City and County of San Francisco

FY 2017/18
AUDIT RESULTS

FY 2018/19
AUDIT OVERVIEW

October 23, 2019

CITY AND COUNTY OF SAN FRANCISCO

FY 2017/18 Audit Results

MGO KPMG

Scope of Audits

MGO
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

KPMG
1. Health Service System (HSS)
2. Municipal Transportation Agency (MTA)
3. Public Utilities Commission (PUC)
4. San Francisco International Airport (SFO)
5. MTA Single Audit
6. MTA Agreed-Upon Procedures for National Transit Database (NTD) and Systems Review, Revenue Bond Series, Transportation Development Act (TDA) Compliance Letter
7. MTA Public Transportation Modernization, Improvement, and Service Enhancement Account Program
8. PUC Statement of Changes in the Balancing Account of the Water Enterprise Audit
9. SFO Single Audit
10. SFO Revenue Bond Series Agreed-Upon Procedures

Audit Results

- Unmodified opinions
- 1 significant deficiency in internal control over financial reporting
- Report to the Government Audit & Oversight Committee

Required Communications

1. Report to the Government Audit & Oversight Committee
2. Qualitative Aspects of Accounting Practices
3. Difficulties Encountered in Performing the Audit
4. Corrected and Uncorrected Misstatements
5. Disagreements with Management
6. Management Representations
7. Management Consultations with Other Independent Accountants
8. Other Audit Findings or Issues
9. Required Supplementary Information
10. Other Supplementary Information
11. Other Information in Documents Audited Financial Statements

FY 2017/18 Recommendation

Item No. 2018-001 – Reliability of System-Generated Reports used for Financial Reporting
Significant Deficiency in Internal Control over Financial Reporting

Condition

- The newly implemented financial management system impacted many facets of the City's financial management processes. The creation and verification of system-generated reports required substantial time and effort. Additional reconciliations and review processes were necessary in validating system outputs and resulted in significant delays.

Management Response

- The Controller's Office began to create a library of reliable system-generated reports that were developed to facilitate the FY 2017/18 year-end close, and will continue to validate system-generated reports and further evaluate business process workflows.

CITY AND COUNTY OF SAN FRANCISCO

FY 2018/19 Audit Plan

MGO KPMG

Scope of Audits

MGO

1. Comprehensive Annual Financial Report (CAFR)
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KPMG

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MGO Audit Team

CITY AND COUNTY OF SAN FRANCISCO
Board of Supervisors Government Audit and Oversight Committee

Caroline Walsh
QUALITY CONTROL PARTNER

Cynthia Pon
LEAD PARTNER

01 AUDIT TEAM

Cynthia Pon
ENGAGEMENT LEAD

CAFR
Single Audit
Port of San Francisco

02 AUDIT TEAM

Richard Green
ENGAGEMENT LEAD

Retirement System
Retiree Health Care Trust Fund

03 AUDIT TEAM

Benjamin Lau
ENGAGEMENT LEAD

Office of Community Infrastructure and Investments

04 AUDIT TEAM

Annie Louie
ENGAGEMENT LEAD

General Hospital
Laguna Honda Hospital
Finance Corporation
Various Grants

KPMG Audit Team

Lead Audit Engagement Managing Director – HSS, MTA, SFO, PUC
Lisa Avis

Engagement Quality Control Reviewing Partner
Susan Warren (HSS)
Brock Romano (MTA,SFO)
David Ellerbeck (PUC)

Audit Engagement Managers
Jie Hua Lee
Erin Szoboscan
Jessica Li
Rachel Nesom

Client Service Partner
Nancy Rose

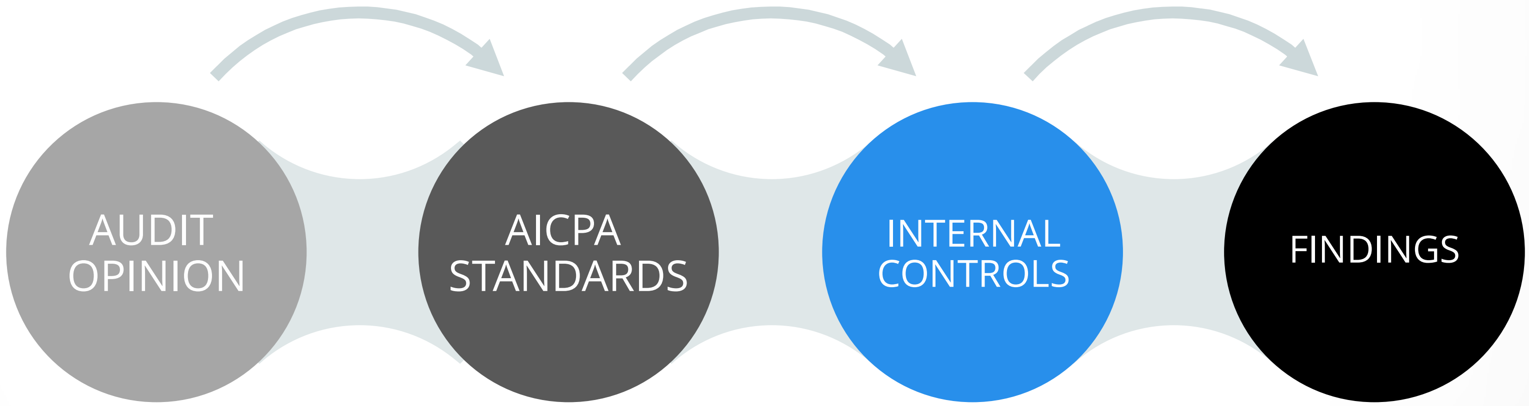
HSS
Jie Hua Lee
Greg Owyang

MTA
Jie Hua Lee
Rachel Nesom
Kelvin Kum

PUC
Jie Hua Lee
Jessica Li
Shi Shuang

SFO
Erin Szoboscan
Shishi Lu

Auditor Responsibilities



To express our opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles and *Government Auditing Standards*. This does not relieve you or management of your responsibilities.

To perform an audit in accordance with generally accepted auditing standards issued by the AICPA, and to design the audit to obtain reasonable, rather than absolute, assurance about whether the financial statements are free of material misstatement.

To obtain an understanding of the City and its environment, including internal controls over financial reporting and compliance, as a basis for designing our audit procedures, but not for the purpose of expressing an opinion on its effectiveness.

To communicate findings that, in our judgment, are relevant to your responsibilities in overseeing the financial reporting process. However, we are not required to design procedures for the purpose of identifying other matters to communicate to you.

Management Responsibilities

Management responsibilities – Financial statements	• Fairly presenting the financial statements, including disclosures in conformity with U.S. GAAP • Adjusting the financial statements to correct material misstatements and affirming in the representation letter 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
Management responsibilities – ICFR	• 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
Management responsibilities – Other	• To provide the auditor with: 1. access to all information of which management is aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters; 2. additional information that the auditor may request from management for the purpose of the audit; and 3. unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence • Identifying and ensuring that the entity complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations • Providing the auditor with a letter confirming certain representations made during the audit, that includes but is not limited to management's: 1. disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Company's financial reporting 2. acknowledgement of their responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud
Audit Committee responsibilities	• Oversight of the financial reporting process and internal control over financial reporting (ICFR) • Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud
Management and the Audit Committee responsibilities	• Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards • Ensuring that the entity's 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 entity's financial statements.

Audit Timing

Planning

- Identify key team members
- Obtain understanding of the City and its environment

March 2019

Interim Audit Procedures

- Determine materiality
- Plan audit approach
- Evaluate design and implementation of controls
- Test operating effectiveness of relevant controls
- Perform risk assessment

May – June 2019

Final Fieldwork

- Perform substantive audit procedures
- Review financial statements and related disclosures
- Obtain written representations from management

Sept 2019 – Jan 2020

Reporting

- Evaluate results of audit procedures
- Issue audit reports
- Present audit results to the Audit Committee

Nov 2019 – Jan 2020

Accounting Updates

New standards effective for the year ended June 30, 2019:

GASB 83

Certain Asset Retirement Obligations (AROs)

- AROs are legally enforceable liability associated with the retirement of a tangible capital asset.
- Legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability and requires disclosure of information about the nature of the AROs, the methods and assumptions used for the estimates.

GASB 88

Certain Disclosures Related to Debt, Including Direct Borrowings and Direct Placements

- This statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default or termination events with finance related consequences, and significant subjective acceleration clauses.

FY 2018/19 AUDIT OVERVIEW

Questions?

CITY AND COUNTY OF SAN FRANCISCO

Report to Government Audit and Oversight Committee
Year Ended June 30, 2018

Certified
Public
Accountants

CITY AND COUNTY OF SAN FRANCISCO
Report to Government Audit and Oversight Committee
Year Ended June 30, 2018

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Certified Public Accountants

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, 2018, 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 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. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

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. We consider comment 2018-001 in the Current Year Recommendation section to be a significant deficiency.

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 1, 2018. 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.

Macias Gini & O'Connell LLP
101 California Street, Suite 1225
San Francisco, CA 94111

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
March 25, 2019

REQUIRED COMMUNICATIONS

Significant Audit Observations

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 4 to the financial statements, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, as of July 1, 2017. As a result, the City recorded deferred outflows of resources and a net other postemployment benefits (OPEB) liability due to this change in accounting principle and reduced the beginning net position of the primary government in the amount of $1.0 billion.

As described in Note 4 to the financial statements, the City also adopted the following GASB statements for the year ended June 30, 2018:

- Statement No. 81, *Irrevocable Split-Interest Agreements*;
- Statement No. 85, *Omnibus 2017*; and
- Statement No. 86, *Certain Debt Extinguishment Issues*.

Implementation of these statements did not have a significant impact on the City for the year ended June 30, 2018.

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 of claims liabilities;

c) Estimated contractual adjustments and bad debt allowances for patient accounts receivable;

d) Cost report settlement receivables and payables;

e) Estimated bad debt allowance for accounts and loans receivable;

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, the net pension liability of the pension plans and related deferred outflows and inflows of resources; and

i) Other postemployment benefit (OPEB) plans contribution requirements, the net OPEB liability of the OPEB plans and related deferred outflows and inflows of resources.

REQUIRED COMMUNICATIONS (Continued)

I. Qualitative Aspects of Accounting Practice (Continued)

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(c) to the financial statements.

b) Liabilities for workers' compensation and general liability claims were based on actuarial evaluations using historical loss and other data. Other claims liabilities were estimated based on 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 receivables and payables 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 and includes the City's share of social security and Medicare payments made on behalf of employees.

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, the net pension liability of the pension plans and related deferred outflows and inflows of resources are based on actuarial calculations performed by the City's independent actuaries.

i) OPEB plans' employer and employee contribution requirements, the net OPEB liability of the OPEB plans and related deferred outflows and inflows of resources are based on actuarial calculations performed by the City's independent actuaries.

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.

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 as noted above.

The financial statement disclosures are neutral, consistent, and clear.

REQUIRED COMMUNICATIONS (Continued)

II. Difficulties Encountered in Performing the Audit

The completion of our audits was delayed because the City needed additional time to generate and verify the financial information of its new financial management system, PeopleSoft Financial System. On July 3, 2017, the PeopleSoft Financial System effectively replaced the City's outdated financial legacy systems. The system implementation, manual reconciliations to ensure data integrity, and review of financial reports generated from the new system diverted the City's resources from its daily operations and financial reporting processes, which resulted in significant delays in performing the audits for the year ended June 30, 2018.

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 March 25, 2019. We also requested certain representations from management for the separately issued financial statements of the Port of San Francisco, Successor Agency to the Redevelopment Agency of the City and County of San Francisco, San Francisco Employees' Retirement System, San Francisco Retiree Health Care Trust Fund, and San Francisco Finance Corporation that are included in the management representation letters dated February 15, 2019, December 26, 2018, February 22, 2019, March 5, 2019 and March 25, 2019, respectively.

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.

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 the management's discussion and analysis; the defined benefit plans schedules of the proportionate share of the net pension liability, changes in net pension liability and related ratios, and employer contributions; the postemployment healthcare benefit plans schedules changes in net OPEB liability and related ratios and employer contributions; and the budgetary comparison schedule for the General Fund, 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. Such information has not be 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.

X. Other Information in Documents Containing Audited Financial Statements

During the year, the City included its audited basic financial statements for the year ended June 30, 2017 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.

CURRENT YEAR RECOMMENDATION

2018-001 Reliability of System-Generated Reports used for Financial Reporting

Significant Deficiency in Internal Controls over Financial Reporting

Criteria:
The U.S. Government Accountability Office has published the *Standards for Internal Control in the Federal Government* (commonly known as the "Green Book") for how internal control over the financial process should be designed and implemented. The Green Book indicates an effective information system should allow management to obtain and process quality information to make informed decisions in achieving key objectives and addressing risks. It defines quality information as information that is appropriate, current, complete, accurate, accessible, and provided on a timely basis.

Condition:
On July 3, 2017, the City implemented a new enterprise financial and procurement system, PeopleSoft Financial System, which replaced its legacy financial system, FAMIS (Financial Accounting and Management Information System). This system implementation impacted many facets of the City's financial management processes, including accounting, budgeting, cash management, asset accounting, vendor management, and procurement, which resulted in the creation of new spreadsheets and alternative solutions to address unexpected system-generated outputs and workflow bottlenecks.

Cause:
A critical element of the financial reporting process is the reliability of system-generated reports. A number of system-generated reports did not produce expected results and required substantial time and effort in validating the system outputs.

Effect:
To overcome the additional efforts required in validating system outputs, various spreadsheets and reconciliations were created to ensure the City's financial statements were prepared in accordance with generally accepted accounting principles. These reconciliations and review processes resulted in significant delays in compiling the City's financial statements and performing the audits for the year ended June 30, 2018.

Recommendation:
As part of the stabilization period in the City's system implementation process, we recommend the City continue to validate PeopleSoft outputs and create a library of reliable system-generated reports for its 2019 year-end close. In addition, the City should address its alternative solutions and redesign workflows that result in operational bottlenecks in its key processes while ensuring proper checks and balances are in place and operating as designed to prevent, or detect and correct, errors in a timely manner during this significant operational change.

Management's Response and Corrective Action:
Consistent with the recommendations above, the Controller's Office has already begun the creation of a library of reliable system-generated reports that was developed to facilitate the 2018 year-end close. We will continue to validate and further automate the PeopleSoft reports that have been developed. In addition, we are in the process of further evaluating some of the PeopleSoft system configurations and business process workflows to streamline and eliminate bottlenecks that occurred in the fiscal year ended June 30, 2018.

CITY AND COUNTY OF SAN FRANCISCO
Report to Government Audit and Oversight Committee
Year Ended June 30, 2018

UNCORRECTED FINANCIAL STATEMENT MISSTATEMENTS

		STATEMENT OF NET POSITION					STATEMENT OF CHANGES IN NET POSITION	
Fund Type	Description	Assets DR (CR)	Deferred Outflows DR (CR)	Liabilities DR (CR)	Deferred Inflows DR (CR)	Net Position DR (CR)	Revenue DR (CR)	Expenses DR (CR)
	GOVERNMENTAL ACTIVITIES							
Governmental Activities	Other Revenues	$ -	$ -	$ -	$ -	$ -	$ (7,696,263)	$ -
Governmental Activities	Net Position	-	-	-	-	21,806,078	-	-
Governmental Activities	Deferred Inflow – Unamortized Gain on Leaseback Transaction	-	-	-	(14,109,815)	-	-	-
	(To recognize the impact of the recording of prior year's two sale-leaseback transactions.)							
	TOTAL GOVERNMENTAL ACTIVITIES	$ -	$ -	$ -	$ (14,109,815)	$ 21,806,078	$ (7,696,263)	$ -
	BUSINESS-TYPE ACTIVITIES							
Business-Type Activities	Effect of net adjustments from SF General Hospital (see below)	$ 3,404,165	$ -	$ 8,977,339	$ -	$ (11,685,600)	$ (695,904)	$ (8,977,339)
Business-Type Activities	Effect of net adjustments from Laguna Honda Hospital (see below)	-	-	(205,474)	-	205,474	1,097,012	(891,538)
	TOTAL BUSINESS-TYPE ACTIVITIES	$ 3,404,165	$ -	$ 8,771,865	$ -	$ (11,480,126)	$ 401,108	$ (9,868,877)
	SAN FRANCISCO GENERAL HOSPITAL							
SF General Hospital	Accounts Receivable	$ 3,404,165	$ -	$ -	$ -	$ -	$ -	$ -
SF General Hospital	Medical Inpatient Revenue	-	-	-	-	-	(695,904)	-
SF General Hospital	Fund Balance – Beginning	-	-	-	-	(2,708,261)	-	-
	(To record patient services revenues and receivables in the proper fiscal year.)							
SF General Hospital	Accounts payable	$ -	$ -	$ 8,977,339	$ -	$ -	$ -	$ -
SF General Hospital	Inventory adjustment	-	-	-	-	(8,977,339)	-	(8,977,339)
	(To adjust accounts payable related to inventory purchases)							
	TOTAL SAN FRANCISCO GENERAL HOSPITAL	$ 3,404,165	$ -	$ 8,977,339	$ -	$ (11,685,600)	$ (695,904)	$ (8,977,339)
	LAGUNA HONDA HOSPITAL							
Laguna Honda Hospital	Revenue – District Part/Skilled Nursing Facility reimbursement	$ -	$ -	$ -	$ -	$ 548,506	$ 548,506	$ -
Laguna Honda Hospital	Accounts Payable	-	-	(548,506)	-	-	-	-
	(To record overpayment from the State of California.)							
Laguna Honda Hospital	Accounts payable	$ -	$ -	$ 445,769	$ -	$ -	$ -	$ -
Laguna Honda Hospital	Inventory adjustment	-	-	-	-	(445,769)	-	(445,769)
	(To adjust accounts payable related to inventory purchases)							
	TOTAL LAGUNA HONDA HOSPITAL	$ -	$ -	$ (102,737)	$ -	$ 102,737	$ 548,506	$ (445,769)

CITY AND COUNTY OF SAN FRANCISCO

BASIC FINANCIAL STATEMENTS
AND SINGLE AUDIT REPORTS

FOR THE YEAR ENDED JUNE 30, 2018

Certified Public Accountants

CITY AND COUNTY OF SAN FRANCISCO
BASIC FINANCIAL STATEMENTS AND SINGLE AUDIT REPORTS
FOR THE YEAR ENDED JUNE 30, 2018

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- Management's Discussion and Analysis
- Basic Financial Statements
- Notes to the Financial Statements
- Required Supplementary Information

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MGO Certified Public Accountants

Independent Auditor's Report

Honorable Mayor and 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, California (City), as of and for the year ended June 30, 2018, 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), 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	1.6%	7.5%	1.8%
Business-type activities	92.0%	100.0%	74.9%
Aggregate discretely presented component unit and remaining fund information	1.0%	0.8%	9.4%

Those 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 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 discretely presented component unit and remaining fund information of the City as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter
As discussed in Note 4 to the basic financial statements, effective July 1, 2017, the City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, and restated beginning net position for the retroactive application of this new accounting standard. Our opinion is not modified with respect to this matter.

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 accordance 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, 2017, from which such partial and summarized information was derived.
We have previously audited the City's 2017 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, each major fund, and the aggregate discretely presented component unit and remaining fund information in our report dated December 29, 2017. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Required Supplementary Information
Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, the schedules of the City's proportionate share of the net pension liability, the schedules of changes in net pension liability and related ratios, the schedules of changes in total pension liability and related ratios, the schedules of employer contributions – pension plans, the schedules of changes in net other postemployment healthcare benefits liability and related ratios, the schedules of employer contributions – other postemployment healthcare benefits plans, and the budgetary comparison schedule - General Fund, 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 March 25, 2019 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's 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 City's internal control over financial reporting and compliance.

Macias Gini & O'Connell LLP

San Francisco, California
March 25, 2019, except for our report on the schedule of expenditures of federal awards,
as to which the date is March 29, 2019

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, 2018. We encourage readers to consider the information presented here in conjunction with additional information in our transmittal letter. Certain amounts presented as fiscal year 2016-17 summarized comparative financial information in the basic financial statements have been reclassified to conform to the presentation in the fiscal year 2017-18 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 $7.71 billion (net position). Of this balance, $9.19 billion represents the City's net investment in capital assets, $2.49 billion represents restricted net position, and unrestricted net position has a deficit of $3.97 billion. The City's total net position increased by $155.7 million, or 2.1 percent, from the previous fiscal year. Of this amount, total net investment in capital assets and restricted net position increased by $871.0 million or 10.5 percent and $411.1 million or 19.8 percent, respectively, and unrestricted net position decreased by $1.12 billion or 39.6 percent.

The City's governmental funds reported total revenues of $6.41 billion, which is a $439.8 million or 7.4 percent increase over the prior year. Within this, revenues from property taxes, business taxes, intergovernmental sources, charges for services, hotel room tax, and other local taxes grew by approximately $233.9 million, $196.8 million, $65.2 million, $37.1 million, $11.8 million, and $12.6 million, respectively. At the same time, there was a decline in revenues from real property transfer tax, utility users tax, and other revenues of $130.1 million, $6.7 million, and $2.3 million, respectively. Governmental funds expenditures totaled $5.85 billion for this period, a $532.5 million or 10.0 percent increase, reflecting increases in demand for governmental services of $375.9 million, increased debt service of $115.9 million and increased capital outlay of $40.7 million.

At the end of the fiscal year, total fund balances for the governmental funds amounted to $4.58 billion, an increase of $1.17 billion or 34.4 percent from prior year, primarily due to $1.37 billion in proceeds from issuance from bonds which offset the greater increase in expenditures over revenues as well as the increase in other financing uses.

The City's total short-term debt decreased by $237.8 million in this fiscal year. The decrease of $134.1 million in the governmental activities was due to the refinancing of commercial paper (CP) with certificates of participation, offset by the issuance of $54.0 million CP for the construction of Transbay Transit Center. The short-term debt in the enterprise activities decreased by $103.8 million mainly due to the Airport and the Water Enterprise refinancing $253.3 million in CP with revenue bonds, net of $151.4 million CP issued by the Wastewater Enterprise for improvements of its facilities.

The City's governmental activities long-term bonds, loans, and capital leases increased by $956.1 million. A total of $633.0 million in general obligation bonds were issued to fund: improvements to City's parks and waterfront open spaces; upgrades to streets and sidewalks; infrastructure and facility improvements to aid emergency response to earthquakes, focusing on water supply and fire and police stations; low- and middle-income housing programs; facility improvements to aid emergency response capacity, focusing on medical and mental health. The City issued $412.4 million certificates of participation to refinance short-term debt for the Moscone expansion project, issued $248.3 million sales tax revenue bonds for the SFCTA's transportation projects, and entered into a capital lease agreement for $1.6 million for hardware and peripherals for the City's mainframe computer. The increase in debt was offset by $415.3 million due to scheduled debt service payments of $300.3 million and repayment of $115.0 million of the revolving credit loan funded by the SFCTA's issuance of its sales tax revenue bonds.

The City's business-type activities long-term debt increased by $2.02 billion. The Airport issued $2.04 billion revenue bonds, of which $1.72 billion was used to finance and refinance the redevelopment of airport terminals, construct a long-term parking garage and administration building, extend the Air-Train service and improve security and technology structure and $310.2 million in revenue refunding bonds was issued to generate an economic gain. The Water Enterprise issued $781.7 million revenue bonds, comprised of $442.2 million refunding bonds to generate an economic gain and $339.5 million to finance and refinance the City's water system improvement projects. The Wastewater Enterprise obtained a loan of $22.6 million from the State of California for sewer system improvement projects. The Municipal Transportation Agency obtained a bank loan of $4.7 million for a garage renovation project. These new debt issuances were offset in the amount of $1.22 billion in refunded bonds and scheduled debt payments.

In accordance with California Redevelopment Dissolution Law, the Successor Agency transferred Yerba Buena Gardens to the City at no cost in June 2018. The transfer consisted of the Gardens and related properties, leases and operating agreements necessary for ongoing operations, and cash held in a separate account for the Gardens. The City recorded a special item of $11.1 million for the transfer of cash in the Real Property Fund and in total assets (cash and capital assets) of $116.7 million in governmental activities (see Note 14).

The City adopted the provisions of Governmental Accounting Standards Board (GASB) Statement No. 75*, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions* as of July 1, 2017. GASB Statement No. 75 revises and establishes new accounting and financial reporting requirements for governments that provide their employees with postemployment benefits other than pensions (OPEB) and requires additional OPEB disclosures. The City restated the July 1, 2017 net position to include the net OPEB liability as well as deferred outflows of resources related to OPEB. The net effect of this change was a $1.04 billion reduction in the City's beginning net position. The fiscal year 2016-17 financial statements have not been restated in the MD&A for comparative purposes.

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

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

	Government - wide Statements	**Fund Financial Statements**		
		Governmental	**Proprietary**	**Fiduciary**
Scope	Entire entity (except fiduciary funds)	The day-to-day operating activities of the City for basic governmental services	The day-to-day operating activities of the City for business-type enterprises	Instances in which the City administers resources on behalf of others, such as employee benefits
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus; except agency funds do not have measurement focus
Type of balance information	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	Balances of spendable resources	All assets, deferred outflows of resources, liabilities, and deferred inflows of resources, both financial and capital, short-term and long-term	All resources held in a trustee or agency capacity for others
Type of inflow and outflow information	All inflows and outflows during year, regardless of when cash is received or paid	Near-term inflows and outflows of spendable resources	All inflows and outflows during year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

Government-wide Financial Statements

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

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

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

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

The government-wide financial statements include not only the City itself (known as the primary government), but also a legally separate development authority, the Treasure Island Development Authority (TIDA), for which the City is financially accountable. Financial information for this component unit is reported separately from the financial information presented for the primary government. Included within the governmental activities of the government-wide financial statements are the San Francisco County Transportation Authority (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.

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 nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

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, net OPEB liability, and OPEB contributions.

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

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.

Condensed Statement of Net Position
(in thousands)

	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Assets:						
Current and other assets	$6,664,033	$5,097,048	$ 6,174,594	$ 4,903,634	$12,838,627	$10,000,682
Capital assets	5,803,025	5,307,676	18,505,656	16,761,881	24,308,681	22,069,557
Total assets	12,467,058	10,404,724	24,680,250	21,665,515	37,147,308	32,070,239
Deferred outflows of resources:	1,015,311	1,311,074	973,033	1,273,096	1,988,344	2,584,170
Liabilities:						
Current liabilities	2,041,116	1,811,708	2,201,736	1,911,931	4,242,852	3,723,639
Noncurrent liabilities	9,326,001	7,967,621	17,470,491	15,143,312	26,796,492	23,110,933
Total liabilities	11,367,117	9,779,329	19,672,227	17,055,243	31,039,344	26,834,572
Deferred inflows of resources:	223,275	150,058	158,974	111,466	382,249	261,524
Net position:						
Net investment in capital assets*	3,311,218	2,873,927	6,211,102	5,752,069	9,192,745	8,321,778
Restricted *	1,531,481	1,473,219	1,103,693	690,592	2,492,619	2,081,491
Unrestricted (deficit) *	(2,950,722)	(2,560,735)	(1,492,713)	(670,759)	(3,971,305)	(2,844,956)
Total net position	$1,891,977	$1,786,411	$ 5,822,082	$ 5,771,902	$ 7,714,059	$ 7,558,313

* 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 $7.71 billion at the end of fiscal year 2017-18, a 2.1 percent increase over the prior year. The City's governmental activities account for $1.89 billion of this total and $5.82 billion stem from its business-type activities.

The largest portion of the City's net position is the $9.19 billion in net investment in capital assets (e.g. land, buildings, and equipment). This reflects a $871.0 million or 10.5 percent increase over the prior year and is due to the growth seen in the governmental activities and an overall increase in business-type activities, highlighted by a $559.0 million increase at SFMTA offset by decreases of $67.7 million and $57.5 million at LHH and SFGH, respectively. 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 $2.49 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 $3.97 billion, which consists of a $2.95 billion deficit in governmental activities and $1.49 billion deficit in business-type activities. The governmental activities and business-type activities deficit is largely due to recording liabilities related to net pension and net other postemployment benefits (see Note 9). The governmental activities deficit also included $472.1 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)). The business-type activities deficit also includes structural operating losses from SFGH and LHH subsidized by the General Fund.

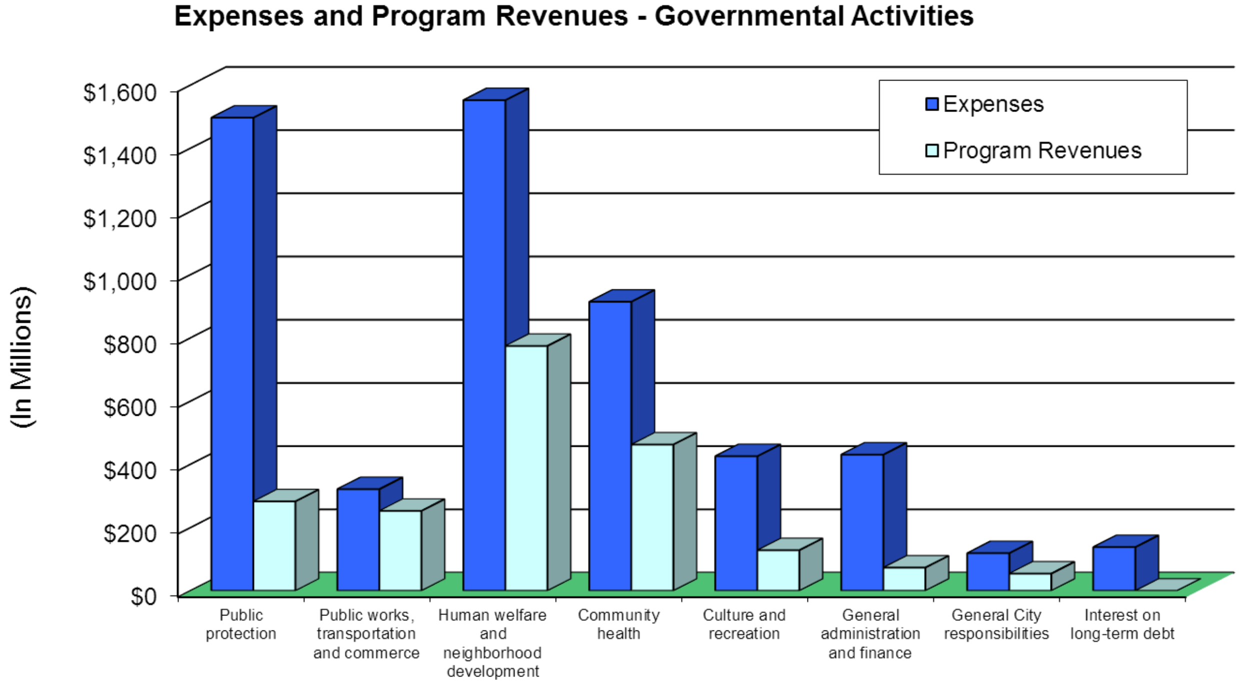
Condensed Statement of Activities
(in thousands)

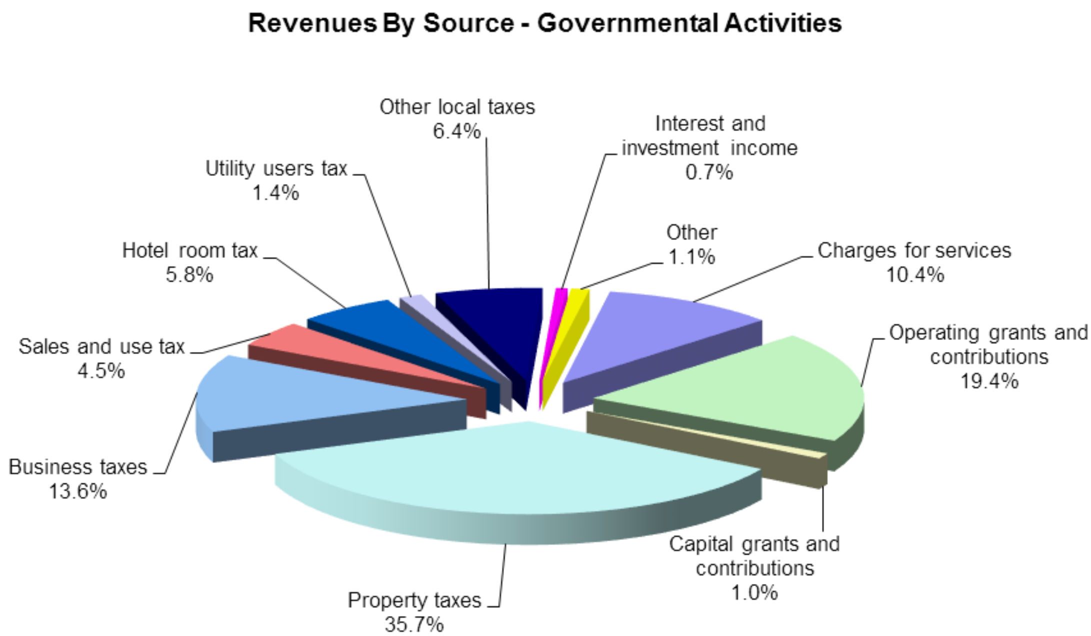
	Governmental activities		Business-type activities		Total	
	2018	2017	2018	2017	2018	2017
Revenues						
Program revenues:						
Charges for services	$ 685,437	$ 646,422	$ 3,686,189	$ 3,341,055	$ 4,371,626	$ 3,987,477
Operating grants and contributions	1,279,900	1,263,262	217,506	270,167	1,497,406	1,533,429
Capital grants and contributions	63,181	19,493	456,166	353,046	519,347	372,539
General revenues:						
Property taxes	2,363,863	1,951,696	-	-	2,363,863	1,951,696
Business taxes	899,142	702,331	-	-	899,142	702,331
Sales and use tax	293,916	291,395	-	-	293,916	291,395
Hotel room tax	382,176	370,344	-	-	382,176	370,344
Utility users tax	94,460	101,203	-	-	94,460	101,203
Other local taxes	424,187	542,567	-	-	424,187	542,567
Interest and investment income	46,020	35,240	39,010	28,547	85,030	63,787
Other	71,834	182,933	246,827	257,419	318,661	440,352
Total revenues	6,604,116	6,106,886	4,645,698	4,250,234	11,249,814	10,357,120
Expenses						
Public protection	1,496,749	1,692,224	-	-	1,496,749	1,692,224
Public works, transportation and commerce	321,577	387,423	-	-	321,577	387,423
Human welfare and neighborhood development	1,552,060	1,543,047	-	-	1,552,060	1,543,047
Community health	914,512	868,628	-	-	914,512	868,628
Culture and recreation	425,668	539,516	-	-	425,668	539,516
General administration and finance	430,711	337,209	-	-	430,711	337,209
General City responsibilities	118,956	145,247	-	-	118,956	145,247
Unallocated Interest on long-term debt	138,048	113,264	-	-	138,048	113,264
Airport	-	-	1,092,154	1,122,802	1,092,154	1,122,802
Transportation	-	-	1,304,254	1,468,586	1,304,254	1,468,586
Port	-	-	102,667	118,361	102,667	118,361
Water	-	-	536,068	572,509	536,068	572,509
Power	-	-	202,366	198,621	202,366	198,621
Hospitals	-	-	1,294,045	1,370,154	1,294,045	1,370,154
Sewer	-	-	235,985	273,077	235,985	273,077
Total expenses	5,398,281	5,626,558	4,767,539	5,124,110	10,165,820	10,750,668
Increase/(decrease) in net position before transfers and special items	1,205,835	480,328	(121,841)	(873,876)	1,083,994	(393,548)
Transfers	(753,283)	(647,942)	753,283	647,942	-	-
Special item:						
Receipt of Yerba Buena Garden assets	116,690	-	-	-	116,690	-
Change in net position	569,242	(167,614)	631,442	(225,934)	1,200,684	(393,548)
Net position at beginning of year, as previously reported	1,786,411	2,009,063	5,771,902	5,997,836	7,558,313	8,006,899
Cumulative effect of accounting change	(463,676)	(55,038)	(581,262)	-	(1,044,938)	(55,038)
Net position at beginning of year, as restated	1,322,735	1,954,025	5,190,640	5,997,836	6,513,375	7,951,861
Net position at end of year	$ 1,891,977	$ 1,786,411	$ 5,822,082	$ 5,771,902	$ 7,714,059	$ 7,558,313

Analysis of Changes in Net Position

The City's change in net position increased by $1.59 billion in fiscal year 2017-18, due to a $393.5 million decrease in the prior fiscal year and a $1.20 billion increase in the current year. The increase in the change in net position was due to a $736.9 million increase from governmental activities and a $857.4 million increase from business-type activities.

The City's governmental activities experienced a $497.2 million or 8.1 percent growth in total revenues, as well as a decrease in total expenses of $228.3 million or 4.1 percent this fiscal year. Business-type activities revenues increased by $395.5 million or 9.3 percent, as well as a decrease in total expenses of $356.6 million, or 7.0 percent. The net transfer to business-type activities increased by $105.3 million. The major component of decreased expense Citywide is decreased pension expense of $1.07 billion . Discussion of these and other changes is presented in the governmental activities and business-type activities sections that follow.


Expenses and Program Revenues - Governmental Activities
(In Millions)
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
Expenses
Program Revenues
Public protection
Public works, transportation and commerce
Human welfare and neighborhood development
Community health
Culture and recreation
General administration and finance
General City responsibilities
Interest on long-term debt


Revenues By Source - Governmental Activities
Other local taxes 6.4%
Interest and investment income 0.7%
Utility users tax 1.4%
Other 1.1%
Hotel room tax 5.8%
Charges for services 10.4%
Sales and use tax 4.5%
Operating grants and contributions 19.4%
Business taxes 13.6%
Capital grants and contributions 1.0%
Property taxes 35.7%

Governmental activities. Governmental activities increased the City's total net position by approximately $569.2 million before the cumulative effect of accounting change related to the implementation of GASB Statement No. 75. Key factors contributing to this change are discussed below.

Overall, total revenues from governmental activities were $6.60 billion, a $497.2 million or 8.1 percent increase over the prior year. For the same period, expenses totaled $5.40 billion before transfers of $753.3 million.

Property tax revenues increased by $412.2 million or 21.1 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. Additional increases in property tax revenues are related to the Educational Revenue Augmentation Fund (ERAF) windfall of $208.0 million. An increase in business taxes of $196.8 million or 28.0 percent was mainly driven by increases in the gross receipts tax mainly due to the increasing tax rates.

Revenues from sales and use tax and hotel room taxes totaled approximately $676.1 million, a growth of $14.4 million over the prior year. Sales and use tax increased by $2.5 million or 0.9 percent primarily due to an overall decline in the sales of general consumer goods offset by slow growth in the food and restaurant sector. Hotel room tax increased by approximately $11.8 million or 3.2 percent, due to a slight continuing decline in room rates, offset by the occupancy impact of the partial reopening of the Moscone Convention Center.

Other local taxes decreased by $118.4 million or 21.8 percent, mainly related to a decline in real property transfer tax. In November 2016, voters approved Proposition W which increased the real property transfer tax rate on properties over $5.0 million, which represents a small number of transactions but is typically the highest proportion of total transfer tax revenue. As the real estate market has slowed, revenue from real property transfer tax has decreased.

Other revenues also decreased by approximately $111.1 million or 60.7 percent. In the prior year, the City sold two properties for a gain on sale of approximately $97.3 million. There were no significant sales of properties that occurred during fiscal year 2017-18.

Total grants and contributions increased $60.3 million. This was largely due to increases in the General Fund from State sources, mainly related to health and welfare, capital projects, as well as mental health services. In fiscal year 2017-18, the City received an additional $2.2 million in State funds related to the Civic Center navigation center.

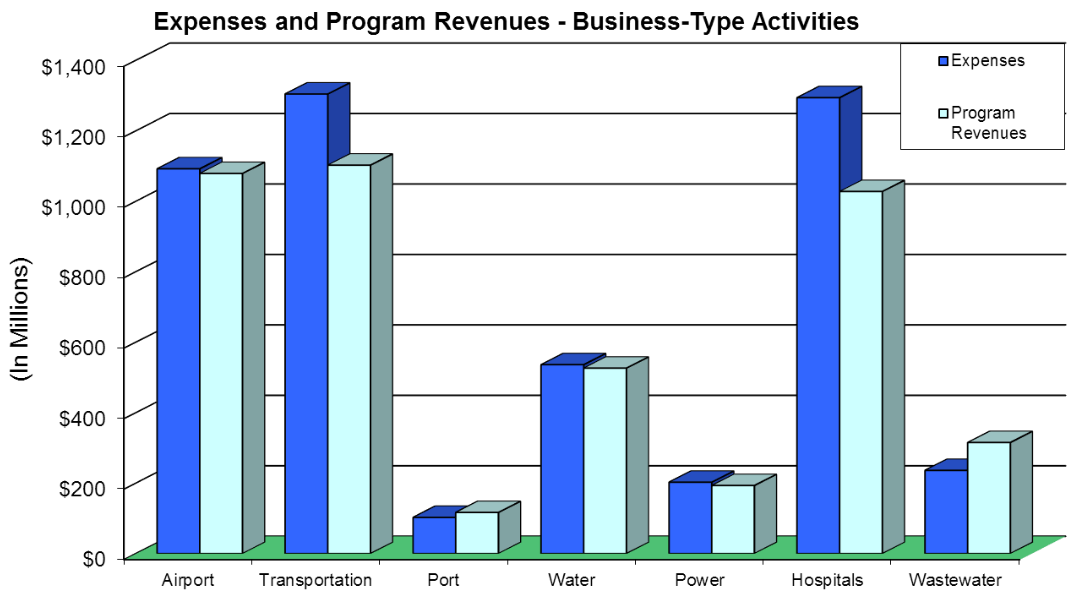
Total charges for services increased $39.0 million, or 6.0 percent. The increase is mainly due to a $28.1 million increase in General Fund charges for services, which includes enrollment fees in Healthy San Francisco which increased $13.0 million related to increases in the patient census. Additionally, the Department of Public Health received supplemental payments from the federal government in fiscal year 2017-18 to offset the cost of care related to Medi-Cal expansion. The department received two years' worth of payments under the program during fiscal year 2017-18, which increased Medi-Cal settlement revenue by approximately $11.0 million.

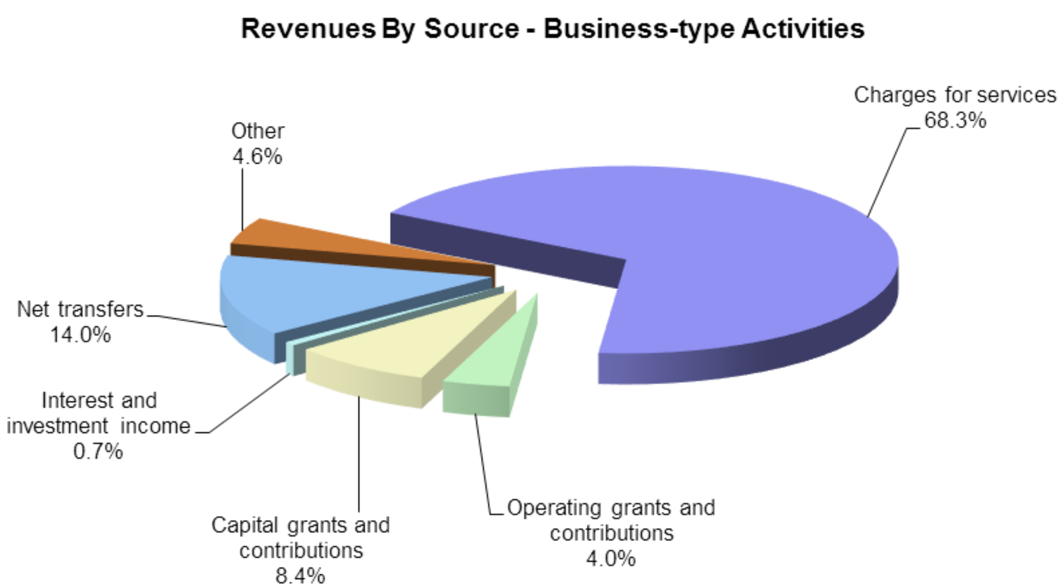
Interest and investment income revenue increased by $10.8 million, or 30.6 percent, due to increased interest rates as well as balances in the City's investment pool, primarily due to an increase in property tax revenues, and business tax revenues.

Net transfers from the governmental activities to business-type activities were $753.3 million, a $105.3 million increase or 16.3 percent from the prior year. This was mainly due to an increase in operating subsidies to SFMTA of $37.3 million and SFGH of $34.7 million, as well as an increase of $13.3 million in Proposition B funding from the General Fund to SFMTA.

The decrease of total governmental expenses of $228.3 million, or 4.1 percent, was primarily due to a decrease in pension expense of $531.2 million related to better than expected investment returns as well as significant increases in prior year supplemental cost of living adjustments, which resulted from the Appeal Court's elimination of the full funding requirement for certain members that did not recur in fiscal year 2017-18, offset by increases in professional services spending as part of Community Health related to behavior health services and the Electronic Health Records system project, as well as increases related to General, Administration & Finance primarily due to increases in salaries. In total, the leading decreases were $195.5 million in Public Protection and $113.8 million in Culture and Recreation.

On June 27, 2018, the City acquired the Yerba Buena Gardens property and related assets used in its operations from the Successor Agency for a total book value of $116.7 million. The transaction is presented as a Special Item in the Statement of Activities and the Statement of Revenues, Expenditures, and Changes in Fund Balances.





Business-type activities increased the City's net position by $631.4 million before cumulative effect of accounting change due to the implementation of GASB Statement No. 75, and by $50.2 million after cumulative effect of accounting change and key factors contributing to this increase are as follows:

- The San Francisco International Airport had an increase in net position at fiscal year-end of $65.2 million, compared to a $116.9 million decrease in the prior year, a $182.1 million difference. Operating revenues totaled $1.06 billion for fiscal year 2017-18, an increase of $137.0 million or 14.8 percent over the prior year and included increases of $125.0 million, $8.9 million, $1.2 million, and $1.9 million in aviation, concession, parking and transportation, and net sales and services, respectively, reflecting traffic growth at the Airport. For the same period, the Airport's operating expenses decreased by $38.7 million, or 4.8 percent, for a net operating income of $293.6 million for the period. Net nonoperating activities saw a deficit of $196.9 million versus $201.0 million deficit in the prior year, a $4.1 million decrease. The decrease in both operating and nonoperating expenses is due to decreases in personnel, depreciation, and other nonoperating expenses. Personnel costs decreased by $51.8 million due to a prior year significant pension expense increase related to supplemental cost of living adjustments, and additional positions that did not recur in fiscal year 2017-18. Capital contributions increased by $3.8 million due to an increase in federal grants received. Due to the adoption of GASB Statement No. 75 during fiscal year 2017-18, the Airport restated its beginning net position with a decrease of $83.0 million.

- The City's Water Enterprise, the third largest such entity in California, reported an increase in net position of $17.6 million at the end of fiscal year 2017-18, compared to a decrease of $121.4 million at the end of the previous year, a $139.0 million difference. Operating revenues totaled $525.6 million, operating expenses totaled $370.1 million, nonoperating activities totaled a net expense of $106.9 million and the net decrease from transfers was $29.0 million. Compared to the prior year, operating revenues increased $65.3 million, which included $56.9 million in charges for services. The enterprise reported a total decrease in operating expenses of $51.7 million in fiscal year 2017-18 due to a $53.7 million decrease in personnel services mainly due to pension expense, Nonoperating expenses increased by $15.9 million in interest expense mainly due to the issuance of additional bonds during the year. Due to the adoption of GASB Statement No. 75 during fiscal year 2017-18, the Water Enterprise restated its beginning net position with a decrease of $29.4 million.

- Hetch Hetchy Water and Power and CleanPowerSF ended fiscal year 2017-18 with a net position increase of $33.4 million, compared to a $65.6 million increase the prior year, a difference of $32.2 million. This change consisted of a decrease in operating income of $1.5 million, a decrease in nonoperating income of $0.3 million, and a decrease in transfers from the City of $30.5 million. Additionally, due to the adoption of GASB Statement No. 75 during fiscal year 2017-18, Hetch Hetchy Water and Power and CleanPowerSF restated its beginning net position with a decrease of $4.4 million. This enterprise consists of three segments: Hetchy Water upcountry operations and water system, which reported a $25.2 million increase in change in net position, Hetchy Power (also known as the Power Enterprise), which reported a $7.0 million increase in change in net position, and CleanPowerSF, which reported a $1.2 million increase in net position. Hetchy Water operating revenues decreased by $1.6 million, mainly due to a decrease of $2.0 million in water assessment fees from the Water Enterprise while operating expenses decreased by $10.3 million mainly due to a $7.5 million decrease in personnel services for lower pension and personnel costs. Hetchy Power's operating revenues decreased by $2.1 million mostly due to decreased sales of $7.6 million to non-City customers, offset by increases of $2.4 million in sales to other City departments, $1.7 million to other retail customers, mainly from San Francisco Port operations, and $1.5 million in sales of electricity to CleanPowerSF. On the operating expenses side, Hetchy Power reported an increase of $2.5 million due to increases of $7.7 million in energy supply purchases and $5.8 million in transmission and distribution power cost due to powerhouse shutdown, mainly offset by a decrease of $10.0 million in personnel costs mainly due to lower pension expense, and $0.9 million in legal services provided by the City Attorney. CleanPowerSF's operating revenues increased by $5.7 million due to $5.7 million increase in charges for services related to consumption increase. Operating expenses for CleanPowerSF increased by $11.3 million mainly due to $7.9 million increase in purchased electricity and transmission, distribution and other power costs, $1.0 million increase in professional services related to program development, and $0.9 million in personnel services.

- The City's Wastewater Enterprise's net position increased by $65.2 million, compared to a $9.7 million decrease in the prior year, a $74.9 million change. Operating revenues increased by $37.8 million due to a $35.4 million increase in charges for services as a result of an average 11 percent adopted rate increase, and a 2 percent increase in sanitary flow. Operating expenses decreased by $33.6 million mainly due to $23.3 million decrease in personnel services mainly from pension expense and a $13.0 million decrease in general and administrative operating expenses mainly due to increased capitalization of capital project spending, offset by an increase of $2.2 million in contractual services, particularly engineering, management, and system consulting services. Transfers out decreased by $3.8 million mainly due to a transfer to the City Real Estate Division for the Phase 1 construction work for the Central Shops Relocation Project. Due to the adoption of GASB Statement No. 75 during fiscal year 2017-18, the Wastewater Enterprise restated its beginning net position with a decrease of $2.3 million.

- The Port ended fiscal year 2017-18 with a net position increase of $16.2 million, compared to a $2.1 million increase in the previous year, a $14.1 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 2017-18, operating revenues decreased by $3.6 million, mostly due to construction and event permit fees, developer or other one-time transaction fees occurring in the prior year that did not recur in fiscal year 2017-18. Operating expenses decreased $17.2 million over the prior year. This was due in part to decreases of $7.1 million in personal services mainly due to decreases in pension expense, a reduction of $8.5 million in the pollution remediation liability related to Pier 70 development, and $6.4 million in depreciation and amortization related to fully depreciated assets still in use, offset by an increase of $6.4 million in contractual services mainly related to spending for the Mission Bay Ferry Landing Project, the Pier 70 shipyard, and the Seawall program. Due to the adoption of GASB Statement No. 75 during fiscal year 2017-18, the Port restated its beginning net position with a decrease of $4.0 million.

- The SFMTA had an increase in net position of $559.0 million for fiscal year 2017-18, compared to an increase of $274.7 million in the prior year, a $284.3 million change. SFMTA's total operating revenues were $512.0 million, while total operating expenses reached $1.29 billion. Operating revenues increased by $11.9 million compared to the prior year and is mainly due to increase in passenger fare revenue by $6.4 million, charges for services by $3.1 million, penalties by $2.3 million, advertising revenue by $1.5 million, and permits revenue of $0.8 million, offset by decreases in parking fees of $1.6 million and tax revenues of $1.2 million. Operating expenses decreased by $114.5 million primarily due to personnel costs, which is attributable mainly to prior year COLA and hiring increases, and pension expense, offset by an increase in general and administrative costs, mainly related to an increase in claims liability. Net nonoperating revenue decreased by $68.1 million mostly from federal operating grants, development fees, and loss on disposal of assets, offset by increases in interest and investment income as well as in state operating grants. Capital contributions increased by $82.2 million due to an increase in capital expenditures incurred and billable to grantors mostly related to revenue and trolley vehicles procurement, and the Central Subway. Net transfers in increased by $143.7 million due to a $148.2 million increase in capital project support from the City's General Obligation Bonds, and $37.3 million from the City's General Fund for revenue baseline subsidy, offset by $28.5 decrease in transfers from other City departments. Due to the adoption of GASB Statement No. 75 during fiscal year 2017-18, the SFMTA restated its beginning net position with a decrease of $333.0 million.

- LHH, the City's skilled nursing care hospital, had a decrease in net position of $67.7 million at the end of fiscal year 2017-18, compared to a decrease of $69.5 million at the end of the previous year, a $1.8 million difference. The LHH's loss before transfers for the year was $118.0 million versus a loss of $132.6 million for the prior year. This change of $14.6 million was mostly due to a $20.2 million increase in operating revenues, a $8.1 million increase in operating expenses, and a $2.5 million increase in net nonoperating revenues. Due to the adoption of GASB Statement No. 75 during fiscal year 2017-18, the LHH restated its beginning net position with a decrease of $62.4 million.

- SFGH, the City's acute care hospital, ended fiscal year 2017-18 with a decrease in net position of $57.5 million, compared to a decrease of $250.9 million the prior year, a $193.4 million change. Operating revenues increased $74.5 million from prior year, mainly due to a $75.3 million increase in net patient service revenue. Operating expenses decreased approximately $84.3 million, mainly due to a $101.7 million decrease in personal services, related to decreases in pension expense, offset by a $11.2 million increase in materials and supplies and a $4.4 million increase in general and administrative expense. Net nonoperating revenues decreased $7.9 million, mainly due to a decrease in State and other operating grants. Net transfers increased by approximately $42.5 million, due to a $34.6 million increase in transfers in and a $7.9 million decrease in transfers out. Additionally, due to the adoption of GASB Statement No. 75 during fiscal year 2017-18, SFGH restated its beginning net position with a decrease of $62.8 million.

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 2017-18, the City governmental funds reported combined fund balances of $4.58 billion, an increase of $1.17 billion or 34.4 percent over the prior year. Of the total fund balances, $1.42 billion is assigned and $412.4 million is unassigned. The total of $1.83 billion or 39.9 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 $1.29 billion. The remainder of the governmental fund balances includes $1.6 million nonspendable for items that are not expected to be converted to cash such as advances and long-term loans, $2.38 billion restricted for programs at various levels and $371.7 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 $1.70 billion while total fund balance reached $2.22 billion. Combined assigned and unassigned fund balances represent 45.6 percent of total expenditures, while total fund balance represents 59.4 percent of total expenditures. For the year, the General Fund's total revenues exceeded expenditures by $1.25 billion, before transfers and other items of $898.6 million, resulting in total fund balance increasing by $351.2 million. Overall, the significant growth in revenues, particularly in property taxes, business taxes and state grant and subventions was partly offset by increased transfers to other funds to meet voter-mandated spending requirements, as well as expenditure growth, particularly in community health, due to growing demand for services. The net result was an increase in 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 2017-18, the unrestricted net position for the proprietary funds was as follows: Hetch Hetchy Water and Power: $184.0 million, Wastewater Enterprise: $0.2 million, and the Port: $75.6 million. In addition, the following funds had net deficits in unrestricted net position: Airport: $9.0 million, Water Enterprise: $70.9 million, SFMTA: $626.4 million, San Francisco General Hospital: $671.9 million, and Laguna Honda Hospital: $374.3 million.

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 $631.4 million due to the current year financial activities. The change in net position for the current year was offset by the restatement of beginning net position of $581.3 for the adoption of GASB Statement No. 75. 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	$ 1,063,802	$ 770,186	$ 293,616	$ (196,910)	$ 15,051	$ (46,549)	65,208
Water	525,639	370,147	155,492	(106,869)	-	(30,986)	17,637
Hetch Hetchy	191,963	197,615	(5,652)	9,489	-	29,575	33,412
Municipal Transportation Agency	511,984	1,294,145	(782,161)	196,301	438,489	706,353	558,982
General Hospital	772,687	962,163	(189,476)	60,486	-	71,481	(57,509)
Wastewater Enterprise	315,096	210,593	104,503	(12,345)	-	(26,960)	65,198
Port	109,769	96,823	12,946	619	2,626	19	16,210
Laguna Honda Hospital	195,249	324,081	(128,832)	10,786	-	50,350	(67,696)
Total	$ 3,686,189	$ 4,225,753	$ (539,564)	$ (38,443)	$ 456,166	$ 753,283	$ 631,442

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 2017-18, the net position of the Retirement System, Health Service System and Retiree Health Care Trust combined totaled $24.91 billion, representing a $2.24 billion increase from the prior year, a 9.9 percent change. The increase is a result of strong investment returns which were slightly reduced by the net difference between contributions received by the Plan and increased benefit payments made from the Plan. The Private-Purpose Trust Fund accounts for the Successor Agency, which had a net deficit of $462.8 million at year's end. This 17.3 percent, or $68.1 million, increase in the net deficit is due to the transfer of Yerba Buena Gardens to the City offset by decreases in program costs and interest expense. The Investment Trust Fund's net position was $706.9 million at year's end, and the 18.1 percent decrease represents the excess of distributions over contributions by external participants. The Retirement System and Successor Agency restated their beginning net position to be $3.0 million and $5.8 million less than previously reported, respectively, due to the cumulative effect of implementing GASB Statement No. 75.

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 $248.3 million higher than the final budget. The City realized $146.3 million, $104.0 million, $31.8 million, $17.1 million, $11.7 million and $9.9 million more revenue than budgeted in business taxes, property taxes, interest and investment, state health and welfare realignment subventions, Medi-Cal, Medicare and health service charges and hotel room tax, respectively. These increases were partly offset by reductions of $25.8 million, $20.4 million, $19.6 million, and $8.4 million, in other resources, state social service subventions, real property transfer tax and federal grants and subventions, respectively.

Differences between the final budget and the actual (budgetary basis) expenditures resulted in $88.1 million in expenditure savings. Major factors include:

- $29.0 million in savings from the Human Services Agency, due largely to reductions in aid assistance and aid payments and lower than expected caseload levels, contracts and services needed by other departments. The Mayor's Office of Housing and Community Development has a saving of $18.3 million primarily in the Housing Trust Fund, as actual loan repayments were less than budgeted and therefore the amount of loan expenditures were also reduced.

- $15.1 million of savings in Treasurer's Office, City Attorney, City Planning, Assessor and Board of Supervisors and other departments in general administration and finance are mainly from salary and benefits and litigation expenses.

- $12.3 million savings in services needed from other departments and programmatic projects from project delays for developer agreement implementation by Office of Economic and Workforce Development. Department of Public Works also has net saving of $2.3 million in salaries and benefits, overhead costs and capital outlay due to lower than expected and delayed work on client projects.

- $4.4 million savings in salary and benefits in Adult Probation, Juvenile Department and Police Accountability, and other departments in the public protection service area.

- The remaining lower than budgeted expenditures are savings from general city responsibilities, community health and culture and recreation.

The net effect of substantial revenue increases and savings in expenditures was a budgetary fund balance available for subsequent year appropriation of $616.6 million at the end of fiscal year 2017-18. The City's fiscal year 2018-19 and 2019-20 Adopted Original Budget assumed an available balance of $411.8 million fully appropriated in fiscal year 2018-19 and fiscal year 2019-20 and contingency reserves of $160 million, leaving $44.8 million available for future appropriations. (See also Note to the Required Supplementary Information for additional budgetary fund balance details).

Capital Assets

The City's capital assets for its governmental and business-type activities as of June 30, 2018, increased by $2.24 billion, 10.1 percent, to $24.31 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 $495.3 million or 22.1 percent to this total while $1.74 billion or 77.9 percent was from business-type activities. Details are shown in the table below.

	Governmental Activities		Business-type Activities		Total	
	2018	2017	2018	2017	2018	2017
Land	$ 484,474	$ 360,602	$ 269,158	$ 240,187	$ 753,632	$ 600,789
Construction in progress	849,925	624,711	5,484,328	4,073,686	6,334,253	4,698,397
Facilities and improvements	3,407,411	3,262,136	10,528,058	10,473,740	13,935,469	13,735,876
Machinery and equipment	187,041	209,075	1,344,019	1,199,365	1,531,060	1,408,440
Infrastructure	775,405	753,919	830,084	722,116	1,605,489	1,476,035
Intangible assets	98,769	97,233	50,009	52,787	148,778	150,020
Total	$ 5,803,025	$ 5,307,676	$ 18,505,656	$ 16,761,881	$ 24,308,681	$ 22,069,557

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

- Under governmental activities, net capital assets increased by $495.3 million or 9.3 percent. About $204.9 million worth of construction in progress work was substantially completed and capitalized as facilities and improvement and infrastructure. Of the completed projects, about $74.9 million in the new Office of the Chief Medical Examiner and approximately $57.5 million for the Central Shops Relocation Project. The remaining completed projects include public works, intangible assets, and traffic signal projects.

- The Water Enterprise's net capital assets increased by $209.8 million or 4.2 percent, reflecting an increase in construction and capital improvement activities. Major additions to construction work in progress included Calaveras Dam Replacement, Recycled Water, Sunol Long Term Improvements, Regional Groundwater Storage and Recovery projects, Rollins Road Purchase, Habitat Reserve Program, San Francisco Groundwater Supply, and other upgrade and improvement programs. As of June 30, 2018, Water Enterprise's Water System Improvement Program was 96.0% completed with the construction of its multi-billion dollar, multi-year program to upgrade its 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, 2018, 34 local projects are completed and the target completion date is December 2018. For regional projects, 40 are completed and the expected completion date is December 2021. The Water System Improvement Program delivers capital improvements that enhance the Enterprise's ability to provide reliable, affordable, high quality drinking water to its customers.

- SFMTA's net capital assets increased by $605.2 million or 16.7% mainly from construction in progress of $263.7 million for the Central Subway Project, procurement of new revenue vehicles, and other projects. The remaining $341.5 million is for rail replacement, system upgrade improvement, street improvement and various infrastructure work. Equipment costs of $307.2 million were incurred during the fiscal year for the procurement of new hybrid motor buses, trolley buses, and light rail vehicles. Facilities and improvements cost totaling $75.7 million was incurred in fiscal year 2018 for facility upgrades and Islais Creek annex renovation projects.

- LHH's net capital assets decreased by $14.0 million or 2.7 percent due primarily higher depreciation expense and lower new construction in progress due to the completion of the new hospital facility in March 2014. LHH provides 780 resident beds in three state of the art buildings on LHH'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 decreased by $20.8 million or 12.1 percent due primarily higher depreciation expense and lower new construction in progress due to the completion of the Zuckerberg San Francisco General Hospital rebuild in fiscal year 2015-16.

- The Wastewater Enterprise net capital assets reported an increase of $274.5 million or 12.2 percent reflecting an increase in construction and capital improvement activities. The Sewer System Improvement Program (SSIP) includes three phases over 20 years to improve the existing wastewater system. As of June 30, 2018, 17 projects were completed, with 32 projects in preconstruction phase, 18 projects in construction phase, and 3 projects in close-out phase. The Lake Merced Green Infrastructure Project was completed on April 24, 2018. The project is designed to manage stormwater runoff from 2.1 acres, starting at Aston Avenue intersection and extends along eight blocks to the Lee Avenue intersection, removing 1.0 million gallons of storm water in a typical year. The Oceanside Plant and the Westside Pump Station Improvements are on-going construction with reported completion in October 2018.

- Hetch Hetchy's net capital assets increased by $34.7 million or 7.8 percent to $479.4 million primarily due to additions of facilities, improvements, machinery, and equipment for Cherry Dam Outlet Works Rehabilitation, Moccasin Facilities New Construction, Mountain Tunnel Improvement, and 2018 Moccasin Storm projects.

- The Airport's net capital assets increased $647.4 million or 15.1 percent primarily due to the capitalization of capital improvement project costs. The Airport maintains a Capital Improvement Plan 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 2018-19 include the Terminal 1 (T1) Redevelopment Projects, which include the redevelopment of

Boarding Area B and the expansion of the T1 Central Area, as well as the Terminal 3 (T3) Redevelopment Projects, which include the redevelopment of the western portion of T3 and a new secure connector and office block between Terminal 2 (T2) and T3. Other notable ongoing projects include the on-airport hotel, upgrades and enhancements to the International Terminal, a second long-term parking garage, the extension of the AirTrain to the second long-term parking garage, replacement of the Superbay fire suppression system and a new industrial waste treatment plant, among others.

- The Port's net capital assets increased by $7.0 million or 1.6 percent due to capitalization and depreciation of capital improvements in 2018, including the Crane Cove Park a major new open space in the Union Iron Works National Historic District located at Pier 70, Pier 23 and 19 1/2 Roof Replacement project for removal and replacement of existing roof. Piers 19 and 23 are a contributing resource within the San Francisco Embarcadero Historic District listed in the National Register of Historic Places. The China Basin Ferry Landing Float Gangway Project provides for major maintenance work required the China Basin Ferry Landing's east float and gangway: drydock, sandblast and recoat surfaces and necessary repair to certain structural members.

At the end of the year, the City's business-type activities had approximately $1.46 billion in commitments for various capital projects. Of this, Water Enterprise had an estimated $290.9 million, MTA had $585.6 million, Wastewater had $226.0 million, Airport had $230.8 million, Hetch Hetchy had $113.4 million, Port had $12.8 million, Laguna Honda Hospital had $0.6 million and the General Hospital had $3.1 million.

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 June 30, 2018, the City had total long-term and commercial paper debt outstanding of $18.24 billion. Of this amount, $2.69 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 $15.55 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 $2.74 billion or 17.7 percent during the fiscal year.

For the year ended June 30, 2018, the net increase in long-term debt in the governmental and business-type activities was $822.0 million and $2.02 billion, respectively, as discussed in the financial highlights above.

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 $233.79 billion in value as of the close of the fiscal year. As of June 30, 2018, the City had $2.69 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, 2018, there were an additional $742.0 million in bonds that were authorized but unissued. If all these general obligation bonds were issued and outstanding in full, the total debt burden would be approximately 1.40 percent of gross (1.47 percent of net) taxable assessed value of property.

The City's underlying ratings on general obligation bonds as of June 30, 2018 were:

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

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

The City's enterprise activities carried underlying debt ratings for the SFMTA of "AA" with Stable Rating Outlook from Standard & Poor's and "Aa2" from Moody's. Moody's, Standard and Poor's and Fitch Ratings affirmed their underlying credit ratings of the Airport of "A1", "A+" and "A+", respectively, each with Stable Rating Outlook. The Water Enterprise carried underlying ratings of "Aa3" and "AA-" from Moody's and Standard and Poor's, respectively.

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

Economic factors and future budgets and rates

San Francisco has continued to experience improvement in the economy during the fiscal year. The following economic factors were considered in the preparation of the City's budget for fiscal years 2018-19 and 2019-20. 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 2017-18 was 2.6 percent, a decrease of 0.5 percent from the average unemployment rate in fiscal year 2016-17.

- Housing prices continued to show growth, reaching new historical highs. The average median home price in fiscal year 2017-18 was $1.3 million, up 10.0 percent from the previous fiscal year.

- Commercial rents have shown strong growth, also reaching new historical highs. The monthly per square foot rental rates for commercial space grew to $74.85 in fiscal year 2017-18, a 1.5 percent increases over the prior year.

- The resident population also continued to grow, reaching a new historical high of 884,363 in 2017 according to the U.S. Census Bureau. This represents a 1.5 percent increase versus the prior year, and cumulative growth of 120,000 or 15.0 percent over the last decade.

The Board of Supervisors approved a final two-year budget for fiscal years 2018-19 and 2019-20 in July 2018, which assumes use of prior year fund balance from General Fund of $188.6 million and $223.2 million, respectively.

REQUESTS FOR INFORMATION

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

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

Individual Department Financial Statements

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

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

San Francisco Water Enterprise
Hetch Hetchy Water and Power
San Francisco Wastewater Enterprise
Chief Financial Officer
525 Golden Gate Avenue, 13th Floor
San Francisco, CA 94102

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

Municipal Transportation Agency
SFMTA Chief Financial Officer
1 South Van Ness Avenue, 3rd 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 2A5
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

Retiree Health Care Trust
c/o Employees' Retirement System
1145 Market Street, 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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CITY AND COUNTY OF SAN FRANCISCO

Statement of Net Position
June 30, 2018
(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	$ 4,952,776	2,394,027	$ 7,346,803	$ 1,991
Deposits and investments outside City Treasury	397,937	12,530	410,467	-
Receivables (net of allowance for uncollectible amounts of $296,053 for the primary government):				
Property taxes and penalties	302,479	-	302,479	-
Other local taxes	317,144	-	317,144	-
Federal and state grants and subventions	322,295	344,231	666,526	-
Charges for services	97,974	304,047	402,021	806
Interest and other	26,653	122,456	149,109	26
Due from component units	4,226	28	4,254	-
Inventories	-	104,617	104,617	-
Other assets	8,030	7,948	15,978	-
Restricted assets:				
Deposits and investments with City Treasury	-	436,332	436,332	-
Deposits and investments outside City Treasury	23,229	385,901	409,130	-
Grants and other receivables	-	35,378	35,378	-
Total current assets	6,452,743	4,147,495	10,600,238	2,823
Noncurrent assets:				
Loan receivables (net of allowance for uncollectible amounts of $1,376,217)	200,827	-	200,827	-
Advance to component units	8,214	2,599	10,813	-
Other assets	-	10,870	10,870	-
Restricted assets:				
Deposits and investments with City Treasury	-	1,458,455	1,458,455	-
Deposits and investments outside City Treasury	2,249	531,838	534,087	-
Grants and other receivables	-	23,337	23,337	-
Capital assets:				
Land and other assets not being depreciated	1,343,131	5,765,529	7,108,660	27,481
Facilities, infrastructure and equipment, net of depreciation	4,459,894	12,740,127	17,200,021	20
Total capital assets	5,803,025	18,505,656	24,308,681	27,501
Total noncurrent assets	6,014,315	20,532,755	26,547,070	27,501
Total assets	12,467,058	24,680,250	37,147,308	30,324
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized loss on refunding of debt	14,363	227,319	241,682	-
Deferred outflows on derivative instruments	-	29,245	29,245	-
Deferred outflows related to pensions	891,726	622,332	1,514,058	16
Deferred outflows related to OPEB	109,222	94,137	203,359	-
Total deferred outflows of resources	$ 1,015,311	$ 973,033	$ 1,988,344	$ 16

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, 2018
(In Thousands)

	Primary Government			Component Unit
	Governmental Activities	Business-Type Activities	Total	Treasure Island Development Authority
LIABILITIES				
Current liabilities:				
Accounts payable	$ 437,789	$ 399,088	$ 836,877	$ 484
Accrued payroll	111,508	85,220	196,728	87
Accrued vacation and sick leave pay	98,233	68,784	167,017	-
Accrued workers' compensation	45,740	35,350	81,090	-
Estimated claims payable	100,867	48,182	149,049	-
Bonds, loans, capital leases, and other payables	412,949	645,179	1,058,128	-
Accrued interest payable	20,269	59,037	79,306	-
Unearned grant and subvention revenues	31,129	-	31,129	-
Due to primary government	-	-	-	1,032
Internal balances	28,697	(28,697)	-	-
Unearned revenues and other liabilities	753,935	454,935	1,208,870	1,747
Liabilities payable from restricted assets:				
Bonds, loans, capital leases, and other payables	-	65,195	65,195	-
Accrued interest payable	-	44,064	44,064	-
Other	-	325,399	325,399	-
Total current liabilities	2,041,116	2,201,736	4,242,852	3,350
Noncurrent liabilities:				
Accrued vacation and sick leave pay	66,419	44,904	111,323	-
Accrued workers' compensation	209,558	172,914	382,472	-
Estimated claims payable	173,813	62,149	235,962	-
Bonds, loans, capital leases, and other payables	3,907,885	13,209,415	17,117,300	-
Advance from primary government	-	-	-	2,599
Unearned revenues and other liabilities	1,744	131,243	132,987	-
Derivative instruments liabilities	-	37,558	37,558	-
Net pension liability	2,977,366	2,095,764	5,073,130	28
Net other postemployment benefits (OPEB) liability	1,989,216	1,716,544	3,705,760	-
Total noncurrent liabilities	9,326,001	17,470,491	26,796,492	2,627
Total liabilities	11,367,117	19,672,227	31,039,344	5,977
DEFERRED INFLOWS OF RESOURCES				
Unamortized gain on refunding of debt	198	1,486	1,684	-
Unamortized gain on leaseback transaction	-	3,680	3,680	-
Deferred inflows related to pensions	219,839	151,039	370,878	3
Deferred inflows related to OPEB	3,238	2,769	6,007	-
Total deferred inflows of resources	223,275	158,974	382,249	3
NET POSITION				
Net investment in capital assets, Note 10(d)	3,311,218	6,211,102	9,192,745	27,501
Restricted for:				
Reserve for rainy day	143,977	-	143,977	-
Debt service	136,132	294,499	430,631	-
Capital projects, Note 10(d)	196,598	515,072	569,115	-
Community development	427,684	-	427,684	-
Transportation Authority activities	17,499	-	17,499	-
Building inspection programs	155,448	-	155,448	-
Children and families	134,548	-	134,548	-
Culture and recreation	151,544	-	151,544	-
Grants	97,945	-	97,945	-
Other purposes	70,106	294,122	364,228	-
Total restricted	1,531,481	1,103,693	2,492,619	-
Unrestricted (deficit), Note 10(d)	(2,950,722)	(1,492,713)	(3,971,305)	(3,141)
Total net position	$ 1,891,977	$ 5,822,082	$ 7,714,059	$ 24,360

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, 2018

(In Thousands)

		Program Revenues			Net (Expense) Revenue and Changes in Net Position			
					Primary Government			Component Unit
Functions/Programs	**Expenses**	**Charges for Services**	**Operating Grants and Contributions**	**Capital Grants and Contributions**	**Governmental Activities**	**Business-Type Activities**	**Total**	**Treasure Island Development Authority**
Primary government:								
Governmental activities:								
Public protection	$ 1,496,749	$ 87,614	$ 195,183	$ -	$ (1,213,952)	$ -	$ (1,213,952)	$ -
Public works, transportation and commerce	321,577	157,416	35,344	59,944	(68,873)	-	(68,873)	-
Human welfare and neighborhood development	1,552,060	82,925	691,657	-	(777,478)	-	(777,478)	-
Community health	914,512	104,335	357,488	750	(451,939)	-	(451,939)	-
Culture and recreation	425,668	125,776	-	2,487	(297,405)	-	(297,405)	-
General administration and finance	430,711	73,235	-	-	(357,476)	-	(357,476)	-
General City responsibilities	118,956	54,136	228	-	(64,592)	-	(64,592)	-
Unallocated interest on long-term debt and cost of issuance	138,048	-	-	-	(138,048)	-	(138,048)	-
Total governmental activities	5,398,281	685,437	1,279,900	63,181	(3,369,763)	-	(3,369,763)	-
Business-type activities:								
Airport	1,092,154	1,063,802	-	15,051	-	(13,301)	(13,301)	-
Transportation	1,304,254	511,984	151,939	438,489	-	(201,842)	(201,842)	-
Port	102,667	109,769	4,232	2,626	-	13,960	13,960	-
Water	536,068	525,639	597	-	-	(9,832)	(9,832)	-
Power	202,366	191,963	1,050	-	-	(9,353)	(9,353)	-
Hospitals	1,294,045	967,936	59,688	-	-	(266,421)	(266,421)	-
Sewer	235,985	315,096	-	-	-	79,111	79,111	-
Total business-type activities	4,767,539	3,686,189	217,506	456,166	-	(407,678)	(407,678)	-
Total primary government	$ 10,165,820	$ 4,371,626	$ 1,497,406	$ 519,347	(3,369,763)	(407,678)	(3,777,441)	-
Component unit:								
Treasure Island Development Authority	$ 15,813	$ 10,079	$ -	$ 7,090				$ 1,356
General Revenues								
Taxes:								
Property taxes					2,363,863	-	2,363,863	-
Business taxes					899,142	-	899,142	-
Sales and use tax					293,916	-	293,916	-
Hotel room tax					382,176	-	382,176	-
Utility users tax					94,460	-	94,460	-
Parking tax					83,484	-	83,484	-
Real property transfer tax					280,416	-	280,416	-
Other local taxes					60,287	-	60,287	-
Interest and investment income					46,020	39,010	85,030	107
Other					71,834	246,827	318,661	531
Transfers - internal activities of primary government					(753,283)	753,283	-	-
Total general revenues and transfers					3,822,315	1,039,120	4,861,435	638
Special item:								
Receipt of Yerba Buena Garden assets					116,690	-	116,690	-
Change in net position					569,242	631,442	1,200,684	1,994
Net position at beginning of year, as previously reported					1,786,411	5,771,902	7,558,313	22,366
Cumulative effect of accounting change					(463,676)	(581,262)	(1,044,938)	-
Net position at beginning of year, as restated					1,322,735	5,190,640	6,513,375	22,366
Net position at end of year					$ 1,891,977	$ 5,822,082	$ 7,714,059	$ 24,360

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, 2018
(With comparative financial information as of June 30, 2017)
(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2018	2017	2018	2017	2018	2017
Assets:						
Deposits and investments with City Treasury	$ 2,727,607	$ 2,144,741	$ 2,188,574	$ 1,736,620	$ 4,916,181	$ 3,881,361
Deposits and investments outside City Treasury	4,623	5,923	393,314	149,433	397,937	155,356
Receivables (net of allowance for uncollectible amounts of $260,922 in 2018; $223,508 in 2017):						
Property taxes and penalties	286,586	78,519	15,893	21,432	302,479	99,951
Other local taxes	299,841	248,905	17,303	18,414	317,144	267,319
Federal and state grants and subventions	223,578	198,490	98,717	96,317	322,295	294,807
Charges for services	77,641	71,476	20,221	13,431	97,862	84,907
Interest and other	16,749	8,331	9,348	4,670	26,097	13,001
Due from other funds	8,601	10,926	11,101	6,624	19,702	17,550
Due from component unit	-	-	4,226	1,581	4,226	1,581
Advance to component unit	-	-	8,214	13,149	8,214	13,149
Loans receivable (net of allowance for uncollectible amounts of $1,376,217 in 2018; $1,263,252 in 2017)	11,694	9,666	189,133	128,557	200,827	138,223
Other assets	6,385	67,598	1,645	27,422	8,030	95,020
Total assets	$ 3,663,305	$ 2,844,575	$ 2,957,689	$ 2,217,650	$ 6,620,994	$ 5,062,225
Liabilities:						
Accounts payable	$ 256,870	$ 154,195	$ 172,506	$ 123,620	$ 429,376	$ 277,815
Accrued payroll	91,270	84,637	17,876	17,961	109,146	102,598
Unearned grant and subvention revenues	7,829	8,146	23,300	17,748	31,129	25,894
Due to other funds	1,423	560	44,914	50,393	46,337	50,953
Unearned revenues and other liabilities	693,082	520,366	60,819	53,042	753,901	573,408
Bonds, loans, capital leases, and other payables	-	-	121,868	255,939	121,868	255,939
Total liabilities	1,050,474	767,904	441,283	518,703	1,491,757	1,286,607
Deferred inflows of resources	390,890	205,968	161,112	164,877	552,002	370,845
Fund balances:						
Nonspendable	1,512	525	82	82	1,594	607
Restricted	143,977	125,689	2,232,040	1,701,020	2,376,017	1,826,709
Committed	371,698	327,607	-	-	371,698	327,607
Assigned	1,291,499	1,088,288	124,076	78,413	1,415,575	1,166,701
Unassigned	413,255	328,594	(904)	(245,445)	412,351	83,149
Total fund balances	2,221,941	1,870,703	2,355,294	1,534,070	4,577,235	3,404,773
Total liabilities, deferred inflows of resources and fund balances	$ 3,663,305	$ 2,844,575	$ 2,957,689	$ 2,217,650	$ 6,620,994	$ 5,062,225

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, 2018
(In Thousands)

Fund balances – total governmental funds	$ 4,577,235
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.	5,791,482
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the governmental funds.	(4,717,206)
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.	552,002
Interest on long-term debt is not accrued in the funds, but rather is recognized as an expenditure when due.	(19,116)
Deferred outflows and inflows of resources in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.	13,232
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.	(2,259,845)
Net OPEB liability and OPEB related deferred outflows and inflows of resources are not due in the current period and therefore are not reported in the governmental funds.	(1,841,249)
Internal service funds are used by management to charge the costs of capital lease financing, equipment maintenance services, printing and mailing services, and telecommunications 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.	(204,558)
Net position of governmental activities	$ 1,891,977

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

CITY AND COUNTY OF SAN FRANCISCO

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

Year Ended June 30, 2018
(With comparative financial information year ended June 30, 2017)
(In Thousands)

	General Fund		Other Governmental Funds		Total Governmental Funds	
	2018	2017	2018	2017	2018	2017
Revenues:						
Property taxes	$ 1,673,950	$ 1,478,671	$ 497,651	$ 459,023	$ 2,171,601	$ 1,937,694
Business taxes	897,076	700,536	2,066	1,795	899,142	702,331
Sales and use tax	192,946	189,473	103,263	102,237	296,209	291,710
Hotel room tax	382,176	370,344	-	-	382,176	370,344
Utility users tax	94,460	101,203	-	-	94,460	101,203
Parking tax	83,484	84,278	-	-	83,484	84,278
Real property transfer tax	280,416	410,561	-	-	280,416	410,561
Other local taxes	60,287	47,728	-	-	60,287	47,728
Licenses, permits and franchises	28,803	29,336	14,377	15,061	43,180	44,397
Fines, forfeitures, and penalties	7,966	2,734	26,254	28,064	34,220	30,798
Interest and investment income	16,245	14,439	29,645	20,650	45,890	35,089
Rents and concessions	14,533	15,352	90,751	85,192	105,284	100,544
Intergovernmental:						
Federal	229,960	225,112	191,064	186,257	421,024	411,369
State	750,715	704,286	124,687	118,726	875,402	823,012
Other	3,134	3,178	13,859	10,636	16,993	13,814
Charges for services	248,926	220,877	166,643	157,560	415,569	378,437
Other	24,478	38,679	161,556	149,632	186,034	188,311
Total revenues	4,989,555	4,636,787	1,421,816	1,334,833	6,411,371	5,971,620
Expenditures:						
Current:						
Public protection	1,312,582	1,257,948	66,172	65,629	1,378,754	1,323,577
Public works, transportation and commerce	223,830	166,285	218,038	166,408	441,868	332,693
Human welfare and neighborhood development	999,048	956,478	500,168	467,947	1,499,216	1,424,425
Community health	706,322	600,067	109,440	112,428	815,762	712,495
Culture and recreation	142,215	139,368	282,579	250,670	424,794	390,038
General administration and finance	244,773	238,064	67,668	65,049	312,441	303,113
General City responsibilities	110,812	121,444	108	3	110,920	121,447
Debt service:						
Principal retirement	-	-	381,141	283,356	381,141	283,356
Interest and other fiscal charges	178	-	136,747	125,091	136,925	125,091
Bond issuance costs	-	-	8,934	2,695	8,934	2,695
Capital outlay	-	-	337,741	297,089	337,741	297,089
Total expenditures	3,739,760	3,479,654	2,108,736	1,836,365	5,848,496	5,316,019
Excess (deficiency) of revenues over (under) expenditures	1,249,795	1,157,133	(686,920)	(501,532)	562,875	655,601
Other financing sources (uses):						
Transfers in	112,228	140,272	512,919	500,851	625,147	641,123
Transfers out	(1,010,785)	(857,629)	(387,777)	(364,534)	(1,398,562)	(1,222,163)
Issuance of bonds and loans:						
Face value of bonds issued	-	-	1,293,595	276,570	1,293,595	276,570
Face value of loans issued	-	-	-	46,000	-	46,000
Premium on issuance of bonds	-	-	76,243	12,432	76,243	12,432
Proceeds from sale of capital assets	-	-	-	122,000	-	122,000
Other financing sources - capital leases	-	1,765	2,027	35,971	2,027	37,736
Total other financing sources (uses)	(898,557)	(715,592)	1,497,007	629,290	598,450	(86,302)
Special item:						
Receipt of Yerba Buena Garden assets	-	-	11,137	-	11,137	-
Net changes in fund balances	351,238	441,541	821,224	127,758	1,172,462	569,299
Fund balances at beginning of year	1,870,703	1,429,162	1,534,070	1,406,312	3,404,773	2,835,474
Fund balances at end of year	$ 2,221,941	$ 1,870,703	$ 2,355,294	$ 1,534,070	$ 4,577,235	$ 3,404,773

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, 2018
(In Thousands)

Net changes in fund balances - total governmental funds	$1,172,462
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 gains and loss on disposal of capital assets in the current period.	495,407
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.	(2,273,598)
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 increased in the governmental funds.	192,262
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.	(20,355)
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 revenues reported in the governmental funds.	(9,402)
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.	139,005
Changes to net OPEB liability and OPEB 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.	1,841,249
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.	(912,454)
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.	(76,243)
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 premiums and refunding losses and gains.	12,792
The activities of internal service funds are reported with governmental activities.	8,117
Change in net position of governmental activities	$ 569,242

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 Net Position - Proprietary Funds

June 30, 2018

(With comparative financial information as of June 30, 2017)

(In Thousands)

	Business-Type Activities - Enterprise 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	Total 2018	Total 2017	Governmental Activities - Internal Service Funds 2018	Governmental Activities - Internal Service Funds 2017
ASSETS												
Current Assets:												
Deposits and investments with City Treasury................	$ 458,219	$ 358,768	$ 274,871	$ 647,731	$ 334,609	$ 164,107	$ 155,722	$ -	$ 2,394,027	$ 2,446,138	$ 36,595	$ 29,919
Deposits and investments outside City Treasury...........	6,408	274	10	5,559	10	262	5	2	12,530	15,576	-	-
Receivables (net of allowance for uncollectible amounts of $35,131 and $29,255 in 2018 and 2017, respectively):												
Federal and state grants and subventions..................	-	325	260	255,232	11	17,248	1,637	69,518	344,231	173,369	-	-
Charges for services..	95,614	53,841	12,644	6,858	68,918	30,915	6,691	28,566	304,047	249,969	112	95
Interest and other...	3,925	2,724	963	9,153	100,422	1,051	3,991	227	122,456	184,811	556	742
Lease receivable..	-	-	-	-	-	-	-	-	-	-	12,934	11,233
Due from other funds..	-	288	8,133	23,739	2	116	440	-	32,718	40,764	-	-
Due from component unit...	-	-	28	-	-	-	-	-	28	568	-	-
Inventories..	51	5,561	401	81,370	12,802	2,082	1,352	998	104,617	98,374	-	-
Other assets...	3,713	-	3,988	131	-	116	-	-	7,948	6,156	-	-
Restricted assets:												
Deposits and investments with City Treasury.............	382,560	-	-	-	-	-	30,877	22,895	436,332	351,472	-	-
Deposits and investments outside City Treasury.........	215,026	143,739	2,777	-	-	14,282	10,077	-	385,901	291,800	23,229	21,617
Grants and other receivables......................................	34,647	-	-	-	-	731	-	-	35,378	22,271	-	-
Total current assets...	1,200,163	565,520	304,075	1,029,773	516,774	230,910	210,792	122,206	4,180,213	3,881,268	73,426	63,606
Noncurrent assets:												
Other assets...	-	4,262	957	-	-	2,019	3,632	-	10,870	11,452	-	-
Capital leases receivable...	-	-	-	-	-	-	-	-	-	-	148,338	167,710
Advance to component unit...	-	-	2,599	-	-	-	-	-	2,599	2,627	-	-
Restricted assets:												
Deposits and investments with City Treasury.............	962,619	102,011	41,420	316,351	-	36,054	-	-	1,458,455	569,877	-	-
Deposits and investments outside City Treasury.........	495,659	-	1,038	21,832	454	-	-	12,855	531,838	443,145	2,249	-
Grants and other receivables......................................	2,243	4,491	174	1,689	-	-	-	14,740	23,337	36,029	-	-
Capital assets:												
Land and other assets not being depreciated.............	1,353,507	1,430,759	115,135	1,965,236	42,276	726,384	130,380	1,852	5,765,529	4,325,916	239	-
Facilities, infrastructure, and equipment, net of depreciation.................................	3,576,522	3,832,474	364,287	2,256,879	108,952	1,799,822	304,322	496,869	12,740,127	12,435,965	11,304	11,601
Total capital assets..	4,930,029	5,263,233	479,422	4,222,115	151,228	2,526,206	434,702	498,721	18,505,656	16,761,881	11,543	11,601
Total noncurrent assets...	6,390,550	5,373,997	525,610	4,561,987	151,682	2,564,279	438,334	526,316	20,532,755	17,825,011	162,130	179,311
Total assets..	7,590,713	5,939,517	829,685	5,591,760	668,456	2,795,189	649,126	648,522	24,712,968	21,706,279	235,556	242,917
DEFERRED OUTFLOWS OF RESOURCES												
Unamortized loss on refunding of debt............................	76,564	150,255	-	-	-	500	-	-	227,319	204,299	933	1,012
Deferred outflows on derivative instruments....................	29,245	-	-	-	-	-	-	-	29,245	54,870	-	-
Deferred outflows related to pensions.............................	91,596	62,062	16,963	214,182	137,266	29,984	12,986	57,293	622,332	1,013,927	17,485	25,906
Deferred outflows related to OPEB.................................	13,387	9,122	1,974	36,034	19,426	3,264	1,686	9,244	94,137	-	2,432	-
Total deferred outflows of resources.....................	210,792	221,439	18,937	250,216	156,692	33,748	14,672	66,537	973,033	1,273,096	20,850	26,918

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, 2018
(With comparative financial information as of June 30, 2017)
(In Thousands)

	Business-Type Activities - Enterprise 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	Total 2018	Total 2017	Governmental Activities - Internal Service Funds 2018	Governmental Activities - Internal Service Funds 2017
LIABILITIES												
Current liabilities:												
Accounts payable	$ 68,643	$ 15,554	$ 19,385	$ 146,641	$ 62,303	$ 18,080	$ 9,551	$ 58,931	$ 399,088	$ 194,413	$ 8,413	$ 3,647
Accrued payroll	11,898	6,660	2,345	29,465	20,785	4,394	1,667	8,006	85,220	80,055	2,362	2,242
Accrued vacation and sick leave pay	10,699	6,125	2,385	23,891	14,745	3,766	1,346	5,827	68,784	65,212	1,997	1,853
Accrued workers' compensation	1,739	2,024	525	22,652	4,294	1,027	454	2,635	35,350	32,875	313	331
Estimated claims payable	22	4,656	837	36,091	-	6,376	200	-	48,182	39,424	-	-
Due to other funds	96	96	-	2,589	179	1,061	-	-	4,021	5,574	2,062	1,787
Unearned revenues and other liabilities	-	17,810	6,337	43,467	338,116	4,185	14,775	30,245	454,935	513,027	12,840	15,815
Accrued interest payable	-	38,769	525	5,119	81	11,528	1,535	1,480	59,037	55,187	1,153	1,224
Bonds, loans, capital leases, and other payables	178,925	119,533	23,108	10,132	19,212	284,841	2,693	6,735	645,179	546,565	12,904	10,880
Liabilities payable from restricted assets:												
Bonds, loans, capital leases, and other payables	65,195	-	-	-	-	-	-	-	65,195	228,895	-	-
Accrued interest payable	44,064	-	-	-	-	-	-	-	44,064	36,062	-	-
Other	189,596	45,882	11,826	28,693	-	48,720	-	682	325,399	155,406	-	-
Total current liabilities	570,877	257,109	67,273	348,740	459,715	383,978	32,221	114,541	2,234,454	1,952,695	42,044	37,779
Noncurrent liabilities:												
Accrued vacation and sick leave pay	7,356	4,561	1,566	14,589	9,958	2,649	909	3,316	44,904	43,824	1,454	1,363
Accrued workers' compensation	6,254	8,933	2,424	108,163	25,223	4,757	2,546	14,614	172,914	161,053	1,446	1,469
Estimated claims payable	28	8,746	1,629	43,806	-	7,690	250	-	62,149	55,256	-	-
Unearned revenue and other liabilities	-	57,762	4,161	-	-	4,703	64,617	-	131,243	117,432	-	-
Bonds, loans, capital leases, and other payables	6,570,653	4,943,651	66,994	369,695	12,612	1,048,092	83,622	114,096	13,209,415	11,224,019	160,020	171,903
Derivative instruments liabilities	37,558	-	-	-	-	-	-	-	37,558	65,965	-	-
Net pension liability	308,459	209,003	57,122	721,282	462,256	100,973	43,730	192,939	2,095,764	2,501,732	58,876	63,919
Net other postemployment benefits (OPEB) liability	244,096	166,336	36,000	657,062	354,223	59,517	30,750	168,560	1,716,544	974,031	44,344	26,393
Total noncurrent liabilities	7,174,404	5,398,992	169,896	1,914,597	864,272	1,228,381	226,424	493,525	17,470,491	15,143,312	266,140	265,047
Total liabilities	7,745,281	5,656,101	237,169	2,263,337	1,323,987	1,612,359	258,645	608,066	19,704,945	17,096,007	308,184	302,826
DEFERRED INFLOWS OF RESOURCES												
Unamortized gain on refunding of debt	1,221	-	-	265	-	-	-	-	1,486	297	-	-
Unamortized gain on leaseback transaction	-	-	-	3,680	-	-	-	-	3,680	4,015	-	-
Deferred inflows related to pensions	22,230	15,063	4,119	51,981	33,313	7,277	3,151	13,905	151,039	107,154	4,243	2,737
Deferred inflows related to OPEB	394	268	58	1,060	571	96	50	272	2,769	-	71	-
Total deferred inflows of resources	23,845	15,331	4,177	56,986	33,884	7,373	3,201	14,177	158,974	111,466	4,314	2,737
NET POSITION												
Net investment in capital assets	(564,762)	504,476	410,717	3,836,904	119,810	1,207,703	305,609	390,645	6,211,102	5,752,069	10,286	11,601
Restricted:												
Debt service	186,655	22,933	834	19,707	-	1,312	-	63,058	294,499	202,262	-	-
Capital projects	419,486	32,978	11,712	-	19,399	-	20,738	10,759	515,072	394,634	-	-
Other purposes	-	-	-	291,472	-	-	-	2,650	294,122	93,696	-	-
Unrestricted (deficit)	(9,000)	(70,863)	184,013	(626,430)	(671,932)	190	75,605	(374,296)	(1,492,713)	(670,759)	(66,378)	(47,329)
Total net position	$ 32,379	$ 489,524	$ 607,276	$ 3,521,653	$ (532,723)	$ 1,209,205	$ 401,952	$ 92,816	$ 5,822,082	$ 5,771,902	$ (56,092)	$ (35,728)

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, 2018
(With comparative financial information year ended June 30, 2017)
(In Thousands)

	Business-Type Activities - Enterprise 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	Total		Governmental Activities - Internal Service Funds	
									2018	2017	2018	2017
Operating revenues:												
Aviation	$ 670,282	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 670,282	$ 545,310	$ -	$ -
Water and power service	-	495,138	191,667	-	-	-	-	-	686,805	627,871	-	-
Passenger fees	-	-	-	202,280	-	-	-	-	202,280	195,886	-	-
Net patient service revenue	-	-	-	-	765,464	-	-	193,694	959,158	863,559	-	-
Sewer service	-	-	-	-	-	303,037	-	-	303,037	267,601	-	-
Rents and concessions	158,594	12,906	296	8,111	2,587	611	80,605	-	263,710	244,975	436	176
Parking and transportation	151,731	-	-	228,304	-	-	22,281	-	402,316	400,072	-	-
Other charges for services	-	-	-	32,110	-	-	-	-	32,110	29,055	152,676	145,284
Other revenues	83,195	17,595	-	41,179	4,636	11,448	6,883	1,555	166,491	166,726	-	-
Total operating revenues	1,063,802	525,639	191,963	511,984	772,687	315,096	109,769	195,249	3,686,189	3,341,055	153,112	145,460
Operating expenses:												
Personal services	312,972	128,295	51,616	834,950	561,699	91,977	40,930	209,676	2,232,115	2,691,353	68,147	78,176
Contractual services	86,103	14,131	9,216	133,212	219,228	16,061	18,038	11,584	507,573	483,002	59,364	59,146
Light, heat and power	23,800	-	64,732	-	-	-	2,859	-	91,391	69,333	-	-
Materials and supplies	17,573	15,936	2,642	72,041	99,064	9,446	1,001	20,985	238,688	224,257	17,197	14,508
Depreciation and amortization	265,169	118,751	19,115	167,220	27,975	55,591	17,778	15,187	686,786	669,538	2,909	3,294
General and administrative	2,535	36,174	41,329	42,609	4,954	1,144	3,585	-	132,330	125,912	1,720	408
Services provided by other departments	23,369	56,860	8,965	69,261	50,212	36,374	19,310	10,741	275,092	272,050	7,977	9,590
Other	38,665	-	-	(25,148)	(969)	-	(6,678)	55,908	61,778	18,706	2,564	3,184
Total operating expenses	770,186	370,147	197,615	1,294,145	962,163	210,593	96,823	324,081	4,225,753	4,554,151	159,878	168,306
Operating income (loss)	293,616	155,492	(5,652)	(782,161)	(189,476)	104,503	12,946	(128,832)	(539,564)	(1,213,096)	(6,766)	(22,846)
Nonoperating revenues (expenses):												
Operating grants:												
Federal	-	597	1,050	11,464	-	-	4,232	403	17,746	72,053	-	-
State / other	-	-	-	140,475	59,285	-	-	-	199,760	198,114	-	-
Interest and investment income	11,316	6,448	2,929	10,122	2,896	2,317	2,231	751	39,010	28,547	4,498	4,470
Interest expense	(211,461)	(164,001)	(3,204)	(10,109)	(1,695)	(24,978)	(4,461)	(6,106)	(426,015)	(409,529)	(4,981)	(4,664)
Other nonoperating revenues	113,742	52,007	10,261	44,349	-	10,730	-	15,738	246,827	257,419	256	739
Other nonoperating expenses	(110,507)	(1,920)	(1,547)	-	-	(414)	(1,383)	-	(115,771)	(107,794)	-	-
Total nonoperating revenues (expenses)	(196,910)	(106,869)	9,489	196,301	60,486	(12,345)	619	10,786	(38,443)	38,810	(227)	545
Income (loss) before capital contributions and transfers	96,706	48,623	3,837	(585,860)	(128,990)	92,158	13,565	(118,046)	(578,007)	(1,174,286)	(6,993)	(22,301)
Capital contributions	15,051	-	-	438,489	-	-	2,626	-	456,166	369,327	-	-
Transfers in	-	382	30,087	726,090	97,373	-	19	57,668	911,619	751,924	414	2,153
Transfers out	(46,549)	(31,368)	(512)	(19,737)	(25,892)	(26,960)	-	(7,318)	(158,336)	(172,899)	-	(138)
Change in net position	65,208	17,637	33,412	558,982	(57,509)	65,198	16,210	(67,696)	631,442	(225,934)	(6,579)	(20,286)
Net position (deficit) at beginning of year, as previously reported	50,169	501,267	578,260	3,295,692	(412,424)	1,146,263	389,740	222,935	5,771,902	5,997,836	(35,728)	(15,442)
Cumulative effect of accounting change	(82,998)	(29,380)	(4,396)	(333,021)	(62,790)	(2,256)	(3,998)	(62,423)	(581,262)	-	(13,785)	-
Net position (deficit) at beginning of year, as restated	(32,829)	471,887	573,864	2,962,671	(475,214)	1,144,007	385,742	160,512	5,190,640	5,997,836	(49,513)	(15,442)
Net position (deficit) at end of year	$ 32,379	$ 489,524	$ 607,276	$ 3,521,653	$ (532,723)	$ 1,209,205	$ 401,952	$ 92,816	$ 5,822,082	$ 5,771,902	$ (56,092)	$ (35,728)

CITY AND COUNTY OF SAN FRANCISCO

Statement of Cash Flows – Proprietary Funds

Year Ended June 30, 2018
(With comparative financial information year ended June 30, 2017)
(In Thousands)

	Business-Type Activities - Enterprise 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	Total		Governmental Activities - Internal Service Funds	
									2018	2017	2018	2017
Cash flows from operating activities:												
Cash received from customers, including cash deposits	$ 988,320	$ 525,886	$ 198,412	$ 559,313	$ 857,275	$ 312,769	$ 27,625	$ 157,715	$ 3,627,315	$ 3,345,857	$ 175,852	$ 163,461
Cash received from tenants for rent	-	12,783	308	8,169	2,587	657	78,499	-	103,003	97,208	-	-
Cash paid for employees' services	(290,061)	(121,352)	(49,243)	(767,412)	(543,606)	(85,045)	(38,631)	(203,909)	(2,099,259)	(1,978,699)	(61,144)	(58,641)
Cash paid to suppliers for goods and services	(195,409)	(108,216)	(120,194)	(342,480)	(327,236)	(43,346)	(41,887)	(41,434)	(1,220,202)	(1,317,241)	(87,168)	(93,370)
Cash paid for judgments and claims	-	(2,925)	(3,551)	(11,554)	-	(2,124)	-	-	(20,154)	(25,549)	-	-
Net cash provided by (used in) operating activities	502,850	306,176	25,732	(553,964)	(10,980)	182,911	25,606	(87,628)	390,703	121,576	27,540	11,450
Cash flows from noncapital financing activities:												
Operating grants	-	422	1,034	155,009	59,326	891	730	403	217,815	267,459	-	-
Transfers in	-	382	30,087	678,791	97,373	-	-	57,668	864,301	652,101	414	2,153
Transfers out	(46,549)	(31,368)	(512)	(35,514)	(25,892)	(26,960)	-	(7,318)	(174,113)	(172,899)	-	(138)
Other noncapital financing sources	1,771	13,709	9,303	58,090	-	1,322	4,250	-	88,445	75,846	-	-
Other noncapital financing uses	(89,254)	(1,920)	(1,878)	-	(171)	(414)	-	-	(93,637)	(86,607)	-	-
Net cash provided by (used in) noncapital financing activities	(134,032)	(18,775)	38,034	856,376	130,636	(25,161)	4,980	50,753	902,811	735,900	414	2,015
Cash flows from capital and related financing activities:												
Capital grants and other proceeds restricted for capital purposes	4,945	-	-	293,609	-	-	443	29,260	328,257	297,434	-	-
Transfers in	-	-	-	83,837	-	-	19	-	83,856	99,589	-	-
Bond sale proceeds and loans received	1,023,750	928,694	-	4,689	-	-	-	-	1,957,133	1,822,183	-	-
Proceeds from sale/transfer of capital assets	-	3,231	136	139	-	21	30	-	3,557	6,736	-	-
Proceeds from commercial paper borrowings	557,700	15,664	222	-	1,088	151,448	-	-	726,122	477,604	-	-
Proceeds from passenger facility charges	111,379	-	-	-	-	-	-	-	111,379	97,287	-	-
Acquisition of capital assets	(807,048)	(257,777)	(48,606)	(732,397)	(7,200)	(287,297)	(15,498)	(1,015)	(2,156,838)	(1,712,583)	(1,279)	(3,910)
Retirement of capital leases, bonds and loans	(201,300)	(648,233)	(2,768)	(12,394)	(4,738)	(13,939)	(2,567)	(6,440)	(892,379)	(1,551,389)	(11,194)	(14,025)
Bond issue costs paid	-	(1,405)	-	(121)	-	(208)	-	-	(1,734)	(3,029)	-	-
Interest paid on debt	(253,077)	(279,114)	(3,524)	(10,477)	(1,703)	(47,360)	(4,587)	(6,311)	(606,153)	(501,341)	(4,739)	(4,753)
Federal interest income subsidy from Build America Bonds	-	24,042	756	-	-	4,008	-	-	28,806	28,688	-	-
Other capital financing sources	-	-	-	13,877	-	-	550	-	14,427	16,150	-	-
Other capital financing uses	-	-	-	-	-	-	(4,920)	-	(4,920)	(3,098)	-	-
Net cash provided by (used in) capital and related financing activities	436,349	(214,898)	(53,784)	(359,238)	(12,553)	(193,327)	(26,530)	15,494	(408,487)	(925,769)	(17,212)	(22,688)
Cash flows from investing activities:												
Purchases of investments with trustees	(619,746)	(436,878)	(3,446)	-	-	(77,977)	-	(12,733)	(1,150,780)	(1,305,756)	(2,260)	-
Proceeds from sale of investments with trustees	666,304	485,074	4,990	-	-	85,012	-	-	1,241,380	1,206,922	-	-
Interest and investment income	23,419	5,204	3,810	8,489	2,896	1,828	1,709	656	48,011	36,125	119	148
Other investing activities	-	-	-	-	-	-	-	-	-	-	(313)	(2)
Net cash provided by (used in) investing activities	69,977	53,400	5,354	8,489	2,896	8,863	1,709	(12,077)	138,611	(62,709)	(2,454)	146
Net increase (decrease) in cash and cash equivalents	875,144	125,903	15,336	(48,337)	109,999	(26,714)	5,765	(33,458)	1,023,638	(131,002)	8,288	(9,077)
Cash and cash equivalents-beginning of year	971,852	461,701	305,521	1,039,810	225,074	240,531	190,651	56,477	3,491,617	3,622,619	51,536	60,613
Cash and cash equivalents-end of year	$ 1,846,996	$ 587,604	$ 320,857	$ 991,473	$ 335,073	$ 213,817	$ 196,416	$ 23,019	$ 4,515,255	$ 3,491,617	$ 59,824	$ 51,536

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, 2018
(With comparative financial information year ended June 30, 2017)
(In Thousands)

	Business-Type Activities - Enterprise 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	Total 2018	Total 2017	Governmental Activities - Internal Service Funds 2018	Governmental Activities - Internal Service Funds 2017
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:												
Operating income (loss)	$ 293,616	$ 155,492	$ (5,652)	$ (782,161)	$ (189,476)	$ 104,503	$ 12,946	$ (128,832)	$ (539,564)	$ (1,213,096)	$ (6,766)	$ (22,846)
Adjustments for non-cash and other activities:												
Depreciation and amortization	265,169	118,751	19,115	167,220	27,975	55,591	17,778	15,187	686,786	669,538	2,909	3,294
Provision for uncollectibles	(198)	(37)	308	3	-	(248)	(180)	-	(352)	1,503	-	-
Write-off of capital assets	-	910	58	-	-	4,729	-	-	5,697	5,890	-	-
Other	4,150	-	-	-	-	-	-	-	4,150	1,912	99	409
Changes in assets and deferred outflows of resources/liabilities and deferred inflows of resources:												
Receivables, net	(42,331)	454	991	(259)	64,056	(1,575)	763	(6,756)	15,343	1,575	17,363	12,609
Due from other funds	-	338	2,026	225	-	44	-	(31,404)	(28,771)	34,048	-	-
Inventories	7	1,875	-	(4,250)	(4,302)	(36)	240	223	(6,243)	4,200	-	-
Other assets	(779)	-	(2,864)	589	-	-	428	-	(2,626)	(4,943)	-	-
Accounts payable	13,870	8,286	8,568	(10,380)	49,556	12,563	1,580	57,562	141,605	(60,448)	4,750	(3,803)
Accrued payroll	1,421	177	(23)	1,554	1,433	(184)	55	816	5,249	8,769	120	380
Accrued vacation and sick leave pay	1,038	(325)	328	1,949	1,105	466	88	2	4,651	423	235	114
Accrued workers' compensation	657	1,868	(20)	9,442	856	204	94	1,236	14,337	4,325	(41)	(64)
Estimated claims payable	-	2,664	28	14,522	-	(83)	(675)	-	16,456	(21,766)	-	-
Due to other funds	-	89	(2,054)	(887)	-	(84)	-	-	(2,936)	(82)	-	(24)
Unearned revenue and other liabilities	(54,459)	12,592	3,432	(1,084)	23,119	2,140	(9,756)	625	(23,391)	(6,321)	2,182	2,276
Net pension liability and pension related deferred outflows and inflows of resources	9,835	(3,730)	25	22,803	(81,368)	2,458	993	(3,149)	(52,133)	600,608	4,884	16,230
Net OPEB liability and OPEB related deferred outflows and inflows of resources	10,854	6,772	1,466	26,750	96,066	2,423	1,252	6,862	152,445	95,441	1,805	2,875
Total adjustments	209,234	150,684	31,384	228,197	178,496	78,408	12,660	41,204	930,267	1,334,672	34,306	34,296
Net cash provided by (used in) operating activities	$ 502,850	$ 306,176	$ 25,732	$ (553,964)	$ (10,980)	$ 182,911	$ 25,606	$ (87,628)	$ 390,703	$ 121,576	$ 27,540	$ 11,450
Reconciliation of cash and cash equivalents to the statement of net position:												
Deposits and investments with City Treasury:												
Unrestricted	$ 458,219	$ 358,768	$ 274,871	$ 647,731	$ 334,609	$ 164,107	$ 155,722	$ -	$ 2,394,027	$ 2,446,138	$ 36,595	$ 29,919
Restricted	1,345,179	102,011	41,420	316,351	-	36,054	30,877	22,895	1,894,787	921,349	-	-
Deposits and investments outside City Treasury:												
Unrestricted	6,408	274	10	5,559	10	262	5	2	12,530	15,576	-	-
Restricted	710,685	143,739	3,815	21,832	454	14,282	10,077	12,855	917,739	734,945	25,478	21,617
Total deposits and investments	2,520,491	604,792	320,116	991,473	335,073	214,705	196,681	35,752	5,219,083	4,118,008	62,073	51,536
Less: Investments outside City Treasury not meeting the definition of cash equivalents	(673,495)	(17,188)	741	-	-	(888)	(265)	(12,733)	(703,828)	(626,391)	(2,249)	-
Cash and cash equivalents at end of year on statement of cash flows	$ 1,846,996	$ 587,604	$ 320,857	$ 991,473	$ 335,073	$ 213,817	$ 196,416	$ 23,019	$ 4,515,255	$ 3,491,617	$ 59,824	$ 51,536
Non-cash capital and related financing activities:												
Acquisition of capital assets on accounts payable and capital lease	$ 189,596	$ 45,882	$ 11,826	$ -	$ -	$ 48,720	$ 5,033	$ 175	$ 301,232	$ 156,712	$ 3,599	$ 1,997
Tenant improvements financed by rent credits	-	-	-	-	-	-	2,590	-	2,590	613	-	-
Net capitalized interest	28,756	59,855	413	4,536	-	22,415	18	-	115,993	80,311	-	-
Donated inventory	-	-	-	-	1,490	-	-	-	1,490	1,910	-	-
Capital contributions and other noncash capital items	-	-	-	-	-	-	1,413	-	1,413	749	-	-
Bond refunding through fiscal agent	26,789	-	-	-	-	-	-	-	26,789	184,536	-	-
Bond proceeds held by fiscal agent	802,338	-	-	-	-	-	-	-	802,338	434,287	-	-
Commercial paper repaid through fiscal agent	706,285	-	-	-	-	-	-	-	706,285	343,050	-	-
Interfund loan	-	96	-	-	-	1,061	-	-	1,157	1,257	-	-

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, 2018
(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	$ 113,538	$ 703,920	$ 257,093	$ 196,472
Deposits and investments outside City Treasury:				
Cash and deposits	105,525	-	5,870	676
Short-term investments	533,189	-	-	-
Debt securities	3,373,593	-	-	-
Equity securities	9,658,386	-	-	-
Real assets	3,578,379	-	-	-
Private equity and other alternative investments	7,423,881	-	-	-
Foreign currency contracts, net	(1,157)	-	-	-
Receivables:				
Employer and employee contributions	39,632	-	-	139,037
Brokers, general partners and others	185,436	-	-	-
Federal and state grants and subventions	-	-	404	-
Interest and other	31,865	2,935	8,059	586,784
Loans (net of allowance for uncollectible amounts)	-	-	1,554	-
Other assets	2,488	-	1,767	45,538
Restricted asset:				
Deposits and investments outside City Treasury	-	-	319,895	-
Capital assets:				
Land and other assets not being depreciated	-	-	18,525	-
Facilities, infrastructure and equipment, net of depreciation	-	-	20,697	-
Total assets	25,044,755	706,855	633,864	968,507
DEFERRED OUTFLOWS OF RESOURCES				
Unamortized loss on refunding of debt	-	-	46,774	-
Deferred outflows related to pensions	-	-	7,725	-
Deferred outflows related to OPEB	641	-	2,932	-
Total deferred outflows of resources	641	-	57,431	-
LIABILITIES				
Accounts payable	31,636	-	27,795	92,452
Estimated claims payable	27,825	-	-	-
Due to the primary government	-	-	3,222	-
Agency obligations	-	-	-	876,055
Accrued interest payable	-	-	15,492	-
Payable to brokers	60,662	-	-	-
Deferred Retirement Option Program	313	-	-	-
Other liabilities	2,941	-	1,304	-
Advance from primary government	-	-	8,214	-
Long-term obligations	-	-	1,057,990	-
Net pension liability	-	-	27,280	-
Net other postemployment benefits (OPEB) liability	11,694	-	6,337	-
Total liabilities	135,071	-	1,147,634	968,507
DEFERRED INFLOWS OF RESOURCES				
Deferred inflows related to pensions	-	-	6,458	-
Deferred inflows related to OPEB	19	-	-	-
Total deferred inflows of resources	19	-	6,458	-
NET POSITION				
Restricted for pension and other employee benefits	24,910,306	-	-	-
Held for external pool participants	-	706,855	-	-
Held for Redevelopment Agency dissolution	-	-	(462,797)	-
Total net position	$ 24,910,306	$ 706,855	$ (462,797)	$ -

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, 2018
(In Thousands)

	Pension, Other Employee and Other Post-Employment Benefit Trust	Investment Trust Fund	Private-Purpose Trust Fund
Additions:			
Redevelopment property tax revenues	$ -	$ -	$ 152,567
Charges for services	-	-	70,416
Contributions:			
Employee contributions	550,795	-	-
Employer contributions	1,595,079	-	-
Contributions to pooled investments	-	4,329,894	-
Total contributions	2,145,874	4,329,894	222,983
Investment income:			
Interest	138,551	7,643	4,730
Dividends	244,721	-	-
Net appreciation in fair value of investments	2,232,122	-	-
Securities lending income	393	-	-
Total investment income	2,615,787	7,643	4,730
Less investment expenses:			
Other investment expenses	(50,273)	-	-
Net investment income	2,565,514	7,643	4,730
Other additions	-	-	3,832
Total additions, net	4,711,388	4,337,537	231,545
Deductions:			
Neighborhood development	-	-	235,982
Depreciation	-	-	5,044
Interest on debt	-	-	47,064
Benefit payments	2,435,434	-	-
Refunds of contributions	14,578	-	-
Distribution from pooled investments	-	4,493,298	-
Administrative expenses	18,376	-	11,569
Total deductions	2,468,388	4,493,298	299,659
Change in net position	2,243,000	(155,761)	(68,114)
Net position at beginning of year, as previously reported	22,670,302	862,616	(388,849)
Cumulative effect of accounting change	(2,996)	-	(5,834)
Net position at beginning of year, as restated	22,667,306	862,616	(394,683)
Net position at end of year	$ 24,910,306	$ 706,855	$ (462,797)

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

(1) THE FINANCIAL REPORTING ENTITY

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

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

Blended Component Units

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

San Francisco County Transportation Authority (Transportation Authority) – The voters of the City created the Transportation Authority in 1989 to impose 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 $20.0 million (plus 5.0% 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 (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 94103.

Discretely Presented Component Unit

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

The TIDA's governing body is not substantively the same as that of the City and does not provide services entirely or almost entirely to the City. The TIDA is reported in a separate column to emphasize that it is legally separate from the City. The City is financially accountable for the TIDA through the appointment of the TIDA's Board and the ability of the City to approve the TIDA's budget. Disclosures related to the TIDA, where significant, are separately identified throughout these notes. Separate financial statements are not prepared for TIDA. Further information about TIDA can be obtained from their administrative offices at 1 Avenue of the Palms, Suite 241, Treasure Island, San Francisco, CA 94130.

Fiduciary Component Unit

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

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

Per the Redevelopment Dissolution Law, certain actions of the Successor Agency are also subject to the direction of an Oversight Board. The Oversight Board is comprised of seven-member representatives from local government bodies: four City representatives appointed by the Mayor of the City subject to confirmation by the Board of Supervisors of the City; the Vice Chancellor of the San Francisco Community College District; the Board member of the Bay Area Rapid Transit District; and the Executive Director of Policy and Operations of the San Francisco Unified School District.

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

Non-Disclosed Organizations

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

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the non-fiduciary activities of the primary government and its component units. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely, to a significant extent, on fees and charges for support. Likewise, the primary government is reported separately from its legally separate component unit 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 basic financial statements for the year ended June 30, 2017, 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 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.

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 (Hetch Hetchy) and CleanPowerSF. Hetch Hetchy is engaged in the collection and conveyance of approximately 85.0% of the City's water supply and in the generation and transmission of electricity. CleanPowerSF aggregates the buying power of customers in San Francisco to purchase renewable energy.
- 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 $240.0 million in bonds for the purpose of acquiring, construction, improving, and financing improvements to the City's municipal sewage treatment and disposal system.
- The ***Port of San Francisco Fund*** accounts for the operation, development, and maintenance of seven and one-half miles of waterfront property of the Port of San Francisco (Port). This was

established in 1969 after the San Francisco voters approved a proposition to accept the transfer of the Harbor of San Francisco from the State of California.

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

Additionally, the City reports the following fund types:

- The ***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 ***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 ***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 ***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 Law.
- 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.

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) Deposits and Investments

Investment in the Treasurer's Pool

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

The Treasurer's investment pool consists of two components: 1) pooled deposits and investments and 2) dedicated investment funds. The dedicated investment funds represent restricted funds and relate to bond issues of the Enterprise Funds, and the General Fund's cash reserve requirement. In addition to the Treasurer's investment pool, the City has other funds that are held by trustees. These funds are related to the issuance of bonds and certain loan programs of the City. The investments of the 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, 2018, involuntary participants accounted for approximately 97.1% of the pool. Voluntary participants accounted for 2.9% 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, 2018, $704.0 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 6.7%. Internal participants accounted for 93.3% 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 (NAV) provided by the investment managers. Private equity and private credit investments represent interest in limited partnerships. The fair values of private equity and private credit investments are also based on net asset values provided by the general partners.

The Absolute Return Program invests in limited partnerships and other alternative investment vehicles. The most common investment strategies include, but are not limited to equity, credit, macro, emerging markets, quantitative, multi-strategy, special situations/other, and commodities. These investments are valued using their respective NAV, and are audited annually. The most significant input into the NAV of such an entity is the fair value of its investment holdings. These holdings are typically valued on a monthly basis by each fund's independent administrator and for certain illiquid investments, where no market exists, the General Partner may provide pricing input. The management assumptions are based upon the nature of the investment and the underlying business. Investments have the potential to become illiquid under stressed market conditions and, in certain circumstances, investors may be subject to redemption restrictions which can impede the timely return of capital. The valuation techniques vary based upon investment type, but are predominantly derived from observed market prices.

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 and bankers' acceptances) that have a remaining maturity at the time of purchase of one year or less and nonparticipating interest-earning investment contracts (such as repurchase agreements and guaranteed or bank investment contracts) are carried at amortized cost. 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 and internal service 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, LHH, SFGH, and the Internal Service Funds.

Interest income related to certain funds in fiduciary activities that are recorded in the General Fund on a budget basis, are recorded as other income instead of transfer in the GAAP basis. This is the case for certain Agency Funds.

(d) 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, 2018, it was determined that $1,376.2 million of the $1,577.0 million loan portfolio is not expected to be ultimately collected.

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

(e) 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.

(f) 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 resale may, during the period it is held by the City, generate rental income, which is recognized as it becomes due and is considered collectible.

(g) 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 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. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated acquisition 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.

(h) Accrued Vacation and Sick Leave Pay

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

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

(i) 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.

(j) Fund Equity

Governmental Fund Balance

As prescribed by GASB 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.

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.

(k) 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.

(l) 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.

(m) 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.

(n) Cash Flows

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

(o) 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.

(p) Other Postemployment Benefits (OPEB)

For purposes of measuring the net OPEB liability and deferred outflows/inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the Retiree Health Care Trust Fund (RHCTF) and California Employers' Retiree Benefit Trust Fund Program (CERBT) and additions to/deductions from the plans' fiduciary net position has been determined on the same basis as they are reported by the plans. For this purpose, benefit payments 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 measured at fair value.

(q) 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.

(r) 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 and OPEB, deferred outflows of resources on derivative instruments, and deferred inflows of resources related to the SFMTA's leaseback transaction.

(s) Special Item

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

In accordance with the Redevelopment Dissolution Law, the Successor Agency transferred the Yerba Buena Gardens properties and other assets to the City during the year ended June 30, 2018. This transaction qualifies as a special item since this action was under the control of OCII's Board of Commissioners and met the criteria of infrequent (see Note 14).

(t) 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.

(Dollars in Thousands)

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

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

Total fund balances of the City's governmental funds, $4,577,235, differs from net position of governmental activities, $1,891,977 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	$ 4,916,181	$ -	$ 36,595	$ -	$ 4,952,776
Deposits and investments outside City Treasury	397,937	-	25,478	-	423,415
Receivables, net					
Property taxes and penalties	302,479	-	-	-	302,479
Other local taxes	317,144	-	-	-	317,144
Federal and state grants and subventions	322,295	-	-	-	322,295
Charges for services	97,862	-	112	-	97,974
Interest and other	26,097	-	556	-	26,653
Due from other funds	19,702	-	-	(19,702)	-
Due from component unit	4,226	-	-	-	4,226
Advance to component unit	8,214	-	-	-	8,214
Loans receivable, net	200,827	-	-	-	200,827
Capital assets, net	-	5,791,482	11,543	-	5,803,025
Other assets	8,030	-	-	-	8,030
Total assets	6,620,994	5,791,482	74,284	(19,702)	12,467,058
Deferred outflows of resources					
Unamortized loss on refunding of debt	-	13,430	933	-	14,363
Deferred outflows related to pensions	-	874,241	17,485	-	891,726
Deferred outflows related to OPEB	-	106,790	2,432	-	109,222
Total deferred outflows of resources	-	994,461	20,850	-	1,015,311
Liabilities					
Accounts payable	429,376	-	8,413	-	437,789
Accrued payroll	109,146	-	2,362	-	111,508
Accrued vacation and sick leave pay	-	161,201	3,451	-	164,652
Accrued workers' compensation	-	253,539	1,759	-	255,298
Estimated claims payable	-	274,680	-	-	274,680
Accrued interest payable	-	19,116	1,153	-	20,269
Unearned grant and subvention revenues	31,129	-	-	-	31,129
Due to other funds	46,337	-	2,062	(19,702)	28,697
Unearned revenue and other liabilities	753,901	1,744	34	-	755,679
Bonds, loans, capital leases, and other payables	121,868	4,026,042	172,924	-	4,320,834
Net pension liability	-	2,918,490	58,876	-	2,977,366
Net OPEB liability	-	1,944,872	44,344	-	1,989,216
Total liabilities	1,491,757	9,599,684	295,378	(19,702)	11,367,117
Deferred inflows of resources					
Unavailable revenue	552,002	(552,002)	-	-	-
Unamortized gain on refunding of debt	-	198	-	-	198
Deferred inflows related to pensions	-	215,596	4,243	-	219,839
Deferred inflows related to OPEB	-	3,167	71	-	3,238
Total deferred inflows of resources	552,002	(333,041)	4,314	-	223,275
Fund balances/ net position					
Total fund balances/ net position	$ 4,577,235	$ (2,480,700)	$ (204,558)	$ -	$ 1,891,977

(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	$ 7,605,267
Accumulated depreciation	(1,813,785)
	$ 5,791,482

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	$ (161,201)
Accrued workers' compensation	(253,539)
Estimated claims payable	(274,680)
Unearned revenue and other liabilities	(1,744)
Bonds, loans, capital leases, and other payables	(4,026,042)
	$(4,717,206)

Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.	$ (19,116)

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	$ 13,430
Unamortized gain on refunding of debt	(198)
	$ 13,232

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	$(2,918,490)
Deferred outflows of resources related to pensions	874,241
Deferred inflows of resources related to pensions	(215,596)
	$(2,259,845)

(Dollars in Thousands)

Net OPEB 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 OPEB are not financial resources, and therefore, are not reported in the governmental funds.

Net OPEB liability	$(1,944,872)
Deferred outflows of resources related to OPEB	106,790
Deferred inflows of resources related to OPEB	(3,167)
	$(1,841,249)

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	$ 552,002

(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	$ (56,092)
Adjustments for internal balances with the San Francisco Finance Corporation:	
Capital lease receivables from other governmental and enterprise funds	(161,272)
Unearned revenue and other liabilities	12,806
	$ (204,558)

(Dollars in Thousands)

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

The net change in fund balances for governmental funds, $1,172,462, differs from the change in net position for governmental activities, $569,242, 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	$ 2,171,601	$ 192,262	$ -	$ -	$ -	$ 2,363,863
Business taxes	899,142	-	-	-	-	899,142
Sales and use tax	296,209	(2,293)	-	-	-	293,916
Hotel room tax	382,176	-	-	-	-	382,176
Utility users tax	94,460	-	-	-	-	94,460
Parking tax	83,484	-	-	-	-	83,484
Real property transfer tax	280,416	-	-	-	-	280,416
Other local taxes	60,287	-	-	-	-	60,287
Licenses, permits and franchises	43,180	888	-	-	-	44,068
Fines, forfeitures, and penalties	34,220	25	-	-	-	34,245
Interest and investment income	45,890	-	-	130	-	46,020
Rents and concessions	105,284	(81)	-	-	-	105,203
Intergovernmental:						
Federal	421,024	2,742	-	-	-	423,766
State	875,402	(20,072)	-	-	-	855,330
Other	16,993	(4,197)	-	-	-	12,796
Charges for services	415,569	1,073	-	-	-	416,642
Other	186,034	1,560	20,452	256	-	208,302
Total revenues	6,411,371	171,907	20,452	386	-	6,604,116
Expenditures/ Expenses						
Current:						
Public protection	1,378,754	107,672	12,958	(2,635)	-	1,496,749
Public works, transportation and commerce	441,868	(1,554)	(118,737)	-	-	321,577
Human welfare and neighborhood development	1,499,216	51,510	1,334	-	-	1,552,060
Community health	815,762	62,666	36,084	-	-	914,512
Culture and recreation	424,794	17,521	3,178	(19,825)	-	425,668
General administration and finance	312,441	63,661	53,240	1,369	-	430,711
General City responsibilities	110,920	1,270	-	6,766	-	118,956
Debt service:						
Principal retirement	381,141	-	-	-	(381,141)	-
Interest and other fiscal charges	136,925	-	-	4,981	(12,792)	129,114
Bond issuance costs	8,934	-	-	-	-	8,934
Capital outlay	337,741	-	(337,741)	-	-	-
Total expenditures	5,848,496	302,746	(349,684)	(9,344)	(393,933)	5,398,281
Excess (deficiency) of revenues over (under) expenditures	562,875	(130,839)	370,136	9,730	393,933	1,205,835
Other financing sources (uses) / changes in net position						
Net transfers in (out)	(773,415)	-	19,718	414	-	(753,283)
Issuance of bonds and loans:						
Face value of bonds issued	1,293,595	-	-	-	(1,293,595)	-
Premium on issuance of bonds	76,243	-	-	-	(76,243)	-
Other financing sources - capital leases	2,027	-	-	(2,027)	-	-
Total other financing sources (uses)	598,450	-	19,718	(1,613)	(1,369,838)	(753,283)
Special item: receipt of Yerba Buena Garden assets	11,137	-	105,553	-	-	116,690
Net change for the year	$ 1,172,462	$ (130,839)	$ 495,407	$ 8,117	$ (975,905)	$ 569,242

(Dollars in Thousands)

(3) Property taxes are recognized as revenues in the period the amounts become available. This is the current period amount by which the deferred outflows of resources increased in the governmental funds..	$ 192,262
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.	(20,355)
	$ 171,907
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.	$(2,273,598)
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.	139,005
Changes to net OPEB liability and OPEB 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.	1,841,249
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 revenues reported in the governmental funds.	(9,402)
	$ (302,746)

(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	$ 536,944
Depreciation expense	(187,220)
Gain on disposal of capital assets	1,127
Loss on disposal of capital assets	(40)
Transfer of assets to enterprise fund	(19)
Transfer of assets from enterprise fund	19,737
Transfer of capital assets from the Successor Agency	105,553
Capital assets acquired by donation or funded by other revenues	21,200
Proceeds from sale of capital assets	(1,875)
Difference	$ 495,407

(Dollars in Thousands)

(5) 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 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. $ 8,117

(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. $ (76,243)

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

Principal payments made	$ 381,141

Bond proceeds 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 does not affect the statement of activities. Proceeds were received from:

General obligation bonds	$ (632,990)
Certificates of participation	(412,355)
Sales tax revenue bonds	(248,250)
	(1,293,595)
	$ (912,454)

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 premiums and refunding losses and gains are not expended within the fund statements.

Increase in accrued interest	$ (8,100)
Amortization of bond premiums	22,770
Amortization of bond refunding losses and gains	(1,878)
	$ 12,792

(Dollars in Thousands)

(4) EFFECTS OF NEW ACCOUNTING PRONOUNCEMENTS

During fiscal year 2018, the City implemented the following accounting standards:

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. GASB Statement No. 75 revises and establishes new accounting and financial reporting requirements for governments that provide their employees with other postemployment benefits (OPEB) and requires additional OPEB disclosures. The provisions of Statement No. 75 are effective for fiscal years beginning after June 15, 2017. While restatement of all prior periods was not practical because the actuarial information was not available, the cumulative effect of applying this statement is reported as a restatement of beginning net position as of July 1, 2017. As of July 1, 2017, the City restated its net position to record beginning OPEB liabilities and beginning deferred outflows of resources as follows:

	Net Position, Beginning of Year		
	As Previously Reported	Change in Accounting Principle	As Restated
Primary Government:			
Governmental Activities	$ 1,786,411	$ (463,676)	$ 1,322,735
Business-type Activities	5,771,902	(581,262)	5,190,640
Total Primary Government	$ 7,558,313	$ (1,044,938)	$ 6,513,375
San Francisco International Airport	$ 50,169	$ (82,998)	$ (32,829)
San Francisco Water Enterprise	501,267	(29,380)	471,887
Hetch Hetchy Water and Power	578,260	(4,396)	573,864
Municipal Transportation Agency	3,295,692	(333,021)	2,962,671
General Hospital Medical Center	(412,424)	(62,790)	(475,214)
San Francisco Wastewater Enterprise	1,146,263	(2,256)	1,144,007
Port of San Francisco	389,740	(3,998)	385,742
Laguna Honda Hospital	222,935	(62,423)	160,512
Total Business-type Activities	$ 5,771,902	$ (581,262)	$ 5,190,640
Internal Service Funds	$ (35,728)	$ (13,785)	$ (49,513)
Fiduciary Funds:			
Private-Purpose Trust Fund - Successor Agency	$ (388,849)	$ (5,834)	$ (394,683)
Pension Trust Fund - Employees' Retirement System	$ 22,410,350	$ (2,996)	$ 22,407,354

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 did not have a significant impact on the City for the year ended June 30, 2018.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. GASB Statement No. 85 addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits. The new standard is effective for periods beginning after June 15, 2017. Application of this statement did not have a significant impact on the City for the year ended June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. GASB Statement No. 86 clarifies accounting and financial reporting for in-substance defeasance of debt using existing resources other than proceeds of refunding debt. The new standard is effective for periods beginning after June 15, 2017. Application of this statement did not have a significant impact on the City for the year ended June 30, 2018.

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

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. GASB Statement No. 83 addresses accounting and financial reporting for asset retirement obligations (AROs.) The statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs, and requires disclosures of methods and assumptions used. The new standard is effective for periods beginning after June 15, 2018. Application of this statement is effective for the City's year ending June 30, 2019.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. GASB Statement No. 84 establishes criteria for identifying fiduciary activities of all state and local governments. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities. The new standard is effective for periods beginning after December 15, 2018. Application of this statement is effective for the City's year ending June 30, 2020.

In June 2017, the GASB issued Statement No. 87, *Leases*. GASB Statement No. 87 establishes a single model for lease accounting and requires reporting of certain lease assets, liabilities, and deferred inflows that currently are not reported. The new standard is effective for periods beginning after December 15, 2019. Application of this statement is effective for the City's year ending June 30, 2021.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. GASB Statement No. 88 establishes a definition of debt for purposes of disclosure, requires that information provided for direct borrowings and direct placements of debt be reported separately from other debt, and requires more extensive disclosures about unused lines of credit, assets pledged as collateral, and terms related to default, termination, and acceleration. The new standard is effective for periods beginning after June 15, 2018. Application of this statement is effective for the City's year ending June 30, 2019.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred before the End of a Construction Period*. GASB Statement No. 89 requires that interest costs incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred and no longer included in the historical cost of capital assets. The new standard is effective for periods beginning after December 15, 2019. Application of this statement is effective for the City's year ending June 30, 2021.

In August 2018, the GASB issued Statement No. 90, *Majority Equity Interests—an amendment of GASB Statements No. 14 and No. 61*. GASB Statement No. 90 establishes standards for reporting a government's majority equity interest in a legally separate organization. The new standard is effective for periods beginning after December 15, 2018. Application of this statement is effective for the City's year ending June 30, 2020.

(Dollars in Thousands)

(5) DEPOSITS AND INVESTMENTS

(a) Cash, Deposits and Investments Presentation

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

	Primary Government				Component Units
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total	
Deposits and investments with City Treasury	$ 4,952,776	$ 2,394,027	$ 1,271,023	$ 8,617,826	$ 1,991
Deposits and investments outside City Treasury	397,937	12,530	24,678,342	25,088,809	-
Restricted assets:					
Deposits and investments with City Treasury	-	1,894,787	-	1,894,787	-
Deposits and investments outside City Treasury	25,478	917,739	319,895	1,263,112	-
Total deposits & investments	$ 5,376,191	$ 5,219,083	$ 26,269,260	$ 36,864,534	$ 1,991
Cash and deposits				$ 219,759	$ -
Investments				36,644,775	1,991
Total deposits and investments				$ 36,864,534	$ 1,991

(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 February 2018.

(Dollars in Thousands)

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

Authorized Investment Type	Maximum Maturity	Maximum Percentage of Portolio	Maximum Investment in One Issuer
U.S. Treasuries	5 years	100%	100%
Federal Agencies	5 years	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%	30%
Commercial Paper	270 days	25% *	10%
Medium Term Notes	24 months *	25% *	10% *
Repurchase Agreements (Government Securities)	1 year	None	None
Repurchase Agreements (Securities permitted by CA Government Code, Sections 53601 and 53635)	1 year	10%	None
Reverse Repurchase Agreements / Securities Lending	45 days *	None	$75 million *
Money Market (Institutional Government Funds)	N/A	20%	N/A
Supranationals	5 years	30%	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.

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.

(Dollars in Thousands)

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, 2018, are as follows:

Asset Class	Target Allocation since September 2017
Global Equity	31.0%
Treasuries	6.0%
Liquid Credit	3.0%
Private Credit	10.0%
Private Equity	18.0%
Real Assets	17.0%
Hedge Funds/Absolute Return	15.0%
	100.0%

The Retirement System is not directly involved in repurchase or reverse repurchase agreements. However, external investment managers retained by the Retirement System may employ repurchase arrangements if the securities purchased or sold comply with the manager's investment guidelines. The Retirement System monitors the investment activity of its investment managers to ensure compliance with guidelines. The Retirement System maintains its operating fund cash in the Treasurer's Pool.

Retiree Health Care Trust Fund (RHCTF)

The RHCTF maintains its cash in the Treasurer's Pool. 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 RHCTF allocates its investments among numerous investment managers and in accordance with the investment policy approved by the RHCTF Board. The RHCTF Board has established percentage guidelines for types of investments to ensure the portfolio is diversified, as follows:

Asset Class	Target Allocation since November 2017
Equities	
U.S. Equity	41.0%
Developed Market Equity (Non-U.S.)	20.0%
Emerging Market Equity	16.0%
Credit	
High Yield Bonds	3.0%
Bank Loans	3.0%
Emerging Market Bonds	3.0%
Rate Securities	
Treasury Inflation-Protected Securities (TIPS)	5.0%
Investment Grade Bonds	9.0%
	100.0%

Asset Class	Target Allocation through October 2017	Range
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%
	100.0%	

(Dollars in Thousands)

(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, 2018:

		Fair Value Measurements Using		
	Fair Value 6/30/2018	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	$ 1,069,988	$ 1,069,988	$ -	$ -
U.S. Agencies - Discount	85,129	-	85,129	-
U.S. Agencies - Coupon (no call option)	2,984,716	-	2,984,716	-
U.S. Agencies - Coupon (callable option)	1,852,649	-	1,852,649	-
State and Local Agencies	189,487	-	189,487	-
Negotiable Certificates of Deposits	2,188,512	-	2,188,512	-
Corporate Notes	98,174	-	98,174	-
Supranationals	773,680	-	773,680	-
Commercial Paper	922,171	-	922,171	-
Public Time Deposits	25,240 *	-	-	-
Money Market Mutual Funds	407,023 *	-	-	-
Subtotal	10,596,769	$ 1,069,988	$ 9,094,518	$ -
Investments Outside City Treasury:				
(Governmental and Business - Type)				
U.S. Treasury Notes	356,465	$ 356,465	$ -	$ -
U.S. Agencies	355,435	70,605	284,830	-
State and Local Agencies	850	-	850	-
Corporate Notes	6,130	-	6,130	-
Supranationals	4,521	-	4,521	-
Commercial Paper	26,759	-	26,759	-
Negotiable Certificates of Deposit	4,999	-	4,999	-
Commercial Paper	73,661 *	-	-	-
Money Market Mutual Funds	654,641 *	-	-	-
Certificates of Deposit	265 *	-	-	-
Subtotal Investments Outside City Treasury	1,483,726	$ 427,070	$ 328,089	$ -

* Not subject to fair value hierarchy

(Dollars in Thousands)

	Fair Value 6/30/2018	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	499,570	$ (39)	$ 3,068	$ 496,541
Debt Securities:				
U.S. Government and Agency Securities	1,593,955	1,519,716	74,239	-
Other Debt Securities	1,367,798	233,610	1,019,807	114,381
Equity Securities:				
Domestic	4,342,015	4,334,396	7,371	248
International	4,237,691	4,234,440	3,242	9
Foreign Currency Contracts, net	(1,157)	-	-	(1,157)
Subtotal Employees' Retirement System Investments	12,039,872	$ 10,322,123	$ 1,107,727	$ 610,022
Investments measured at the net asset value (NAV)				
Short-term Investments	22,300			
Fixed Income invested in:				
Other debt securities	344,247			
Equity funds invested in:				
Domestic	891,509			
International	2,627			
Real Assets	3,578,379			
Private Equity	4,344,306			
Private Credit	454,199			
Absolute Return	2,625,376			
Total investments measured at the NAV	12,262,943			
Total investments measured at fair value	24,302,815			
Retiree Health Care Trust Investments measured at the NAV				
Short-term Investments	11,319			
Fixed Income:				
U.S. Debt Index Fund	67,593			
Equities:				
Domestic:				
S&P 500 Equity Index Fund	97,073			
International:				
EAFE Equity Index Fund	87,471			
Subtotal Investments in Retiree Health Care Trust	263,456			
Total Investments	**$36,646,766**			

Investments Held in City Treasury

U.S. Treasury Notes are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy.

U.S. Agencies, State and Local Agencies, Negotiable Certificates of Deposit, Corporate Notes, 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 Held Outside City Treasury

U.S. Treasury Notes are valued using quoted prices in active markets and classified in Level 1 of the fair value hierarchy. U.S. Agencies 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. Commercial Paper, Money Market Funds, and Certificates of Deposit are not subject to fair value hierarchy.

Employees' Retirement System Investments

Investments at Fair Value

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. 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.

Equity securities classified in Level 1 of the fair value hierarchy are valued using prices quoted in active markets. 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. 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.

Investments at Net Asset Value (NAV)

The equity and debt funds are commingled funds that are priced at net asset value by industry vendors and fund families. NAV is the fair 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.

The fair value of the Retirement System's investments in private credit investments, opportunistic public equity, real assets, private equity, and absolute return 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 values 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 of the information 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 limited to, appropriate risk adjustments for nonperformance and liquidity. Such fair value estimates involve subjective judgments of unrealized gains and losses.

(Dollars in Thousands)

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.

Private Credit investments are held in commingled funds. These investments are mostly illiquid with distributions received over the life of the investments. They are typically not redeemed, nor do they have set redemption schedules. Two opportunistic public equity investments, valued at $2.4 million, are currently being liquidated. These proceeds are expected to be received over the next 2-4 years. The remaining five opportunistic public equity investments are subject to varying lock-up periods, notice requirements and withdrawal windows. The real asset holdings are illiquid. Distributions are received over the life of the investments, which could equal or exceed ten years. They are not redeemed, nor do they have set redemption schedules. Private equity investment strategies include buyout, venture capital, growth capital, and special situations. Investments in the asset class are achieved primarily through commingled fund and separate account partnerships, but may also include direct and co-investment opportunities. Private equity investments are illiquid and distributions are received over the life of the investments, which could equal or exceed ten years. These investments are not typically redeemed, nor do they have set redemption schedules.

Absolute return investment strategies include equity, credit, macro, emerging markets, quantitative, multi-strategy, special situations/other, and commodities. Investments are achieved through limited partnerships. The table below provides a summary of the terms and conditions upon which the Retirement System may redeem its absolute return investments. Investments have the potential to become illiquid under stressed market conditions and, in certain circumstances, investors may be subject to redemption restrictions that differ from the standard terms and conditions summarized here, which can impede the return of capital according to those terms and conditions.

Absolute Return Investments Measured at NAV as of June 30, 2018

% of NAV	Redemption Frequency	Redemption Notice Period
80%	Monthly	60-95 Days
16%	Quarterly	30-180 Days
<1%	Semi-annually	60 Days
4%	Greater Than Annually	90 Days
100%		

% of NAV in Lock Up	As of Fiscal Year End
13%	2018
11%	2019
11%	2020
0%	2021

Retiree Health Care Trust Fund

Investments at Net Asset Value (NAV)

At June 30, 2018, the Retiree Health Care Trust Fund had cash and investments in the City Treasury pool, equity and debt commingled index funds, and money market funds. 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, 2018, 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 110.0% 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, 2018, $3.5 million of the business-type activities bank balances were exposed to custodial credit risk by not being insured or collateralized.

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 and Retiree Health Care Trust Fund's interest rate risk information is discussed in sections (f) and (g), respectively, of this note.

(Dollars in Thousands)

	S & P Rating	Fair Value	Investment Maturities Less than 1 year	1 to 5 years
Primary Government:				
Investments in City Treasury:				
U.S. Treasury Notes	AA+	$ 1,069,988	$ 754,034	$ 315,954
U.S. Agencies	NR - AA+	4,922,494	1,099,271	3,823,223
Negotiable certificates of deposits	A-1 - A-1+	2,188,512	2,188,512	-
Money Market Mutual Funds	AAAm	407,023	407,023	-
Public time deposits	NR	25,240	25,240	-
State and Local Agencies	A-1+, AA- - AA+	189,487	80,410	109,077
Supranationals	AAA	773,680	274,994	498,686
Corporate notes	A+ - AA-	98,174	68,808	29,366
Commercial Paper	A-1-A-1+	922,171	922,171	-
Less: Treasure Island Development Authority Investments with City Treasury	n/a	(1,991)	-	(1,991)
Less: Employees' Retirement System Investments with City Treasury		(24,275)	-	(24,275)
Less: Retiree Health Care Trust Investments with City Treasury	n/a	(2,269)	-	(2,269)
Subtotal pooled investments		10,568,234	$ 5,820,463	$ 4,747,771
Investments Outside City Treasury: (Governmental and Business - Type)				
U.S. Treasury Notes	AA+	$ 356,465	$ 113,647	$ 242,818
U.S. Agencies - Coupon	AA+, A+	297,563	22,116	275,447
U.S. Agencies - Discount	AA+	57,872	-	57,872
State and Local Agencies	AA, AA-	850	-	850
Supranationals	AAA	4,521	-	4,521
Corporate notes	AA+-AA-,AAA,A	6,130	718	5,412
Money Market Mutual Funds	AAAm	572,748	572,748	-
U.S. Treasury Money Market Funds	AAAm	81,893	81,893	-
Commercial Paper	A-1+,A-1,AAAm	100,420	100,420	-
Certificates of Deposit	NR,A-1,A-1+,A+,AA-	5,264	3,761	1,503
Subtotal investments outside City Treasury		1,483,726	$ 895,303	$ 588,423
Retiree Health Care Trust Investments		265,725		
Employees' Retirement System investments		24,327,090		
Total Primary Government		$ 36,644,775		
Component Unit:				
Treasure Island Development Authority:				
Investments with City Treasury	n/a	1,991	$ -	$ -
Total Investments		**$ 36,646,766**		

As of June 30, 2018, the investments in the City Treasury had a weighted average maturity of 469 days.

(Dollars in Thousands)

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, 2018, the City Treasurer has investments in U.S. Agencies that represent 5.0% or more of the total Pool in the following:

Federal Home Loan Mortgage Corporation	14.3%
Federal Farm Credit Bank	12.9%
Federal Home Loan Bank	12.8%

In addition, the following major funds hold investments with trustees that represent 5.0% or more of the funds' investments outside City Treasury as of June 30, 2018:

Airport:	
Federal National Mortgage Association	14.0%
Federal Home Loan Bank	12.0%
Federal Home Loan Mortgage Corporation	11.7%
Hetch Hetchy:	
Federal Home Loan Bank	27.2%
Wastewater:	
Federal Home Loan Bank	14.1%
Water:	
Federal Home Loan Bank	5.3%
Port:	
Federal Home Loan Bank	28.8%
Laguna Honda Hospital:	
Federal Home Loan Bank	99.8%

(Dollars in Thousands)

(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 and for the year ended June 30, 2018:

Statement of Net Position

Net position held in trust for all pool participants	$10,514,604
Equity of internal pool participants	$9,807,749
Equity of external pool participants	706,855
Total equity	$10,514,604

Statement of Changes in Net Position

Net position at July 1, 2017	$8,628,146
Net change in investments by pool participants	1,886,458
Net position at June 30, 2018	$10,514,604

The following provides a summary of key investment information for the Treasurer's Pool as of June 30, 2018:

Type of Investment	Rates	Maturities	Par Value	Carrying Value
Pooled Investments:				
U.S. Treasuries	1.36% - 2.47%	08/06/18 - 06/30/22	$ 1,085,000	$ 1,069,988
U.S. Agencies	0.89% - 3.32%	07/02/18 - 06/14/23	4,976,915	4,922,494
State and local agencies	0.90% - 2.80%	08/01/18 - 05/15/21	191,080	189,487
Public time deposits	1.91% - 2.59%	09/12/18 - 05/16/19	25,240	25,240
Negotiable certificates of deposit	1.48% - 2.69%	07/02/18 - 06/07/19	2,187,838	2,188,512
Commercial paper	1.85% - 2.59%	07/02/18 - 02/20/19	927,000	922,171
Corporate notes	2.25% - 2.62%	01/09/19 - 01/10/20	98,463	98,174
Money market mutual funds	1.65% - 1.73%	07/01/18 - 07/01/18	407,023	407,023
Supranationals	1.07% - 2.88%	07/02/18 - 07/20/21	782,262	773,680
			$10,680,821	10,596,769
Carrying amount of deposits with Treasurer				(82,165)
Total cash and investments with Treasurer				$ 10,514,604

(Dollars in Thousands)

(f) Retirement System's Investments

The Retirement System's investments as of June 30, 2018, are summarized as follows:

Fixed Income Investments:		
Short-term investments	$	521,870
Investments in City Treasury		24,275
Debt securities:		
U.S. Government and agencies		1,593,955
Other debt securities		1,712,045
Subtotal debt securities		3,306,000
Total fixed income investments		3,852,145
Equity securities:		
Domestic		5,233,524
International		4,240,318
Total equity securities		9,473,842
Real assets		3,578,379
Private credit		454,199
Private equity		4,344,306
Absolute return		2,625,376
Foreign currency contracts, net		(1,157)
Total Retirement System Investments	$	24,327,090

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, 2018:

		Maturities			
Investment Type	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**10+ years**
Asset-Backed Securities	$ 43,499	$ -	$ 9,771	$ 4,212	$ 29,516
Bank Loans	93,935	378	34,210	59,347	-
City Investment Pool	24,275	13,333	10,942	-	-
Commercial Mortgage-Backed	187,451	420	4,682	2,756	179,593
Commingled and Other Fixed Income Funds	592,013	14,401	-	344,247	233,365
Corporate Bonds	442,037	21,175	146,323	204,160	70,379
Corporate Convertible Bonds	223,175	11,399	115,464	70,313	25,999
Government Bonds	1,611,076	14,064	1,044,367	479,202	73,443
Government Mortgage-Backed Securities	60,858	-	-	7,475	53,383
Municipal/Provincial Bonds	4,558	-	-	118	4,440
Non-Government Backed Collateralized Mortgage Obligations	48,725	-	579	-	48,146
Options	(2)	(2)	-	-	-
Short Term Investment Funds	521,910	521,910	-	-	-
Swaps	(155)	(1,033)	897	(15)	(4)
Total	$ 3,853,355	$ 596,045	$ 1,367,235	$ 1,171,815	$ 718,260

(Dollars in Thousands)

Credit Risk

Fixed income investment managers retained by the Retirement System follow specific investment guidelines and are evaluated against specific market benchmarks that represent their investment style. Fixed income investment managers typically are limited within their portfolios to no more than 5.0% 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, 2018. Investments issued or explicitly guaranteed by the U.S. government of $1.53 billion as of June 30, 2018, are exempt from credit rating disclosures and are excluded from the table below.

Credit Rating	Fair Value	Fair Value as a Percentage of Total
AAA	$ 47,859	2.1%
AA	77,040	3.3%
A	81,394	3.5%
BBB	295,078	12.7%
BB	175,659	7.6%
B	162,248	7.0%
CCC	35,781	1.5%
CC	1,318	0.1%
C	389	0.0%
D	5,502	0.2%
Not Rated	1,437,553	62.0%
Total	$ 2,319,821	100.0%

The securities listed as "Not Rated" include short-term investment funds, government mortgage backed securities, and investments that invest primarily in rated securities, such as commingled funds and money market funds, but do not themselves have a specific credit rating. Excluding these investments, the "Not Rated" component of credit would be approximately 21% for 2018.

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. Securities issued or guaranteed by the U.S. government or its agencies are exempt from this limit. As of June 30, 2018, the Retirement System had no investments of a single issuer that equaled or exceeded 5.0% of total Retirement System's investments or net position.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government may not be able to recover the value of investment or collateral securities that are in the possession of an outside party. 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, 2018, $157.1 million of the Retirement System's investments were exposed to custodial credit risk because they were not insured or registered in the name of the Retirement System, and were held by the counterparty's trust department or agent but not in the Retirement System's name.

(Dollars in Thousands)

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, and real assets. 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, 2018, are as follows:

Currency	Cash	Equities	Fixed Income	Private Equities	Real Assets	Private Credit	Foreign Currency Contracts	Total
Argentine peso	$ 3,008	$ -	$ 2,543	$ -	$ -	$ -	$ (3,843)	$ 1,708
Australian dollar	-	93,034	(344)	3,384	-	-	32,083	128,157
Brazil real	-	30,672	6,930	-	-	-	4,651	42,253
Canadian dollar	-	81,863	-	-	-	-	110,296	192,159
Chilean peso	-	-	2,718	-	-	-	205	2,923
Chinese yuan renminbi	27,377	231,085	991	-	-	-	-	259,453
Colombian peso	-	-	9,465	-	-	-	171	9,636
Czech koruna	-	1,504	876	-	-	-	5,768	8,148
Danish krone	-	29,746	-	-	-	-	(1,528)	28,218
Egyptian pound	-	-	-	-	-	-	2,805	2,805
Euro	-	697,571	38,262	130,278	201,576	31,870	(103,680)	995,877
Hong Kong dollar	-	170,960	76	-	-	-	1,533	172,569
Hungarian forint	-	2,129	454	-	-	-	649	3,232
Indian rupee	-	-	-	-	-	-	645	645
Indonesian rupiah	-	4,741	10,965	-	-	-	(480)	15,226
Israeli shekel	-	10,225	-	-	-	-	3,157	13,382
Japanese yen	-	558,795	(1,455)	-	63,266	-	79,314	699,920
Kazakhstan tenge	-	-	314	-	-	-	-	314
Malaysian ringgit	-	8,825	5,581	-	-	-	658	15,064
Mexican peso	-	6,981	1,078	-	-	-	12,300	20,359
New Taiwan dollar	-	47,126	-	-	-	-	(969)	46,157
New Zealand dollar	-	299	-	-	-	-	18,841	19,140
Norwegian krone	-	12,570	-	-	-	-	(48,471)	(35,901)
Peruvian sol	-	-	5,431	-	-	-	(1,891)	3,540
Philippines peso	-	1,979	456	-	-	-	(1,349)	1,086
Polish zloty	-	400	13,259	-	-	-	1,424	15,083
Pound sterling	-	507,461	3,034	17,374	12,221	-	35,695	575,785
Qatari riyal	-	3,156	-	-	-	-	-	3,156
Romanian leu	-	-	628	-	-	-	794	1,422
New Russian ruble	-	-	9,575	-	-	-	767	10,342
Singapore dollar	-	14,001	-	-	-	-	3,208	17,209
South African rand	-	16,345	14,790	-	-	-	(2,907)	28,228
South Korean won	-	86,791	-	-	-	-	34	86,825
Swedish krona	-	65,639	69	-	-	-	(66,631)	(923)
Swiss franc	-	166,744	452	-	-	-	(96,530)	70,666
Thailand baht	-	7,471	1,661	-	-	-	8,226	17,358
Turkish lira	-	10,301	7,135	-	-	-	964	18,400
United Arab Emirate dirham	-	4,967	-	-	-	-	-	4,967
Ukraine hryvana	-	-	230	-	-	-	-	230
Uruguayan peso	-	-	373	-	-	-	-	373
Total	$ 30,385	$ 2,873,381	$ 135,547	$ 151,036	$ 277,063	$ 31,870	$ (4,091)	$ 3,495,191

(Dollars in Thousands)

Derivative Instruments

As of June 30, 2018, the derivative instruments held by the Retirement System are considered investments and not hedges for accounting purposes. The gains and losses arising from this activity are recognized as incurred in the statement of changes in fiduciary net position. All investment derivatives discussed below are included within the investment risk schedules, which precede this subsection. Investment derivative instruments are disclosed separately to provide a comprehensive and distinct view of this activity and its impact on the overall investment portfolio.

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

The table below presents the notional amounts, the fair value amounts, and the related net appreciation (depreciation) in the fair value of derivative instruments that were outstanding at June 30, 2018:

Derivative Type / Contracts	Notional Amount	Fair Value	Net Appreciation (Depreciation) in Fair Value
Forwards			
Foreign Exchange Contracts	$ 1,382,441	$ (1,157)	$ (1,321)
Futures			
Currency Futures Long	2,742	(39)	(39)
Equity Index Futures Long	201,613	(3,824)	1,169
Equity Index Futures Short	(99,762)	443	(1,444)
Treasury Futures Long	47,329	391	391
Options			
Foreign Exchange Contracts	(700)	(2)	(69)
Swaps			
Credit Contracts	3,100	(23)	12
Equity Index Contracts	27,438	(1,561)	(1,409)
Total Return Contracts	101	(220)	(1,453)
Interest Rate Contracts	64,646	88	(225)
Rights/Warrants			
Equity Contracts	45,291 shares	86,250	(11,268)
Total		$ 80,346	$ (15,656)

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 statement of changes in fiduciary net position.

(Dollars in Thousands)

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, 2018, the fair value of forward currency contracts in asset positions (including foreign exchange contract options) to purchase and sell international currencies were $1.7 million and $2.8 million, respectively. The Retirement System's counterparties to these contracts held credit ratings of A or better on 53.6% and credit ratings of B on 46.4% of the positions as assigned by one or more of the major credit rating organizations (S&P and/or Moody's).

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, 2018, 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, 2018.

		Maturities			
Derivative Type / Contracts	**Fair Value**	**Less than 1 year**	**1-5 years**	**6-10 years**	**10+ years**
Forwards					
Foreign Exchange Contracts	$ (1,157)	$ (1,157)	$ -	$ -	$ -
Options					
Foreign Exchange Contracts	(2)	(2)	-	-	-
Swaps					
Credit Contracts	(23)	(5)	(18)	-	-
Total Return Contracts	(220)	(220)	-	-	-
Interest Rate Contracts	88	(808)	915	(15)	(4)
Total	$ (1,314)	$ (2,192)	$ 897	$ (15)	$ (4)

(Dollars in Thousands)

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, 2018:

Investment Type	Reference Rate	Notional Value	Fair Value
Interest Rate Swap	Receive Fixed 1.93%, Pay Variable 6-Month THB	$ 319	$ 2
Interest Rate Swap	Receive Fixed 10.30%, Payable Variable 1-Day BIDOR	390	(8)
Interest Rate Swap	Receive Fixed 10.33%, Payable Variable 1-Day BIDOR	2,157	(44)
Interest Rate Swap	Receive Fixed 11.33%, Payable Variable 1-Day BIDOR	2,261	36
Interest Rate Swap	Receive Fixed 11.35%, Payable Variable 1-Day BIDOR	2,729	185
Interest Rate Swap	Receive Fixed 11.38%, Payable Variable 1-Day BIDOR	182	11
Interest Rate Swap	Receive Fixed 12.06%, Payable Variable 1-Day BIDOR	725	49
Interest Rate Swap	Receive Fixed 12.20%, Payable Variable 1-Day BIDOR	1,349	110
Interest Rate Swap	Receive Fixed 12.29%, Payable Variable 1-Day BIDOR	182	8
Interest Rate Swap	Receive Fixed 15.96%, Payable Variable 1-Day BIDOR	4,237	(581)
Interest Rate Swap	Receive Fixed 16.40%, Payable Variable 1-Day BIDOR	3,119	634
Interest Rate Swap	Receive Fixed 2.00%, Payable Variable 6-Month WIBOR	641	-
Interest Rate Swap	Receive Fixed 2.01%, Payable Variable 6-Month THB	1,078	(5)
Interest Rate Swap	Receive Fixed 2.02%, Payable Variable 6-Month THB	604	5
Interest Rate Swap	Receive Fixed 2.12%, Payable Variable 6-Month THB	1,053	7
Interest Rate Swap	Receive Fixed 2.19%, Payable Variable 6-Month THB	211	2
Interest Rate Swap	Receive Fixed 2.22%, Payable Variable 6-Month THB	423	5
Interest Rate Swap	Receive Fixed 2.25%, Payable Variable 6-Month BUBOR	3,260	(11)
Interest Rate Swap	Receive Fixed 2.51%, Payable Variable 6-Month THB	329	4
Interest Rate Swap	Receive Fixed 2.56%, Payable Variable 6-Month THB	706	5
Interest Rate Swap	Receive Fixed 2.58%, Payable Variable 6-Month THB	395	6
Interest Rate Swap	Receive Fixed 2.63%, Payable Variable 6-Month THB	661	12
Interest Rate Swap	Receive Fixed 2.78%, Payable Variable 6-Month THB	28	1
Interest Rate Swap	Receive Fixed 2.81%, Payable Variable 6-Month THB	556	17
Interest Rate Swap	Receive Fixed 3.54%, Payable Variable 6-Month CLP	762	(7)
Interest Rate Swap	Receive Fixed 4.84%, Payable Variable 1-Day CIBR	876	(5)
Interest Rate Swap	Receive Fixed 4.91%, Payable Variable 1-Day CIBR	935	(2)
Interest Rate Swap	Receive Fixed 5.23%, Payable Variable 1-Day CIBR	123	1
Interest Rate Swap	Receive Fixed 5.31%, Payable Variable 1-Day CIBR	48	-
Interest Rate Swap	Receive Fixed 5.32%, Payable Variable 1-Day CIBR	562	5
Interest Rate Swap	Receive Fixed 5.33%, Payable Variable 1-Day CIBR	569	6
Interest Rate Swap	Receive Fixed 5.61%, Payable Variable 28-Day MXIBR	397	(26)
Interest Rate Swap	Receive Fixed 5.63%, Payable Variable 28-Day MXIBR	946	(64)
Interest Rate Swap	Receive Fixed 5.84%, Payable Variable 28-Day MXIBR	321	(19)
Interest Rate Swap	Receive Fixed 6.12%, Payable Variable 1-Day CIBR	111	2
Interest Rate Swap	Receive Fixed 6.20%, Payable Variable 1-Day CIBR	102	2
Interest Rate Swap	Receive Fixed 6.43%, Payable Variable 1-Day CIBR	32	(1)
Interest Rate Swap	Receive Fixed 6.49%, Payable Variable 28-Day MXIBR	290	(27)
Interest Rate Swap	Receive Fixed 6.80%, Payable Variable 28-Day MXIBR	122	(6)
Interest Rate Swap	Receive Fixed 7.25%, Payable Variable 3-Month JIBAR	540	(14)

CITY AND COUNTY OF SAN FRANCISCO

Notes to Basic Financial Statements (Continued)
June 30, 2018
(Dollars in Thousands)

Investment Type	Reference Rate	Notional Value	Fair Value
Interest Rate Swap	Receive Fixed 7.38%, Payable Variable 28-Day MXIBR	1,190	(45)
Interest Rate Swap	Receive Fixed 7.65%, Payable Variable 28-Day MXIBR	2,915	(27)
Interest Rate Swap	Receive Fixed 7.83%, Payable Variable 28-Day MXIBR	621	(1)
Interest Rate Swap	Receive Fixed 7.86%, Payable Variable 28-Day MXIBR	870	(1)
Interest Rate Swap	Receive Fixed 7.88%, Payable Variable 28-Day MXIBR	1,262	-
Interest Rate Swap	Receive Fixed 7.92%, Payable Variable 28-Day MXIBR	2,015	4
Interest Rate Swap	Receive Fixed 8.04%, Payable Variable 28-Day MXIBR	2,081	(54)
Interest Rate Swap	Receive Fixed 8.28%, Payable Variable 28-Day MXIBR	198	-
Interest Rate Swap	Receive Fixed 8.31%, Payable Variable 28-Day MXIBR	81	-
Interest Rate Swap	Receive Fixed 8.32%, Payable Variable 28-Day MXIBR	412	6
Interest Rate Swap	Receive Fixed 9.65%, Payable Variable 1-Day BIDOR	624	(28)
Interest Rate Swap	Receive Fixed 9.76%, Payable Variable 1-Day BIDOR	26	(1)
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 12.44%	3,743	(229)
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 6.54%	6,444	1
Interest Rate Swap	Receive Variable 1-Day BIDOR, Pay Fixed 9.60%	1,066	81
Interest Rate Swap	Receive Variable 1-Day CIBR, Pay Fixed 5.28%	472	(6)
Interest Rate Swap	Receive Variable 1-Day CIBR, Pay Fixed 6.42%	72	(2)
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 6.71%	148	16
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 6.87%	2,330	56
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 8.00%	580	(3)
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 8.02%	376	(2)
Interest Rate Swap	Receive Variable 28-Day MXIBR, Pay Fixed 8.20%	575	(7)
Interest Rate Swap	Receive Variable 3-Month JIBAR, Pay Fixed 7.75%	679	28
Interest Rate Swap	Receive Variable 3-Month KLIBOR, Pay Fixed 3.74%	594	3
Interest Rate Swap	Receive Variable 3-Month KLIBOR, Pay Fixed 3.75%	941	4
Total Interest Rate Swaps		$ 64,646	$ 88

(Dollars in Thousands)

Foreign Currency Risk

At June 30, 2018, the Retirement System is exposed to foreign currency risk on its investments in forwards, rights, warrants, and swaps and futures denominated in foreign currencies. Below is the derivative instruments foreign currency risk analysis as of June 30, 2018:

Currency	Forwards	Rights/ Warrants	Swaps	Futures	Total
Argentina peso	$ (3,843)	$ -	$ -	$ -	$ (3,843)
Australian dollar	32,083	-	(344)	(213)	31,526
Brazil real	4,651	-	224	-	4,875
Canadian dollar	110,296	-	-	23	110,319
Chilean peso	205	-	(7)	-	198
Colombian peso	171	-	1	-	172
Czech koruna	5,768	-	-	-	5,768
Danish krone	(1,528)	-	-	-	(1,528)
Egyptian pound	2,805	-	-	-	2,805
Euro	(103,680)	244	(171)	(390)	(103,997)
Hong Kong dollar	1,533	-	76	18	1,627
Hungarian forint	649	-	(11)	-	638
Indian rupee	645	-	-	-	645
Indonesian rupiah	(480)	-	-	-	(480)
Israeli shekel	3,157	-	-	-	3,157
Japanese yen	79,314	-	(1,455)	(427)	77,432
Malaysian ringgit	658	-	6	-	664
Mexican peso	12,300	-	(200)	-	12,100
New Taiwan dollar	(969)	-	-	-	(969)
New Zealand dollar	18,841	-	-	-	18,841
Norwegian krone	(48,471)	-	-	-	(48,471)
Peruvian sol	(1,891)	-	-	-	(1,891)
Philippines peso	(1,349)	-	-	-	(1,349)
Polish zloty	1,424	-	-	-	1,424
Pound sterling	35,695	-	-	263	35,958
Romanian leu	794	-	-	-	794
New Russian ruble	767	-	-	-	767
Singapore dollar	3,208	-	-	7	3,215
South African rand	(2,907)	-	14	-	(2,893)
South Korean won	34	-	-	-	34
Swedish krona	(66,631)	-	69	8	(66,554)
Swiss franc	(96,530)	-	44	-	(96,486)
Thailand baht	8,226	-	61	-	8,287
Turkish lira	964	-	-	-	964
Total	$ (4,091)	$ 244	$ (1,693)	$ (711)	$ (6,251)

Contingent Features

At June 30, 2018, the Retirement System held no positions in derivatives containing contingent features.

(Dollars in Thousands)

Investments in Real Assets

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, 2018, are summarized as follows:

Beginning of the year	$	2,975,974
Capital investments		748,528
Equity in net earnings		76,834
Net appreciation in fair value		391,107
Capital distributions		(614,064)
End of the year	$	3,578,379

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 40.0% and 65.0%, 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 none as of June 30, 2018. 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, 2018, 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	8.23
Emerging Markets Debt Fund	11.7
City Investment Pool	1.29
Treasury Money Market Fund	0.13

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 RHCTF's investments in the US Debt Index Fund, Emerging Markets Debt Fund, City's investment pool and Treasury Money Market Fund are not rated. Although those funds may invest in rated securities, and securities issued or explicitly guaranteed by the U.S. Government that are exempt from the credit rating disclosures, the funds do not themselves have a specific credit rating.

Concentration of Credit Risk

Concentration of credit risk is the risk of loss attributed to the magnitude of investment in a single issuer. Securities issued or explicitly guaranteed by the U.S. government are excluded from this disclosure. As of June 30, 2018, the RHCTF held investments issued by Blackrock, Inc. and Northern Trust Company that exceeded 5% of the RHCTF's fiduciary net position.

Custodial Credit Risk

Custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, the RHCTF would not be able to recover the value of the investment or collateral securities that are in the possession of an outside party. The RHCTF does not have a specific policy addressing custodial credit risk for investments, but investments are generally insured, registered, or held by the RHCTF's custodial agent in the RHCTF's name. As of June 30, 2018, none of the RHCTF's investments were exposed to custodial credit risk because they were either insured or registered in the name of the RHCTF and were held by the counterparty's trust department or agent but not in the RHCTF's name.

Foreign Currency Risk

The RHCTF allows investments in international equity. The RHCTF's investments in the commingled funds are denominated in U.S. dollars, but may consist of underlying securities that are denominated in foreign currencies. The RHCTF's investment managers value investments denominated in foreign currencies by converting them into U.S. dollars using the exchange rates provided by WM/Reuters. Also, the cost of purchases and proceeds from sales of investments, interest and dividend income are translated into U.S. dollars using the spot market rate of exchange prevailing on the respective dates of such transactions.

Rate of Return

For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 7.0 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

(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 1.0% 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 2.0% 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 1.0% 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 55.0% for school facilities-related bonds. These "override" taxes for the City's debt service amounted to approximately $283.0 million for the year ended June 30, 2018.

Taxable valuation for the year ended June 30, 2018, (net of non-reimbursable exemptions, reimbursable exemptions, and tax increment allocations to the Successor Agency) was approximately $212.4 billion, an increase of 9.1%. The secured tax rate was $1.1723 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 County Office of Education, San Francisco Community College District, the Bay Area Air Quality Management District, and the San Francisco Bay Area Rapid Transit District, and $0.1723 for bond debt service. Delinquencies in the current year on secured taxes and unsecured taxes amounted to 0.58% and 4.97%, respectively, of the current year tax levy, for an average delinquency rate of 0.86% of the current year tax levy.

As established by the Teeter Plan, the Controller allocates to the City and other agencies 100.0% 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, 2018, was $25.6 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.

(Dollars in Thousands)

(7) CAPITAL ASSETS

Primary Government

Capital asset activity of the primary government for the year ended June 30, 2018, was as follows:

Governmental Activities:	Balance July 1, 2017	Increases *	Decreases *	Balance June 30, 2018
Capital assets, not being depreciated:				
Land	$ 360,602	$ 124,620	$ (748)	$ 484,474
Intangible assets	54,762	3,836	(49,866)	8,732
Construction in progress	624,711	430,069	(204,855)	849,925
Total capital assets, not being depreciated	1,040,075	558,525	(255,469)	1,343,131
Capital assets, being depreciated:				
Facilities and improvements	4,361,139	251,411	-	4,612,550
Machinery and equipment	576,843	17,511	(1,200)	593,154
Infrastructure	954,733	61,895	-	1,016,628
Intangible assets	55,816	51,645	-	107,461
Total capital assets, being depreciated	5,948,531	382,462	(1,200)	6,329,793
Less accumulated depreciation for:				
Facilities and improvements	1,099,003	106,136	-	1,205,139
Machinery and equipment	367,768	39,505	(1,160)	406,113
Infrastructure	200,814	40,409	-	241,223
Intangible assets	13,345	4,079	-	17,424
Total accumulated depreciation	1,680,930	190,129	(1,160)	1,869,899
Total capital assets, being depreciated, net	4,267,601	192,333	(40)	4,459,894
Governmental activities capital asssets, net	$ 5,307,676	$ 750,858	$ (255,509)	$ 5,803,025
Business-Type Activities:				
Capital assets, not being depreciated:				
Land	$ 240,187	$ 32,888	$ (3,917)	$ 269,158
Intangible assets	12,043	-	-	12,043
Construction in progress	4,073,686	2,582,229	(1,171,587)	5,484,328
Total capital assets, not being depreciated	4,325,916	2,615,117	(1,175,504)	5,765,529
Capital assets, being depreciated:				
Facilities and improvements	16,628,911	539,308	(152,721)	17,015,498
Machinery and equipment	2,689,986	335,072	(59,210)	2,965,848
Infrastructure	1,349,120	151,194	-	1,500,314
Property held under Lease	697	-	-	697
Intangible assets	199,933	7,988	-	207,921
Total capital assets, being depreciated	20,868,647	1,033,562	(211,931)	21,690,278
Less accumulated depreciation for:				
Facilities and improvements	6,155,171	446,633	(114,364)	6,487,440
Machinery and equipment	1,490,621	185,927	(54,719)	1,621,829
Infrastructure	627,004	43,460	(234)	670,230
Property held under lease	697	-	-	697
Intangible assets	159,189	10,766	-	169,955
Total accumulated depreciation	8,432,682	686,786	(169,317)	8,950,151
Total capital assets, being depreciated, net	12,435,965	346,776	(42,614)	12,740,127
Business-type activities capital assets, net	$ 16,761,881	$ 2,961,893	$ (1,218,118)	$ 18,505,656

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

(Dollars in Thousands)

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

Governmental Activities:		
Public protection	$	27,556
Public works transportation and commerce		36,146
Human welfare and neighborhood development		665
Community Health		38,388
Culture and recreation		52,583
General administration and finance		31,882
Capital assets held by the City's internal service funds charged to the various functions on a prorated basis		2,909
Total depreciation expense - governmental activities	$	190,129
Business-type activities:		
Airport	$	265,169
Water		118,751
Power		19,115
Transportation		167,220
Hospitals		43,162
Wastewater		55,591
Port		17,778
Total depreciation expense - business-type activities	$	686,786

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 $3.90 billion as of June 30, 2018. 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, 2018. 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, 2018.

During the year ended June 30, 2018, the City’s enterprise funds incurred total interest expense and interest income of approximately $541.9 million and $35.4 million, respectively. Of these amounts, net interest expense of approximately $116.0 million was capitalized. The Airport had write-offs and loss on disposal in the amount of $21.3 million primarily due to disposal. The Water Enterprise, Hetch Hetchy, and the Wastewater Enterprise expensed $0.9 million, $0.1 million, and $4.7 million, respectively, related to capitalized design and planning costs on certain projects that were discontinued.

(Dollars in Thousands)

Component Unit

Capital asset activity of the component unit for the year ended June 30, 2018 was as follows:

Treasure Island Development Authority:	Balance July 1, 2017	Increases	Decreases	Balance June 30, 2018
Capital assets, not being depreciated:				
Land	$ 20,390	$ 7,091	$ -	$ 27,481
Total capital assets, not being depreciated	20,390	7,091	-	27,481
Capital assets, being depreciated:				
Machinery and equipment	22	14	-	36
Total capital assets, being depreciated	22	14	-	36
Less accumulated depreciation for:				
Machinery and equipment	10	6	-	16
Total accumulated depreciation	10	6	-	16
Total capital assets, being depreciated, net	12	8	-	20
Component unit capital asssets, net	$ 20,402	$ 7,099	$ -	$ 27,501

During the year ended June 30, 2018, the Navy transferred approximately 19 acres of land to TIDA as part of the overall Treasure Island Development Project. Construction began in late 2018, with the complete buildout of the project occurring over fifteen to twenty years. For additional information, refer to Note 15.

(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, 2018, are as follows:

Type of Obligation	July 1, 2017	Additional Obligation	Current Maturities	June 30, 2018
Governmental activities:				
Commercial paper				
Multiple Capital Projects	$ 206,939	$ 144,750	$ (332,821)	$ 18,868
Direct placement revolving certificates of participation				
Transbay Transit Center Project	49,000	54,000	-	103,000
Governmental activities short-term obligations	$ 255,939	$ 198,750	$ (332,821)	$ 121,868
Business-type activities:				
Commercial paper				
San Francisco General Hospital	$ 19,802	$ 1,088	$ (3,250)	$ 17,640
San Francisco International Airport	178,000	557,700	(706,290)	29,410
San Francisco Water Enterprise	145,000	40,312	(145,000)	40,312
Hetch Hetchy Water and Power	20,058	20,280	(20,058)	20,280
San Francisco Wastewater Enterprise	111,411	262,859	(111,411)	262,859
Business-type activities short-term obligations	$ 474,271	$ 882,239	$ (986,009)	$ 370,501

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 from $150.0 million to $250.0 million. The City currently has letters of credit supporting the $250.0 million program.

CP is an alternative form of short-term (or interim) financing for certain capital projects, vehicles and equipment, 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 between 30 to 90 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 both fees of 0.45% on the commitment amounts, 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 (see Note 19).

In fiscal year 2018, the City retired $332.8 million and issued $144.8 million CP to provide interim financing for various approved capital projects including the acquisition, construction and improvement of an animal care and control facility; the development of the 49 South Van Ness office building and related furniture, fixtures and equipment, technology and moving costs; and the development, acquisition, construction or rehabilitation of affordable rental housing projects. As of June 30, 2018, the outstanding principal of taxable and tax-exempt CP was $13.7 million and $5.2 million, respectively, with interest rates ranging from 2.35% to 2.40% and 1.15% to 1.27%, respectively.

Transbay Transit Center Project Interim Financing

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 financing, design, development, construction, and operation of the Transbay Transit Center. In order to address a temporary cash flow shortfall during the construction of the Transbay Transit Center (now called the Salesforce Transit Center), the City, in partnership with the Metropolitan Transportation Commission (MTC), approved in May 2016 a short-term financing with the TJPA in an amount not to exceed $260.0 million. The City has entered into a Certificate Purchase Agreement with Wells Fargo to establish a credit facility in an amount not to exceed $160.0 million with a floating rate based on the London Interbank Offered Rate (LIBOR) plus a spread of 0.56% for taxable certificates. In partnership with the MTC, the City also entered into a Certificate Purchase Agreement with the Bay Area Toll Authority (BATA) to establish a credit facility in an amount not to exceed $100.0 million with an annualized floating rate based on LIBOR plus a spread of 0.61%. The floating interest rates for the facilities reset monthly. The City has issued short term variable rate notes at times and in amounts necessary to meet construction funding needs for the project. As of June 30, 2018, the TJPA had drawn a total of $103.0 million from the Wells Fargo financing facility, with an interest rate ranging from 1.79% to 2.54% throughout fiscal year 2018. As of June 30, 2018, the TJPA had not drawn on the BATA financing facility. The City has recorded a receivable, in the amount of $102.2 million, from the TJPA along with a loan payable related to this financing activity. The short-term notes are expected to be repaid in part from Community Facilities District special taxes and tax increment. It is anticipated that long-term debt will be issued to retire the notes, and such long-term debt is also expected to be repaid from such sources (see Note 19).

San Francisco General Hospital

In July 2014, the Board of Supervisors authorized the execution and delivery of tax-exempt and/or taxable CP in an aggregate principal amount not to exceed $41.0 million to provide financing for the costs of acquisition of furniture, fixtures, and equipment for the new San Francisco General Hospital. As of June 2018, the outstanding principal amount of CP (tax-exempt) was $17.6 million with interest rate of 1.15% and 1.27%.

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 subordinate CP notes in an aggregate principal amount not to exceed the lesser of $400.0 million or the stated amount of the letter(s) of credit (LOC) securing the CP. In November 2016, the Airport adopted Resolution No. 16-0275 which amended the Note Resolution to increase the authorized maximum amount by $100.0 million, from $400.0 million to $500.0 million.

The Airport issues CP in series based on tax status that are divided into subseries according to the bank providing the applicable 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 1991 Master Bond Resolution).

Net Revenues are generally defined in the Note Resolution as all revenues earned by the Airport from or with respect to its construction, possession, management, supervision, maintenance, extension, operation, use 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 as 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 a parity with any other bonds or other obligations from time to time outstanding under the Note Resolution.

During fiscal year 2018, 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, which, as of June 30, 2018 had expiration dates of May 2, 2019, and May 31 2019, respectively; and a third LOC issued by Royal Bank of Canada acting through a branch located in New York in the principal amount of $200.0 million had expiration date of May 1, 2020, as of June 30, 2018; and a LOC issued on June 22, 2017 by Sumitomo Mitsui Banking Corporation acting through its New York Branch, in the principal amount of $100.0 million and with expiration date of June 21, 2022. Each of the LOC supports separate subseries of CP. In the aggregate, the LOC permit the Airport to issue CP up to a combined maximum principal amount of $500.0 million as of June 30, 2018.

As of June 30, 2018, there were no obligations other than the CP notes outstanding under the Note Resolution.

During fiscal year 2018, the Airport issued new money CP notes in the aggregate principal amount of $390.1 million (AMT) and $167.6 million (Non-AMT) to fund capital improvement projects. As of June 30, 2018, the interest rates on AMT and Non-AMT CP were 0.85% to 1.88%, and 0.82% to 1.68%, respectively.

San Francisco Water Enterprise

The Board of Supervisors and the San Francisco Public Utilities Commission (SFPUC) have authorized the issuance of up to $500.0 million in CP pursuant to the voter-approved 2002 Proposition E. As of June 30, 2018, the amount outstanding under Proposition E was $40.3 million. CP interest rates ranged from 0.8% to 2.2%. With maturities up to 270 days, the Water Enterprise intends to maintain the program by remarketing the CP upon maturity over the near-to-medium term, at which time outstanding CP will likely be refunded with revenue bonds. This is being done to take advantage of the continued low interest rate environment. If the CP interest rates rise to a level that exceeds these benefits, the Water Enterprise will refinance the CP with long-term, fixed rate debt.

Hetch Hetchy Water and Power

Effective December 2015, under Charter Sections 9.107(6) and 9.107(8), the Board of Supervisors and the SFPUC authorized the issuance of up to $90.0 million in CP for the reconstruction or replacement of existing generation, transmission and distribution facilities of the Hetchy Power. Interest rates for the CP ranged from 0.85% to 1.64% in fiscal year 2018. The Hetch Hetchy Water and Power had $20.3 million CP outstanding as of June 30, 2018.

San Francisco Wastewater Enterprise

Under the voter-approved 2002 Proposition E, in fiscal year 2017 the Board of Supervisors and the SFPUC authorized an increase in the CP authorization from $500.0 million to $750.0 million for reconstructing, expanding, repairing, or improving the Wastewater Enterprise's facilities. The Enterprise had $262.9 million CP outstanding as June 30, 2018.

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 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. In June 2018, the SFMTA substituted the 2013 State Street LOC with a new irrevocable LOC from Sumitomo Mitsui Banking Corporation (SMBC) in an aggregate principal amount not to exceed $100.0 million for a term of five years. 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. SFMTA has no CP outstanding as of June 30, 2018.

(Dollars in Thousands)

Long-Term Obligations

The following is a summary of long-term obligations of the City as of June 30, 2018:

GOVERNMENTAL ACTIVITIES

Type Of Obligation and Purpose	Final Maturity Date	Remaining Interest Rates		Amount
GENERAL OBLIGATION BONDS [(a)]:				
Affordable housing	2038	2.00% - 3.95%	$	192,940
Earthquake safety and emergency response	2038	2.25% - 5.00%		616,180
Parks and playgrounds	2037	2.00% - 6.26%		205,375
Public health and safety	2038	3.00% - 5.00%		171,405
Road repaving and street safety	2035	2.00% - 5.00%		161,535
San Francisco General Hospital	2033	3.25% - 6.26%		509,620
Seismic safety loan program	2035	2.563% - 5.83%*		44,094
Transportation and road improvement	2037	2.75% - 5.00%		149,380
Refunding	2030	4.00% - 5.00%		429,505
General obligation bonds				2,480,034
LEASE REVENUE BONDS:				
San Francisco Finance Corporation [(b), (e) & (f)]	2034	1.125% - 5.75% **		171,150
SALES TAX REVENUE BONDS				
SFCTA revenue bonds [(g)]	2034	3.0% - 4.0%		248,250
CERTIFICATES OF PARTICIPATION:				
Certificates of participation [(c) & (d)]	2047	1.674% - 5.00%		924,405
OTHER LONG TERM OBLIGATIONS:				
Loans [(d), (f) & (g)]	2045	2.00% - 4.5% ***		47,462
Lease Purchase Financing - Public Safety Radio Replacement [(d)]	2027	1.6991%		29,397
Capital Lease [(d)]	2023	1.080%		1,257
Governmental activities total long-term obligations			$	3,901,955

* 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, 2018 was 2.563%.

** 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, 2018 for Series 2008 -1 & 2 averaged to 1.125%.

*** Includes SFCTA revolving credit loan of $24.7 million with interest rate of 2.074%

Debt service payments are made from the following sources:

(a) Property tax recorded in the Debt Service Fund.
(b) Lease revenues from participating departments in the General, Special Revenue and Enterprise Funds.
(c) Revenues recorded in the Special Revenue Funds.
(d) Revenues recorded in the General Fund.
(e) Hotel taxes and other revenues recorded in the General and Special Revenue Funds.
(f) User-charge reimbursements from the General, Special Revenue and Enterprise Funds.
(g) Sales tax revenues recorded by the San Francisco County Transportation Authority.

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

(Dollars in Thousands)

BUSINESS-TYPE ACTIVITIES

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rates	Amount
San Francisco International Airport:			
Revenue bonds *......	2058	1.72% - 6.00%*	$ 6,244,840
San Francisco Water Enterprise:			
Revenue bonds	2051	0.87% - 6.95%	4,514,070
Certificates of participation	2042	2.00% - 6.49%	106,661
Accreted interest......	2019	-	6,725
Hetch Hetchy Water and Power:			
Energy and revenue bonds	2046	4.00% - 5.00%	51,182
Certificates of participation......	2042	2.00% - 6.49%	14,521
Municipal Transportation Agency:			
Revenue bonds......	2047	3.00% - 5.00%	343,675
Loans......	2047	3.30%	5,495
San Francisco General Hospital:			
Certificates of participation......	2026	5.55%	14,184
San Francisco Wastewater Enterprise:			
Revenue bonds	2047	1.00% - 5.82%	937,250
Certificates of participation	2042	2.00% - 6.49%	28,203
Loans......	2051	1.60% - 1.80%	22,607
Port of San Francisco:			
Revenue bonds	2044	2.60% - 7.408%	51,535
Certificates of participation......	2043	4.75% - 5.25%	31,170
Loans	2029	4.50%	1,976
Laguna Honda Hospital:			
Certificates of participation	2031	4.40% - 5.25%	119,130
Business-type activities total long-term obligations			$ 12,493,224

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* Includes Second Series Revenue Bonds Issue 37C, 2010A and 2018B/C, which were issued as variable rate bonds in a weekly mode. For the year ended June 30, 2018, the average interest rates on Issue 37C, and 2010A were 1.07%, and 1.08%, respectively. For Issue 2018B and 2018C, the average interest rates were 1.13%, and 1.20%, 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 various bond indentures.

Legal Debt Limit and Legal Debt Margin

As of June 30, 2018, the City's general obligation bond debt limit (3% of valuation subject to taxation) was $7.01 billion. The total amount of debt applicable to the debt limit was $2.69 billion. The resulting legal debt margin was $4.32 billion.

Arbitrage

Under U.S. Treasury Department regulations, all governmental tax-exempt debt issued after August 31, 1986 is subject to arbitrage rebate requirements. The requirements stipulate, in general, that the actual earnings from the investment of tax-exempt bond proceeds, which exceed related interest earnings if such investments were invested at a rate equal to the yield of the bonds, must be remitted to the Federal government on every fifth anniversary of each bond issuance. The City has evaluated each series of tax-exempt general obligation bonds and certificates of participation issued and the Finance Corporation has evaluated each series of tax-exempt lease revenue bonds. The City and the Finance Corporation do not have a rebatable arbitrage liability as of June 30, 2018. Each enterprise fund has performed similar analysis of its debt, which is subject to arbitrage rebate requirements and does not have a rebatable arbitrage liability as of June 30, 2018.

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 for the financing of multifamily rental housing and below-market rate mortgage for first time homebuyers to facilitate affordable housing and the construction and rehabilitation in the City. These obligations were 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. These obligations are not considered obligations of the City. As of June 30, 2018, the total obligation outstanding was $2.10 billion.

Community Facilities District No. 2014-1 (Transbay Transit Center)

In November 2017, the City on behalf of the City and County of San Francisco Community Facilities District No. 2014-1 (the "District") issued Special Tax Bonds, Series 2017A and Series 2017B (the "2017 Bonds") with a par amount of $36.1 million and $171.4 million, respectively, in order to facilitate the construction of the Transbay Transit Center (now called the Salesforce Transit Center) and adjacent infrastructure. The 2017 Bonds bear interest rates ranging from 1.5% to 4.0% with principal amortizing from September 2018 through September 2048. At June 30, 2018, the total outstanding balance for the 2017 Bonds was $207.5 million. The City has no obligation for these bonds as the bonds are secured under the provisions of the Indenture and will be payable solely from Special Tax Revenues and funds pledged under the Fiscal Agent Agreement. These bonds are not payable from any revenues or assets of the City. Neither the faith and credit nor the taxing power of the City, the State or any political subdivision thereof are pledged for the payment of the principal or interest on the 2017 Bonds.

(Dollars in Thousands)

Changes in Long-Term Obligations

The changes in long-term obligations for the year ended June 30, 2018, are as follows:

	July 1, 2017	Additional Obligations, and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2018	Amounts Due Within One Year
Governmental activities:					
Bonds payable:					
General obligation bonds	$ 2,069,872	$ 632,990	$ (222,828)	$ 2,480,034	$ 235,391
Lease revenue bonds	182,030	-	(10,880)	171,150	12,595
Sales tax revenue bonds	-	248,250	-	248,250	-
Certificates of participation	551,760	412,355	(39,710)	924,405	39,110
Subtotal	2,803,662	1,293,595	(273,418)	3,823,839	287,096
Issuance premiums / discounts:					
Add: unamortized premiums	243,914	76,243	(23,014)	297,143	-
Less: unamortized discounts	(140)	-	8	(132)	-
Total bonds payable, net	3,047,436	1,369,838	(296,424)	4,120,850	287,096
Loans	162,876	-	(115,414)	47,462	433
Capital leases	32,586	1,572	(3,504)	30,654	3,552
Accrued vacation and sick leave pay	156,140	128,447	(119,935)	164,652	98,233
Accrued workers' compensation	241,823	64,865	(51,390)	255,298	45,740
Estimated claims payable	202,489	95,870	(23,679)	274,680	100,867
Governmental activities long-term obligations	$ 3,843,350	$ 1,660,592	$ (610,346)	$ 4,893,596	$ 535,921

	July 1, 2017	Additional Obligations, and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2018	Amounts Due Within One Year
Business-type Activities:					
Bonds payable:					
Revenue bonds	$10,381,479	$ 2,816,725	$ (1,106,834)	$ 12,091,370	$ 318,830
Clean renewable energy bonds	53,615	-	(2,433)	51,182	2,480
Certificates of participation	326,308	-	(12,439)	313,869	13,047
Subtotal	10,761,402	2,816,725	(1,121,706)	12,456,421	334,357
Issuance premiums / discounts:					
Add: unamortized premiums	755,284	395,823	(94,370)	1,056,737	-
Less: unamortized discounts	(719)	-	46	(673)	-
Total bonds payable, net	11,515,967	3,212,548	(1,216,030)	13,512,485	334,357
Accreted interest payable	6,278	447	-	6,725	5,000
Notes, loans, and other payables	2,963	27,296	(181)	30,078	516
Accrued vacation and sick leave pay	109,036	66,094	(61,442)	113,688	68,784
Accrued workers' compensation	193,928	54,309	(39,973)	208,264	35,350
Estimated claims payable	94,680	38,574	(22,923)	110,331	48,182
Business-type activities long-term obligations	$11,922,852	$ 3,399,268	$ (1,340,549)	$ 13,981,571	$ 492,189

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, workers' compensation, and compensated absences are generally liquidated by the General Fund.

(Dollars in Thousands)

Annual debt service requirements to maturity for all bonds and loans outstanding as of June 30, 2018 for governmental and business-type activities are as follows:

Governmental Activities [1]

Fiscal Year Ending June 30	General Obligation Bonds Principal	General Obligation Bonds Interest [2]	Lease Revenue Bonds Principal	Lease Revenue Bonds Interest [3]	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2019	$ 235,391	$ 106,639	$ 12,595	$ 4,919	$ 43,095	$ 48,881	$ 291,081	$ 160,439
2020	139,126	94,934	6,110	4,598	72,983	47,692	218,219	147,224
2021	138,365	88,279	12,740	4,313	49,727	45,279	200,832	137,871
2022	145,103	81,932	13,380	3,961	49,346	43,327	207,829	129,220
2023	149,576	75,192	13,845	3,582	50,959	41,381	214,380	120,155
2024-2028	778,414	269,042	73,905	11,797	270,307	174,395	1,122,626	455,234
2029-2033	669,704	108,907	36,240	3,037	290,196	113,091	996,140	225,035
2034-2038	224,355	19,251	2,335	134	235,902	61,406	462,592	80,791
2039-2043	-	-	-	-	165,052	21,659	165,052	21,659
2044-2048	-	-	-	-	23,204	1,665	23,204	1,665
Total	$ 2,480,034	$ 844,176	$ 171,150	$ 36,341	$1,250,771	$ 598,776	$ 3,901,955	$1,479,293

Business-Type Activities [1]

Fiscal Year Ending June 30	Revenue Bonds [4] [5] Principal	Revenue Bonds [4] [5] Interest	Certificates of Participation [5] Principal	Certificates of Participation [5] Interest	Other Long-Term Obligations Principal	Other Long-Term Obligations Interest	Total Principal	Total Interest
2019	$ 321,310	$ 588,781	$ 13,047	$ 17,617	$ 516	$ 383	$ 334,873	$ 606,781
2020	355,813	578,703	13,700	16,958	685	468	370,198	596,129
2021	375,384	562,162	14,399	16,262	761	542	390,544	578,966
2022	386,025	544,094	15,128	15,531	894	615	402,047	560,240
2023	405,378	525,366	15,908	14,759	917	592	422,203	540,717
2024-2028	2,135,355	2,325,493	81,753	60,646	3,958	1,871	2,221,066	2,388,010
2029-2033	1,724,287	1,833,501	70,434	37,505	4,536	1,813	1,799,257	1,872,819
2034-2038	1,715,580	1,402,311	44,476	21,309	3,924	1,159	1,763,980	1,424,779
2039-2043	2,476,340	881,695	45,024	6,185	4,281	802	2,525,645	888,682
2044-2048	2,028,780	341,805	-	-	8,621	364	2,037,401	342,169
2049-2053	139,880	27,194	-	-	985	48	140,865	27,242
2054-2058	78,420	7,839	-	-	-	-	78,420	7,839
Total	$12,142,552	$9,618,944	$ 313,869	$ 206,772	$ 30,078	$ 8,657	$12,486,499	$9,834,373

(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 2010C and Series 2010D. The subsidy is approximately $25.5 million and $5.2 million, respectively, through the fiscal year ending 2030. The federal sequester reduction was 6.6% in fiscal year 2018 and will be 6.2% in fiscal year 2019. 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 1.125%, 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) 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 $313.7 million less.

(5) The interest is before federal subsidy for the San Francisco Water, San Francisco Wastewater and Hetch Hetchy Water and Power of $427.1 million, $60.4 million and $6.0 million through the fiscal year ending 2051, respectively. The federal sequester reduction was 6.6% in fiscal year 2018 and will be 6.2% in fiscal year 2019. Future interest subsidy may be reduced as well.

(Dollars in Thousands)

Governmental Activities Long-term Liabilities

General Obligation Bonds

The City issues general obligation bonds to provide funds for the acquisition or improvement of real property and construction of affordable housing. General obligation bonds have been issued for both governmental and business-type activities. The net authorized and unissued governmental activities general obligation bonds for the year ended June 30, 2018 are as follows:

Governmental Activities - General Obligation Bonds

Authorized and unissued as of June 30, 2017	$ 1,374,975
Bonds issued:	
Series 2018A Clean and Safe Neighborhood Parks	(76,710)
Series 2018B Transportation and Road Improvement	(174,445)
Series 2018C Earthquake Safety and Emergency Response	(189,735)
Series 2018D Affordable Housing	(142,145)
Series 2018E Public Health & Safety	(49,955)
Net authorized and unissued as of June 30, 2018	$ 741,985

In April 2018, the City issued General Obligation Bonds Series 2018A (Clean and Safe Neighborhood Parks) and Series 2018B (Transportation and Road Improvement) in the amount of $76.7 million and $174.4 million, respectively. Both series bear interest rates ranging from 3.0% to 5.0% with principal amortizing from June 2018 to June 2037. The proceeds of the Series 2018A bonds will be used to improve the safety and quality of the City's neighborhood parks and waterfront open spaces, enhancing water quality and cleaning up environmental contamination along the Bay, replacing unsafe playgrounds, fixing restrooms, improving access for the disabled, and ensuring the seismic safety of park and recreational facilities and to pay certain costs related to the issuance of the Series 2018A bonds. The proceeds of the Series 2018B bonds will be used to construct and rebuild streets and sidewalks, make infrastructure repairs and improvements that increase Muni service reliability, ease traffic congestion, reduce vehicle travel times, enhance pedestrian and bicycle safety, improve disabled access and to pay the cost of issuance of the Series 2018B bonds.

In May 2018, the City issued General Obligation Bonds Series 2018C (Earthquake Safety and Emergency Response), Series 2018D (Affordable Housing), and Series 2018E (Public Health and Safety) in the amount of $189.7 million, $142.1 million and $50.0 million, respectively. The Series 2018C, 2018D, and 2018E bonds bear interest rates ranging from 2.5% to 5.0% with maturities from June 2019 through June 2038. The proceeds of the Series 2018C bonds will be used to improve fire, earthquake and emergency response by improving and/or replacing deteriorating cisterns, pipes, and tunnels and related facilities to ensure firefighters a reliable water supply for fires and disasters; improving and/or replacing neighborhood fire and police stations; replacing certain seismically-unsafe police and medical examiner facilities with earthquake-safe buildings. The proceeds of the Series 2018D bonds will be used to finance the construction, development, acquisition, and preservation of housing affordable to low- and middle-income households; to assist in the acquisition, rehabilitation, and preservation of affordable rental apartment buildings; to repair or reconstruct dilapidated public housing; to fund middle-income rental program; and to provide homeownership down payment assistance opportunities for educators and middle-income households. The Series 2018E will be used to provide funds to protect public health and safety, improve community medical and mental health care services, earthquake safety, and emergency medical response; to seismically improve and modernize neighborhood fire stations and vital public health and homeless service sites; to construct a seismically safe and improved San Francisco Fire Department ambulance deployment facility. The proceeds of Series 2018C, 2018D and 2018E bonds will also be used to pay certain costs related to the issuance of the respective series.

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

(Dollars in Thousands)

Certificates of Participation

In July 2017, the City issued Certificates of Participation, Series 2017B (Moscone Convention Center Expansion Project) in the amount of $412.4 million to finance or refinance a portion of the costs of additions and improvements to the existing site and facilities of Moscone Center; fund capitalized interest payable with respect to the Certificates through April 1, 2018; fund the Reserve Fund established under the Trust Agreement for the Certificates; and pay costs of issuance of the Certificates. The Series 2017B Certificates bear interest rates ranging from 3.0% to 5.0% with principal amortizing from April 2019 through April 2042.

As of June 30, 2018, the City has a total of $924.4 million of certificates of participation payable by pledged revenues from the base rental payments payable by the City. The total debt service requirement on the certificates of participation is $1.42 billion payable through April 1, 2047. For the year ended June 30, 2018, principal and interest paid by the City totaled $39.7 million and $35.7 million, respectively.

Lease Revenue Bonds

The changes in governmental activities - lease revenue bonds for the year ended June 30, 2018 were as follows:

Governmental Activities - Lease Revenue Bonds

Authorized and unissued as of June 30, 2017	$ 183,263
Increase in authorization in this fiscal year:	
Current year annual increase in Finance Corporation's equipment program	3,556
Current year maturities in Finance Corporation's equipment program	1,115
Net authorized and unissued as of June 30, 2018	$ 187,934

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 issuance 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 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 $207.5 million payable through June 2034. For the year ended June 30, 2018, principal and interest paid by the Finance Corporation in the form of lease payments made by the City totaled $10.9 million and $4.7 million, respectively.

Equipment Lease Program - In the June 5, 1990 election, the voters of the City approved Proposition C, which amended the City Charter to allow the City to lease-purchase up to $20.0 million of equipment through a non-profit corporation using tax-exempt obligations. Beginning July 1, 1991, the Finance Corporation was authorized to issue lease revenue bonds up to $20.0 million in aggregate principal amount outstanding plus 5% annual adjustment each July 1. As of June 30, 2018, the amount authorized and outstanding was $74.7 million and $0.9 million, respectively.

Sales Tax Revenue Bonds - San Francisco County Transportation Authority

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. The CP provided a source of financing for the Transportation Authority's voter-approved Proposition K Expenditure Plan (see Note 12). In June 2018, the Transportation Authority entered into a new Revolving Credit (loan) Agreement with State Street Public Lending Corporation and US Bank for a total amount of $140.0 million for the next three years and has a rate of interest equal to the sum of 80% of 1-month LIBOR plus 0.40%. As of June 30, 2018, the Transportation Authority has $24.7 million outstanding in the Revolving Credit Agreement. The interest payments are due the first business day of each month and have an interest rate of 2.074%. The Revolving Credit Agreement is secured by a first lien gross pledge of the Transportation Authority's sales tax revenues.

In November 2017, the Transportation Authority issued Senior Sales Tax Revenue Bonds, Series 2017 with a par value of $248.3 million to finance the cost of construction, acquisition and improvement of certain transit, street and traffic facilities and other transportation projects described in the Expenditure Plan, repay a portion of the revolving loan, pay a portion of the capitalized interest and costs of issuance. The Series 2017 bonds bear interest rates ranging from 3.0% to 4.0% and will mature in February 2034. At June 30, 2018, the Transportation Authority has $248.3 million of bonds outstanding. The Series 2017 bonds are limited obligations of the Transportation Authority payable solely from and secured exclusively by sales tax revenue and capitalized interest held by the trustee pursuant to the indenture.

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 adopted in fiscal years 2009, 2013, 2015, 2017 and 2018, the Airport has authorized the issuance of up to $7.8 billion of San Francisco International Airport Second Series Revenue Bonds (Capital Plan 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, 2018, $3.8 billion of the authorized capital plan bonds remained unissued.

Second Series Revenue Bonds, Series 2017A/B/C

In October 2017, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2017A (AMT), 2017B (Non-AMT/Governmental Purpose), and 2017C (Federally Taxable) in aggregate principal amount of $602.4 million to finance and refinance (through the repayment of CP) a portion of the costs of the following projects, among others: (a) redevelopment of Terminal 1, (b) redevelopment of Terminal 3 West, (c) renovation of the International Terminal, (d) construction of a new long-term parking garage and extension of AirTrain service to that garage, (e) improvements to the Airport's security infrastructure, (f) certain airfield improvements, and (g) the construction of a new administration campus to consolidate some Airport administrative departments, to fund deposits to the Issue 1 Reserve Account and the 2017 Reserve Account, to fund a deposit to the Contingency Account, to fund deposits to capitalized interest accounts, and to pay costs of issuance.

Second Series Revenue Bonds, Series 2018D/E/F

In May 2018, the Airport issued its fixed rate Second Series Revenue Bonds, Series 2018D (AMT), Series 2018E (Non-AMT/Governmental Purpose), and Series 2018F (Federally Taxable) in aggregate principal amount of $846.1 million to finance and refinance (through the repayment of CP) a portion of the costs of the following projects, among others: (a) redevelopment of Terminal 1, (b) redevelopment of Terminal 3 West, (c) renovation of the International Terminal departures level, (d) extension of AirTrain service to the long-term parking garages, (e) improvements to the Airport's security and technology infrastructure, (f) certain airfield improvements, (g) and the completion of a new administration campus to consolidate some Airport administrative departments, to fund a deposit to the Issue 1 Reserve Account, to fund a deposit to the Contingency Account, to fund deposits to capitalized interest accounts, and to pay costs of issuance.

Second Series Revenue Bonds, Series 2018B/C

In June 2018, the Airport issued its Second Series Variable Rate Revenue Bonds, Series 2018B (Non-AMT/Governmental Purpose) and 2018C (Non-AMT/Governmental Purpose) in aggregate principal amount of $276.3 million to purchase $260.0 million of Hotel Special Facility Bonds (described below), to finance the development and construction of an AirTrain station adjacent to the on-Airport hotel being constructed, and to pay costs of issuance.

<u>Second Series Revenue Refunding Bonds</u>

Pursuant to resolutions adopted between fiscal years 2005 and 2018, the Airport has authorized the issuance of up to $11.1 billion of San Francisco International Airport Second Series Revenue Refunding Bonds for the purposes of refunding outstanding 1991 Master Bond Resolution Bonds and outstanding subordinate CP notes, funding debt service reserves, and paying costs of issuance, including any related bond redemption premiums. The Board has authorized the issuance of up to $8.4 billion of such refunding bonds. As of June 30, 2018, $730.5 million of the Board-approved refunding bonds remained authorized but unissued.

During the fiscal year 2018, the Airport issued the following new refunding bonds under the 1991 Master Bond Resolution:

Second Series Revenue Bonds, Series 2017C and Second Series Revenue Refunding Bonds, Series 2017D

In October 2017, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2017D (AMT), in the aggregate principal amount of $144.8 million to refund $93.1 million of its Issue 36A, $37.8 million of its Issue 36B, and $33.7 million of its Issue 36C variable rate bonds and to fund a deposit to the 2017 Reserve Account. In addition, the Airport issued its $14.3 million fixed rate Second Series Revenue Bonds, Series 2017C (Federally Taxable), which was used for refunding purposes, including to make swap termination payments in conjunction with the refunded bonds, to fund a deposit to the 2017 Reserve Account, and to pay costs of issuance.

(Dollars in Thousands)

The net proceeds of the Series 2017D Bonds (consisting of $144.8 million par amount of the Series 2017D Bonds and original issue premium of $25.5 million), together with $9.3 million accumulated in the debt service fund and $0.1 million accumulated in the holding account relating to the refunded bonds were used to deposit $15.0 million into the 2017 Reserve Account and $164.7 million into irrevocable escrow funds with the Senior Trustee to refund $164.6 million in revenue bonds as described below.

	Amount refunded	Interest rate	Redemption price
Second Series Revenue Bonds Issue:			
Issue 36A (Non-AMT/Private Activity)	$ 93,130	Variable rate	100%
Issue 36B (Non-AMT/Private Activity)	37,820	Variable rate	100%
Issue 36C (Non-AMT/Private Activity)	33,655	Variable rate	100%
Total	$ 164,605		

The refunded bonds were redeemed on November 1, 2017. In aggregate, the Series 2017C/D refundings resulted in the recognition of a deferred accounting loss of $14.5 million for the year ended June 30, 2018. In aggregate, the Series 2017C/D refundings increased the Airport's aggregate gross debt service payments by approximately $17.2 million over the next ten years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $7.0 million.

Second Series Revenue Refunding Bonds, Series 2018A

In February 2018, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2018A (AMT) in the aggregate principal amount of $115.4 million to refund $140.1 million of its Issue 34E fixed rate bonds, to fund a deposit to the 2017 Reserve Account, and to pay costs of issuance.

The net proceeds of the Series 2018A Bonds (consisting of $115.4 million par amount of the Series 2018A Bonds and original issue premium of $12.5 million), together with $2.0 million accumulated in the debt service fund relating to the refunded bonds, and a $26.3 million release from the Issue 1 Reserve Account relating to the refunded bonds, were used to pay $0.3 million in costs of issuance and $0.2 million underwriter's discount and deposit $11.5 million into the 2017 Reserve Account and $144.1 million into irrevocable escrow funds with the Senior Trustee to refund $140.1 million in revenue bonds as described below.

	Amount refunded	Interest rate	Redemption price
Second Series Revenue Bonds Issue:			
Issue 34E (AMT)	$ 140,090	5.75%	100%
Total	$ 140,090		

The refunded bonds were redeemed on May 1, 2018. The Series 2018A refunding resulted in the recognition of a deferred accounting loss of $3.5 million for the year ended June 30, 2018. The Series 2018A refunding reduced the Airport's aggregate gross debt service payments by approximately $33.5 million over the next six years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $16.6 million.

(Dollars in Thousands)

Second Series Revenue Bonds, Series 2018G

In May 2018, the Airport issued its fixed rate Second Series Revenue Refunding Bonds, Series 2018G (AMT) in the aggregate principal amount of $35.7 million to refund $41.7 million of its Series 2013A fixed rate bonds and to pay costs of issuance. The net proceeds of the Series 2018G Bonds (consisting of $35.7 million par amount of the Series 2018G Bonds and original issue premium of $6.2 million), together with $0.2 million accumulated in the debt service fund relating to the refunded bonds, were used to pay $0.1 million in costs of issuance and $0.1 million underwriter's discount and deposit $41.9 million into irrevocable escrow funds with the Senior Trustee to refund $41.7 million in revenue bonds as described below.

	Amount refunded	Interest rate	Redemption price
Second Series Revenue Bonds Issue:			
2013A (AMT)	$ 41,705	5.50%	100%
Total	$ 41,705		

The refunded bonds were redeemed on June 1, 2018. The Series 2018G refunding resulted in the recognition of a deferred accounting gain of $ 1.2 million for the year ended June 30, 2018. The Series 2018G refunding reduced the Airport's aggregate gross debt service payments by approximately $10.6 million over the next eight years and obtained an economic gain (the difference between the present values of the old debt and the new debt) of $8.7 million.

Variable Rate Demand Bonds

As of June 30, 2018, the Airport had outstanding an aggregate principal amount of $567.3 million of Second Series Variable Rate Revenue Refunding Bonds, consisting of Issue 37C, Series 2010A, Series 2018B, and Series 2018C (collectively, the "Variable Rate Bonds"), with final maturity dates of May 1, 2029 (Issue 37C), May 1, 2030 (Series 2010A), and May 1, 2058 (Series 2018B and 2018C). 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 of and interest on, and payment of purchase price of, the Variable Rate Bonds is secured by separate irrevocable letters of credit (LOC) issued to the Senior Trustee for the benefit of the applicable bondholders by the banks identified in the table below.

Amounts drawn under a LOC that are not reimbursed by the Airport constitute "Repayment Obligations" under the 1991 Master Bond 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 0.39% and 0.63% per annum. As of June 30, 2018, there were no unreimbursed draws under these facilities.

The LOC securing the Variable Rate Bonds included in long-term debt as of June 30, 2018, are as follows:

	Issue 37C	Series 2010A	Series 2018B	Series 2018C
Principal amount	$ 85,135	$ 205,865	$ 138,170	$ 138,170
Expiration date	January 28, 2019	June 29, 2020	June 3, 2022	June 3, 2022
Credit provider	MUFG Union Bank N.A. (1)	Bank of America (2)	Barclays (3)	SMBC (4)

(1) Formerly Union Bank, N.A.
(2) Bank of America, National Association
(3) Barclays Bank PLC
(4) Sumitomo Mitsui Banking Corporation, acting through it's New York branch

(Dollars in Thousands)

Hotel Special Facility Bonds

Pursuant to resolutions adopted in fiscal years 2016, 2017 and 2018, the Airport authorized the issuance of $260.0 million of Special Facility Bonds to finance an on-Airport hotel. These resolutions also designated the on-Airport hotel as a “Special Facility” under the 1991 Master Bond 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 through the Hotel Special Facility Bond trustee. In June 2018, the Airport issued its fixed rate Special Facility Revenue Bonds (San Francisco International Airport Hotel), Series 2018 (the “Hotel Special Facility Bonds”), in the aggregate principal amount of $260.0 million to finance the on-Airport hotel and to fund a capitalized interest account. The Hotel Special Facility Bonds bear interest at a fixed rate of 3.0% per annum, mature in 2058, and are subject to mandatory sinking fund redemption each year starting in 2022.

The Hotel Special Facility Bonds are issued pursuant to a Trust Agreement (the “Hotel Trust Agreement”). The maximum principal amount of such bonds is not limited by the Hotel Trust Agreement, but the Airport must satisfy an additional bonds test prior to the issuance of any such bonds.

The Hotel Special Facility Bonds are limited obligations of the Airport. Under the Hotel Trust Agreement, the Airport has pledged the Revenues of the on-Airport hotel, together with other assets, to the payment of the principal of and interest on the Hotel Special Facility Bonds. Revenues are generally defined in the Hotel Trust Agreement as all revenue and income of any kind derived directly or indirectly from operations at the on-Airport hotel (not including certain amounts specified in the Hotel Trust Agreement). Operating expenses of the on-Airport hotel are payable prior to payment of principal of and interest on the Hotel Special Facility Bonds. The Airport does not maintain a reserve account for the Hotel Special Facility Bonds. The Hotel Special Facility Bonds are not payable from or secured by the Airport’s Net Revenues (as defined under the 1991 Master Bond Resolution). However, because the Airport is the owner of the on-Airport hotel, the Airport is obligated to repay the Hotel Special Facility Bonds from the net revenues of the hotel.

Interest Rate Swaps

As of June 30, 2018, the Airport’s derivative instruments were comprised of three 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 continued to be effective as of June 30, 2018.

No.	Current bonds	Initial notional amount	Notional amount June 30, 2018	Effective date
1	2010A (37B)*	$ 79,684	$ 75,473	5/15/2008
2	37C	89,856	85,107	5/15/2008
3	2010A**	143,947	137,980	2/1/2010
	Total	$ 313,487	$ 298,560	

* 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 2010A-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.

(Dollars in Thousands)

In addition, pursuant to GASB Statement No. 72, the settlement amounts are then adjusted for the nonperformance risk of each party to the swap to arrive at the fair value. For each swap, the nonperformance 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.

As of June 30, 2018, the fair value of the Airport's three outstanding swaps, counterparty credit ratings, and fixed rate payable by the Airport are shown in the following table. Where a swap is guaranteed, the guarantor ratings are shown. The ratings provided are S&P's Long-Term Local Issuer Credit Rating, Moody's Long-Term Counterparty Rating for Merrill Lynch Derivative Products AG, Moody's Long-Term Senior Unsecured Rating for JP Morgan Chase Bank N.A. and Goldman Sachs Group, Inc., and Fitch's Long-Term Issuer Default Rating.

No.	Current bonds	Counterparty/guarantor*	Counterparty credit ratings (S/M/F)	Fixed rate payable by Airport	Fair value to Airport
1	2010A (37B)**	Merrill Lynch Capital Services, Inc./			
		Merrill Lynch Derivative Products AG	AA/Aa3/NR*	3.773%	$ (9,080)
2	Issue 37C	JP Morgan Chase Bank, NA	A+/Aa3/AA	3.898%	(10,211)
3	2010A***	Goldman Sachs Bank USA/			
		Goldman Sachs Group, Inc.	BBB+/A3/A*	3.925%	(18,267)
		Total			$ (37,558)

* 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 Bonds are held in trust. The swap is now indirectly hedging the Series 2010A-3 Bonds for accounting purposes.

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

In June 2018, Fitch upgraded the credit rating of J.P. Morgan Chase Bank N.A., the swap counterparty on the Issue 37C Bonds, from "AA-" to "AA".

Fair Value Hierarchy

	Fair Value June 30,2018	Fair value measurements using significant other observable inputs (Level 2)
Interest rate swaps	$ (37,558)	$ (37,558)

(Dollars in Thousands)

Change in Fair Value

The impact of the interest rate swaps on the financial statements for the year ended June 30, 2018 is as follows:

	Deferred outflows on derivative Instruments	Derivative instruments
Balance as of June 30, 2017	$ 54,870	$ 65,965
Change in fair value to year-end	(25,625)	(28,407)
Balance as of June 30, 2018	$ 29,245	$ 37,558

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 outflows of resources (if a termination payment would be due to the counterparty) or deferred inflows of resources (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, 2018.

Basis Risk – During the year ended June 30, 2018, the Airport paid a total of $0.89 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, 2018, the Airport is not exposed to credit risk because the swaps have a negative fair value to the Airport.

Counterparty Risk –As of June 30, 2018, 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 – 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, which are rated as to their claims-paying ability and financial strength as follows as of June 30, 2018:

No.	Swap	Swap Insurer	Insurer Credit ratings June 30, 2018 (S&P/Moody's/Fitch)
1	Series 2010A (37B)	Assured Guaranty Municipal Corp.	AA/A2/NR
2	Issue 37C	Assured Guaranty Municipal Corp.	AA/A2/NR
3	Series 2010A	None	N/A

As of June 30, 2018, the fair value of each swap was negative to the Airport as shown above.

Water Enterprise

Water Revenue Bonds 2017 Series ABC

In December 2017, the Water Enterprise issued tax-exempt revenue bonds, 2017 ABC in the aggregate amount of $339.5 million. The purpose of the 2017 Series ABC Bonds was to refund approximately $120.5 million aggregate principal amount of CP and to provide $230.5 million new money for WSIP capital projects, other various capital projects of the Water Enterprise, and capital projects of Hetch Hetchy Water. The bonds carried “Aa3” and “AA-” ratings from Moody’s and S&P, respectively. The 2017 Series ABC bonds include serial bonds with coupon rates of 5.0% and have final maturity in 2045, and four term bonds with coupons of 5.0% and final maturities from 2045 to 2047.

The $121.1 million 2017 Series A bonds were issued as tax-exempt Green Bonds to refund approximately $60.3 million of commercial paper notes and to provide $65.5 million in new money for WSIP capital projects. The Series A bonds were issued as serial and term bonds with coupons of 5.0% and a final maturity of 2047. As of June 30, 2018, the principal amount of 2017 Series A bonds outstanding was $121.1 million.

The $147.7 million 2017 Series B bonds were issued as tax-exempt bonds to provide $150.0 million in new money for Water Enterprise capital projects (non-WSIP). The Series B bonds were issued as serial and term bonds with coupons of 5.0% and have a final maturity of 2047. As of June 30, 2018, the principal amount of 2017 Series B bonds outstanding was $147.7 million

The $70.7 million 2017 Series C bonds were issued as tax-exempt bonds to refund approximately $60.3 million of CP and to provide $15.0 million in new money for Hetch Hetchy Water capital projects. The Series C bonds were issued as serial bonds and a term bond with coupons of 5.0% and have a final maturity of 2047. As of June 30, 2018, the principal amount of 2017 Series C bonds outstanding was $70.7 million.

Water Revenue Refunding Bonds 2017 Series DEFG

In December 2017, the Water Enterprise issued tax-exempt revenue bonds, 2017 Series DEF, and taxable 2017 Series G refunding bonds in the aggregate amount of $442.2 million. The 2017 Series D (WSIP, Green) bonds were issued for the purpose of refunding a portion of the outstanding 2011 Series A (WSIP) bonds maturing on and after November 1, 2022, and a portion of the outstanding 2012 Series A bonds maturing on and after November 1, 2031.

The 2017 Series E bonds were issued for the purpose of refunding a portion of the outstanding 2011 Series C bonds maturing on or after November 1, 2022, a portion of the outstanding 2011 Series D bonds maturing on and after November 1, 2022, and a portion of 2012 Series C1 bonds maturing on or after November 1, 2029.

The 2017 Series F bonds were issued for the purpose of refunding a portion of the outstanding 2011 Series B bonds maturing on or after November 1, 2022.

The taxable 2017 Series G (WSIP, Green) bonds were issued to refund a portion of the outstanding 2011 Series A bonds maturing on and after November 1, 2022.

The 2017 Series DEFG bonds include serial bonds with interest rates varying from 2.00% to 5.00% and have a final maturity in 2035. The refunding resulted in the recognition of a deferred accounting loss of $34.3 million, gross debt service savings of $68.9 million, and an economic gain of $51.7 million or 10.70% of refunded principal. As of June 30, 2018, the principal amount of 2017 Series DEFG bonds outstanding was $442.2 million.

Wastewater Enterprise

Lake Merced Green Infrastructure Project CWSRF Loan

In January 2016, then amended in May 2016, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund ("CWSRF") Loan to fund the Lake Merced Green Infrastructure Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is $7.4 million. The loan bears an interest rate of 1.6%, which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion is expected by July 2020. The CWSRF loan is secured on a parity lien basis with the Wastewater Enterprise's outstanding revenue bonds. The SFPUC has received loan disbursements to date totaling $2.0 million. As of June 30, 2018, the principal amount outstanding of the loan was $4.9 million.

Southeast Plant (SEP) 521/522 and Disinfection Upgrade Project CWSRF Loan

In September 2017, then amended in December 2017 and May 2018, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the SEP 521/522 and Disinfection Upgrade Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is $40.0 million. The loan bears an interest rate of 1.8%, which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion is expected by July 2019. The CWSRF loan is secured on a parity lien basis with the Wastewater Enterprise's outstanding revenue bonds. The SFPUC has not submitted any requests for loan disbursements to date and there is no outstanding loan principal as of June 30, 2018.

North Point Facility Outfall Rehabilitation Project CWSRF Loan

In September 2017, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a CWSRF Loan to fund the North Point Facility Outfall Rehabilitation Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is $20.2 million. The loan bears an interest rate of 1.8% which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion occurred in February 2018. The CWSRF loans is secured on a parity lien basis with the Enterprise's outstanding revenue bonds. The SFPUC has received loan disbursements to date totaling $4.7 million. As of June 30, 2018, the principal amount outstanding of the loan was $17.7 million.

SEP Primary/Secondary Clarifier Upgrade Project CWSRF Loan

In September 2017, the SFPUC entered into an Installment Sale Agreement with the State Water Resources Control Board for a Clean Water State Revolving Fund ("CWSRF") Loan to fund the SEP Primary/Secondary Clarifier Upgrade Project of the Sewer System Improvement Program. The aggregate amount of the CWSRF loans is $34.4 million. The loan bears an interest rate of 1.8%, which was equal to one-half of the State of California's most recent 30-year General Obligation Bond true interest cost at the time the agreement was executed. The CWSRF loan will have a 30-year term, with loan repayment beginning one year after substantial completion of each project's construction; substantial completion occurred in June 2018. The CWSRF loan is secured on a parity lien basis with the Wastewater Enterprise's outstanding revenue bonds. The SFPUC has not submitted any requests for loan disbursements to date and there is no outstanding loan principal as of June 30, 2018.

(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 on the Retirement System's website at http://mysfers.org or 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.

Replacement Benefits Plan – The Replacement Benefits Plan (RBP) is a qualified excess benefit plan established in October 1989. Internal Revenue Code Section 415(m) provides for excess benefit arrangements that legally permit benefit payments above the Section 415 limits, provided that the payments are not paid from the SFERS Trust. The RBP allows the City to pay SFERS retirees any portion of the Charter-mandated retirement allowance that exceeds the annual Section 415(b) limit. The RBP plan does not meet the criteria of a qualified trust under GASB Statement No. 73 because RBP assets are subject to the claims of the employer's general creditors under federal and state law in the event of insolvency.

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 multi-employer pension plan, or the CalPERS Miscellaneous Rate Plan, included in CalPERS public agency cost-sharing multiple-employer pension plan. Some employees of the Transportation Authority, a blended component unit, and the Successor Agency, a fiduciary component unit, are eligible to participate in a CalPERS Miscellaneous Rate Plan or a CalPERS Public Employees' Pension Reform Act (PEPRA) Miscellaneous Rate Plan, both rate plans are included in CalPERS public agency cost-sharing multiple-employer pension plan. In addition, some employees of the Treasure Island Development Authority, a discretely presented component unit, are eligible to participate in the CalPERS Miscellaneous Rate Plan included in CalPERS public agency 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.

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.

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%. The SFERS Plan provides for a Supplemental COLA in years when there are sufficient "excess" investment earnings in the Plan. The maximum benefit adjustment each July 1 is 3.5% including the Basic COLA. Effective July 1, 2012, voters approved changes in the criteria for payment of the Supplemental COLA benefit, so that Supplemental COLAs would only be paid when the Plan is also fully funded on a market value of assets basis. Certain provisions of this voter-approved proposition were challenged in the Courts. A decision by the California Courts modified the interpretation of the proposition. Effective July 1, 2012, members who retired before November 6, 1996 will receive a Supplemental COLA only when the Plan is also fully funded on a market value of assets basis. However, the "full funding" requirement does not apply to members who retired on or after November 6, 1996 and were hired before January 7, 2012. For all members hired before January 7, 2012, all Supplemental COLAs paid to them in retirement benefits will continue into the future even where an additional Supplemental COLA is not payable in any given year. For members hired on and after January 7, 2012, a Supplemental COLA will only be paid to retirees when the Plan is fully funded on a market value of asset basis and in addition for these members, Supplemental COLAs will not be permanent adjustments to retirement benefits. That is, in years when a Supplemental COLA is not paid, all previously paid Supplemental COLAs will expire.

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 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.

(Dollars in Thousands)

The CalPERS' provisions and benefits in effect at June 30, 2018, are summarized as follows:

	City Miscellaneous Plan		**City Safety Plan**	
Hire date	Prior to January 1, 2013	On or after January 1, 2013*	Prior to January 1, 2013	On or after January 1, 2013
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 9.00%	10.75% to 13.00%
Required employer contribution rates	10.30%		20.24%	20.24%

	Transportation Authority Miscellaneous Plan		**Successor Agency Miscellaneous Plan**	
Hire date	Prior to January 1, 2013	On or after January 1, 2013	Prior to January 1, 2013	On or after January 1, 2013
Benefit formula	2% @ 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	8.92%	6.53%	49.18%	7.19%

At June 30, 2018, the CalPERS' City Safety Plan had a total of 2,298 members who were covered by these benefits, which includes 1,039 inactive employees or beneficiaries currently receiving benefits, 175 inactive employees entitled to but not yet receiving benefits, and 1,084 active employees.

Contributions

For the year ended June 30, 2018, the City's actuarial determined contributions were as follows:

SFERS Plan	$ 582,568
City CalPERS Miscellaneous Plan	42
City CalPERS Safety Plan	30,743
Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans	403
Successor Agency CalPERS Classic & PEPRA Miscellaneous Plans	1,283
Treasure Island Development Authority CalPERS Miscellaneous Plan	6
Total	$ 615,045

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 2018 varied from 7.5% to 13.0% as a percentage of gross covered salary. For the year ended June 30, 2017, 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, 2016 actuarial report, the required employer contribution rates for fiscal year 2018 were 18.96% to 23.46%.

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.

(Dollars in Thousands)

Replacement Benefits Plan – The RBP is and will remain unfunded and the rights of any participant and beneficiary are limited to those specified in the RBP. The RBP constitutes an unsecured promise by the City to make benefit payments in the future to the extent funded by the City. The City paid $3.1 million replacement benefits in the year ended June 30, 2018.

Net Pension Liability

The table below shows how the net pension liability (NPL) as of June 30, 2018 is distributed.

Governmental activities	$ 2,977,366
Business-type activities	2,095,764
Fiduciary funds	27,280
Component Unit - Treasure Island Development Authority	28
Total	$ 5,100,438

As of June 30, 2018, the City's NPL is comprised of the following:

	Proportionate Share	Share of Net Pension Liability (Asset)
SFERS Plan	94.0674%	$ 4,697,131
City CalPERS Miscellaneous Plan	-0.1388%	(13,766)
City CalPERS Safety Plan	N/A	303,328
Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans	0.0216%	2,142
Successor Agency CalPERS Classic & PEPRA Miscellaneous Plans	0.2751%	27,280
Treasure Island Development Authority CalPERS Miscellaneous Plan	0.0003%	28
Replacement Benefits Plan	N/A	84,295
Total		$ 5,100,438

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 for each of its cost-sharing plans is measured as of June 30, 2017, 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, 2016, rolled forward to June 30, 2017, 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.

(Dollars in Thousands)

The City's proportionate share and NPL of each of its cost-sharing plans as of June 30, 2017 and 2016 were as follows:

	June 30, 2017 (Measurement Date)		June 30, 2016 (Measurement Date)	
	Proportionate Share	Share of Net Pension Liability (Asset)	Proportionate Share	Share of Net Pension Liability (Asset)
SFERS Plan	94.0674%	$ 4,697,131	94.2175%	$ 5,476,653
City CalPERS Miscellaneous Plan	-0.1388%	(13,766)	-0.1469%	(12,711)
Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans	0.0216%	2,142	0.0204%	1,765
Successor Agency Classic & PEPRA CalPERS Miscellaneous Plans	0.2751%	27,280	0.2691%	23,281
Treasure Island Development Authority CalPERS Miscellaneous Plan	0.0003%	28	0.0003%	27
Total		$ 4,712,815		$ 5,489,015

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
Balance at June 30, 2016 (VD)	$ 1,189,116	$ 925,208	$ 263,908
Change in year:			
Service cost	33,886	-	33,886
Interest on the total pension liability	88,729	-	88,729
Changes of assumptions	75,057	-	75,057
Differences between expected and actual experience	(14,353)	-	(14,353)
Plan to plan resource movement	-	-	-
Contributions from the employer	-	30,575	(30,575)
Contributions from employees	-	10,307	(10,307)
Net investment income	-	104,383	(104,383)
Benefit payments, including refunds of employee contributions	(51,579)	(51,579)	-
Administrative expense	-	(1,366)	1,366
Net changes during measurement period	131,740	92,320	39,420
Balance at June 30, 2017 (MD)	$ 1,320,856	$ 1,017,528	$ 303,328

(Dollars in Thousands)

The City's pension liability for the Replacement Benefits Plan is measured as the total pension liability as there are no assets in a plan. The change in the total pension liability for the City Replacement Benefits Plan is as follows:

	Increase (Decrease) Total Pension Liability
Balance at June 30, 2016 (VD)...................	$ 78,600
Change in year:	
Service cost..	1,605
Interest..	2,218
Differences between expected and actual experience..	15,326
Assumption changes..............................	(10,290)
Benefit payments, including refunds of employee contributions.........................	(3,164)
Net changes during measurement period....	5,695
Balance at June 30, 2017 (MD)..................	$ 84,295

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

For the year ended June 30, 2018, 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..	$ 430,768	$ 302,127	$ -	$ -	$ 732,895
City CalPERS Miscellaneous Plan..	(2,462)	-	-	-	(2,462)
City CalPERS Safety Plan..	53,172	-	-	-	53,172
Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans...........	671	-	-	-	671
Successor Agency CalPERS Classic & PEPRA Miscellaneous Plans...................	-	-	1,423	-	1,423
Treasure Island Development Authority CalPERS Miscellaneous Plan..................	-	-	-	10	10
Replacement Benefits Plan..	3,970	-	-	-	3,970
Total pension expense..	$ 486,119	$ 302,127	$ 1,423	$ 10	$ 789,679

At June 30, 2018, the City's reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources.

	SFERS Plan		Miscellaneous Plans		City CalPERS Safety Plan		Replacement Benefits 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	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date...........................	$ 582,568	$ -	$ 1,734	$ -	$ 30,743	$ -	$ -	$ -	$ 615,045	$ -
Change in assumptions..........................	761,633	13,793	6,015	459	54,208	6,031	6,910	8,232	828,766	28,515
Difference between expected and actual experience.................................	43,581	141,812	49	694	475	14,664	12,262	-	56,367	157,170
Change in employer's proportion and differences between the employer's contributions and the employer's proportionate share of contributions....................................	7,019	7,681	1,131	8,751	-	-	-	-	8,150	16,432
Net differences between projected and actual earnings on plan investments..	-	175,222	1,360	-	12,111	-	-	-	13,471	175,222
Total..	$ 1,394,801	$ 338,508	$ 10,289	$ 9,904	$ 97,537	$ 20,695	$ 19,172	$ 8,232	$ 1,521,799	$ 377,339

(Dollars in Thousands)

At June 30, 2018, the City reported $615.0 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, 2019. 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
2019............	$ 30,121
2020............	429,896
2021............	270,602
2022............	(201,204)
Total	$ 529,415

Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the total pension liability as of June 30, 2017 is provided below, including any assumptions that differ from those used in the July 1, 2016 actuarial valuation.

	SFERS Plan Actuarial Assumptions		CalPERS Miscellaneous and Safety Plans
Valuation date..	June 30, 2016 updated to June 30, 2017		June 30, 2016
Measurement date......................................	June 30, 2017		June 30, 2017
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		7.50%, net of pension plan investment and administrative expenses, including inflation
Municipal bond yield....................................	2.85% as of June 30, 2016 3.58% as of June 30, 2017 Bond Buyer 20-Bond GO Index, June 30, 2016 and June 29, 2017		
Inflation..	3.25%		2.75%
Projected salary increases..........................	3.75% plus merit component based on employee classification and years of service		Varies by Entry Age and Service
Discount rate..	7.50% as of June 30, 2017		7.15% as of June 30, 2017
Basic COLA..	Old Miscellaneous and		
	All New Plans..	2.00%	Miscellaneous Contract COLA up to 2.75% until Purchasing Protection Allowance Floor on Purchasing Power applies. 2.75% thereafter. Safety standard COLA 2.0%
	Old Police and Fire:		
	Pre 7/1/75 Retirements.....................................	2.70%	
	Chapters A8.595 and A8.596............................	3.30%	
	Chapters A8.559 and A8.585............................	4.40%	

Mortality rates for active members and healthy annuitants were based upon adjusted Employee and Healthy Annuitant CalPERS mortality tables projected generationally from the 2009 base year using a modified version of the MP-2015 projection scale.

The actuarial assumptions used in the SFERS June 30, 2016 valuation were based upon the results of an experience study for the period July 1, 2009 through June 30, 2014.

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, 2016 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.

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 7.15% as of the June 30, 2017 measurement date.

For the Replacement Benefits Plan beginning of the year measurements are also based on the census data as of June 30, 2016. Because the beginning and ending values are based on the same census data, no liability gains or losses due to experience are reported this year.

Discount Rates

SFERS – The discount rate used to measure SFERS's total pension liability as of June 30, 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan members and employers 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.

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. For the July 1, 2016 valuation, the increase in the Unfunded Actuarial Liability attributable to the Supplemental COLAs granted on July 1, 2013 and July 1, 2014 are amortized over 17-years and 5-years respectively. 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 future 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 members who worked after November 6, 1996 and before Proposition C passed, a Supplemental COLA is granted if the actual investment earnings during the year exceed the expected investment earnings on the Actuarial Value of Assets. For members who did not work after November 6, 1996 and before Proposition C passed, the Market Value of Assets must also exceed the Actuarial Liability at the beginning of the year for a Supplemental COLA to be granted. When a Supplemental COLA is granted, the amount depends on the amount of excess earnings and the basic COLA amount for each membership group. The large majority of members receive a 1.50% Supplemental COLA when granted.

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, 2017, of the probability and amount of Supplemental COLA for each future year.

(Dollars in Thousands)

The table below shows the net assumed Supplemental COLAs for members with a 2.00% basic COLA for sample years.

Year Ending June 30	96 - Prop C	Before 11/6/96 or After Prop C
2018	0.75%	0.00%
2023	0.75%	0.29%
2028	0.75%	0.35%
2033	0.75%	0.38%
2038+	0.75%	0.38%

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 2096 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 3.58% to the extent they are not available. The single equivalent rate used to determine the total pension liability as of June 30, 2017 is 7.50%.

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%	5.3%
Fixed Income	20.0%	1.6%
Private Equity	18.0%	6.5%
Real Assets	17.0%	4.6%
Hedge Funds/Absolute Return	5.0%	3.6%

CalPERS - The discount rate used to measure each of the CalPERS Miscellaneous Rate Plans and the Safety Plan total pension liability was 7.15%. 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 7.15% discount rate is adequate and the use of the municipal bond rate calculation is not necessary. The long-term expected discount rate of 7.15% 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.

(Dollars in Thousands)

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.

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	47.00%	4.90%	5.38%
Global fixed income	19.00%	0.80%	2.27%
Inflation sensitive	6.00%	0.60%	1.39%
Private equity	12.00%	6.60%	6.63%
Real estate	11.00%	2.80%	5.21%
Infrastructure and forestland	3.00%	3.90%	5.36%
Liquidity	2.00%	-0.40%	-0.90%

(1) An expected inflation of 2.5% used for this period.
(2) An expected inflation of 3.0% used for this period.

Replacement Benefits Plan – The beginning and end of year measurements are based on different assumptions that result in different discount rates. The discount rate was 2.85% as of June 30, 2016 and 3.58% as of June 30, 2017. This reflects the yield for a 20-year, tax-exempt general obligation municipal bond with an average rating of AA/Aa or higher. The Municipal Bond Yields are the Bond Buyer 20-Year GO Index as of June 30, 2016 and June 29, 2017. These are the rates used to determine the total pension liability as of June 30, 2016 and June 30, 2017.

The inflation assumption of 3.25% compounded annually was used for projecting the annual IRC Section 415(b) limitations. However, the actual IRC Section 415(b) limitations published by the IRS of $215 for 2017 was used for the 2017 measurement date.

The SFERS assumptions about Basic and Supplemental COLA previously discussed also apply to the Replacement Benefits Plan, including the impact of the State Appeals Court determination that the full funding requirement for payment of Supplemental COLA included in Proposition C was unconstitutional and the impact is accounted for as a change in benefits.

At June 30, 2018, the membership in the RBP had a total of 281 active members and 144 retirees and beneficiaries currently receiving benefits.

(Dollars in Thousands)

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 Proportionate Share of Net Pension Liability	1% Decrease Share of NPL @ 6.50%	Current Share of NPL @ 7.50%	1% Increase Share of NPL @ 8.50%
SFERS	$ 8,046,939	$ 4,697,131	$ 1,925,410

	1% Decrease Share of NPL @ 6.15%	Current Share of NPL @ 7.15%	1% Increase Share of NPL @ 8.15%
City CalPERS Miscellaneous Plan	$ (10,800)	$ (13,766)	$ (16,222)
Transportation Authority CalPERS Classic & PEPRA Miscellaneous Plans	3,591	2,142	942
Successor Agency CalPERS Classic & PEPRA Miscellaneous Plans	42,681	27,280	14,526
Treasure Island District Authority CalPERS Miscellaneous Plan	39	28	19

The following presents the NPL for the City's CalPERS Safety Plan (agent-multiple employer plan) and the total pension liability for the City's Replacement Benefits Plan, calculated using the discount rate, in effect as of the measurement date, as well as what the net/total pension liability would be if it were calculated using a discount rate that is 1.0% lower or 1.0% higher than the current rate:

Agent Pension Plan	1% Decrease @ 6.15%	Measurement Date @ 7.15%	1% Increase @ 8.15%
City CalPERS Safety Plan	$ 487,327	$ 303,328	$ 151,865

	1% Decrease @ 2.58%	Measurement Date @ 3.58%	1% Increase @ 4.58%
Replacement Benefits Plan	$ 99,123	$ 84,295	$ 72,566

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.

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 $758.8 million in fiscal year 2017-18. 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 $217.6

(Dollars in Thousands)

million to provide postemployment health care benefits for 28,305 retired participants, of which $178.0 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)

The City maintains a defined benefit other postemployment benefits plan (the OPEB Plan) which is administered through the City's Health Service System in the Retiree Health Care Trust Fund (RHCTF), an agent multiple-employer plan. The OPEB Plan provides postemployment medical, dental and vision insurance benefits to eligible employees, retired employees, surviving spouses, and domestic partners. Health benefit provisions are established and may be amended through negotiations between the City and the respective bargaining units. The City does not issue a separate report on its other postemployment benefit plan.

GASB Statement No. 75 requires that reported results must pertain to liability and asset information within certain defined timeframes. For this report, the following timeframes are used.

San Francisco Health Service System OPEB Plan

Valuation Date (VD)	June 30, 2016 updated to June 30, 2017
Measurement Date (MD)	June 30, 2017
Measurement Period (MP)	July 1, 2016 to June 30, 2017

The City prefunds its OPEB obligations through the RHCTF that allows participating employers to prefund certain postemployment benefits other than pensions for their covered employees. The RHCTF is an agent multiple-employer plan and has two participating employers: (i) the City and County of San Francisco and (ii) the San Francisco Community College District. The RHCTF is administered by the City and is presented as an other postemployment benefit trust fund herein.

Permanent full-time and elected employees are eligible to retire and receive postretirement health insurance benefits when they are eligible for retirement benefits from the City and County of San Francisco's Retirement System. The eligibility requirements are as follows:

Normal Retirement	Miscellaneous	Age 50 with 20 years of credited service [1]
		Age 60 with 10 years of credited service
	Safety	Age 50 with 5 years of credited service
Disabled Retirement [2]	Any age with 10 years of credited service	
Terminated Vested [3]	Age 50 with 5 years of credited service at separation	
Active Death [2]	Any age with 10 years of credited service	

1 Age 53 with 20 years of credited service, age 60 with 10 years of credited service, or age 60 for Miscellaneous members hired on or after January 7, 2012.

2 No service requirement for Safety members retiring under the industrial disability benefit or for surviving spouses / domestic partners of those killed in the line of duty.

3 Effective with Proposition B, passed June 3, 2008, participants hired on or after January 10, 2009 must retire within 180 days of separation in order to be eligible for retiree healthcare benefits.

(Dollars in Thousands)

Retiree healthcare benefits are administered by the San Francisco Health Service System and include the following:

Medical:	PPO – City Health Plan (self-insured) HMO – Kaiser (fully-insured) and Blue Shield (flex-funded)
Dental:	Delta Dental & DeltaCare USA
Vision:	Vision benefits are provided under the medical insurance plans and are administered by Vision Service Plan.

Projections of the sharing of benefit related costs are based on an established pattern of practice.

As of the June 30, 2016 valuation date, the following current and former employees were covered by the benefit terms under the healthcare plan:

	City Plan
Active plan members	31,864
Inactive employees entitled to but not yet receiving benefit payments	2,613
Inactive employees or beneficiaries currently receiving benefit payments	20,636
Total	55,113

San Francisco County Transportation Authority and Successor Agency

The Transportation Authority's defined benefit postemployment healthcare plan provides healthcare benefits to eligible employees and their surviving spouses. Employees become eligible to retire and receive healthcare benefits upon reaching the age of 50 and meeting program vesting requirements or being converted to disability status and retiring directly from the Transportation Authority. Dental and vision benefits are not available to retirees. The Transportation Authority is a contracting agency under the Public Employees' Medical and Hospital Care Act (PEMHCA), which is administered by CalPERS for the provision of healthcare insurance programs for both active and retired employees.

Effective February 1, 2012, upon the operation of law to dissolve the former Agency, the Successor Agency assumed the former Agency's other postemployment benefits plan. The Successor Agency sponsors a defined benefit plan providing OPEB to employees who retire directly from the former Agency and/or the Successor Agency. The Successor Agency pays 100% of the premiums of CalPERS medical plan to eligible employees that satisfied the required services years and minimum age.

The Transportation Authority and the Successor Agency participate in the California Employers' Retiree Benefit Trust Fund Program (CERBT), an agent-multiple employer postemployment health plan, to prefund other postemployment benefits through CalPERS. CalPERS issues publicly available financial reports for all plans it administers and a separate GASB Statement No. 75 report for CERBT that can be found on CalPERS website.

Projections of the sharing of benefit related costs are based on an established pattern of practice.

As of the June 30, 2017 actuarial valuation, the following current and former employees were covered by the benefit terms under the healthcare plan:

	Transportation Authority	Successor Agency
Active plan members	37	47
Inactive employees or beneficiaries currently receiving benefit payments	9	115
Total	46	162

(Dollars in Thousands)

Contributions

The City's benefits provided under the OPEB Plan are currently paid through "pay-as-you-go" funding. Additionally, under the City Charter, active officers and employees of the City who commenced employment on or after January 10, 2009, shall contribute to the RHCTF a percentage of compensation not to exceed 2% of pre-tax compensation. The City shall contribute 1% of compensation for officers and employees who commenced employment on or after January 10, 2009 until the City's actuary has determined that the City's portion of the RHCTF is fully funded. At that time, the City's 1% contribution shall cease, and officers and employees will each contribute 50% of the maximum 2% of pre-tax compensation.

Starting July 1, 2016, active officers and employees of the City who commenced employment on or before January 9, 2009, shall contribute 0.25% of pre-tax compensation into the RHCTF. Beginning on July 1st of each subsequent year, the active officers and employees of the City who commenced employment on or before January 9, 2009, shall contribute an additional 0.25% of pre-tax compensation up to a maximum of 1%. Starting July 1, 2016, the City contributes 0.25% of compensation into the RHCTF for each officer and employee who commenced employment on or before January 9, 2009. Beginning on July 1st of each subsequent year, the City contributes an additional 0.25% of compensation, up to a maximum of 1% for each officer and employee who commenced employment on or before January 9, 2009. When the City's actuary has determined that the City's portion of the RHCTF is fully funded, the City's 1% contribution shall cease, and officers and employees will each contribute 50% of the maximum 1% of pre-tax compensation. Additional or existing contribution requirements may be established or modified by amendment to the City's Charter.

For the year ended June 30, 2018, the City's funding was based on "pay-as-you-go" plus a contribution of $25.8 million to the RHCTF. The "pay-as-you-go" portion paid by the City was $178.0 million for a total contribution subsequent to the measurement date of $203.9 million for the year ended June 30, 2018.

The Transportation Authority's contribution requirements are established and may be amended by the Board. The Transportation Authority makes contributions on an actuarial basis, funding the full actuarially determined contributions (ADC). The Transportation Authority's employees are not required to contribute to the OPEB plan. For the year ended June 30, 2018, the Transportation Authority contributed $0.1 million to the CERBT plan. The Successor Agency's OPEB funding policy is to contribute 100% or more of the ADC annually by contributing to the CERBT. For the year ended June 30, 2018, the Successor Agency contributed $2.9 million to the plan. There are no employee contributions to the Successor Agency's plan. The ADC 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.

Net OPEB Liability

The table below shows how the net OPEB liability (NOL) as of June 30, 2018 is distributed.

Governmental activities	$	1,989,216
Business-type activities		1,716,544
Fiduciary funds		18,031
Total	$	3,723,791

(Dollars in Thousands)

As of June 30, 2018, the City's NOL is comprised of the following:

City defined benefit healthcare plan	$	3,717,209
Transportation Authority defined benefit healthcare plan		245
Successor Agency defined benefit healthcare plan		6,337
Total	$	3,723,791

The changes in the City OPEB Plan's net OPEB liability are as follows:

	Increase (Decrease)		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2016	$ 3,659,019	$ 107,104	$ 3,551,915
Changes during the measurement period			
Service cost	125,195	-	125,195
Interest	272,942	-	272,942
Contributions - employer	-	183,898	(183,898)
Contributions - member	-	31,686	(31,686)
Net investment income	-	17,368	(17,368)
Benefit payments	(165,470)	(165,470)	-
Administrative expense	-	(109)	109
Net changes during the measurement period	232,667	67,373	165,294
Balance at June 30, 2017	$ 3,891,686	$ 174,477	$ 3,717,209

The changes in net OPEB liability for the plans of the Transportation Authority and Successor Agency are as follows:

	Transportation Authority			Successor Agency		
	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability	Total OPEB Liability	Plan Fiduciary Net Position	Net OPEB Liability
Balance at June 30, 2016	$ 1,573	$ 1,268	$ 305	$ 10,208	$ 3,275	$ 6,933
Changes during the measurement period						
Service cost	122	-	122	159	-	159
Interest	117	-	117	692	-	692
Contributions						
trust deposits	-	101	(101)	-	-	-
employer - explicit subsidy	-	53	(53)	-	1,097	(1,097)
employer - implicit subsidy	-	12	(12)	-	-	-
Benefit payments	(64)	(64)	-	(797)	(797)	
Administrative expense	-	(1)	1	-	(3)	3
Expected investment return	-	96	(96)	-	-	-
Investment experience (loss)/gain	-	38	(38)	-	353	(353)
Net changes during the measurement period	175	235	(60)	54	650	(596)
Balance at June 30, 2017	$ 1,748	$ 1,503	$ 245	$ 10,262	$ 3,925	$ 6,337

(Dollars in Thousands)

OPEB Expenses and Deferred Outflows/Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the City recognized OPEB expense including amortization of deferred outflows/inflows related to OPEB items as follows:

	Primary Government			
	Governmental Activities	Business-type Activities	Fiduciary Funds	Total
City defined benefit healthcare plan	$ 185,813	$ 168,256	$ 1,117	$ 355,186
Transportation Authority defined benefit healthcare plan	136	-	-	136
Successor Agency defined benefit healthcare plan	-	-	501	501
Total pension expense	$ 185,949	$ 168,256	$ 1,618	$ 355,823

As of June 30, 2018, the City reported deferred outflows/inflows of resources related to OPEB from the following sources:

	City Plan		Transportation Authority	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 203,858	$ -	$ 143	$ -
Net difference between projected and actual earnings on plan investments	-	5,996	-	30
Total	**$ 203,858**	**$ 5,996**	**$ 143**	**$ 30**

	Successor Agency		Total	
	Deferred Outflows of Resources	Deferred Inflows of Resources	Deferred Outflows of Resources	Deferred Inflows of Resources
Contributions subsequent to measurement date	$ 2,932	$ -	$ 206,933	$ -
Net difference between projected and actual earnings on plan investments	-	-	-	6,026
Total	**$ 2,932**	**$ -**	**$ 206,933**	**$ 6,026**

Amounts reported as deferred inflows will be amortized annually and recognized in OPEB expense as follows:

Year ending June 30:	Deferred Inflows of Resources
2019	$ (1,506)
2020	(1,506)
2021	(1,507)
2022	(1,507)
Total	$ (6,026)

(Dollars in Thousands)

Actuarial Assumptions

A summary of the actuarial assumptions and methods used to calculate the City Plan's total OPEB liability as of June 30, 2017 (measurement date) is provided below:

Key Actuarial Assumptions

Valuation Date	June 30, 2016 updated to June 30, 2017
Measurement Date	June 30, 2017
Actuarial Cost Method	The Entry Age Actuarial Cost Method is used to measure the Plan's Total OPEB Liability
Healthcare Cost Trend Rates	Pre-Medicare trend starts at 7.25% and trends down to ultimate rate of 4.5% for 2033 and beyond Medicare trend starts at 7.0% and trends down to ultimate rate of 4.5% for 2033 and beyond 10-County average trend starts at 6.0% and trends down to ultimate rate of 4.5% for 2033 and beyond Vision and expenses trend remains a flat 3.5% for all years
Expected Rate of Return on Plan Assets	7.50%
Discount Rate	7.50%
Salary Increase Rate	Wage Inflation Component: 3.50% Additional Merit Component (dependent on years of service): Police: 0.00% - 8.00% Fire: 0.00% - 15.00% Muni Drivers: 0.00% - 15.00% Craft: 0.00% - 3.50% Misc: 0.00% - 5.25%
Inflation Rate	Wage Inflation: 3.50% compounded annually Consumer Price Inflation: 3.00% compounded annually
Mortality Tables	Base mortality tables are developed by multiplying a published table by an adjustment factor developed in SFERS experience study for the period ending June 30, 2014.

Non-Annuitant - CalPERS employee mortality tables without scale BB projection

Gender	Adjustment Factor	Base Year
Female	0.918	2009
Male	0.948	2009

Healthy Annuitants - CalPERS healthy annuitant mortality table without scale BB projection

Gender	Adjustment Factor	Base Year
Female	1.014	2009
Male	0.909	2009

Miscellaneous Disabled Annuitants - RP-2014 Disabled Retiree Tables without MP-2014 projection

Gender	Adjustment Factor	Base Year
Female	1.066	2006
Male	0.942	2006

Safety Disabled Annuitants - CalPERS industrial disability mortality table without scale BB projection

Gender	Adjustment Factor	Base Year
Female	0.983	2009
Male	0.909	2009

(Dollars in Thousands)

The Transportation Authority and Successor Agency net OPEB liabilities were measured as of June 30, 2017 and the total OPEB liabilities used to calculate the net OPEB liabilities were determined by an actuarial valuation dated June 30, 2017, based on the following actuarial methods and assumptions:

	June 30, 2017 Measurement Date	
Key Actuarial Assumptions	**Transportation Authority**	**Successor Agency**
Actuarial Valuation Date	June 30, 2017	June 30, 2017
Discount Rate	7.28%	7.00%
General Inflation	3.00% per annum	2.75% per annum
Salary Increases	3.25% per annum, in aggregate	3.00% per annum
Investment Rate of Return	7.28%	7.00%
Mortality, Turnover, Disability, and Retirement	CalPERS Experience Study for the period from 1997 to 2015	CalPERS Experience Study for the period from 1997 to 2011
Healthcare Cost Trend Rate	Initial 7% for medicare eligibles, 9% for spouse of medicare eligibles and 4.5% non-medicare eligibles, all grading down to 4%	7.00%

Sensitivity of Net OPEB Liabilities to Changes in the Healthcare Cost Trend Rate

The following presents the net OPEB liability for each plan calculated using the healthcare cost trend rate, as well as what the plan's net OPEB liability would be if it were calculated using a healthcare cost trend rate that is 1% lower or 1% higher than the current rate:

	June 30, 2017 (measurement year)		
Plan	**-1.00%**	**Baseline**	**1.00%**
City Plan	$ 3,244,026	$ 3,717,209	$ 4,302,150
Transportation Authority	1	245	554
Successor Agency	5,492	6,337	7,311

Discount Rate

City OPEB Plan - The discount rate used to measure the total OPEB liability as of June 30, 2017 was 7.5%. The projection of cash flows used to determine the discount rate assumed that plan member and employer contributions will continue to be made at the rates specified in the Charter, and disbursements from the RHCTF will continue to be limited by the Charter until it is fully funded. Based on those assumptions, it was determined that the OPEB Plan's fiduciary net position was projected to be available to make all future benefit payments of current and inactive employees. Therefore, the long-term expected rate of return on OPEB plan investments was applied to all periods of projected benefit payments to determine the total OPEB liability.

The long-term expected rate of return on OPEB plan investments was 7.5% based on expected future returns and historical returns experienced by the RHCTF. Expected future returns were determined based on 10-year and 20-year capital market assumptions for the RHCTF's asset allocation. Target allocation and best estimates of geometric real rates of return for each major asset class are summarized in the following table:

Asset Class	Target Allocation	Long-term Expected Real Rate of Return
Equities		
U.S. Equities	41.0%	7.5%
Developed Market Equity (non-U.S.)	20.0%	7.3%
Emerging Market Equity	16.0%	9.8%
Credit		
High Yield Bonds	3.0%	6.0%
Bank Loans	3.0%	5.5%
Emerging Market Bonds	3.0%	5.5%
Rate Securities		
Treasury Inflation Protected Securities	5.0%	3.5%
Investment Grade Bonds	9.0%	3.5%
Total	100.0%	

(Dollars in Thousands)

Transportation Authority and Successor Agency - The discount rates used to measure the total OPEB liability of the Transportation Authority and the Successor Agency were 7.28 percent and 7.00 percent, respectively. The projections of cash flows used to determine the discount rates assumed that Transportation Authority and Successor Agency contributions will be made at rates equal to the actuarially determined contribution rates. Based on those assumptions, the OPEB plans' fiduciary net position was projected to be available to make all projected OPEB payments for current active and inactive employees and beneficiaries. Therefore, the long-term expected rate of return on the OPEB plans' investments was applied to all periods of projected benefit payments to determine the total OPEB liability of each plan.

The long-term expected rate of return on OPEB plan investments was determined using a building block method in which expected future real rates of return (expected returns, net of OPEB plan investment expense and inflation) are developed for each major asset class. These ranges are 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. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

		Long-Term Expected Real Rate of Return	
Asset Class	Target Allocation	Transportation Authority	Successor Agency
Global Equity	57.00%	4.82%	7.80%
Fixed Income	27.00%	1.47%	4.50%
Treasury Inflation Protection Securities	5.00%	1.29%	7.80%
Real Estate Investment Trusts	8.00%	0.84%	7.80%
Commodities	3.00%	3.76%	7.80%
Total	100.00%		

The following presents the net OPEB liability calculated using the discount rate, as well as what the net OPEB liability would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate for each plan:

	June 30, 2017 (measurement year)		
Plan	1% Decrease in NOL @ 6.50%	NOL @ 7.50%	1% Increase in NOL @ 8.50%
City Plan	$ 4,258,310	$ 3,717,209	$ 3,273,465

	June 30, 2017 (measurement year)		
	1% Decrease in NOL @ 6.28%	NOL @ 7.28%	1% Increase in NOL @ 8.28%
Transportation Authority	$ 510	$ 245	$ 29

	June 30, 2017 (measurement year)		
	1% Decrease in NOL @ 6.00%	NOL @ 7.00%	1% Increase in NOL @ 8.00%
Successor Agency	$ 7,302	$ 6,337	$ 5,515

(Dollars in Thousands)

(10) FUND EQUITY

(a) Governmental Fund Balance

Fund balances for all the major and nonmajor governmental funds as of June 30, 2018, were distributed as follows:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Imprest Cash, Advances, and Long-Term Receivables..	$ 1,512	$ 82	$ 1,594
Restricted			
Rainy Day	143,977	47,906	191,883
Public Protection			
Police	-	18,150	18,150
Sheriff	-	990	990
Other Public Protection	-	11,212	11,212
Public Works, Transportation & Commerce	-	316,654	316,654
Human Welfare & Neighborhood Development	-	458,823	458,823
Affordable Housing	-	235,471	235,471
Community Health	-	30,869	30,869
Culture & Recreation	-	178,567	178,567
General Administration & Finance	-	34,317	34,317
Capital Projects	-	712,848	712,848
Debt Service	-	186,233	186,233
Total Restricted	143,977	2,232,040	2,376,017
Committed			
Budget Stabilization	369,958	-	369,958
Recreation and Park Expenditure Savings	1,740	-	1,740
Total Committed	371,698	-	371,698
Assigned			
Public Protection			
Police	6,804	2,410	9,214
Sheriff	2,152	2,884	5,036
Other Public Protection	60,302	-	60,302
Public Works, Transportation & Commerce	26,380	74,664	101,044
Human Welfare & Neighborhood Development	109,947	13,822	123,769
Affordable Housing	25,927	-	25,927
Community Health	219,712	-	219,712
Culture & Recreation	31,625	15,003	46,628
General Administration & Finance	97,124	15,293	112,417
General City Responsibilities	39,108	-	39,108
Capital Projects	150,350	-	150,350
Litigation and Contingencies	235,925	-	235,925
Subsequent Year's Budget	286,143	-	286,143
Total Assigned	1,291,499	124,076	1,415,575
Unassigned	413,255	(904)	412,351
Total	$ 2,221,941	$ 2,355,294	$ 4,577,235

(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 five 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 2019-20 through 2023-24.

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 2019-20 through 2023-24.

Recreation and Park Expenditure Savings Reserve

The City maintains a Recreation and Park 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, 2018, encumbrances recorded in the General Fund and nonmajor governmental funds were $345.6 million and $282.0 million, respectively.

(d) Restricted Net Position

At June 30, 2018, the government-wide statement of net position reported restricted net position of $1.53 billion in governmental activities and $1.10 billion in business-type activities, of which $30.1 million and $291.5 million are restricted by enabling legislation in governmental activities and business-type activities, respectively.

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 $472.1 million of unrestricted net position of governmental activities, of which $329.6 million reduced net investment in capital assets and $142.5 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 Senior Citizens Program Fund had a deficit of $0.9 million as of June 30, 2018. The deficit relates to unavailable revenue in various programs, which is expected to be collected beyond 60 days of the end of fiscal year 2018.

The Central Shops and Telecommunications and Information Internal Service Funds had deficits in total net position of $26.1 million and $32.7 million, respectively, as of June 30, 2018, mainly due to the accrual of the net pension and other postemployment benefits liabilities. 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, 2018, the Successor Agency has a deficit of $462.8 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.

(Dollars in Thousands)

(11) Unavailable Resources in Governmental Funds

The deferred inflows of resources balance in governmental funds as of June 30, 2018 consists of the following unavailable resources:

	General Fund	Other Governmental Funds	Total Governmental Funds
Grant and subvention revenues.....	$ 69,174	$ 55,034	$ 124,208
Property Tax................................	272,687	10,904	283,591
Teeter Plan..................................	25,495	-	25,495
SB 90...	8,218	-	8,218
Advances to Successor Agency.....	-	8,214	8,214
PG&E franchise tax.......................	3,622	-	3,622
Loans...	11,694	86,960	98,654
Total...	$ 390,890	$ 161,112	$ 552,002

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 (Expenditure 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 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.

Vehicle Registration Fee for Transportation Improvements 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 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). In May 2017, the Transportation Board approved the 2017 Proposition AA Strategic Plan and programmed revenues for projects over the five-year period, covering fiscal years 2017/18 to 2021/22. 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.

(Dollars in Thousands)

(13) DETAILED INFORMATION FOR ENTERPRISE FUNDS

(a) San Francisco International Airport

San Francisco International Airport (the Airport or SFO), which is owned and operated by the City, is the principal commercial service airport for the San Francisco Bay Area. A five-member Commission is responsible for the operation, development 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 2017 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 fifteenth in terms of cargo tonnage. 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 bond resolutions adopted by the Airport Commission) to repay the following obligations, when due, in order of priority, (1) the San Francisco International Airport Second Series Revenue Bonds (Senior Bonds) and a portion of amounts due to reimburse drawings under the letters of credit securing the 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 2018, 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 were no unreimbursed drawings under any letter of credit or interest rate swap termination payments due.

Bonds issued with revenue pledge	$ 2,035,005
Bond principal and interest remaining due at end of the fiscal year	11,392,276
Bond principal and interest paid in the fiscal year	408,425
Commercial paper issued with subordinate revenue pledge	557,700
Commercial paper principal and interest remaining due at end of the fiscal year	29,550
Commercial paper principal, interest and fees paid in the fiscal year	5,530
Net revenues	497,372

In addition, pursuant to the Hotel Trust Agreement, the Airport has pledged all of the on-Airport Hotel and certain other assets pledged under the Hotel Trust Agreement, to repay the Hotel Special Facility Bonds. This pledge is in force so long as the Hotel Special Facility Bonds are outstanding. As of June 30, 2018, the Hotel Special Facility Bonds mature in fiscal year 2058.

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 annual debt service accruing in any year during the life of all Second Series Revenue Bonds secured by the Issue 1 Reserve Account. 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 levels of insurance or self-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:

(Dollars in Thousands)

(i) 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

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

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

Passenger Facility Charges – The Airport, as authorized by the Federal Aviation Administration (FAA) pursuant to the Aviation Safety and Capacity Expansion Act of 1990 (the Act), as amended, imposes a Passenger Facility Charge (PFC) of $4.50 or $3.00 for each enplaned passenger at the Airport. Under the Act, air carriers are responsible for the collection of PFC 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, 2018, the FAA has approved Airport applications (PFC #2 to PFC #7) for collection with a total cumulative collection amount of $2.1 billion while Airport applications (PFC #2 to PFC #6) has been approved for use with a total cumulative use amount of $1.8 billion. The final charge expiration date is estimated to be February 1, 2030. 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, 2018, the Airport reported approximately $112.0 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 $62.8 million of Special Facilities Lease Revenue Bonds outstanding as of June 30, 2018, which financed improvements to the Airport's aviation fuel storage and delivery system that is leased to SFO Fuel Company LLC (SFO Fuel), a special purpose limited liability company founded by certain airlines operating at the Airport. 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, 2018 are as follows:

Construction	$ 230,771
Operating	22,056
Total	$ 252,827

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, 2018 was $46.5 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, Fire Department, City Attorney, City Treasurer, City Controller, City Purchasing Agent and other City departments. The cost of direct services paid for by the Airport for the year ended June 30, 2018, was $156.3 million.

Business Concentrations - In addition to the Lease and Use Agreements with the airlines, the Airport leases facilities to other businesses to operate concessions at the Airport. For the year ended June 30, 2018, revenues realized from the following Airport tenant exceeded five percent of the Airport's total operating revenues:

United Airlines 24.6%

(b) Port of San Francisco

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

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

The Port pledged future net revenues to repay its revenue bonds. Annual principal and interest payments through 2044 are expected to require less than 12% 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 $87.2 million. The principal and interest payments made in 2018 were $4.2 million and pledged revenues (total net revenues calculated in accordance with the bond indenture) for the year ended June 30, 2018, were $36.2 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 $2.5 million. Annual principal and interest payments were $0.23 million in 2018 and pledged harbor revenues were $0.1 million for the year ended June 30, 2018.

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, 2018, the Port's purchase commitments for construction-related services, materials and supplies, and other services were $12.8 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. Through June 30, 2018, $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 2018, the $19.3 million in services provided by other City departments included $2.7 million of insurance premiums and $0.5 million in workers' compensation expense.

In connection with the planning phase of the Seawall Resiliency Project, which commenced July 2016, the Port received $0.5 million from the SFMTA and $0.3 million from the Planning Department in support of the project.

The Port and SFMTA entered into an MOU dated January 25, 2001, which granted the SFMTA the right to use an approximately 17-acre portion of certain Port property for permitted uses, as defined therein. Pursuant to the MOU, SFMTA paid to the Port $29.7 million in 2001 for the perpetual use and future jurisdictional transfer of this property, subject to the satisfaction of various conditions. With the jurisdiction transfer conditions satisfied and the necessary approvals in place, the Board of Supervisors in July 2017 approved the interdepartmental jurisdictional transfer of this property from the Port to the SFMTA for no additional consideration. The transfer price of $29.7 million paid in 2001 was the estimated fair market value determined by an independent appraisal at the time it was paid.

In December 2017, the Port and the San Francisco Fire Department (SFFD) entered into a MOU for the use of water, apron, shed and office space at Pier 26 for berthing and servicing of fire boats for five years and on a month-to-month basis afterward. To facilitate these uses, SFFD repaired apron decking, replaced the fender system within the leasehold area and upgraded electrical services to Pier 26. In return, the Port allowed SFFD to apply hundred percent rent credits toward the lease payments until all required capital improvements, approximately $2.3 million, are fully offset. As of June 30, 2018, rent credits of $2.2 million have been approved by the Port based on completed work.

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 Successor 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.

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. The Port is working with the water recreation community to develop an alternative public access improvement proposal for BCDC consideration. An extension of time will also be sought to complete the necessary public access improvements. Port management believes that the alternate proposal will provide significant public access improvements that are relevant to the project area and at lower cost.

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 69-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.

(Dollars in Thousands)

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.

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. In 2018, the Port entered into a disposition and development agreement with a developer for the 28-acre Waterfront Site. The developer assumes substantial responsibility for capping contaminated soil in the project area according to a Risk Management Plan. The remaining accrued cost for pollution remediation at Pier 70, represents the estimated contract value for the soil cap between Crane Cove Park and the shipyard and a sediment cap underwater northwest of the shipyard, is estimated at $3.0 million at June 30, 2018.

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, 2018, is as follows:

	Environmental Remediation	Miscellaneous Compliance	Total
Environmental liabilities at July 1, 2017	$ 11,211	$ 231	$ 11,442
Current year claims and changes in estimates	(8,211)	-	(8,211)
Vendor payments	-	(187)	(187)
Environmental liabilities at June 30, 2018	$ 3,000	$ 44	$ 3,044

(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 2018, the Water Enterprise sold water, approximately 69,344 million gallons annually, to a total population of approximately 2.7 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 CleanPowerSF), 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).

(Dollars in Thousands)

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 2018 and applicable revenues for 2018 are as follows:

Bonds issued with revenue pledge	$ 4,760,930
Bond principal and interest remaining due at end of the fiscal year	8,023,429
Bond principal and interest paid in the fiscal year	233,959
Net revenues	312,831
Funds available for revenue debt service	499,583

Water Balancing Account – During fiscal year 2018, the wholesale revenue requirement, net of adjustments, charged to wholesale customers was $248.1 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, 2018, the City owed the Wholesale Customers $55.9 million under the Water Supply Agreement.

Commitments and Contingencies – As of June 30, 2018, the Water Enterprise had outstanding commitments with third parties of $290.9 million for various capital projects and for materials and supplies.

Environmental Issue – As of June 30, 2018, the total pollution remediation liability was $2.3 million, consisting of $1.4 million for the excavation of contaminated soil that contained polycyclic aromatic hydrocarbons from a gun club site in the Lake Merced area, and $0.9 million for the 17th and Folsom site.

Transactions with Other Funds – The Water Enterprise purchases water from Hetch Hetchy Water and electricity from Hetch Hetchy Power at market rates. These amounts, totaling approximately $32.6 million and $9.0 million, respectively, for the year ended June 30, 2018, 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 $15.2 million for the year ended June 30, 2018 and have been included in services provided by other departments.

(d) Hetch Hetchy Enterprise

San Francisco Hetch Hetchy Water and Power (Hetch Hetchy or the Enterprise) 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. In May 2016, the City launched CleanPowerSF to provide green electricity from renewable sources to its residential and commercial customers. Hetch Hetchy is a stand-alone enterprise comprised of three funds, Hetchy Power (aka the Power Enterprise), CleanPowerSF and Hetchy Water, the portion of the Water Enterprise's operations, specifically the upcountry water supply and transmission service. Hetch Hetchy is engaged in the collection and conveyance of approximately 85.0% 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.

Approximately 81.0% of the electricity generated by Hetchy Power is used to provide electric service to the City's municipal customers (including the SFMTA, the Recreation and Park Department, the Port, the Airport and its tenants, SFGH, streetlights, Moscone Convention Center, and the Water and Wastewater Enterprises). The majority of the remaining 19.0% balance of electricity is sold to CleanPowerSF and other utility districts. As a result of the 1913 Raker Act, energy produced above the

(Dollars in Thousands)

City's Municipal Load is sold first to the Districts to cover their agricultural 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 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. The Hetch Hetchy Water fund, the Hetch Hetchy Power fund, and CleanPowerSF fund are reported for in a single enterprise (i.e., Hetch Hetchy Enterprise). CleanPowerSF is presented as a fund of the Enterprise beginning in the year ended 2017. 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	CleanPower SF	Elimination	Total
Assets*:					
Current assets	$ 79,277	$ 196,576	$ 20,263	$ -	$ 296,116
Receivables from other funds and component units	-	16,333	-	(5,601)	10,732
Noncurrent restricted cash and investments	18,137	24,321	-	-	42,458
Other noncurrent assets	164	793	-	-	957
Capital assets	139,799	339,623	-	-	479,422
Total assets	237,377	577,646	20,263	(5,601)	829,685
Deferred outflows of resources:					
Pensions	7,488	9,152	323	-	16,963
Other postemployment benefits	870	1,064	40	-	1,974
Total deferred outflows of resources	8,358	10,216	363	-	18,937
Liabilities:					
Current liabilities	8,978	54,043	4,252	-	67,273
Noncurrent liabilities	43,123	124,940	7,434	(5,601)	169,896
Total liabilities	52,101	178,983	11,686	(5,601)	237,169
Deferred inflows of resources:					
Pensions	1,818	2,222	79	-	4,119
Other postemployment benefits	26	31	1	-	58
Total deferred inflows of resources	1,844	2,253	80	-	4,177
Net position:					
Net investment in capital assets	139,799	270,918	-	-	410,717
Restricted for capital projects	11,712	-	-	-	11,712
Restricted for debt service	-	834	-	-	834
Unrestricted	40,279	134,874	8,860	-	184,013
Total net position	$ 191,790	$ 406,626	$ 8,860	$ -	$ 607,276

*Certain amounts presented herein have been reclassified from the Statement of Net Position.

(Dollars in Thousands)

Condensed Statements of Revenues, Expenses, and Changes in Fund Net Position	Hetch Hetchy Water	Hetch Hetchy Power	CleanPower SF	Total
Operating revenues	$ 33,560	$ 118,835	$ 39,568	$ 191,963
Depreciation expense	(5,066)	(14,049)	-	(19,115)
Other operating expenses	(34,726)	(105,346)	(38,428)	(178,500)
Operating income (loss)	(6,232)	(560)	1,140	(5,652)
Nonoperating revenues (expenses):				
Federal grants	1,050	-	-	1,050
Interest and investment income	218	2,537	174	2,929
Interest expense	-	(3,103)	(101)	(3,204)
Other nonoperating revenues net of expenses	119	8,594	1	8,714
Transfers in (out), net	30,000	(425)	-	29,575
Change in net position	25,155	7,043	1,214	33,412
Net position at beginning of year:				
Net position at beginning of year, as previously reported	168,356	401,686	8,218	578,260
Cumulative effect of accounting change*	(1,721)	(2,103)	(572)	(4,396)
Net position at beginning of year as restated	166,635	399,583	7,646	573,864
Net position at end of year	$ 191,790	$ 406,626	$ 8,860	$ 607,276

* Cumulative effect of accounting change per GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other than Pensions* .

Condensed Statements of Cash Flows	Hetch Hetchy Water	Hetch Hetchy Power	CleanPower SF	Total
Net cash provided by (used in):				
Operating activities	$ 583	$ 26,852	$ (1,703)	$ 25,732
Noncapital financing activities	31,110	7,006	(82)	38,034
Capital and related financing activities	(14,780)	(39,004)	-	(53,784)
Investing activities	658	4,500	196	5,354
Increase (Decrease) in cash and cash equivalents	17,571	(646)	(1,589)	15,336
Cash and cash equivalents at beginning of year	79,546	211,921	14,054	305,521
Cash and cash equivalents at end of year	$ 97,117	$ 211,275	$ 12,465	$ 320,857

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.

(Dollars in Thousands)

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid, during 2018, and applicable revenues for 2018 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	86,356
Bond principal and interest paid in the fiscal year*	4,824
Net revenues	30,687
Funds available for revenue debt service	67,212

* Per Indenture, debt service for coverage is calculated using the amount of principal and interest paid during the year for the 2015 series AB power revenue bonds, which has a senior lien on power enterprise revenues; principal and interest paid during the year for the 2015 Series AB power revenue bonds was $2,570.

Commitments and Contingencies – As of June 30, 2018, Hetch Hetchy had outstanding commitments with third parties of $113.4 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 the Districts would be responsible for an increase in water flow releases from the reservoir in exchange for annual payments from the City, which are included in Hetchy Water's operating expenses. Total payments were $4.8 million in fiscal year 2018. 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 52.0% and the Districts are responsible for 48.0% 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 City approved the extension of both agreements for one year to June 30, 2016. A second extension agreement was subsequently approved to extend both agreements for an additional year to June 30, 2017, with an automatic six-month extension through December 31, 2017. Terms and conditions for the MID extension agreement were the same as the original agreement. The second extension agreement for TID removed the District's rights to excess energy from the project and terminated those conditions with the first extension agreement on June 30, 2016. Extended agreements for MID and TID expired on December 31, 2017. Hetch Hetchy will continue to comply with the Raker Act by making generated hydropower available at cost to MID and TID for their agricultural pumping and municipal loads as energy from its project is available after meeting Hetch Hetchy's municipal load obligations. For fiscal year 2018, energy sales to the Districts totaled 46,651 Megawatt hours (MWh) or $2.6 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 the City's Hetchy power and purchases 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 2018, Hetch Hetchy Power purchased $9.6 million of transmission, distribution services, and other support services from PG&E under the terms of the replacement agreements and the 1987 Interconnection Agreement.

Hetchy Power may purchase or sell energy and other related products (such as ancillary services, spinning reserves, resource adequacy products, and congestion revenue rights) with different market entities through the Western System Power Pool (WSPP) and the CAISO. During fiscal year 2018, Hetchy Power purchased $6.7 million of power and other related products. Sales of excess power, after meeting Hetch Hetchy's obligations, were 15,900 MWh, or $0.7 million, for 2018.

Hetchy Power (Buyer) purchases energy, capacity, and environmental attributes from a solar photovoltaic project located at Sunset Reservoir (the facility) pursuant to the 2009 25-year Power Purchase Agreement (PPA) with SFCity1, LP, owned by Duke Energy (Seller). In November 2010, the facility commenced commercial operation and began to provide Hetchy Power energy generated by the facility. The PPA sets the purchase price of generated energy at $235/MWh, increased by 3.0% each year throughout the term of the agreement, and it is expected that the facility will generate 6,560 MWh per year. In fiscal year 2018, the facility generated 6,887 MWh and rate was at $306/MWh. In the event that the facility generates more energy than expected due to better than normal meteorological conditions, the PPA requires the Buyer to purchase all the excess energy but generation in excess of 120.0% of expected is purchased at no cost. The PPA also requires the Seller to generate a minimum amount of energy from the facility annually. If energy production falls below 50.0% of expected, the Seller must provide replacement power, and if energy falls below 90% of expected, the price for energy generated is lowered. In fiscal year 2018, purchases of energy under the PPA were $2.0 million or 6,887 MWh.

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 requires a reserve balance of $3.0 million as of June 30, 2018, which is equivalent to two months' worth of estimated payment. As of June 30, 2018, total electricity purchased from Calpine and Shiloh were $19.8 million.

Since its launch, CleanPowerSF has added multiple short-term and medium-term contracts to purchase renewable, carbon-free and conventional energy and resource adequacy capacity, as well as long-term contracts for renewable energy with sPower and Terra-Gen. These contracts have been entered into to allow CleanPowerSF to both meet its existing retail sales obligations and to support future retail sales from the citywide expansion of the CleanPowerSF program planned to occur by the end of 2019. The total contract cost of long-term renewable energy contracts with sPower (a 22-year contract starting delivery in July 2019) and Terra-Gen (a 15-year contract starting delivery in December 2020) are $219.2 million and $102.3 million, respectively, over each contract's term. Additional short-term and medium-term contracts (of commitments ranging from less than 1 year to 5 years) for renewable, carbon-free and conventional energy to be delivered during 2019 to 2023 totaled to be $353.2 million over their terms.

CleanPowerSF entered into contract with a third-party data management, billing administration, and customer care services provider in November 2015 for a three-year term, not to exceed $5.6 million. During fiscal year 2018, amounts paid were $1.5 million.

In March 2018, CleanPowerSF entered into a five-year, $75 million Credit Agreement with J.P. Morgan Chase in order for the program to secure letters of credit to guarantee certain payment obligations of CleanPowerSF and to meet working capital needs of CleanPowerSF, if necessary. The Credit Agreement is secured by CleanPowerSF net revenues; there is no pledge of or lien on CleanPowerSF net revenues that ranks senior to the obligations of the Credit Agreement. The letters of credit, issued by J.P. Morgan Chase, were in the amount of $18.1 million as of June 30, 2018. There was no draw against the Credit Agreement during fiscal year 2018.

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 $32.6 million and purchased electricity for $9.0 million for the year ended June 30, 2018. The water assessment fees represent a recovery to fund upcountry, water related costs that are not otherwise funded through water-related revenue. During fiscal year 2018, $30.0 million of the water assessment fees were received from the Water Enterprise. In addition, the Wastewater Enterprise purchases power from Hetch Hetchy Power totaling $10.2 million for the year ended June 30, 2018. Included in 2018 operating revenues are sales of power to departments within the City of $90.0 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 $7.4 million for the year ended June 30, 2018, and have been included in services provided by other departments.

As of June 30, 2018, operating expenses in purchase of power from Hetchy Power to CleanPowerSF were $3.5 million.

CleanPowerSF received program support services from Hetchy Power. This amount totaled $0.2 million for the fiscal years ended June 30, 2018.

(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 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.

The SFMTA was established by voter approval of the addition of Article VIIIA to the Charter of the City (the Charter) in 1999 (Proposition E). The purpose of the Charter amendment was to consolidate all 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 revenue to the SFMTA; (2) in 2010 (Proposition G), which increased management flexibility related to labor contracts; (3) in 2014 (Proposition A) which provided $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 eighth largest system in the United Sates. It currently has about 225 million boardings annually. Operating historic streetcars, modern light rail vehicles, diesel buses, alternative fuel vehicles, electric trolley coaches, and the world-famous cable cars, Muni's fleet is among the most diverse in the world.

The SFMTA's Sustainable Streets initiates and coordinates improvements to City's streets, transit, bicycles, pedestrians, and parking infrastructure. It manages 21 City owned garages and 18 metered parking lots.

Three nonprofit corporations provide operational oversight to four garages, namely Japan Center, Sutter-Stockton, Union Square, and Portsmouth. Of these four garages, Portsmouth and Union Square are owned by the Recreation and Park Department but managed by the SFMTA. The activities of these nonprofit garages are accounted for in the SFMTA's parking garages account. In February 2018, Uptown Parking Corporation was dissolved and all operations and financial reporting of the Sutter-Stockton have been transferred to Sustainable Streets. The Union Square garage is still managed by SFMTA but the financial reporting has been transferred to the Recreation and Park Department.

(Dollars in Thousands)

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 operating revenues except for City General Fund allocations and restricted sources and are payable through the fiscal year 2047.

Annual principal and interest payments for fiscal year 2018 were 42.6% 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 fiscal year 2018, applicable net revenues, and funds available for bond debt service are as follows:

Bonds issued with revenue pledge	$ 387,670
Bond principal and interest remaining due at end of the fiscal year	570,075
Bond principal and interest paid in the fiscal year	27,952
Net revenues	37,612
Funds available for revenue bond debt service	65,564

Operating and Capital Grants and Subsidies – The City's Annual Appropriation Ordinance provides funds to subsidize the operating deficits of SFMTA 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 $452.3 million in fiscal year 2018. The General Fund subsidy includes a total revenue baseline transfer of $338.9 million, as required by the City Charter, $67.8 million from an allocation of the City's parking tax. Proposition B, approved by the voters in November 2014, provides additional City General Fund resources to address transportation needs tied to the City's population growth. In fiscal year 2018, SFMTA received $43.3 million from this source. In fiscal year 2018, SFMTA also received additional City General Fund allocation of $2.3 million to fund various capital projects such as detailed design on the UCSF platform extension and crossover track.

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, 2018, the SFMTA had various operating grants receivable of $26.9 million. In fiscal year 2018, the SFMTA's operating assistance from BART's Americans with Disability Act (ADA) related support of $1.8 million, and other federal, state, and local grants of $7.4 million, to fund project expenses that are operating in nature. Federal and state and other operating assistance for the fiscal year 2017-18 was $11.5 million and $140.5 million, respectively.

Proposition 1B is a 10-year $20 billion transportation infrastructure bond that was approved by state voters in November 2006. The bond measure was composed of several funding programs including the Public Transportation Modernization, Improvement and Service Enhancement Account program (PTMISEA) and the Transit Security & Safety Account that are funding solely for public transit projects. The SFMTA received cash totaling $7.2 million in fiscal year 2018 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, 2017 for funds awarded between fiscal years 2008 and 2010. The Budget Act of 2013 extended the date to June 30, 2018. Subsequently, the Budget Act of 2014 reappropriated the remaining balances of fiscal years 2009, 2010, and 2011 to be further extended to June 30, 2019, and the remaining balance of fiscal year 2015 to be further extended to June 30, 2020. 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 2018, $27.6 million in drawdowns were made from the funds for various eligible projects costs.

Commitments and Contingencies – The SFMTA has outstanding contract commitments of approximately $585.6 million with third parties for various capital projects. Grant funding is available for a majority of this amount. The SFMTA also has outstanding commitments of approximately $69.2

million with third parties for non-capital expenditures. Various local funding sources are used to finance these expenditures.

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 each sublease, Muni retained an option to purchase the Equipment on specified dates between November 2026 through January 2030 in the case of the Tranche 1 Equipment and in January 2030 in the case of the Tranche 2 Equipment. 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 have not been 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 2017 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.

As of June 30, 2018, one leveraged lease transaction with respect to 29 items of Tranche 1 Equipment having an initial transaction value of $98.7 million remains outstanding. All other lease transactions were terminated in prior fiscal years. The deferred inflows of resources amortized amount was $0.3 million for the Tranche 1 Equipment in fiscal year 2018. The Tranche 1 lease transaction will be terminated in fiscal year 2019.

(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, 2018, the subsidy for LHH was $57.7 million.

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

(Dollars in Thousands)

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, 2018, LHH's patient receivables and charges for services were as follows:

Patient Receivables, net

	Medi-Cal	Medicare	Other	Total
Gross Accounts Receivable	$ 56,178	$ 3,079	$ 1,991	$ 61,248
Less:				
Provision for bad debt and contractual allowances	(29,977)	(1,643)	(1,062)	(32,682)
Total, net	$ 26,201	$ 1,436	$ 929	$ 28,566

Net Patient Service Revenue

	Medi-Cal	Medicare	Other	Total
Gross Revenue	$ 425,272	$ 21,058	$ 13,612	$ 459,942
Less:				
Bad debt write-offs and contractual adjustments	(237,908)	(14,380)	(13,960)	(266,248)
Total, net	$ 187,364	$ 6,678	$ (348)	$ 193,694

Because Medi-Cal reimbursement rates are less that LHH's established charges rates, LHH is eligible to receive supplemental federal funding. For the year ended June 30, 2018, LHH accrued and recognized $69.5 million of revenue as a result of matching federal funds to local funds.

Unearned Credits and Other Liabilities - As of June 30, 2018, LHH recorded approximately $30.2 million in other liabilities for third-party payor settlements payable.

In October 2018, the California Department of Health Care Services (DHCS) informed LHH that it received a formal disallowance notification from the Centers of Medicare and Medicaid Services related to $56.0 million in Distinct Part/Nursing Supplemental Reimbursement payments made to LHH in prior years. The $56.0 million is recorded as a liability at June 30, 2018 and will be payable from LHH to DHCS in fiscal year 2019.

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 totaled $10.7 million for the year ended June 30, 2018 and have been included in services provided by other departments.

Commitments and Contingencies – As of June 30, 2018, LHH has entered into various purchase contracts totaling $0.6 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 Medical Center (SFGH) is an acute care hospital. The operations of SFGH are subsidized by the City's General Fund. It is the City's policy to fully fund enterprise operations on a budgetary basis; however, the amount of operating subsidy provided is limited to the amount budgeted by the City. Any amount not required for the purpose of meeting an enterprise fund deficit shall be transferred back to the General Fund at the end of each fiscal year, unless otherwise approved by the Board of Supervisors. For the year ended June 30, 2018, the subsidy for SFGH was $97.4 million.

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

Patient accounts receivable are recorded net of estimated allowances, which include allowances for contractual adjustments, 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 Section 1115 Medicaid Waiver and Short-Doyle mental health programs. Laws and regulations governing the Medicare and Medi-Cal programs are complex and subject to interpretation. SFGH believes that it is in compliance with all applicable laws and regulations and is not aware of any pending or threatened investigation involving allegations of potential wrongdoing. While no such regulatory inquiries have been made, compliance with such laws and regulations can be subject to future government review and interpretation as well as significant regulatory action including fines, penalties and exclusion from the Medicare and Medi-Cal programs.

During the year ended June 30, 2018, SFGH's patient receivables and charges for services were as follows (in thousands):

Patient Receivables, Net

	Medi-Cal	Medicare	Other	Total
Gross Accounts Receivable	$ 315,355	$ 174,991	$ 116,471	$ 606,817
Less:				
Contractual Allowances	(270,503)	(221,423)	(18,427)	(510,353)
Provision for Bad Debt	-	-	(27,546)	(27,546)
Total, Net Accounts Receivable	$ 44,852	$ (46,432)	$ 70,498	$ 68,918

Net Patient Service Revenue

	Medi-Cal	Medicare	Other	Total
Gross Patient Service Revenue	$ 1,911,779	$ 910,104	$ 965,147	$ 3,787,030
Less:				
Contractual Adjustment	(1,743,937)	(764,416)	(396,875)	(2,905,228)
Bad Debt Write Off	-	-	(116,338)	(116,338)
Total, Net Patient Service Revenue	$ 167,842	$ 145,688	$ 451,934	$ 765,464

California's initial 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 (FFS) cost-based reimbursements for inpatient hospital services; 2) Medi-Cal Disproportionate Share Hospital (DSH) payments; 3) distribution from a pool of federal funding for uninsured care, known as the Safety Net Care Pool (SNCP); 4) unreimbursed cost of physician and non-physician practitioner services; and 5) costs applicable to the Coverage Initiative. In addition, the Bridge to Reform program also covered the Low Income Health Program (LIHP), which includes Medicaid Coverage Expansion (MCE) and Health Care Coverage Initiative (HCCI) previously called Coverage Initiative; and Delivery System Reform Incentive Pool (DSRIP) program, which is a subset of SNCP. The non-federal share of these five types of payments was provided by the public hospitals, rather than the State, primarily through Certified Public Expenditures (CPE), whereby a hospital expended its local funding for services to draw down the federal financial participation (FFP) calculated using FMAP. The FAMP rate was 50% for all years covered by the Bridge to Healthcare Reform Waivers dating back to 2010. For the inpatient hospital cost-based reimbursement, each hospital provided its own CPE and received the resulting federal match. For the DSH and SNCP distributions, the CPEs of all the public hospitals were used in the aggregate to draw down the federal match. SFGH reported its CPEs to the DHCS each fiscal year through submission of the State mandated "Paragraph 14" Workbook (P14). Revenues recognized under the Waiver approximated $32.3 million for the year ended June 30, 2018.

The Bridge to Health Care Reform Waiver expired October 31, 2015. On December 30, 2015, the CMS approved California Medi-Cal 2020 Demonstration waiver, 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 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 of 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 Health Care 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.

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 $88.9 million for the year ended June 30, 2018.

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 year ended June 30, 2018, reimbursement under the Short-Doyle Program amounted to approximately $6.4 million and is included in net patient service revenue.

Unearned Credits and Other Liabilities - As of June 30, 2018, SFGH recorded approximately $338.1 million in unearned credits and other liabilities, which was comprised of $300.4 million in unearned credits mainly related to receipts under DSH/SNCP, LIHP, and AB915 programs, and $37.7 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 $244.3 million and estimated costs and expenses to provide charity care were $65.6 million in fiscal year 2018.

Other Revenues – With California electing to implement a State-run Medicaid Expansion afforded by the ACA, 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 $3.9 million in fiscal year 2014-2015 and $12 million in fiscal year 2016 for the City and withheld those amounts from health realignment remittances to the City. A final reconciliation has been conducted for fiscal year 2014-15 showing $0 realignment to be redirected. A final reconciliation will be conducted prior to June 30, 2019 for fiscal year 2016-17. For the year ended June 30, 2018, SFGH recognized $57.3 million of realignment funding.

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, 2018, was approximately $167.4 million.

Gift – From fiscal year 2014-2015 through fiscal year 2015-2016, SFGH has received $62.4 million 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, 2018, SFGH has spent $43.0 million from the gift on acquisition of FF&E as stipulated by the donor and recorded the remaining $19.4 million as restricted net position.

(Dollars in Thousands)

Commitments and Contingencies – As of June 30, 2018, SFGH had outstanding commitments with third parties for capital projects totaling $3.1 million.

(h) San Francisco Wastewater Enterprise

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

The Wastewater Enterprise collects, transmits, treats, and discharges sanitary and stormwater flows, generated within the City, for the protection of public health and environmental safety. In addition, the Wastewater Enterprise serves, on a contractual basis, certain municipal customers located outside of the City limits, including the North San Mateo County Sanitation District No. 3, Bayshore Sanitary District, and the City of Brisbane. The Wastewater Enterprise recovers, cost of service, through user fees based on the volume and strength of sanitary flow. The Wastewater Enterprise serves approximately 147,711 residential accounts, which discharge about 16.5 million units of sanitary flow per year (measured in hundreds of cubic feet, or ccf) and approximately 16,257 non-residential accounts, which discharge about 7.8 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.

The original amount of revenue bonds issued, total principal and interest remaining, principal and interest paid during fiscal year 2018, 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	1,602,132
Bond principal and interest paid in the fiscal year	47,003
Net revenues	184,739
Funds available for revenue debt service	338,335

Commitments and Contingencies – As of June 30, 2018, the Wastewater Enterprise had outstanding commitments, with third parties, for capital projects and for materials and services totaling $226.0 million.

Pollution Remediation Obligations – As of June 30, 2018, the Wastewater Enterprise recorded $4.7 million in pollution remediation liability, consisting of $4.5 million cleanup cost estimate at the Yosemite Creek site, and $0.2 million for the hazardous materials at the Southeast Wastewater Treatment 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 purchased power from Hetch Hetchy Power totaling $10.2 million for the year ended June 30, 2018. The Department of Public Works provides certain engineering and other services to the Wastewater Enterprise and the total charge was $14.4 million for the year ended June 30, 2018. 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 $11.8 million for the year ended June 30, 2018, 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.

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.

(Dollars in Thousands)

(a) Capital Assets Held by the Successor Agency

For the year ended June 30, 2018, the summary of changes in capital assets is as follows:

	Balance June 30, 2017	Additions	Deletions	Transfers	Balance June 30, 2018
Capital assets not being depreciated:					
Land held for lease	$ 44,735	$ -	$ -	$ (26,210)	$ 18,525
Construction in progress	253	-	-	(253)	-
Total capital assets not being depreciated	44,988	-	-	(26,463)	18,525
Capital assets being depreciated:					
Furniture and equipment - General	8,144	-	-	(5,560)	2,584
Building and improvements	205,843	-	(3,645)	(163,725)	38,473
Total capital assets being depreciated	213,987	-	(3,645)	(169,285)	41,057
Less accumulated depreciation for:					
Furniture and equipment	(8,113)	(9)	-	5,560	(2,562)
Building and improvements	(98,400)	(5,035)	1,002	84,635	(17,798)
Total accumulated depreciation	(106,513)	(5,044)	1,002	90,195	(20,360)
Total capital assets being depreciated, net	107,474	(5,044)	(2,643)	(79,090)	20,697
Total capital assets, net	$ 152,462	$ (5,044)	$ (2,643)	$ (105,553)	$ 39,222

In accordance with the Dissolution Law and the ROPS, the Successor Agency is required to transfer the Yerba Buena Gardens (YBG) properties to the City at no cost by the end of the year ended June 30, 2018. During June 2018, the Successor Agency agreed to: 1) transfer the YBG properties; 2) transfer the leases and operating agreements related to YBG necessary to continue uninterrupted operations; and 3) funds held in the separate cash account to the City. The transferred assets totaled to $116.7 million, which is comprised of capital assets with net book value of $105.6 million and funds held in the separate cash account of $11.1 million. The transfer of these assets was recorded as a deduction in the Statement of Changes in Fiduciary Net Position and as a special item in the Real Property Fund and in Governmental Activities.

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

Entity and Type of Obligation	Final Maturity Date	Remaining Interest Rate	Amount
Hotel tax revenue bonds [(a)]	2025	5.00%	$ 27,715
Tax allocation revenue bonds [(b)]	2047	1.45% - 8.41%	920,246
California Department of Boating and Waterways Loan [(C)]	2037	4.50%	6,392
Total long-term bonds and loans			$ 954,353

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 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 November 30, 2017, the Successor Agency issued Tax Allocation Refunding Bonds Series 2017 D (2017 Series D Bonds) for $116.7 million and Tax Allocation Refunding Bonds Series 2017 E (2017 Series E Bonds) for $19.7 million.

(Dollars in Thousands)

Proceeds from the 2017 Series D Bonds, along with cash on hand, were used to refund Tax Allocation Bonds Series 2009 B, Series 2010 A, and Series 2011 A in the amount of $10.2 million, $38.0 million, and $20.8 million, respectively, and advance refund a portion of Series 2009 A and Series 2009 E in the amount of $34.3 million and $10.7 million, respectively. The refunding resulted in net present value savings of $25.3 million and an accounting loss of $15.5 million. The 2017 Series D Bonds bear fixed interest rates ranging from 1.63% to 3.75% and reach final maturity on August 1, 2041.

Proceeds from the 2017 Series E Bonds, along with cash on hand, were used to refund Tax Allocation Bonds Series 2009 F and Series 2011 B in the amount of $6.2 million and $16.0 million, respectively. The refunding resulted in net present value savings of $5.9 million and an accounting loss of $2.8 million. The 2017 Series E Bonds bear fixed interest rates ranging from 3.00% to 5.00% and reach final maturity on August 1, 2041.

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 2047, the final maturity date of the bonds. The total principal and interest remaining on these bonds is approximately $1.56 billion. The redevelopment property tax revenues recognized during the year ended June 30, 2018, were $152.6 million against the total debt service payment of $89.0 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 2025, the final maturity of the bonds. The total principal and interest remaining on the Hotel Tax Revenue Bonds is approximately $33.3 million. The hotel tax revenue recognized during the year ended June 30, 2018 was $3.4 million against the total debt service payment of $4.9 million.

The changes in long-term obligations for the Successor Agency for the year ended June 30, 2018, are as follows:

	July 1, 2017	Additional Obligations, Interest Accretion and Net Increases	Current Maturities, Retirements, and Net Decreases	June 30, 2018
Bonds payable:				
Tax revenue bonds	$ 1,001,376	$ 136,410	$ (189,825)	$ 947,961
Less unamortized amounts:				
For issuance premiums	49,655	1,398	(2,988)	48,065
For issuance discounts	(3,686)	(883)	1,480	(3,089)
Total bonds payable	1,047,345	136,925	(191,333)	992,937
Accreted interest payable	49,441	8,268	-	57,709 [1]
Notes, loans, and other payables	6,630	-	(238)	6,392
Accrued vacation and sick leave pay	730	635	(413)	952
Successor Agency - long term obligations	$ 1,104,146	$ 145,828	$ (191,984)	$ 1,057,990

[1] Amounts represent interest accretion on Capital Appreciation Bonds.

(Dollars in Thousands)

As of June 30, 2018, 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
2019.............	$ 64,905	$ 37,257	$ 248	288	$ 65,153	$ 37,545
2020.............	62,937	38,111	259	276	63,196	38,387
2021.............	64,992	36,826	271	265	65,263	37,091
2022.............	62,571	36,957	283	253	62,854	37,210
2023.............	54,053	42,882	296	240	54,349	43,122
2024-2028.....	165,937	177,781	1,693	986	167,630	178,767
2029-2033.....	154,056	129,775	2,110	570	156,166	130,345
2030-2038.....	156,917	92,080	1,232	102	158,149	92,182
2039-2043.....	116,144	42,394	-	-	116,144	42,394
2044-2047.....	45,449	7,549	-	-	45,449	7,549
Total..........	$ 947,961	$ 641,612	$ 6,392	$ 2,980	$ 954,353	$ 644,592

* Includes payment of accreted interest

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 prior years, interest was accrued quarterly at an annual rate of 3% on the principal balance due to the City, however, during the year ended June 30, 2018, the DOF determined that since the borrowing is not considered an agreement between the former Agency and the City, the Successor Agency is not authorized to accrue interest on the borrowing. As a result, accrued interest of $3.2 million was written off during the year. The Successor Agency made payments in the amount of $1.8 million to the City during the year ended June 30, 2018, and the outstanding payable balance was $8.2 million.

As of June 30, 2018, the Successor Agency also has a payable to the City in the amount of $1.7 million for services provided and $1.6 million for the remaining funds held in the separate cash account for the YBG transfer.

(c) Commitments and Contingencies Related to the Successor Agency

Encumbrances - At June 30, 2018, the Successor Agency had outstanding encumbrances totaling approximately $12.0 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.

(Dollars in Thousands)

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, 2018, the Successor Agency has exercised several of the lease options. The leases require the following minimum annual payments:

Fiscal Years			Fiscal Years		
2019	$	870	2024-2028	$	4,351
2020		870	2029-2033		4,351
2021		870	2034-2038		4,351
2022		870	2039-2043		4,351
2023		870	2044-2048		4,351
			2049-2051		1,958
			Total	$	28,063

Rent payments totaling $1.5 million are included in the Successor Agency's financial statements for the year ended June 30, 2018.

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		
2019	$	592	2029-2033	$	2,658
2020		592	2034-2038		2,523
2021		593	2039-2043		2,470
2022		630	2044-2048		2,470
2023		532	2049-2050		988
2024-2028		2,658			
			Total	$	16,706

For the year ended June 30, 2018, operating lease rental income for noncancelable operating leases was $11.6 million, of which $6.3 million represents contingent rental income received. At June 30, 2018, the leased assets had a net book value of $27.2 million.

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, 2018, the Successor Agency disbursed $57.4 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, 2018, the gross value of the notes and mortgage receivable was $234.0 million and the allowance for uncollectible amounts was $232.4 million.

Special Assessment Debt without Commitment - Various community facility district bonds have been issued by the former Agency on behalf of various property owners who retain full responsibility for the repayment of the debt. When these obligations are issued, they are secured by 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 the property owners. At June 30, 2018, the Successor Agency had outstanding community facility district bonds totaling $185.6 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, 2018, the Successor Agency distributed $13.7 million 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.

The services provided by TIDA include administering the acquisition of former Naval Station Treasure Island with the U.S. Navy and implementing the Treasure Island Development Project; renting existing Treasure Island facilities including commercial facilities and approximately 650 housing units to generate revenues to cover operating costs; maintaining Treasure Island utilities, facilities and other infrastructure; and overseeing the U.S. Navy's 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 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).

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. 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.

(Dollars in Thousands)

On May 29, 2015, the Navy made the first transfer of property to TIDA consisting of 275 acres on Yerba Buena and Treasure Islands and the offshore submerged lands. This has been followed by three smaller transfers with full transfer of the former base expected to be completed in 2022. Existing structures on Yerba Buena were demolished between February and August 2016, and structures in the first area of development on Treasure Island were demolished between July 2016 and February 2017. The first infrastructure construction projects on Yerba Buena Island – new water reservoirs and new roadways, utilities, and related facilities – are underway, with vertical construction beginning in 2019, and the first new homes ready for occupancy in 2021. The first subphase area on Treasure Island is undergoing geotechnical improvement of soil conditions prior to the construction of new utility and roadway infrastructure. The complete build-out of the project is anticipated to occur over fifteen to twenty years.

As of June 30, 2018, TIDA has the following payables to other City departments:

		6/30/2018		
Payable to	Purpose	Current	Noncurrent	Total
SFCTA	YBI and mobility management expenses	$ 1,004	$ -	$ 1,004
Hetch Hetchy	Utility operations under MOU	28	-	28
Hetch Hetchy	Energy efficiency project	-	2,599	2,599
		$ 1,032	$ 2,599	$ 3,631

(Dollars in Thousands)

(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, 2018 is as follows:

Receivable Fund	Payable Fund	Amount
General Fund	Nonmajor Governmental Funds	$ 8,409
	San Francisco Water Enterprise	96
	San Francisco International Airport	96
		8,601
Nonmajor Governmental Funds	General Fund	566
	Nonmajor Governmental Funds	5,884
	Internal Service Funds	2,062
	Municipal Transportation Agency	2,589
		11,101
General Hospital Medical Center	Nonmajor Governmental Funds	2
San Francisco Water Enterprise	General Fund	123
	Nonmajor Governmental Funds	165
		288
Hetch Hetchy Water and Power Enterprise	General Fund	734
	Nonmajor Governmental Funds	6,159
	General Hospital Medical Center	179
	San Francisco Wastewater Enterprise	1,061
		8,133
Municipal Transportation Agency	Nonmajor Governmental Funds	23,739
Port of San Francisco	Nonmajor Governmental Funds	440
San Francisco Wastewater Enterprise	Nonmajor Governmental Funds	116
Total		$ 52,420

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, 2018, Hetch Hetchy loaned $6.2 million to other City funds. Hetch Hetchy is also due $1.1 million from the Wastewater Enterprise for its share of costs relating to 525 Golden Gate Headquarters project for equipment.

The SFMTA has a receivable from nonmajor governmental funds of $23.7 million for capital and operating grants.

Due from component units:

Receivable Entity	Payable Entity	Amount	
Hetch Hetchy Water and Power Enterprise	Component unit – TIDA	$ 28	(1)
Nonmajor Governmental Funds	Component unit – TIDA	1,004	(1)
Nonmajor Governmental Funds	Successor Agency	3,222	(2)

Advance to component units:

Receivable Entity	Payable Entity	Amount	
Hetch Hetchy Water and Power Enterprise	Component unit – TIDA	$ 2,599	(1)
Nonmajor Governmental Funds	Successor Agency	8,214	(2)

(1) See discussion at Note 15.

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

	Transfers In: Funds (in thousands)										
Transfers Out: Funds	General Fund	Nonmajor Govern-mental Funds	Internal Service Funds	Water Enterprise	Hetch Hetchy Water and Power Enterprise	Municipal Transporta-tion Agency	San Francisco General Hospital Medical Center	Port of San Francisco	Laguna Honda Hospital	Governmen-tal Activities	Total
General Fund....................	$ -	$ 402,817	$ 414	$ 100	$ 87	$ 452,326	$ 97,373	$ -	$ 57,668	$ -	$ 1,010,785
Nonmajor governmental funds.......	9,941	103,882	-	282	-	273,672	-	-	-	-	387,777
San Francisco International Airport........	46,549	-	-	-	-	-	-	-	-	-	46,549
Water Enterprise..............	-	1,276	-	-	30,000	92	-	-	-	-	31,368
Hetch Hetchy Water and Power Enterprise........................	480	32	-	-	-	-	-	-	-	-	512
Municipal Transportation Agency.............................	-	-	-	-	-	-	-	-	-	19,737	19,737
San Francisco General Hospital Medical Center................	25,892	-	-	-	-	-	-	-	-	-	25,892
Wastewater Enterprise....	26,738	222	-	-	-	-	-	-	-	-	26,960
Laguna Honda Hospital..	2,628	4,690	-	-	-	-	-	-	-	-	7,318
Governmental Activities...	-	-	-	-	-	-	-	19	-	-	19
Total transfers out	$ 112,228	$ 512,919	$ 414	$ 382	$ 30,087	$ 726,090	$ 97,373	$ 19	$ 57,668	$ 19,737	$ 1,556,917

The $1.01 billion General Fund transfer out includes a total of $607.4 million in operating subsidies to SFMTA, SFGH, and Laguna Honda Hospital (see Note 13). The transfer of $402.8 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 mainly to provide support for various City programs and to provide resources for the payment of debt service.

San Francisco International Airport transferred $46.5 million to the General Fund, representing a portion of concession revenues (see Note 13(a)). The General Fund received transfers in of $2.9 million for interest earned by the SFGH but credited to the General Fund. The General Fund also received $23.0 million from SFGH and $2.0 million from Laguna Honda Hospital to fund the DPH project and $0.2 million for interest earned by the Laguna Honda Hospital but credited to the General Fund. Laguna Honda Hospital transferred $4.7 million to a nonmajor debt service fund for the payment of debt service, $408 to the General Fund for intergovernmental work order and $40 for Health at home services.

SFMTA received $273.7 million transfers from nonmajor governmental funds, of which $83.8 million was for capital activities, $13.6 million was for operating activities, and $176.3 million to fund various street improvement projects. In 2018, the SFMTA transferred the Union Square Garage with a book value of $19.7 million to the Recreation and Park Department, a governmental activity.

The Water Enterprise transferred $30.0 million to Hetch Hetchy Water and Power Enterprise to fund various upcountry projects, $1.3 million to the Recreation and Park Department mainly for water saving improvements at Alta Plaza and Moscone Recreation Center, $92 to San Francisco Municipal Transportation Agency for the Forest Hill Station project, and $32 to the Office of the City Administrator for the Surety Bond Program. In turn, the Water Enterprise received $100 from the City mainly for the San Francisco War Memorial Veterans Building project and $282 from the City for Earthquake Safety and Emergency projects.

The Wastewater Enterprise transferred $26.7 million to the City related to the purchase of the property adjacent to the Southeast Water Pollution Control Plant (“Southeast Plant”), $0.2 million to the Neighborhood Development Fund for the Watershed Stewardship Grants, $40 to Art Commission for art enrichment and $32 to the Office of the City Administrator for the Surety Bond Program.

(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):

Governmental Activities

Fiscal Years	
2019	$ 59,567
2020	54,419
2021	40,350
2022	35,684
2023	27,384
2024-2028	41,188
2029-2033	3,510
2034-2038	2,736
2039-2043	2,180
Total	$ 267,018

Operating lease expense incurred for governmental activities for fiscal year 2017-18 was approximately $54.7 million.

(Dollars in Thousands)

Business-type Activities

Fiscal Years	Airport	Port	SFMTA	Total Business-type Activities
2019..................	$ 201	$ 2,728	$ 15,421	$ 18,350
2020..................	-	2,728	15,418	18,146
2021..................	-	2,728	15,618	18,346
2022..................	-	2,728	14,466	17,194
2023..................	-	2,728	14,931	17,659
2024-2028.........	-	13,640	71,298	84,938
2029-2033.........	-	13,640	86,997	100,637
2034-2038.........	-	13,640	84,930	98,570
2039-2043.........	-	13,640	108,284	121,924
2044-2048.........	-	13,640	138,092	151,732
2049-2053.........	-	13,640	-	13,640
2054-2058.........	-	13,640	-	13,640
2059-2063............	-	13,640	-	13,640
2064-2068............	-	2,955	-	2,955
Total....................	$ 201	$ 125,715	$ 565,455	$ 691,371

Operating lease expense incurred for the Airport, Port, and SFMTA for fiscal year 2017-18 was $0.2 million, $2.7 million, and $18.3 million, respectively.

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

Governmental Activities

Fiscal Years	
2019.............	$ 6,131
2020.............	5,878
2021.............	5,629
2022.............	4,775
2023.............	4,374
2024-2028......	21,007
2029-2033......	18,981
2034-2038......	18,231
2039-2043......	18,231
2044-2048......	12,930
2049-2053......	559
2054-2058......	559
2059-2063......	559
2064-2068......	559
2069-2073......	559
2074-2078......	559
2079-2083.........	559
2084-2088.........	559
2089-2093.........	559
Total.............	$ 121,198

(Dollars in Thousands)

Business-type Activities

Fiscal Years	Airport	Port	SFGH	SFMTA	Total Business-type Activities
2019	$ 59,920	$ 44,864	$ 1,510	$ 6,198	$ 112,492
2020	32,748	39,331	1,555	5,076	78,710
2021	26,052	36,306	1,602	3,851	67,811
2022	22,086	33,092	1,650	1,676	58,504
2023	15,189	27,055	1,699	1,362	45,305
2024-2028	16,248	96,130	9,294	9,390	131,062
2029-2033	-	80,511	-	6,250	86,761
2034-2038	-	66,908	-	6,250	73,158
2039-2043	-	43,122	-	6,250	49,372
2044-2048	-	35,514	-	6,250	41,764
2049-2053	-	24,484	-	6,250	30,734
2054-2058	-	19,072	-	4,583	23,655
2059-2063	-	16,114	-	-	16,114
2064-2068	-	11,445	-	-	11,445
2069-2073	-	5,089	-	-	5,089
2074-2078	-	3,402	-	-	3,402
Total	$ 172,243	$ 582,439	$ 17,310	$ 63,386	$ 835,378

The Airport and Port have certain rental agreements with concessionaires, which specify that rental payments are to be based on a percentage of tenant sales, subject to a minimum amount. Concession percentage rents in excess of minimum guarantees for the Airport and Port were approximately $22.0 million and $16.8 million, respectively, in fiscal year 2017-18. 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 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 $40.6 million for fiscal year 2017-18.

Other Commitments

The Retirement System has unfunded commitments to contribute capital for real assets in the amount of $2.17 billion, private equity in the amount of $2.69 billion, private credit investments (formerly known as opportunistic fixed income) in the amount of $685.1 million, and absolute return investments in the amount of $77.5 million, which totaled $5.62 billion at June 30, 2018.

In February 2011, the Asian Art Museum Foundation (Foundation) entered into an agreement with JP Morgan Chase Bank to refinance its obligations of $97.0 million. To facilitate the refinancing, the City entered into an assurance agreement which, in the event of nonpayment by the Foundation, requires the City to seek an appropriation to make debt payments as they become due. Since the City has not legally guaranteed the debt, and the City believes that the likelihood of nonpayment by the Foundation is remote, no amount is recorded in the City's financial statements related to this agreement.

(Dollars in Thousands)

(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 limit of $1.0 billion per single occurrence and 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, active assailant liability insurance, and target range liability for the San Francisco Police Department's firearms range located at the Airport. The Airport is not required to nor carry insurance or self-insure against any risks due to land movement or seismic activity. The Airport's purchase of War Perils liability in the London markets extends coverage to terrorist acts.

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 ($150 per occurrence for the Port's cargo cranes); and 4) public officials and employee liability coverage of $5.0 million, subject to a deductible of $50 per occurrence. The Port also carries insurance coverage for employee dishonesty, auto liability, property damage for certain high value Port vehicles, water pollution, and data processing equipment. Tenants whose operations pose a significant environment risk are also required to post an environmental oversight deposit and an environmental performance deposit.

The SFMTA risk management 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 the 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-insured
b. Property	Self-insured and purchase insurance
c. Workers' Compensation	Self-insured
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, 2018, the reserve was $24.8 million. Claim liabilities are actuarially determined anticipated claims and projected timing of disbursement, considering recent claim settlement trends, inflation, and other economic social factors.

(Dollars in Thousands)

The SFMTA purchases property insurance on its 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.

Estimated Claims Payable

Numerous lawsuits are pending or threatened against the City. The City's liability as of June 30, 2018 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, 2016, resulted from the following activity:

Fiscal Year	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2016-2017	$ 277,566	$ 84,949	$ (65,346)	$ 297,169
2017-2018	297,169	134,444	(46,602)	385,011

Breakdown of the estimated claims payable at June 30, 2018 is follows:

Governmental activities:	
Current portion of estimated claims payables	$ 100,867
Long-term portion of estimated claims payable	173,813
Total	$ 274,680
Business-type activities:	
Current portion of estimated claims payables	$ 48,182
Long-term portion of estimated claims payable	62,149
Total	$ 110,331

Workers' Compensation

The City self-insures for workers' compensation coverage. The City's liability as of June 30, 2018 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, 2018 was $463.6 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, 2016, resulted from the following activity:

Fiscal Year	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
2016-2017	$ 417,428	$ 106,185	$ (87,862)	$ 435,751
2017-2018	435,751	119,174	(91,363)	463,562

(Dollars in Thousands)

Breakdown of the accrued workers' compensation liability at June 30, 2018 is as follows:

Governmental activities:	
Current portion of accrued workers' compensation liability......	$ 45,740
Long-term portion of accrued workers' compensation liability..	209,558
Total	$ 255,298
Business-type activities:	
Current portion of accrued workers' compensation liability......	$ 35,350
Long-term portion of accrued workers' compensation liability..	172,914
Total	$ 208,264

(19) SUBSEQUENT EVENTS

(a) Debt Issuance

In July 2018, the City issued $1.0 million taxable commercial paper (CP) with interest rate of 2.25% and maturity of September 2018 to refund $1.0 million of maturing CP for the 49 South Van Ness construction project and the development, acquisition, construction or rehabilitation of affordable rental housing projects.

In July 2018, the SFPUC entered into a "Water Infrastructure Finance and Innovation Act (WIFIA)" Loan Agreement ("WIFIA Loan") with the United States Environmental Protection Agency in the amount of $699.2 million. The WIFIA Loan was entered pursuant to the WIFIA authorized by Congress in 2014. The WIFIA Loan will fund 49% of the costs of the Wastewater Enterprise's Biosolids Digester Facility Project plus certain eligible expenses. Payment of the WIFIA Loan will be secured by a senior lien pledge of the Wastewater Enterprise's net revenues and is on a parity lien basis with the SFPUC's outstanding Wastewater Revenue Bonds and Clean Water State Revolving Fund (SRF) Loans entered with the California State Water Resources Control Board. The loan will bear a fixed interest rate of 3.09% for a 35-year term, with loan repayment expected to begin in fiscal year 2026, after substantial completion of project construction. There is no outstanding loan principal as of the date of this report.

In August 2018, the San Francisco Finance Corporation issued Refunding Lease Revenue Bonds Series 2018A (Open Space) and Series 2018B (Branch Library). The proceeds of the Series 2018A bonds will be used to refund certain outstanding Lease Revenue Series 2006 and Series 2007 bonds and to pay costs of execution and delivery of the Series 2018A bonds. The proceeds of the Series 2018B bonds will be used to refund certain outstanding Lease Revenue Series 2009A bonds and to pay costs of execution and delivery of the Series 2018B bonds. The Series 2018A and the Series 2018B bonds will mature from July 2019 through July 2029 and from June 2019 through June 2028, respectively. The interest rates for the Series 2018A and Series 2018B bonds are 5.0% and 4.0% to 5.0%, respectively.

In August 2018, the City issued $2.0 million and $21.0 million of tax-exempt CP with interest rates of 1.47% and 1.54%, respectively, and maturity of October 2018 to refund $22.8 million of maturing CP for capital equipment for the San Francisco General Hospital, the 49 South Van Ness construction project, and the animal care and control project.

In August 2018, the SFPUC issued its San Francisco Wastewater Revenue Bonds, 2018 Sub-Series A (SSIP) (Green Bonds), Sub-Series B (Non-SSIP), and Sub-Series C (SSIP) (Green Bonds) (the "Bonds") in an aggregate principal amount of $594.1 million. The Bonds were issued to: (1) refund approximately $25.0 million aggregate principal amount of commercial paper notes issued pursuant to the Wastewater Enterprise's Interim Project Funding Program; 2) finance and refinance a portion of the design, acquisition and construction of various capital projects in furtherance of the SFPUC's Sewer System Improvement Program (SSIP); and 3) finance and refinance a portion of the design, acquisition and construction of various capital non-SSIP projects of benefit to the SFPUC's

Wastewater Enterprise. Payment for the Bonds is secured by a senior lien pledge of Wastewater Enterprise net revenues and are on a parity lien basis with the outstanding Wastewater Revenue Bonds, Clean Water SRF loans, and the federal WIFIA Loan.

In September 2018, the City issued $13.8 million taxable CP to refinance $13.7 million maturing CP for the 49 South Van Ness project and the Affordable Rental Housing project. The CP bears interest rate of 2.20% and matured in October 2018.

In October 2018, the City issued $13.8 million taxable and $18.03 million tax-exempt CP with interest rate of 2.57% and 1.70% and maturity of January 2019 and December 2018, respectively. The CP will refinance $31.8 million maturing CP for the capital equipment for the San Francisco General Hospital, the 49 South Van Ness project, and the Affordable Rental Housing project.

In November 2018, the 1992 General Obligation Bonds, San Francisco Seismic Safety Loan Program Series 2015A, in the amount of $24.0 million were paid off by the developer, Orton/Historic Pier 70 LLC. The City issued the Series 2015A bonds, with the par value of $24.0 million in August 2015, under the 1992 Prop A to fund a Seismic Safety loan program, with the developer using the bonds proceeds.

In November 2018, the San Francisco Public Utilities Commission (SFPUC) approved Resolution No. 18-0188, which authorized an increase in the authorization of the Power Enterprise CP program from not-to-exceed $90.0 million to not-to-exceed $250.0 million of aggregate principal amount. In support of the expanded Program, Resolution No. 18-0188 also authorized the SFPUC to enter into bank credit facilities with Bank of America, N.A. and Sumitomo Mitsui Bank, each in the principal amount of $125.0 million and for terms of three years and four years, respectively; and it also authorized extending the dealer agreements with RBC Capital Markets, Barclays and Goldman Sachs for four years each.

In December 2018, the City issued $16.7 million and $1.6 million tax-exempt CP with interest rates of 1.74% and 1.60% and maturity of February 2019 and December 2018, respectively. The CP will refinance $18.3 million maturing CP for the San Francisco General Hospital capital equipment, the 49 South Van Ness, and the Animal Care and Control projects.

In December 2018, the City closed the First Amendment to its Commercial Paper Letter of Credit Reimbursement Agreement with State Street Bank and Trust Company, supporting the issuance of Taxable Lease Revenue Commercial Paper Certificates of Participation, Series 3-T and Tax-Exempt Lease Revenue Commercial Paper Certificates of Participation, Series 3, in the maximum principal amount not to exceed $100 million. The amendment stipulates a quarterly fee of 0.38% for the credit facility agreement, corresponding to the maintenance of a rating at lease Aa3/AA-/AA- from Moody's, S&P and Fitch, respectively, and extends the terms of the agreement until February 25, 2022.

In February 2019, the Airport issued $1.8 billion of its Series 2019A, Series 2019B, Series 2019C and 2019D Bonds for the purpose of financing and refinancing (through the repayment of CP) a portion of the costs of capital improvements to the Airport, funding deposits to the debt service accounts and a contingency reserve account, funding deposit to capitalized interest accounts, paying costs of issuance, and current refunding $469.0 million in outstanding Second Series Revenue Refunding Bond, Series 2009E. Moody's, S&P, and Fitch assigned credit ratings of "A1" "A+", and "A+" to these bonds. The issuance of the Series 2019A/B/C/D Bonds is subject to certain conditions being met.

In February 2019, the City issued Taxable General Obligation Bonds (Social Bonds – Affordable Housing, 2016) Series 2019A in the amount of $72.4 million, the proceeds of which will be used to (1) fund loans that finance the cost of the acquisition, improvement and rehabilitation of at-risk multi-unit residential buildings and to convert such structures to permanent affordable housing and (2) pay certain costs related to the issuance of the Series 2019A bonds. The Series 2019A bonds bear interest rates ranging from of 2.534% to 4.321% and will mature from June 2020 through June 2058.

In February 2019, the City issued Special Tax Bonds, Series 2019A and Series 2019B with a par amount of $33.7 million and $157.3 million, respectively, on behalf of the City and County of San Francisco Community Facilities District No. 2014-1 (the "District"). The Series 2019A and 2019B (the "2019 Bonds") were issued pursuant to a fiscal agreement by and between the City and Zions Bancorporation, National Association (Zions Bank) as fiscal agent, pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, and Resolution No. 2-15, as supplemented by Resolution No. 247-17. The 2019 Bonds were issued to fund a portion of the planning, design, engineering and construction of various capital improvements, fund a contribution to a debt service reserve fund securing the 2019 Bonds, capitalized a portion of interest on the 2019 Bonds, fund costs of issuance, and a prepayment of a portion of the outstanding balance on the Wells Fargo financing facility (see Note 8) in the amount of $25.0 million reducing the current outstanding balance to $78.0 million. The 2019 Bonds bear interest rates ranging from 2.632% to 4.371% with principal amortizing from September 2019 through September 2049. The 2019 Bonds are limited obligations of the City, secured and payable solely from the Special Tax Revenues and funds pledged under the Fiscal Agent Agreement. The General Fund of the City is not liable for the payment of the principal and interest on the 2019 Bonds, and neither the credit nor the taxing power of the City (except to the limited extent set forth in the Fiscal Agent Agreement) or the State of California or any political subdivision thereof is pledged to the payment of the 2019 Bonds.

(b) Ratings Change

On November 2018, S&P Global Ratings, a division of Standard & Poor's Financial Services LLC ("S&P"), raised its long-term rating on the Power Enterprise Revenue Bonds to "AA" from "A+" and affirmed Hetchy Power's "stable" outlook.

(c) Elections

On November 6, 2018, the San Francisco voters approved the following propositions that will have a fiscal impact on the City:

Proposition A – An ordinance that authorizes the City to issue $425.0 million in General Obligation Bonds to finance projects to protect the waterfront, BART and Muni infrastructure, buildings, historic piers, and roads from earthquakes, from flooding and rising seas by repairing the 100-year old Embarcadero Seawall; strengthening the Embarcadero roadway; and fortifying transit infrastructure and utilities serving residents and businesses.

Proposition C – An ordinance that imposes additional business taxes to create a dedicated fund to support services for homeless people and to prevent homelessness, including one tax of 0.175% to 0.69% on gross receipts over $50.0 million that a business receives in the City, and another tax of 1.5% on certain administrative offices' payroll expense in the City with no expiration date for these taxes.

Proposition D – An ordinance that imposes new cannabis taxes beginning in 2021, at rates ranging from 1% to 5% on gross receipts of cannabis businesses in the City where the Board could decrease or increase those rates up to 7%. The ordinance will permit the City to tax businesses that do not have a physical presence in the City, provided those business sales exceed $0.5 million annually, with no expiration date on these newly imposed and applied taxes.

Proposition E – An ordinance that annually distributes up to 1.5% of the current base hotel tax to specific arts and cultural purposes, without increasing the existing hotel tax.

(d) Others

Calpine Energy Solutions Contract Extension

In November 2018, upon expiration of the first contract term, CleanPowerSF extended its contract with Calpine Energy Solutions for an additional three-year term and increased the contract's total not-to-exceed value to $18.8 million.

PG&E Intension to File Bankruptcy – Hetchy Power and CleanPowerSF

In January 2019, Pacific Gas and Electric (PG&E) filed its Form 8-K with the Securities and Exchange Commission, which is the 15-day advance notice required by recently enacted California law that it and its wholly owned subsidiary, Pacific Gas and Electric Company (the "Utility") intends to file petitions to reorganize under Chapter 11 of the U.S. Bankruptcy Code on or about January 29, 2019. The Hetch Hetchy Water and Power and Clean PowerSF Enterprise has a number of business relationships involving PG&E in the provision of electric services to customers, including electric transmission, distribution and customer billing services. As of March 25, 2019, the Enterprise has not yet determined the impact of PG&E's intended filing to reorganize under Chapter 11 of the U.S. Bankruptcy Code, to Hetchy Power and CleanPowerSF program operations.

Jurisdictional Exchange of Asphalt Plant Property from the Department of Public Works for Wastewater Enterprise's Napoleon Site

In July 2018, the jurisdictional exchange of the Napoleon Site and Asphalt Plant Site occurred. The Wastewater Enterprise took possession of the Asphalt Plant Site while the Department of Public Works (DPW) took possession of the Napoleon Site along with the trailers and site improvements. The jurisdictional transfer is an intra-entity transfer of the assets and is treated as an even exchange with no financial impact on the financial statements. The Asphalt Plant Site is located directly across from the SFPUC's Southeast Water Pollution Control Plant facilities.

Ferry Building Lease Participation Income - Port

In October 2018, the Port of San Francisco received participation income of $10.3 million from the sale and transfer of the Ferry Building lease. A historic rehabilitation of the Ferry Building was completed through a public-private partnership in 2003. The developer entered into a 66-year ground lease expiring in 2067 with the Port.

Parcel K North Property Sale - Port

In October 2017, the Board of Supervisors approved the formation of the Pier 70 Special Use District (CFD) and a disposition and development agreement (DDA) with the Pier 70 developer. Under the terms of the DDA, the Port agreed to sell Parcel K North, a Port-owned parcel free from the public trust restrictions, to a third-party buyer. In February 2019, the Port sold the parcel with a book value of $0.2 million for approximately $24.0 million. In accordance with the DDA, the Port advanced the proceeds of the sale to the Pier 70 developer for public infrastructure improvements, in exchange for a promissory note. Interest will accrue on the unpaid principal amount at an annual rate of 3.89%, compounded quarterly.

San Francisco Housing Authority

In March 2019, the City and the San Francisco Housing Authority (SFHA), a legally separate reporting entity that provides low income housing assistance to the City's residents, received a letter from the U.S. Department of Housing and Urban Development's Office of Public and Indian Housing (HUD). HUD requested the City and the SFHA submit a Memorandum of Understanding outlining a scheduled plan of action for the City's possible assumption of the SFHA's programmatic and financial functions. The City is currently working with the SFHA to prepare a response to HUD, which HUD has requested by April 8, 2019.

REQUIRED SUPPLEMENTARY INFORMATION

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CITY AND COUNTY OF SAN FRANCISCO

Required Supplementary Information (Unaudited) –
Schedules of the City's Proportionate Share of the Net Pension Liability
June 30, 2018 *
(Dollars in Thousands)

For the year ended June 30, 2018

	City SFERS Plan	CalPERS Miscellaneous Plans: City	CalPERS Miscellaneous Plans: Transportation Authority Classic & PEPRA	CalPERS Miscellaneous Plans: Successor Agency Classic & PEPRA	CalPERS Miscellaneous Plans: Treasure Island
Proportion of net pension liability	94.0674%	-0.1388%	0.0216%	0.2751%	0.0003%
Proportionate share of the net pension liability (asset)	$ 4,697,131	$ (13,766)	$ 2,142	$ 27,280	$ 28
Covered payroll	$ 2,880,112	$ 344	$ 4,202	$ 5,042	$ -
Proportionate share of the net pension liability as a percentage of covered payroll	163.09%	-4001.74%	50.97%	541.05%	0.00%
Plan fiduciary net position as a percentage of total pension liability	81.78%	73.31%	73.31%	73.31%	73.31%

For the year ended June 30, 2017

	City SFERS Plan	CalPERS Miscellaneous Plans: City	CalPERS Miscellaneous Plans: Transportation Authority Classic & PEPRA	CalPERS Miscellaneous Plans: Successor Agency Classic & PEPRA	CalPERS Miscellaneous Plans: Treasure Island
Proportion of net pension liability	94.2175%	-0.1469%	0.0204%	0.2691%	0.0003%
Proportionate share of the net pension liability (asset)	$ 5,476,653	$ (12,711)	$ 1,765	$ 23,281	$ 27
Covered payroll	$ 2,681,695	$ 329	$ 3,644	$ 3,769	$ -
Proportionate share of the net pension liability as a percentage of covered payroll	204.22%	-3863.53%	48.44%	617.70%	0.00%
Plan fiduciary net position as a percentage of total pension liability	77.61%	74.06%	74.06%	74.06%	74.06%

For the year ended June 30, 2016

	City SFERS Plan	CalPERS Miscellaneous Plans: City	CalPERS Miscellaneous Plans: Transportation Authority Classic & PEPRA	CalPERS Miscellaneous Plans: Successor Agency Classic & PEPRA	CalPERS Miscellaneous Plans: 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

	City SFERS Plan	CalPERS Miscellaneous Plans: City	CalPERS Miscellaneous Plans: Transportation Authority Classic & PEPRA	CalPERS Miscellaneous Plans: Successor Agency Classic & PEPRA	CalPERS Miscellaneous Plans: 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 Schedules:

SFERS Plan

Benefit Changes – There were no changes in benefits during the measurement period ended June 30, 2017. The impact of benefit changes for the year ended June 30, 2017, which was $1.22 billion, was recognized immediately as pension expense.

Changes of Assumptions – For the year ended June 30, 2017, the discount rate was increased from 7.46% to 7.50%. For the year ended June 30, 2016, 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, 2016 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 decreased from 7.65% to 7.15% for the measurement period ended June 30, 2017. There were no changes of assumptions during the measurement period ended June 30, 2016. The discount rate was changed from 7.50% (net of administrative expense) in 2015 to 7.65% in 2016

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

CITY AND COUNTY OF SAN FRANCISCO

Required Supplementary Information (Unaudited) –
Schedules of Changes in Net Pension Liability and Related Ratios

June 30, 2018*

(Dollars in Thousands)

City CalPERS Safety Plan	2018	2017	2016	2015
Total pension liability:				
Service cost	$ 33,886	$ 31,141	$ 30,987	$ 32,688
Interest on the total pension liability	88,729	85,094	80,057	76,177
Changes of assumptions	75,057	-	(19,949)	-
Differences between expected and actual experience	(14,353)	950	(14,218)	-
Benefit payments, including refunds of employee contributions	(51,579)	(47,774)	(44,699)	(41,387)
Net change in total pension liability	131,740	69,411	32,178	67,478
Total pension liability, beginning	1,189,116	1,119,705	1,087,527	1,020,049
Total pension liability, ending	$ 1,320,856	$1,189,116	$ 1,119,705	$ 1,087,527
Plan fiduciary net position:				
Plan to plan resource movement	$ -	$ -	$ (4)	$ -
Contributions from the employer	30,575	23,640	20,718	20,613
Contributions from employees	10,307	14,310	15,061	15,216
Net investment income	104,383	4,731	20,469	138,628
Benefit payments, including refunds of employee contributions	(51,579)	(47,774)	(44,699)	(41,387)
Administrative expenses	(1,366)	(567)	(1,048)	-
Net change in plan fiduciary net position	92,320	(5,660)	10,497	133,070
Plan fiduciary net position, beginning	925,208	930,868	920,371	787,301
Plan fiduciary net position, ending	$ 1,017,528	$ 925,208	$ 930,868	$ 920,371
Plan net pension liability, ending	$ 303,328	$ 263,908	$ 188,837	$ 167,156
Plan fiduciary net position as a percentage of the total pension liability	77.04%	77.81%	83.14%	84.63%
Covered payroll	$ 107,812	$ 110,139	$ 109,462	$ 111,311
Plan net pension liability as a percentage of the covered payroll	281.35%	239.61%	172.51%	150.17%

Notes to Schedule:

Benefit Changes – There were no changes to benefit terms that applied to all members of the Public Agency Pool as of valuation date June 30, 2016.

Changes of Assumptions – The discount rate decreased from 7.65% to 7.15% for the measurement period ended June 30, 2017. There were no changes of assumptions during the measurement period ended June 30, 2016. The discount rate remained the same as prior year, at 7.65%. The discount rate was changed from 7.50% (net of administrative expense) in fiscal year 2015 to 7.65% in fiscal year 2016.

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

CITY AND COUNTY OF SAN FRANCISCO

Required Supplementary Information (Unaudited) –
Schedules of Changes in Total Pension Liability and Related Ratios

June 30, 2018
(Dollars in Thousands)

City Replacement Benefits Plan*	2018	2017
Plan total pension liability:		
Service cost	$ 1,605	$ 956
Interest	2,218	2,112
Changes of benefits	15,326	10,310
Changes of assumptions	(10,290)	11,516
Benefit payments	(3,164)	(1,332)
Change in net pension liability	5,695	23,562
Pension liability, beginning	78,600	55,038
Plan total pension liability, ending	$ 84,295	$ 78,600
Covered-employee payroll	$ 2,919,519	$2,681,695
Plan pension liability as a percentage of the covered-payroll	2.89%	2.93%

Notes to Schedule:

No assets are accumulated in a trust that meet the criteria in GASB Statement No. 73 to pay related benefits.

Benefit Changes – There were no changes to benefits terms for the measurement period ended June 30, 2017.

Changes of Assumptions – The discount rate was changed from 2.85% in the measurement period ended June 30, 2016 to 3.58% in the measurement period ended June 30, 2017.

* Fiscal year 2016-17 was the first year of implementation of GASB Statement No. 73, therefore only two years of information is shown.

Required Supplementary Information (Unaudited) – Schedules of Employer Contributions – Pension Plans

June 30, 2018*

(Dollars in Thousands)

For the year ended June 30, 2018	City SFERS Plan	CalPERS Miscellaneous Plans: City	CalPERS Miscellaneous Plans: Transportation Authority	CalPERS Miscellaneous Plans: Successor Agency	CalPERS Miscellaneous Plans: Treasure Island	CalPERS Safety Plan
Actuarially determined contributions	$ 582,568	$ 42	$ 403	$ 1,283	$ 6	$ 30,743
Contributions in relation to the actuarially determined contributions	(582,568)	(42)	(403)	(1,283)	(6)	(30,743)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 3,041,818	$ 390	$ 4,039	$ 5,742	$ -	$ 98,657
Contributions as a percentage of covered payroll	19.15%	10.77%	9.99%	22.34%	0.00%	31.16%

For the year ended June 30, 2017	City SFERS Plan	CalPERS Miscellaneous Plans: City	CalPERS Miscellaneous Plans: Transportation Authority	CalPERS Miscellaneous Plans: Successor Agency	CalPERS Miscellaneous Plans: Treasure Island	CalPERS Safety Plan
Actuarially determined contributions	$ 519,073	$ 35	$ 293	$ 970	$ 2	$ 27,190
Contributions in relation to the actuarially determined contributions	(519,073)	(35)	(293)	(970)	(2)	(27,190)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 2,880,112	$ 344	$ 4,202	$ 5,042	$ -	$ 107,812
Contributions as a percentage of covered payroll	18.02%	10.17%	6.97%	19.24%	0.00%	25.22%

For the year ended June 30, 2016	City SFERS Plan	CalPERS Miscellaneous Plans: City	CalPERS Miscellaneous Plans: Transportation Authority	CalPERS Miscellaneous Plans: Successor Agency	CalPERS Miscellaneous Plans: Treasure Island	CalPERS Safety Plan
Actuarially determined contributions	$ 496,343	$ 33	$ 280	$ 828	$ 2	$ 23,640
Contributions in relation to the actuarially determined contributions	(496,343)	(33)	(280)	(828)	(2)	(23,640)
Contribution deficiency (excess)	$ -	$ -	$ -	$ -	$ -	$ -
Covered payroll	$ 2,681,695	$ 329	$ 3,644	$ 3,769	$ -	$ 110,139
Contributions as a percentage of covered payroll	18.51%	10.03%	7.68%	21.97%	0.00%	21.46%

For the year ended June 30, 2015	City SFERS Plan	CalPERS Miscellaneous Plans: City	CalPERS Miscellaneous Plans: Transportation Authority	CalPERS Miscellaneous Plans: Successor Agency	CalPERS Miscellaneous Plans: Treasure Island	CalPERS Safety Plan
Actuarially determined contributions**	$ 556,511	$ 31	$ 400	$ 598	$ 2	$ 20,718
Contributions in relation to the actuarially determined contributions	(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%

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

** 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.

Required Supplementary Information (Unaudited) –
Schedules of Employer Contributions – Pension Plans (Continued)
June 30, 2018*
(Dollars in Thousands)

Methods and assumptions used to determine FY 2017-18 contribution rates to SFERS Plan

Valuation date................................	July 1, 2016
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 smoothed market
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 2016-17 contribution rates to SFERS Plan

Valuation date................................	July 1, 2015
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 smoothed market
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 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 smoothed market
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 2014-15 contribution rates to SFERS Plan

Valuation date................................	July 1, 2013
Actuarial cost method......................	Entry-age normal cost method
Amortization method........................	Level annual percentage of payroll
Remaining amortization period.........	Rolling 15-year period
Asset valuation method....................	5 year smoothed market
Investment rate of return..................	7.58% (net of investment expenses)
Inflation..	3.33% compounded annually
Projected salary increase................	Wage inflation component: 3.83%

CITY AND COUNTY OF SAN FRANCISCO

Required Supplementary Information (Unaudited) –
Schedules of Employer Contributions – Pension Plans (Continued)

June 30, 2018*

(Dollars in Thousands)

Methods and assumptions used to determine FY 2017-18 contribution rates to CalPERS plans

Valuation date................................	June 30, 2016 updated to June 30, 2017
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...................	Actuarial Value of Assets
Investment rate of return.................	7.50% (net of pension plan investment expense, including inflation)
Projected salary increase................	Varies by Entry-Age and Service
Inflation...	2.75%
Payroll growth................................	3.00%

Methods and assumptions used to determine FY 2016-17 contribution rates to CalPERS plans

Valuation date................................	June 30, 2015 updated to June 30, 2016
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...................	Actuarial Value of Assets
Investment rate of return.................	7.50% (net of pension plan investment expense, including inflation)
Projected salary increase................	Varies by Entry-Age and Service
Inflation...	2.75%
Payroll growth................................	3.00%

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

Valuation date................................	June 30, 2014 updated to June 30, 2015
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 pension plan investment expense, including inflation)
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%.

Required Supplementary Information (Unaudited) –
Schedules of Employer Contributions – Pension Plans (Continued)
June 30, 2018*
(Dollars in Thousands)

Methods and assumptions used to determine FY 2014-15 contribution rates to CalPERS plans

Valuation date................................	June 30, 2013 updated to June 30, 2014
Actuarial cost method.....................	Entry-age normal cost method
Amortization method.......................	Level percent of payroll
Amortization period........................	7 years as of the valuation date (Miscellaneous) 25 years as of the valuation date (Safety)
Asset valuation method...................	15-year smoothed market
Investment rate of return.................	7.50% (net of pension plan investment expense, including inflation)
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) –
Schedule of Changes in Net Other Postemployment Benefits Liability and Related Ratios
Other Postemployment Healthcare Benefits Plan

June 30, 2018
(Dollars in Thousands)

	2018		
	City Plan	Successor Agency	Transportation Authority
Total OPEB Liability			
Service cost (BOY)	$ 125,195	$ 159	$ 122
Interest (includes interest on service cost)	272,942	692	117
Benefit payments, including refunds of member contributions	(165,470)	(797)	(64)
Net change in total OPEB liability	**232,667**	**54**	**175**
Total OPEB liability - beginning	**3,659,019**	**10,208**	**1,573**
Total OPEB liability - ending	**3,891,686**	**10,262**	**1,748**
Plan fiduciary net position			
Contributions - employer	183,898	1,097	166
Contributions - member	31,686	-	-
Net investment income	17,368	353	134
Benefit payments, including refunds of member contributions	(165,470)	(797)	(64)
Administrative expense	(109)	(3)	(1)
Net change in plan fiduciary net position	**67,373**	**650**	**235**
Plan fiduciary net position - beginning	**107,104**	**3,275**	**1,268**
Plan fiduciary net position - ending	**174,477**	**3,925**	**1,503**
Net OPEB liability - ending	**$ 3,717,209**	**$ 6,337**	**$ 245**
Plan fiduciary net position as a percentage of the total OPEB liability	4.5%	38.2%	86.0%
Covered payroll	$ 3,393,658	$ 5,042	$ 3,946
Net OPEB liability as a percentage of covered payroll	109.5%	125.7%	6.2%

* Fiscal year 2017-18 was the first year of implementation of GASB No. 75, therefore only one year of information is shown.

CITY AND COUNTY OF SAN FRANCISCO

Required Supplementary Information (Unaudited) –
Schedule of Employer Contributions
Other Postemployment Healthcare Benefits Plans
June 30, 2018
(Dollars in Thousands)

	For the year ended June 30, 2018		
	City Plan	Successor Agency	Transportation Authority
Charter required or actuarially determined contributions (ADC)	$ 203,858	$ 813	$ 143
Contributions in relation to the charter required contribution or ADC	(203,858)	(2,932)	(143)
Contribution deficiency/(excess)	$ -	$ (2,119)	$ -
Covered payroll	$ 3,729,138	$ 5,742	$ 4,045
Contributions as a percentage of covered payroll	5.47%	14.16%	3.54%

	For the year ended June 30, 2017		
	City Plan	Successor Agency	Transportation Authority
Charter required or actuarially determined contributions (ADC)	$ 183,898	$ 804	$ 165
Contributions in relation to the charter required contribution or ADC	(183,898)	(1,097)	(165)
Contribution deficiency/(excess)	$ -	$ (293)	$ -
Covered payroll	$ 3,393,658	$ 5,042	$ 3,946
Contributions as a percentage of covered payroll	5.42%	15.95%	4.18%

* Fiscal year 2017-18 was the first year of implementation of GASB No. 75, and only two years of information is available.

Notes to Schedule:

Contributions to the City plan are set by the Charter and are not actuarially determined. Employee and City and County contributions to the RHCTF are a fixed percent of pay that varies dependent on the employee's hire date, the year in which the payment is being made, and whether the Trust is fully funded.

The Transportation Authority and Successor Agency calculate their annual required contributions on an actuarially determined basis. The methods and assumptions used to determine the fiscal year 2017-18 contribution rates for the plans are as follows:

	For the year ended June 30, 2018	
Actuarial Assumption	**Successor Agency**	**Transportation Authority**
Actuarial Valuation Date	June 30, 2017	June 30, 2017
Actuarial Cost Method	Entry age normal cost method	Entry age normal cost method
Asset Valuation Method	Actuarial value of assets	Actuarial value of assets
General Inflation	2.75%, per annum	3.00% per annum
Salary Increases	3.00%, per annum	3.25% per annum, in aggregate
Mortality, Turnover, Disability, and Retirement	CalPERS Experience Study for the period from 1997 to 2011	CalPERS Experience Study for the period from 1997 to 2015
Healthcare Cost Trend Rate	4.00%	Initial 7% for medicare eligibles, 9% for spouse of medicare eligibles and 4.5% non-medicare eligibles, all grading down to 4%
Investment Rate of Return	7.00%	7.28%

CITY AND COUNTY OF SAN FRANCISCO

Required Supplementary Information (Unaudited) – Budgetary Comparison Schedule - General Fund

Year Ended June 30, 2018
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Budgetary Fund Balance, July 1	$ 187,182	$ 1,999,334	$ 1,999,334	$ -
Resources (Inflows):				
Property taxes	1,557,000	1,557,000	1,660,976	103,976
Business taxes	750,820	750,820	897,076	146,256
Other local taxes:				
Sales and use tax	199,940	199,940	192,946	(6,994)
Hotel room tax	372,320	372,320	382,176	9,856
Utility users tax	99,720	99,720	94,460	(5,260)
Parking tax	82,180	82,180	83,484	1,304
Real property transfer tax	300,000	300,000	280,416	(19,584)
Other local taxes	58,410	58,410	60,287	1,877
Licenses, permits and franchises:				
Licenses and permits	12,712	12,712	11,813	(899)
Franchise tax	17,252	17,252	16,990	(262)
Fines, forfeitures, and penalties	4,579	4,579	8,180	3,601
Interest and investment income	18,180	18,615	50,431	31,816
Rents and concessions:				
Garages - Recreation and Park	8,442	8,442	7,829	(613)
Rents and concessions - Recreation and Park	5,041	5,041	5,940	899
Other rents and concessions	606	606	597	(9)
Intergovernmental:				
Federal grants and subventions	263,959	242,476	234,055	(8,421)
State subventions:				
Social service subventions	122,190	114,649	94,211	(20,438)
Health / mental health subventions	211,835	184,792	190,253	5,461
Health and welfare realignment	260,626	260,626	277,723	17,097
Public safety sales tax	101,640	101,640	104,849	3,209
Other grants and subventions	55,624	57,837	61,651	3,814
Other	3,293	3,529	3,941	412
Charges for services:				
General government service charges	78,207	78,207	73,815	(4,392)
Public safety service charges	43,225	43,225	42,445	(780)
Recreation charges - Recreation and Park	21,124	21,124	21,655	531
MediCal, MediCare and health service charges	100,261	100,286	111,994	11,708
Other financing sources:				
Transfers from other funds	171,122	232,032	232,032	-
Repayment of loan from component unit	110	110	-	(110)
Other resources (inflows)	39,959	40,130	14,367	(25,763)
Subtotal - Resources (Inflows)	4,960,377	4,968,300	5,216,592	248,292
Total amounts available for appropriation	5,147,559	6,967,634	7,215,926	248,292

CITY AND COUNTY OF SAN FRANCISCO

Required Supplementary Information (Unaudited) – Budgetary Comparison Schedule - General Fund (continued)

Year Ended June 30, 2018
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
Charges to Appropriations (Outflows):				
Public Protection				
Adult Probation	$ 31,383	$ 31,968	$ 30,525	$ 1,443
District Attorney	54,454	53,935	53,699	236
Emergency Communications	54,800	54,046	53,857	189
Fire Department	349,859	353,036	353,036	-
Juvenile Probation	39,438	34,983	33,893	1,090
Police Department	516,026	517,929	517,836	93
Public Defender	35,991	36,260	36,037	223
Police Accountability	7,192	6,936	6,015	921
Sheriff	205,110	196,452	196,452	-
Superior Court	31,324	31,325	31,094	231
Subtotal - Public Protection	1,325,577	1,316,870	1,312,444	4,426
Public Works, Transportation and Commerce				
Board of Appeals	1,039	1,124	1,005	119
Business and Economic Development	49,365	46,531	34,223	12,308
General Services Agency - Public Works	125,033	181,865	179,562	2,303
Public Utilities Commission	-	7,360	7,360	-
Municipal Transportation Agency	-	1,684	1,680	4
Subtotal - Public Works, Transportation and Commerce	175,437	238,564	223,830	14,734
Human Welfare and Neighborhood Development				
Children, Youth and Their Families	38,836	42,544	42,413	131
Commission on the Status of Women	7,664	8,171	7,891	280
County Education Office	116	116	116	-
Homelessness and Supportive Housing	186,590	165,467	164,799	668
Human Rights Commission	4,292	4,275	4,179	96
Human Services	753,742	756,304	727,337	28,967
Mayor - Housing/Neighborhoods	77,889	70,581	52,312	18,269
Subtotal - Human Welfare and Neighborhood Development	1,069,129	1,047,458	999,047	48,411
Community Health				
Public Health	884,393	832,663	830,360	2,303
Culture and Recreation				
Academy of Sciences	6,468	7,230	7,222	8
Arts Commission	11,923	9,015	8,939	76
Asian Art Museum	10,267	10,105	10,003	102
Fine Arts Museum	17,444	16,818	16,781	37
Law Library	1,856	1,858	1,482	376
Recreation and Park Commission	105,389	97,002	97,002	-
War Memorial	-	53	53	-
Subtotal - Culture and Recreation	153,347	142,081	141,482	599

CITY AND COUNTY OF SAN FRANCISCO

Required Supplementary Information (Unaudited) –
Budgetary Comparison Schedule - General Fund (continued)

Year Ended June 30, 2018
(In Thousands)

	Original Budget	Final Budget	Actual Budgetary Basis	Variance Positive (Negative)
General Administration and Finance				
Assessor/Recorder	$ 33,398	$ 24,587	$ 23,596	$ 991
Board of Supervisors	15,528	15,152	14,166	986
City Attorney	17,623	14,065	9,936	4,129
City Planning	45,000	45,776	43,910	1,866
Civil Service	890	883	810	73
Controller	11,804	14,941	14,941	-
Elections	14,797	14,004	13,681	323
Ethics Commission	4,788	6,949	6,131	818
General Services Agency - Administrative Services	72,879	57,654	56,926	728
General Services Agency - Technology	3,586	3,804	3,804	-
Health Service System	406	514	377	137
Human Resources	15,702	17,129	16,737	392
Mayor	6,232	6,239	6,239	-
Retirement Services	1,215	1,329	1,329	-
Treasurer/Tax Collector	36,354	36,890	32,187	4,703
Subtotal - General Administration and Finance	280,202	259,916	244,770	15,146
General City Responsibilities				
General City Responsibilities	126,890	114,219	111,767	2,452
Other financing uses:				
Debt service	14,894	236	178	58
Transfers to other funds	1,072,550	1,009,967	1,009,966	1
Budgetary reserves and designations	45,140	-	-	-
Total charges to appropriations	5,147,559	4,961,974	4,873,844	88,130
Total Sources less Current Year Uses	$ -	$ 2,005,660	$ 2,342,082	$ 336,422

Budgetary fund balance, June 30 before reserves and designations	$ 2,342,082
Reserves and designations made from budgetary fund balance not available for appropriation	(1,382,687)
Reserves for Litigation and Contingencies and General Reserves	(342,803)
Net Available Budgetary Fund Balance, June 30	$ 616,592

Sources/inflows of resources	
Actual amounts (budgetary basis) "available for appropriation"	$ 7,215,926
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	(1,999,334)
Property tax revenue - Teeter Plan net change from prior year	12,974
Change in unrealized gain/(loss) on investments	(19,405)
Interest earnings / charges from other funds assigned to General Fund as interest adjustment	(14,781)
Interest earnings from other funds assigned to General Fund as other revenues	11,383
Grants, subventions and other receivables received after 60-day recognition period	14,740
Prepaid lease revenue, Civic Center Garage	84
Transfers from other funds are inflows of budgetary resources, but are not revenues for financial reporting purposes	(232,032)
Total revenues as reported on the statement of revenues, expenditures and changes in fund balance - General Fund	$ 4,989,555

Uses/outflows of resources	
Actual amounts (budgetary basis) "total charges to appropriations"	$ 4,873,844
Difference - budget to GAAP:	
Recognition of expenditures for advances and imprest cash and capital asset acquisition for internal service fund	(66)
Intergovernmental expense offset	(124,052)
Transfers to other funds are outflows of budgetary resources but are not expenditures for financial reporting purposes	(1,009,966)
Total expenditures as reported on the statement of revenues, expenditures and changes in fund balance - General Fund	$ 3,739,760

Notes to Budgetary Schedule:

(a) 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 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 budgetary comparison schedule 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 budgetary comparison schedule for the General Fund. Final budgetary data excludes the amount reserved for encumbrances for appropriate comparison to actual expenditures.

(b) 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 GAAP. The results of operations are presented in the budget-to-actual comparison schedule 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.

Required Supplementary Information (Unaudited) –
Budgetary Comparison Schedule - General Fund (continued)
Year Ended June 30, 2018
(In Thousands)

The fund balance of the General Fund as of June 30, 2018, on a Budget basis is reconciled to the fund balance on a GAAP basis as follows:

Fund Balance - Budget Basis	$ 2,342,082
Unrealized Gains/ (Losses) on Investments	(20,602)
Cumulative Excess Property Tax Revenues Recognized on a Budget Basis	(25,495)
Cumulative Excess Health, Human Services, Franchise and Other Revenues Recognized on a Budget Basis	(68,958)
Pre-paid lease revenue	(6,598)
Nonspendable Fund Balance (Assets Reserved for Not Available for Appropriation)	1,512
Fund Balance - GAAP basis	$ 2,221,941

General Fund budget basis fund balance as of June 30, 2018 is composed of the following:

Not available for appropriations:		
Restricted Fund Balance:		
Rainy Day - Economic Stabilization Reserve	$ 89,309	
Rainy Day - One Time Spending Account	54,668	
Committed Fund Balance:		
Budget Stabilization Reserve	369,958	
Recreation and Parks Expenditure Saving Reserve	1,740	
Assigned for Encumbrances	345,596	
Assigned for Appropriation Carryforward	423,835	
Assigned for Subsequent Years' Budgets:		
Budget Savings Incentive Program City-wide	73,650	
Salaries and benefits costs (MOU)	23,931	
Subtotal		$ 1,382,687
Available for appropriations:		
Assigned for Litigation and Contingencies	235,925	
Assigned balance subsequently appropriated as part of the General Fund budget for use in fiscal year 2018-19	188,562	
Unassigned - General Reserve	106,878	
Unassigned - Budgeted for use in fiscal year 2019-20	223,251	
Unassigned - Reserve for Other Contingencies	160,000	
Unassigned - Available for future appropriations	44,779	
Subtotal		959,395
Fund Balance, June 30, 2018 - Budget basis		$ 2,342,082

SINGLE AUDIT SECTION

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				
Passed through State of California Department of Education				
Child Nutrition Cluster				
School Breakfast Program	10.553	02502-SN-38-R	$ 38,847	$ -
National School Lunch Program	10.555	02502-SN-38-R	61,606	-
Summer Food Service Program for Children	10.559	04029-SFSP-38	337,601	-
Subtotal Child Nutrition Cluster			438,054	-
Child and Adult Care Food Program	10.558	04029-CACFP-38	469,534	-
Passed through State of California Department of Public Health				
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557	15-10059	2,883,924	-
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	16-10166	1,113,780	-
Passed through State of California Department of Aging				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	SP-1617-06	26,587	23,769
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	SP-1718-06	31,096	29,879
Passed through State of California Department of Social Services				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561	None	34,106,826	1,820,639
Passed through State of California Department of Food and Agriculture				
Senior Farmers Market Nutrition Program	10.576	None	40,000	-
TOTAL U.S. DEPARTMENT OF AGRICULTURE			39,109,801	1,874,287
U.S. DEPARTMENT OF COMMERCE				
Direct Program				
Cluster Grants	11.020	--	202,361	-
Economic Adjustment Assistance	11.307	--	297,813	-
TOTAL U.S. DEPARTMENT OF COMMERCE			500,174	-
U.S. DEPARTMENT OF DEFENSE				
Direct Program				
Navy Cooperative Agreement for Hunters Point	12.unknown	--	398,000	-
Passed through University of Southern California				
Military Medical Research and Development	12.420	70740673	3,723	-
TOTAL U.S. DEPARTMENT OF DEFENSE			401,723	-
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct Program				
Community Development Block Grants/Entitlement Grants	14.218	--	35,082,773	8,288,733
Emergency Solutions Grant Program	14.231	--	1,475,918	1,358,309
Home Investment Partnerships Program	14.239	--	8,584,377	-
Housing Opportunities for Persons with AIDS	14.241	--	7,341,484	5,026,210
Economic Development Initiative-Special Project, Neighborhood Initiative and Miscellaneous Grants	14.251	--	649,443	-
Continuum of Care Program	14.267	--	22,967,687	19,162,843
Lead-Based Paint Hazard Control in Privately-Owned Housing	14.900	--	1,090	-
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			76,102,772	33,836,095
U.S. DEPARTMENT OF INTERIOR				
Direct Program				
NPS Cooperative Agreement	15.unknown	--	819,958	-
Historic Preservation Fund Grants-In-Aid	15.904	--	42,255	-
Passed through State of California Office of Historic Preservation				
Historic Preservation Fund Grants-In-Aid	15.904	P17AF00014	35,910	-
Passed through State of California Department of Parks & Recreation				
Outdoor Recreation Acquisition, Development and Planning	15.916	06-01753	89,493	-
TOTAL U.S. DEPARTMENT OF INTERIOR			987,616	-

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

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 Program				
Grants to Encourage Arrest Policies and Enforcement of Protection Orders Program	16.590	--	$ 265,998	$ -
Edward Byrne Memorial Justice Assistance Grant Program	16.738	--	325,009	-
DNA Backlog Reduction Program	16.741	--	280,548	-
Innovations in Community-Based Crime Reduction	16.817	--	271,763	215,270
Smart Prosecution Initiative	16.825	--	24,981	-
Equitable Sharing Program	16.922	--	566,199	-
Passed through Board of State and Community Corrections				
Juvenile Accountability Block Grants	16.523	BSCC 224-16	15,383	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	650-17	542,026	-
Edward Byrne Memorial Justice Assistance Grant Program	16.738	None	169,633	-
Passed through State of California Emergency Management Agency				
Crime Victim Assistance	16.575	HA16 03 0380	25,367	-
Crime Victim Assistance	16.575	HA17 04 0380	63,016	-
Crime Victim Assistance	16.575	KI 17 01 0380	70,371	-
Crime Victim Assistance	16.575	VW16 35 0380	436,233	-
Crime Victim Assistance	16.575	VW17 36 0380	456,108	-
Crime Victim Assistance	16.575	XC16 01 0380	530,206	-
Crime Victim Assistance	16.575	XE16 01 0380	244,939	-
Crime Victim Assistance	16.575	XV15 01 0380	200,173	-
Subtotal Crime Victim Assistance			2,026,413	-
Violence Against Women Formula Grants	16.588	VV 17 09 0380	204,939	-
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ 16120380	13,153	-
Paul Coverdell Forensic Sciences Improvement Grant Program	16.742	CQ 17130380	4,567	-
Subtotal Paul Coverdell Forensic Sciences Improvement Grant Program			17,720	-
Passed through Bureau of Justice Assistance				
Edward Byrne Memorial Competitive Grant Program	16.751	2013-DB-BX-0047	137,310	-
Passed through Governor's Office of Emergency Services				
Violence Against Women Formula Grants	16.588	PU 16 07 0380	14,790	-
Violence Against Women Formula Grants	16.588	PU 17 08 0380	81,193	-
TOTAL U.S. DEPARTMENT OF JUSTICE			4,943,905	215,270
U.S. DEPARTMENT OF LABOR				
Direct Program				
H-1B Job Training Grants	17.268	--	493,908	326,848
Passed through State of California Department of Employment Development				
Employment Service/Wagner-Peyser Funded Activities	17.207	K698392	16,584	1,510
WIOA Cluster				
WIOA Adult Program	17.258	K7102070	886,946	494,040
WIOA Adult Program	17.258	K8106682	995,173	709,990
Subtotal WIOA Adult Program			1,882,119	1,204,030
WIOA Youth Activities	17.259	K7102070	9,486	-
WIOA Youth Activities	17.259	K8106682	1,041,648	654,916
Subtotal WIOA Youth Activities			1,051,134	654,916
WIOA Dislocated Worker Formula Grants	17.278	K7102070	498,517	144,549
WIOA Dislocated Worker Formula Grants	17.278	K8106682	880,546	620,417
Passed through California Workforce Development Board				
WIOA Dislocated Worker Formula Grants	17.278	None	30,047	-
Subtotal WIOA Cluster			4,342,363	2,623,912
Passed through NOVA Workforce Board				
H-1B Job Training Grants	17.268	001-RTW-15	391,511	328,783
TOTAL U.S. DEPARTMENT OF LABOR			5,244,366	3,281,053

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

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				
Passed through State of California Department of Transportation				
Highway Planning and Construction	20.205	ATPL-5934(175)	$ 131,663	$ -
Highway Planning and Construction	20.205	ATPLNI-6447(008)	700,856	596,720
Highway Planning and Construction	20.205	BHLO-5934(168)	168,186	-
Highway Planning and Construction	20.205	BRLS-5934(177)	1,975,444	-
Highway Planning and Construction	20.205	CML-5934(169)	247,606	-
Highway Planning and Construction	20.205	CML-6447(006)	255,108	163,084
Highway Planning and Construction	20.205	ER-32L0(204)	7,049	-
Highway Planning and Construction	20.205	ER-4802(002)	22,429	-
Highway Planning and Construction	20.205	HP21L-5934(178)	3,279	-
Highway Planning and Construction	20.205	HPLUL-5934 (154)	7,646	-
Highway Planning and Construction	20.205	HSIPL-5934 (167)	38,004	-
Highway Planning and Construction	20.205	STPL-5934(171)	1,703,076	-
Highway Planning and Construction	20.205	STPL-5934(174)	2,002,767	-
Subtotal Highway Planning and Construction			7,263,113	759,804
Passed through Metropolitan Transportation Commission				
Highway Research and Development Program	20.200	SHRP2L 6084 (192)	350,732	-
Passed through State of California Office of Traffic Safety				
Highway Safety Cluster				
State and Community Highway Safety	20.600	PT17110	61,913	-
State and Community Highway Safety	20.600	PT18070	72,167	-
Subtotal State and Community Highway Safety			134,080	-
National Priority Safety Programs	20.616	DI1713	40,570	-
National Priority Safety Programs	20.616	DI18011	124,190	-
Subtotal National Priority Safety Programs			164,760	-
Subtotal Highway Safety Cluster			298,840	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT17110	24,962	-
Minimum Penalties for Repeat Offenders for Driving While Intoxicated	20.608	PT18070	58,274	-
Subtotal Minimum Penalties for Repeat Offenders for Driving While Intoxicated			83,236	-
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			7,995,921	759,804
U.S. NATIONAL ENDOWMENT FOR THE ARTS				
Direct Program				
Promotion of the Arts Grants to Organizations and Individuals	45.024	--	89,000	-
TOTAL U.S. NATIONAL ENDOWMENT FOR THE ARTS			89,000	-
U.S. SMALL BUSINESS ADMINISTRATION				
Passed through Humboldt State University Sponsored Programs Foundation				
Small Business Development Centers	59.037	F0128	157,686	-
Small Business Development Centers	59.037	F0228	17,693	-
Subtotal Small Business Development Centers			175,379	-
TOTAL U.S. SMALL BUSINESS ADMINISTRATION			175,379	-
U.S. ENVIRONMENTAL PROTECTION AGENCY				
Direct Program				
National Clean Diesel Emissions Reduction Program	66.039	--	342,339	-
Brownfields Assessment and Cleanup Cooperative Agreements	66.818	--	104,854	-
Passed through Asian Health Services				
Environmental Justice Collaborative Problem-Solving Cooperative Agreement Program	66.306	None	900	-
Passed through State Water Resources Control Board				
Capitalization Grants for Clean Water State Revolving Funds	66.458	D17-01002	4,719,968	-
TOTAL U.S. ENVIRONMENTAL PROTECTION AGENCY			5,168,061	-
U.S. DEPARTMENT OF ENERGY				
Direct Program				
Conservation Research and Development	81.086	--	68,234	-
Renewable Energy Research and Development	81.087	--	418,392	-
TOTAL U.S. DEPARTMENT OF ENERGY			486,626	-

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF EDUCATION				
Passed through State of California Department of Rehabilitation				
Rehabilitation Services Vocational Rehabilitation Grants to States	84.126	29888	$ 66,399	$ -
TOTAL U.S. DEPARTMENT OF EDUCATION			66,399	-
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES				
Direct Program				
Environmental Public Health and Emergency Response	93.070	--	199,626	-
Comprehensive Community Mental Health Services for Children with Serious Emotional Disturbances (SED)	93.104	--	1,236,086	806,060
Project Grants and Cooperative Agreements for Tuberculosis Control Programs	93.116	--	587,885	10,966
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	--	358,971	-
Viral Hepatitis Prevention and Control	93.270	--	31,713	-
Drug Abuse and Addiction Research Programs	93.279	--	119,834	-
Child Abuse and Neglect Discretionary Activities	93.670	--	182,224	182,224
PPHF: Racial and Ethnic Approaches to Community Health Program Financed Solely by Public Prevention and Health Funds	93.738	--	681,757	-
Alzheimer's Disease Initiative: Specialized Supportive Services Project (ADI-SSS) thru Prevention and Public Health Funds (PPHF)	93.763	--	291,149	282,823
HIV Emergency Relief Project Grants	93.914	--	16,133,829	12,016,652
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	--	333,932	118,673
Special Projects of National Significance	93.928	--	151,685	97,933
HIV Prevention Activities Non-Governmental Organization Based	93.939	--	969,727	-
HIV Prevention Activities Health Department Based	93.940	--	8,938,923	638,547
Human Immunodeficiency Virus (HIV)/Acquired Immunodeficiency Virus Syndrome (AIDS) Surveillance	93.944	--	1,945,591	-
Sexually Transmitted Diseases (STD) Prevention and Control Grants	93.977	--	1,362,685	145,872
Passed through State of California Department of Aging				
Aging Cluster				
Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	93.041	AP-1718-06	13,443	13,443
Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	93.042	AP-1718-06	31,400	31,400
Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	93.043	AP-1718-06	58,231	58,231
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	93.044	AP-1718-06	1,003,898	426,615
Special Programs for the Aging, Title III, Part C, Nutrition Services	93.045	AP-1718-06	1,579,198	1,579,198
National Family Caregiver Support, Title III, Part E	93.052	AP-1718-06	415,465	415,465
Nutrition Services Incentive Program	93.053	AP-1718-06	1,677,265	1,677,265
Subtotal Aging Cluster			4,778,900	4,201,617
Medicare Enrollment Assistance Program	93.071	MI-1517-06	46,304	46,304
State Health Insurance Assistance Program	93.324	HI-1718-06	106,353	97,353
Passed through Regents of the University of California				
Global AIDS	93.067	10076sc	80,605	-
Global AIDS	93.067	10120sc	23,364	-
Global AIDS	93.067	10129sc	6,344	-
Global AIDS	93.067	10129sc 01	8,153	-
Global AIDS	93.067	10408sc	2,208	-
Global AIDS	93.067	8775sc 02	31,406	-
Global AIDS	93.067	8853sc 03	32,886	-
Global AIDS	93.067	8940sc a02	20,798	-
Global AIDS	93.067	9289sc a01	13,639	-
Global AIDS	93.067	9733sc a01	986	-
Global AIDS	93.067	9970sc	16,375	-
Global AIDS	93.067	9974sc	20,291	-
Subtotal Global AIDS			257,055	-
Prevention of Disease, Disability, and Death by Infectious Diseases	93.084	8829sc a03	9,493	-
Coordinated Services and Access to Research for Women, Infants, Children, and Youth	93.153	10259sc	97,531	-

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

Federal Grantor/Pass-Through Grantor/Program Title	Catalog of Federal Domestic Assistance Number (CFDA)	Pass-Through Identifying Number	Federal Expenditures	Amount Provided to Subrecipients
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES (continued)				
Passed through Regents of the University of California (continued)				
Mental Health Research Grants	93.242	9563sc	$ 12,512	$ -
Mental Health Research Grants	93.242	9739sc	27,796	-
Mental Health Research Grants	93.242	9833sc	16,002	-
Mental Health Research Grants	93.242	9833sc a01	6,854	-
Drug Abuse and Addiction Research Programs	93.279	8278sc a2	5,149	-
Drug Abuse and Addiction Research Programs	93.279	8952sc a4	37,882	-
Child Welfare Research Training or Demonstration	93.648	00009093	8,467	-
Allergy and Infectious Diseases Research	93.855	10612sc	8,400	-
Allergy and Infectious Diseases Research	93.855	7258sc a04	5,068	-
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	105,845	-
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	14-10536-05	180,443	-
Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements	93.074	17-10188	658,996	-
Subtotal Hospital Preparedness Program (HPP) and Public Health Emergency Preparedness (PHEP) Aligned Cooperative Agreements			945,284	-
Injury Prevention and Control Research and State and Community Based Programs	93.136	16-10233	66,781	-
Substance Abuse and Mental Health Services Projects of Regional and National Significance	93.243	15-10979	93,533	-
PPHF Capacity Building Assistance to Strengthen Public Health Immunization Infrastructure and Performance financed in part by Prevention and Public Health Funds	93.539	17-10345	292,627	-
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566	16-38-90899-00	72,044	27,190
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566	17-38-90899-00	227,158	27,532
Medical Assistance Program	93.778	201638	5,689	-
Medical Assistance Program	93.778	201738	4,901,150	-
Medical Assistance Program	93.778	17-10259	256,787	-
Maternal, Infant and Early Childhood Home Visiting Grant Program	93.870	15-10169	1,042,912	-
HIV Care Formula Grants	93.917	15-11073	2,855,161	2,387,582
HIV Care Formula Grants	93.917	16-10856	1,204,231	1,062,274
Subtotal HIV Care Formula Grants			4,059,392	3,449,856
Maternal and Child Health Services Block Grant to the States	93.994	201738	391,537	-
Passed through State of California Department of Social Services				
Guardianship Assistance	93.090	None	2,494,923	-
Promoting Safe and Stable Families	93.556	None	431,386	296,929
Temporary Assistance for Needy Families	93.558	None	58,360,424	7,849,235
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566	None	212,103	-
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566	ORSA1607	2,206	2,206
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566	RESS1506	28,445	-
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566	RESS1607	27,679	-
Refugee and Entrant Assistance State/Replacement Designee Administered Programs	93.566	RESS1706	3,397	-
Refugee and Entrant Assistance Targeted Assistance Grants	93.584	TAFO1706	10,275	-
Refugee and Entrant Assistance Targeted Assistance Grants	93.584	TAFO1506	29,990	23,341
Refugee and Entrant Assistance Targeted Assistance Grants	93.584	TAFO1606	55,661	37,140
Subtotal Refugee and Entrant Assistance Targeted Assistance Grants			95,926	60,481
Community-Based Child Abuse Prevention Grants	93.590	None	24,738	20,006
Adoption and Legal Guardianship Incentive Payments	93.603	None	3,686	-
Stephanie Tubbs Jones Child Welfare Services Program	93.645	None	1,651,730	79,320
Foster Care Title IV-E	93.658	None	34,718,746	7,485,645
Adoption Assistance	93.659	None	9,906,392	170,981
Social Services Block Grant	93.667	None	1,216,848	-
Chafee Foster Care Independence Program	93.674	None	450,059	360,990
Medical Assistance Program	93.778	None	75,410,618	2,533,047

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				
Injury Prevention and Control Research and State and Community Based Programs	93.136	0392.0101	$ 48,161	$ -
Injury Prevention and Control Research and State and Community Based Programs	93.136	0392.0102	22,340	-
Mental Health Research Grants	93.242	0349.0102	3,670	-
Mental Health Research Grants	93.242	0349.0103	156,628	-
Drug Abuse and Addiction Research Programs	93.279	0176.0105	2,712	-
Drug Abuse and Addiction Research Programs	93.279	0208.0105	58,009	-
Drug Abuse and Addiction Research Programs	93.279	0333.0103	30,370	-
Minority Health and Health Disparities Research	93.307	0350.0103	33,781	-
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	0187.4004	7,258	-
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	0187.1390	153,199	-
Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)	93.323	0187.4005	265,553	-
Subtotal Epidemiology and Laboratory Capacity for Infectious Diseases (ELC)			426,010	-
Allergy and Infectious Diseases Research	93.855	0014.0105	76,471	-
Allergy and Infectious Diseases Research	93.855	0014.0106	35,969	-
Child Health and Human Development Extramural Research	93.865	0419.0102	31,827	-
Passed through State of California Department of Mental Health				
Projects for Assistance in Transition from Homelessness (PATH)	93.150	68-0317191	444,846	444,845
Passed through Essential Access Health				
Family Planning Services	93.217	380-5320-71209-17-18	32,229	-
Family Planning Services	93.217	380-5320-71219-16-17	162,950	-
Subtotal Family Planning Services			195,179	-
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)	93.224	6 H80CS00049-16-03	726,037	-
Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing Primary Care)	93.224	6 H80CS00049-17-02	747,296	-
Subtotal Health Center Program (Community Health Centers, Migrant Health Centers, Health Care for the Homeless, and Public Housing			1,473,333	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	5 H76HA00163-25-00	64,374	-
Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease	93.918	6 H76HA00163-26-01	88,163	-
Passed through State of California Department of Child Support Services				
Child Support Enforcement	93.563	None	7,970,454	-
Passed through Contra Costa County Office of Education				
CCDF Cluster				
Child Care and Development Block Grant	93.575	1700230	2,140	-
Passed through State of California Department of Education				
Child Care and Development Block Grant	93.575	16-17 14092 2563 00	218,106	191,117
Child Care and Development Block Grant	93.575	16-17 14869 2563 00	218,106	191,117
Child Care and Development Block Grant	93.575	17 14092 2563 00	153,486	-
Child Care and Development Block Grant	93.575	17 14092 2563 03	41,887	41,887
Child Care and Development Block Grant	93.575	17 14130 2563 03	85,044	85,044
Child Care and Development Block Grant	93.575	C2AP-7046	2,073,962	2,073,962
Child Care and Development Block Grant	93.575	CLPC7036	56,647	-
Child Care and Development Block Grant	93.575	CRET7034	404,753	404,753
Subtotal Child Care and Development Block Grant			3,254,131	2,987,880
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	93.596	CAPP-7051	257,560	257,560
Subtotal CCDF Cluster			3,511,691	3,245,440
Passed through State of California Department of Health Care Services				
Medical Assistance Program	93.778	17-04	1,041,411	-
Medical Assistance Program	93.778	17-05	401,444	-
Medical Assistance Program	93.778	None	36,104	36,104
Block Grants for Community Mental Health Services	93.958	None	2,684,636	825,092

CITY AND COUNTY OF SAN FRANCISCO
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018

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 Family Health International (FHI360)				
Allergy and Infectious Diseases Research	93.855	970/0080.0172 a10	$ 9,067	$ -
Allergy and Infectious Diseases Research	93.855	970/0080.0172 a8	6,218	-
Passed through Fred Hutchinson Cancer Research Center				
Allergy and Infectious Diseases Research	93.855	0000887682	47,038	-
Allergy and Infectious Diseases Research	93.855	0000924967	80,090	-
Passed through Magee-Womens Research Institute and Foundation				
Allergy and Infectious Diseases Research	93.855	9451	30,356	-
Allergy and Infectious Diseases Research	93.855	9516 a1	31,711	-
Passed through State of California Department of Alcohol and Drug Programs				
Block Grants for Prevention and Treatment of Substance Abuse	93.959	None	8,183,576	8,183,576
Passed through University of California San Francisco				
PPHF Geriatric Education Centers	93.969	5 U1QHP28727-02-00	24,591	-
TOTAL U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			263,593,813	53,743,499
U.S. DEPARTMENT OF HOMELAND SECURITY				
Direct Program				
Assistance to Firefighters Grant	97.044	--	232,586	-
Port Security Grant Program	97.056	--	1,017,210	-
Staffing for Adequate Fire and Emergency Response (SAFER)	97.083	--	6,708,186	-
Passed through State of California Emergency Management Agency				
Emergency Management Performance Grants	97.042	2017-0007	302,680	-
Homeland Security Grant Program	97.067	2015-00078	2,361,247	595,590
Homeland Security Grant Program	97.067	2016-00102	326,297	-
Homeland Security Grant Program	97.067	2016-0102	13,085,973	10,791,139
Homeland Security Grant Program	97.067	2017-0083	3,951,783	1,823,546
Subtotal Homeland Security Grant Program			19,725,300	13,210,275
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			27,985,962	13,210,275
TOTAL EXPENDITURES OF FEDERAL AWARDS			$ 432,851,518	$ 106,920,283

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 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, 2018. 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 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 $297,813 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 $7,212 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, 2018, the total outstanding RLF and cash and investments in the RLF were $355,798 and $64,328, respectively. There were no administrative expenses paid out of the RLF income and $28,332 of unpaid principal of loans was written off during the year. The federal share of the RLF was 64.8% and federal expenditures of $290,601 were included in the Schedule.

6. CALIFORNIA DEPARTMENT OF AGING (CDA) SINGLE AUDIT REPORTING REQUIREMENTS

The terms and conditions of agency contracts with CDA require agencies to display State-funded expenditures discretely along with the related federal expenditures. CDA grant expenditures that involve federal funding have been presented in the Schedule. The following schedule is presented using the modified accrual basis of accounting. For State grants not involving federal funding, the amounts are to be displayed separately. The following schedule is presented to comply with these requirements.

Federal Grantor Pass-through Grantor Program Title	Grant / Contract No.	CFDA No.	Expenditures State	Expenditures Federal
U.S. Department of Agriculture				
Passed through State of California Department of Aging				
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	SP-1617-06	10.561	$ -	$ 26,587
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	SP-1718-06	10.561	-	31,096
U.S. Department of Health and Human Services				
Passed through State of California Department of Aging				
Special Programs for the Aging, Title VII, Chapter 3, Programs for Prevention of Elder Abuse, Neglect, and Exploitation	AP-1718-06	93.041	-	13,443
Special Programs for the Aging, Title VII, Chapter 2, Long Term Care Ombudsman Services for Older Individuals	AP-1718-06	93.042	-	31,400
Special Programs for the Aging, Title III, Part D, Disease Prevention and Health Promotion Services	AP-1718-06	93.043	-	58,231
Special Programs for the Aging, Title III, Part B, Grants for Supportive Services and Senior Centers	AP-1718-06	93.044	-	1,003,898
Special Programs for the Aging, Title III, Part C, Nutrition Services	AP-1718-06	93.045	388,888	1,579,198
National Family Caregiver Support, Title III, Part E	AP-1718-06	93.052	-	415,465
Nutrition Services Incentive Program	AP-1718-06	93.053	-	1,677,265
Medicare Enrollment Assistance Program	MI-1517-06	93.071	-	46,304
State Health Insurance Assistance Program	HI-1718-06	93.324	212,436	106,353
			601,324	$ 4,989,240
State Award - California Department of Aging				
Special Deposit Fund-Federal Citation Penalties Account, General Fund Allocation	AP-1718-06		44,882	
Skilled Nursing Facility (SNF) Quality & Accountability Fund (QAF) Allocation	AP-1718-06		25,472	
Ombudsman State General Fund	AP-1718-06		13,406	
Ombudsman Public Health L&C Program Fund	AP-1718-06		5,362	
Total Expenditures of CDA Awards			$ 690,446	

7. PROGRAM TOTALS

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

	CFDA no. / Program Title / Federal Grantor or Pass-Through Grantor	Pass-Through Identifying Number	Federal Expenditures
(1)	**CFDA no. 10.561 - State Administrative Matching Grants for the Supplemental Nutrition Assistance Program**		
	State of California Department of Public Health	16-10166	$ 1,113,780
	State of California Department of Aging	SP 1617-06	26,587
	State of California Department of Aging	SP 1718-06	31,096
	State of California Department of Social Services	None	34,106,826
		Program Total	$ 35,278,289
(2)	**CFDA no. 15.904 - Historic Preservation Fund Grants-In-Aid**		
	U.S. Department of Interior	--	$ 42,255
	State of California Office of Historic Preservation	P17AF00014	35,910
		Program Total	$ 78,165
(3)	**CFDA no. 16.588 - Violence Against Women Formula Grants**		
	State of California Emergency Management Agency	VV 17 09 0380	$ 204,939
	Governor's Office of Emergency Services	PU 16 07 0380	14,790
	Governor's Office of Emergency Services	PU 17 08 0380	81,193
		Program Total	$ 300,922
(4)	**CFDA no. 16.738 - Edward Byrne Memorial Justice Assistance Grant Program**		
	U.S. Department of Justice	--	$ 325,009
	Board of State and Community Corrections	650-17	542,026
	Board of State and Community Corrections	None	169,633
		Program Total	$ 1,036,668
(5)	**CFDA no. 17.268 - H-1B Job Training Grants**		
	U.S. Department of Labor	--	$ 493,908
	NOVA Workforce Board	001-RTW-15	391,511
		Program Total	$ 885,419
(6)	**CFDA no. 17.278 - WIOA Dislocated Worker Formula Grants**		
	State of California Department of Employment Development	K7102070	$ 498,517
	State of California Department of Employment Development	K8106682	880,546
	California Workforce Development Board	None	30,047
		Program Total	$ 1,409,110
(7)	**CFDA no. 93.136 - Injury Prevention and Control Research and State and Community Based Programs**		
	State of California Department of Public Health	16-10233	$ 66,781
	Public Health Foundation Enterprise	0392.0101	48,161
	Public Health Foundation Enterprise	0392.0102	22,340
		Program Total	$ 137,282

7. PROGRAM TOTALS (Continued)

	CFDA no. / Program Title / Federal Grantor or Pass-Through Grantor	Pass-Through Identifying Number	Federal Expenditures
(8)	**CFDA no. 93.242 - Mental Health Research Grants**		
	Regents of the University of California	9563sc	$ 12,512
	Regents of the University of California	9739sc	27,796
	Regents of the University of California	9833sc	16,002
	Regents of the University of California	9833sc a01	6,854
	Public Health Foundation Enterprise	0349.0102	3,670
	Public Health Foundation Enterprise	0349.0103	156,628
		Program Total	$ 223,462
(9)	**CFDA no. 93.243 - Substance Abuse and Mental Health Services - Projects of Regional and National Significance**		
	U.S. Department of Health and Human Services	--	$ 358,971
	State of California Department of Public Health	15-10979	93,533
		Program Total	$ 452,504
(10)	**CFDA no. 93.279 - Drug Abuse and Addiction Research Programs**		
	U.S. Department of Health and Human Services	--	$ 119,834
	Regents of the University of California	8278sc a2	5,149
	Regents of the University of California	8952sc a4	37,882
	Public Health Foundation Enterprise	0176.0105	2,712
	Public Health Foundation Enterprise	0208.0105	58,009
	Public Health Foundation Enterprise	0333.0103	30,370
		Program Total	$ 253,956
(11)	**CFDA no. 93.566 - Refugee and Entrant Assistance State/Replacement Designee Administered Programs**		
	State of California Department of Public Health	16-38-90899-00	$ 72,044
	State of California Department of Public Health	17-38-90899-00	227,158
	State of California Department of Social Services	None	212,103
	State of California Department of Social Services	ORSA1607	2,206
	State of California Department of Social Services	RESS1506	28,445
	State of California Department of Social Services	RESS1607	27,679
	State of California Department of Social Services	RESS1706	3,397
		Program Total	$ 573,032
(12)	**CFDA no. 93.778 - Medical Assistance Program**		
	State of California Department of Public Health	201638	$ 5,689
	State of California Department of Public Health	201738	4,901,150
	State of California Department of Public Health	17-10259	256,787
	State of California Department of Social Services	None	75,410,618
	State of California Department of Health Care Services	17-04	1,041,411
	State of California Department of Health Care Services	17-05	401,444
	State of California Department of Health Care Services	None	36,104
		Program Total	$ 82,053,203

7. PROGRAM TOTALS (Continued)

	CFDA no. / Program Title / Federal Grantor or Pass-Through Grantor	Pass-Through Identifying Number	Federal Expenditures
(13)	**CFDA no. 93.855 - Allergy and Infectious Diseases Research**		
	Regents of the University of California	10612sc	$ 8,400
	Regents of the University of California	7258sc a04	5,068
	Public Health Foundation Enterprise	0014.0105	76,471
	Public Health Foundation Enterprise	0014.0106	35,969
	Family Health International (FHI360)	970/0080.0172 a10	9,067
	Family Health International (FHI360)	970/0080.0172 a8	6,218
	Fred Hutchinson Cancer Research Center	0000887682	47,038
	Fred Hutchinson Cancer Research Center	0000924967	80,090
	Magee-Womens Research Institute and Foundation	9451	30,356
	Magee-Womens Research Institute and Foundation	9516 a1	31,711
		Program Total	$ 330,388
(14)	**CFDA no. 93.918 - Grants to Provide Outpatient Early Intervention Services with Respect to HIV Disease**		
	U.S. Department of Health and Human Services	--	$ 333,932
	San Francisco Community Clinic Consortium	5 H76HA00163-25-00	64,374
	San Francisco Community Clinic Consortium	6 H76HA00163-26-01	88,163
		Program Total	$ 486,469

8. CALIFORNIA DEPARTMENT OF EDUCATION (CDE) REPORTING REQUIREMENTS

The terms and conditions of contracts with CDE require agencies to display State-funded expenditures discretely along with the related federal expenditures. CDE 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.

Federal Grantor / Pass-through Grantor / Program Title	Grant / Contract No.	CFDA No.	Award Amount State	Award Amount Federal	Expenditures State	Expenditures Federal
U.S. Department of Agriculture						
Passed through State of California Department of Education:						
School Breakfast Program	02502-SN-38-R	10.553	$ -	$ 38,847	$ -	$ 38,847
National School Lunch Program	02502-SN-38-R	10.555	-	61,606	-	61,606
Child and Adult Care Food Program	04029-CACFP-38	10.558	-	469,534	-	469,534
Summer Food Service Program for Children	04029-SFSP-38	10.559	-	337,601	-	337,601
U.S. Department of Health and Human Services						
Passed through State of California Department of Education:						
Child Care and Development Block Grant	16-17 14092 2563 00	93.575	-	218,106	-	218,106
Child Care and Development Block Grant	16-17 14869 2563 00	93.575	-	218,106	-	218,106
Child Care and Development Block Grant	17-14092-2563-00	93.575	-	254,790	-	153,486
Child Care and Development Block Grant	17 14092 2563 03	93.575	-	109,011	-	41,887
Child Care and Development Block Grant	17 14130 2563 03	93.575	-	218,106	-	85,044
Child Care and Development Block Grant	C2AP-7046	93.575	5,035,834	2,073,962	5,035,834	2,073,962
Child Care and Development Block Grant	CLPC7036	93.575	1,489	56,647	1,489	56,647
Child Care and Development Block Grant	CRET7034	93.575	62,363	523,243	62,363	404,753
Child Care Mandatory and Matching Funds of the Child Care and Development Fund	CAPP 7051	93.596	214,752	257,560	214,752	257,560
			5,314,438	$ 4,837,119	5,314,438	$ 4,417,139
State Award - California Department of Education						
Infant/Toddler Quality Rating and Improvement System Block Grant	2015-25311-2563-00		1,123,498		465,245	
California State Preschool Program Quality Rating and Improvement Systems Block Grant	2016-25276-1038-00		1,094,700		116,136	
California State Preschool-California Migrant Program Quality Rating and Improvement Systems Block Grant	17-25276-1038-00		1,098,549		549,826	
Total Expenditures of CDE Awards			$ 8,631,185		$ 6,445,645	

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Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With *Government Auditing Standards*

Honorable Mayor and 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, 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, 2018, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 25, 2019, except for our report on the schedule of expenditures of federal awards, as to which the date is March 29, 2019. Our report included an emphasis of matter paragraph for the City's adoption of Governmental Accounting Standards Board Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions,* effective July 1, 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, Municipal Transportation Agency, San Francisco Wastewater Enterprise, and the Health Service System, as described in our report on the City's financial statements. This report does not include the results of the other auditors' testing of internal control over financial reporting or compliance and other matters that are reported on separately by those auditors.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as item 2018-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

City's Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the 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
March 25, 2019

Independent Auditor's Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by the Uniform Guidance

Honorable Mayor and 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, 2018. 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 Municipal Transportation Agency (MTA), and the Successor Agency to the San Francisco Redevelopment Agency (Successor Agency), whose expenditures in federal awards are not included in the City's schedule of expenditures of federal awards for the year ended June 30, 2018. 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.

Opinion on Each Major Federal Program
In our opinion, the City complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2018.

Macias Gini & O'Connell LLP
101 California Street, Suite 1225
San Francisco, CA 94111

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.

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 a 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. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

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
March 29, 2019

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?	Yes
Noncompliance material to financial statements noted?	No

Federal Awards:

Internal control over major federal programs:	
• Material weakness(es) identified?	No
• Significant deficiency(cies) identified?	None reported
Type of auditor's report issued on compliance for major federal programs	Unmodified
Any audit findings disclosed that are required to be reported in accordance with 2 CFR 200.516(a)?	No

Identification of major federal programs:

Name of Federal Program or Cluster	CFDA Number(s)
WIC Special Supplemental Nutrition Program for Women, Infants, and Children	10.557
State Administrative Matching Grants for the Supplemental Nutrition Assistance Program	10.561
Emergency Solutions Grant Program	14.231
Housing Opportunities for Persons with AIDS	14.241
Continuum of Care Program	14.267
Crime Victim Assistance	16.575
Capitalization Grants for Clean Water State Revolving Funds	66.458
Guardianship Assistance	93.090
Child Support Enforcement	93.563
CCDF Cluster	93.575, 93.596
Foster Care Title IV-E	93.658
HIV Emergency Relief Project Grants	93.914
HIV Care Formula Grants	93.917
Block Grants for Community Mental Health Services	93.958
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?	No

Section II – Financial Statement Findings

2018-001 Reliability of System-Generated Reports used for Financial Reporting

Significant Deficiency in Internal Controls over Financial Reporting

Criteria:
The U.S. Government Accountability Office has published the Standards for Internal Control in the Federal Government (commonly known as the “Green Book”) for how internal control over the financial process should be designed and implemented. The Green Book indicates an effective information system should allow management to obtain and process quality information to make informed decisions in achieving key objectives and addressing risks. It defines quality information as information that is appropriate, current, complete, accurate, accessible, and provided on a timely basis.

Condition:
On July 3, 2017, the City implemented a new enterprise financial and procurement system, PeopleSoft Financial System, which replaced its legacy financial system, FAMIS (Financial Accounting and Management Information System). This system implementation impacted many facets of the City’s financial management processes, including accounting, budgeting, cash management, asset accounting, vendor management, and procurement, which resulted in the creation of new spreadsheets and alternative solutions to address unexpected system-generated outputs and workflow bottlenecks.

Cause:
A critical element of the financial reporting process is the reliability of system-generated reports. A number of system-generated reports did not produce expected results and required substantial time and effort in validating the system outputs.

Effect:
To overcome the additional efforts required in validating system outputs, various spreadsheets and reconciliations were created to ensure the City’s financial statements were prepared in accordance with generally accepted accounting principles. These reconciliations and review processes resulted in significant delays in compiling the City’s financial statements and performing the audits for the year ended June 30, 2018.

Recommendation:
As part of the stabilization period in the City’s system implementation process, we recommend the City continue to validate PeopleSoft outputs and create a library of reliable system-generated reports for its 2019 year-end close. In addition, the City should address its alternative solutions and redesign workflows that result in operational bottlenecks in its key processes while ensuring proper checks and balances are in place and operating as designed to prevent, or detect and correct, errors in a timely manner during this significant operational change.

Management’s Response and Corrective Action:
Consistent with the recommendations above, the Controller’s Office has already begun the creation of a library of reliable system-generated reports that was developed to facilitate the 2018 year-end close. We will continue to validate and further automate the PeopleSoft reports that have been developed. In addition, we are in the process of further evaluating some of the PeopleSoft system configurations and business process workflows to streamline and eliminate bottlenecks that occurred in the year ended June 30, 2018.

Section III – Federal Award Findings and Questioned Costs

None reported.

City and County of San Francisco

Audit plan and strategy

Financial Statements for the year ending June 30, 2019

October 23, 2019

Introduction

To the Government Accountability Office Committee (GAO):

We are pleased to have the opportunity to meet with you on October 23, 2019 to discuss our audit of the financial statements of San Francisco International Airport (SFO), San Francisco Municipal Transportation Agency (MTA), San Francisco Public Utilities Commission (PUC), and San Francisco Health Service System (HSS) as of and for the year ending June 30, 2019.

The audit of these financial statements, prepared in accordance with U.S. GAAP, will be conducted in accordance with auditing standards generally accepted in the United States of America and government auditing standards.

We plan to issue auditors' reports on these financial statements of SFO, MTA, PUC, and HSS. Other planned audit deliverables include MTA Single Audit, MTA various agreed upon procedures, PUC Water Revenue Requirement audit, and SFO single audit, material written communications between KPMG and management, and required communications between KPMG and the Audit Committee.

This document, which outlines our risk assessment and planned audit strategy, is being provided to you in advance of the meeting to allow you sufficient time to consider the key matters and enhance the quality of our discussions.

We believe the contents of this document should provide a good platform for our discussions when we do meet. We will be pleased to elaborate further on matters covered in this document at the meeting.

Content

KPMG Audit Team

Lead Audit Engagement Managing Director – HSS, MTA, SFO, PUC
Lisa Avis

Engagement Quality Control Reviewing Partner
Susan Warren (HSS)
Brock Romano (MTA,SFO)
David Ellerbeck (PUC)

Audit Engagement Managers
Jie Hua Lee
Erin Szoboscan
Jessica Li
Rachel Nesom

Client Service Partner
Nancy Rose

HSS
Jie Hua Lee
Greg Owyang

MTA
Jie Hua Lee
Rachel Nesom
Kelvin Kum

PUC
Jie Hua Lee
Jessica Li
Shi Shuang

SFO
Erin Szoboscan
Shishi Lu

Audit approach required communications and other matters summary

Communication topic	Response
Scope of audit	*Audits of basic financial statements as of and for the year ended June 30, 2019 for the following entities:* • *Health Service System (HSS)* • *Municipal Transportation Agency (MTA)* • *Public Utilities Commission (PUC)* • *San Francisco International Airport (SFO)* *MTA Single Audit* *MTA Agreed-Upon Procedures for National Transit Database (NTD), Revenue Bond Series, Transportation Development Act (TDA) Compliance Letter* *MTA Public Transportation Modernization, Improvement, and Service Enhancement Account Program* *PUC Statement of Changes in the Balancing Account of the Water Enterprise Audit* *SFO Single Audit* *SFO Revenue Bond Series Agreed-Upon Procedures*
Risk assessment – Significant risks	Management Override of Controls
Risk assessment – Other significant audit matters	Other significant audit matters identified relate to: — Pension (GASB No. 68) — Other Post-Employment Benefits (GASB No. 75) — Workers Compensation — General Liability — Claims Payable — Refer to slide 6 for further detail and our response.

Audit approach required communications and other matters summary (continued)

Communication topic	Response
Materiality	Refer to slide 8 for additional considerations related to the determination of materiality.
Involvement of others	Refer to slide 9 for the extent of planned involvement of others.
Planned deliverables and timeline	Refer to slides 10-12 for an overview of our planned deliverables and timeline.
New accounting pronouncements	The following new accounting pronouncements are applicable to SFO, MTA, PUC: — GASB 83 – Certain Asset Retirement Obligations — GASB 88 – Certain Disclosures Related to Debt Refer to slides 13 for further detail and our response.
Independence	Refer to slides 14-17 for detail pertaining to independence communications.
Audit quality & transparency	Refer to slide 18 for information about our 2018 Audit Quality and Transparency Reports.

Required inquiries

The following inquiries are required in accordance with AU-C 260:

Government Accountability Office inquiries	— Is the Committee aware of matters relevant to the audit, including, but not limited to, violations or possible violations of laws and regulations? — What are the Committee's views about fraud risks in the City? — Does the Committee have knowledge of fraud, alleged fraud, or suspected fraud affecting the Company? — Who is the appropriate person (GAO chair or full committee) for communication of audit matters during the audit? — How are responsibilities allocated between management and the Audit Committee? — What are the entity's objectives and strategies and related business risks that may result in material misstatements? — Are there any areas that warrant particular attention during the audit and additional procedures to be undertaken? — Is the Committee aware of any significant communications with regulators? — What are the Committee's 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? — Is the Committee aware of any developments in financial reporting, laws, accounting standards, corporate governance, and other related matters? — Have there been any actions taken based on previous communications with the auditor?

Risk assessment

Significant risk	Susceptibility to	
	Error	Fraud
Management override of controls - Management is in a unique position to perpetrate fraud because of its 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.	**N**	**Y**

Significant risks	Description of significant risk	Susceptibility to		Relevant factors affecting our risk assessment
		Error	Fraud	
None noted.	None noted.	**N/A**	**N/A**	N/A

Y = Yes **N** = No

Risk assessment (continued)

Other significant audit matters	Susceptibility to		Relevant factors affecting our risk assessment:
	Error	**Fraud**	
Pension (GASB No. 68)	**N**	**N**	Complex of calculations involving future assumptions and inputs. Significant monetary amount.
Other Post-Employment Benefits (GASB No.75).	**N**	**N**	Complex of calculations involving future assumptions and inputs. Significant monetary amount.
Workers Compensation (SFMTA only)	**N**	**N**	Complex of calculations involving future assumptions and inputs. Significant monetary amount
General Liability (SFMTA only)	**N**	**N**	Complex of calculations involving future assumptions and inputs. Significant monetary amount
Claims Payable (HSS only)	**N**	**N**	Complex of calculations involving future assumptions and inputs. Significant monetary amount

Y = Yes **N** = No

Materiality in the context of an audit

We will apply materiality in the context of the preparation and fair presentation of the financial statements, considering the following factors:

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.

Judgments about the size of misstatements that will be considered material provide a basis for

a) Determining the nature and extent of risk assessment procedures;

b) Identifying and assessing the risks of material misstatement; and

c) Determining the nature, timing, and extent of further audit procedures.

Involvement of others

Audit of financial statements	Plan to involve?	Extent of planned involvement
KPMG Actuary Specialist – Workers Compensation & General Liability (MTA)	**Y**	Engage the actuary to review the methodology used to develop the liability. Develop an independent range of estimates to assess the reasonableness of the liability.
KPMG Actuary Specialist – Claims Liability (HSS)	**Y**	Engage the actuary to review the methodology used to develop the liability. Develop an independent range of estimates to assess the reasonableness of the liability.
KPMG Actuary Specialist – Pension and Other Postretirement Benefit	**Y**	Engage the actuary to review the methodology and assumptions applied to develop the liability.
KPMG Pension/Other Post-Retirement Benefit Reviewer	**Y**	Engage the reviewer to assess the reasonableness of the pension/OPEB financial statement disclosure and related reports and schedules.
KPMG Risk Analytics Specialist	**Y**	Engage the specialist to review hard to value investments.
CCSF Internal Audit	**N**	We do not plan on involving internal audit directly in the external audit process, but we monitor internal audit results and incorporate findings into external audit scoping as appropriate.

Y = Yes **N** = No

Planned deliverables and timeline

Q3 FY19 (March)

- Identify key members of the engagement team
- Communicate audit plan
- Consider information from client acceptance and retention evaluation, audit planning activities, past audits, and other engagements performed for the City
- Obtain an understanding of the City and its environment

Q4 FY19 (May/June)

- Determine materiality
- Plan audit approach for upcoming year-end audit
- Identify IT applications and environments
- Identify and understand service organizations
- Perform analytical procedures
- Inquire of the Audit Committee, management, and others within the City about risks of material misstatement
- Conduct a discussion among engagement team members regarding the risks of material misstatement
- Review board minutes
- Determine involvement of specialists
- Evaluate design and implementation of entity-level controls
- Perform process walkthroughs, identification of process risk points for certain processes
- Identify risks of misstatement for all processes
- Assess risks of material misstatement and plan audit response for all processes
- Perform tests of operating effectiveness of relevant process level and entity-level controls

Q1 FY20 (September/October)

- Obtain signed engagement letter from management
- Evaluate experts
- Perform substantive audit procedures
- Review financial statement disclosures
- Evaluate results of audit procedures, including control deficiencies and audit misstatements identified
- Obtain written representations from management
- Present audit results to the Audit Committee and perform required communications
- Issue audit reports on financial statements

Planned Deliverables and timeline

Planning and Interim Fieldwork	May 2019 – June 2019
Final Fieldwork	September 2019 – January 2020
Audit reports and other reports	— Auditors' report on each entity's financial statements of: - 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 *MTA Public Transportation Modernization, Improvement, and Service Enhancement Account Program*
Other deliverables	— Target financial statements issuance date: October 25, 2019 — Issuance of significant deficiency reports, if applicable: October 25, 2019 — Issuance of Single Audit and other special reports: before January 31, 2020 — Required communications between KPMG and those Charged with Governance: October 2019

Planned SFMTA Uniform Guidance

Planning and Interim Fieldwork	September 2019 – October 2019
Final Fieldwork	November 2019 – December 2019
Findings	— None noted.
FY 2019 Plan	— KPMG will involve KPMG IRM team to test the TimeControl application.

Newly effective accounting standards

Standards	Effective for years ending June 30,	
	2019	2020
No. 83, *Certain Asset Retirement Obligations*	✓	
No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*	✓	
No. 84, *Fiduciary Activities*		✓
No. 90, *Majority Equity Interests*		✓

Independence

Relationships that may reasonably be thought to bear on independence include:

Relationship	Description of relationship/service	Fees (for services)
Word Processing	KPMG assists with word processing assistance of SFO, MTA, PUC, and HSS' financial statements and other reports	None

In our professional judgment, we are independent with respect to City and its departments, as that term is defined by the professional standards.

KPMG independence quality controls

KPMG maintains a comprehensive system of quality controls designed to maintain our independence and to comply with regulatory and professional requirements.

— Submission of all worldwide engagements through Sentinel, a KPMG independence and conflict checking system (includes services for/relationships with the audit client, its affiliates, and its affiliated persons)

— Tracking partner rotation requirements using PRS (Partner Rotation System), the firm's automated partner rotation tracking system

— Automated investment tracking system used by all KPMG member firms (KICS)

— Training and awareness programs, including a required annual independence training deployed globally

— Annual independence confirmation required for all existing partners and employees and for all new individuals who subsequently join the firm

— Independence Confirmation Work Paper required to be completed by audit engagement teams which addresses a variety of independence matters and requires review by the Engagement Quality Control Reviewing partner

— Compliance testing programs

— Formal disciplinary policy and process

Independence of mind and appearance

— Independence consists of independence of mind and in appearance. Independence in appearance is the avoidance of circumstances that would cause a reasonable and informed third party who has knowledge of all relevant information, including safeguards applied, to reasonably conclude that the integrity, objectivity, or professional skepticism of the firm or members of the audit engagement team is compromised.

— Close personal relationships between firm personnel and audit client personnel can impact the appearance of independence or an auditor's independence of mind.

— KPMG has issued reminders and conducted training regarding KPMG's existing policies that require interactions between firm personnel and audit client personnel (including client entertainment) be directly related to a business purpose, reasonable, and infrequent (i.e., generally no more than four times a year). Additionally, firm policies prohibit the receipt or granting of any gift with a value between firm and audit client personnel.

Shared responsibilities – Independence

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 financial statements 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.)
- Information regarding any pending corporate transactions which may result in new affiliates, officers, directors.

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.

Enhancing audit quality and transparency

We are providing as supplemental information the following documents:

- **Audit Quality Report**
- **Transparency Report**
- **Transparency Report – Supplement: Assisting Audit Committees in Meeting NYSE Rules on Auditor Communications**

[The firm's internal quality control documents are available at https://home.kpmg/us/en/home/about/kpmg-quality-and-transparency-report.html**]**

Responsibilities

Management responsibilities – Financial statements	— Fairly presenting the financial statements, including disclosures in conformity with U.S. GAAP — Adjusting the financial statements to correct material misstatements and affirming in the representation letter 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
Management responsibilities – ICFR	— 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
Management responsibilities – Other	— To provide the auditor with: 1) access to all information of which management is aware is relevant to the preparation and fair presentation of the financial statements, such as records, documentation, and other matters; 2) additional information that the auditor may request from management for the purpose of the audit; and 3) unrestricted access to persons within the entity from whom the auditor determines it necessary to obtain audit evidence — Identifying and ensuring that the entity complies with laws and regulations applicable to its activities, and for informing the auditor of any known material violations of such laws and regulations — Providing the auditor with a letter confirming certain representations made during the audit, that includes but is not limited to management's: 1) disclosure of all significant deficiencies, including material weaknesses, in the design or operation of internal controls that could adversely affect the Company's financial reporting 2) acknowledgement of their responsibility for the design, implementation, and maintenance of internal controls to prevent and detect fraud
Audit Committee responsibilities	— Oversight of the financial reporting process and internal control over financial reporting (ICFR) — Oversight of the establishment and maintenance by management of programs and controls designed to prevent, deter, and detect fraud

The financial statement audit does not relieve management or the Audit Committee of their responsibilities.

Responsibilities (continued)

Management and the Audit Committee responsibilities	— Setting the proper tone and creating and maintaining a culture of honesty and high ethical standards — Ensuring that the entity's 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 entity's financial statements.
KPMG – Audit objectives	— Forming and expressing an opinion about whether the financial statements that have been prepared by management with the oversight of the Audit Committee are prepared, in all material respects, in accordance with U.S. GAAP
KPMG responsibilities – Audit	— Performing the audit in accordance with U.S. GAAS and that the audit is designed to obtain reasonable, rather than absolute, assurance about whether the financial statements as a whole are free from material misstatement — Performing an audit of financial statements includes consideration of ICFR 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 ICFR
KPMG responsibilities – Other information in documents containing 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 auditor's responsibility is to make appropriate arrangements with management or the Audit Committee to obtain information prior to the report release date and to read the other information to identify material inconsistencies with the audited financial statements or misstatement of facts — Any material inconsistencies or misstatement 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 — Communicate any procedures performed relating to the other information and the results of those procedures

Responsibilities (continued)

KPMG responsibilities – Communications	— Communicating significant matters related to the financial statement audit that are in our professional judgment, relevant to the responsibilities of the Audit Committee in overseeing the financial process. U.S. GAAS does not require us to design procedures for the purpose of identifying matters to communicate to the Audit Committee — Communicating if we suspect or identify noncompliance with laws and regulations exist, unless matters are clearly inconsequential — Communicating to management and the Audit Committee in writing all significant deficiencies and material weaknesses in internal control identified during the audit, including those that were remediated 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 Company's internal control — Conducting the audit in accordance with professional standards and complying with the rules and responsibility of the Code of Professional Conduct of the American Institute of Certified Public Accountants and the official standards of relevant CPA Societies, and relevant state boards of accountancy — Communicating to the Audit Committee circumstances, if any, that affect the form and content of the auditors' report — Communicating if we plan to withdraw from the engagement and the reasons for the withdrawal — Communicating to the Audit Committee if we conclude no reasonable justification for a change of the terms of the audit engagement exists and we are not permitted by management to continue the original audit engagement — When applicable, we are also responsible for communicating particular matters required by law or regulation, by agreement with the entity, or by additional requirements applicable to the engagement — Communicating if we have identified or suspect fraud involving: (a) management, (b) employees who have significant roles in internal control, (c) others, when the fraud results in a material misstatement in the financial statements, and (d) other matters related to fraud that are, in the auditors' professional judgment, relevant to the responsibilities of the Audit Committee — Communicating significant findings and issues arising during the audit in connection with the entity's related parties — Communicating conditions and events, considered in the aggregate, that raise substantial doubt about an entity's ability to continue as a going concern for a reasonable period of time

Questions?

For additional information and Audit Committee resources, including upcoming events, a Quarterly webcast, and suggested publications, please visit KPMG's Audit Committee Institute (ACI) at www.kpmg.com/ACI.

kpmg.com/socialmedia

mgo | Certified Public Accountants

July 1, 2019

Ben Rosenfield, Controller
Office of the Controller
City Hall, Room 316
1 Dr. Carlton B. Goodlett Pl.
San Francisco, CA 94102

Dear Mr. Rosenfield,

The following represents our understanding of the services we will provide the City and County of San Francisco (City).

You have requested that we audit the governmental activities, the business-type activities, each major fund, and the aggregate discretely presented component unit and remaining fund information of the City as of June 30, 2019, and for the year then ended and the related notes, which collectively comprise the City's basic financial statements. We are pleased to confirm our acceptance and our understanding of this audit engagement by means of this letter. Our audit will be conducted with the objective of our expressing an opinion on each opinion unit applicable to those basic financial statements.

In addition to our audit of the basic financial statements of the City, we will also perform the following:

1. 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.
2. 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).
3. 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.
4. Agreed-upon procedures to review compliance with appropriations limit requirements of Section 1.5 Article XIIIB 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 XIIIB of the California Constitution*).
5. 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.
6. 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.
7. 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 principles generally accepted in the United States of America, (U.S. GAAP,) as promulgated by the Governmental Accounting Standards Board (GASB) require that certain required supplementary information (RSI) 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. As part of our engagement, we will apply certain limited procedures to the RSI in accordance with auditing standards generally accepted in the United States of America, (U.S. GAAS). These limited procedures will consist primarily of inquiries of management regarding their methods of measurement and presentation, and comparing the information for consistency with management's responses to our inquiries. We will not express an opinion or provide any form of assurance on the RSI. The following RSI is required by U.S. GAAP. The following RSI will be subjected to certain limited procedures but will not be audited:

1. Management's Discussion and Analysis
2. Pension Plans – Schedule of the City's Proportionate Share of the Net Pension Liability
3. Pension Plans – Schedule of Changes in Net Pension Liability and Related Ratios
4. Pension Plans – Schedule of the Employer Contributions
5. Other Postemployment Healthcare Benefits Plan – Schedule of Changes in the Net OPEB Liability and Related Ratios
6. Other Postemployment Healthcare Benefits Plan – Schedule of the Employer Contributions

Supplementary information other than RSI will accompany the City's basic financial statements. We will subject the following supplementary information to the auditing procedures applied in our audit of the basic financial statements and perform certain additional procedures, including comparing and reconciling the supplementary information to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and additional procedures in accordance with U.S. GAAS. We intend to provide an opinion on the following supplementary information in relation to the basic financial statements as a whole:

1. Combining and individual fund financial statement schedules
2. 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.

Auditor Responsibilities

We will conduct our audit in accordance with U.S. GAAS. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the basic financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the basic financial statements, whether due to fraud or error, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements.

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 basic financial statements. If appropriate, our procedures will therefore include tests of documentary evidence that support the transactions recorded in the accounts, tests of the physical existence of inventories, and direct confirmation of cash, investments, and certain other assets and liabilities by correspondence with creditors and financial institutions. As part of our audit process, we will request written representations from your attorneys, and they may bill you for responding. At the conclusion of our audit, we will also request certain written representations from you about the basic financial statements and related matters.

Because of the inherent limitations of an audit, together with the inherent limitations of internal control, an unavoidable risk that some material misstatements (whether caused by errors, fraudulent financial reporting, misappropriation of assets, or violations of laws or governmental regulations) may not be detected exists, even though the audit is properly planned and performed in accordance with U.S. GAAS and *Government Auditing Standards*.

In making our risk assessments, we consider internal control relevant to the City's preparation and fair presentation of the basic 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 City's internal control. However, we will communicate to you in writing concerning any significant deficiencies or material weaknesses in internal control relevant to the audit of the basic financial statements that we have identified during the audit. Our responsibility as auditors is, of course, limited to the period covered by our audit and does not extend to any other periods.

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 basic financial statements are other than unmodified, we will discuss the reasons with you 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 to issue a report as a result of this engagement.

Compliance with Laws and Regulations

As previously discussed, as part of obtaining reasonable assurance about whether the basic financial statements are free of material misstatement, we will perform tests of the City's compliance with the provisions of applicable laws, regulations, contracts, and agreements. However, the objective of our audit will not be to provide an opinion on overall compliance and we will not express such an opinion.

Management Responsibilities

Our audit will be conducted on the basis that management acknowledge and understand that they have responsibility:

1. For the preparation and fair presentation of the basic financial statements in accordance with accounting principles generally accepted in the United States of America;
2. For the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of basic financial statements that are free from material misstatement, whether due to error, fraudulent financial reporting, misappropriation of assets, or violations of laws, governmental regulations, grant agreements, or contractual agreements; and
3. To provide us with:
    a. Access to all information of which management is aware that is relevant to the preparation and fair presentation of the basic financial statements such as records, documentation, and other matters;
    b. Additional information that we may request from management for the purpose of the audit; and
    c. Unrestricted access to persons within the entity from whom we determine it necessary to obtain audit evidence.

4. For including the auditor's report in any document containing basic financial statements that indicates that such basic financial statements have been audited by the entity's auditor;
5. For identifying and ensuring that the City complies with the laws and regulations applicable to its activities;
6. For adjusting the basic 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 current year period(s) under audit are immaterial, both individually and in the aggregate, to the basic financial statements as a whole; and
7. For maintaining adequate records, selecting and applying accounting principles, and safeguarding assets.

With regard to the supplementary information referred to above, you acknowledge and understand management's responsibility: (a) for the preparation of the supplementary information in accordance with the applicable criteria; (b) to provide us with the appropriate written representations regarding supplementary information; (c) to include our report on the supplementary information in any document that contains the supplementary information and that indicates that we have reported on such supplementary information; and (d) to present the supplementary information with the audited basic financial statements, or if the supplementary information will not be presented with the audited basic financial statements, to make the audited basic financial statements readily available to the intended users of the supplementary information no later than the date of issuance by you of the supplementary information and our report thereon.

As part of our audit process, we will request from management written confirmation concerning representations made to us in connection with the audit.

Reporting

We will issue a written report upon completion of our audit of the City's basic financial statements. Our report will be addressed to the Mayor and the Board of Supervisors. We cannot provide assurance that unmodified opinions will be expressed. Circumstances may arise in which it is necessary for us to modify our opinions, add an emphasis-of-matter or other-matter paragraphs, or withdraw from the engagement.

In accordance with the requirements of *Government Auditing Standards*, we will also issue a written report describing the scope of our testing over internal control over financial reporting and over compliance with laws, regulations, and provisions of grants and contracts, including the results of that testing. However, providing an opinion on internal control will not be an objective of the audit and, therefore, no such opinion will be expressed.

We will also report on internal control over compliance related to major programs and provide 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 the Uniform Guidance.

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.

Provisions of Engagement Administration, Timing and Fees

We understand that City employees will prepare all confirmations we request and will locate any documents or support for any other transactions we select for testing.

During the course of the engagement, we may communicate with City personnel via fax or e-mail, and you should be aware that communication in those mediums contains a risk of misdirected or intercepted communications.

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).

Our firm may transmit confidential information that the City provides us to third parties in order to facilitate delivering our services to you. For example, such transmissions might include, but not be limited to actuaries or investment valuation specialist engaged to assist with our audits. We have obtained confidentiality agreements with all our service providers to maintain the confidentiality of the City's information and we will take reasonable precautions to determine that they have the appropriate procedures in place to prevent the unauthorized release of confidential information to others. We will remain responsible for the work provided by any third-party service providers used under this agreement. By your signature below, you consent to having confidential information transmitted to entities outside the firm. Please feel free to inquire if you would like additional information regarding the transmission of confidential information to entities outside the firm.

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.

With respect to any nonattest services we perform, the City's management is responsible for (a) making all management decisions and performing all management functions; (b) assigning a competent individual to oversee the services; (c) evaluating the adequacy of the services performed; (d) evaluating and accepting responsibility for the results of the services performed; and (e) establishing and maintaining internal controls, including monitoring ongoing activities. *Government Auditing Standards* require that we document an assessment of the skills, knowledge, and experience of management, should we participate in any nonattest service.

The timing of our services will be scheduled for completion as follows:

1. City's basic financial statements, including the hospitals................... November 27, 2019
2. Employees' Retirement System... November 1, 2019
3. Successor Agency to the Redevelopment Agency................................ November 1, 2019
4. Port of San Francisco... November 1, 2019
5. Finance Corporation.. November 27, 2019
6. Retiree Health Benefit Trust.. November 1, 2019
7. Single Audit Reports...January 31, 2020
8. Agreed-upon procedures on the Appropriations Limit......................... November 1, 2019
9. State of California Department of Insurance grants................................ October 31, 2019
10. Local Transportation Fund...December 31, 2019
11. Transportation Development Act..March 31, 2020

Cynthia Pon is the engagement partner for the audit services specified in this letter. Her responsibilities include supervising MGO's services performed as part of this engagement and signing or authorizing another qualified firm representative to sign the audit report.

Our fees are based on the audit agreement dated July 1, 2016, as amended. Invoices will be rendered monthly and are payable upon presentation. We will notify you immediately of any circumstances we encounter that could significantly affect the fees. Whenever possible, we will attempt to use the City's personnel to assist in the preparation of schedules and analyses of accounts. This effort could substantially reduce our time requirements and facilitate the timely conclusion of the audit. Further, we will be available during the year to consult with you on financial management and accounting matters of a routine nature.

You agree to inform us of facts that may affect the basic financial statements of which you may become aware during the period from the date of the auditor's report to the date the financial statements are issued.

At the conclusion of our audit engagement, we will communicate to Board of Supervisors (through the Government Oversight and Audit Committee) the following significant findings from the audit:

1. Our view about the qualitative aspects of the City's significant accounting practices;
2. Significant difficulties, if any, encountered during the audit;
3. Uncorrected misstatements, other than those we believe are trivial, if any;
4. Disagreements with management, if any;
5. Other findings or issues, if any, arising from the audit that are, in our professional judgment, significant and relevant to those charged with governance regarding their oversight of the financial reporting process;
6. Material, corrected misstatements that were brought to the attention of management as a result of our audit procedures;
7. Representations we requested from management;
8. Management's consultations with other accountants, if any; and
9. Significant issues, if any, arising from the audit that were discussed, or the subject of correspondence, with management.

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.

The audit documentation for this engagement is the property of Macias Gini & O'Connell, LLP (MGO) and constitutes confidential information. However, we may be requested to make certain audit documentation available to certain regulators, such as the City's cognizant agency or its designee, a federal agency providing direct or indirect funding, or the U.S. Government Accountability Office, pursuant to authority given to them by law or regulation, or to peer reviewers. If requested, access to such audit documentation will be provided under the supervision of MGO's personnel. Furthermore, upon request, we may provide copies of selected audit documentation to these regulators. The regulators may intend, or decide, to distribute the copies of information contained therein to others, including other governmental agencies.

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 2018 peer review report is provided for your reference.

We appreciate the opportunity to be your financial statement auditors and look forward to working with you and your staff.

Respectfully,

Macias Gini & O'Connell LLP

Macias Gini & O'Connell LLP

WATSON COON RYAN
CERTIFIED PUBLIC ACCOUNTANTS

9250 EAST COSTILLA AVENUE, SUITE 450
GREENWOOD VILLAGE, COLORADO 80112
303-792-3020 (O) | 303-792-5153 (F)
WWW.WCRCPA.COM

Report on the Firm's System of Quality Control

October 25, 2018

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, 2018. 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 (Standards).

A summary of the nature, objectives, scope, limitations of, and the procedures performed in a System Review as described in the Standards may be found at www.aicpa.org/prsummary. The summary also includes an explanation of how engagements identified as not performed or reported in conformity with applicable professional standards, if any, are evaluated by a peer reviewer to determine a peer review rating.

Firm's Responsibility

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. The firm is also responsible for evaluating actions to promptly remediate engagements deemed as not performed or reported in conformity with professional standards, when appropriate, and for remediating weaknesses in its system of quality control, if any.

Peer Reviewer's Responsibility

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.

RANDY WATSON | JEREMY RYAN | TROY COON | KELLY WATSON | JOHNNIE DOWNING

Required Selections and Considerations

Engagements selected for review included an engagements performed under *Government Auditing Standards*, including compliance audits under the Single Audit Act; an audit of an employee benefit plan and an examination of a service organization, SOC 1 engagement.

As a part of our peer review, we considered reviews by regulatory entities as communicated by the firm, if applicable, in determining the nature and extent of our procedures.

Opinion

In our opinion, the system of quality control for the accounting and auditing practice of Macias Gini & O'Connell LLP engagements not subject to PCAOB permanent inspection in effect for the year ended March 31, 2018, 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*.

Watson Coon Ryan, LLC

Watson Coon Ryan, LLC