #2 to PFC #6) in a total cumulative amount of \$1.7 billion, with a final charge expiration date estimated to be March 1, 2026. The Airport is working with the FAA to change the expiration date for PFC #3 and the charge effective date for PFC #5 from January 1, 2017 to November 1, 2013, because PFC #3 was fully collected earlier than originally anticipated due to increased passenger levels. For the year ended June 30, 2016, the Airport reported approximately \$99.1 million of PFC revenue, which is included in other nonoperating revenues in the accompanying basic financial statements.

Commitments and Contingencies – In addition to the long-term obligations discussed in Note 8, there were \$73.2 million of Special Facilities Lease Revenue Bonds outstanding as of June 30, 2016, 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, 2016 are as follows:

Construction	\$ 75,769
Operating	<u>15,810</u>
Total	<u>\$ 91,579</u>

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, 2016 was \$42.5 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, 2016 was \$140.7 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, 2016, revenues realized from the following Airport tenant exceeded five percent of the Airport’s total operating revenues:

United Airlines	23.5%
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(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 13% 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 \$95.6 million. The principal and interest payments made in 2016 were \$4.2 million and pledged revenues (total net revenues calculated in accordance with the bond indenture) for the year ended June 30, 2016 were \$33.3 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 \$3.0 million. Annual principal and interest payments were \$0.23 million in 2016 and pledged harbor revenues were \$0.14 million for the year ended June 30, 2016.

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, 2016, the Port had purchase commitments for construction-related services, materials and supplies, and other services were \$15.1 million for capital projects and \$2.6 million for general operations.

Under an agreement with the San Francisco Bay Conservation and Development Commission (BCDC), the Port is committed to fund and expend up to \$30.0 million over a 20-year period for pier removal, parks and plazas, and other public access improvements. As of June 30, 2016, \$47.2 million of Port funds have been appropriated and \$46.6 million 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.

Transactions with Other Funds – The Port receives from, and provides services to, various City departments. In 2016, the \$19.1 million in services provided by other City departments included \$2.9 million of insurance premiums and \$0.5 million in workers' compensation expense.

Pursuant to a memorandum of understanding dated August 31, 2015, a jurisdiction transfer from the Port to the San Francisco Real Estate Division of property commonly known as Daggett Street was completed to facilitate an open space improvement in connection with an adjacent residential development project. In fiscal year 2016 and in connection with all secured approvals, the Port received a transfer fee of \$1,675,000.

General Obligation Bonds for Parks – 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

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allocated for parks and open space projects on Port property. In February 2016, the Port received \$13.2 million of proceeds from the 2012 bond and \$8.5 million from the 2008 bond for waterfront projects. Certain of these projects are in progress at June 30, 2016.

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. In 2015, the Port and the Office of Community Investment and Infrastructure, Successor Agency to the Redevelopment Agency, completed discussions concerning the transition, termination of Port agreements, and the transfer of operations, assets, and certain associated obligations. The resultant memorandum of agreement has received essential approvals and is in executory status, pending the completion of several closing conditions.

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. 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. The Regional Water Quality Control Board approved the Risk Management Plan in January 2014. The Risk Management Plan provides 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.

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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 polychlorinated biphenyls 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 \$11.0 million at June 30, 2016.

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.

A summary of environmental liabilities, included in noncurrent liabilities, at June 30 2016, is as follows:

	<u>Environmental Remediation</u>	<u>Monitoring and Compliance</u>	<u>Total</u>
Environmental liabilities at July 1, 2015	\$ 10,703	\$ 71	\$ 10,774
Current year claims and changes in estimates	266	1	267
Vendor payments	-	(12)	(12)
Environmental liabilities at June 30, 2016	<u>\$ 10,969</u>	<u>\$ 60</u>	<u>\$ 11,029</u>

(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 2016, the Water Enterprise sold water, approximately 62,501 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 2016 and applicable revenues for 2016 are as follows:

Bonds issued with revenue pledge	\$ 4,288,095
Bond principal and interest remaining due at end of the fiscal year	7,599,211
Net revenues	229,160*
Bond principal and interest paid in the fiscal year	219,195
Funds available for revenue debt service	391,893

*Net revenues included appropriated available funds.

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During fiscal year 2016, the wholesale revenue requirement, net of adjustments, charged to wholesale customers was \$209.1 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, 2016, the City owed the Wholesale Customers \$21.5 million under the Water Supply Agreement.

Commitments and Contingencies – As of June 30, 2016, the Water Enterprise had outstanding commitments with third parties of \$283.3 million for various capital projects and for materials and supplies.

Environmental Issue – As of June 30, 2016, the total pollution remediation liability was \$3.0 million, consisting of \$1.7 million for the excavation of contaminated soil that contained polycyclic aromatic hydrocarbons from a gun club site in the Lake Merced area, \$1.2 million for the 17th and Folsom site and \$0.1 million for the Pulgas Dechloramination Facility and the Harry Tracy Water Treatment Plant.

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 \$36.6 million and \$8.3 million, respectively, for the year ended June 30, 2016, 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 \$16.0 million for the year ended June 30, 2016 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, as well as the City Power services including energy efficiency and renewables. The CleanPowerSF, launched in May 2016, provides green electricity from renewable sources to residential and commercial customers in San Francisco and is reported as part of Hetch Hetchy Power.

Approximately 70% 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 30% 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 sold into the California Independent System Operator (CAISO). Hetch Hetchy operation is an integrated 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 CAISO, and the Federal Energy

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Regulatory Commission (FERC). Therefore, Hetch Hetchy serves as the City's representative at CPUC, CAISO, and FERC forums and continues to monitor regulatory proceedings.

Segment Information – Hetch Hetchy Power issued debt to finance its improvements. Both the Hetch Hetchy Water fund and the Hetch Hetchy Power fund are reported for in a single enterprise (i.e., Hetch Hetchy Water and Power Enterprise). CleanPowerSF is presented as part of Hetch Hetchy Power. 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.....	\$ 35,353	\$ 178,127	\$ 213,480
Receivables from other funds and component units....	-	12,875	12,875
Noncurrent restricted cash and investments.....	1,669	40,757	42,426
Other noncurrent assets.....	173	1,608	1,781
Capital assets.....	113,867	290,382	404,249
Total assets.....	<u>151,062</u>	<u>523,749</u>	<u>674,811</u>
Deferred outflows of resources related to pensions	<u>3,746</u>	<u>4,578</u>	<u>8,324</u>
Liabilities:			
Current liabilities.....	4,638	26,574	31,212
Noncurrent liabilities.....	23,554	107,077	130,631
Total liabilities.....	<u>28,192</u>	<u>133,651</u>	<u>161,843</u>
Deferred inflows of resources related to pensions	<u>3,905</u>	<u>4,773</u>	<u>8,678</u>
Net position:			
Net investment in capital assets.....	113,867	255,897	369,764
Restricted for capital projects.....	1,409	-	1,409
Restricted for debt service.....	-	306	306
Unrestricted.....	7,435	133,700	141,135
Total net position.....	<u>\$ 122,711</u>	<u>\$ 389,903</u>	<u>\$ 512,614</u>

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Condensed Statements of Revenues, Expenses, and Changes in Fund Net Position	Hetch Hetchy		Total
	Water	Power	
Operating revenues.....	\$ 38,742	\$ 125,994	\$ 164,736
Depreciation expense.....	(3,874)	(12,639)	(16,513)
Other operating expenses.....	(32,662)	(99,320)	(131,982)
Operating income.....	2,206	14,035	16,241
Nonoperating revenues (expenses):.....			
Interest and investment income (loss).....	(38)	1,318	1,280
Interest expense.....	-	(3,355)	(3,355)
Other nonoperating revenues	132	10,702	10,834
Transfers in (out), net.....	-	680	680
Change in net position.....	2,300	23,380	25,680
Net position at beginning of year, as restated.....	120,411	366,523	486,934
Net position at end of year.....	\$ 122,711	\$ 389,903	\$ 512,614

Condensed Statements of Cash Flows	Hetch Hetchy		Total
	Water	Power	
Net cash provided by (used in):			
Operating activities.....	\$ 6,245	\$ 26,911	\$ 33,156
Noncapital financing activities.....	132	10,135	10,267
Capital and related financing activities.....	(15,558)	(36,948)	(52,506)
Investing activities.....	9	(1,258)	(1,249)
Decrease in cash and cash equivalents.....	(9,172)	(1,160)	(10,332)
Cash and cash equivalents at beginning of year.....	45,539	202,257	247,796
Cash and cash equivalents at end of year.....	\$ 36,367	\$ 201,097	\$ 237,464

Pledged Revenues – Hetch Hetchy Power has pledged future power revenues to repay the 2008 Clean Renewable Energy Bonds (CREBs), the 2011 Qualified Energy Conservation Bonds (QECBs), the 2012 New Clean Renewable Energy Bonds (NCREBs), and the 2015 NCREBs. Additionally, Hetch Hetchy Power has pledged future power revenues for 2015 Series AB power revenue bonds. Proceeds from the bonds provided financing for various capital construction and facility energy efficiency projects. The Series 2015 AB power revenue bonds are payable through fiscal year 2046 and are solely payable from net revenues of Hetch Hetchy Power on a senior lien basis to the 2008 CREBs, the 2011 QECBs, the 2012 NCREBs, and the 2015 NCREBs.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid, during 2016, and applicable revenues for 2016 are as follows:

Hetch Hetchy Power (excluding CleanPowerSF)	
Bonds issued with revenue pledge	\$ 64,871
Bond principal and interest remaining due at end of the fiscal year	95,688
Net revenues.....	19,070
Bond principal and interest paid in the fiscal year	2,014
Funds available for revenue debt service	33,044

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Commitments and Contingencies – As of June 30, 2016, Hetch Hetchy Water and Power had outstanding commitments with third parties of \$63.6 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 \$4.7 million in fiscal year 2016. 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, Hetch Hetchy Power entered into two separate long-term power sales agreements (the Agreement) with the two irrigation districts, the MID and TID, which expired June 30, 2015. In April 2015, the Commission and the Board of Supervisors approved the extension of both agreements for one year to June 30, 2016. A second extension agreement has been subsequently approved to continue the current terms and conditions for MID through June 30, 2017. The second extension agreement for TID proposes to remove the district's rights to excess energy from the project and terminate those conditions with the first extension agreement on June 30, 2016. The Commission 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 Commission's municipal load obligations.

For fiscal year 2016, energy sales to the Districts totaled 377,981 Megawatt hours (MWh) or \$13.7 million.

In 1987, the City entered into an interconnection agreement with PG&E to provide transmission, distribution, and other support services for the City's use of PG&E's transmission and distribution system to deliver power to the City's customers. The renegotiated agreement in 2007 expired on July 1, 2015. In December 2014, PG&E filed several separate replacement service and facilities agreements with the FERC for its approval. By FERC order, the City is currently taking transmission service on PG&E's transmission system using the CAISO Open-Access Transmission Tariff and is taking distribution service under PG&E's Wholesale Distribution Tariff pursuant to PG&E's replacement agreements, but subject to waiver of certain terms and conditions and subject to refund by PG&E, pending the FERC's final decision. During fiscal year 2016, Hetch Hetchy Power purchased \$4.9 million of transmission, distribution services, and other support services from PG&E under the terms of the replacement agreements and the 1987 Interconnection Agreement.

The Interconnection Agreement with PG&E also contains a contractual provision allowing Hetch Hetchy to bank Hetch Hetchy Power produced in excess of its load obligations, with a maximum of 110,000 MWh. At June 30, 2016, the balance in the bank was zero MWh, or \$0. The banking provisions expired with the expiration of the Interconnection Agreement and have not been replaced; power produced in excess of the City's load obligations is sold to third parties eligible to purchase such power under the Raker Act.

In January 2016, Hetch Hetchy Power entered into an Irrevocable Direct-Pay Letter of Credit with J.P. Morgan Chase in an aggregate amount of \$17.0 million. The Letter of Credit guarantees payment of any termination payment obligations of CleanPowerSF pursuant to the aforementioned Power Purchase Agreements. The Letter of Credit is secured by Hetch Hetchy Power revenue at the 11th lien level under the Hetch Hetchy Power Indenture.

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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.

CleanPowerSF

CleanPowerSF launched in May 2016 and entered into contracts with Calpine Energy Services L.P. (Calpine) and Shiloh I Wind Project LLC (Shiloh) to purchase renewable and conventional energy and resource adequacy capacity to meet its retail sales obligations. Both contracts feature 10-year master agreements under which multiple transactions may be executed. CleanPowerSF has executed two multi-year transactions with Calpine (three-year term) and Shiloh (five-year term). The Calpine transaction requires a reserve balance equivalent to two months' worth of estimated payment obligations. At June 30, 2016, total electricity purchased from Calpine and Shiloh was \$1.6 million.

CleanPowerSF entered into contract with Noble Americas in November 2015 for a three-year term, not to exceed \$5.6 million to provide administrative and customer care services related to electricity data management, billing, call center and related services. During fiscal year 2016, amount paid was \$0.024 million and included in Hetchy Power's start-up costs for CleanPowerSF.

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 \$36.6 million and purchased electricity for \$8.3 million for the year ended June 30, 2016. In addition, the Wastewater Enterprise purchases power from Hetch Hetchy Power totaling \$9.9 million for the year ended June 30, 2016. Included in 2016 operating revenues are sales of power to departments within the City of \$84.3 million.

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 \$9.5 million for the year ended June 30, 2016 and have been included in services provided by other departments.

(e) San Francisco Municipal Transportation Agency

The San Francisco Municipal Transportation Agency (SFMTA) is governed by the SFMTA Board of Directors who are appointed by the Mayor and Board of Supervisors. The SFMTA financial statements include the entire San Francisco's (the City's) surface transportation network that encompasses pedestrians, bicycling, transit (Muni), traffic and off and on street 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 VIII A to the Charter of the City (the "Charter") in 1999 (Proposition E). The purpose of the Charter amendment was to consolidate all surface 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 additional Charter amendments: (1) in 2007 (Proposition A), which increased the autonomy of and revenues to the SFMTA; (2) in 2010 (Proposition G), which increased management flexibility related to labor contracts; (3) in 2014 (Proposition A), which approved \$500 million in General Obligation Bonds for transportation and street infrastructure, and (4) in 2014 (Proposition B), which increases General Fund allocation to SFMTA based on the City's population increase.

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 222 million boardings annually. Operating

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

Three nonprofit corporations provide operational oversight to four parking garages: Japan Center, Sutter-Stockton, Union Square, and Portsmouth. Of these four parking garages, Union Square and Portsmouth are owned by the City’s Recreation and Park Department but managed by the SFMTA. The activities of these parking garages are accounted for in SFMTA’s parking garage accounts.

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 2044.

Annual principal and interest payments for fiscal year 2016 were 29.5% 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 2016 and applicable revenues are as follows:

Bonds issued with revenue pledge	\$ 209,840
Bond principal and interest remaining due at end of the fiscal year	311,365
Net revenues.....	39,405
Bond principal and interest paid in the fiscal year	16,495
Funds available for revenue debt service	55,900

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 \$381.3 million in fiscal year 2016. The General Fund subsidy includes a total revenue baseline transfer of \$284.7 million, as required by the City Charter, \$68.9 million from an allocation of the City’s parking tax. Proposition B, approved by the voters in November 2014, provides additional City General Funds to address transportation needs tied to the City population growth. In fiscal year 2016, SFMTA received \$27.7 million from this source.

The SFMTA receives capital grants from various federal, state, and local agencies to finance transit-related property and equipment purchases. As of June 30, 2016, the SFMTA had approved capital grants with unused balances amounting to \$906.4 million. Capital grants receivable as of June 30, 2016 totaled \$136.1 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, 2016, the SFMTA had various operating grants receivable of \$30.7 million. In fiscal year 2016, the SFMTA’s operating assistance from BART’s Americans with Disability Act (ADA) related support of \$1.6 million, and other federal, state, and local grants of \$8.5 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

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(PTMISEA) and the Transit Security & Safety Account that are funding solely for public transit projects. The SFMTA received cash totaling \$12.6 million in fiscal year 2016 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 Budget Act of 2013 further extended the date to June 30, 2018. 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 2016, \$69.7 million in drawdowns were made from the funds for various eligible projects costs.

Commitments and Contingencies – The SFMTA has outstanding contract commitments of approximately \$567.2 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 \$53.1 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 a result of the cash transactions above, Muni recorded \$35.5 million and \$4.4 million in fiscal year 2002 and 2003 respectively, representing the difference between (a) the amounts received of \$388.2 million and \$72.6 million, and (b) the amounts of \$352.7 million and \$67.5 million paid to the escrows, the debt payment undertaker and for certain transaction expenses. These amounts have been classified as deferred inflows of resources in fiscal year 2016 and will be amortized over the life of each sublease unless the purchase option is executed or sublease is otherwise terminated before its expiration date. The deferred inflows of resources amortized amounts were \$9.4 million and \$2.4 million for the Tranche 1 Equipment and Tranche 2 Equipment in fiscal year 2016.

On March 17, 2014, Muni terminated leveraged lease transactions with respect to 30 items of Tranche 1 Equipment having an initial transaction value of \$99.3 million. On May 24, 2016, Muni terminated leveraged lease transactions with respect to 28 items of Tranche 1 Equipment having an initial transaction value of \$89.6 million and 21 items of Tranche 2 Equipment having an initial transaction

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value of \$72.6 million. On June 27, 2016, Muni terminated leveraged lease transactions with respect to 31 items of Tranche 1 Equipment having an initial transaction value of \$100.4 million. As of June 30, 2016, one leveraged lease transaction with respect to 29 items of Tranche 1 Equipment having an initial transaction value of \$98.7 million remains outstanding.

(f) Laguna Honda Hospital

General Fund Subsidy - The Laguna Honda Hospital (LHH) is a skilled nursing facility which specializes in serving elderly and disabled residents. The operations of LHH are subsidized by the City's General Fund. It is the City's policy to fund operating deficits of the enterprise on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the year ended June 30, 2016, the subsidy for LHH was \$51.3 million.

Net Patient Service Revenue - Net patient service 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 contractals 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, 2016, LHH's patient receivables and charges for services were as follows:

Patient Receivables, net				
	Medi-Cal	Medicare	Other	Total
Gross Accounts Receivable	\$ 81,015	\$ 5,034	\$ 2,723	\$ 88,772
Less:				
Provision for Contractual Allowances	(53,508)	(3,324)	(1,798)	(58,630)
Total, net	<u>\$ 27,507</u>	<u>\$ 1,710</u>	<u>\$ 925</u>	<u>\$ 30,142</u>

Net Patient Service Revenue				
	Medi-Cal	Medicare	Other	Total
Gross Revenue	\$ 406,764	\$ 24,618	\$ 13,317	\$ 444,699
Less:				
Provision for Contractual Allowances	(212,223)	(16,189)	(12,613)	(241,025)
Total, net	<u>\$ 194,541</u>	<u>\$ 8,429</u>	<u>\$ 704</u>	<u>\$ 203,674</u>

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Because Medi-Cal reimbursement rates are less than LHH's established charges rates, LHH is eligible to receive supplemental federal funding. As of June 30, 2016, LHH recorded \$71.3 million of subvention receivable for matching federal funds to local funds.

Unearned Credits and Other Liabilities - As of June 30, 2016, LHH recorded approximately \$28.3 million in other liabilities for third-party payor settlements payable.

Transactions with Other Funds - A variety of other City departments provide services such as engineering, purchasing, legal, data processing, telecommunications, human resources, and public protection to LHH and charge amounts designed to recover those departments' costs. These charges total approximately \$10.0 million for the year ended June 30, 2016 and have been included in services provided by other departments.

Commitments and Contingencies - As of June 30, 2016, LHH has entered into various purchase contracts totaling approximately \$0.7 million that are related to the old building remodel phase of the Replacement Project.

(g) San Francisco General Hospital

General Fund Subsidy - San Francisco General Hospital (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 fiscal year ended June 30, 2016, the subsidy for SFGH was \$240.1 million.

Net Patient Service Revenue - Net patient service 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 receivables are recorded net of estimated allowances, which include allowances for contractually, 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.

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During the year ended June 30, 2016, SFGH's patient receivables and charges for services were as follows:

Patient Receivables, Net				
	Medi-Cal	Medicare	Other	Total
Gross Accounts Receivable.....	\$ 248,465	\$ 124,029	\$ 131,638	\$ 504,132
Less:				
Contractual Allowances.....	(221,716)	(113,886)	(83,383)	(418,985)
Provision for Bad Debt.....	-	-	(23,061)	(23,061)
Total, Net Accounts Receivable.....	\$ 26,749	\$ 10,143	\$ 25,194	\$ 62,086

Patient Service Revenue, Net				
	Medi-Cal	Medicare	Other	Total
Gross Patient Service Revenue.....	\$ 1,642,905	\$ 685,408	\$ 891,771	\$ 3,220,084
Less:				
Contractual Allowances.....	(1,496,445)	(566,949)	(361,200)	(2,424,594)
Bad Debt Write off.....	-	-	(85,868)	(85,868)
Total, Net Patient Service Revenue...	\$ 146,460	\$ 118,459	\$ 444,703	\$ 709,622

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 (LIHP). 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 \$17.8 million for the year ended June 30, 2016. 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 Bridge to Health Care Reform waiver expired October 31, 2015. On December 30, 2015, the Centers for Medicare and Medicaid Services (CMS) approved Medi-Cal 2020, a five-year renewal of California's Section 1115 Medicaid Waiver, which provides California public hospitals new federal funding through programs that are designed to shift the focus away from hospital-based and inpatient care, towards outpatient, primary and preventative care. A renewal of California's Medicaid Waiver was a fundamental component to public hospital's ability to continue to successfully implement the Affordable Care Act (ACA) beyond the primary step of coverage expansion.

The Medi-Cal 2020 waiver features four new programs: (1) a pay-for-performance delivery system transformation and alignment program that is considered the successor to the 2010 Bridge to Reform waiver's DSRIP, known as PRIME (Public Hospital Redesign and Incentives in Medi-Cal); (2) Global Payment Program (GPP) for services to the uninsured in designated public hospital systems; (3) Whole Person Care Pilot Program which would be a county-based, voluntary program to target providing more integrated care for high-risk, vulnerable populations; and (4) Dental Transformation Incentive Program, an optional incentive program to increase the frequency and quality of dental care provided to children.

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Payments received under Medi-Cal 2020 Waiver's GPP are utilization based and not dependent on Certified Public Expenditures (CPEs). However, GPP claims are subject to State and federal audit and final reconciliation. SFGH has established reserves for the uncertainty of future financial impact of potential audit and reconciliation adjustments. Revenues recognized under Medi-Cal 2020 approximated \$129.5 million for the fiscal year ended June 30, 2016.

The City submitted an application to participate in the Whole Person Care Pilot Program. The State Department of Health Care Services is reviewing all applications and counties will be notified of their decision in early December 2016.

In addition, SFGH was reimbursed by the State, 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 fiscal year ended June 30, 2016, 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, 2016, SFGH recorded approximately \$340 million in unearned credits and other liabilities, which was comprised of \$299.2 million in unearned credits mainly related to receipts under DSH/Safety Net Care Pool, the LIHP, and AB915 programs, and \$40.8 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 \$216.3 million and estimated costs and expenses to provide charity care were \$59.8 million in fiscal year 2016.

Other Revenues – SFGH recognized \$52.2 million of realignment funding for the year ended June 30, 2016. 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% of the savings realized by the county. The State predetermined an amount of health realignment to be redirected of \$12 million in FY15-16 for the City and withheld those amounts from health realignment remittances to the City. A reconciliation using actual experience will be concluded within two years after June 30, 2015 for FY14-15 and within two years after June 30, 2016 for FY15-16.

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, 2016, was approximately \$156.9 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.

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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. \$887.4 million of General Obligation Bonds were issued to fund the hospital rebuild. The new hospital was constructed and reached substantial completion on August 18, 2015. Patients were moved into the new hospital on May 21, 2016.

The General Obligation Bonds are accounted for as a governmental activity and transactions are accounted for in the City's Governmental Capital Projects Funds. The new facility is capitalized and also recorded under governmental activities.

Gift – SFGH received a gift in the amount of \$5.0 million and \$57.4 million, in FY15-16 and FY14-15, respectively, from the San Francisco General Hospital Foundation for the acquisition of furniture, fixtures and equipment (FF&E) for the new hospital. As of June 30, 2016, SFGH has spent \$30.5 million from the gift on acquisition of FF&E as stipulated by the donor and recorded the remaining \$31.9 million as restricted funds.

Commitments and Contingencies – As of June 30, 2016, SFGH has approximately \$4.2 million in commitments for various capital projects.

(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 147,430 residential accounts, which discharge about 15.8 million units of sanitary flow per year (measured in hundreds of cubic feet, or ccf) and approximately 16,151 non-residential accounts, which discharge about 8 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 2047.

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The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during fiscal year 2016, applicable net revenues, and funds available for bond debt service are as follows:

Bonds issued with revenue pledge	\$ 1,072,950
Bond principal and interest remaining due at end of the fiscal year	1,730,167
Net revenues	100,084
Bond principal and interest paid in the fiscal year	60,022
Funds available for revenue debt service	239,931

Commitments and Contingencies – As of June 30, 2016, the Wastewater Enterprise had outstanding commitments, with third parties, for capital projects and for materials and services totaling \$190.7 million.

Pollution Remediation Obligations – As of June 30, 2016, the Wastewater Enterprise recorded \$2.6 million in pollution remediation liability, consisting of \$2 million cleanup cost estimate at the Yosemite Creek site, \$0.6 million at the Southeast and Oceanside Treatment sites, and \$0.01 million for the hazardous materials at the Southeast plant. The pollution remediation obligation reported in the accompanying statements of net position is based on estimated contractual costs.

Transactions with Other Funds –The Wastewater Enterprise purchases power from Hetch Hetchy Power totaling \$9.9 million for the year ended June 30, 2016. 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 \$26.2 million for the year ended June 30, 2016 and have been included in services provided by other departments.

(14) 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’s 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 California Department of Finance (DOF) granted a Finding of Completion for the Successor Agency. Pursuant to Health and Safety Code (HSC) section 34179.7, the DOF 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 Recognized Obligation Payments Schedule (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.

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In addition, the receipt of the Finding of Completion allowed the Successor Agency to submit a Long Range Property Management Plan (LRPMP) to the Oversight Board and the DOF for approval. The LRPMP pertains to the disposition and use of real properties held by the Successor Agency. Part 1 of the LRPMP, which addresses the disposition of property located at 706 Mission Street, was approved by the DOF on October 4, 2013. During fiscal year 2016, the property was transferred in accordance with the terms and closing conditions of the 706 Mission Purchase and Sale Agreement. After incorporating feedback from the DOF, the remainder of the LRPMP was approved by the Oversight Board on November 23, 2015, and by the DOF on December 7, 2015.

In September 2015, the State passed Senate Bill 107 (SB 107) which clarifies and updates existing law governing the dissolution of redevelopment agencies. SB 107 includes specific language that allows the Successor Agency to issue bonds or other indebtedness for the purposes of low and moderate income housing and infrastructure in the City by allowing the pledge of revenues available in the Trust Fund that are not otherwise pledged subject to the approval of the Oversight Board. SB 107 also declares that Mission Bay North, Mission Bay South, Hunters Point Shipyard Phase 1, Candlestick Point - Hunters Point Shipyard Phase 2, and Transbay projects are finally and conclusively approved as enforceable obligations.

(a) Capital Assets Held by the Successor Agency

For the year ended June 30, 2016, the summary of changes in capital assets is as follows:

	Balance July 1, 2015	Additions	Deletions	Balance June 30, 2016
Capital assets not being depreciated:				
Land held for lease	\$ 54,769	\$ -	\$ -	\$ 54,769
Construction in progress	633	1,187	-	1,820
Total capital assets not being depreciated	55,402	1,187	-	56,589
Capital assets being depreciated:				
Furniture and equipment - General	8,144	-	-	8,144
Building and improvements	227,843	-	(25,791)	202,052
Total capital assets being depreciated	235,987	-	(25,791)	210,196
Less accumulated depreciation for:				
Furniture and equipment	(8,093)	(11)	-	(8,104)
Building and improvements	(95,200)	(5,532)	7,272	(93,460)
Total accumulated depreciation	(103,293)	(5,543)	7,272	(101,564)
Total capital assets being depreciated, net	132,694	(5,543)	(18,519)	108,632
Total capital assets, net	\$ 188,096	\$ (4,356)	\$ (18,519)	\$ 165,221

During the year ended June 30, 2016, the Successor Agency sold a property with a book value of \$18.5 million to a developer. The purchase price was \$37.5 million, of which \$25.2 million was used to pay off advances from the City, \$8.9 million was used to partially pay off Tax Allocation Bonds Series 2003 B, and \$3.3 million was used to pay off Tax Allocation Bonds Series 2014 A. The gain from the sale of the property was recorded as an other addition in the Statement of Changes in Fiduciary Net Position.

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

<u>Entity and Type of Obligation</u>	<u>Final Maturity Date</u>	<u>Remaining Interest Rate</u>	<u>Amount</u>
Hotel tax revenue bonds ^(a)	2025	4.00% - 5.00%	\$ 34,260
Tax allocation revenue bonds ^(b)	2044	0.57% - 9.00%	804,659
South Beach Harbor Variable Rate Refunding bonds ^(c)	2017	3.50%	675
California Department of Boating and Waterways Loan ^(d)	2037	4.50%	6,857
Total long-term bonds and loans			<u>\$ 846,451</u>

Debt service payments are made from the following sources:

- (a) Hotel taxes from the occupancy of guest rooms in the hotels within the City.
- (b) Redevelopment property tax revenues from the Bayview Hunters Point, Western Addition, Rincon Point South Beach, Yerba Buena Center, India Basin, South of Market, Golden Gateway, Mission Bay South, Transbay, and Mission Bay North project areas.
- (c) South Beach Harbor Project cash reserves, redevelopment property tax revenues, and project revenues transferred from the capital projects fund.
- (d) 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 bonds by the Successor Agency. On April 21, 2016, the Successor Agency issued two refunding bonds, Tax Allocation Refunding Bonds Series 2016 A (2016 Series A Bonds) for \$73.9 million and Tax Allocation Refunding Bonds Series 2016 C (2016 Series C Bonds) for \$73.2 million and one new issuance, Mission Bay South Redevelopment Project Series 2016 B (2016 Series B Bonds) for \$45.0 million.

Proceeds from the 2016 Series A Bonds plus original issue premium of \$15.6 million and funds on hand from the refunded bonds of \$17.3 million were used to fully refund 2005 Series D, 2006 Series B, 2009 Series C, and 2011 Series C bonds in the amount of \$12.9 million, \$29.5 million, \$25.3 million, and \$25.7 million, respectively, plus accrued interest and issuance costs. The refunding resulted in net present value savings of \$19.6 million and an accounting loss of \$11.5 million. The 2016 Series A Bonds bear fixed interest rates of 3.00% to 5.00% and reach final maturity on August 1, 2041.

Proceeds from the 2016 Series C Bonds of \$73.2 million plus original issue premium of \$13.9 million and funds on hand from the refunded bonds in the amount of \$11.3 million were used to fully refund 2009 Series D Bonds and 2011 Series D Bonds in the amount of \$45.0 million and \$34.9 million, respectively, plus accrued interest and issuance costs. The refunding resulted in net present value savings of \$15.9 million and an accounting loss of \$17.2 million. The 2016 Series C Bonds bear fixed interest rates of 2.00% to 5.00% and reach final maturity on August 1, 2041.

Proceeds from the 2016 Series B Bonds plus original issue premium of \$8.4 million will be used to finance redevelopment activities of the Successor Agency within or of benefit to the Mission Bay South Redevelopment Project Area. The 2016 Series B Bonds bear fixed interest rate of 2.00% to 5.00% and reach final maturity on August 1, 2043.

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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., the 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 \$1.46 billion. The redevelopment property tax revenues recognized during the year ended June 30, 2016, were \$119.3 million against the total debt service payment of \$97.9 million.

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 of the bonds. The total principal and interest remaining on the Hotel Tax Revenue Bonds is approximately \$43.1 million. The hotel tax revenue recognized during the year ended June 30, 2016 was \$5.0 million which equaled the total debt service payment.

The changes in long-term obligations for the Successor Agency for the year ended June 30, 2016, are as follows:

	July 1, 2015	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2016
Bonds payable:				
Tax revenue bonds	\$ 889,174	\$ 192,120	\$ (241,700)	\$ 839,594
Less unamortized amounts:				
For issuance premiums	13,558	37,924	(1,701)	49,781
For issuance discounts	(4,365)	-	1,417	(2,948)
Total bonds payable	898,367	230,044	(241,984)	886,427
Accreted interest payable.....	37,501	4,714	-	42,215 ⁽¹⁾
Notes, loans, and other payables.....	7,075	-	(218)	6,857
Accrued vacation and sick leave pay.....	639	349	(87)	901
Other postemployment benefits obligation.....	833	796	(1,199)	430
Successor Agency - long term obligations...	\$ 944,415	\$ 235,903	\$ (243,488)	\$ 936,830

(1) Amounts represent interest accretion Capital Appreciation Bonds.

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As of June 30, 2016, the debt service requirements to maturity for the Successor Agency, excluding accrued vacation and sick leave, are as follows:

Fiscal Year Ending June 30	Tax Revenue		Other Long-Term		Total	
	Principal	Interest*	Principal	Interest	Principal	Interest
2017.....	\$ 48,230	\$ 41,523	\$ 227	\$ 309	\$ 48,457	\$ 41,832
2018.....	51,465	41,453	238	298	51,703	41,751
2019.....	61,815	38,958	248	288	62,063	39,246
2020.....	46,477	39,463	260	276	46,737	39,739
2021.....	32,507	38,243	271	265	32,778	38,508
2022-2026.....	152,303	199,386	1,550	1,130	153,853	200,516
2027-2031.....	132,422	132,443	1,932	748	134,354	133,191
2032-2036.....	142,419	93,881	2,108	272	144,527	94,153
2037-2041.....	127,701	34,719	23	1	127,724	34,720
2042-2044.....	44,255	2,862	-	-	44,255	2,862
Total.....	\$ 839,594	\$ 662,931	\$ 6,857	\$ 3,587	\$ 846,451	\$ 666,518

* Includes payment of accreted interest

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 property tax 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. In accordance with HSC Section 34191.4(b)(3), interest shall be accrued quarterly at an annual rate of 3% on the principal balance due to the City. The City and the Successor Agency have accrued interest at the Local Agency Investment Fund (LAIF) rate, which was less than the statutory rate as of June 30, 2015. During the year ended June 30, 2016, the Successor Agency retroactively applied the 3% interest rate and increased the balance by \$2.2 million. Also during the same fiscal year, the City advanced \$0.7 million in property tax revenues to the Successor Agency for debt service payments. Interest in the amount of \$0.6 million was accrued based on the balance due to the City, and the Successor Agency has made payments in the amount of \$26.8 million to the City to fully repay the advances.

During the year ended June 30, 2010, the former Agency borrowed \$16.5 million from the Low and Moderate Income Housing Fund (LMIHF) to make payment of \$28.7 million to the Supplemental Education Revenue Augmentation Funds (SERAF) to meet the State's Proposition 98 obligations to schools. Upon dissolution of the former Agency, the City elected to become the Housing Successor Agency and retained the former Agency's housing assets and functions, rights, powers, duties, and obligations. In accordance with HSC Section 34191.4(b)(3), interest is accrued quarterly at an annual rate of 3% on the principal balance due to the City. For the year ended June 30, 2016, interest in the amount of \$0.4 million was accrued, and the Successor Agency made payments in the amount of \$1.8 million to the City. The outstanding payable balance at June 30, 2016, was \$14.6 million, which was comprised of principal of \$11.8 million and accrued interest of \$2.8 million.

As of June 30, 2016, the Successor Agency also has a payable to the City in the amount of \$2,611 which consists of \$554 for Jessie Square cost reimbursements and \$2,057 for other services provided.

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(c) Commitments and Contingencies Related to the Successor Agency

Encumbrances - At June 30, 2016, the Successor Agency had outstanding encumbrances totaling approximately \$63.0 million.

Risk Management - 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; these are enforceable obligations of the Successor Agency. As of June 30, 2016, the Successor Agency has exercised several of the lease options. The leases require the following minimum annual payments:

<u>Fiscal Years</u>			<u>Fiscal Years</u>		
2017.....	\$	1,341	2022-2026.....	\$	4,351
2018.....		870	2027-2031.....		4,351
2019.....		870	2032-2036.....		4,351
2020.....		870	2037-2041.....		4,351
2021.....		870	2042-2046.....		4,351
			2047-2051.....		2,828
			Total.....	\$	29,404

Rent payments totaling \$1.4 million are included in the Successor Agency's financial statements for the year ended June 30, 2016.

Regarding rental income, the Successor Agency has noncancelable operating leases on various facilities within project areas. The minimum future rental income are as follows:

<u>Fiscal Years</u>			<u>Fiscal Years</u>		
2017.....	\$	4,506	2027-2031.....	\$	21,757
2018.....		4,486	2032-2036.....		22,830
2019.....		4,362	2037-2041.....		20,037
2020.....		4,248	2042-2046.....		19,834
2021.....		4,269	2047-2050.....		2,819
2022-2026.....		22,000			
			Total.....	\$	131,148

For the year ended June 30, 2016, operating lease rental income for noncancelable operating leases was \$11.3 million, of which \$7.1 million represents contingent rental income received. At June 30, 2016, the leased assets had a net book value of \$35.3 million.

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Notes and Mortgages Receivable – During the process of selling land to developers and issuing mortgage revenue bonds, the Successor Agency may defer receipt of land sale proceeds and mortgage revenue bond financing fees from various private developers in exchange for notes receivable, which aids the developers' financing arrangements. The Successor Agency recognizes all revenues and interest on the above-described arrangements when earned, net of any amounts deemed to be uncollectible. During the year ended June 30, 2016, the Successor Agency disbursed \$47.7 million to the developers through this arrangement and recorded an allowance against these receivables. This allowance is recorded as deductions in the financial statements. At June 30, 2016, the gross value of the notes and mortgage receivable was \$110.7 million and the allowance for uncollectible amounts was \$109.0 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. At June 30, 2016, the Successor Agency had outstanding community facility district bonds totaling \$191.4 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, 2016, the Successor Agency received \$1.6 million from a developer and distributed the funds to the TJPA. The payment was recorded as a neighborhood development deduction on the statement of changes in fiduciary net position.

(15) 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.

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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; leasing approximately 700 existing 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 for 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 substantial step towards implementation of the project.

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 for land uses, phasing, infrastructure, transportation, sustainability, housing – including affordable housing, jobs and equal opportunity programs, community facilities and project financing. Collectively, the entitlements 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 and approved the project entitlements. These project approvals established the framework and cleared the way for realization of a new environmentally sustainable community on Treasure Island and the thousands of construction and permanent jobs the construction will bring.

On May 29, 2015, the Navy made the first transfer of property to TIDA consisting of 290 acres on Yerba Buena and Treasure Islands and the offshore submerged lands. Existing structures on Yerba Buena were demolished between February and August 2016, and demolition of structures in the first area of development on Treasure Island began in July 2016. The first infrastructure construction projects – new water reservoirs and new roadways, utilities, and related facilities on Yerba Buena Island – have been awarded and will mobilize in November 2016, with vertical construction beginning in 2017, and the first new homes ready for occupancy in 2019. The complete build-out of the project is anticipated to occur over fifteen to twenty years.

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In July 2008, and amended several times over the intervening years, 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. 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. The repayment to the Transportation Authority was structured to be paid by TIDA in three installments with the first installment equal to 50% of the current balance being due 30 days after the first close of escrow for transfer of the Naval Station Treasure Island to TIDA from the Navy. The second installment is due on the anniversary of the first installment in an amount of 50% of the then current balance, and a final payment of the remaining balance of the loan is due thereafter. 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. Under the Disposition and Development Agreement between TIDA and Treasure Island Community Development, LLC (TICD), the master developer for Treasure Island and Yerba Buena Island, TICD is committed to fulfill TIDA's obligations under the loan agreement between TIDA and the Transportation Authority. On June 26, 2015, TICD made a payment directly to the Transportation Authority on TIDA's behalf in the amount of \$5.4 million. On June 28, 2016, TICD made a payment to TIDA in the amount of \$2.8 million which TIDA, in turn, paid to the Transportation Authority on June 30, 2016.

As of June 30, 2016, TIDA has the following payables to other City departments:

Payable to	Purpose	6/30/2016		Total
		Current	Noncurrent	
SFCTA	YBI Loan Agreement	\$ -	\$ 2,894	\$ 2,894
SFCTA	YBI and mobility management expenses	220	-	220
Hetch Hetchy	Utility operations under MOU	200	228	428
Hetch Hetchy	Energy efficiency project	-	2,599	2,599
		<u>\$ 420</u>	<u>\$ 5,721</u>	<u>\$ 6,141</u>

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(16) 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, 2016 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	\$ 4,366
	San Francisco Water Enterprise	230
		4,596
Nonmajor Governmental Funds	General Fund	1,380
	Nonmajor Governmental Funds	3,213
	Internal Service Funds	361
	Municipal Transportation Agency	2,503
	San Francisco Wastewater Enterprise	2
	San Francisco Water Enterprise	7
		7,466
General Hospital Medical Center	General Fund	55
	Nonmajor Governmental Funds	2
		57
San Francisco Water Enterprise	General Fund	141
	Nonmajor Governmental Funds	304
		445
Hetch Hetchy Water and Power Enterprise	General Fund	14
	Nonmajor Governmental Funds	7,220
	Port of San Francisco	65
	General Hospital Medical Center	513
	San Francisco Wastewater Enterprise	1,269
	San Francisco Water Enterprise	549
		9,630
Municipal Transportation Agency	Nonmajor Governmental Funds	16,973
San Francisco Wastewater Enterprise	General Fund	9
	Nonmajor Governmental Funds	19
		28
Total		\$ 39,195

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 (SEA) 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, 2016, Hetch Hetchy loaned \$8.4 million to other City funds. Hetch Hetchy is also due \$1.2 million from the Wastewater Enterprise for its share of costs relating to 525 Golden Gate Headquarters project for equipment.

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The SFMTA has a receivable from nonmajor governmental funds of \$17.0 million for capital and operating grants.

Due from component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>	
Hetch Hetchy Water and Power Enterprise	Component unit – TIDA	\$ 200	(1)
Nonmajor Governmental Funds	Component unit – TIDA	220	(1)
General Fund	Successor Agency	920	(2)
Nonmajor Governmental Funds	Successor Agency	1,297	(2)
Municipal Transportation Agency	Successor Agency	31	(2)
San Francisco Water Enterprise	Successor Agency	94	(2)
Hetch Hetchy Water and Power Enterprise	Successor Agency	218	(2)
San Francisco Wastewater Enterprise	Successor Agency	51	(2)

Advance to component units:

<u>Receivable Entity</u>	<u>Payable Entity</u>	<u>Amount</u>	
Hetch Hetchy Water and Power Enterprise	Component unit – TIDA	\$ 2,827	(1)
Nonmajor Governmental Funds	Component unit – TIDA	2,894	(1)
Nonmajor Governmental Funds	Successor Agency	14,602	(2)

(1) See discussion at Note 15.

(2) See discussion at Note 14(b) related to the Due to/Advances from the Primary Government.

<u>Transfers In: Funds (in thousands)</u>											
<u>Transfers Out: Funds</u>	General Fund	Nonmajor Governmental Funds	Internal Service Funds	Water Enterprise	Hetch Hetchy Water and Power Enterprise	Municipal Transportation Agency	San Francisco General Hospital Medical Center	Wastewater Enterprise	Port of San Francisco	Laguna Honda Hospital	Total
General Fund.....	\$ -	\$ 289,079	\$ 5	\$ 200	\$ 110	\$ 381,342	\$ 240,120	\$ 80	\$ 80	\$ 51,327	\$ 962,343
Nonmajor governmental funds.....	8,636	78,799	-	34,168	1,275	142,147	-	380	24,052	-	289,457
Internal Service Funds.....	115	-	-	-	-	-	-	-	-	-	115
San Francisco International Airport.....	42,542	-	-	-	-	-	-	-	-	-	42,542
Water Enterprise.....	214	910	-	-	-	-	-	-	-	-	1,124
Hetch Hetchy Water and Power Enterprise.....	673	32	-	-	-	-	-	-	-	-	705
Municipal Transportation Agency.....	2,335	2,359	-	-	-	-	-	-	-	-	4,694
San Francisco General Hospital Medical Center.....	131,411	-	-	-	-	-	-	-	-	28	131,439
Wastewater Enterprise.....	16,453	32	-	-	-	-	-	-	-	-	16,485
Port of San Francisco.....	-	32	-	-	-	-	-	-	-	-	32
Laguna Honda Hospital.....	7,115	-	-	-	-	-	-	-	-	-	7,115
Total transfers out	<u>\$ 209,494</u>	<u>\$ 371,243</u>	<u>\$ 5</u>	<u>\$ 34,368</u>	<u>\$ 1,385</u>	<u>\$ 523,489</u>	<u>\$ 240,120</u>	<u>\$ 460</u>	<u>\$ 24,132</u>	<u>\$ 51,355</u>	<u>\$ 1,456,051</u>

The \$962.3 million General Fund transfer out includes a total of \$672.7 million in operating subsidies to SFMTA, SFGH, and Laguna Honda Hospital (note 13). The transfer of \$289.1 million from the General Fund to the nonmajor governmental funds is to provide support to various City programs such as the Public Library and Children and Families Fund, as well as to provide resources for the payment of debt service. The transfers between the nonmajor governmental funds are to provide support for various City programs and to provide resources for the payment of debt service.

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San Francisco International Airport transferred \$42.5 million to the General Fund, representing a portion of concession revenues (note 13(a)). The General Fund received transfers in of \$110.2 million from SFGH for the Safety Net Care Pool (SNCP) and Delivery System Reform Incentive Program (DSRIP) intergovernmental transfers (IGT), \$1.9 million for interest earned by the SFGH but credited to General Fund (note 13(g)), \$1.9 million for COLA adjustment allocation to various Department of Public Health (DPH) division. SFGH transferred to General Fund \$0.2 million for equipment lease payments, \$0.2 million for primary care center projects and offset by \$1.0 million transfer from General Fund for Healthy San Francisco. The General Fund also received \$18 million from SFGH and \$7 million from Laguna Honda Hospital to fund the DPH project and \$0.1 million for interest earned by the Laguna Honda Hospital funds but credited to General Fund.

SFMTA received \$142.1 million transfers from nonmajor governmental funds, of which \$61.9 million was for capital activities, \$18.3 million was for operating activities, and \$61.9 million to fund various street improvement projects. In turn, the SFMTA transferred \$2.4 million to nonmajor governmental funds to pay for various street improvement projects. On the other hand, the SFMTA transferred \$2.3 million to the General Fund for reimbursement on the 4th Street Bridge project.

The Water Enterprise received \$34.4 million from transfers in, of which included \$34.2 million in general obligation bond proceeds for the Auxiliary Water Supply System Earthquake Safety and Emergency Response project and \$0.2 million from General Fund for the San Francisco War Memorial Veterans Building project.

The Wastewater Enterprise transferred \$16.5 million to the General Fund in order to secure jurisdiction of the City owned property adjacent to the Southeast Water Pollution Control Plant ("Southeast Plant"). On the other hand, the Wastewater Enterprise received \$0.4 million from the Department of Public Works for the Ocean Beach project and community projects.

The Port of San Francisco received \$24.1 million transfer in, of which include a transfer fee of \$1.7 million for a jurisdiction transfer to the San Francisco Real Estate Division of property to facilitate open space improvements in connection with an adjacent residential development project, \$0.7 million for Port's capital project, \$13.2 million and \$8.5 million of proceeds from the 2012 and 2008 San Francisco Clean and Safe Neighborhood Parks Bond, respectively, for waterfront projects.

The \$1.4 million Hetch Hetchy transfers represents \$1.3 million from nonmajor funds for the Lighting and Traffic Safety project, and \$0.1 million from the General Fund for energy efficiency project. In turn, Hetch Hetchy transferred \$0.7 million to the General Fund for Lighting Energy Efficiency projects, Heating, Ventilating and Air Conditioning (HVAC) projects.

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(17) COMMITMENTS AND CONTINGENT LIABILITIES

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

Governmental Activities

<u>Fiscal Years</u>		
2017.....	\$	41,033
2018.....		37,032
2019.....		29,528
2020.....		26,016
2021.....		19,137
2022-2026.....		43,856
2027-2031.....		974
2032-2034.....		260
Total.....	<u>\$</u>	<u>197,836</u>

Operating leases expense incurred for fiscal year 2015-16 was approximately \$36.9 million.

Business-type Activities

<u>Fiscal Years</u>	<u>San Francisco International Airport</u>	<u>Port of San Francisco</u>	<u>Municipal Transportation Agency (MTA)</u>	<u>Total Business-type Activities</u>
2017.....	\$ 162	\$ 2,712	\$ 12,419	\$ 15,293
2018.....	73	2,712	12,661	15,446
2019.....	-	2,712	12,816	15,528
2020.....	-	2,712	12,611	15,323
2021.....	-	2,712	13,099	15,811
2022-2026....	-	13,558	62,679	76,237
2027-2031....	-	13,558	70,306	83,864
2032-2036....	-	13,558	68,899	82,457
2037-2041....	-	13,558	74,473	88,031
2042-2046....	-	13,558	91,136	104,694
2047-2051....	-	13,558	-	13,558
2052-2056....	-	13,558	-	13,558
2057-2061.....	-	13,558	-	13,558
2062-2065.....	-	8,360	-	8,360
Total.....	<u>\$ 235</u>	<u>\$ 130,384</u>	<u>\$ 431,099</u>	<u>\$ 561,718</u>

Operating lease expense incurred for the Airport, Port, and SFMTA for fiscal year 2015-16 was \$0.2 million, \$2.8 million, and \$17.1 million, respectively.

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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		
2017.....	\$	2,641
2018.....		1,927
2019.....		856
2020.....		750
2021.....		603
2022-2026.....		824
2027-2031.....		450
Total.....	<u>\$</u>	<u>8,051</u>

Business-type Activities

Fiscal Years	San Francisco International Airport	Port of San Francisco	San Francisco General Hospital	Municipal Transportation Agency	Total Business-type Activities
2017.....	\$ 104,343	\$ 41,305	\$ 1,526	\$ 4,539	\$ 151,713
2018.....	88,223	32,949	1,572	4,489	127,233
2019.....	50,050	29,467	1,619	4,085	85,221
2020.....	23,159	26,237	1,668	3,103	54,167
2021.....	16,757	24,761	1,718	2,450	45,686
2022-2026.....	34,731	100,434	9,395	7,488	152,048
2027-2031.....	-	84,110	-	6,267	90,377
2032-2036.....	-	77,111	-	6,250	83,361
2037-2041.....	-	49,518	-	6,250	55,768
2042-2046.....	-	39,431	-	6,250	45,681
2047-2051.....	-	31,582	-	6,250	37,832
2052-2056.....	-	19,017	-	5,833	24,850
2057-2061.....	-	17,231	-	-	17,231
2062-2066.....	-	17,231	-	-	17,231
2067-2071.....	-	11,302	-	-	11,302
2072-2076.....	-	10,208	-	-	10,208
2077-2081.....	-	699	-	-	699
Total.....	<u>\$ 317,263</u>	<u>\$ 612,593</u>	<u>\$ 17,498</u>	<u>\$ 63,254</u>	<u>\$ 1,010,608</u>

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 \$26.3 million and \$18.7 million, respectively, in fiscal year 2015-16. The Airport also exercised a five-year car rental lease agreement option 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

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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 \$43.3 million for fiscal year 2015-16.

Other Commitments

The Retirement System has commitments to contribute capital for real assets and private equity investments in the aggregate amount of approximately \$4.7 billion at June 30, 2016.

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.

In April 2001, the City, the Alameda-Contra Costa Transit District and the Peninsula Corridor Joint Powers Board executed a Joint Powers Agreement which created and established the Transbay Joint Powers Authority (TJPA). The TJPA has primary jurisdiction with respect to all matters concerning the financing, design, development, construction, and operation of the new Transbay Transit Center, which will replace the former Transbay Terminal in downtown San Francisco with a modern transit hub. In May 2016, the City's Board of Supervisors adopted Resolution 166-16 approving and authorizing the execution and delivery of Tax Exempt and/or Taxable Lease Revenue Commercial Paper Certificates of Participation and Tax Exempt and/or Taxable Direct Placement Revolving Certificates of Participation in a combined aggregate principal of amount not to exceed \$260 million to provide interim financing for the Transbay Transit Center construction project. As of June 30, 2016, the City has not issued the Certificates of Participation related to this resolution.

(18) 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 with \$250.0 million in War Perils Liability, 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 and target range liability for the San Francisco Police Department's firearms range located at the Airport. The Airport has no liability insurance coverage for losses due to land movement or seismic activity, war, terrorism and hijacking.

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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 \$1.1 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 \$75 per occurrence and changes in insurance coverage to reflect current insurer appraisal values and best available policy. 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.

<u>Risks</u>	<u>Coverage</u>
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 \$3.0 million. As of June 30, 2016, the reserve was \$20.1 million. Claim liabilities are actuarially determined anticipated claims and projected timing of disbursement, considering recent claim settlement trends, inflation, and other economic social factors.

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.

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Estimated Claims Payable

Numerous lawsuits are pending or threatened against the City. The City's liability as of June 30, 2016 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 July 1, 2014, resulted from the following activity:

<u>Fiscal Year</u>	<u>Beginning Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Fiscal Year Liability</u>
2014-2015	\$ 247,059	\$ 87,834	\$ (70,063)	\$ 264,830
2015-2016	264,830	68,815	(56,079)	277,566

Breakdown of the estimated claims payable at June 30, 2016 is follows:

Governmental activities:	
Current portion of estimated claims payables.....	\$ 53,627
Long-term portion of estimated claims payable.....	106,871
Total	<u>\$ 160,498</u>
Business-type activities:	
Current portion of estimated claims payables.....	\$ 52,808
Long-term portion of estimated claims payable.....	64,260
Total	<u>\$ 117,068</u>

Workers' Compensation

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2016 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, 2016 was \$417.4 million which is reported in the appropriate individual funds in accordance with the City's accounting policies.

Changes in the reported accrued workers' compensation since July 1, 2014, resulted from the following activity:

<u>Fiscal Year</u>	<u>Beginning Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Fiscal Year Liability</u>
2014-2015	\$ 383,876	\$ 94,397	\$ (82,699)	\$ 395,574
2015-2016	395,574	108,760	(86,906)	417,428

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Breakdown of the accrued workers' compensation liability at June 30, 2016 is as follows:

Governmental activities:	
Current portion of accrued workers' compensation liability.....	\$ 39,357
Long-term portion of accrued workers' compensation liability..	188,468
Total	\$ 227,825
Business-type activities:	
Current portion of accrued workers' compensation liability.....	\$ 31,867
Long-term portion of accrued workers' compensation liability..	157,736
Total	\$ 189,603

(19) SUBSEQUENT EVENTS

(a) Long-term Debt Issuance

In July 2016, the City issued a total of \$91.4 million tax-exempt and \$13.0 million taxable commercial paper (CP) with interest rates ranging from 0.44% to 0.45% and 0.58%, respectively and maturity of September 2016. The CP was issued to refund \$99.8 million of maturing CP and obtain \$4.5 million new funding for the Moscone Expansion and affordable housing (HOPE SF) projects. The refinanced CP was issued to provide interim funding for Moscone expansion project, the purchase of capital equipment for the San Francisco General Hospital and Trauma Center, and the rebuilding of distressed public housing sites to increase affordable housing (HOPE SF).

In August 2016, the City refinanced maturing notes by issuing a total of \$31.6 million tax exempt CP with interest rate ranging from 0.43% to 0.47% to mature September and October 2016. The CP was issued to provide interim funding for Moscone expansion project and capital equipment for the San Francisco General Hospital and Trauma Center.

In September 2016, the City issued \$10.0 million tax-exempt CP for the Moscone Expansion project and rolled over a total of \$13.0 million taxable and \$106.1 million tax-exempt maturing CP. The taxable CP bears interest rate of 0.72% and the tax-exempt CP bears interest rates ranging from 0.69% to 0.82%. The CP matures October and November 2016.

In September 2016, the Airport issued its Second Series Revenue Bonds, Series 2016B (AMT) and Series 2016C (Non-AMT), in the aggregate principal amount of \$740.1 million to finance and refinance (through the repayment of subordinate commercial paper notes) a portion of the capital plan. It also issued its Second Series Revenue Refunding Bonds, Series 2016D (Non-AMT/Governmental Purpose) in the amount of \$147.8 million to refund a portion of the Series 2010C, 2011D, and 2011G bonds. The Series 2016BCD bonds are uninsured, long-term, fixed rate bonds. The Series 2016B bonds mature between May 2038 and May 2046 with a coupon of 5%. The Series 2016C Bonds mature in May 2046 with a coupon of 5%. The Series 2016D Bonds mature between 2017 and 2031 with a coupon of 5%. The net proceeds of the Series 2016BC bonds (\$779.2 million) were used to repay the entire outstanding balance of subordinate commercial paper notes (\$343.0 million), and make a deposit into the Airport's construction accounts to fund capital projects at the Airport. As of October 7, 2016, the Airport had no subordinate commercial paper notes outstanding.

In October 2016, the San Francisco Public Utilities Commission issued \$893.8 million of San Francisco Water Revenue Bonds, Series 2016 A and B. The Series 2016 A and B Bonds refunded all or a portion of the following outstanding series of Water Revenue Bonds – 2006 B, 2006 C, 2009 A, 2009 B, 2010 A and 2010 F Bonds. The issuance resulted in approximately \$107.0 million of net present value debt service savings for the Water Enterprise Fund.

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

In October 2016, the City issued \$115.4 million tax-exempt CP to refinance \$113.7 maturing notes for the Moscone Expansion Project, San Francisco General Hospital capital equipment purchase and HOPE SF, and \$1.5 million in new funding for the Moscone Expansion project. The CP bears interest rate ranging from 0.80% to 0.95% will mature in December 2016 and January 2017.

In November 2016, the City issued General Obligation Bonds Series 2016F (Affordable Housing) in the amount of \$75.1 million to finance the construction, development, acquisition, and preservation of housing affordable to low- and middle-income households through programs that will prioritize vulnerable populations such as San Francisco's working families, veterans, seniors, disabled persons; to assist in the acquisition, rehabilitation, and preservation of affordable rental apartment buildings to prevent the eviction of long-term residents; to repair and reconstruct dilapidated public housing; to fund a middle income rental program; and to provide for homeownership down payment assistance opportunities for educators and middle-income households; to pay certain costs related to the issuance of Series 2016F. The bonds mature from June 2017 through June 2036 with interest rates ranging from 2.0% to 3.1%. Debt service payments for the Series 2016F are funded through ad valorem taxes on property.

In November 2016, the City issued \$50.4 million tax-exempt CP to refinance \$32.7 million maturing CP and \$17.4 million in new funding for the Moscone Expansion and HOPE SF projects. The CP bears interest rate of 0.60% and 0.65% and will mature in January 2017.

(b) Elections

On November 8, 2016 the San Francisco voters approved the following propositions that will have a fiscal impact on the City:

Proposition C – An ordinance that authorizes the City to use the remaining \$261.0 million in unissued general obligation bonds approved under the 1992 ordinance to acquire, improve and rehabilitate at-risk multi-unit residential buildings in need of seismic, fire, health and safety upgrades or other major rehabilitation; and convert those buildings to permanent affordable housing.

Proposition E – An ordinance that transfers the responsibility from property owners to the City for maintaining trees and sidewalks damaged by trees. The City would then be liable for injuries and property damage resulting from failure to maintain the trees and to repair sidewalks damaged by trees. The City would pay for maintaining these trees and sidewalks by setting aside \$19.0 million per year from the City's General Fund, adjusted annually based on the City's revenue. Included in this proposition is an early termination clause that at any time before January 1, 2017, the Mayor, after consulting with the Budget Director and the Controller, and after taking into account the City's projected revenues and expenditures in the City's financial plans, may terminate implementation of sections of this charter amendment (Section 16.129 – Street Tree Maintenance).

Proposition I – A charter amendment that creates a Dignity Fund and set aside at least \$38.0 million a year, plus scheduled increases, from the General Fund to provide guaranteed funding for programs and services to seniors and adults with disabilities. This fund will expire on June 30, 2037.

Proposition J – A charter amendment that creates a Homeless Housing and Services Fund, which will provide services to the homeless including housing and navigation centers, programs to prevent homelessness and assistance to transitioning out of homelessness by allocating \$50.0 million per year for 24 years, adjusted annually; and create a Transportation Improvement Fund, which will be used to improve the City's transportation network by allocating \$101.6 million per year for 24 years, adjusted annually. Included in this proposition is an early termination clause that at any time before January 1, 2017, the Mayor, after consulting with the Budget Director and the Controller, and after taking into account the City's projected revenues and expenditures in the City's financial plans, may terminate sections of this charter amendment (Section 16.135 – Transportation Improvement Fund).

CITY AND COUNTY OF SAN FRANCISCO
Notes to Basic Financial Statements (Continued)
June 30, 2016
(Dollars in Thousands)

Proposition V – A City’s Business Tax and Regulation Code amendment to impose a one cent per fluid ounce tax on the initial distribution within the City of sugar sweetened beverages beginning January 1, 2018.

Proposition W – An ordinance that increases the transfer tax rate for real property with a sales price of more than \$5.0 million, including leases of 35 years or more. The current tax rate will not change.

(c) Net Pension Liability

Subsequent to the fiscal year ended June 30, 2016, a GASB Statement No. 67/68 report for the San Francisco Employees’ Retirement System (SFERS) dated November 2016 was issued by Cheiron, SFERS’ actuary, resulting in a significant increase in the City’s net pension liability. Based on this new report, the City’s net pension liability is approximately \$5.48 billion, which will be reported in the City’s financial statements for the fiscal year ending June 30, 2017 in accordance with GASB Statement No. 68. This increase is due to investment losses, the Appeals Court’s elimination of the full funding requirement for certain members, and the impact of the revised demographic assumptions and change in discount rate.

(d) Property Transactions

On September 19, 2016, U.S. Department of the Navy transferred to the Treasure Island Development Authority (TIDA) portions of the former Naval Station Treasure Island including Site 27 Parcel (Clipper Cove), consisting of approximately 20.27 acres and Site 21 Parcel and Building 3, consisting of approximately 6.67 acres. This is the second transfer of Navy land to TIDA. The first transfer occurred on May 29, 2015. Both transfers are part of the Economic Development Conveyance Memorandum of Agreement between the United States of America, acting by and through the Department of the Navy and TIDA for the Conveyance of the Naval Station Treasure Island dated July 2, 2014.

CITY AND COUNTY OF SAN FRANCISCO
Required Supplementary Information (Unaudited) –
Schedules of the City's Proportionate Share of the Net Pension Liability
June 30, 2016
(Dollars in Thousands)

	For the year ended June 30, 2016				
	CalPERS Miscellaneous Plans				
	City SFERS Plan	City	Transportation Authority Classic & PEPRA	Successor Agency Classic & PEPRA	Treasure Island
Proportion of net pension liability	93.9032%	-0.2033%	0.0188%	0.2413%	0.0004%
Proportionate share of the net pension liability (asset)	\$ 2,156,049	\$ (13,956)	\$ 1,288	\$ 16,563	\$ 24
Covered payroll **	\$ 2,529,879	\$ 319	\$ 3,684	\$ 3,427	\$ -
Proportionate share of the net pension liability as a percentage of covered payroll	85.22%	-4374.92%	34.96%	483.31%	0.00%
Plan fiduciary net position as a percentage of total pension liability	89.90%	78.40%	78.40%	78.40%	78.40%

	For the year ended June 30, 2015				
	CalPERS Miscellaneous Plans				
	City SFERS Plan	City	Transportation Authority Classic & PEPRA	Successor Agency Classic & PEPRA	Treasure Island
Proportion of net pension liability	93.7829%	-0.1829%	0.0208%	0.2550%	N/A
Proportionate share of the net pension liability (asset)	\$ 1,660,365	\$ (11,381)	\$ 1,299	\$ 15,870	\$ -
Covered payroll **	\$ 2,398,979	\$ 303	\$ 3,264	\$ 3,962	\$ -
Proportionate share of the net pension liability as a percentage of covered payroll	69.21%	-3756.11%	39.80%	400.56%	-
Plan fiduciary net position as a percentage of total pension liability	91.84%	80.43%	80.43%	80.43%	-

Notes to Schedule:

SFERS Plan

Benefit Change – There were no changes in benefits during the year.

Changes of Assumptions – The discount rate was reduced from 7.58% to 7.46%.

CalPERS Miscellaneous Plans

Benefit Changes – The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumption – The discount rate was changed from 7.5 percent (net of administrative expense) in fiscal year 2015 to 7.65 percent in fiscal year 2016 to correct for an adjustment to exclude administrative expense.

* Fiscal year 2014-15 was the first year of implementation of GASB No. 68, therefore only two years of information is shown.

** Due to early implementation of GASB Statement No. 82, the City updated covered employee payroll with covered payroll.

CITY AND COUNTY OF SAN FRANCISCO
Required Supplementary Information (Unaudited) –
Schedule of Changes in Net Pension Liability and Related Ratios
June 30, 2016*
(Dollars in Thousands)

City CalPERS Safety Plan	2016	2015
Total pension liability:		
Service cost.....	\$ 30,987	\$ 32,688
Interest on the total pension liability.....	80,057	76,177
Changes of assumptions.....	(19,949)	-
Difference between expected and actual experience.....	(14,218)	-
Benefit payments, including refunds of.....		
employee contributions.....	(44,699)	(41,387)
Net change in total pension liability.....	32,178	67,478
Total pension liability, beginning.....	1,087,527	1,020,049
Total pension liability, ending.....	<u>\$ 1,119,705</u>	<u>\$ 1,087,527</u>
Plan fiduciary net position:		
Plan to plan resource movement.....	\$ (4)	\$ -
Contributions from the employer.....	20,718	20,613
Contributions from employees.....	15,061	15,216
Net investment income.....	20,469	138,628
Benefit payments, including refunds of.....		
employee contributions.....	(44,699)	(41,387)
Administrative expenses.....	(1,048)	-
Net change in plan fiduciary net position.....	10,497	133,070
Plan fiduciary net position, beginning.....	920,371	787,301
Plan fiduciary net position, ending.....	<u>\$ 930,868</u>	<u>\$ 920,371</u>
Plan net pension liability, ending.....	<u>\$ 188,837</u>	<u>\$ 167,156</u>
Plan fiduciary net position as a percentage of the total pension liability.....	83.14%	84.63%
Covered payroll **.....	\$ 109,462	\$ 111,311
Plan net pension liability as a percentage of the covered payroll.....	172.51%	150.17%

Notes to Schedule:

Benefit Changes – The figures above do not include any liability impact that may have resulted from plan changes which occurred after the June 30, 2014 valuation date. This applies for voluntary benefit changes as well as any offers of Two Years Additional Service Credit (a.k.a. Golden Handshakes).

Changes of Assumptions – The discount rate was changed from 7.5 percent (net of administrative expense) in fiscal year 2015 to 7.65 percent in fiscal year 2016.

* Fiscal year 2014-15 was the first year of implementation of GASB No. 68, therefore only two years of information is shown.

** Due to early implementation of GASB Statement No. 82, the City updated covered employee payroll with covered payroll.

CITY AND COUNTY OF SAN FRANCISCO
Required Supplementary Information (Unaudited) –
Schedules of Employer Contributions – Pension Plans
June 30, 2016*
(Dollars in Thousands)

	For the year ended June 30, 2016					
	CalPERS Miscellaneous Plans					
	City SFERS Plan	City	Transportation Authority	Successor Agency	Treasure Island	CalPERS Safety Plan
Actuarially determined contributions ⁽¹⁾	\$ 496,343	\$ 33	\$ 280	\$ 828	\$ 2	\$ 23,629
Contributions in relation to the actuarially determined contributions ⁽¹⁾	(496,343)	(33)	(280)	(828)	(2)	(23,629)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll **	\$ 2,681,695	\$ 329	\$ 3,644	\$ 3,769	\$ -	\$ 95,552
Contributions as a percentage of covered payroll	18.51%	10.03%	7.68%	21.97%	0.00%	24.73%
	For the year ended June 30, 2015					
	CalPERS Miscellaneous Plans					
	City SFERS Plan	City	Transportation Authority	Successor Agency	Treasure Island	CalPERS Safety Plan
Actuarially determined contributions ^{(1), ***}	\$ 556,511	\$ 31	\$ 400	\$ 598	\$ 2	\$ 20,718
Contributions in relation to the actuarially determined contributions ⁽¹⁾	(556,511)	(31)	(400)	(598)	(2)	(20,718)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Covered payroll**	\$ 2,529,879	\$ 319	\$ 3,684	\$ 3,427	\$ -	\$ 109,462
Contributions as a percentage of covered payroll	22.00%	9.72%	10.86%	17.45%	0.00%	18.93%

⁽¹⁾ Contractually required contributions is an actuarial determined contribution for all cost-sharing plans.

* Fiscal year 2014-15 was the first year of implementation of GASB Statement No. 68, therefore only two years of information is shown.

** Due to early implementation of GASB Statement No. 82, the City updated covered employee payroll with covered payroll.

*** In fiscal year 2014-15, the actuarially determined contributions were based on an estimate. The City made a \$0.1 million adjustment to align the estimated employer contribution amount with the actual employer contribution per the 2015 agent-multiple employer CalPERS report for the CalPERS Safety Plan. Due to the early implementation of GASB Statement No. 82, the City decreased the actuarially determined contributions for the City SFERS Plan to deduct the employer pickup in the amount of \$8.6 million.

CITY AND COUNTY OF SAN FRANCISCO
Required Supplementary Information (Unaudited) –
Schedules of Employer Contributions – Pension Plans (Continued)
June 30, 2016*
(Dollars in Thousands)

Methods and assumptions used to determine FY 2015-16 contribution rates to SFERS Plan

Valuation date.....	July 1, 2014
Actuarial cost method.....	Entry age normal cost method
Amortization method.....	Level annual percentage of payroll
Remaining amortization period.....	Closed 15 year period
Asset valuation method.....	5 year smoothing method
Investment rate of return.....	7.50% (net of investment expenses)
Inflation.....	3.25% compounded annually
Projected salary increase.....	Wage inflation component: 3.75%

Methods and assumptions used to determine FY 2015-16 contribution rates to CalPERS plans

Valuation date.....	June 30, 2013
Actuarial cost method.....	Entry age normal cost method
Amortization method.....	Level percent of payroll
Amortization period.....	Gains and losses over a fixed 30-year period with increases or decreases in the rate spread directly over a 5-year period (Miscellaneous) Experience gains and losses over a fixed 30-year period and spread rate increases or decreases over a 5-year period (Safety).
Asset valuation method.....	Market Value
Investment rate of return.....	7.50% (net of administrative expenses)
Projected salary increase.....	3.30% to 14.20% depending on age, service, and type of employment
Inflation.....	2.75%
Payroll growth.....	3.00%
Individual salary growth.....	A merit scale varying by duration of employment coupled with an assumed annual inflation growth of 2.75% and an annual production growth of 0.25%.

CITY AND COUNTY OF SAN FRANCISCO
Required Supplementary Information (Unaudited) –
Schedules of Funding Progress and Employer Contributions
Other Postemployment Healthcare Benefits
June 30, 2016
(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 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.

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
07/01/10 ⁽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%
07/01/14	48,988	4,260,256	(4,211,268)	1.1%	2,618,426	160.8%

(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
2014	\$ 341,377	48.8%
2015	350,389	47.7%
2016	354,540	47.6%

CITY AND COUNTY OF SAN FRANCISCO

**Required Supplementary Information (Unaudited) –
Schedules of Funding Progress and Employer Contributions
Other Postemployment Healthcare Benefits (Continued)**

June 30, 2016
(Dollars in Thousands)

**Schedule of Funding Progress – San Francisco County Transportation Authority –
Other Postemployment Health Care Benefits**

Actuarial Valuation Date ⁽¹⁾	Actuarial Asset Value	Actuarial Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
06/30/11	\$ 405	\$ 671	\$ (266)	60.4%	\$ 3,251	8.2%
06/30/13	760	1,124	(364)	67.6%	3,253	11.2%
06/30/15	1,170	2,042	(872)	57.3%	3,930	22.2%

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

Schedule of Employer Contributions – San Francisco County Transportation Authority

Fiscal Year Ended	Annual Required Contribution	Actual Contribution	Percentage Contributed
06/30/14	\$ 138,000	\$ 138,000	100.0%
06/30/15	138,000	138,000	100.0%
06/30/16	200,700	206,513	102.9%

**Schedule of Funding Progress – Successor Agency –
Other Postemployment Health Care Benefits**

Actuarial Valuation Date ⁽¹⁾	Actuarial Asset Value	Accrued Liability (AAL) Entry Age	(Under) funded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a % of Covered Payroll
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%
07/01/15	2,833	10,998	(8,165)	25.8%	4,261	191.6%

(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, 2016**

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	--	\$ 528,466	\$ -
Passed through State of California Department of Public Health				
Plant and Animal Disease, Pest Control, and Animal Care	10.025	None	7,543	-
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	14-10226	702,159	-
Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	15-10059	2,030,897	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	13-20505	1,233,973	-
Passed through State of California Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	None	43,669	-
National School Lunch Program	10.555	None	69,810	-
Child and Adult Care Food Program	10.558	04029-CACFP-38	61,554	-
Summer Food Service Program for Children	10.559	04029-SFSP-38	363,741	-
Subtotal Child Nutrition Cluster			<u>538,774</u>	<u>-</u>
Passed through State of California Department of Aging				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	SP-1415-06	96,913	96,795
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	SP-1516-06	25,879	25,113
Passed through State of California Department of Food and Agriculture				
Senior Farmers Market Nutrition Program	10.576	None	40,000	-
Passed through State of California Department of Social Services				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	None	34,286,102	1,896,510
Total pass-through programs			<u>38,962,240</u>	<u>2,018,418</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>39,490,706</u>	<u>2,018,418</u>
U.S. DEPARTMENT OF COMMERCE				
Direct Program				
Cluster Grants	11.020	--	122,635	-
Economic Adjustment Assistance	11.307	--	420,520	-
TOTAL U.S. DEPARTMENT OF COMMERCE			<u>543,155</u>	<u>-</u>
U.S. DEPARTMENT OF DEFENSE				
Direct Program				
Navy Cooperative Agreement for Hunters Point	12.unknown	--	975,143	-
Passed through University of Southern California				
Military Medical Research and Development	12.420	70740673	4,065	-
TOTAL U.S. DEPARTMENT OF DEFENSE			<u>979,208</u>	<u>-</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Programs				
Community Development Block Grants/Entitlement Grants	14.218	--	16,595,956	7,720,233
Rental Housing Rehabilitation	14.230	--	64,476	4,533
Emergency Solutions Grant Program	14.231	--	1,477,091	1,354,865
Shelter Plus Care	14.238	--	625,815	-
Home Investment Partnerships Program	14.239	--	9,556,618	-
Housing Opportunities for Persons with AIDS	14.241	--	7,395,599	4,503,318
Community Development Block Grants - Section 108 Loan Guarantees	14.248	--	40,242	-
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	--	16,639	-
Continuum of Care Program	14.267	--	17,981,678	5,740,375
Lead-Based Paint Hazard Control In Privately-Owned Housing	14.900	--	104,568	-
Lead Hazard Reduction Demonstration Grant Program	14.905	--	197,228	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			<u>54,055,910</u>	<u>19,323,324</u>
U.S. DEPARTMENT OF INTERIOR				
Direct Programs				
NPS Cooperative Agreement	15.unknown	--	891,330	-
Coastal Impact Assistance	15.668	--	95,578	-
Subtotal direct programs			<u>986,908</u>	<u>-</u>
Passed through California Office of Historic Preservation				
Historic Preservation Fund Grants-In-Aid	15.904	P14AF00134	23,018	-
Passed through State of California Department of Parks and Recreation				
Outdoor Recreation - Acquisition, Development and Planning	15.916	06-01766	54,738	-
Total pass-through programs			<u>77,756</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF INTERIOR			<u>1,064,664</u>	<u>-</u>

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, 2016**

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				
Supervised Visitation, Safe Havens for Children	16.527	--	\$ 133,878	\$ 115,494
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	--	51,843	46,458
PREA Program: Demonstration Projects to Establish "Zero Tolerance"				
Cultures for Sexual Assault In Correctional Facilities	16.735	--	1,479	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	--	669,754	-
DNA Backlog Reduction Program	16.741	--	514,251	-
Criminal and Juvenile Justice and Mental Health Collaboration Program	16.745	--	119,842	107,575
Congressionally Recommended Awards	16.753	--	59,285	57,325
Second Chance Act Reentry Initiative	16.812	--	213,837	121,767
Byrne Criminal Justice Innovation Program	16.817	--	132,685	46,275
Smart Prosecution Initiative	16.825	--	206,413	64,243
Equitable Sharing Program	16.922	--	2,211,152	-
Subtotal direct programs			<u>4,314,419</u>	<u>559,137</u>
Passed through Board of State and Community Corrections				
Juvenile Accountability Block Grants	16.523	BSCC 170-15	78,235	-
Juvenile Accountability Block Grants	16.523	BSCC 224-15	17,185	-
Total Juvenile Accountability Block Grants			<u>95,420</u>	<u>-</u>
Edward Byrne Memorial Justice Assistance Grant Program	16.738	650-14	436,732	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	650-15	412,208	-
Total Edward Byrne Memorial Justice Assistance Grant Program			<u>848,940</u>	<u>-</u>
Passed through State of California Emergency Management Agency				
Crime Victim Assistance	16.575	HA14 01 0380	19,210	-
Crime Victim Assistance	16.575	HA15 02 0380	59,596	-
Crime Victim Assistance	16.575	UV14 05 0380	71,813	-
Crime Victim Assistance	16.575	WV15 34 0380	502,638	-
Crime Victim Assistance	16.575	XV15 01 0380	19,284	-
Total Crime Victim Assistance			<u>672,541</u>	<u>-</u>
Violence Against Women Formula Grants	16.588	PU 14 05 0380	14,630	-
Violence Against Women Formula Grants	16.588	PU 15 06 0380	89,815	-
Violence Against Women Formula Grants	16.588	WV15 07 0380	189,011	-
Total Violence Against Women Formula Grants			<u>293,456</u>	<u>-</u>
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	075-00000	5,476	-
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ14100380	9,048	-
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ15110380	2,442	-
Total Paul Coverdell Forensic Sciences Improvement Grant Program			<u>16,966</u>	<u>-</u>
Passed through Bureau of Justice Assistance				
Edward Byrne Memorial Competitive Grant Program	16.751	2013-DB-BX-0047	76,256	-
Total pass-through programs			<u>2,003,579</u>	<u>-</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			<u>6,317,998</u>	<u>559,137</u>
U.S. DEPARTMENT OF LABOR				
Direct Programs				
H-1B Job Training Grants	17.268	--	27,392	20,783
Workforce Innovation Fund	17.283	--	201,052	5,058
Total direct programs			<u>228,444</u>	<u>25,841</u>
Passed through State of California Department of Employment Development				
Employment Service/Wagner-Peyser Funded Activities	17.207	K597227	2,205	2,205
Workforce Investment Act (WIA) Cluster				
WIA Adult Program	17.258	K594791	566,466	307,309
WIA Adult Program	17.258	K698392	1,077,006	689,608
Subtotal WIA Adult Program			<u>1,643,472</u>	<u>996,917</u>
WIA Youth Activities	17.259	K594791	325,742	57,368
WIA Youth Activities	17.259	K698392	1,264,787	921,258
Subtotal WIA Youth Activities			<u>1,590,529</u>	<u>978,626</u>
WIA/WIOA Dislocated Worker Formula Grants	17.278	K594791	498,618	252,013
WIA/WIOA Dislocated Worker Formula Grants	17.278	K698392	1,712,039	964,999
Subtotal WIA Dislocated Worker Formula Grants			<u>2,210,657</u>	<u>1,217,012</u>
Subtotal WIA Cluster			<u>5,444,658</u>	<u>3,192,555</u>
Passed through NOVA Workforce Board				
H-1B Job Training Grants	17.268	001-RTW-15	405,768	267,047
Passed through WestEd				
H-1B Job Training Grants	17.268	s12-053	137,738	137,738
Subtotal H-1B Job Training Grants			<u>543,506</u>	<u>404,785</u>
Subtotal pass-through programs			<u>5,990,369</u>	<u>3,599,545</u>
TOTAL U.S. DEPARTMENT OF LABOR			<u>6,218,813</u>	<u>3,625,386</u>

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, 2016**

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				
Direct Program				
Rail Line Relocation and Improvement	20.320	--	\$ 49,084	\$ -
Passed through State of California Department of Transportation				
Highway Planning and Construction	20.205	1580 STPL 6084 (146)	600,000	-
Highway Planning and Construction	20.205	ATPL-5934(175)	26,620	-
Highway Planning and Construction	20.205	BHLO-5934(168)	1,323,380	-
Highway Planning and Construction	20.205	BRLS-5934(177)	107,952	-
Highway Planning and Construction	20.205	CML-5933(109)	180,082	-
Highway Planning and Construction	20.205	CML-5934(169)	52,110	-
Highway Planning and Construction	20.205	CML-5934(172)	453,199	-
Highway Planning and Construction	20.205	CML-5934(173)	16,815	-
Highway Planning and Construction	20.205	CML-6447(006)	514,367	346,598
Highway Planning and Construction	20.205	DEM06L-5934(166)	76,447	-
Highway Planning and Construction	20.205	DEM09L-5934(155)	20,002	-
Highway Planning and Construction	20.205	HP21L-5934(115)	42,029	-
Highway Planning and Construction	20.205	HPLUL-5934 (138)	27,377	-
Highway Planning and Construction	20.205	HPLUL-5934 (154)	29,428	-
Highway Planning and Construction	20.205	HSIPL-5934 (167)	306,521	-
Highway Planning and Construction	20.205	RPSTPLE-5934(162)	37,452	-
Highway Planning and Construction	20.205	STPL-5934(165)	3,928	-
Highway Planning and Construction	20.205	STPL-5934(171)	1,102,726	-
Highway Planning and Construction	20.205	STPL-5934(174)	63,516	-
Subtotal Highway Planning and Construction			<u>4,983,951</u>	<u>346,598</u>
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	SA 642528-10	134,000	-
Enhanced Mobility of Seniors and Individuals with Disabilities	20.513	SA 641561-10	105,000	-
Subtotal Enhanced Mobility of Seniors and Individuals with Disabilities			<u>239,000</u>	<u>-</u>
Passed through State of California Office of Traffic Safety				
Highway Safety Cluster				
State and Community Highway Safety	20.600	PS1510	67,815	-
National Priority Safety Programs	20.616	DI1527	73,010	-
National Priority Safety Programs	20.616	DI1625	223,276	-
National Priority Safety Programs	20.616	PS1622	76,779	-
National Priority Safety Programs	20.616	PT1604	66,918	-
Subtotal National Priority Safety Programs			<u>439,983</u>	<u>-</u>
Subtotal Highway Safety Cluster			<u>507,798</u>	<u>-</u>
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	AL1531	94,606	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT1604	71,903	-
Subtotal Minimum Penalties for Repeat Offenders for Driving While Intoxicated			<u>166,509</u>	<u>-</u>
Passed through Metropolitan Transportation Commission				
Highway Research and Development Program				
	20.200	SHRP2L 6084 (192)	15,778	-
Subtotal pass-through programs			<u>5,913,036</u>	<u>346,598</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			<u>5,962,120</u>	<u>346,598</u>
U.S. DEPARTMENT OF TREASURY				
Direct Program				
Equitable Sharing Program	21.unknown	--	215,138	-
TOTAL U.S. DEPARTMENT OF TREASURY			<u>215,138</u>	<u>-</u>
U.S. NATIONAL FOUNDATION FOR THE ARTS AND HUMANITIES				
Direct Program				
Promotion of the Arts - Grants to Organizations and Individuals	45.024	--	132,500	-
TOTAL U.S. NATIONAL FOUNDATION FOR THE ARTS AND HUMANITIES			<u>132,500</u>	<u>-</u>
U.S. SMALL BUSINESS ADMINISTRATION				
Passed through Humboldt State University Sponsored Programs Foundation				
Small Business Development Centers	59.037	F0809	99,764	-
Small Business Development Centers	59.037	F0907	33,436	-
TOTAL U.S. SMALL BUSINESS ADMINISTRATION			<u>133,200</u>	<u>-</u>
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Direct Programs				
Congressionally Mandated Projects	66.202	--	31,686	-
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	--	47,192	-
Subtotal direct programs			<u>78,878</u>	<u>-</u>
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			<u>78,878</u>	<u>-</u>
U.S. DEPARTMENT OF ENERGY				
Direct Programs				
Conservation Research and Development	81.086	--	12,497	-
Renewable Energy Research and Development	81.087	--	338,946	-
Subtotal direct programs			<u>351,443</u>	<u>-</u>

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, 2016**

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 ENERGY (continued)				
Passed through California Energy Commission				
State Energy Program	81.041	400-10-004-08	\$ 59,778	\$ -
TOTAL U.S. DEPARTMENT OF ENERGY			<u>411,221</u>	<u>-</u>
U.S. DEPARTMENT OF EDUCATION				
Passed through State of California Department of Rehabilitation				
Rehabilitation Services - Vocational Rehabilitation Grants to States	84.126	28958	90,400	-
Passed through State of California Department of Education				
Race to the Top - Early Learning Challenge	84.412	2012-15181-2563-00	1,225,631	1,225,048
TOTAL U.S. DEPARTMENT OF EDUCATION			<u>1,316,031</u>	<u>1,225,048</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Programs				
Environmental Public Health and Emergency Response	93.070	--	174,042	-
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	--	1,295,270	1,044,542
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	--	693,626	20,673
Substance Abuse and Mental Health Services - Projects of Regional and National Significance	93.243	--	904,868	243,436
Adult Viral Hepatitis Prevention and Control	93.270	--	894,802	-
Child Abuse and Neglect Discretionary Activities	93.670	--	943,370	933,609
PPHF: Racial and Ethnic Approaches to Community Health Program Financed Solely By Public Prevention and Health Funds	93.738	--	847,271	-
Child Health and Human Development Extramural Research	93.865	--	24,657	-
HIV Emergency Relief Project Grants	93.914	--	16,326,081	13,318,703
Grants to Provide Outpatient Early Intervention Services With Respect to HIV Disease	93.918	--	344,926	113,974
Special Projects of National Significance	93.928	--	741,884	541,096
HIV Prevention Activities - Non-Governmental Organization Based	93.939	--	1,084,047	-
HIV Prevention Activities - Health Department Based	93.940	--	6,561,154	930,213
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	--	1,628,248	-
Preventive Health Services - Sexually Transmitted Diseases Control Grants	93.977	--	1,377,085	133,134
Subtotal direct programs			<u>33,841,331</u>	<u>17,279,380</u>
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	93.041	AP 1516-06	12,784	12,784
Special Programs for the Aging - Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	93.042	AP 1516-06	31,711	31,711
Special Programs for the Aging - Title III, Part D - Disease Prevention and Health Promotion Services	93.043	AP 1516-06	57,608	57,608
Aging Cluster				
Special Programs for the Aging_ Title III, Part B_ Grants for Supportive Services and Senior Centers	93.044	AP 1516-06	1,001,145	406,993
Special Programs for the Aging_ Title III, Part C_ Nutrition Services	93.045	AP 1516-06	1,548,749	1,548,749
Nutrition Services Incentive Program	93.053	AP 1516-06	1,579,308	1,579,308
Subtotal Aging Cluster			<u>4,129,202</u>	<u>3,535,050</u>
National Family Caregiver Support, Title III, Part E	93.052	AP 1516-06	400,415	400,415
Medicare Enrollment Assistance Program	93.071	MI-1415-06	12,404	12,404
Medicare Enrollment Assistance Program	93.071	MI-1517-06	6,969	6,969
Subtotal Medicare Enrollment Assistance Program			<u>19,373</u>	<u>19,373</u>
State Health Insurance Assistance Program	93.324	HI-1516-06	135,116	121,604
Passed through Regents of the University of California				
Global AIDS	93.067	5745sc	237,954	-
Global AIDS	93.067	6925sc	16,681	-
Global AIDS	93.067	7076sc	11,892	-
Global AIDS	93.067	8145sc	44,204	-
Global AIDS	93.067	8775sc	20,404	-
Global AIDS	93.067	8817sc	17,997	-
Global AIDS	93.067	8846sc	26,431	-
Global AIDS	93.067	8853sc	4,754	-
Global AIDS	93.067	8860sc	5,039	-
Global AIDS	93.067	8940sc	81,117	-
Global AIDS	93.067	8941sc	8,864	-
Subtotal Global AIDS			<u>475,337</u>	<u>-</u>
Prevention of Disease, Disability, and Death by Infectious Diseases	93.084	8829sc	25,052	-
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	4899SC	97,531	-

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, 2016**

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)				
Passed through Regents of the University of California (continued)				
Mental Health Research Grants	93.242	6819SC	\$ 44,976	\$ -
Mental Health Research Grants	93.242	6913SC	11,852	-
Mental Health Research Grants	93.242	7238SC	75,610	-
Drug Abuse and Addiction Research Programs	93.279	8278sc	14,672	-
Drug Abuse and Addiction Research Programs	93.279	8952sc	12,958	-
Child Welfare Research Training or Demonstration	93.648	00008863	1,067	-
Child Welfare Research Training or Demonstration	93.648	00009093	1,321	-
Allergy and Infectious Diseases Research	93.855	7254sc	646	-
Allergy and Infectious Diseases Research	93.855	7256sc	39,015	-
Allergy and Infectious Diseases Research	93.855	8559sc	5,753	-
Passed through State of California Department of Public Health				
Hospital Preparedness Program (HPP) and Public Health Emergency				
Preparedness (PHEP) Aligned Cooperative Agreements	93.074	14-10536	1,054,070	-
Hospital Preparedness Program (HPP) and Public Health Emergency				
Preparedness (PHEP) Aligned Cooperative Agreements	93.074	14-10918	60,119	-
Immunization Cooperative Agreements	93.268	13-20342	1,579	-
Immunization Cooperative Agreements	93.268	15-10447	274,847	-
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood				
Home Visiting Program	93.505	15-10169	1,248,092	-
Affordable Care Act (ACA) Maternal, Infant, and Early Childhood				
Home Visiting Program	93.505	201438	4,948	-
Refugee and Entrant Assistance - State Administered Programs	93.566	14-38-90840-00	87,697	10,390
Refugee and Entrant Assistance - State Administered Programs	93.566	15-38-90840-00	258,814	130,671
Medical Assistance Program	93.778	14-10074	150,648	-
Medical Assistance Program	93.778	201438	457	-
Medical Assistance Program	93.778	201538	4,793,368	-
HIV Care Formula Grants	93.917	13-20070	2,960,431	2,425,191
Maternal and Child Health Services Block Grant to the States	93.994	201538	391,537	-
Passed through State of California Department of Social Services				
Guardianship Assistance				
Guardianship Assistance	93.090	None	2,141,014	-
Promoting Safe and Stable Families				
Promoting Safe and Stable Families	93.556	None	395,838	276,923
Temporary Assistance for Needy Families				
Temporary Assistance for Needy Families	93.558	None	63,029,438	9,260,585
Refugee and Entrant Assistance - State Administered Programs				
Refugee and Entrant Assistance - State Administered Programs	93.566	RESS1406	59,980	-
Refugee and Entrant Assistance - State Administered Programs	93.566	None	354,825	-
Refugee and Entrant Assistance - Targeted Assistance Grants	93.584	TAFO1406	38,687	-
Community-Based Child Abuse Prevention Grants				
Community-Based Child Abuse Prevention Grants	93.590	None	24,297	24,297
Stephanie Tubbs Jones Child Welfare Services Program				
Stephanie Tubbs Jones Child Welfare Services Program	93.645	None	1,355,423	1,089
Foster Care - Title IV-E				
Foster Care - Title IV-E	93.658	None	37,877,235	5,681,213
Adoption Assistance				
Adoption Assistance	93.659	None	9,466,759	-
Chafee Foster Care Independence Program				
Chafee Foster Care Independence Program	93.674	None	496,997	420,199
Medical Assistance Program	93.778	None	69,000,896	2,888,921
Passed through State of California Department of Mental Health				
Projects for Assistance In Transition From Homelessness (PATH)				
Projects for Assistance In Transition From Homelessness (PATH)	93.150	None	532,625	251,807
Passed through California Family Health Council				
Family Planning - Services				
Family Planning - Services	93.217	380-5320-71209-15	107,408	-
Family Planning - Services	93.217	380-5320-71219-16-17	21,222	-
Subtotal Family Planning - Services			128,630	-
Passed through San Francisco Community Clinic Consortium				
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)				
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	3 H80CS00049-15-03	537,505	-
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)				
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	4 H80CS00049-14-05	393,190	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease				
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	2 H76HA00163-23-00	68,946	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease				
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	4 H76HA00163-24-03	97,114	-
Passed through Public Health Foundation Enterprise				
Mental Health Research Grants				
Mental Health Research Grants	93.242	0157.0105	87,813	-
Mental Health Research Grants	93.242	0155.0104	51,673	-
Mental Health Research Grants	93.242	0176.0104	14,198	-
Mental Health Research Grants	93.242	0349.0101	89,260	-

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, 2016**

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)				
Passed through Public Health Foundation Enterprise (continued)				
Drug Abuse and Addiction Research Programs	93.279	0152.0103	\$ 23,952	\$ -
Drug Abuse and Addiction Research Programs	93.279	0208.0103	37,561	-
Drug Abuse and Addiction Research Programs	93.279	0224.0102	43,843	-
Drug Abuse and Addiction Research Programs	93.279	0249.0102	30,174	-
Drug Abuse and Addiction Research Programs	93.279	0280.0102	27,386	-
Drug Abuse and Addiction Research Programs	93.279	0333.0101	31,156	-
Subtotal Drug Abuse and Addiction Research Programs			<u>194,072</u>	<u>-</u>
Minority Health and Health Disparities Research	93.307	0350.0101	64,168	-
Trans-NIH Research Support	93.310	0304.0101	9,035	-
Allergy and Infectious Diseases Research	93.855	0183.0104	11,038	-
Allergy and Infectious Diseases Research	93.855	0325	112,940	-
Allergy and Infectious Diseases Research	93.855	0014	36,338	-
Passed through University of California San Francisco				
Mental Health Research Grants	93.242	8533SC	8,258	-
PPHF Geriatric Education Centers	93.969	6 U1QHP28727-01-02	11,292	-
Passed through University of Southern California				
Child Health and Human Development Extramural Research	93.865	61009227	16,571	-
Passed through University of Washington				
Drug Abuse and Addiction Research Programs	93.279	UWSC7756	13,814	-
Passed through State of California Department of Child Support Services				
Child Support Enforcement	93.563	None	8,294,838	-
Passed through MDRC				
Community Services Block Grant - Discretionary Awards	93.570	None	89,762	-
Passed through State of California Department of Education				
CCDF Cluster				
Child Care and Development Block Grant	93.575	CLPC5036	56,647	-
Child Care and Development Block Grant	93.575	CRET5034	523,243	-
Subtotal Child Care and Development Block Grant			<u>579,890</u>	<u>-</u>
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CAPP-5051	200,658	200,658
Subtotal CCDF Cluster			<u>780,548</u>	<u>200,658</u>
Passed through California Secretary of State				
Voting Access for Individuals With Disabilities - Grants to States	93.617	14G26134	19,730	-
Passed through Partners in Care				
Empowering Older Adults and Adults With Disabilities Through Chronic Disease Self-Management Education Programs - Financed By Prevention and Public Health Funds (PPHF)	93.734	CT-1213-11	5,000	5,000
Passed through State of California Department of Health Care Services				
Medical Assistance Program	93.778	None	1,836,439	116,019
Block Grants for Community Mental Health Services	93.958	None	2,500,398	633,754
Passed through Blood Systems, Inc.				
Cardiovascular Diseases Research	93.837	10849-DPH-01	1,111	-
Blood Diseases and Resources Research	93.839	10849-DPH-01	1,120	-
Passed through Family Health International (FHI360)				
Allergy and Infectious Diseases Research	93.855	0080.0237/104110	11,501	-
Allergy and Infectious Diseases Research	93.855	970/0080.0172	35,533	-
Passed through Fred Hutchinson Cancer Research Center				
Allergy and Infectious Diseases Research	93.855	0000818295	46,096	-
Allergy and Infectious Diseases Research	93.855	0000851188	72,617	-
Passed through Magee-Women's Research Institute and Foundation				
Allergy and Infectious Diseases Research	93.855	9335	23,428	-
Allergy and Infectious Diseases Research	93.855	9394	24,344	-
Subtotal Allergy and Infectious Diseases Research			<u>213,519</u>	<u>-</u>
Passed through California Department of Alcohol and Drug Programs				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	None	12,406,249	12,406,249
Total pass-through programs			<u>229,747,189</u>	<u>38,911,511</u>
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			263,588,520	56,190,891
U.S. DEPARTMENT OF HOMELAND SECURITY				
Direct Programs				
Assistance to Firefighters Grant	97.044	--	1,007,920	-
Port Security Grant Program	97.056	--	3,991,838	-
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	--	1,649,819	-
Subtotal direct programs			<u>6,649,577</u>	<u>-</u>

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, 2016**

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>Catalog of Federal Domestic Assistance Number (CFDA)</u>	<u>Pass-Through Identifying Number</u>	<u>Federal Expenditures</u>	<u>Amount Provided to Subrecipients</u>
U.S. DEPARTMENT OF HOMELAND SECURITY (continued)				
Passed through California Emergency Management Agency				
Emergency Management Performance Grants	97.042	075-00000	\$ 300,237	\$ -
Pre-Disaster Mitigation	97.047	LPDM-09-CA-2008	523,354	-
Homeland Security Grant Program	97.067	075-00000	1,073,613	-
Homeland Security Grant Program	97.067	2013-00110	13,341	-
Homeland Security Grant Program	97.067	2014-00093	18,264,553	12,471,955
Homeland Security Grant Program	97.067	2015-00078	4,089,659	2,512,681
Subtotal Homeland Security Grant Program			<u>23,441,166</u>	<u>14,984,636</u>
Passed through Marine Exchange of the San Francisco Bay				
Port Security Grant Program	97.056	2011-PU-K00351	84,664	-
Port Security Grant Program	97.056	EMW-2011-PU-K00351	83,133	-
Total Port Security Grant Program			<u>167,797</u>	<u>-</u>
Total pass-through programs			<u>24,432,554</u>	<u>14,984,636</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>31,082,131</u>	<u>14,984,636</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$411,590,193</u>	<u>\$ 98,273,438</u>

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, 2016**

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).

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, 2016. 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. The City did not elect to use the 10% de minimis cost rate as covered in U.S. Code of Federal Regulations, Title 2 section 200.414 Indirect (F&A) costs.

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 \$420,520 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 \$76,130 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, 2016, the total outstanding RLF and cash and investments in the RLF were \$301,290 and \$88,083, respectively. There were no administrative expenses paid out of the RLF income, and the unpaid principal of loan written off during the year was \$142,093. The federal share of the RLF was 64.8% and federal expenditures of \$344,390 were included in the Schedule.

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2016

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				
<i>Passed through State of California, Department of Aging</i>				
State Administrative Matching Grants for the				
Supplemental Nutrition Assistance Program	SP-1415-06	10.561	\$ -	\$ 96,913
Supplemental Nutrition Assistance Program	SP-1516-06	10.561	-	25,879
U.S. Department of Health and Human Services				
<i>Passed through State of California, Department of Aging</i>				
Special Programs for the Aging-Title VII, Chapter 3 - Programs for Prevention of Elder Abuse, Neglect, and Exploitation	AP-1516-06	93.041	-	12,784
Special Programs for the Aging-Title VII, Chapter 2 - Long Term Care Ombudsman Services for Older Individuals	AP-1516-06	93.042	-	31,711
Special Programs for the Aging-Title III, Part D - Disease Prevention and Health Promotion Services	AP-1516-06	93.043	-	57,608
Special Programs for the Aging-Title III, Part B - Grants for Supportive Services and Senior Centers	AP-1516-06	93.044	-	1,001,145
Special Programs for the Aging-Title III, Part C - Nutrition Services	AP-1516-06	93.045	494,922	1,548,749
National Family Caregiver Support, Title III, Part E	AP-1516-06	93.052	-	400,415
Nutrition Services Incentive Program	AP-1516-06	93.053	-	1,579,308
Medicare Enrollment Assistance Program	MI-1415-06	93.071	-	12,404
Medicare Enrollment Assistance Program	MI-1517-06	93.071	-	6,969
State Health Insurance Assistance Program	HI-1516-06	93.324	229,076	135,116
			<u>723,998</u>	<u>\$ 4,909,001</u>
State Award - California Department of Aging				
Special Deposit Fund-Federal Citation Penalties Account, General Fund Allocation	AP-1516-06		48,750	
Skilled Nursing Facility (SNF) Quality & Accountability Fund (QAF) Allocation	AP-1516-06		26,477	
Ombudsman State General Fund	AP-1516-06		13,935	
Ombudsman Public Health L&C Program Fund	AP-1516-06		5,574	
Total Expenditures of CDA Awards			<u>\$ 818,734</u>	

**CITY AND COUNTY OF SAN FRANCISCO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2016**

7. PROGRAM TOTALS

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

<u>CFDA no. / Program Title / Federal Grantor or Pass-Through Grantor</u>	<u>Pass-Through Identifying Number</u>	<u>Federal Expenditures</u>
(1) CFDA no. 10.557 - Special Supplemental Nutrition Program for Women, Infants, and Children		
State of California Department of Public Health	14-10226	\$ 702,159
State of California Department of Public Health	15-10059	2,030,897
	Program Total	<u>\$ 2,733,056</u>
(2) CFDA no. 10.561 - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program		
State of California Department of Public Health	13-20505	\$ 1,233,973
State of California Department of Aging	SP-1415-06	96,913
State of California Department of Aging	SP-1516-06	25,879
State of California Department of Social Services	None	34,286,102
	Program Total	<u>\$ 35,642,867</u>
(3) CFDA no. 16.738 - Edward Byrne Memorial Justice Assistance Grant Program		
U.S. Department of Justice	-	\$ 669,754
Board of State and Community Corrections	650-14	436,732
Board of State and Community Corrections	650-15	412,208
	Program Total	<u>\$ 1,518,694</u>
(4) CFDA no. 17.268 - H-1B Job Training Grants		
U.S. Department of Labor	-	\$ 27,392
NOVA Workforce Board	001-RTW-15	405,768
WestEd	s12-053	137,738
	Program Total	<u>\$ 570,898</u>
(5) CFDA no. 93.074 - Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements		
State of California Department of Public Health	14-10536	\$ 1,054,070
State of California Department of Public Health	14-10918	60,119
	Program Total	<u>\$ 1,114,189</u>
(6) CFDA no. 93.224 - Consolidated Health Centers (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)		
San Francisco Community Clinic Consortium	3 H80CS00049-15-03	\$ 537,505
San Francisco Community Clinic Consortium	4 H80CS00049-14-05	393,190
	Program Total	<u>\$ 930,695</u>

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2016

7. PROGRAM TOTALS (Continued)

CFDA no. / Program Title / Federal Grantor or Pass-Through Grantor	Pass-Through Identifying Number	Federal Expenditures
(7) CFDA no. 93.242 - Mental Health Research Grants		
Regents of the University of California	6819SC	\$ 44,976
Regents of the University of California	6913SC	11,852
Regents of the University of California	7238SC	75,610
Public Health Foundation Enterprise	0157.0105	87,813
Public Health Foundation Enterprise	0155.0104	51,673
Public Health Foundation Enterprise	0176.0104	14,198
Public Health Foundation Enterprise	0349.0101	89,260
University of California San Francisco	8533SC	8,258
	Program Total	<u>\$ 383,640</u>
(8) CFDA no. 93.268 - Immunization Cooperative Agreements		
State of California Department of Public Health	13-20342	\$ 1,579
State of California Department of Public Health	15-10447	274,847
	Program Total	<u>\$ 276,426</u>
(9) CFDA no. 93.279 - Drug Abuse and Addiction Research Programs		
Regents of the University of California	8278sc	\$ 14,672
Regents of the University of California	8952sc	12,958
Public Health Foundation Enterprise	0152.0103	23,952
Public Health Foundation Enterprise	0208.0103	37,561
Public Health Foundation Enterprise	0224.0102	43,843
Public Health Foundation Enterprise	0249.0102	30,174
Public Health Foundation Enterprise	0280.0102	27,386
Public Health Foundation Enterprise	0333.0101	31,156
University of Washington	UWSC7756	13,814
	Program Total	<u>\$ 235,516</u>
(10) CFDA no. 93.505 - Affordable Care Act (ACA) Maternal, Infant, and Early Childhood Home Visiting Program		
State of California Department of Public Health	15-10169	\$ 1,248,092
State of California Department of Public Health	201438	4,948
	Program Total	<u>\$ 1,253,040</u>
(11) CFDA no. 93.566 - Refugee and Entrant Assistance - State Administered Programs		
State of California Department of Public Health	14-38-90840-00	\$ 87,697
State of California Department of Public Health	15-38-90840-00	258,814
State of California Department of Social Services	RESS1406	59,980
State of California Department of Social Services	None	354,825
	Program Total	<u>\$ 761,316</u>
(12) CFDA no. 93.648 - Child Welfare Research Training or Demonstration		
Regents of the University of California	00008863	\$ 1,067
Regents of the University of California	00009093	1,321
	Program Total	<u>\$ 2,388</u>

CITY AND COUNTY OF SAN FRANCISCO
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2016

7. PROGRAM TOTALS (Continued)

<u>CFDA no. / Program Title / Federal Grantor or Pass-Through Grantor</u>	<u>Pass-Through Identifying Number</u>	<u>Federal Expenditures</u>
(13) CFDA no. 93.778 - Medical Assistance Program		
State of California Department of Public Health	14-10074	\$ 150,648
State of California Department of Public Health	201438	457
State of California Department of Public Health	201538	4,793,368
State of California Department of Social Services	None	69,000,896
State of California Department of Health Care Services	None	1,836,439
	Program Total	<u>\$ 75,781,808</u>
(14) CFDA no. 93.855 - Allergy and Infectious Diseases Research		
Regents of the University of California	7254sc	\$ 646
Regents of the University of California	7256sc	39,015
Regents of the University of California	8559sc	5,753
Public Health Foundation Enterprise	0183.0104	11,038
Public Health Foundation Enterprise	0325	112,940
Public Health Foundation Enterprise	0014	36,338
Family Health International (FHI360)	0080.0237/104110	11,501
Family Health International (FHI360)	970/0080.0172	35,533
Fred Hutchinson Cancer Research Center	0000818295	46,096
Fred Hutchinson Cancer Research Center	0000851188	72,617
Magee-Women's Research Institute and Foundation	9335	23,428
Magee-Women's Research Institute and Foundation	9394	24,344
	Program Total	<u>\$ 419,249</u>
(15) CFDA no. 93.865 - Child Health and Human Development Extramural Research		
U.S. Department of Health and Human Services	--	\$ 24,657
University of Southern California	61009227	16,571
	Program Total	<u>\$ 41,228</u>
(16) CFDA no. 93.918 - Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease		
U.S. Department of Health and Human Services	--	\$ 344,926
San Francisco Community Clinic Consortium	2 H76HA00163-23-00	68,946
San Francisco Community Clinic Consortium	4 H76HA00163-24-03	97,114
	Program Total	<u>\$ 510,986</u>
(17) CFDA no. 97.056 - Port Security Grant Program		
U.S. Department of Homeland Security	--	\$ 3,991,838
Marine Exchange of the San Francisco Bay	2011-PU-K00351	84,664
Marine Exchange of the San Francisco Bay	EMW-2011-PU-K00351	83,133
	Program Total	<u>\$ 4,159,635</u>



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, each major fund, and the aggregate discretely presented component unit and remaining fund information of the City and County of San Francisco, California (City), as of and for the year ended June 30, 2016, 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 18, 2016, except for our report on the schedule of expenditures of federal awards, as to which the date is January 20, 2017. Our report includes a reference to other auditors who audited the financial statements of the San Francisco County Transportation Authority, 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. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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*.

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 results of that testing, and not to provide an opinion on the effectiveness of the City'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

San Francisco, California
November 18, 2016



Independent Auditor’s Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

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 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, 2016. 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 \$17,924,444, \$344, \$311,029,783, and \$9,015,036, respectively, in federal awards, which are not included in the City’s schedule of expenditures of federal awards for the year ended June 30, 2016. Our audit, described below, did not include the operations of these organizations. We were engaged to perform an audit in accordance with Title 2 *U.S. Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), and report on the results separately to the Successor Agency. The Authority, the Airport, and the MTA engaged other auditors to perform an audit in accordance with the Uniform Guidance.

Management’s Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards 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 the audit requirements of the Uniform Guidance. Those standards and the Uniform Guidance 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.

Basis for Qualified Opinion on the Assistance to Firefighters Grant and the Home Investment Partnership Program

As described in findings 2016-001 and 2016-002 in the accompanying schedule of findings and questioned costs, the City did not comply with requirements regarding the following:

<i>Finding No.</i>	<i>CFDA No.</i>	<i>Program Name</i>	<i>Compliance Requirement</i>
2016-001	97.044	Assistance to Firefighters Grant	Procurement
2016-002	14.239	Home Investment Partnership Program	Special Tests and Provision – Maximum Per-Unit Subsidy and Underwriting Requirements

Compliance with such requirements is necessary, in our opinion, for the City to comply with the requirements applicable to these programs.

Qualified Opinion on the Assistance to Firefighters Grant and the Home Investment Partnership Program

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, 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 the Assistance to Firefighters Grant and the Home Investment Partnership Program for the year ended June 30, 2016.

Unmodified Opinion on Each of the Other Major Federal Programs

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 other major federal programs identified in the summary of auditor’s results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed another instance of noncompliance, which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as item 2016-003. Our opinion on each major federal program is not modified with respect to this matter.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City’s internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. We consider the deficiency in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-002 to be a material weakness.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as items 2016-001 and 2016-003 to be significant deficiencies.

The City's responses to the internal control over compliance 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.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Macias Gini & O'Connell LLP

San Francisco, California
January 20, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

**CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Section I – Summary of Auditor’s Results

Financial Statements:

Type of auditor’s report issued on whether the financial statements audited were prepared in accordance with accounting principles generally accepted in the United States of America:.....	Unmodified
Internal control over financial reporting:	
• Material weakness(es) identified?	No
• Significant deficiency(ies) identified?	None reported
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major programs:	
• Material weakness(es) identified?	Yes
• Significant deficiency(cies) identified?	Yes
Type of auditor’s report issued on compliance for major programs	Unmodified for all major programs except for the procurement requirement of the Assistance to Firefighters Grant (CFDA No. 97.044) and the Maximum Per-Unit Subsidy and Underwriting Requirements of the Home Investment Partnership Program (CFDA No. 14.239), which were qualified.
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	Yes

Identification of major programs:

Name of Federal Program or Cluster	CFDA Number(s)
Community Development Block Grants/Entitlement Grants.....	14.218
Home Investment Partnerships Program	14.239
Highway Planning and Construction.....	20.205
Aging Cluster	93.044, 93.045, 93.053
HIV Emergency Relief Project Grants	93.914
HIV Prevention Activities - Health Department Based	93.940
Block Grants for Community Mental Health Services	93.958
Block Grants for Prevention and Treatment of Substance Abuse.....	93.959
Assistance to Firefighters Grant	97.044
Homeland Security Grant Program	97.067
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083

Dollar threshold used to distinguish between Types A and B programs	\$3,000,000
Auditee qualified as a low-risk auditee?	Yes

**CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Section II – Financial Statement Findings

None reported.

Section III – Federal Award Findings and Questioned Costs

**Item No. 2016-001 – Procurement and Suspension and Debarment
*Significant Deficiency and Material Noncompliance***

Federal Program Title:	Assistance to Firefighters Grant
Federal Catalog Number(s):	97.044
Federal Agency:	U.S. Department of Homeland Security
Federal Award Number(s):	EMW-2013-FO-07019

Criteria:

Pursuant to the Code of Federal Regulations (CFR), Title 2 *Grants and Agreements*, Section 215.43 *Competition*, all procurement transactions shall be conducted in a manner to provide, to the maximum extent practical, open and free competition. The grant recipient shall be alert to organizational conflicts of interest as well as noncompetitive practices among contractors that may restrict or eliminate competition or otherwise restrain trade. Awards shall be made to the bidder or offeror whose bid or offer is responsive to the solicitation and is most advantageous to the recipient, price, quality and other factors considered.

The San Francisco Administrative Code, Chapter 21 *Acquisition of Commodities and Services*, also requires a requesting department that needs a commodity or service which is unique and which is known to be provided by only one contractor, to submit documentation to the Purchasing Division to justify the transaction as a sole source. It shall constitute official misconduct to divide any proposed procurement in excess of the Minimum Competitive Amount (\$110,000 for professional services) into two or more units for the purpose of evading the City's competitive solicitation requirements.

In addition, CFR Title 2, section 215.46 *Procurement Records* requires procurement records and files for purchases in excess of the small purchase threshold to include the following at a minimum: (a) basis for contractor selection; (b) justification for lack of competition when competitive bids or offers are not obtained; and (c) basis for award cost or price.

Condition:

The City's Fire Department purchased various parts and equipment for fire exhaust systems, and utilized two contractors who were authorized by the equipment distributor to install and service such equipment. However, the Fire Department did not follow the City's procurement process in soliciting bids for these services. In addition, the Fire Department used purchase orders as a mechanism to track expenditures by station for final grant reporting, and thus effectively circumvented the procurement process by paying the two respective contractors \$214,832 under 57 purchase orders and \$68,256 under 12 purchase orders. This is not a repeat of a finding from the 2014-15 single audit.

Cause:

The Fire Department purchased the parts and equipment from the manufacturer of the existing systems, and obtained prior approval from the Federal Emergency Management Agency (FEMA). Due to warranty requirements, the manufacturer indicated two contractors in the San Francisco Bay Area as approved installers for the parts. Because the Fire Department had FEMA's approval to purchase the parts under a sole source arrangement, the Department assumed the limited procurement for installation services would be supported.

Effect:

The Fire Department did not follow procurement requirements to ensure open and full competition, or otherwise obtain proper approval for awarding contracts under limited competition.

**CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Section III – Federal Award Findings and Questioned Costs

Item No. 2016-001 – Procurement and Suspension and Debarment (continued)

Questioned Costs:

The population of expenditures subject to the procurement requirement in fiscal year 2015-16 included 4 contractors with total expenditures of \$1,007,920. We selected the two contractors with the highest expenditure amounts, which covered \$897,868 of the population. The sample is not considered statistically valid.

Total payments made to the contractors in question were \$283,088.

Recommendation:

We recommend the Fire Department revisit its procurement procedures to ensure that each procurement is separately evaluated in accordance with applicable federal procurement requirements and the City's procurement policies.

Management Response and Corrective Action:

The Fire Department concurs that in this cause noted there was no specific prior approval from FEMA for awarding the installation services under limited competition. Regarding the questioned costs, the Fire Department also concurs. In complying with FEMA's request to track the expenditures by station for final reporting and reimbursement, the program manager at the time chose to accomplish this by issuing purchase orders for each station to track the work in that manner. Given resource and scheduling capabilities of the two vendors, the Fire Department divided the work amongst the two approved vendors to ensure completion by the end of the performance period. Grant funds were spent on appropriate items per the scope of the grant. The Fire Department notified FEMA in October 2016.

To ensure proper oversight of the procurement processes and grant compliance requirements, the Fire Department is taking the following corrective action:

- 1) Facilitate the filling of vacant analyst positions to provide much-needed resources to assist with the procurement process.
- 2) Require current employees involved with the grant and procurement processes to complete refresher training by June 30, 2017.
- 3) Incorporate grant and procurement processes in the new employee orientation training curriculum by June 30, 2017.
- 4) Update current grant policies and procedures to require the grant manager meet with Finance and Accounting staff at time of grant award to discuss and resolve any potential procurement challenges, and contact funding agency with any questions (as needed).

Contact person(s) responsible for corrective action:

Mark Corso, Finance and Planning, San Francisco Fire Department

**CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Section III – Federal Award Findings and Questioned Costs

**Item No. 2016-002 – Special Tests and Provision –
Maximum Per-Unit Subsidy and Underwriting Requirements
Material Weakness and Material Noncompliance**

Federal Program Title: Home Investment Partnership Program
Federal Catalog Number(s): 14.239
Federal Agency: U.S. Department of Housing and Urban Development
Federal Award Number(s): M15-MC060213

Criteria:

Title 24 *Housing and Urban Development*, section 92.250 *Maximum Per-Unit Subsidy Amount, Underwriting, and Subsidy Layering* of the Code of Federal Regulation requires the total amount of Home Investment Partnership Program (HOME) funds that a participating jurisdiction may invest on a per-unit basis in affordable housing may not exceed the per-unit dollar limitations established under section 221(d)(3)(ii) of the National Housing Act for elevator-type projects that apply to the area in which the housing is located.

Due to the discontinuation of the Section 221(d)(3) mortgage insurance program, the U.S. Department of Housing and Urban Development (HUD) published CPD Notice 15-003 in March 2015 to establish an interim policy that directed participating jurisdictions to use the Section 234-Condominium Housing basic mortgage limits, for elevator-type projects, as an alternative to the Section 221(d)(3) limits. This interim policy remains in effect until the effective date of the new final rule provisions, amending the existing provisions of 24 CFR 92.250(a).

Condition:

The City's Mayor's Office of Housing and Community Development (MOHCD) provided a loan to one project that was subject to the maximum per-unit subsidy amount requirement during the year. Based on the number of units within its development, the project was limited to a maximum per-unit subsidy of \$6,976,330. However, the actual HOME-funded portion of the loan was \$8,134,000.

This is not a repeat of a finding from the 2014-15 single audit.

Cause:

MOHCD verified that the initial requested loan amount of \$4,300,000 complied with the maximum per-unit subsidy, but subsequently increased the HOME-funded portion of the project to \$8,134,000 due to higher construction costs resulting from delays caused by litigation and other matters. The increased loan amount includes contingencies as well as conservative estimates of costs. The division responsible for calculating and monitoring the maximum per-unit subsidy was aware the increased funding exceeded the limit, and approved the subsidy with a provision in the loan agreement that requires the developer, at the completion of construction, to return any excess funds to the City. If the repayment of any excess funds does not reduce the loan amount below the limit, MOHCD will reduce HOME funds and increase local dollars to meet the maximum per-unit subsidy requirement.

Effect:

MOHCD is not in compliance with the maximum per-unit subsidy requirement. Despite the provision in the loan agreement that requires the developer to repay excess funding and to reduce HOME funds as necessary at the end of the project, the loan was funded during the year in excess of the established limit.

Questioned Costs:

The project included HOME funds of \$8,134,000, which exceeded the maximum per-unit subsidy of \$6,976,330 by \$1,157,670.

**CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Section III – Federal Award Findings and Questioned Costs

Recommendation:

We recommend MOHCD evaluate its policies and procedures on the maximum per-unit subsidy requirement for areas of clarification and improvement, and communicate any changes to all affected parties. MOHCD should seek pre-approval from HUD if HOME-funded projects will potentially exceed the established limits.

Management Response and Corrective Action:

MOHCD concurs with the finding and has completed the following corrective actions:

- 1) In order to correct the questioned costs for this project, MOHCD replaced \$1,157,670 of HOME funds in the project loan with local dollars. The \$1,157,670 of HOME funds was returned to HUD on December 16, 2016, and HUD placed the returned amount in MOHCD's HOME line of credit for future eligible projects.
- 2) To strengthen oversight controls, MOHCD implemented the following additional three confirmation mechanisms on January 1, 2017:
 - a. When HOME is identified as a funding source in a Loan Evaluation, the Loan Evaluation template prompts the Project Manager to add a section to the loan evaluation called "HOME Limit Compliance." In that section, the Project Manager demonstrates that the anticipated HOME loan does not cause the project to exceed the Maximum Per-Unit Subsidy. The "HOME Limit Compliance" test is also required when there is a subsequent change in funding and/or number of units. The department will not make exceptions to this section of the Loan Evaluation.
 - b. Before the Loan Administrator makes a request to Fiscal team to encumber HOME funds, the Loan Administrator will request documentation from Project Manager to demonstrate that the project does not exceed the Maximum Per-Unit Subsidy. The documentation must be provided to the Fiscal team as part of the encumbrance request. The Deputy Director for Finance and Administration will review "HOME Limit Compliance" before funds are encumbered.
 - c. On an annual basis, the Director of Housing Development will prompt Project Managers with anticipated HOME loans to complete a HOME Subsidy Limit Compliance test for the anticipated HOME loans.

Contact person(s) responsible for corrective action:

Benjamin McCloskey, Deputy Director for Finance and Administration, MOHCD

**CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Section III – Federal Award Findings and Questioned Costs

**Item No. 2016-003 – Reporting
Significant Deficiency and Noncompliance**

Federal Program Title: Community Development Block Grants/Entitlement Grants
Federal Catalog Number(s): 14.218
Federal Agency: U.S. Department of Housing and Urban Development
Federal Award Number(s): B-14-MC-06-0016, B-15-MC-06-0016

Federal Program Title: Home Investment Partnership Program
Federal Catalog Number(s): 14.239
Federal Agency: U.S. Department of Housing and Urban Development
Federal Award Number(s): M14-MC060213, M15-MC060213

Criteria:

Pursuant to Code of Federal Regulations (CFR), Title 24 *Housing and Urban Development*, Part 135 *Economic Opportunities for Low- and Very Low-Income Persons*, for each grant over \$200,000 that involves housing rehabilitation, housing construction, or other public construction, the prime grant recipient must submit Form HUD 60002, *Section 3 Summary Report, Economic Opportunities for Low- and Very Low-Income Persons*. The purpose of Form HUD 60002 is to report annual accomplishments regarding employment and other economic opportunities provided to low- and very low-income persons under Section 3 of the Housing and Urban Development Act of 1968. The prime recipient must report its project status or an explanation of not meeting the goals.

Furthermore, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (specifically, CFR Title 2, section 200.303) requires a non-federal entity to establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award. These internal controls should be in compliance with guidance in “Standards for Internal Control in the Federal Government” issued by the Comptroller General of the United States or the “Internal Control Integrated Framework”, issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

Condition:

During our testing of the annual Form HUD 60002 for the each of the two programs, we identified the following errors:

- For the Community Development Block Grants/Entitlement Grants, the number of total Section 3 trainees was understated by 1 individual.
- For the Home Investment Partnership Program, the number of Section 3 new hires was overstated by 3 individuals. The U.S. Office of Management and Budget (OMB) has identified the number of new hires that meet the definition of a Section 3 resident as critical information.

This is not a repeat of a finding from the 2014-15 single audit.

Cause:

The errors were caused by miscalculations from the supporting data.

Effect:

The reported information was inaccurate.

Questioned Costs:

None.

**CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Section III – Federal Award Findings and Questioned Costs

Recommendation:

We recommend the Mayor's Office of Housing and Community Development evaluate its reporting procedures to ensure submitted reports include all required information, be mathematically accurate, supported by underlying data, and summarized in accordance with the required criteria and methodology.

Management Response and Corrective Action:

The Mayor's Office of Housing and Community Development (MOHCD) concurs with the finding. The department has completed the following corrective actions:

- 1) MOHCD is working with HUD to correct the Form HUD 60002 reports in HUD's online reporting system and anticipates that this process will be completed no later than March 31, 2017.
- 2) The errors on Form HUD 60002 for the 2015-2016 CDBG and the 2015-2016 HOME programs were due to miscalculations from compiling project-level supporting data collected using a variety of spreadsheets. To strengthen oversight and minimize the chance of future calculation errors, MOHCD began using a web-based database, Elation, to track the data required for the HUD 60002 report starting on July 1, 2016. MOHCD staff is working with Elation Systems to create a report that includes all of the data required by the Form HUD 60002, and that work will be completed no later than September 30, 2017. Use of this system and report will remove several manual compilation and calculation steps and ensure that the data submitted on Form HUD 60002 will be accurate and supported by the underlying data in the system. The Deputy Director for Finance and Administration will review Form HUD 60002 before it is submitted.

Contact person(s) responsible for corrective action:

Benjamin McCloskey, Deputy Director for Finance and Administration, MOHCD

**CITY AND COUNTY OF SAN FRANCISCO
STATUS OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Reference Number: 2015-001 Information Technology Governance

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

Status of Corrective Action: Corrective action was implemented.

Reference Number: 2015-002 Year-End Closing Process

Audit Finding: Certain City departments utilize the accounting services of the General Services Agency (GSA) to record financial transactions into the City's general ledger. The process often begins with a request and approval from the department to the GSA, who then reviews and inputs the entries into the system.

For year-end financial reporting, the costs of all services and purchases received or rendered by the City should be captured in the financial statements in accordance with generally accepted accounting principles. During our audit, we identified several transactions of varying amounts and reporting funds that were not recorded in the proper fiscal period. Those transactions relate to departments that do not have their own fiscal staff, and thus require the GSA's assistance in recording fiscal transactions in the City's general ledger.

The missing accruals were identified through the Controller's Office's internal review and our audit procedures. While the adjustments were not considered material to the City's financial statements as a whole, resolution of such adjustments required additional time and resources that could potentially delay the City's financial reporting process.

We recommend that the GSA and affected departments establish communication protocols such that all necessary entries are captured for year-end financial reporting by the City's internal closing timeline.

Corrective Action: The Controller's Office will work with the GSA to implement a process to ensure that the necessary year-end financial entries are identified and accurately recorded within the City's internal closing timeline.

Status of Corrective Action: Corrective action was implemented.

**CITY AND COUNTY OF SAN FRANCISCO
STATUS OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Reference Number: 2015-003 Procurement and Suspension and Debarment

Federal Catalog Number/ Program Name: 97.056 Port Security Grant Program

Audit Finding: The City received funding under the Port Security Grant program under separate awards from various granting agencies. The Port of San Francisco received a direct award from the U.S. Department of Homeland Security for this program. During our audit, we selected 1 of 2 contracts for testing with procurement requirements. Our procedures identified that the contract files did not contain documentation to support whether the Port verified that the contractor was not suspended nor debarred before contract execution.

The Port had updated its internal procedures in August 2016 to include retention of documentation on the suspension or debarment verification to support compliance with the requirement. It should ensure the updated procedures are communicated to all applicable personnel and periodically monitored for compliance.

Corrective Action: The Port updated its internal procedures in August 2016. In connection with this update, all grant project managers and supporting procurement and accounting staff have been reminded to retain documentation on the suspension or debarment verification necessary to support compliance with this requirement. Accounting staff has also been assigned to periodically monitor compliance. For professional services contracts and general procurement, staff checks the EPLS to verify that prospective contractors are not suspended, or otherwise excluded from participation. Upon confirmation, staff is to retain a dated screenshot from EPLS in the department file. For construction services, staff collects a certification from prospective contractors.

The Port submitted this August 2016 update of its internal procedures to the U.S. Department of Homeland Security's Federal Emergency Management Agency (FEMA) as the corrective action for the non-compliance cited during FEMA's July 2016 onsite review. The Port received a determination letter from FEMA dated September 23, 2016 that the non-compliance related to verification of debarment and suspension prior to issuance of grant funds has been resolved and is closed.

Status of Corrective Action: Corrective action was implemented.

**CITY AND COUNTY OF SAN FRANCISCO
STATUS OF PRIOR YEAR'S FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

Reference Number: 2015-004 Activities Allowed or Unallowed; Allowable Costs/Cost Principles

Federal Catalog Number/
Program Name: 93.658 Foster Care - Title IV-E

Audit Finding: The City's Foster Care program was administered by the Juvenile Probation Department and the Human Services Agency, which performed quarterly time studies to allocate program costs to various federal programs. Based on our review of the time studies prepared by the Juvenile Probation Department, we noted that several instances in which sick leave and vacation hours were not properly reflected in the proper time study categories. Costs were not properly allocated to the proper Foster Care program functions, which have varying reimbursement rates.

We recommend Juvenile Probation Department review and implement procedures to ensure that all employees and supervisors properly adhere to time study instructions and reflect hours in the proper time study categories.

Corrective Action: The Juvenile Probation Department has met with its Probation Supervisors to communicate the requirements in documentation of allocable activities on time study documents. Protocols have been implemented to review the allocation of activities to cost objectives. Additionally, a review process is being developed with expectations that these activities and entries be reconciled against the payroll timesheets.

Status of Corrective Action: Corrective action was implemented.



SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Federal Uniform Guidance Report

Year ended June 30, 2016

(With Independent Auditors' Report Thereon)

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

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KPMG LLP
Suite 1400
55 Second Street
San Francisco, CA 94105

**Independent Auditors' Report on Compliance for the Major Federal Program;
Report on Internal Control Over Compliance; and Report on Schedule of Expenditures
of Federal Awards and State and Local Matching Funds Required by the Uniform Guidance**

To Honorable Mayor, Board of Supervisors,
and Municipal Transportation Agency Board of Directors
City and County of San Francisco

Report on Compliance for the Major Federal Program

We have audited San Francisco Transportation Agency (SFMTA) of the City and County of San Francisco's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on SFMTA's major federal program for the year ended June 30, 2016. SFMTA's major federal program is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for SFMTA's major federal program 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 the audit requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 SFMTA'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 the major federal program. However, our audit does not provide a legal determination of SFMTA's compliance.

Opinion on the Major Federal Program

In our opinion, SFMTA complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major federal program for the year ended June 30, 2016.

Other Matters

The results of our auditing procedures disclosed instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying schedule of findings and questioned costs as item 2016-001. Our opinion on the major federal program is not modified with respect to this matter.



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

Report on Internal Control Over Compliance

Management of SFMTA 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 SFMTA's internal control over compliance with the types of requirements that could have a direct and material effect on the major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for the major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 SFMTA'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 a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as item 2016-001 that we consider to be a significant deficiency.

SFMTA's response to the internal control over compliance finding identified in our audit is described in the accompanying schedule of findings and questioned costs. SFMTA's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards and State and Local Matching Funds Required by the Uniform Guidance

We have audited the financial statements of SFMTA as of and for the year ended June 30, 2016, and have issued our report thereon dated October 21, 2016, which contained an unmodified opinion on those basic financial statements. Our audit was conducted for the purpose of forming an opinion on the basic financial statements as a whole. The accompanying schedule of expenditures of federal awards and state and local matching funds is presented for purposes of additional analysis as required by the Uniform Guidance and is not a required part of the basic financial statements. Such information 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. The 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 and state and local matching funds is fairly stated in all material respects in relation to the basic financial statements as a whole.

KPMG LLP

San Francisco, California
January 20, 2017

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY
 Schedule of Expenditures of Federal Awards and State and Local Matching Funds
 Year ended June 30, 2016

Federal Agency/ Pass Through Entity/ Project Number	Grant Title	Grant Number	Catalog of Federal Domestic Assistance Number	Total Award Amount	Expenditures July 1, 2015 to June 30, 2016			
					Total Federal Awards and State and Local Matching Funds	Federal Share	Amount Provided to Subrecipients	
Department of Transportation:								
Federal Transit Cluster:								
Federal Transit Administration Capital Improvement Grants:								
Various CPTs	FY 2005 Section 5309 Fixed Guideway	CA-03-0708	20.500	\$ 29,022,954	36,065	19,669	—	
CPT544	FY 2007 Section 5309 New Starts	CA-03-0767	20.500	1,578,300,000	145,063,594	82,343,591	—	
CPT640	FY 2009 Section 5309 Fixed Guideway	CA-03-0811	20.500	19,245,000	4,669,068	3,610,812	377,409	
CPT592	FY 2006 Section 5309 Bus & Facilities	CA-04-0008	20.500	4,300,711	904,630	705,685	—	
CPT432, CPT655 and CPT676	FY 2011 Section 5309 Bus & Facilities	CA-04-0196	20.500	75,263,322	7,845,538	4,259,713	—	
CPT662 and CPT699	FY 2013 Section 5309 Bus Livability	CA-04-0278	20.500	7,940,000	458,063	418,540	—	
CPT713	FY 2015 Section 5309-1 Bus and Facilities	CA-03-0827	20.500	11,244,033	11,244,033	8,995,226	—	
Various CPTs	FY 2007 Section 5309 Fixed Guideway	CA-05-0215	20.500	58,184,279	1,849,747	1,473,326	—	
Various CPTs	FY 2008 Section 5309 Fixed Guideway	CA-05-0225	20.500	51,475,522	1,401,922	1,116,981	—	
Various CPTs	FY 2009 Section 5309 Fixed Guideway	CA-05-0241	20.500	46,663,219	8,278,416	6,474,715	—	
Various CPTs	FY 2011 Section 5309 Fixed Guideway	CA-05-0259	20.500	83,324,511	34,939,385	29,700,794	—	
Various CPTs	FY 2012 Section 5309 Fixed Guideway	CA-05-0272	20.500	85,911,197	29,237,440	24,792,206	—	
Various CPTs	FY 2010 Section 5309 Fixed Guideway	CA-05-0742	20.500	78,515,881	29,903,095	24,913,197	104,143	
CPKA46	FY 2008 Section 5312 High Priority Projects	CA-55-0002	20.500	6,298,598	177,686	177,686	—	
Total Capital Improvement Grants					<u>2,135,689,227</u>	<u>276,008,682</u>	<u>189,002,141</u>	<u>481,552</u>
Federal Transit Administration Capital and Operating Assistance Formula Grants:								
Various CPTs	FY 2002 Section 5307 Urban Area Formula	CA-90-Y124	20.507	98,262,174	122,924	108,983	—	
Various CPTs	FY 2007 Section 5307 Urban Area Formula	CA-90-Y533	20.507	39,818,104	2,706,842	2,298,468	—	
Various CPTs	FY 2008 Section 5307 Urban Area Formula	CA-90-Y624	20.507	47,712,174	3,016,820	2,603,711	—	
Various CPTs	FY 2009 Section 5307 Urban Area Formula	CA-90-Y749	20.507	38,627,761	238,362	100,704	—	
Various CPTs	FY 2010 Section 5307 Urban Area Formula	CA-90-Y822	20.507	29,093,795	324,311	645	—	
Various CPTs	FY 2011 Section 5307 Urban Area Formula	CA-90-Y905	20.507	18,611,668	—	—	—	
Various CPTs	FY 2012 Section 5307 Urban Area Formula	CA-90-Y995	20.507	12,372,214	1,625,553	1,325,017	—	
Various CPTs	FY 2013 Section 5307 Urban Area Formula	CA-90-Z086	20.507	66,109,236	7,902,518	7,131,060	—	
CPT697	FY 2014 Section 5307-3 Urbanized Formula	CA-95-X340	20.507	10,305,649	—	—	—	
CPKE05	FY 2010 Section 5307 CMAQ – SFGO	CA-95-X150	20.507	21,813,848	1,139,249	1,136,449	—	
CPT667	FY 2011 Section 5307 CMAQ – Market and Haight	CA-95-X164	20.507	4,448,200	—	—	—	
Various CPTs	FY 2012 Section 5307 STP – Phelan Loop	CA-95-X179	20.507	2,433,548	1,222,904	1,011,982	—	
CPKF59	FY 2013 Section 5307 STP – Signals	CA-95-X199	20.507	584,000	91,667	29,994	—	
Various CPTs	FY 2013 Section 5307 CMAQ & STP	CA-95-X219	20.507	59,305,783	17,995,050	15,266,495	—	
CPT544	FY 2014 Section 5307 Formula Grants	CA-95-X303	20.507	14,117,248	3,227,487	3,227,487	—	
CPT713 and GPT209	FY 2014 Section 5307 Formula Grants	CA-90-Z180	20.507	76,587,858	60,086,765	48,466,007	—	
Various CPTs and GPTs	FY 2015 Section 5307 Formula Grant	CA-90-Z239	20.507	37,494,464	36,001,575	29,441,806	—	
Total Capital/Operating Assistance Formula Grants:					<u>577,697,724</u>	<u>135,702,027</u>	<u>112,148,808</u>	<u>—</u>
State of Good Repair Program:								
Various CPTs	FY 2013 Section 5337 State of Good Repair	CA-54-0010	20.525	38,190,108	2,341,271	1,544,045	—	
CPT404 and CPT632	FY 2014 Section 5337 State of Good Repair	CA-54-0026	20.525	21,589,190	—	—	—	
CPT404 and CPT995	FY 2015 Section 5337 State of Good Repair	CA-54-0042	20.525	30,947,929	—	—	—	
Total State of Good Repair Program					<u>90,727,227</u>	<u>2,341,271</u>	<u>1,544,045</u>	<u>—</u>
Total Federal Transit Cluster					<u>2,804,114,178</u>	<u>414,051,980</u>	<u>302,694,994</u>	<u>481,552</u>
Public Transportation Research	FY 2012 Section 5314 TCSP – SFGO	CA-26-0057	20.514	271,683	7,947	7,947	—	

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY
 Schedule of Expenditures of Federal Awards and State and Local Matching Funds
 Year ended June 30, 2016

Federal Agency/ Pass Through Entity/ Project Number	Grant Title	Grant Number	Catalog of Federal Domestic Assistance Number	Total Award Amount	Expenditures July 1, 2015 to June 30, 2016			
					Total Federal Awards and State and Local Matching Funds	Federal Share	Amount Provided to Subrecipients	
Federal Highway Administration: Beyond Traffic: The Smart City Challenge								
CPT789	FY 2016 Beyond Traffic: The Smart City Challenge	DTFH6116H00012	20.200	\$ 100,000	100,000	100,000	—	
Pass-through Programs, State of California: Highway Research and Development Program								
CPKA37	FY 2009 Value Pricing Pilot – SF Park	VPPTCSPL-6328(015)	20.200	42,250,000	177,972	177,972	—	
Sustainable Transportation Planning Grants:								
CPT746	FY 2016 Section 5304 Sustainable Communities	74A0879	20.505	334,410	7,302	6,551	—	
Transit Services Program Cluster: New Freedom Program								
CPT679	FY 2012 Section 5317 New Freedom	CA-57-X077	20.521	250,000	6,892	5,522	—	
Highway Planning and Construction Cluster: Federal Transit Administration								
CPT684	FY 2013 TIGER – Mission Bay	CA-79-0002	20.205	13,046,705	646,969	454,353	—	
Pass-through Programs, State of California:								
CPKP84 and CPKF65	FY 2009 Safe Routes to Schools – Chinatown	SRTSL-6328(019)	20.205	673,370	96,907	96,907	—	
CPKG32	FY 2013 Highway Safety Improvement – Rail Signals	HSIPL 6328 (041)	20.205	988,000	77,302	67,709	—	
CPKP78	FY 2008 CMAQ – Bike Network	CML-6328(014)	20.205	115,000	—	—	—	
CPKP83	FY 2008 CMAQ – Tenderloin	CML-6328(017)	20.205	452,100	—	—	—	
CPKP82	FY 2008 CMAQ – Golden Gate Park	CML-6328(018)	20.205	163,000	—	—	—	
CPKF91	FY 2011 CMAQ – Outer Sunset	CML-6328(052)	20.205	621,571	(19,515)	(19,515)	—	
CPKE70	FY 2013 Highway Safety Improvement – Crosswalks	HSIP-6328(047)	20.205	351,827	66,051	68,493	—	
CPKG55	FY 2014 Highway Safety Improvement – Polk	HSIP-6328(068)	20.205	1,575,000	112,412	97,413	—	
CPKA43	FY 2009 Highway Safety Improvement – Fulton	HSIPL-6328(026)	20.205	115,613	—	(7,682)	—	
CPKA76 and CPKF58	FY 2009 Highway Safety Improvement – Bayshore/Paul	HSIPL-6328(031)	20.205	395,572	21,200	21,200	—	
CPKF72	FY 2011 Highway Safety Improvement – Sunset	HSIPL-6328(039)	20.205	938,798	(16,079)	(16,079)	—	
CPKE70	FY 2012 Highway Safety Improvement – Crosswalks	HSIPL-6328(047)	20.205	78,000	2,156	2,156	—	
CPKE89	FY 2012 Highway Safety Improvement – Masonic	HSIPL-6328(048)	20.205	992,104	79,686	12,352	—	
CPKG68	FY 2016 and 2017 Highway Safety Improvement – S Van Ness Pedestrian Signals Projects	HSIPL-6328(069)	20.205	1,840,993	108,760	88,001	—	
CPKG21	FY 2013 Pedestrian Safety & Encouragement Campaign	RPSTLE 6328(060)	20.205	851,000	94,233	94,233	—	
CPKP80 and CPKP81	FY 2008 STIP Transportation Enhancement	RPSTPLE-6328(012)	20.205	313,000	—	—	—	
CPKE64 and CPKF43	FY 2011 STIP Transportation Enhancements	RPSTPLE-6328(035)	20.205	790,170	—	—	—	
CPKF53	FY 2011 STIP Transportation Enhancement – Church	RPSTPLE-6328(036)	20.205	47,000	—	—	—	
CPKE65	FY 2012 STIP Transportation Enhancement – Bike	RPSTPLE-6328(042)	20.205	235,000	9,233	9,233	—	
CPKG90	FY 2015 STIP Transportation Enhancement - Crosswalks	RPSTPLE-6328(064)	20.205	250,000	35,981	35,981	—	
CPKA50 and CPKG18	FY 2009 Safe Routes to Schools – Jefferson	SRTSL-6328(020)	20.205	589,000	48,578	48,578	—	
CPKE32	FY 2011 Safe Routes to Schools – Alamo	SRTSL-6328(040)	20.205	690,533	438,167	438,167	—	
CPKF44	FY 2012 Safe Routes to Schools – Demna	SRTSL-6328(050)	20.205	1,154,293	83,083	58,518	—	
CPKE98	FY 2012 Safe Routes to Schools – Tenderloin	SRTSL-6328(051)	20.205	894,094	349,072	349,072	—	
Various	FY 2013 Regional Priority Development Area – PDA	STPL-6328(063)	20.205	2,688,962	554,567	492,309	274,302	
CPKF70 and CPKG36	FY 2013 Surface Transportation – Mansell Corridor Complete Streets	STPL-6328(066)	20.205	6,186,987	3,096,886	1,114,176	—	
CPKG87	FY 2015 State Transportation Improvement – Twin Peaks Connectivity	STPL-6328(072)	20.205	190,589	44,440	48,839	—	
CPKG39	FY 2009 Value Pricing Pilot – SF Parking Pricing	VPPL-6328(065)	20.205	525,000	227,228	223,417	—	
CPKG13	FY 2010 Value Pricing Pilot – Bike Sharing	VPPL-6328(054)	20.205	1,880,300	6,032	6,032	—	
CPKA87	FY 2010 Value Pricing Pilot – Parking Guidance	VPPL-6328(022)	20.205	4,500,000	563,678	224,748	—	
CPKH64	FY 2015 State Active Transportation Program Cycle 1 – SF Safer Street Campaign	ATPLNI-6328(073)	20.205	2,000,000	216,552	216,552	—	
	Total pass-through programs, State of California			33,086,876	6,296,610	3,770,810	274,302	

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY
 Schedule of Expenditures of Federal Awards and State and Local Matching Funds
 Year ended June 30, 2016

Federal Agency/ Pass Through Entity/ Project Number	Grant Title	Grant Number	Catalog of Federal Domestic Assistance Number	Total Award Amount	Expenditures July 1, 2015 to June 30, 2016		
					Total Federal Awards and State and Local Matching Funds	Federal Share	Amount Provided to Subrecipients
Pass-through Programs, Metropolitan Transportation Commission: CPKA44	FY 2009 Eastern Neighborhoods	EN TRIPS	20.205	\$ 937,500	—	—	—
	Total Highway Planning and Construction Cluster			47,071,081	6,943,579	4,225,163	274,302
	Total Department of Transportation			2,894,391,352	421,295,672	307,218,149	755,854
Department of Homeland Security: CPT590 CPT720 CPT720 & CPT764 CPT720 & CPT764	FY 2015-19 TSA Canine Team Program	HSTS0215-HNCP480	97.072	1,262,067	229,240	229,240	—
	FY 2013 Transit Security Program	EMW-2013-RA-00060	97.075	2,999,500	691,322	691,322	—
	FY 2014 Transit Security Program	EMW-2014-RA-00035	97.075	2,811,905	2,655,436	2,655,436	—
	FY 2015 Transit Security Program	EMW-2015-RA-00033	97.075	4,662,804	235,636	235,636	—
	Total Transit Security Program			10,474,209	3,582,394	3,582,394	—
	Total Department of Homeland Security			11,736,276	3,811,634	3,811,634	—
Total Expenditures of Federal Awards and State and Local Matching Funds				\$ 2,906,127,628	425,107,306	311,029,783	755,854

See accompanying notes to schedule of expenditures of federal awards and state and local matching funds and independent auditors' report on compliance for each major program; report on internal control over compliance; and report on schedule of expenditures of federal award and state and local matching funds as required by Uniform Guidance

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Notes to Schedule of Expenditures of Federal Awards and State and Local Matching Funds

June 30, 2016

(1) General

The accompanying Schedule of Expenditures of Federal Awards and State and Local Matching Funds presents activity of the federal award programs of the San Francisco Municipal Transportation Authority (SFMTA). SFMTA's reporting entity is defined in note 1 to SFMTA's basic financial statements. This program is a component of the City and County of San Francisco, and the report is issued at the request of management. All federal awards received directly from federal agencies as well as federal awards passed through other government agencies are included in the Schedule of Expenditures of Federal Awards and State and Local Matching Funds.

(2) Basis of Accounting

The accompanying Schedule of Expenditures of Federal Awards and State and Local Matching Funds is presented using the accrual basis of accounting, which is described in note 2 to SFMTA's basic financial statements.

(3) Federal Loan and Loan Guarantee Programs

SFMTA did not expend any federal funds to support loan programs or loan guarantee programs. SFMTA do not have federal loans balances outstanding as of June 30, 2016.

(4) Indirect Cost Rate

SFMTA have negotiated an indirect cost rate with the Federal Transit Administration. SFMTA have elected not to use the 10% de minimis cost rate.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

(1) Summary of Auditors' Results

(a) Type of report on whether the financial statements were prepared in accordance with generally accepted accounting principles: **Unmodified**

(b) Internal control deficiencies over financial reporting disclosed by the audit of the financial statements:

- Material weaknesses: **No**
- Significant deficiencies: **No**

(c) Noncompliance material to the financial statements: **No**

(d) Internal control deficiencies over major programs disclosed by the audit:

- Material weakness: **No**
- Significant deficiencies: **Yes**

(e) Type of report issued on compliance for major programs: **Unmodified**

(f) Audit findings that are required to be reported in accordance with 2 CFR 200.516(a): **Yes**

(g) Major Program:

- Federal Transit Cluster (CFDA No. 20.500, 20.507, and 20.525)

(h) Dollar threshold used to distinguish between Type A and Type B programs: **\$3,000,000**

(i) Auditee qualified as a low-risk auditee: **Yes**

(2) Findings Relating to the Financial Statements Reported in Accordance with *Government Auditing Standards*

None

(3) Findings and Questioned Costs Relating to Federal Awards

Finding Number	2016-001 Allowable Costs/Activities
Federal Program	Federal Transit Cluster Highway Planning and Construction
Federal Catalog Number	20.500, 20.507, 20.525, 20.205
Federal Agency	Department of Transportation
Pass Through Grantor	State of California (Highway Planning and Construction) Metropolitan Transportation Commission (Highway Planning and Construction)

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Federal Award Year 2006 - 2016

Criteria

Per 2 CFR part 200, subpart D, section 200.303, the non-federal entity must establish and maintain effective internal control over the federal award that provides reasonable assurance that the non-federal entity is managing the federal award in compliance with federal statutes, regulations, and the terms and conditions of the federal award.

Condition

SFMTA utilizes Time Control to record and approve time for its users. We found that SFMTA did not properly design or implement certain IT controls over information technology environment, including access and change management. IT general controls should be properly designed and operating effectively to help ensure application controls function properly.

Specifically, we identified the following:

- 38 out of 400 active users bypassed the existing password settings; therefore, did not need to use a password to access their timesheets. Specifically, 1 out of the 38 active users was a timesheet approver that was not authenticated through active directory and did not need a password to log into Time Control to approve time. The specific approver identified is an approver for 39 users; therefore, these 39 users have a risk of inappropriate time approval. The specific approver identified was removed from the active directory on April 23, 2016; therefore, the timeframe of which the specific approver did not need to use their password to approve time for the 39 users is April 23 2016 through June 30, 2016;
- 14 out of 400 timekeepers that should have limited administrator access have roles in the system which includes full administrator privileges, allowing access to perform application configuration changes and administer other user access rights;
- 2 users' system access was not deactivated timely; specifically, 1 user was not disabled in a timely manner from employee termination date and we noted 1 shared account with access to network administration and had logged onto the network after termination date. The account was deactivated following the year-end;
- There are no standard and documented policies over adding new users, password parameters, job scheduling, and change management process; and
- There is no formal review from authorized personnel in place when adding new users to Time Control. Additionally this review does not include a review of new and existing users' key roles and permissions.

Questioned Costs

The total questioned costs is \$35,854, specifically related to the payroll and indirect costs of the 39 users where their approver was not authenticated through active directory from April 23, 2016 to June 30, 2016. Of the \$35,854, \$9,189 is related to the Federal Transit Cluster Program, and \$26,665 is related to the Highway Planning and Construction program.

SAN FRANCISCO MUNICIPAL TRANSPORTATION AGENCY

Schedule of Findings and Questioned Costs

Year ended June 30, 2016

Cause and Effect

Ineffective general IT controls over the time keeping system and infrastructure, resulted in noncompliance with 2 CFR 200.

Statistical Sampling

None

Prior Year Repeat Finding

No

Recommendation

We recommend that management strengthen the general IT controls over Time Control. Specifically, SFMTA should:

- (1) Ensure all users and approvers are authenticated through active directory;
- (2) Assign and limit full administrator rights to administrative personnel;
- (3) Remove terminated employees from the system on a timely basis;
- (4) Ensure all terminated users, including shared account, are removed from the system in a timely manner;
- (5) Implement standard and written policies over adding new users, password parameters, and change management; and
- (6) Implement a formal review process to review new and existing users and their key roles and permissions.

Views of Responsible Officials

SFMTA agrees with the finding but believes the questioned costs is immaterial given the size of the overall capital program.

While SFMTA remains confident that controls in place during the time period mitigated concerns raised during the audit. It has implemented several steps to address the finding:

- All active users have been directly linked to the Active Directory;
- Modified the full administrator rights profile to prohibit changes to the user security profile field;
- TimeControl receives data every pay period on terminated employees from PeopleSoft via an electronic file and makes the necessary changes to terminate access in TimeControl;
- Password change and rotation requirements have been implemented. A formal change management process was established in November 2015; and
- Division Directors will be required to confirm personnel listing using TimeControl (and their roles) on an annual basis.



CITY AND COUNTY OF SAN FRANCISCO

FY 2016-17 Audit Service Plan

PRESENTED BY:
MACIAS GINI & O'CONNELL LLP

MAY 17, 2017



Certified
Public
Accountants

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Recent Developments in
Accounting and Reporting

Transmittal Letter

May 17, 2017

On behalf of Macias Gini & O'Connell LLP (MGO), we are pleased to present our 2017 Audit Service Plan (Plan) for the City and County of San Francisco (City) for the year ended June 30, 2017. In preparing our Plan we have drawn on our experience in serving the City in prior years and numerous governmental entities within California. This Plan presents our engagement service teams; timeline for deliverables; highlights our audit approach, scope and objectives; incorporates some of the key audit issues facing the City; and summarizes audit responsibilities under *Government Auditing Standards*, issued by the Comptroller General of the United States. Also included in this document is a summary of recent technical developments in governmental accounting and financial reporting that may impact the City over the next few years.

We are committed to serving the City so that citizens, elected officials, management, grantor agencies and creditors continue to have the utmost confidence in the City's financial statements, internal control systems and compliance with laws and regulations. We dedicate the resources of our team and provide ongoing access to our very best resources to exceed the City's expectations.

We appreciate the opportunity to be of service and look forward to discussing the highlights of our Plan with the City.

Very truly yours,



Cynthia Pon, CPA, CGMA
MGO Partner

SECTION 1

Executive Summary

mGO

Our goal is to continuously exceed the expectations of the City and to focus the resources of our firm in providing efficient, cost effective and high-quality services to the City.

MGO OBJECTIVES

Our mission is to be the professional service firm that consistently exceeds the expectations of our clients and our people. Our objective is to deliver seamless, high quality, timely service to the City in all areas in which we provide professional services. In addition to assurance services these include accounting and consultation, advisory, tax, and other specialized services. We will meet our objectives by identifying opportunities to provide value-added services to the City.

In order to accomplish this, we will:

- Identify and resolve reporting, accounting and audit issues timely and effectively;
- Regularly communicate with City management;
- Complete our audits on a timely basis;
- Provide seamless service across the organization;
- Understand your organization, culture, programs and services;
- Provide the suited experienced professionals;
- Utilize specialists where unique skill sets are required;
- Apply our technical knowledge to identify solutions to organizational and financial issues;
- Respond to critical issues with a sense of urgency;
- Act as another set of “eyes and ears”;
- Meet all deadlines; and
- Communicate key findings to the oversight bodies and management.

OUR FOCUS IS ON THE CITY'S CRITICAL AUDIT AREAS AND OPERATION CHANGES

Through planned face-to-face meetings with members of the Chair of the Government Audit & Oversight Committee, the Retirement Board, the Mayor's Office, the Controller's Office, and key management personnel throughout the year, we will directly ascertain the City's expectations of us and we will communicate our responsibilities under professional standards. We will listen to what members of management expect from us and ask them to tell us what service attributes are most important to them. We will use this information to develop a comprehensive audit approach to respond to identified issues and service needs for the City.

AUDIT SERVICES

Our audit services emphasize comprehensive planning and risk assessment to fulfill our professional responsibilities and enable us to be responsive to the needs of the City.

OUR SERVICE TEAMS

An important part of successfully implementing our plan is identifying and utilizing the appropriate resources. We have selected engagement teams that are committed to carrying out our service plan. Cynthia Pon, Lead Partner, leads our service team and will coordinate the audits performed by MGO. The Engagement Team section lists the key individuals assigned to the City's individual funds and component units.

QUALITY AND RESPONSIVE SERVICE

We provide service, which stresses responsive attention year-round. Close communication with our clients is one of our top service qualities – it is the only way we serve our clients. We will work with you as business advisors, and we will place special emphasis on being actively involved in understanding all significant financial and reporting matters. Accordingly, we will meet with you regularly to stay abreast of your service needs and special concerns. You can call upon us as a resource at any time.

AUDIT APPROACH

Our audit approach carefully considers the identification of key risk areas and allocation of appropriate resources. Professionals with extensive auditing and accounting experience lead all phases of our audit. With our experienced leaders in the field, our efficiency and effectiveness increase when dealing with complex accounting and auditing issues.

Our audit procedures include analytical reviews, verification of balances and transactions based on independent supporting documentation using statistical and judgmental sampling techniques, confirmation of key balances, and analysis of key assumptions supporting significant estimates made by management.

This document further presents discussions on our approach to the services we will provide to the City, details our framework for planning and performing the audit, and sets forth our audit scope and timing.

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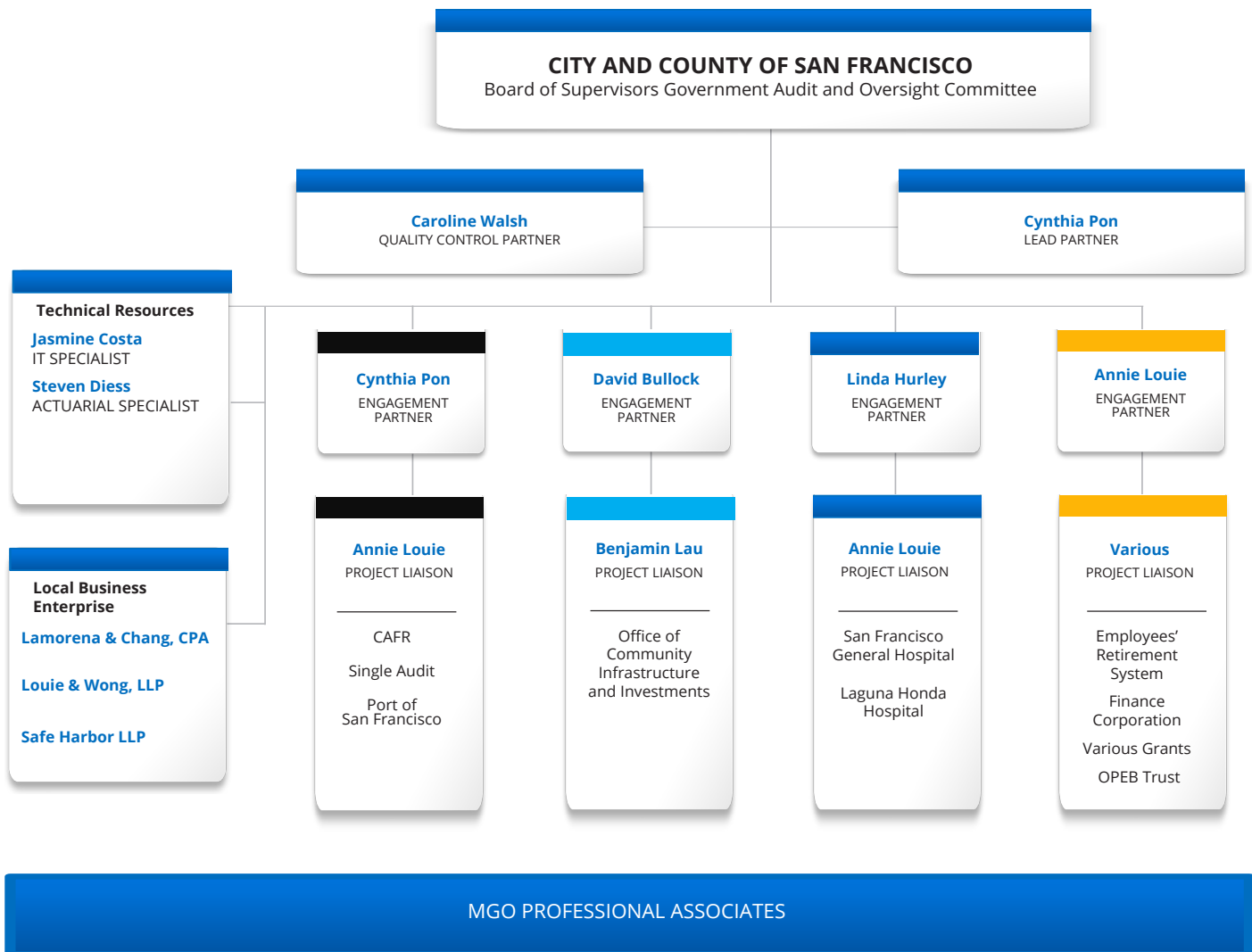
SECTION 2

The Engagement Team

mGO

Engagement Team

The engagement teams selected to serve the City represents the strong, balanced blend of talent, professional skills, and industry experience that is most critical to working effectively with local governments of your size and complexity. The MGO Team is integrated to allow us to respond to your needs. We are committed to providing the resources necessary to meet the timeline that has been established by the City. This commitment includes providing the appropriate number and level of staffing to meet your needs.



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SECTION 3

Audit Timing

mGO

We recognize the importance of timely completion of audit tasks and deliverables. The timing of our audit procedures will be coordinated with management to minimize disruption of City operations and to ensure timely delivery of all reports by your deadlines.

Government-related entities often depend on a structure of interlocking relationships for managing broad programs and resources. Our philosophy for a successful engagement is based on organization,

communication, and coordination between the two parties responsible for the completion of the audit – the accounting firm and the client. We take coordination seriously and regard it as an integral factor to the relationship. We welcome the City's involvement in the planning process and believe that monitoring progress will result in timely financial reporting.

We are committed to delivering the City's various reports according to the City's proposed time plan.

AUDIT TIMELINE	Group 1 - General City	Group 2 - Employees' Retirement System	Group 3 - Successor Agency	Group 5 - Hospitals	Group 7 - Port	Group 8 - Finance Corporation	Group 11 - State of California Grants	Group 12 - Retiree Health Benefit Trust
Planning and Execution of Tests of Controls								
Planning meetings with key management and governing boards	May - July	May - July	May - July	May - July	May - July	May - July	May - July	May - July
Submit Audit Plan to the Board's Government Audit and Oversight Committee	05/17	05/17	05/17	05/17	05/17	05/17	05/17	05/17
On-site planning and execution of tests of controls	May - June	July	July	May - June	July	May - June	09/26 - 10/07	May - June
Single Audit planning and preliminary program compliance tests	May - Aug	n/a	July	n/a	n/a	n/a	n/a	n/a
Execution of Substantive Procedures								
Auditors' receipt of draft financial statements, including notes, management's discussion and analysis (MD&A), and all other client-prepared documents	10/02	09/25	09/18	09/11	09/11	10/02	09/18	10/02
On-site year-end fieldwork	10/02 - 11/17	09/25 - 10/06	09/18 - 9/29	09/11 - 10/06	09/11 - 10/06	10/02 - 11/17	09/18 - 09/29	10/02 - 11/17
Completion of Single Audit tests	12/29	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Completion of Gann Agreed-Upon Procedures	07/28	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Completion Procedures and Communications								
Issuance of final basic financial statements	11/17	10/20	10/20	(1)	10/20	10/20	10/20	11/17
Issuance of Gann Agreed-Upon Procedures Report	07/28	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Issuance of Single Audit Reports	01/26/18	n/a	01/26/18	n/a	n/a	n/a	n/a	n/a
Issuance of management letter comments, if applicable	12/19	10/20	(2)	(2)	(2)	(2)	(2)	(2)
Present Audit Results to the Board's Government Audit & Oversight Committee	March 2018	March 2018	March 2018	March 2018	March 2018	March 2018	March 2018	March 2018

(1) The hospitals' financial statements are incorporated into and reported with the General City's basic financial statements.

(2) Management letter comments for these groups, if applicable, will be combined with Group 1's letter.

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SECTION 4

The Audit Process

mGO

PLANNING

TIMELY INVOLVEMENT WITH RISKS AND ISSUES

Planning the City's audits is a continuous process. Our ongoing attention to changes in the City's economic and operating environment enables us to react to changing circumstances and unanticipated events and enhances our understanding of the City. The objectives of the planning phase are to develop an audit plan that 1) effectively and efficiently meets our professional responsibilities and 2) meets or exceeds the expectations and needs of City management, the Mayor, and the governing boards.

To accomplish our planning objectives, we will:

- Document our understanding of the internal and external factors affecting the City, which enables us to identify and evaluate relevant areas of risk.
- Document our understanding of the City's control environment, accounting systems and control procedures for significant audit areas and transaction streams.
- Finalize an audit plan that identifies critical audit areas and procedures to address identified risks.
- Ensure that our plan provides appropriate audit coverage.
- Coordinate our audit services with the support of management for maximum efficiency.
- Develop and execute an audit plan that is designed to deliver our services effectively and efficiently and provides a basis for the issuance of our opinions.
- Strive to add value.

CLIENT SERVICE PROGRAM

Through our client service program, the City receives the direct attention of one of our most knowledgeable and experienced professionals, Cynthia Pon.

Cynthia will review our annual client service plan and the reports prepared on the results of each year's work, and the assignment of personnel to the engagement. In addition, she will assure that your specialized needs receive priority access to top resources from anywhere in our organization.

ENVIRONMENTAL ASSESSMENT

In addition, our planning process evaluates the City's financial reporting risks based on the broader environment, drawing upon our knowledge of economic and operational changes affecting the City, including the impact of:

- Fiscal condition of the state and local governments
- Legislative and regulatory developments
- Emerging pension issues

EXECUTION

PERFORMANCE – EXECUTION OF AUDIT PLAN

Our audit scope must be designed to provide sufficient audit coverage to enable us to express an opinion on the City's financial statements, as well as addressing all known audit risks, which could materially impact the City's financial statements.

Execution generally includes the following steps:

- Performance of audit tests and evaluation of results
- Development of organizational insights
- Review of financial statements, financial statement disclosures and subsequent events
- Obtaining management representations

During the course of the audit, we use our knowledge gained during the planning phase related to your current organizational strategies, economic conditions, internal control, and the identified risks to tailor our audit procedures.

APPROACH TO CRITICAL AUDIT AREAS

We have identified certain critical audit areas facing the City. During our planning phase of the audit, we expand our understanding of these critical audit areas and obtain further information as needed in order to appropriately design audit procedures to address these issues.

Other Postemployment Benefits (OPEB) – The City administers an agent multiple employer, defined benefit OPEB plan. In FY 2016-17, the OPEB Plan will implement the provisions of GASB Statement No. 74 *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This statement requires more extensive note disclosures and Required Supplementary Information (RSI) related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. Our audit approach will focus on the reasonableness of actuarial assumptions in the actuarial valuation, calculations for other postemployment benefits, and adherence to the new financial reporting standard.

Single Audit - Uniform Guidance – Effective December 26, 2014, state and local governments receiving federal awards were subject to the new Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance), issued by the Office of Management and Budget (OMB). As a result, expenditures of federal awards under grant awards and revisions made after this date were subject to these new requirements. As your auditors, we have a responsibility to determine if the City complied with laws, regulations, and the provisions of contracts or grant agreements pertaining to federal awards that have a direct and material effect on each major program. We will consider the policies and procedures implemented to ensure

applicable compliance requirements, including those pertaining to the new Uniform Guidance.

Investment Valuations – The Retirement System manages an investment portfolio that includes derivatives and other alternative investments. Fair value determination for these investments involve significant judgment. We will apply audit procedures to the valuation of investments and evaluate key factors and assumptions used to develop the estimates.

Patient Service Revenues – 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. We will apply audit procedures to the revenue estimates and cost recognition methods related to reimbursement rates, third party payors, health care contracts or commitments and guarantees.

Long Term Debt – The primary function of the City's Finance Corporation is to act as a financing vehicle for the City. To finance these projects, the Finance Corporation relies on base payments received from the City. Our audit approach will include an assessment of compliance with the significant terms of the bond covenants.

TIMING OF OUR WORK

We have timed our work to coincide with key activities that are taking place in the City throughout the year. The Audit Timing section of this Plan outlines the timing of our procedures.

THE RESULT

Our process is designed to enable us to issue the independent auditor's report within the agreed upon timeline. The result of our work will also include the timely delivery of observations and suggestions regarding the control environment and operations of your organization. Such communications will be delivered both formally, through the report to management, as well as informally through regular meetings with management.

REPORTING

SCOPE AND RESPONSIBILITY

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America (GAAS) and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States for the purpose of expressing opinions on the fair presentation of the City's financial statements in conformity with U.S. generally accepted accounting principles. In addition, we will perform certain limited procedures involving required supplementary information mandated by the Governmental Accounting Standards Board as required by GAAS. Our audits are designed to obtain reasonable (as opposed to absolute) assurance about whether the financial statements are fairly presented.

The City's Comprehensive Annual Financial Report (CAFR) presents financial information on the activities of the City for which the Mayor and the Board of Supervisors have oversight, governing, and budgeting responsibilities. The CAFR encompasses the basic financial statements and other financial and statistical information including combining statements of individual funds, supporting schedules, ten-year trend data, and various other statistical data.

FINANCIAL STATEMENTS AUDITED BY OTHER AUDITORS

Separate financial statements for certain funds and organizations that are presented in the City's CAFR are audited by other firms:

- San Francisco County Transportation Authority
- Group 4 – Health Service System
- Group 6 – San Francisco International Airport
- Group 9 – Public Utilities Commission (PUC) including the Water Department, Hetch Hetchy Water and Power, and the Wastewater Enterprise
- Group 10 – Municipal Transportation Agency which includes the parking garage nonprofit organizations

The audit plans for these entities are not included in this document. Our report on the City's basic financial statements will make reference to the reports of the auditors of the City's individual fund and component unit reports not audited by MGO as noted above.

The basic financial statements are the responsibility of management. In this regard, management has the responsibility for properly recording transactions in the accounting records, for adjusting the financial statements to correct material misstatements, for making appropriate accounting estimates, for safeguarding assets, and for the overall accuracy of the financial statements and their conformity with accounting principles generally accepted in the United States of America.

In addition, we will conduct a single audit of the City in accordance with the Uniform Guidance. The audit will be the financial and compliance type described in *Government Auditing Standards*. The Single Audit will not include federal expenditures of the San Francisco County Transportation Authority, the International Airport, the Municipal Transportation Agency (MTA), and the Successor Agency to the Redevelopment Agency, which issue separate single audit reports.

REPORTING RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES OF AMERICA

We will also report directly to management and to you matters coming to our attention during the course of our audit that we believe are deficiencies. 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 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.

In addition to communications about our responsibilities under U.S. generally accepted auditing standards and the planned scope and timing of the audit, we will communicate to you certain other matters related to the conduct of our audit, including where appropriate the following matters:

- Qualitative Aspects of Accounting Practices
- Difficulties Encountered in Performing the Audit
- Corrected and Uncorrected Misstatements
- Disagreements with Management
- Management Representations
- Management Consultations with Other Independent Accountants
- Other Audit Findings or Issues
- Required Supplementary Information

- Other Supplementary Information
- Other Information in Documents Containing Audited Financial Statements

MANAGEMENT COMMENTS

One of the primary service objectives is to make constructive and timely recommendations and to provide advice to you and management on matters we believe warrant attention. We have tailored our audit approach to focus on those risks that are important to achieving control and reporting objectives. We have the benefit of being objective outsiders in considering the information we gather. The result is that we are able to add the perspective of our experience and expertise to translate our audit findings into recommendations and insights concerning existing or potential problems. We will keep management and you apprised of any matters that we believe warrant consideration whenever they come to our attention.

ASSESSMENT – CLIENT SERVICE SATISFACTION

Annually we obtain direct feedback from our clients about their satisfaction level with MGO services. We have partnered with a satisfaction research firm, Inavero, to conduct brief 3-question surveys that allow you to rate our services and share your valuable input. In addition to communicating with management regarding the effectiveness of our services, we use the survey results to identify areas to focus on in order to increase your satisfaction with our service delivery.

Once we receive your response and feedback, we'll identify opportunities to add value; to identify the most experienced people within our organization to best respond to the City's needs; and to monitor the delivery of such services to ensure we exceed your service expectations.

In addition, we will hold recurring meetings between MGO and the City's management to discuss emerging issues. The key objective of these meetings is to consolidate our combined knowledge of the City's organizational changes and new programs or initiatives. These meetings will result in a better understanding of the challenges facing the City and will enable us to proactively identify opportunities and bring creative ideas to the attention of the City's management.

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SECTION 5

Engagement Communications

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We are pleased to confirm our understanding of the services we are to provide the City and County of San Francisco (City) for the year ended June 30, 2017. We will audit the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information and the discretely presented component unit, including the related notes to the financial statements, which collectively comprise the basic financial statements, of the City as of and for the year ended June 30, 2017. Our report on the City's basic financial statements will make reference to the auditors' reports on the City's individual funds and component units not audited by Macias Gini & O'Connell LLP (MGO).

In addition to our audit of the basic financial statements of the City, we will also perform the following:

- Audit and separately report on the individual financial statements of the San Francisco City and County Employees' Retirement System, the Successor Agency to the Redevelopment Agency, Port of San Francisco, the San Francisco Finance Corporation, and the Retiree Health Benefit Trust.
- Audit and separately report on compliance with federal award programs in accordance with Office of Management and Budget (OMB) *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* set forth in Title 2 CFR, Subtitle A, Chapter II, Part 200 (Uniform Guidance).
- Separately audit the San Francisco General Hospital and the San Francisco Laguna Honda Hospital enterprise major funds. Separate stand-alone reports are not required by the City.
- Agreed-upon procedures to review compliance with appropriations limit requirements of Section 1.5 Article XIII B of the California Constitution (commonly referred to as the Gann Limit) in accordance with the procedures agreed to management and recommended by the California Committee on Municipal Accounting (as presented

in the CCMA White Paper titled *Agreed-upon Procedures Applied to the Appropriations Limitation Prescribed by Article XIII B of the California Constitution*).

- Audit and separately report on the Statements of Source and Status of Cash and the related Statements of Budget and Cumulative Expenditures of the Automobile Insurance Fraud Program and the Workers' Compensation Insurance Fraud Program that are funded by grants from the State of California Department of Insurance.
- Audit and separately report on the financial statements of the Local Transportation Fund and on compliance in accordance with applicable statutes, rules and regulations of the Transportation Development Act (TDA), including section 6661 of Title 21 of the California Administrative Code.
- Audit and separately report on the financial statements of TDA grant funds from the Metropolitan Transportation Commission and on compliance with applicable statutes, rules and regulations of the TDA, including section 6664 of Title 21 of the California Code of Regulations, and the allocation instructions and resolutions of the Metropolitan Transportation Commission.

Accounting standards generally accepted in the United States of America provide for certain required supplementary information (RSI), such as management's discussion and analysis (MD&A), to supplement the City's basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. As part of our engagement, we will apply certain limited procedures to the City's RSI in accordance with auditing standards generally accepted in the United States of America. These limited procedures will consist of inquiries of management regarding 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 will 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. The following RSI is required by generally accepted accounting principles and will be subjected to certain limited procedures, but will not be audited:

- Management's Discussion and Analysis
- Pension Plans – Schedule of the City's Proportionate Share of the Net Pension Liability
- Pension Plans – Schedule of Changes in Net Pension Liability and Related Ratios
- Pension Plans – Schedule of the Employer Contributions
- Other Postemployment Healthcare Benefits – Schedules of Funding Progress and Employer Contributions
- Other Postemployment Healthcare Benefits - Schedule of Moneyweighted Rate of Return

We have also been engaged to report on supplementary information other than RSI that accompanies the City's financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America and will provide an opinion on it in relation to the financial statements as a whole:

- Combining and individual fund financial statement schedules
- Schedule of expenditures of federal awards

The City's Comprehensive Annual Financial Report (CAFR) will also include introductory and statistical sections prepared by the City that will not be subjected to the auditing procedures applied in our audit of the financial statements, and our auditor's report will not provide an opinion or any assurance on that other information.

AUDIT OBJECTIVES

The objective of our audit is the expression of opinions as to whether the City's basic financial statements are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and to report on the fairness of the supplementary information referred to in the second paragraph when considered in relation to the financial statements as a whole. The objective also includes reporting on—

- Internal control over financial reporting and compliance with provisions of laws, regulations, contracts, and award agreements, noncompliance with which could have a material effect on the financial statements in accordance with *Government Auditing Standards*.
- Internal control over compliance related to major programs and an opinion (or disclaimer of opinion) on compliance with federal statutes, regulations, and the terms and conditions of federal awards that could have a direct and material effect on each major program in accordance with the Single Audit Act Amendments of 1996 and Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance).

The *Government Auditing Standards* report on internal control over financial reporting and on compliance and other matters will include a paragraph that states that (1) the purpose of the report is solely to describe the scope of testing of internal control and compliance and the results of that testing, and not to

provide an opinion on the effectiveness of the entity's internal control or on compliance, and (2) the report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. The Uniform Guidance report on internal control over compliance will include a paragraph that states that the purpose of the report on internal control over compliance is solely to describe the scope of testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Both reports will state that the report is not suitable for any other purpose.

Our audit will be conducted in accordance with auditing standards generally accepted in the United States of America; the standards for financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; the Single Audit Act Amendments of 1996; and the provisions of the Uniform Guidance, and will include tests of accounting records, a determination of major program(s) in accordance with the Uniform Guidance, and other procedures we consider necessary to enable us to express such opinions. We will issue written reports upon completion of our single audit. Our reports will be addressed to the Mayor and the Board of Supervisors of the City. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions or add emphasis-of-matter or other-matter paragraphs. If our opinions on the financial statements or the single audit compliance opinions are other than unmodified, we will discuss the reasons with management in advance. If, for any reason, we are unable to complete the audit or are unable to form or have not formed opinions, we may decline to express opinions or issue reports, or we may withdraw from the engagement.

AUDIT PROCEDURES—GENERAL

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements; therefore, our audit will involve judgment about the number of transactions to be examined and the areas to be tested. 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 will plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement, whether from (1) errors, (2) fraudulent financial reporting, (3) misappropriation of assets, or (4) violations of laws or governmental regulations that are attributable to the government or to acts by management or employees acting on behalf of the government. Because the determination of abuse is subjective, *Government Auditing Standards* do not expect auditors to provide reasonable assurance of detecting abuse.

Because of the inherent limitations of an audit, combined with the inherent limitations of internal control, and because we will not perform a detailed examination of all transactions, there is a risk that material misstatements or noncompliance may exist and not be detected by us, even though the audit is properly planned and performed in accordance with U.S. generally accepted auditing standards and *Government Auditing Standards*. In addition, an audit is not designed to detect immaterial misstatements or violations of laws or governmental regulations that do not have a direct and material effect on the financial statements or major programs. However, we will inform the appropriate level of management of any material errors, any fraudulent financial reporting, or misappropriation of assets that come to our attention. We will also inform the appropriate level of management of any violations of laws or governmental regulations that come to our attention,

unless clearly inconsequential, and of any material abuse that comes to our attention. We will include such matters in the reports required for a single audit. Our responsibility as auditors is limited to the period covered by our audit and does not extend to any later periods for which we are not engaged as auditors.

Our procedures will include tests of documentary evidence supporting the transactions recorded in the accounts, and may include tests of the physical existence of inventories, and direct confirmation of receivables and certain other assets and liabilities by correspondence with selected individuals, funding sources, creditors, and financial institutions. We will request written representations from the City's attorneys as part of the engagement, and they may bill the City for responding to this inquiry. At the conclusion of our audit, we will require certain written representations from management about management's responsibilities for the financial statements; schedule of expenditures of federal awards; federal award programs; compliance with laws, regulations, contracts, and grant agreements; and other responsibilities required by generally accepted auditing standards.

AUDIT PROCEDURES—INTERNAL CONTROL

Our audit will include obtaining an understanding of the government and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our

tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by the Uniform Guidance, we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies or material weaknesses. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and the Uniform Guidance.

AUDIT PROCEDURES—COMPLIANCE

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we will perform tests of the City's compliance with provisions of applicable laws, regulations, contracts, and agreements, including grant agreements. However, the objective of those procedures will not be to provide an opinion on overall compliance and we will not express such an opinion in our report on compliance issued pursuant to *Government Auditing Standards*.

The Uniform Guidance requires that we also plan and perform the audit to obtain reasonable assurance about whether the auditee has complied with applicable federal statutes, regulations, and the terms and conditions of federal awards applicable to major programs. Our procedures will consist of tests of transactions and other applicable procedures described in the OMB Compliance Supplement for the types of compliance requirements that could have a direct and material effect on each of the City's major programs. The purpose of these procedures will be to express an opinion on the City's compliance with requirements applicable to each of its major programs in our report on compliance issued pursuant to the Uniform Guidance.

MANAGEMENT RESPONSIBILITIES

Management is responsible for (1) establishing and maintaining effective internal controls, including internal controls over federal awards, and for evaluating and monitoring ongoing activities, to help ensure that appropriate goals and objectives are met; (2) following laws and regulations; (3) ensuring that there is reasonable assurance that government programs are administered in compliance with compliance requirements; and (4) ensuring that management and financial information is reliable and properly reported. Management is also responsible for implementing systems designed to achieve compliance with applicable laws, regulations, contracts, and grant agreements. Management is also responsible for the selection and application of accounting principles; for the preparation and fair presentation of the financial statements, schedule of expenditures of federal awards, and all accompanying information in conformity with U.S. generally accepted accounting principles; and for compliance with applicable laws and regulations (including federal statutes) and the provisions of contracts and

grant agreements (including award agreements).

Management is also responsible for making all financial records and related information available to us and for the accuracy and completeness of that information. Management is also responsible for providing us with (1) access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, (2) access to personnel, accounts, books, records, supporting documentation, and other information as needed to perform an audit under the Uniform Guidance, (3) additional information that we may request for the purpose of the audit, and (4) unrestricted access to persons within the government from whom we determine it necessary to obtain audit evidence.

Management's responsibilities also include identifying significant contractor relationships in which the contractor has responsibility for program compliance and for the accuracy and completeness of that information. Management's responsibilities include adjusting the financial statements to correct material misstatements and confirming to us in the management representation letter that the effects of any uncorrected misstatements aggregated by us during the current engagement and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

Management is responsible for the design and implementation of programs and controls to prevent and detect fraud, and for informing us about all known or suspected fraud affecting the government involving (1) management, (2) employees who have significant roles in internal control, and (3) others where the fraud could have a material effect on the financial statements. Management's

responsibilities include informing us of their knowledge of any allegations of fraud or suspected fraud affecting the government received in communications from employees, former employees, grantors, regulators, or others. In addition, management is responsible for identifying and ensuring that the government complies with applicable laws, regulations, contracts, agreements, and grants. Management is also responsible for taking timely and appropriate steps to remedy fraud and noncompliance with provisions of laws, regulations, contracts, and grant agreements, or abuse that we report. Additionally, as required by the Uniform Guidance, it is management's responsibility to evaluate and monitor noncompliance with federal statutes, regulations, and the terms and conditions of federal awards; take prompt action when instances of noncompliance are identified including noncompliance identified in audit findings; promptly follow up and take corrective action on reported audit findings; and prepare a summary schedule of prior audit findings and a separate corrective action plan.

Management is responsible for identifying all federal awards received and understanding and complying with the compliance requirements and for the preparation of the schedule of expenditures of federal awards (including notes and noncash assistance received) in conformity with the Uniform Guidance. Management agrees to include our report on the schedule of expenditures of federal awards in any document that contains and indicates that we have reported on the schedule of expenditures of federal awards. Management also agrees to include the audited financial statements with any presentation of the schedule of expenditures of federal awards that includes our report thereon. Management's responsibilities include acknowledging to us in the written representation letter that (1) management is responsible for

presentation of the schedule of expenditures of federal awards in accordance with the Uniform Guidance; (2) management believes the schedule of expenditures of federal awards, including its form and content, is stated fairly in accordance with the Uniform Guidance; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) management has disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the schedule of expenditures of federal awards.

Management is also responsible for the preparation of the other supplementary information, which we have been engaged to report on, in conformity with U.S. generally accepted accounting principles. Management agrees to include our report on the supplementary information in any document that contains, and indicates that we have reported on, the supplementary information. Management also agrees to include the audited financial statements with any presentation of the supplementary information that includes our report thereon. Management's responsibilities include acknowledging to us in the written representation letter that (1) management is responsible for presentation of the supplementary information in accordance with GAAP; (2) management believes the supplementary information, including its form and content, is fairly presented in accordance with GAAP; (3) the methods of measurement or presentation have not changed from those used in the prior period (or, if they have changed, the reasons for such changes); and (4) management has disclosed to us any significant assumptions or interpretations underlying the measurement or presentation of the supplementary information.

Management is responsible for establishing and maintaining a process for tracking the status of audit findings and recommendations. Management is also responsible for identifying and providing report copies of previous financial audits, attestation engagements, performance audits, or other studies related to the objectives discussed in the Audit Objectives section. This responsibility includes relaying to us corrective actions taken to address significant findings and recommendations resulting from those audits, attestation engagements, performance audits, or studies. Management is also responsible for providing management's views on our current findings, conclusions, and recommendations, as well as management's planned corrective actions, for the report, and for the timing and format for providing that information.

Management agrees to assume all management responsibilities relating to the financial statements, schedule of expenditures of federal awards, and related notes, and any other nonaudit services we provide, if applicable. Further, management agrees to oversee any nonaudit services by designating an individual, preferably from senior management, with suitable skill, knowledge, or experience; evaluate the adequacy and results of those services; and accept responsibility for them.

ENGAGEMENT ADMINISTRATION

We may from time to time, and depending on the circumstances, use third-party service providers in serving the City. We may share confidential information about the City with these service providers, but remain committed to maintaining the security and confidentiality and security of the City's information. Accordingly, we maintain internal policies, procedures, and safeguards to protect the security and confidentiality of the City's personal information. In

addition, we will secure confidentiality agreements with all service providers to maintain the confidentiality of the City's information and we will take reasonable precautions to determine that they have appropriate procedures in place to prevent the unauthorized release of the City's confidential information to others. In the event that we are unable to secure an appropriate confidentiality agreement, management will be asked to provide consent prior to the sharing of the City's confidential information with the third-party service provider. Furthermore, we will remain responsible for the work provided by any such third-party service providers.

Macias Gini & O'Connell LLP (MGO) is the U.S. firm of our network of separate and independent MGO firms. MGO may, in its discretion, draw on resources of its subsidiaries, its affiliates, and/or third-party contractors, in each case within or outside the United States, in connection with the provision of services. The City agrees that MGO may provide access to information it receives in connection with this agreement to our other resources. MGO maintains all of the City's data within the U.S. and represents that it has internal policies, procedures, and safeguards to protect the security and confidentiality of City's information. MGO will be solely responsible for the provision of the services.

We understand that City employees will prepare all cash, accounts receivable, or other confirmations we request and will locate any documents selected by us for testing.

At the conclusion of the engagement, we will complete the appropriate sections of the Data Collection Form that summarizes our audit findings. It is management's responsibility to electronically submit the reporting package (including financial statements, schedule of expenditures of federal awards, summary schedule of prior audit findings, auditors' reports, and

corrective action plan) along with the Data Collection Form to the federal audit clearinghouse. We will coordinate with management the electronic submission and certification. If applicable, we will provide copies of our report for management to include with the reporting package management will submit to pass-through entities. The Data Collection Form and the reporting package must be submitted within the earlier of 30 calendar days after receipt of the auditor's reports or nine months after the end of the audit period. We will provide copies of our reports to the City; however, management is responsible for distribution of the reports and the financial statements. Unless restricted by law or regulation, or containing privileged and confidential information, copies of our reports are to be made available for public inspection.

The audit documentation for this engagement is the property of MGO and constitutes confidential information. However, subject to applicable laws and regulations, audit documentation and appropriate individuals will be made available upon request and in a timely manner to the City's cognizant agency or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office for purposes of a quality review of the audit, to resolve audit findings, or to carry out oversight responsibilities. We will notify management of any such request. If requested, access to such audit documentation will be provided under the supervision of MGO personnel. Furthermore, upon request, we may provide copies of selected audit documentation to the aforementioned parties. These parties may intend, or decide, to distribute the copies or information contained therein to others, including other governmental agencies.

The audit documentation for this engagement will be retained for

a minimum of seven years after the report release date or for any additional period requested by the City's cognizant agency. If we are aware that a federal awarding agency, pass-through entity, or auditee is contesting an audit finding, we will contact the party(ies) contesting the audit finding for guidance prior to destroying the audit documentation. Upon expiration of the seven-year period, MGO will be free to destroy our records related to this engagement. However, MGO does not keep any original client records, so we will return those to management at the completion of the services rendered under this engagement. When records are returned to management, it is management's responsibility to retain and protect the records for possible future use, including potential examination by any government or regulatory agencies.

In the performance of our professional services, we may communicate with the City and/or with others via email transmission. As emails can be intercepted and read, disclosed, or otherwise used by an unintended third party, we cannot guarantee that such email communication will be properly delivered and read only by the addressee. While we will use our best efforts to keep such communications secure in accordance with our obligations under applicable laws and professional standards, the City recognizes and accepts that we have no control over the unauthorized interception of these communications once they have been sent. Therefore, the City hereby waives any liability whatsoever for any unintended interception or unintentional disclosure of email transmissions in connection with the performance of our professional services. MGO uses cloud-based computing services, including the storage of data and files, at third party, offsite, secure facilities. In that regard, the City agrees that we shall have no liability for any loss or damage to any person or entity resulting from the

use of email transmissions and cloud-based computing, including any direct or indirect damages that may result from any inadvertent or unanticipated disclosure of confidential or proprietary information, or disclosure through third party criminal conduct (e.g., hackers or hacking activities).

With regards to the electronic dissemination of audited financial statements, including financial statements published electronically on the City's website, management understands that electronic sites are a means to distribute information and, therefore, we are not required to read the information contained in these sites or to consider the consistency of other information in the electronic site with the original document.

Professional and certain regulatory standards require us to be independent, in both fact and appearance, with respect to the City in the performance of our services. Any discussions that the City has with personnel of our firm regarding employment could pose a threat to our independence. Therefore, the City agrees to inform us prior to any such discussions that we can implement appropriate safeguards to maintain our independence.

Our 2015 peer review report is provided for your reference on the following page.



Carr, Riggs & Ingram, LLC
 4010 N.W. 25th Place
 Gainesville, Florida 32606
 PO Box 13494
 Gainesville, Florida 32604

(352) 372-6300
 (352) 375-1583 (fax)
www.cricpa.com

September 17, 2015

System Review Report

To the Partners of Macias Gini & O'Connell LLP
 and the National Peer Review Committee

We have reviewed the system of quality control for the accounting and auditing practice of Macias Gini & O'Connell, LLP (the firm) applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended March 31, 2015. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of Macias Gini & O'Connell, LLP applicable to engagements not subject to PCAOB permanent inspection in effect for the year ended March 31, 2015, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. Macias Gini & O'Connell, LLP has received a peer review rating of *pass*.

Carr, Riggs & Ingram, L.L.C.

CARR, RIGGS & INGRAM, LLC

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SECTION 6

Recent Developments in Governmental Accounting

mGO

The following is a summary of the more recent and relevant Governmental Accounting Standards Board (GASB) and other pronouncements that may have an impact on the City in the current and future periods. We will have ongoing discussions with management about these as well as other developments in an effort to be prepared in advance for their implementation.

NEW PRONOUNCEMENTS

FISCAL YEAR 2017 IMPLEMENTATION

GASB Statement No. 74 – Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans

This statement addresses the financial reports of defined benefit OPEB plans that are administered through trusts that meet specified criteria. It follows the framework for financial reporting of defined benefit OPEB plans in the Statement No. 45 by requiring a statement of fiduciary net position and a statement of changes in fiduciary net position. It requires more extensive note disclosures and Required Supplementary Information (RSI) related to the measurement of the OPEB liabilities for which assets have been accumulated, including information about the annual money-weighted rates of return on plan investments. This statement also sets forth note disclosure requirements for defined contribution OPEB plans. This statement is effective for fiscal years beginning after June 15, 2016.

GASB Statement No. 77 – Tax Abatement Disclosures

This statement addresses financial reporting about the nature and magnitude of tax abatements of governmental entities. It requires that governments that enter into tax abatements disclose more comprehensive information about the agreements to make these transactions more transparent to financial statement users. Users will be better equipped

to understand (1) how tax abatements affect a government's future ability to raise resources and meet its financial obligations and (2) the impact those abatements have on a government's financial position and economic position. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015.

GASB Statement No. 78 – Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans

This statement addresses a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2015.

This statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary

information for pensions that have the characteristics described above.

GASB Statement No. 80 – Blending Requirements for Certain Component Units—an amendment of GASB Statement No. 14

This statement is to improve the financial reporting by clarifying the financial statement presentation requirements for certain component units. This statement amends the blending requirements established in Statement No. 14, *The Financial Reporting Entity*, as amended, for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*. The requirements of this statement are effective for financial statements for periods beginning after June 15, 2016.

FISCAL YEAR 2018 IMPLEMENTATION**GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions**

This Statement is intended to make OPEB accounting and financial reporting consistent with the pension standards outlined in GASB Statement No. 68.

Similar to the changes made to the pension standards, these new OPEB Standards provide a more comprehensive picture of what state and local governments have committed to their employees and the associated costs. Accordingly, the OPEB standards will affect the City's financial statements in the following ways:

- Change how the long-term obligation and the annual expense of OPEB are measured,
- Recognize the net OPEB liability on the face of the financial statements, and
- Present more extensive note disclosures and related supplemental schedules.

This statement is effective for fiscal years beginning after June 15, 2017. This statement applies to government employers who provide OPEB plans to their employees and basically parallels GASB Statement No. 68 and replaces GASB Statement No. 45.

GASB Statement No. 81 – Irrevocable Split-Interest Agreements

This statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement. The requirements of this statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively.

The requirements of this statement will enhance comparability of financial statements by providing accounting and financial reporting guidance for irrevocable split-interest agreements in which a government is a beneficiary. This statement also enhances the decision-usefulness of general purpose external financial reports, and their value for assessing accountability, by more clearly identifying the resources that are available for the government to carry out its mission.

FISCAL YEAR 2019 IMPLEMENTATION**GASB Statement No. 83 – Certain Asset Retirement Obligations**

This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement also requires disclosure of information about the nature of a government's AROs, the methods and assumptions used for the estimates of the liabilities, and the estimated remaining useful life of the associated tangible capital assets. If an ARO (or portions thereof) has been incurred by a government but is not yet recognized because it is not reasonably estimable, the government is required to disclose that fact and the reasons therefor. This Statement requires similar disclosures for a government's minority shares of AROs.

This Statement will enhance comparability of financial statements among governments by establishing uniform criteria for governments to recognize and measure certain AROs, including obligations that may not have been previously reported. This Statement also will enhance the decision-usefulness of the information provided to financial statement users by requiring disclosures related to those AROs.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Earlier application is encouraged.

FISCAL YEAR 2020 IMPLEMENTATION**GASB Statement No. 85 – Omnibus 2017**

The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB Statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]).

The requirements of this Statement are effective for reporting periods beginning after June 15, 2017. Earlier application is encouraged.

GASB Statement No. 84 – Fiduciary Activities

This Statement established criteria for identifying fiduciary activities of all state and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

This Statement also provides for recognition of a liability to the beneficiaries in a fiduciary fund when an event has occurred that compels the government to disburse fiduciary resources. Events that compel a government to disburse fiduciary resources occur when a demand for the resources has been made or when no further action, approval, or condition is required to be taken or met by the beneficiary to release the assets.

The requirement of this Statement enhance consistency and comparability by (1) establishing specific criteria for identifying activities that should be reported as fiduciary activities and (2) clarifying whether and how business-type activities should report their fiduciary activities. Greater consistency and comparability enhances the value provided by the information reported in financial statements for assessing government accountability and stewardship.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Earlier application is encouraged.

Questions?

The West Coast is our home.

WE HAVE CHEERFUL OFFICES THROUGHOUT CALIFORNIA.

Beverly Hills

8383 Wilshire Blvd.
Suite 500
Beverly Hills
California 90211
T: 310.652.0222

Sacramento

3000 S Street
Suite 300
Sacramento
California 95816
T: 916.928.4600

Walnut Creek

2121 N. California Blvd.
Suite 750
Walnut Creek
California 94596
T: 925.274.0190

LA/Century City

2029 Century Park East
Suite 1500
Los Angeles
California 90067
T: 310.277.3373

San Diego

12264 El Camino Real
Suite 402
San Diego
California 92130
T: 858.792.2210

Woodland Hills

21031 Ventura Blvd.
Suite 550
Woodland Hills
California 91364
T: 310.277.3373

LA/Downtown

777 S. Figueroa
Suite 2500
Los Angeles
California 90017
T: 213.408.8700

San Diego

225 Broadway
Suite 1750
San Diego
California 92101
T: 619.573.1112

Newport Beach

4675 MacArthur Court
Suite 600
Newport Beach
California 92660
T: 949.221.0025

San Francisco

101 California Street
Suite 1825
San Francisco
California 94111

Info@mgocpa.com
mgocpa.com

The logo for MGO, featuring the letters 'mgo' in a bold, lowercase, sans-serif font. The 'm' and 'g' are connected, and the 'o' is a simple circle. The logo is rendered in a bright blue color.

CITY AND COUNTY OF SAN FRANCISCO

Report to Government Audit and Oversight Committee
Year Ended June 30, 2016



A new breed
of professional
services firm

CITY AND COUNTY OF SAN FRANCISCO
Report to Government Audit and Oversight Committee
Year Ended June 30, 2016

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Government Audit and Oversight Committee
Mr. Ben Rosenfield, Controller
City and County of San Francisco
San Francisco, California

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the City and County of San Francisco, California (City), as of and for the year ended June 30, 2016, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing 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.

Other auditors audited the financial statements of the San Francisco County Transportation Authority, San Francisco International Airport, San Francisco Water Enterprise, Hetch Hetchy Water and Power, San Francisco Municipal Transportation Agency (SFMTA), 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.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

In addition, we have provided a status of the prior recommendations made by us.

Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, *Government Auditing Standards*, and the Uniform Guidance, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our Audit Service Plan to you dated October 6, 2016. Professional standards also require that we communicate to you other information related to our audit as discussed in the Required Communications section.

We would like to thank City management and staff for the courtesy and cooperation extended to us during the course of our engagement.

The accompanying required communications are intended solely for the information and use of the Government Audit and Oversight Committee, Board of Supervisors, City management, and others within the organization, and are not intended to be and should not be used by anyone other than these specified parties.

Macias Gini & O'Connell LLP

San Francisco, California
November 18, 2016

CITY AND COUNTY OF SAN FRANCISCO
Report to Government Audit and Oversight Committee
Year Ended June 30, 2016

REQUIRED COMMUNICATIONS

Significant Audit Findings

I. Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 2 to the financial statements. As described in Note 2(s) to the financial statements, the City changed accounting policies related to the following:

- ***GASB Statement No. 72, Fair Value Measurement and Application***

This statement requires the City to use valuation techniques which are appropriate under the circumstances and are consistent with the market approach, the cost approach or the income approach. It establishes a hierarchy of inputs used to measure fair value consisting of three levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities. Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Level 3 inputs are unobservable inputs. Statement No. 72 also contains note disclosure requirements regarding the hierarchy of valuation inputs and valuation techniques that was used for the fair value measurements. Implementation of this statement did not have a significant impact on the City for the year ended June 30, 2016, however, the San Francisco International Airport restated its beginning deferred outflows on derivative instruments and derivative instruments liabilities of fiscal year 2015 by \$1.4 million. This restatement did not affect the City's beginning net position.

- ***GASB Statement No. 73 – Accounting and Financial Reporting for Pensions and Related Assets That Are Not Within the Scope of GASB Statement 68 and Amendments to Certain Provisions of GASB Statements 67 and 68***

This statement establishes requirements for defined benefit pensions and defined contribution pensions that are not within the scope of Statement No. 68, as well as for the assets accumulated for purposes of providing those pensions. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes. The provisions in this statement are effective for the City's fiscal year ending June 30, 2016, except those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement No. 68, which are effective for the City's fiscal year ending June 30, 2017. Partial implementation of this statement did not have a significant impact on the City for the year ended June 30, 2016.

- ***GASB Statement No. 76 – The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments***

This statement establishes the hierarchy of GAAP for state and local governments. Implementation of this statement did not have a significant impact on the City for the year ended June 30, 2016.

CITY AND COUNTY OF SAN FRANCISCO
Report to Government Audit and Oversight Committee
Year Ended June 30, 2016

REQUIRED COMMUNICATIONS (Continued)

I. Qualitative Aspects of Accounting Practice (Continued)

- ***GASB Statement No. 79 – Certain External Investment Pools and Pool Participants***
This statement establishes accounting and financial reporting standards for qualifying external investment pools that elect to measure all their investments at amortized cost. The new standard is effective for periods beginning after June 15, 2015, except for certain provisions that will be effective for reporting periods beginning after December 15, 2015. Implementation of this statement did not have a significant impact on the City for the year ended June 30, 2016.

- ***GASB Statement No. 82 – Pension Issues—an amendment of GASB Statements No. 67, No. 68, and No. 73***
Statement No. 82 addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements. As Statement No. 82 changes the classification of these payments, commonly referred to as Employer-Paid Member Contributions, the City reclassified these payments. While the applicable requirements of this Statement are effective for reporting periods beginning after June 15, 2016, the City has elected early implementation for the year ended June 30, 2016.

During the year ended June 30, 2015, the SFMTA made Employer-Paid Member Contributions to satisfy contribution requirements of the Retirement System and collective bargaining agreements. Statement No. 82 requires Employer-Paid Member contributions to be classified as employee contributions rather than classified as employer contributions. In fiscal year 2014-15, such payments were treated as employer contributions by the SFMTA as required by Statement No. 68. Therefore, early implementation of Statement No. 82, which amended Statement No. 68, resulted in a restatement which decreased beginning net position for fiscal year 2015-16 by \$8.6 million.

We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the City's financial statements were:

- a) Fair value of investments (including investment derivatives) and related net appreciation in the fair value of investments in the City Treasurer's investment pool and the pension trust fund;
- b) Accrual and disclosure of claims liabilities;
- c) Estimated contractual adjustments and bad debt allowances for patient accounts receivable;
- d) Cost report settlement receivables and payable;
- e) Estimated bad debt allowance for accounts and loans receivable;

CITY AND COUNTY OF SAN FRANCISCO
Report to Government Audit and Oversight Committee
Year Ended June 30, 2016

REQUIRED COMMUNICATIONS (Continued)

I. Qualitative Aspects of Accounting Practice (Continued)

- f) Accrual of compensated absences;
- g) Depreciation estimates for capital assets, including depreciation methods and useful lives assigned to depreciable properties;
- h) Pension plans' employer and employee contribution requirements and the net pension liability of the pension plans;
- i) Other postemployment benefit plans contribution requirements and funded status information; and
- j) Estimated pollution remediation costs.

Management's judgments and estimates were based on the following:

- a) Management's estimate of the fair value of investments in the City Treasurer's investment pool and the pension trust fund is discussed in Note 2(d) to the financial statements.
- b) Reserves for workers' compensation and general liability claims were based on actuarial evaluations using historical loss and other data. Reserves for other claims liabilities were determined by the City Attorney's judgment about the ultimate outcome of the claim.
- c) Estimated bad debt allowances for patient accounts receivable were based on historical experience. See d) below for basis for contractual adjustments.
- d) Estimated contractual adjustments and cost report balances were based on prior cost report adjustments, previous regulatory settlements, and potential future retrospective adjustments.
- e) Estimated bad debt allowance for accounts receivable was based on historical experience and loans receivable was based on the type of loan (e.g., forgivable, deferred, grant or amortizing) and management's estimate regarding the likelihood of collectability based on loan provisions and collateral.
- f) Accrual of compensated absences is based on unused employee sick leave and vacation and the employees' pay rates at year-end.
- g) Useful lives for depreciable property were determined by management based on the nature of the capital asset. The City uses the straight line method of depreciation and three different conventions for the amount of first-year depreciation based on the departments that purchased the capital assets.
- h) Pension plans' employer and employee contribution requirements and the net pension liability of the pension plans are based on actuarial calculations performed by the City's independent actuaries.
- i) The actuarial other postemployment benefits data, including the funded status and required contributions of the plans, are based on actuarial calculations performed by the City's independent actuaries.
- j) Estimated pollution remediation costs are based on reports from independent consultants.

We evaluated the key factors and assumptions used to develop these accounting estimates in determining that they are reasonable in relation to the financial reporting units (opinion units) that collectively comprise the City's basic financial statements.

CITY AND COUNTY OF SAN FRANCISCO
Report to Government Audit and Oversight Committee
Year Ended June 30, 2016

REQUIRED COMMUNICATIONS (Continued)

I. Qualitative Aspects of Accounting Practice (Continued)

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were the disclosures related to pension benefits and other postemployment benefits. The disclosures about pension benefits and other postemployment benefits are described in Note 9 to the financial statements and are based on actuarial valuations.

The financial statement disclosures are neutral, consistent, and clear.

II. Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

III. Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to each opinion unit's financial statements taken as a whole. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.

IV. Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

V. Management Representations

We have requested certain representations from management that are included in the management representation letter dated November 18, 2016.

VI. Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

CITY AND COUNTY OF SAN FRANCISCO
Report to Government Audit and Oversight Committee
Year Ended June 30, 2016

REQUIRED COMMUNICATIONS (Continued)

VII. Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Matters

VIII. Required Supplementary Information

We applied certain limited procedures to management's discussion and analysis, the schedules of net pension liability for defined benefit plans, the schedule of funding progress for postemployment healthcare benefit plans, and the schedules of employer contributions, which are required supplementary information (RSI) that supplements the basic financial statements. Our procedures consisted of inquiries of management regarding 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 did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

IX. Other Supplementary Information

We were engaged to report on the combining fund financial statements and schedules and the schedule of expenditures of federal awards, which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections of the comprehensive annual financial report, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on it.

X. Other Information in Documents Containing Audited Financial Statements

During the year, the City included its audited basic financial statements in various debt offering documents (e.g., official statements). We do not have an obligation to perform any procedures to corroborate other information contained in such debt offering documents. We were not associated with and did not have any involvement with such documents. Accordingly, we did not perform any procedures on these documents and provide no assurance as to the other information contained in the debt offering documents.

CITY AND COUNTY OF SAN FRANCISCO
 Report to Government Audit and Oversight Committee
 Year Ended June 30, 2016

CURRENT YEAR RECOMMENDATIONS

None reported.

STATUS OF PRIOR YEAR RECOMMENDATIONS

Reference Number:	2015-A Uniform Guidance for Federal Awards <i>Informational</i>
Finding/ Comment:	The Office of Management and Budget (OMB) published new guidance for federal award programs, <i>OMB Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards</i> , commonly referred to as the “Uniform Guidance”. The City must apply the requirements of the Uniform Guidance to any new federal awards made on or after December 26, 2014 and to additional funding increments to existing awards made on or after that date. Of particular importance are the provisions for internal controls, indirect costs, procurement, time and effort reporting, and subrecipient monitoring.
Status:	The City has implemented new federal requirements to applicable awards and has communicated to all City departments and nonprofit subrecipients receiving federal funds that the requirements for Federal Awards have changed.
Reference Number:	2015-B – New Other Postemployment Benefits Accounting Standards <i>Informational</i>
Finding/ Comment:	GASB Statement No. 74, <i>Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans</i> , and GASB Statement No. 75, <i>Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions</i> will significantly change how the postemployment benefits other than pensions are measured and reported in the City’s financial statements. The City should begin assessing the impacts of the new OPEB standards and develop a plan to implement the new accounting and financial reporting requirements for the Retiree Health Care Trust Fund in fiscal year 2016-17 and for the City in fiscal year 2017-18.
Status:	The City is in process of assessing the impacts of the new OPEB standards and will implement GASB 74 in the fiscal year ending June 30, 2017. The City will implement GASB 75 in the fiscal year ending June 30, 2018.
Reference Number:	2015-001 Information Technology Governance <i>Significant Deficiency</i>
Finding/ Comment:	The City operated under a decentralized structure wherein departments independently establish information technology (IT) policies and procedures according to their operations. This decentralized IT environment contributed to inconsistent IT controls being utilized throughout the City’s IT environment. We recommended 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.
Status of Corrective Action:	Corrective action has been implemented.

CITY AND COUNTY OF SAN FRANCISCO
Report to Government Audit and Oversight Committee
Year Ended June 30, 2016

STATUS OF PRIOR YEAR RECOMMENDATIONS (Continued)

Reference Number:	2015-002 Year-End Closing Process <i>Significant Deficiency</i>
Finding/ Comment:	For year-end financial reporting, the costs of all services and purchases received or rendered by the City should be captured in the financial statements in accordance with generally accepted accounting principles. Certain City departments utilize the accounting services of the General Services Agency (GSA) to record financial transactions into the City's general ledger. The process often begins with a request and approval from the department to the GSA, who then reviews and inputs the entries into the system. During the audit we noted certain transactions that were not recorded in the proper fiscal year. Communication between GSA and the departments that utilize GSA's accounting services appear inadequate. Year-end accruals were not communicated in a timely manner.
Status of Corrective Action:	Corrective action has been implemented.

CITY AND COUNTY OF SAN FRANCISCO
 Report to Government Audit and Oversight Committee
 Year Ended June 30, 2016

UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

Index	Fund Type	Description	STATEMENT OF NET POSITION / BALANCE SHEET				STATEMENT OF CHANGES IN NET POSITION/ FUND BALANCE	
			Assets DR (CR)	Deferred Outflows DR (CR)	Liabilities DR (CR)	Deferred Inflows DR (CR)	Net Position DR (CR)	Revenue DR (CR)
GOVERNMENTAL ACTIVITIES								
GA1	Governmental Activities	OPEB Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,028,987
	Governmental Activities	Net OPEB Obligation <i>(To adjust OPEB obligation based on the final actuarial report.)</i>	-	-	(23,028,987)	-	-	-
		TOTAL GOVERNMENTAL ACTIVITIES	\$ -	\$ -	\$ (23,028,987)	\$ -	\$ -	\$ 23,028,987
BUSINESS-TYPE ACTIVITIES								
BA1	Business-Type Activities	Effect of net adjustments from SF General Hospital (see below)	\$ -	\$ -	\$ (4,601,159)	\$ -	\$ -	\$ 4,601,159
	Business-Type Activities	Effect of net adjustments from Laguna Honda Hospital (see below)	468,047	-	(1,740,491)	-	(920,040)	1,669,713
	Business-Type Activities	Effect of net adjustments from Port (see below)	-	-	(383,775)	-	-	383,775
	Business-Type Activities	Effect of net adjustments from other major enterprise funds (see below)	-	-	(11,873,513)	-	-	11,873,513
		TOTAL BUSINESS-TYPE ACTIVITIES	\$ 468,047	\$ -	\$ (6,725,425)	\$ -	\$ (920,040)	\$ 6,654,647
SAN FRANCISCO GENERAL HOSPITAL								
SFGH1	SF General Hospital	OPEB Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 4,601,159
	SF General Hospital	Net OPEB Obligation <i>(To adjust OPEB obligation based on the final actuarial report.)</i>	-	-	(4,601,159)	-	-	-
		TOTAL SAN FRANCISCO GENERAL HOSPITAL	\$ -	\$ -	\$ (4,601,159)	\$ -	\$ -	\$ 4,601,159
LAGUNA HONDA HOSPITAL								
LHH1	Laguna Honda Hospital	AR - Charges for Services	\$ 990,818	\$ -	\$ -	\$ -	\$ -	\$ -
	Laguna Honda Hospital	Net Patient Service Revenue	-	-	-	-	-	(70,778)
		Beginning Net Position <i>(To accrue FY2016 patient services revenues and receivables recorded in FY2017 and the effect of FY2015 revenues recorded in FY2016).</i>	-	-	-	-	(920,040)	-
LHH2	Laguna Honda Hospital	Net Patient Service Revenue	-	-	-	-	522,771	-
	Laguna Honda Hospital	AR - Charges for Services <i>(To adjust the reported receivable balance to match the balance in the Invision patient accounting system.)</i>	(522,771)	-	-	-	-	-
LHH3	Laguna Honda Hospital	OPEB Expenses	-	-	-	-	-	1,740,491
	Laguna Honda Hospital	Net OPEB Obligation <i>(To adjust OPEB obligation based on the final actuarial report.)</i>	-	-	(1,740,491)	-	-	-
		TOTAL LAGUNA HONDA HOSPITAL	\$ 468,047	\$ -	\$ (1,740,491)	\$ -	\$ (920,040)	\$ 1,669,713

CITY AND COUNTY OF SAN FRANCISCO
 Report to Government Audit and Oversight Committee
 Year Ended June 30, 2016

UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS (Continued)

Index	Fund Type	Description	STATEMENT OF NET POSITION / BALANCE SHEET					STATEMENT OF CHANGES IN NET POSITION/ FUND BALANCE	
			Assets DR (CR)	Deferred Outflows DR (CR)	Liabilities DR (CR)	Deferred Inflows DR (CR)	Net Position DR (CR)	Revenue DR (CR)	Expenses DR (CR)
PORT									
PORT 1	Port	OPEB Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 383,775
	Port	Net OPEB Obligation <i>(To adjust OPEB obligation based on the final actuarial report.)</i>	-	-	(383,775)	-	-	-	-
		TOTAL PORT	\$ -	\$ -	\$ (383,775)	\$ -	\$ -	\$ -	\$ 383,775
OTHER MAJOR ENTERPRISE FUNDS									
ENT1	Airport	OPEB Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,615,093
		Net OPEB Obligation <i>(To adjust net OPEB obligation based on final actuarial report.)</i>	-	-	(2,615,093)	-	-	-	-
ENT2	Wastewater	OPEB Expenses	-	-	-	-	-	-	888,803
		Net OPEB Obligation <i>(To adjust net OPEB obligation based on final actuarial report.)</i>	-	-	(888,803)	-	-	-	-
ENT3	Hetch Hetchy	OPEB Expenses	-	-	-	-	-	-	526,803
		Net OPEB Obligation <i>(To adjust net OPEB obligation based on final actuarial report.)</i>	-	-	(526,803)	-	-	-	-
ENT4	Water	OPEB Expenses	-	-	-	-	-	-	1,929,371
		Net OPEB Obligation <i>(To adjust net OPEB obligation based on final actuarial report.)</i>	-	-	(1,929,371)	-	-	-	-
ENT5	SFMTA	OPEB Expenses	-	-	-	-	-	-	5,913,443
		Net OPEB Obligation <i>(To adjust net OPEB obligation based on final actuarial report.)</i>	-	-	(5,913,443)	-	-	-	-
		TOTAL OTHER MAJOR ENTERPRISE FUNDS	\$ -	\$ -	\$ (11,873,513)	\$ -	\$ -	\$ -	\$ 11,873,513
OTHER AGGREGATE REMAINING FUND									
OTHER 1	6I - Fin Corp	OPEB Expenses	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 482,395
	6I - Fin Corp	Net OPEB Obligation <i>(To adjust OPEB obligation based on the final actuarial report.)</i>	-	-	(482,395)	-	-	-	-
OTHER 2	4D - Debt service	Debt service - payment to refunded bond escrow agent	-	-	-	-	-	-	8,794,857
	4D - Debt service	Other financing uses - payment to refunded bond escrow agent <i>(To reclassify use of City funds to refund prior bonds as debt service payment.)</i>	-	-	-	-	-	-	(8,794,857)
OTHER 3	Fiduciary	OPEB Expenses	-	-	-	-	-	-	719,679
	Fiduciary	Net OPEB Obligation <i>(To adjust net OPEB obligation based on final actuarial report.)</i>	-	-	(719,679)	-	-	-	-
		TOTAL OTHER AGGREGATE REMAINING FUND	\$ -	\$ -	\$ (1,202,074)	\$ -	\$ -	\$ -	\$ 1,202,074



City and County of San Francisco

Audit plan

June 30, 2017

May 17 2017

Agenda

1.0 KPMG Audit Entities and Team

2.0 Objectives of an audit

3.0 Responsibilities

4.0 Audit Plan

- Scope
- Materiality
- Risk Assessments
- Deliverables and time line
- Auditing and accounting matters

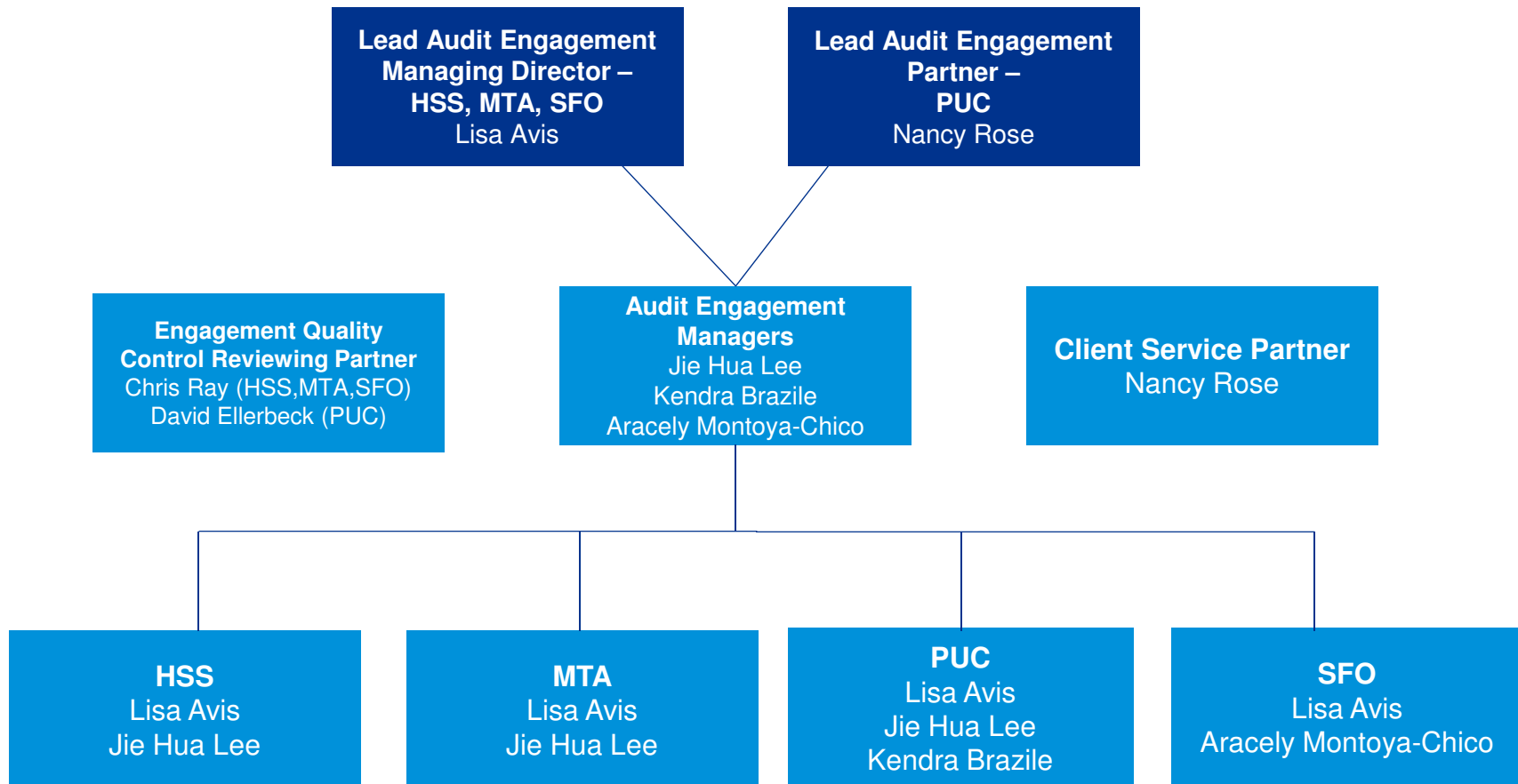
5.0 Independence





1.0 KPMG Audit Entities and Team

KPMG Audit Team





2.0

Objectives of an audit

Objectives of an audit

- The objective of an audit of financial statements is to enable the auditor to express an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with generally accepted accounting principles (GAAP).
- We plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error or fraud. Although not absolute assurance, reasonable assurance is a high level of assurance.
- Our audit includes:
 - Performing tests of the accounting records and such other procedures as we consider necessary in the circumstances to provide a reasonable basis for our opinion.
 - Assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation.





3.0 Responsibilities

Responsibilities

Management is responsible for:

- Preparation and fair presentation of the financial statements, including disclosures, in conformity with generally accepted accounting principles (GAAP)
- For 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
- Ensuring that the City operations are conducted in accordance with the provisions of laws and regulations, including compliance with the provisions of laws and regulations that determine the reported amounts and disclosures in the City's financial statements, and for informing the auditor of any known material violations of such laws and regulations
- To provide access to all information of which management is aware that is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters, additional information that we may request from management for the purpose of the audit, and unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.
- Adjusting the financial statements to correct material misstatements and affirming that the effects of any uncorrected misstatements aggregated by the auditor are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.
- Providing the auditor with a letter confirming certain representations made during the audit that includes, but is not limited to, management's:
 - Disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the City's financial reporting
 - Acknowledgement of their responsibility for the design and implementation of programs and controls to prevent, deter, and detect fraud.

Responsibilities (continued)

Those Charged with Governance is responsible for:

- Oversight of the financial reporting process and oversight of ICFR
- Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud.

Management and those Charged with Governance are responsible for:

- Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards.

The audit of the financial statements does not relieve management or those Charged with Governance of their responsibilities.

Responsibilities (continued)

KPMG is responsible for:

- Planning and performing our audit, with an attitude of professional skepticism, to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by fraud or error. Accordingly, there is some risk that a material misstatement of the financial statements will remain undetected. Although not absolute assurance, reasonable assurance is a high level of assurance. Our audit is not designed to detect error or fraud that is immaterial to the financial statements.
- Conducting the audit in accordance with professional standards and complying with the rules and regulations of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the ethical standards of relevant CPA societies, and relevant state boards of accountancy
- Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of those charged with governance are presented fairly, in all material respects, in conformity with GAAP
- An audit of the financial statements includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control over financial reporting.
- Communicating to those charged with governance all required information, including significant matters, that are in our professional judgment, relevant to the responsibilities of those charged with governance in overseeing the financial reporting process.
- Communicating to management and those charged with governance in writing all significant deficiencies and material weaknesses in internal control identified during the audit and reporting to management in writing all deficiencies noted during our audit that, in our professional judgment, are of sufficient importance to merit management's attention. The objective of our audit of the financial statements is not to report on the City's internal control and we are not obligated to search for material weaknesses or significant deficiencies as part of our audit of the financial statements.
- Communicating to those charged with governance circumstances that affect the form and content of the auditors' report, if any.



Responsibilities for other information in documents containing audited financial statements

- The auditors' report on the financial statements does not extend to other information in documents containing audited financial statements, excluding required supplementary information.
- The auditors' responsibility is to make appropriate arrangements with management or those charged with governance to obtain the other information prior to the report release date and to read the other information to identify material inconsistencies with the audited financial statements or material misstatements of fact.
- Any material inconsistencies or misstatements of facts that are not resolved prior to the report release date, and that require revision of the other information, may result in KPMG modifying or withholding the auditors' report or withdrawing from the engagement.



Responsibilities – Independence Matters

In order for us to fulfill our professional responsibility to maintain and monitor independence in relation to the City, timely information is required from City’s management regarding the following:

- The City’s affiliates – This includes entities that are part of the CAFR and other entities that meet the definition of an affiliate under AICPA independence rules (e.g. sister companies under control of a common parent company where both the audit client and sister company are material to the controlling company, entities included in an investment company complex, etc.)

Payment of Fees – Audit and All Other Professional Services

Professional standards require that fees for any previously rendered professional service provided more than one year prior to the date of the current year audit report have been paid.





4.0

Audit plan

Audit plan - Scope

Scope of work	<p><i>Audits of basic financial statements as of and for the year ended June 30, 2017 for the following entities:</i></p> <ul style="list-style-type: none"> <i>• Health Service System (HSS)</i> <i>• Municipal Transportation Agency (MTA)</i> <i>• Public Utilities Commission (PUC)</i> <i>• San Francisco International Airport (SFO)</i> <p><i>MTA Single Audit</i></p> <p><i>MTA Agreed-Upon Procedures for National Transit Database (NTD), Revenue Bond Series, Transportation Development Act (TDA) Compliance Letter</i></p> <p><i>MTA Public Transportation Modernization, Improvement, and Service Enhancement Account Program</i></p> <p><i>PUC Statement of Changes in the Balancing Account of the Water Enterprise Audit</i></p> <p><i>SFO Single Audit</i></p> <p><i>SFO Revenue Bond Series</i></p>
Applicable financial reporting framework	<p><i>U.S. Generally Accepted Accounting Principles</i></p>
Applicable auditing standards	<ul style="list-style-type: none"> <i>• U.S. Generally Accepted Auditing Standards</i> <i>• Government Auditing Standards</i>
Other terms of engagement	<p><i>Communications of Audit Results for each department will occur in November/December</i></p>



Audit plan - Materiality

- Professional standards require that we exercise professional judgment when we consider materiality and its relationship with audit risk when determining the nature, timing, and extent of our audit procedures, and when evaluating the effect of misstatements.
- Information is material if its misstatement or omission could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.
- Judgments about materiality are made in light of surrounding circumstances and are affected by the size or nature of a misstatement, or a combination of both.
- Judgments about matters that are material to users of the financial statements are based on a consideration of the common financial information needs of users as a group. The possible effect of misstatements on specific individual users, whose needs may vary widely, is not considered.

Risk assessment

Based on our risk assessment procedures, the following are significant risks/financial statement level risks that may result in a material misstatement (due to fraud or error) in the financial statements and our planned audit approach in response to such significant risks:

Significant Risks/financial statement level risks:

Due to Error

- *Significant risk varies depending on each entity. Identified risks are based on actuarial estimates and involve a high degree of judgment; therefore, inherent risk is assessed as significant.*
 - *Workers Compensation and General Liability (MTA)*
 - *Reserves for claims (HSS)*
 - *None identified for PUC*
 - *None identified for SFO*

Due to Fraud

- *Risk of management override of controls – Management is in a unique position to perpetrate fraud because of management's ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Although the level of risk of management override of controls will vary from entity to entity, the risk nevertheless is present in all entities.*

Audit plan - Deliverables and time line

- Debrief on audit process
- Plan audit approach for upcoming year-end audit
- Identify key members of the engagement team, including specialists

- Perform risk assessment procedures and identify risks
- Determine audit approach
- Evaluate entity-level controls
- Determine planned audit approach
- Understand accounting and reporting activities
- Evaluate design and implementation of selected controls including general IT controls, where applicable.
- Coordination with Internal Audit/ component auditors
- Present audit plan to those charged with governance



- Perform analytical or other procedures to roll forward account balances to year-end
- Perform remaining audit procedures
- Discuss key issues and deficiencies identified with management
- Attend Board committee meeting and perform required communications
- Review of financial statement disclosures
- Obtain written representation from management
- Issue audit opinion on financial statements

- Meetings with management to discuss key issues
- Perform interim substantive audit procedures
- Perform site visits

Audit plan - Deliverables and time line (continued)

Planning and Interim Fieldwork	May 2017 – August 2017
Final Fieldwork	September 2017 – January 2018
Audit reports and other reports	<ul style="list-style-type: none"> — Auditors’ report on each entity’s financial statements of: <ul style="list-style-type: none"> - MTA - SFO - HSS - Water - PUC CAFR - Wastewater - Hetch Hetchy Water and Power — Uniform Guidance Auditors’ report for SFO and MTA — Agreed Upon Procedures Report for NTD, TDA, MTA’s Revenue Bond Series, and SFO’s Revenue Bond Series — Auditors’ report over PUC Statement of Changes in the Balancing Account of Water Enterprise Audit — Auditor’s report on <i>MTA Public Transportation Modernization, Improvement, and Service Enhancement Account Program</i>
Other deliverables	<ul style="list-style-type: none"> — Target financial statements issuance date: October 20, 2017 — Issuance of significant deficiency reports, if applicable: October 20, 2017 — Issuance of Single Audit and other special reports: before January 31, 2018 — Required communications between KPMG and those Charged with Governance: November/December 2017

Audit Plan - SFMTA Uniform Guidance

Planning and Interim Fieldwork	September 2017 – October 2017
Final Fieldwork	November 2017 – December 2017
Findings	<p><u>Related to Fiscal Year 2015-16</u></p> <ul style="list-style-type: none"> — We tested general IT controls over Time Control. We found that SFMTA did not properly design or implement certain IT controls over information technology, including access and change management. — Total questioned costs reported: \$35,854 — SFMTA agrees with finding and have implemented controls for FY2017to address this finding
FY 2017 Plan	<ul style="list-style-type: none"> — KPMG will involve KPMG IT team to test the remediation of the finding in May 2017/June 2017.



Audit plan - Auditing and accounting matters

Other matters for discussion with the those Charged with Governance include their views about:

- The appropriate person (those Charged with Governance Chair or full committee) for communication of audit matters during the audit
- Allocation of responsibilities between management and the those Charged with Governance
- Entity's objectives and strategies and related business risks that may result in material misstatements
- Areas that warrant particular attention during the audit and additional procedures to be undertaken
- The nature and extent of communications expected with the those Charged with Governance about misappropriations perpetrated by lower-level employees
- Significant communications with regulators, if applicable
- The attitudes, awareness, and actions concerning (a) the entity's internal controls and their importance in the entity, including oversight of effectiveness of internal controls, and (b) detection of or possibility of fraud
- Developments in financial reporting, laws, accounting standards, corporate governance, and other related matters
- Matters relevant to the audit, including, but not limited to, violations or possible violations of laws or regulations
- Significant issues discussed with management in connection with the appointment or retention of the auditor, including significant discussions regarding the application of accounting principles and auditing standards.
- Previous communications with the auditor



5.0 Independence

Independence

Nonaudit services or other relationships that may reasonably be thought to bear on independence include:

— Word processing assistance

In our professional judgment, we are independent with respect to the City, as that term is defined by the professional standards.





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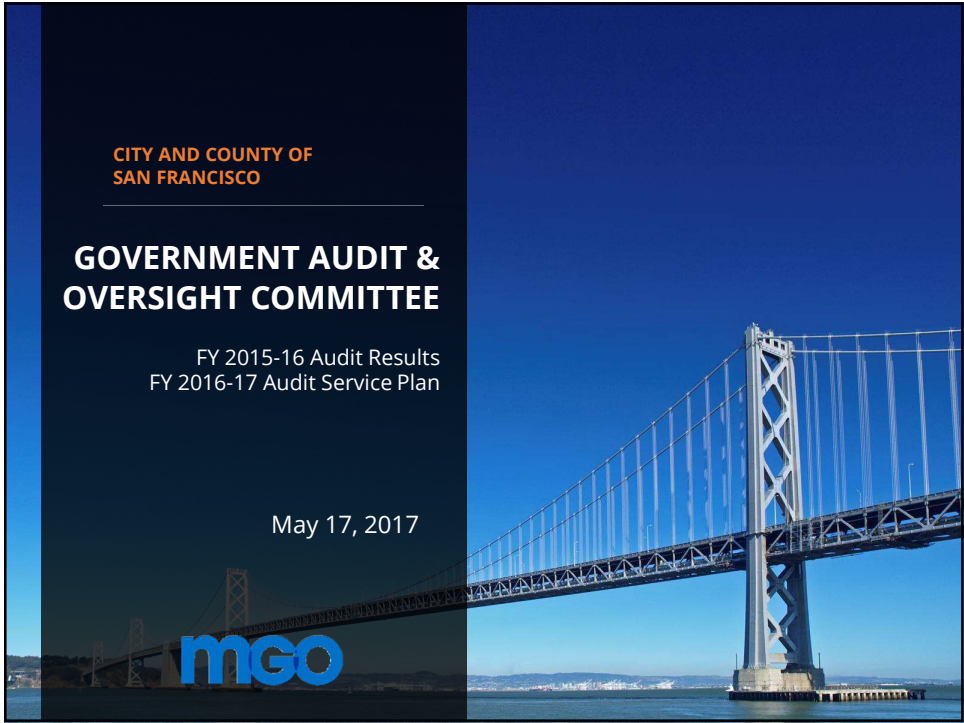
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CITY AND COUNTY OF
SAN FRANCISCO

**GOVERNMENT AUDIT &
OVERSIGHT COMMITTEE**

FY 2015-16 Audit Results
FY 2016-17 Audit Service Plan

May 17, 2017



**FY 2015-16
Audit Results**



Scope of Audits

1. Comprehensive Annual Financial Report (CAFR)
2. Single Audits
3. Retirement System
4. Successor Agency of the Redevelopment Agency
5. General Hospital and Laguna Honda Hospital
6. Port
7. Finance Corporation
8. Automobile and Workers' Compensation Insurance Fraud Programs
9. Local Transportation Fund and Transportation Development Act
10. Appropriations Limit agreed-upon procedures

Audit Results

- Comprehensive Annual Financial Report (CAFR) and Single Audits
 - CAFR – unmodified opinions
 - Single Audits – qualified opinion for 2 major programs; unmodified opinion for all other major programs
 - Internal Control over Financial Reporting
 - Internal Control over Compliance
- Report to the Government Audit & Oversight Committee
 - Required Communications

Required Communications

FY 2015-16 Audit Service Plan

1. Our Responsibility under U.S. Generally Accepted Auditing Standards
2. Planned Scope and Timing of the Audit

Required Communications (cont'd)

Report to the Government Audit & Oversight Committee

3. Qualitative Aspects of Accounting Practices
4. Difficulties Encountered in Performing the Audit
5. Corrected and Uncorrected Misstatements
6. Disagreements with Management
7. Management Representations
8. Management Consultations with Other Independent Accountants
9. Other Audit Findings or Issues
10. Required Supplementary Information
11. Other Supplementary Information
12. Other Information in Documents Audited Financial Statements

Current Year Recommendations

- None for the financial statement audits.
- Three for single audits.

Item No. 2016-001 – Procurement and Suspension and Debarment ***Significant Deficiency and Material Noncompliance***

- Assistance to Firefighters Grant (CFDA No. 97.044)
- Administered by the Fire Department
- The Fire Department did not follow procurement requirements to ensure open and full competition, or otherwise obtain proper approval for awarding contracts under limited competition.
- Management response: The Fire Department notified the grantor (FEMA) and have developed correction actions to prevent future noncompliance.

Current Year Recommendations

Item No. 2016-002 – Maximum Per-Unit Subsidy Requirements ***Material Weakness and Material Noncompliance***

- Home Investment Partnership Program (CFDA No. 14.239)
- Administered by the Mayor's Office of Housing and Community Development
- MOHCD funded a loan in excess of the established limit by \$1.2 million
- Management response: The federal funds in question were returned to HUD and placed in the City's budget for future projects. MOHCD developed additional controls to prevent future noncompliance.

Current Year Recommendations

Item No. 2016-003 – Reporting

Significant Deficiency and Noncompliance

- Community Development Block Grants/Entitlement Grants (CFDA No. 14.218)
- Home Investment Partnership Program (CFDA No. 14.239)
- Administered by the Mayor's Office of Housing and Community Development
- The required HUD 60002 Section 3 Summary Report for Economic Opportunities for Low- and Very Low-Income Persons reported incorrect information due to miscalculations from the supporting data.
- Management response: MOHCD has contacted the grantor (HUD) to correct the previously submitted reports, and revising its processes to prevent future noncompliance.

Prior Year Recommendations

Correction actions have been implemented for all prior year comments.

Item 2015-001 – Information Technology Governance

Significant Deficiency

Item 2015-002 – Year-End Closing Process

Significant Deficiency

Item 2015-003 – Procurement and Suspension and Debarment

Significant Deficiency

Port Security Grant Program (CFDA No. 97.056)

Item 2015-004 – Activities Allowed or Unallowed; Allowable Costs/Cost Principles

Control Deficiency

Foster Care Program (CFDA No. 93.658)

FY 2016-17 Audit Service Plan



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FY 2016-17 Audit Service Plan



Audit Service Plan

1. Planned Scope of Services – pg. 11
 - o Comprehensive Annual Financial Report (CAFR)
 - o Single Audits (excludes SFCTA, MTA, and Airport)
 - o Retirement System
 - o Successor Agency of the Redevelopment Agency
 - o General Hospital
 - o Laguna Honda Hospital
 - o Port
 - o Finance Corporation
 - o Automobile and Workers' Compensation Insurance Fraud Programs
 - o Local Transportation Fund and Transportation Development Act
 - o Appropriations Limit agreed-upon procedures

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Audit Service Plan

2. Audit Objectives – pg. 12
 - Plan and perform the audit to obtain reasonable rather than absolute assurance about whether the financial statements are free of material misstatement
3. Management’s Responsibilities – pg. 13-15
 - Responsible for financial statements and compliance with applicable requirements and regulations
 - Responsible for establishing and maintaining effective internal controls over financial reporting and compliance

Audit Service Plan

4. Timeline – pg. 5
5. Recent Developments in Governmental Accounting – pg. 19-21
 - GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*
 - GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*

Questions?

mgo

BOARD of SUPERVISORS



City Hall
1 Dr. Carlton B. Goodlett Place, Room 244
San Francisco 94102-4689
Tel. No. 415-554-5184
Fax No. 415-554-5163
TDD/TTY No. 415-554-5227

MEMORANDUM

TO: Ben Rosenfield, Controller, Office of the Controller

FROM: Erica Major, Assistant Clerk, Government Audit and Oversight Committee,
Board of Supervisors

DATE: May 9, 2017

SUBJECT: HEARING MATTER INTRODUCED

The Board of Supervisors' Government Audit and Oversight Committee has received the following hearing request, introduced by Supervisor Kim on May 2, 2017:

File No. 170528

Hearing on the Comprehensive Annual Financial Report (CAFR), Single Audit, and management letters prepared by the City's external auditors Macias Gini & O'Connell and KPMG, LLP, for FY2015-2016, and their audit plans for FY2016-2017, pursuant to Charter, Section 9.117; and requesting the external auditors and the Controller's Office to report.

If you have any comments or reports to be included with the file, please forward them to me at the Board of Supervisors, City Hall, Room 244, 1 Dr. Carlton B. Goodlett Place, San Francisco, CA 94102.

c: Todd Rydstrom, Office of the Controller
Peg Stevenson, Office of the Controller

Introduction Form

By a Member of the Board of Supervisors or the Mayor

RECEIVED
BOARD OF SUPERVISORS
SAN FRANCISCO

2017 MAY -2 PM 3:18
Time stamp
or meeting date

I hereby submit the following item for introduction (select only one):

- 1. For reference to Committee. (An Ordinance, Resolution, Motion, or Charter Amendment)
- 2. Request for next printed agenda Without Reference to Committee.
- 3. Request for hearing on a subject matter at Committee.
- 4. Request for letter beginning "Supervisor [] inquires"
- 5. City Attorney request.
- 6. Call File No. [] from Committee.
- 7. Budget Analyst request (attach written motion).
- 8. Substitute Legislation File No. []
- 9. Reactivate File No. []
- 10. Question(s) submitted for Mayoral Appearance before the BOS on []

Please check the appropriate boxes. The proposed legislation should be forwarded to the following:

- Small Business Commission Youth Commission Ethics Commission
- Planning Commission Building Inspection Commission

Note: For the Imperative Agenda (a resolution not on the printed agenda), use a Imperative Form.

Sponsor(s):

Kim

Subject:

Hearing for the City's external auditors (Macias Gini & O'Connell and KPMG LLP) to present the Comprehensive Annual Financial Report (CAFR) and other requirements under charter Section 9.117. +

The text is listed below or attached:

Hearing for the City's external auditors (Macias Gini & O'Connell and KPMG LLP) to present the Comprehensive Annual Financial Report (CAFR), Single Audit, and their Management Letters, if any, related to the City audit for +

Signature of Sponsoring Supervisor: 

For Clerk's Use Only:

Introduction Form

By a Member of the Board of Supervisors or the Mayor

Time stamp
or meeting date

I hereby submit the following item for introduction (select only one):

- 1. For reference to Committee. (An Ordinance, Resolution, Motion, or Charter Amendment)
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Sponsor(s):

Subject:

The text is listed below or attached:

Signature of Sponsoring Supervisor: _____

For Clerk's Use Only: