

**SAN FRANCISCO UNIFIED
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2015**

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SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Governing Board
San Francisco Unified School District
San Francisco California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Francisco Unified School District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District'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 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; and the *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. 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 District'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 District'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, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2015, 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 - Change in Accounting Principles

As discussed in Note 17 to the financial statements, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* as of July 1, 2014. Adoption of these pronouncements required restatement of beginning net position. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, and other information as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We 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 District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and other accompanying supplementary information as listed in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. 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 accompanying supplementary information 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 December 29, 2015 on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control over financial reporting and compliance.

Vawrinck Time Day + Co. LLP

Palo Alto, California
December 29, 2015

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SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

PROFILE OF THE DISTRICT

The San Francisco Unified School District (“SFUSD” or the “District”) is the sixth largest school district in California, and currently educates approximately 57,000 students, including charter school pupils, who live in the 49 square mile area of the City and County of San Francisco. The San Francisco Unified School District was established in 1851. The District is governed by an elected Board of seven members. The District also administers the County Office of Education.

The District and County Office of Education provide pre-kindergarten, elementary, and secondary education in the City and County of San Francisco throughout multiple campuses, as follows:

- 65 elementary schools
- 8 K-8 schools
- 13 middle schools
- 18 senior high schools (including two continuation schools and an independent study school)
- 4 court and county community schools
- 34 state-funded preschool sites
- 9 transitional kindergarten schools

The majority of the District’s elementary schools have designated attendance areas giving priority to students living within those attendance boundaries. The remaining elementary schools are “City-wide schools” with no designated attendance area. Each middle school is linked to several elementary schools through feeder patterns; however, all SFUSD schools enroll students based on parent/guardian request and provide significant opportunities for parental choice in enrollment.

The District is also the chartering entity and has oversight responsibility for thirteen charter schools: City Arts and Technology High School, Creative Arts Charter School, Five Keys Charter School, Five Keys Adult School, Five Keys Independence High School, Gateway High School, Gateway Middle School, KIPP Bayview Academy, KIPP San Francisco Bay Academy, KIPP San Francisco College Preparatory, Leadership High School, Life Learning Academy, and Thomas Edison Charter Academy.

SFUSD is California’s highest performing large urban school district. Despite continued years of significant deficits at the State level and related shortfalls in funding of school districts resources, the District’s students have achieved more than a decade of continuous growth in academic performance, including significant gains by all groups of students. At the same time, however, wide gaps in achievement between groups of students persist.

SFUSD’s strategic plan document “Impact Learning. Impact Lives.” describes priorities and initiatives for strategic improvement in classrooms, school sites, and central offices. The plan can be found at www.sfusd.edu.

Richard A. Carranza assumed the role of Superintendent for SFUSD on June 26, 2012. Mr. Carranza, who previously served as SFUSD’s Deputy Superintendent for Instruction, Innovation and Social Justice, has led the District in building a rigorous Common Core-based curriculum, investing in the professional learning of teachers, leaders and school staff, enlisting partners and engaging families, and building an accountability system that includes a comprehensive assessment of student learning.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

The District's staff members share a commitment to deliver programs that will create the foundation for all students to achieve success. Each year, the SFUSD's educators and administrators assess each school's progress against established priorities, goals and objectives. Through the ongoing and expanding use of evaluation data, SFUSD continually reassesses its strategies, practices and allocation of resources. The District has been successful in introducing strategies that have helped in closing gaps in academic achievement outcomes among groups of students. Parents are also becoming more aware of high instructional quality and appealing programs at public schools across San Francisco, and more of the District's schools are continuing to gain state and federal recognition.

The State of California's fiscal challenges, particularly over the past decade, have had a significant impact on the funds available for school budgets. However, throughout this significant, protracted downturn in state funding, the District has stretched its resources to deliver high-quality educational services. As financial resources gradually stabilize, the District's teachers, principals, and other staff members are continuing their efforts to raise academic achievement of already high performing students and dramatically accelerate the achievement of those who need the most support to achieve SFUSD's vision for student success.

SFUSD's aim is to make sure all students are on a path to success in college, career, and life. To continue following through on our strategic plan's commitments, areas of focus (SFUSD's "Six Strategies for Success") include:

- Implementing the SFUSD Core Curriculum and using student data to make informed decisions and monitor our progress toward goals.
- Providing tiered levels of academic and behavior support to all students using a Response to Instruction and Intervention (RTI²) model.
- Building a clear vision, culture and conditions for college and career readiness at all school levels.
- Differentiating central office supports to schools through a Multi-Tiered System of Supports (MTSS).
- Recruiting, developing and retaining highly qualified teachers, leaders, and staff.
- Increasing awareness and building the supports necessary to fully implement SFUSD's Family Engagement Standards.

District staff members also continue to improve practices in financial planning and monitoring spending levels. SFUSD's ability to analyze and estimate revenues and expenses is essential due to the historical unpredictability of financial resources and the State-wide economic trends that may continue to affect the District's financial condition over the next several years, even as the State implements the new Local Control Funding Formula.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

FINANCIAL HIGHLIGHTS

RESULTS OF OPERATION

Unrestricted General Fund Results of Operations

During fiscal year 2014-15, the District's unrestricted General Fund ending balance, which includes nonspendable, assigned, and unassigned balances, increased from \$24.4 million to \$36.4 million, a \$12.0 million or 49.2% increase. Total unrestricted General Fund revenues in the current year were \$489.0 million, an increase of \$53.5 million, or 12.3% compared to 2013-14.

Total expenditures of \$464.5 million represent an increase of \$39.6 million or 9.3% over 2013-14. Transfers to the County School Service Fund of \$80.2 million, is an increase of \$8.9 million or 11.1% from 2013-14.

The unrestricted General Fund balance was required to contribute to other funds, primarily for special education, transportation, child development, and student nutrition. Transfers to other funds in the amount of \$7.7 million are \$0.5 million or 6% greater than 2013-14.

General Fund Ending Balance and Reserves

The District's combined General Fund ending balance at June 30, 2015 (restricted plus unrestricted) is \$69.3 million. The restricted fund balance portion of \$32.9 million will largely be used for instructional activities, but its use is restricted for specific program activities and cannot be counted as available, i.e., unrestricted reserves. The District's available reserves, consisting of reserves for economic uncertainty, and other unassigned fund balances of the General Fund, are \$35.8 million.

The following comparison of revenue and expenditures focuses solely on General Fund operations. Table I shows the year to year revenue and Table II shows the same comparison of expenditures.

Table I

	<u>2014</u>	<u>2015</u>	<u>Variance</u>
Local control funding formula	\$ 375,832,260	\$ 419,388,497	\$ 43,556,237
Federal sources	37,406,980	31,346,764	(6,060,216)
Other state sources	56,710,288	42,682,093	(14,028,195)
Other local sources	125,416,660	179,667,253	54,250,593
Transfers in / Other sources	218,721	-	(218,721)
	<u>\$ 595,584,909</u>	<u>\$ 673,084,607</u>	<u>\$ 77,499,698</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Table II

	<u>2014</u>	<u>2015</u>	<u>Variance</u>
Instruction	\$ 261,969,218	\$ 289,157,425	\$ 27,188,207
Instruction related activities	132,783,414	141,055,137	8,271,723
Pupil services	45,325,938	43,736,313	(1,589,625)
General administration	27,916,858	29,861,464	1,944,606
Plant services	50,899,260	55,050,424	4,151,164
Facility acquisition and construction	4,272,987	3,421,795	(851,192)
Ancillary services	2,211,527	2,376,110	164,583
Other outgo	80,283,017	89,172,130	8,889,113
Debt service	2,798,878	3,426,810	627,932
Transfers out	9,043,610	9,248,336	204,726
	<u>\$ 617,504,707</u>	<u>\$ 666,505,944</u>	<u>\$ 49,001,237</u>

Budgeting

The SFUSD adopted budget is developed based on the latest information on revenue projections received from the Governor's May revision to the State budget, which is typically released a few months before the final State budget is passed. The District held budget hearings and adopted the 2014-15 budget in accordance with provisions of the California Education Code. The budget reflects the District's goals to emphasize the achievement of all students and to narrow the achievement gap for the neediest students. Throughout the budget development process, staff is encouraged to work with the community to develop sound decisions that support the needs of all students.

Only grants that the District is certain of receiving are included in the adopted budget. Additional programs are budgeted as grant awards, and are received during the course of the year. Grants are budgeted to be fully expended. Carryover funds are budgeted when carryover balances are determined and per instructions from program managers.

As program needs change during the year, changes and revisions to the adopted budget are made throughout the year to reflect these changes. Budget transfers and budget revisions are made on an ongoing basis, and new programs are budgeted throughout the fiscal year. We have included a budgetary comparison schedule on page 63 providing the adopted and final budgets compared with actual revenues and expenditures.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *short-term* and *long-term* information about the District’s *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District’s operations in *more detail* than the *government-wide statements*.
- The *governmental funds statements* tell how basic services like regular and special education were financed in the short term as well as what remains for future spending.
- *Proprietary fund statements* offer financial information about the activities the District operates on a cost reimbursement basis, such as the Self-insurance Fund.
- *Fiduciary funds statements* provide information about the financial relationships in which the District acts solely as a trustee or agent for the benefit of others to whom the resources belong. Fiduciary fund activity is excluded from the *government-wide financial statements*.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The statements are followed by a section of *required supplementary information* that further explains and supports the financial statements with comparisons of the District’s General and County School Service Fund budgets, both the adopted and final version, with year-end actuals.

Government-Wide Statements

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net position includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

The two government-wide statements report the District’s *net position* and how they have changed. Net position – the difference between assets and liabilities – is one way to measure the District’s financial health.

- Over time, increases or decreases in the District’s net position may be an indicator of whether its financial position is improving or deteriorating, respectively.
- To assess the overall health of the District one needs to consider additional non-financial factors such as changes in the District’s property tax base, its student enrollment data, the State’s fiscal health and the condition of school buildings and other facilities.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds* – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs:

- Some funds are required by State law and by bond covenants.
- The District establishes other funds to control and manage money for particular purposes (such as payment of long-term debt) or to show that it is properly using certain revenues (such as Federal grants).

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed *short-term* view that helps one determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, reconciliations between the district-wide statements and the fund financial statements are provided.
- *Proprietary funds* – Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the district-wide statements. Internal service funds (one kind of proprietary fund) are used to report activities that provide supplies and services for the District's other programs and activities. The District currently has one internal service fund – the self-insurance fund.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, such as the scholarship fund and the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net position. These activities are excluded from the district-wide financial statements because the District cannot use these assets to finance its operations.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2015

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's government-wide net position at June 30, 2015 totaled \$4.7 million. Of this amount, \$581 million represents net investment in capital assets, while \$136 million is restricted for various purposes. The deficit in unrestricted net position of \$713 million is primarily due to the aggregate net pension liability and the postemployment benefits obligation, which totals \$435 million and \$220 million, respectively at June 30, 2015. The postemployment benefits liability increased \$32 million from June 30, 2014. As discussed in Note 1, 14, and 17 the District implemented GASB Statement Nos. 68 and 71 as of the 2014-15 fiscal year. Statements 68 and 71 require the District to recognize its proportionate share of the aggregate net pension liability related to District employees' pensions. Implementation of Statement 68 resulted in a restatement of beginning net position, as if the liability had been recognized in 2013-14. The pension liability at June 30, 2015 was \$435 million, a decrease of \$138 million or 24%. A substantial portion of the decrease is attributed to investment earnings on the pension trust investment portfolio.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the close of the year ended June 30, 2015, the District's capital assets totaled \$1,746 million. Accumulated depreciation was \$420 million at year end. Depreciation expense for the year totaled \$44 million. Net book value (the amount of total assets after applying depreciation) increased by \$148 million to \$1,326 million.

The District excludes from its capital assets any individual capital acquisitions less than \$25,000. The majority of the recorded historical cost of assets relates to the buildings and improvements of physical school sites.

The historical cost of land owned by the District is not considered significant and is excluded from total capital assets. Likewise, the original historical construction cost of most school sites dating back to the date the school was first opened have not been included as such costs would have been fully depreciated by the beginning year date of July 1, 2001. See Note 4 to the accompanying financial statements for a complete summary of the District's capital assets.

Long-Term Obligations

The District began the fiscal year with long-term obligations of \$1,662 million. Additions during 2014-15 were \$107 million, consisting of increases to the postemployment benefits liability of \$41 million and increases in the net pension liability of \$65 million. Reductions consisted primarily of debt service payments of \$39 million, payments of current premiums on the post employment benefits liability of \$33 million, and decreases in the net pension liability of \$179 million. At June 30, 2015, the ending balance of long-term liabilities was \$1,515 million.

The significant items comprising the District's long-term obligations are as follows: \$835 million of general obligation bonds, \$220 million of post-employment benefits, and \$435 million of net pension liability. Repayments of the revenue limit deficit loan extended over a ten-year window, concluding in fiscal year 2014-15.

See Note 9 to the accompanying financial statements for a complete summary of long-term liabilities.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2015

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District's staff continues to use assessments to measure and re-evaluate ways to invest in sound, educational, and programmatic activities while ensuring financial solvency. The District achieved its required reserve target of 2% for FY 2014-15 and currently projects that it will maintain its minimum reserve in both FY 2015-16 and FY 2016-17.

In addition to the Local Control Funding Formula income source, the District also received approximately \$243.8 million of other program funding from Federal, State, and local sources. In June 2008, Proposition A, the Quality Teacher & Education Act was passed by the voters of San Francisco, bringing \$30+ million per year for the next twenty years to the District beginning in fiscal year 2008-09. These resources assist in recruiting and retaining effective teachers, increasing accountability, and improving the District's technology infrastructure.

Another local revenue source that has been greatly beneficial to SFUSD is the City and County's Rainy Day Reserve (the Reserve), also known as an Economic Stabilization Reserve. Pursuant to the San Francisco Administrative Code Charter Section 9.113.3, San Francisco Unified School District is entitled to receive appropriations from the Reserve under certain conditions. The amount that the District received for 2014-15 was \$11.1 million.

As it relates to future State Budgets, the District's ability to predict what actions will be taken in the future by the State Legislature and Governor to address the State's current or future budget and cash management practices is limited. Future State budgets will be affected by national and State economic conditions and other factors over which the District has no control. However, in a welcome departure from the past several years, prospects for State funding are brighter due to recent improvement in California's economy and the implementation of the Local Control Funding Formula.

The District's Superintendent and senior staff members will continue to work very closely with the Board of Education to monitor revenues and manage expenditures. SFUSD is totally committed to take whatever measures are necessary to maintain a stable financial position. At the same time, the District will also continue its dedicated mission to ensure improvement in academic achievement, closing achievement gaps, improving its facilities, and meeting the priorities of the Board of Education and the San Francisco community. It is the District's goal to ensure that all children receive a quality education and a positive foundation necessary for them to achieve academic success.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to assist interested parties in understanding the District's sources and uses of resources. If you have questions about this report or need additional financial information, please contact Reeta Madhavan, Chief Financial Officer of the San Francisco Unified School District, 135 Van Ness Avenue, San Francisco, California, 94102 or (415) 241-6542.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2015

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 3,908,811
Investments	399,126,176
Receivables	47,699,412
Prepaid expenses	60,762
Stores inventories	630,726
Capital assets, net of accumulated depreciation	1,326,048,533
Total assets	<u>1,777,474,420</u>
Deferred outflows of resources	
Deferred outflows from pension activities	<u>51,782,176</u>
Liabilities	
Overdrafts	2,358,223
Accounts payable	65,585,725
Interest payable	3,958,019
Unearned revenue	9,961,432
Claim liabilities	34,354,233
Current loans	52,000,000
Current portion of long-term obligations	42,109,692
Noncurrent portion of long-term obligations	817,842,224
Other post-employment benefits	219,783,660
Aggregate net pension liability	435,448,350
Total liabilities	<u>1,683,401,558</u>
Deferred inflows of resources	
Deferred inflows from pension activities	<u>141,131,880</u>
Net position	
Net investment in capital assets	581,451,220
Restricted	
Legally restricted	40,836,193
Debt service	21,983,614
Capital projects	53,092,682
Self insurance	20,380,760
Unrestricted	<u>(713,021,311)</u>
Total net position	<u>\$ 4,723,158</u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

Functions/Programs	Expenses	Program Revenues			Net Revenues (Expenses) and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction	\$ 446,726,413	\$ 466,275	\$ 80,624,363	\$ 9,193,144	\$ (356,442,631)
Instruction related activities					
Supervision of instruction	126,930,190	436,908	50,290,569	-	(76,202,713)
Instructional library and technology	9,038,717	74,576	2,182,353	-	(6,781,788)
School site administration	47,203,899	11,903	3,703,569	-	(43,488,427)
Pupil services					
Home-to-school transportation	27,215,099	2,639	76,468	-	(27,135,992)
Food services	25,117,148	1,399,550	19,095,723	-	(4,621,875)
All other pupil services	63,268,349	162,317	15,217,867	-	(47,888,165)
General administration					
Data processing	7,066,858	262	7,594	-	(7,059,002)
All other general administration	30,328,334	79,648	4,422,671	-	(25,826,015)
Plant services	51,919,865	21,843	1,122,416	-	(50,775,606)
Ancillary services	2,595,726	20,159	584,052	-	(1,991,515)
Interest on long-term obligations	27,760,936	-	-	-	(27,760,936)
Other outgo	1,901,546	19,007	2,658,593	-	776,054
Total Governmental Activities	<u>\$ 867,073,080</u>	<u>\$ 2,695,087</u>	<u>\$ 179,986,238</u>	<u>\$ 9,193,144</u>	<u>(675,198,611)</u>
General revenues and subventions					
Property taxes, levied for general purposes					301,976,270
Property taxes, levied for debt service					63,538,918
Taxes levied for other specific purposes					77,600,471
Federal and state aid not restricted to specific purposes					139,787,835
Interest and investment earnings					3,595,412
Proceeds from exchange of property					10,225,000
Miscellaneous					113,425,244
Subtotal, general revenues					<u>710,149,150</u>
Change in net position					<u>34,950,539</u>
Net Position - Beginning of year					<u>503,326,145</u>
Prior period adjustments					<u>(533,553,526)</u>
Net Position - Beginning of year, as adjusted					<u>(30,227,381)</u>
Net Position - Ending					<u>\$ 4,723,158</u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2015

	General Fund	County School Service Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 500	\$ -	\$ -	\$ 43,129	\$ 43,629
Investments	115,591,816	10,102,347	137,550,837	84,737,446	347,982,446
Receivables	30,694,394	9,977,245	241,693	6,743,779	47,657,111
Prepaid expenditures	60,762	-	-	-	60,762
Stores inventories	537,026	-	-	93,700	630,726
Total Assets	\$ 146,884,498	\$ 20,079,592	\$ 137,792,530	\$ 91,618,054	\$ 396,374,674
LIABILITIES AND FUND BALANCES					
Liabilities					
Overdrafts	\$ -	\$ -	\$ -	\$ 2,358,223	\$ 2,358,223
Accounts payable	20,727,496	8,935,179	32,599,871	3,006,959	65,269,505
Current loans	53,981,877	-	-	-	53,981,877
Unearned revenue	2,858,622	1,294,076	-	5,808,734	9,961,432
Total Liabilities	77,567,995	10,229,255	32,599,871	11,173,916	131,571,037
Fund Balances					
Nonspendable	598,288	-	-	129,240	727,528
Restricted	32,898,939	5,479,045	105,192,659	79,381,407	222,952,050
Assigned	-	4,371,292	-	933,491	5,304,783
Unassigned	35,819,276	-	-	-	35,819,276
Total Fund Balances	69,316,503	9,850,337	105,192,659	80,444,138	264,803,637
Total Liabilities and Fund Balances	\$ 146,884,498	\$ 20,079,592	\$ 137,792,530	\$ 91,618,054	\$ 396,374,674

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2015**

Amounts reported for governmental funds in the statement of net position are different from the amounts reported in the fund level statements because of these items:

Total fund balance - governmental funds		\$ 264,803,637
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 1,745,859,783	
Accumulated depreciation is	<u>(419,811,250)</u>	
Net capital assets		1,326,048,533
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. In the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred.		(1,976,142)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		20,380,760
Long-term liabilities are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of the following items:		
General obligation bonds and premium	(835,116,063)	
Capital leases payable	(14,673,909)	
Compensated absences (vacations)	(10,161,944)	
Post employment liability	(219,783,660)	
Net pension liability and related deferred inflows and outflows	<u>(524,798,054)</u>	
Long-term liabilities		<u>(1,604,533,630)</u>
Total net position - governmental activities		<u>\$ 4,723,158</u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2015

	General Fund	County School Service Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Local control funding formula	\$ 419,388,497	\$ 10,464,987	\$ -	\$ -	\$ 429,853,484
Federal sources	31,346,764	14,802,743	-	26,449,966	72,599,473
Other state sources	42,682,093	43,627,882	-	25,899,185	112,209,160
Other local sources	179,667,253	87,364,297	9,108,579	86,719,097	362,859,226
Total Revenues	673,084,607	156,259,909	9,108,579	139,068,248	977,521,343
EXPENDITURES					
Current					
Instruction	289,157,425	96,376,415	-	24,042,836	409,576,676
Instruction related activities					
Supervision of instruction	95,101,634	14,813,321	-	6,059,034	115,973,989
Instructional library and technology	8,257,221	1,303	-	-	8,258,524
School site administration	37,696,282	1,755,719	-	3,677,411	43,129,412
Pupil Services:					
Home-to-school transportation	2,994,043	21,871,937	-	-	24,865,980
Food services	379,387	-	-	22,569,731	22,949,118
All other pupil services	40,362,883	17,346,542	-	97,805	57,807,230
General administration:					
Data processing	6,115,718	341,151	-	-	6,456,869
All other general administration	23,745,746	1,606,135	-	2,358,609	27,710,490
Plant services	55,050,424	186,512	-	591,574	55,828,510
Facility acquisition and construction	3,421,795	-	176,846,228	12,437,862	192,705,885
Ancillary services	2,371,672	-	-	-	2,371,672
Other outgo	89,172,130	-	-	-	89,172,130
Enterprise services	4,438	-	-	-	4,438
Debt service					
Principal	1,100,180	-	-	36,993,130	38,093,310
Interest and other	2,326,630	-	-	39,150,776	41,477,406
Total Expenditures	657,257,608	154,299,035	176,846,228	147,978,768	1,136,381,639
Excess (deficiency) of revenues over expenditures	15,826,999	1,960,874	(167,737,649)	(8,910,520)	(158,860,296)
OTHER SOURCES (USES):					
Transfers in	-	-	9,096,513	9,248,336	18,344,849
Other sources	-	-	-	10,225,000	10,225,000
Transfers out	(9,248,336)	-	-	(9,096,513)	(18,344,849)
Net Financing Sources (Uses)	(9,248,336)	-	9,096,513	10,376,823	10,225,000
NET CHANGE IN					
FUND BALANCES	6,578,663	1,960,874	(158,641,136)	1,466,303	(148,635,296)
Fund Balance - Beginning	62,737,840	7,889,463	263,833,795	78,977,835	413,438,933
Fund Balance - Ending	\$ 69,316,503	\$ 9,850,337	\$ 105,192,659	\$ 80,444,138	\$ 264,803,637

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2015

Amounts reported for governmental activities in the statement of activities are different because of the following items:

Total net change in fund balances - governmental funds \$ (148,635,296)

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities those costs are capitalized in the statement of net position as property and equipment. The cost is allocated over the estimated useful life of the asset as depreciation expense in the statement of activities.

This is the amount by which capitalized capital outlays exceed depreciation in the current period.

Capitalized capital outlays	\$ 192,705,885	
Depreciation expense	<u>(44,339,840)</u>	148,366,045

Repayment of capital leases is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities. 1,508,130

Repayment of general obligation bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net position and does not affect the statement of activities. 35,485,000

Amortization of bond premium is a revenue source in the statement of activities, but is not recognized in the governmental funds. 4,056,904

In the statement of activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, compensated absences are measured by the amount of financial resources used (essentially, the amounts actually paid). (307,597)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is paid, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is paid. The interest expense reported in the statement of activities is the result of this difference. 9,659,566

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued) FOR THE YEAR ENDED JUNE 30, 2015

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the statement of activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.	8,755,472
In the statement of activities, the unfunded Annual Required Contribution (ARC) for other post employment benefits is recognized as an expense, but is not recognized in the governmental funds.	(32,158,852)
The excess revenue limit received during 2003-04 was recorded as revenue in the governmental funds and a long term liability in the statement of net position. The negotiated installment payments to repay the State are expenditures in the governmental funds, but reduce long-term liabilities in the statement of net position and do not affect the statement of activities.	1,100,180
An internal service fund is used by the District's management to charge the costs of the employment insurance program to the individual funds. The increase in net position of the internal service fund is not reported in the governmental funds, but is reported in the statement of activities.	<u>7,120,987</u>
Change in net position of governmental activities	<u><u>\$ 34,950,539</u></u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND STATEMENT OF NET POSITION JUNE 30, 2015

		Governmental Activities <u>Internal Service Fund</u>
ASSETS		
Cash and cash equivalents	\$ 3,865,182	
Investments	<u>51,143,730</u>	
Total cash and investments		\$ 55,008,912
Receivables		42,301
Total Assets		<u>55,051,213</u>
LIABILITIES		
Accounts payable		316,220
Claim liability - workers' compensation		34,084,000
Claim liability - dental		<u>270,233</u>
Total Liabilities		<u>34,670,453</u>
NET POSITION		
Restricted - insurance programs		5,941,100
Unrestricted - earmarked for OPEB		<u>14,439,660</u>
Total Net Position		<u><u>\$ 20,380,760</u></u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2015**

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
In-district premiums	\$ 24,270,993
Other local revenue	588,871
Total operating revenues	<u>24,859,864</u>
OPERATING EXPENSES	
Payroll costs	795,739
Claims expense	17,287,564
Total operating expenses	<u>18,083,303</u>
Net operating income	6,776,561
NONOPERATING REVENUES	
Interest income	<u>344,426</u>
Change in Net Position	7,120,987
Net Position - Beginning	13,259,773
Net Position - Ending	<u><u>\$ 20,380,760</u></u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND STATEMENT OF CASH FLOWS FOR THE YEAR ENDED JUNE 30, 2015

	Governmental Activities
	Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 24,859,864
Cash payments for insurance claims	(16,011,498)
Cash payments for payroll expense	(1,079,635)
Net cash provided by operating activities	<u>7,768,731</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>369,031</u>
Net increase in cash and cash equivalents	8,137,762
Cash and cash equivalents - Beginning of year	46,871,150
Cash and cash equivalents - End of year	<u>\$ 55,008,912</u>
RECONCILIATION OF OPERATING PROFIT TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating income	\$ 6,776,561
Increase in accrued liabilities	992,170
Net cash provided by operating activities	<u>\$ 7,768,731</u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET POSITION

JUNE 30, 2015

	<u>Payroll Revolving Agency Fund</u>	<u>Student Body Agency Fund</u>	<u>Total</u>
ASSETS			
Cash and cash equivalents	\$ -	\$ 2,615,373	\$ 2,615,373
Investments	6,802,287	-	6,802,287
Total Assets	<u>\$ 6,802,287</u>	<u>\$ 2,615,373</u>	<u>\$ 9,417,660</u>
LIABILITIES			
Salaries and benefits payable	\$ 6,802,287	\$ -	\$ 6,802,287
Due to student groups	-	2,615,373	2,615,373
Total Liabilities	<u>\$ 6,802,287</u>	<u>\$ 2,615,373</u>	<u>\$ 9,417,660</u>

The accompanying notes are an integral part of these financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The San Francisco Unified School District (the District) was established as the San Francisco School System in 1851 under the laws of the State of California. The District and County Office of Education (COE) operate under a locally-elected seven-member Board form of government and provides educational services to grades K - 12 as mandated by State and Federal agencies. The District and COE provide child care and elementary and secondary education in the City and County of San Francisco, California. The District also administers the COE fund (County School Service Fund). For financial reporting purposes, the District includes all funds, account groups, agencies, and authorities that are controlled by or are dependent on the District's executive or legislative branches. Control by or dependence on the District was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the District, obligations of the District to finance any deficits that may occur, or receipt of significant subsidies from the District. The District operates 65 elementary schools, 13 middle schools, and 18 high schools including 2 continuation schools and an independent study alternative school. The District sponsors 13 Charter Schools. The District also maintains 34 early childhood education centers and 9 transitional kindergarten schools.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. This includes general operations, food service and student related activities of the District and the COE.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component unit has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus is included in the financial statements using the blended presentation method as if it were part of the District's operations because the governing board of the component unit is the same as the governing board of the District and because its purpose is to finance the acquisition and improvement of a new administration building to be used for the direct benefit of the District.

The San Francisco Unified School District Financing Corporation's (the Corporation) financial activity is presented in the financial statements as a fund of the Special Reserve Fund - Capital Outlay. Certificates of participation issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individual financial statements are not prepared for the Corporation.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Other Related Entities

Charter Schools The District has approved Charters for City Arts and Technology High School, Creative Arts Charter School, Five Keys Charter School, Five Keys Adult School, Five Keys Independence High School, Gateway High School, Gateway Middle School, KIPP Bayview Academy, KIPP San Francisco Bay Academy, KIPP San Francisco College Preparatory, Leadership High School, Life Learning Academy, and Thomas Edison Charter Academy pursuant to Education Code Section 47605. The Charter Schools are sponsored by the District but operate independently. Their financial activity is not presented in the District's financial statements except for the pass-through of State aid and property tax revenues.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary and fiduciary.

Major Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major governmental funds:

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

County School Service Special Revenue Fund The County School Service Special Revenue Fund is used to account for resources committed to Special Education, other County schools, and the Regional Occupation Program maintained by the District.

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Nonmajor Governmental Funds

Special Revenue Funds The Special Revenue Funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to expenditures for specified purposes and that compose a substantial portion of the inflows of the fund. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board.

Debt Service Funds The Debt Service Funds are used to account for the accumulation of restricted, committed, or assigned resources for and the payment of principal and interest on general long-term obligations.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

Tax Override Fund The Tax Override Fund is used for the repayment of voted indebtedness (other than Bond Interest and Redemption Fund repayments) to be financed from ad valorem tax levies.

Capital Projects Funds The Capital Project Funds are used to account for financial resources that are restricted, committed, or assigned to the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* Sections 17620-17626). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

State School Building Lease-Purchase Fund The State School Building Lease Purchase Fund is used primarily to account separately for State apportionments for the reconstruction, remodeling, or replacing of existing school buildings or the acquisition of new school sites and buildings, as provided in the Leroy F. Greene State School Building Lease-Purchase Law of 1976 (*Education Code* Section 17000 et seq.).

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55) or the 2006 State Schools Facilities Fund (Proposition 1D) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

Proprietary Funds Proprietary Funds are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the local education agency, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting and are classified as enterprise or internal service. The District has the following proprietary fund:

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Internal Service Fund Internal Service funds may be used to account for goods or services provided to other funds of the District on a cost-reimbursement basis. The District operates a self insurance fund for its workers' compensation, dental, and other post employment retiree benefits self insurance program that is accounted for as an internal service fund.

Fiduciary Funds Fiduciary Funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore not available to support the District's own programs. Private-purpose trust funds are accounted for as a restricted component of the General Fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District maintains the following two Agency funds:

Payroll Revolving Agency Fund The Payroll Revolving Fund is used to account for assets held for employees for payroll withholding.

Student Body Agency Fund The Student Body Agency Fund is used to account for assets held for student organizations of schools in the District.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function, and excludes fiduciary activity. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Indirect expenses for centralized services and administrative overhead are allocated among the programs, functions and segments using a full cost allocation approach and are presented separately to enhance comparability of direct expenses between governments that allocate direct expenses and those that do not. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net position should be reported as restricted when constraints are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the government-wide statements, prepared on the accrual basis of accounting using the economic resources measurement focus, and the governmental fund statements, prepared on the modified accrual basis of accounting and using the flow of current financial resources measurement focus.

Proprietary Funds Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the Statement of Net Position. The Statement of Revenues, Expenses and Changes in Fund Net Position presents increases (revenues) and decreases (expenses) in net total position. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting.

Revenues – Exchange and Non-exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within ninety days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Unearned Revenue Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within ninety days. Principal and interest on general long-term obligations are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2015 consist of deposits with the County Treasurer and are stated at amortized cost which approximates fair value. Fair value is provided by the County Treasurer.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures during the period benefited.

Stores Inventories

Inventories consist of expendable food and supplies held for consumption and unused donated commodities. Inventories are stated at cost, on the weighted average basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$25,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not.

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When purchased, such assets are recorded as expenditures in the governmental funds but are capitalized and depreciated over their estimated service lives in the government-wide financial statements. The valuation bases for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings and improvements, 20 to 50 years; equipment, 2 to 15 years.

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. The amounts are reported in the fund from which the employees who have accumulated leave are paid.

Certificated Sick leave is accumulated without limit for each eligible employee at the rate of one unit for each month worked. Leave with pay is provided when employees are absent from reasons as stated in the various contracts. Employees who are retiring receive service credit for unused sick leave and employees transferring to other public school Districts can have their sick leave accrual forwarded to the new District. Employees who resign or are terminated do not get paid for unused sick leave accruals.

Instructional Aids Sick leave is accumulated at a rate of 0.05 times the number of regularly scheduled worked hours. Leave with pay is provided when employees are absent for reasons stated in the contract. Employees who are retiring receive payment for unused sick hours with a value of over \$200 and those hours are transferred to the school District's third party vendor for payment into a 403(b) account in compliance with all applicable rules and regulations. Employees may accumulate unused sick leave up to a maximum of 1,040 hours.

Classified Sick leave is accumulated at a rate of 0.05 times the number of regularly scheduled worked hours. Leave with pay is provided when employees are absent for reasons as stated in the various contracts. Employees may accumulate unused sick leave up to the maximum of 1,040 hours.

Accrued Liabilities and Long-term Obligations

All payables, accrued liabilities and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments compensated absences, special termination benefits and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Long-term obligations are not recognized as liabilities in governmental funds but are disclosed in the notes to financial statements. Debt service expenditures, including principal and interest on bonds and capital leases, are recognized as expenditures in governmental funds when paid.

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Debt Issuance Costs, Premiums and Discounts

Long-term obligations are reported as liabilities in the governmental activities column on the statement of net position. Debt premiums and discounts are amortized over the life of the bonds using the straight-line method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the current year pension contributions and changes in the proportionate share of the net pension liability.

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for the difference between actual and expected return on the pension trust investment portfolio.

Pensions

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

Fund Balances - Governmental Funds

As of June 30, 2015, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

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Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

In fiscal year 2010-11, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than two percent of General Fund expenditures and other financing uses.

Net Position

Net position represents the difference between assets/deferred inflows and liabilities/deferred outflows. The net investment in capital assets portion of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The District has \$7.9 million in net position as of June 30, 2015, including \$581 million representing capital assets net of related debt. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are interfund insurance premiums. Operating expenses are necessary costs incurred to provide the good or service that are the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

Property Taxes

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of San Francisco bills and collects the taxes in behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by state and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*, as well as the requirements of Statement No. 50, *Pension Disclosures*, as they relate to pensions that are provided through pension plans administered as trusts or equivalent arrangements (hereafter jointly referred to as trusts) that meet certain criteria. The requirements of Statements No. 27 and No. 50 remain applicable for pensions that are not covered by the scope of this Statement.

The scope of this Statement addresses accounting and financial reporting for pensions that are provided to the employees of state and local governmental employers through pension plans that are administered through trusts that have the following characteristics:

- Contributions from employers and non-employer contributing entities to the pension plan and earnings on those contributions are irrevocable.

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- Pension plan assets are dedicated to providing pensions to plan members in accordance with the benefit terms.
- Pension plan assets are legally protected from the creditors of employers, non-employer contributing entities, and the pension plan administrator. If the plan is a defined benefit pension plan, plan assets also are legally protected from creditors of the plan members.

This Statement establishes standards for measuring and recognizing liabilities, deferred outflows of resources, and deferred inflows of resources, and expense/expenditures. For defined benefit pensions, this Statement identifies the methods and assumptions that should be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement: single employer, agent employers, or cost-sharing employer. The District CalSTRS and SFERS plans are cost-sharing pension plans.

Cost-sharing employers are those whose employees are provided with defined benefit pensions through cost-sharing multiple-employer pension plans—pension plans in which the pension obligations to the employees of more than one employer are pooled and plan assets can be used to pay the benefits of the employees of any employer that provides pensions through the pension plan.

The District has implemented the Provisions of this Statement as of July 1, 2014.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date — An Amendment of GASB Statement No. 68*. The objective of this Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

Statement No. 68 requires a state or local government employer to recognize a net pension liability measured as of a date (the measurement date) no earlier than the end of its prior fiscal year. If a state or local government employer or nonemployer contributing entity makes a contribution to a defined benefit pension plan between the measurement date of the reported net pension liability and the end of the government's reporting period, Statement No. 68 requires that the government recognize its contribution as a deferred outflow of resources. In addition, Statement No. 68 requires recognition of deferred outflows of resources and deferred inflows of resources for changes in the net pension liability of a state or local government employer or nonemployer contributing entity that arise from other types of events. At transition to Statement No. 68, if it is not practical for an employer or nonemployer contributing entity to determine the amounts of *all* deferred outflows of resources and deferred inflows of resources related to pensions, paragraph 137 of Statement No. 68 required that beginning balances for deferred outflows of resources and deferred inflows of resources not be reported.

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JUNE 30, 2015

Consequently, if it is not practical to determine the amounts of all deferred outflows of resources and deferred inflows of resources related to pensions, contributions made after the measurement date of the beginning net pension liability could not have been reported as deferred outflows of resources at transition. This could have resulted in a significant understatement of an employer or nonemployer contributing entity's beginning net position and expense in the initial period of implementation.

This Statement amends paragraph 137 of Statement No. 68 to require that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. Statement No. 68, as amended, continues to require that beginning balances for other deferred outflows of resources and deferred inflows of resources related to pensions be reported at transition only if it is practical to determine all such amounts.

The District has implemented the Provisions of this Statement for the year ended as of July 1, 2014.

As the result of implementing GASB Statement No. 68, the District has restated the beginning net position in the government wide statement of net position, effectively decreasing net position as of July 1, 2014, by \$526 million. The decrease results from recognizing the net pension liability, net of related deferred outflows of resources. See notes 14 and 17 for additional information.

Future Accounting Pronouncements

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is 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. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

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JUNE 30, 2015

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pension*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by state and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The scope of this Statement addresses accounting and financial reporting for OPEB that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. For defined benefit OPEB, this Statement identifies the methods and assumptions that are required to be used to project benefit payments, discount projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service. Note disclosure and required supplementary information requirements about defined benefit OPEB also are addressed.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2015, and should be applied retroactively. Earlier implementation is permitted.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2015, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 348,026,075	
Less: deficit cash (overdraft)	<u>(2,358,223)</u>	
Total governmental funds		\$ 345,667,852
Self insurance fund		55,008,912
Fiduciary funds		<u>9,417,660</u>
Total Deposits and Investments		<u><u>\$ 410,094,424</u></u>

Deposits and investments as of June 30, 2015, consist of the following:

Cash on hand and in banks		\$ 6,524,184
Deposits with county treasurer	405,928,463	
Less: deficit cash (overdraft)	<u>(2,358,223)</u>	
Total deposits with county treasurer		<u>403,570,240</u>
Total Deposits and Investments		<u><u>\$ 410,094,424</u></u>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

Investment in County Treasury - The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (*Education Code* Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of amortized cost which approximately fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

General Authorizations

Limitations as they relate to interest rate risk and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment In One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the San Francisco County Investment Pool. The book value of these investments at June 30, 2015 is \$403.6 million and the fair value is \$403.8 million. The sensitivity of the fair values of the District's investments to market interest rate fluctuation is measured as the weighted average maturity of the investment portfolio, which was 536 days on June 30, 2015.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the County Pool is not required to be rated, nor has been rated as of June 30, 2015.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2015, the District's bank balance of \$3,385,520 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments that are in possession of an outside party. As of June 30, 2015 the District investment portfolio is not exposed to custodial credit risk because the portfolio consists exclusively of investments in the San Francisco County Investment Pool. Investments in external investment pools are not considered to have exposure to custodial credit risk because their existence is not evidenced by securities that exist in physical or book entry form.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2015, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	County School Service Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds	Proprietary Fund
Federal Government						
Categorical aid	\$ 7,880,964	\$ 9,156,723	\$ -	\$ 2,784,162	\$ 19,821,849	\$ -
State Government						
Categorical aid	558,628	759,991	-	298,055	1,616,674	-
Lottery	4,652,001	-	-	-	4,652,001	-
Local Government						
Interest	114,817	-	178,941	93,538	387,296	-
Local Sources	17,487,984	60,531	62,752	3,568,024	21,179,291	42,301
Total Accounts Receivable	<u>\$ 30,694,394</u>	<u>\$ 9,977,245</u>	<u>\$ 241,693</u>	<u>\$ 6,743,779</u>	<u>\$ 47,657,111</u>	<u>\$ 42,301</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2015, was as follows:

	Balance June 30, 2014	Additions	Balance June 30, 2015
Governmental Activities			
Capital assets not depreciated			
Land	\$ -	\$ 7,100,000	\$ 7,100,000
Capital assets being depreciated			
Buildings and improvements	1,503,304,553	185,137,973	1,688,442,526
Furniture and equipment	49,849,345	467,912	50,317,257
Total capital assets	<u>1,553,153,898</u>	<u>192,705,885</u>	<u>1,745,859,783</u>
Less accumulated depreciation			
Buildings and improvements	340,986,353	42,602,014	383,588,367
Furniture and equipment	34,485,057	1,737,826	36,222,883
Total accumulated depreciation	<u>375,471,410</u>	<u>44,339,840</u>	<u>419,811,250</u>
Governmental activities - capital assets, net	<u>\$ 1,177,682,488</u>	<u>\$ 148,366,045</u>	<u>\$ 1,326,048,533</u>

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 22,984,786
Supervision of instruction	6,778,674
Instructional library and technology	482,710
School site administration	2,520,912
Home to school transportation	1,453,415
Food services	1,341,375
All other pupil services	3,378,830
Ancillary services	138,624
Community services	259
All general administration	1,619,677
Data processing services	377,404
Plant services	3,263,174
Total depreciation expense, governmental activities	<u>\$ 44,339,840</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 5 - INTERFUND TRANSACTIONS

Operating Transfers

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

Interfund transfers for the year ended June 30, 2015, consisted of the following:

Transfer out	Transfers in		
	Building Fund	Nonmajor Governmental Funds	Total
General Fund	\$ -	\$ 9,248,336	\$ 9,248,336
County School Facilities Fund	9,096,513	-	9,096,513
Total interfund transfers	<u>\$ 9,096,513</u>	<u>\$ 9,248,336</u>	<u>\$ 18,344,849</u>

The Restricted General Fund transferred to the Child Development Fund to cover the operating deficit.	\$ 1,564,000
The Unrestricted General Fund transferred to the Child Development Fund to cover the operating deficit.	3,283,864
The Unrestricted General Fund transferred to the Cafeteria Fund to cover the operating deficit.	1,907,474
The County School Facilities Fund transferred to the Building Fund for construction cost reimbursements.	9,096,513
The Unrestricted General Fund to the Special Reserve Capital fund for the energy retrofit capital lease payments.	<u>2,492,998</u>
Total interfund transfers	<u>\$ 18,344,849</u>

Included as other local sources in the statement of revenues, expenditures, and changes in fund balances of the County School Service Special Revenue Fund is \$87.3 million of which the source is the District General Fund.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2015, consisted of the following:

	General Fund	County School Service Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds	Proprietary Fund
Vendor payables	\$ 15,384,559	\$ 8,764,451	\$ 32,599,871	\$ 3,006,959	\$ 59,755,840	\$ 316,220
State apportionment	2,501,409	-	-	-	2,501,409	-
State categorical	2,841,528	170,728	-	-	3,012,256	-
Total Accounts Payable	<u>\$ 20,727,496</u>	<u>\$ 8,935,179</u>	<u>\$ 32,599,871</u>	<u>\$ 3,006,959</u>	<u>\$ 65,269,505</u>	<u>\$ 316,220</u>

Additional interest payable in the statement of net position includes \$1,976,142 for accrued interest on long term obligations, and \$1,981,877 for interest payable related to the tax and revenue anticipation notes.

NOTE 7 - UNEARNED REVENUE

Unearned revenue at June 30, 2015, consists of the following:

	General Fund	County School Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Federal financial assistance	\$ 1,040,747	\$ 1,160,595	\$ 17,778	\$ 2,219,120
State categorical aid	1,817,875	133,481	5,790,956	7,742,312
Total unearned revenue	<u>\$ 2,858,622</u>	<u>\$ 1,294,076</u>	<u>\$ 5,808,734</u>	<u>\$ 9,961,432</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

During September, 2014, the District issued \$52 million of tax and revenue anticipation notes bearing interest at five percent. The notes were issued to supplement cash flows. Repayment requirements are that 50 percent of principal and interest be deposited with the Fiscal Agent by January 31, 2015, until 100 percent of principal and interest is due on account by April, 2015. Interest and principal are due and payable during September, 2015. Accrued interest on the TRANS obligation was \$1,981,877 at June 30, 2015. Outstanding TRANS on June 30, 2015 consists of the following:

Issue Date	Rate	Maturity Date	Outstanding July 1, 2014	Additions	Payments	Outstanding June 30, 2015
8/15/2013	2.00%	8/14/2014	\$ 90,000,000	\$ -	\$ 90,000,000	\$ -
9/25/2014	5.00%	9/24/2015	-	52,000,000	-	52,000,000
Total			<u>\$ 90,000,000</u>	<u>\$ 52,000,000</u>	<u>\$ 90,000,000</u>	<u>\$ 52,000,000</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2014	Additions	Deductions	Balance June 30, 2015	Due in one year
General obligation bonds	\$ 818,130,000	\$ -	\$ 35,485,000	\$ 782,645,000	\$ 35,485,000
Bond premium	56,527,967	-	4,056,904	52,471,063	4,056,904
Accumulated vacation	9,854,347	307,597	-	10,161,944	-
Capital leases	16,182,039	-	1,508,130	14,673,909	2,567,788
Revenue limit deficit	1,100,180	-	1,100,180	-	-
Net pension liability	573,478,350	41,249,266	179,279,266	435,448,350	-
Post employment benefits	187,624,808	65,212,435	33,053,583	219,783,660	-
	<u>\$ 1,662,897,691</u>	<u>\$ 106,769,298</u>	<u>\$ 254,483,063</u>	<u>\$ 1,515,183,926</u>	<u>\$ 42,109,692</u>

Payment of the general obligation bonds will be made by the Bond Interest and Redemption Fund. The Bond Interest and Redemption Fund receives property tax revenues which are used solely to repay the principal and interest due on these obligations. The amount has been assigned in the fund balance of Special Reserve – Capital Projects Fund. The accumulated vacation, net pension liability, and postemployment liability will be paid by the fund for which the employee worked at time of payment. Payments on capital leases will be made by the Special Reserve – Capital Fund which also receives contributions from the General Fund.

Outstanding general obligation bonded debt

Bond Issuance	Issue Date	Maturity Date	Interest Rate	Original Issue	Outstanding July 1, 2014	Issued (Redeemed)	Outstanding June 30, 2015
2003, Series 2006C	10/12/06	6/15/26	4.00-5.00%	\$ 92,000,000	\$ 64,690,000	\$ (4,145,000)	\$ 60,545,000
2006, Series 2007A	02/28/07	6/15/27	3.00-5.00%	100,000,000	75,425,000	(4,305,000)	71,120,000
2006, Series 2009B	01/22/09	6/15/27	1.50-5.25%	150,000,000	104,080,000	(8,640,000)	95,440,000
2006, Series 2010C	05/19/10	5/15/27	5.74%	12,955,000	12,955,000	-	12,955,000
2006, Series 2010D	05/19/10	6/15/30	5.74%	72,370,000	72,370,000	-	72,370,000
2006, Series 2010E	05/19/10	6/15/23	0.50-5.00%	99,675,000	76,395,000	(7,000,000)	69,395,000
2011, Series 2012A	03/06/12	6/15/32	4.00-5.00%	115,000,000	107,600,000	(3,980,000)	103,620,000
2012 Refunding	03/06/12	6/15/25	0.30-5.00%	116,140,000	99,615,000	(7,415,000)	92,200,000
2011, Series B 2014	01/23/14	6/15/33	3.0%-5.0%	205,000,000	205,000,000	-	205,000,000
					<u>\$ 818,130,000</u>	<u>\$ (35,485,000)</u>	782,645,000
						Unamortized bond premium	52,471,063
						Total	<u>\$ 835,116,063</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2015**

Debt Service Requirement to Maturity

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2016	\$ 57,935,000	\$ 36,458,057	\$ 94,393,057
2017	46,315,000	33,585,307	79,900,307
2018	48,585,000	31,325,207	79,910,207
2019	50,895,000	29,015,657	79,910,657
2020	52,855,000	26,547,357	79,402,357
2021-2025	286,310,000	93,437,523	379,747,523
2026-2030	180,750,000	36,675,089	217,425,089
2031-2033	59,000,000	4,803,836	63,803,836
Total	<u>\$ 782,645,000</u>	<u>\$ 291,848,033</u>	<u>\$ 1,074,493,033</u>

Accumulated Unpaid Employee Vacation and Vested Sick Leave

Full-time District employees are entitled to 10-20 vacation days a year, depending upon length of service, for which up to 30 working days in excess of the employee’s annual vacation award may be carried over to the next year.

Increases to vested compensated absences reflect net changes during the year ended June 30, 2015. Also, the City and County of San Francisco Charter provisions allow classified employees to accumulate up to 130 working days of sick leave. Certificated employees, under State law, are allowed to accumulate unlimited days of sick leave. Upon normal retirement, the District will redeem 100 percent of the sick leave accrued by classified personnel prior to December 5, 1978, and no sick leave accrued after December 5, 1978. No sick leave amounts are payable to certificated personnel upon normal retirement, or to employees who terminate for any reason prior to retirement.

Capital Leases

Reported with capital assets is the energy retrofit capital lease of \$32,947,132 and corresponding accumulated depreciation of \$21,086,164 at June 30, 2015. The District’s liabilities on lease agreements with options to purchase are summarized below:

	<u>Energy Retrofit</u>
Balance, Beginning of Year	\$ 20,685,882
Payments	(2,492,998)
Balance, End of Year	<u>\$ 18,192,884</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

The capital lease has minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2016	\$ 2,567,788
2017	2,644,822
2018	2,724,166
2019	2,805,890
2020	2,890,068
2021-2022	4,560,150
Total	18,192,884
Less: Amount Representing Interest	3,518,975
Present Value of Minimum Lease Payments	<u>\$ 14,673,909</u>

Revenue Limit Deficit

Due to a change in the way the State calculated the revenue limit for the 2003-04 fiscal year, the District recorded negative State aid in the amount of \$10,051,433. This negative amount is normally considered to be a current liability as the District owes the money back to the State. The District met with the State and the two parties agreed to a repayment plan that will allow the District to repay this obligation over ten years. The final payment was made during the current fiscal year.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2015, was \$64.2 million and contributions made by the District during the year were \$33.1 million. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$9.4 million and \$(8.3 million), respectively, which resulted in an increase to the net OPEB obligation of \$32 million. As of June 30, 2015, the District has not funded the \$220 million obligation. However, the District has adopted a long-term plan to set-aside \$2 million per year to address this liability. On June 30, 2015, a total of \$14 million of fund balance of the self-insurance fund is assigned for future OPEB payments. This assignment is not an irrevocable trust. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	County School Service Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Revolving cash	\$ 500	\$ -	\$ -	\$ 35,540	\$ 36,040
Stores inventories	537,026	-	-	93,700	630,726
Prepaid expenditures	60,762	-	-	-	60,762
Total nonspendable	598,288	-	-	129,240	727,528
Restricted					
Educational programs	32,898,939	5,479,045	-	2,328,969	40,706,953
Capital projects	-	-	105,192,659	53,092,682	158,285,341
Debt services	-	-	-	23,959,756	23,959,756
Total restricted	32,898,939	5,479,045	105,192,659	79,381,407	222,952,050
Assigned					
Special education	-	4,371,292	-	578,797	4,950,089
Capital projects	-	-	-	354,694	354,694
Total assigned	-	4,371,292	-	933,491	5,304,783
Unassigned					
Reserve for economic uncertainties	13,043,451	-	-	-	13,043,451
Remaining unassigned	22,775,825	-	-	-	22,775,825
Total unassigned	35,819,276	-	-	-	35,819,276
Total fund balances	\$ 69,316,503	\$ 9,850,337	\$ 105,192,659	\$ 80,444,138	\$ 264,803,637

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Reconciliation to Statement of Net Position The following is a reconciliation of the difference between the unassigned general fund balance and the unrestricted net deficit reported in the statement of net position:

Balance per governmental funds balance sheet	\$ 35,819,276
Add Back	
County School Fund assigned fund balance	4,371,292
General Fund revolving cash	500
General Fund prepaid operating expenditures	60,762
General Fund inventory	537,026
Deferred Maintenance Fund assigned fund balance	578,797
Special Reserve Fund for Capital Outlay assigned fund balance	354,694
Deduct	
Compensated absences liability	(10,161,944)
Aggregate net pension liability	(435,448,350)
Net deferred inflows and outflows related to pensions	(89,349,704)
Other post employment benefits liability	(219,783,660)
Balance per statement of net position	<u><u>\$ (713,021,311)</u></u>

NOTE 11 - LEASE REVENUES

Lease agreements have been entered into with various lessees for terms that exceed one year. None of the agreements contain purchase options. All of the agreements contain a termination clause providing for cancellation after a specified number of days written notice to lease, but is unlikely that the District will cancel any of the agreements prior to their expiration date. The future minimum lease payments expected to be received under these agreements are as follows:

Year Ending <u>June 30,</u>	<u>Lease Revenue</u>
2016	\$ 5,750,601
2017	5,809,415
2018	5,772,415
2019	5,897,197
2020	5,889,697
Thereafter	86,561,869
Total	<u><u>\$ 115,681,194</u></u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 12 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (the Plan) is an agent multiple-employer (agent) defined benefit healthcare plan administered by the City and County of San Francisco Health Service System (HSS). The Plan provides medical insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 5 thousand retirees and their beneficiaries currently receiving benefits and 6.8 thousand active plan members. The unfunded portion of the annual requirement contributions (net OPEB obligation) is presented in the statement of net position as a portion of long-term obligations.

Funding Policy

The contribution requirements of plan members and the District are established and may be amended by the District and the Teachers Association (CEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, CEA, CSEA and the unrepresented groups. For fiscal year 2014-15, the District contributed \$33.2 million to the plan, all of which was used for current premiums (approximately 50 percent of total premiums). The non-Medicare retirees pay 50% of active employee contributions up to cap and the Medicare retirees pay 50% of the difference between medicare and active employee contributions up to cap.

Annual OPEB Cost and Net OPEB Obligation

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

Annual required contribution	\$ 64,141,676
Interest on net accrued OPEB obligation	9,381,240
Adjustment to annual required contribution	<u>(8,310,481)</u>
Annual OPEB cost (expense)	65,212,435
Contributions made	<u>(33,053,583)</u>
Increase in net OPEB obligation	32,158,852
Net OPEB obligation, beginning of year	<u>187,624,808</u>
Net OPEB obligation, end of year	<u><u>\$ 219,783,660</u></u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Year Ended June 30,	Annual OPEB Cost	Contributions Made	Percentage Contributed	Net OPEB Obligation
2015	\$ 65,212,435	\$ 33,053,583	50.7%	\$ 219,783,660
2014	65,037,374	34,361,976	52.8%	187,624,808
2013	63,543,205	33,886,544	53.3%	156,949,410

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
December 1, 2013	\$ -	\$ 680,924,643	\$ 680,924,643	0.00%	\$ 422,361,017	161%

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

Actuarial Methods and Assumptions

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

In the December 1, 2013, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on assumed long term return on plan assets or employer assets, as appropriate. Healthcare cost trend rate is four percent with the assumption that trend increases in excess of general inflation result in fundamental changes in health care finance and/or delivery which will bring increases in health care costs more closely in line with general inflation. The UAAL is being amortized at a level percentage of payroll method. The UAAL is amortized using an opened amortization period of thirty years. The remaining amortization period at July 1, 2014, was thirty years, on an open basis. The actuarial value of assets was not determined in the valuation.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

NOTE 13 - RISK MANAGEMENT

The District's risk management activities are recorded in the General Fund and Self Insurance Funds. Employee life, health, and disability programs are administered through the purchase of commercial insurance. Employee dental and workers' compensation insurance is provided on a self-funded basis.

The District participates in Schools Excess Liability Fund (SELF) joint powers authority (JPA). The District pays annual contributions to SELF for additional excess liability coverage. Additional commercial insurance is also purchased for excess workers' compensation, property, general liability, crime, student foreign travel, and student accidents. For workers' compensation coverage, the District maintains a \$500,000 self-insured retention, with \$150,000,000 in coverage through Safety National for excess coverage. The District maintains property coverage through Axis Insurance and RSUI Indemnity Company in the amount of \$300 million per occurrence, with a \$100,000 deductible. The District does not maintain insurance for earthquake risks.

For insured programs, there have been no significant reductions in insurance coverage. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Claim Liabilities – Self Insurance Fund

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities for workers' compensation are based on a current actuarial study using the "expected value" as the basis for the total liability. The worker's compensation liabilities are reported at their present value using an expected future investment yield assumption of two percent. The following represents the changes in approximate aggregate liabilities for the District from July 1, 2013 to June 30, 2015:

	<u>Total</u>
Liability Balance, July 1, 2013	\$ 30,482,901
Claims and changes in estimates	21,066,950
Claims payments	<u>(18,471,684)</u>
Liability Balance, June 30, 2014	33,078,167
Claims and changes in estimates	18,083,207
Claims payments	<u>(16,807,141)</u>
Liability Balance, June 30, 2015	<u>\$ 34,354,233</u>
Assets available to pay claims at June 30, 2015	<u>\$ 40,295,333</u>

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are eligible to participate in the District's cost-sharing multiple-employer defined benefit pension plans, administered the California State Teachers' Retirement System (CalSTRS) or the San Francisco Employees' Retirement System (SFERS). Academic employees are members of CalSTRS while classified employees are members of the SFERS.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The District reported its proportionate share of the net pension liabilities, pension expense, deferred outflows of resources, and deferred inflows of resources for each of the above plans as follows:

Pension Plan	Proportionate Share of Net Pension Liability	Deferred Outflow of Resources	Proportionate Share of Deferred Inflow of Resources	Proportionate Share of Pension Expense
CalSTRS	\$ 382,762,350	\$ 27,914,797	\$ 94,251,880	\$ 36,783,266
SFERS	52,686,000	23,867,379	46,880,000	4,466,000
Total	<u>\$ 435,448,350</u>	<u>\$ 51,782,176</u>	<u>\$ 141,131,880</u>	<u>\$ 41,249,266</u>

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2013, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications. The CalSTRS website can be accessed at this address: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The STRP provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>STRP Defined Benefit Program</u>	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	8.15%	8.15%
Required employer contribution rate	8.88%	8.88%
Required state contribution rate	5.95%	5.95%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2015, are presented above. The District's contributions to CalSTRS, for the year ended June 30, 2015 were \$27.9 million or 8.9% of covered payroll.

Pension Liabilities, Pension Expense, and Deferred Outflows/Inflows of Resources Related to Pensions

At June 30, 2015, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share	
District's proportionate share of net pension liability	\$ 382,762,350
State's proportionate share of the net pension liability associated with the District	231,112,792
Total	<u>\$ 613,875,142</u>

The net pension liability was measured as of June 30, 2014. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. At June 30, 2015, the District's proportion was 0.655 percent.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

For the year ended June 30, 2015, the District recognized pension expense of \$36.8 million, including \$3.6 million of pension expense and \$3.6 million of pension credit for support provided by the State. At June 30, 2015, the District reported deferred outflows/inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 27,914,797	\$ -
Difference between projected and actual earnings on pension plan investments	-	(94,251,880)
Total	<u>\$ 27,914,797</u>	<u>\$ (94,251,880)</u>

The deferred outflow of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a component of pension expense in the year ended June 30, 2016. The deferred inflow of resources will be amortized over a closed five-year period and will be recognized as a component of pension expense as follows:

Year Ended June 30,	Amortization
2016	\$ (23,562,970)
2017	(23,562,970)
2018	(23,562,970)
2019	(23,562,970)
Total	<u>\$ (94,251,880)</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2013, and rolling forward the total pension liability to June 30, 2014. The financial reporting actuarial valuation as of June 30, 2013, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2013
Measurement date	June 30, 2014
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

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. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary' investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are lognormally distributed and independently from year to year to develop expected percentile for the long-term distribution of annualized returns. The assumed asset allocation is based on board policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47.00%	4.50%
Private equity	12.00%	6.20%
Real estate	15.00%	4.35%
Inflation sensitive	5.00%	3.20%
Fixed income	20.00%	0.20%
Cash/liquidity	1.00%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net Pension Liability
1% decrease (6.60%)	\$ 596,626,400
Current discount rate (7.60%)	\$ 382,762,350
1% increase (8.60%)	\$ 204,438,600

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

San Francisco Employees’ Retirement System (SFERS)

Plan Description

Qualified employees are eligible to participate in the San Francisco Employees’ Retirement System (SFERS); a cost-sharing multiple-employer, public employee, defined benefit pension plan administered by the City and County of San Francisco (the City). SFERS is a separate department of the City, deriving its powers, functions, and responsibility from the City Charter and ordinances of the Board of Supervisors of the City. Substantially all employees of the City and County are members, including most of the District’s classified permanent full-time employees and certain certificated employees hired prior to July 1, 1972. Members are classified according to City bargaining units as police, fire, and miscellaneous. District employees are members of the miscellaneous pool. SFERS issues a separate annual financial report that includes financial statements and required supplementary information. The SFERS annual financial report is available online at www.sfers.org.

Benefits Provided

The retirement system provides service retirement, disability, and death benefits based on specified percentages of defined final average monthly salary and annual cost-of-living adjustments after retirement. Employees with 20 years of service who have attained age 50 or those with 10 years of service who have attained age 60 are eligible for retirement benefits. The City Charter and the Administrative Code are the authorities that establish and amend the benefit provisions of the plan and employer and member obligations to the plan.

The SFERS provisions and benefits in effect at June 30, 2015, are summarized as follows:

	<u>City Employer Pool (Miscellaneous Non-Safety Membership)</u>		
	<u>On or after November 2, 1976 and before July 1, 2010</u>	<u>On or after July 1, 2010 and before January 7, 2012</u>	<u>On or after January 7, 2012</u>
Hire date			
Benefit formula	2.3% at 62	2.3% at 62	2.3% at 65
Benefit vesting schedule	Age 50 with 20 Years of Credited Service or Age 60 with 10 Years of Credited Service	Age 50 with 20 Years of Credited Service or Age 60 with 10 Years of Credited Service	Age 53 with 20 Years of Credited Service or Age 60 with 10 Years of Credited Service
Retirement age	65	65	65
Benefit payments	Monthly for Life	Monthly for Life	Monthly for Life
Benefits as a percentage of eligible compensation	1.00%-2.30%	1.00%-2.30%	1.00%-2.30%
Maximum annual benefits	75%	75%	75%
Required employee contribution rate	0.0754	0.0754	0.0754
Required employer contribution rate	0.2676	0.2676	0.2676

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Contributions

Contributions are made to the plan by both the employers and the participating employees. The basic employer contributions are the amounts deemed necessary, on an actuarial basis using the entry age normal cost method, to provide the plan with assets sufficient to pay the basic benefits that are not provided for by employees' contributions. Employee and employer contributions are mandatory, as required by the City Charter. The District's contributions to SFERS, for the year ended June 30, 2015 were \$15.9 million or 26.8% of covered payroll.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2015, the District reported net pension liabilities for its proportionate share of the collective SFERS net pension liability totaling \$52.7 million. The net pension liability of the plan is measured as of June 30, 2014, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2013, rolled forward to June 30, 2014 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2015, the District's proportion was 2.976 percent or \$52.7 million. The following table illustrates the change in the District's proportion during the year:

	Miscellaneous
	<u>Non-safety</u>
Proportion - June 30, 2013 measurement date	2.7973%
Proportion - June 30, 2014 measurement date	2.9759%
Change in proportion	<u>0.1786%</u>

For the year ended June 30, 2015, the District recognized pension expense of \$4.5 million, including amortization of deferred outflows/inflow related pension items. At June 30, 2015, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 18,475,379	\$ -
Changes in assumptions	-	(1,745,000)
Adjustment due to differences in proportions	5,392,000	-
Net difference between projected and actual earnings on plan investments	-	(45,135,000)
Total	<u>\$ 23,867,379</u>	<u>\$(46,880,000)</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

The deferred outflow of resources resulting from District contributions subsequent to the measurement date will be recognized as a component of pension expense in the year ended June 30, 2016. The remaining deferred inflows/outflows of resources will be recognized as a component of pension expense as follows:

Year Ended <u>June 30,</u>	<u>Amortization</u>
2016	\$ (10,372,000)
2017	(10,372,000)
2018	(10,372,000)
2019	(10,372,000)
Total	<u>\$ (41,488,000)</u>

Actuarial Methods and Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2013, which was rolled forward to June 30, 2014 using generally accepted actuarial procedures. The following is a summary of the actuarial methods and assumptions used in the actuarial valuation:

Valuation date	June 30, 2013 updated to June 30, 2014
Measurement date	June 30, 2014
Actuarial cost method	Entry-age normal cost
Inflation	3.33%
Salary increases	3.83% plus merit component
Investment rate of return	7.58%, net of investment expense and inflation
Municipal bond yield	4.39%
Discount rate	7.58%
Administrative expense	0.45% of payroll
Basic COLA	2.00%

Mortality rates for active members were based upon the RP-2000 Employee Tables for Males and Females projected using Scale AA to 2030 for females and to 2005 for males. Mortality rates for healthy annuitants were based upon the RP-2000 Healthy Annuitant Tables for Males and Females projected using Scale AA to 2020.

The actuarial assumptions used in the June 30, 2014 valuation were based upon the results of a demographic experience study for the period July 1, 2004 through June 30, 2009 and an economic experience study as of July 1, 2013.

The probability of a Supplemental COLA as of June 30, 2014 was developed based upon the probability and amount of Supplemental COLA for each future year. The table below shows the net assumed Supplemental COLA for members with a 2.00% basic COLA for sample years.

<u>Fiscal Year</u>	<u>Assumption</u>
2015	0.000%
2020	0.364%
2025	0.375%
2030	0.375%
Thereafter	0.375%

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2014 was 7.58%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2014 actuarial valuation. That policy includes contributions equal to the employer portion of the entry age normal costs for members as of the valuation data plus an amortization payment on the unfunded actuarial liability.

The plan’s fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year-end 2083, when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.58% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 4.31% to the extent they are not available. Since the payments discounted at the municipal bond rate are relatively few and far in the future, the municipal bond rate does not affect the single equivalent rate when rounded to two decimal places. Consequently, the single equivalent rate used to determine the total pension liability as of June 30, 2014 is 7.58%

The long-term expected rate of return on pension plan investments was 7.58%. 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:

<u>Asset Class</u>	<u>Assumed Asset Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
Global equity	47.0%	5.30%
Global fixed income	25.0%	1.80%
Private equity	16.0%	8.80%
Real estate	12.0%	5.80%
Total	<u>100.0%</u>	

The following presents the District’s allocation of the its proportionate share of the net pension liability, calculated using the 7.58% discount rate, as well as what the District’s allocation would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.58%)	\$ 130,507,000
Current discount rate (7.58%)	\$ 52,686,000
1% increase (8.58%)	\$ (12,662,000)

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. The State contributions are recorded in these financial statements as a component of state revenue and pension expense. On behalf payments are excluded from the calculation of available reserves and are not included in the budget amounts reported in the General Fund Budgetary Comparison Schedule.

The State contributions to CalSTRS on behalf of the District are as follows:

Fiscal Year	Percent of Annual Payroll	General Fund	County School Fund	Child Development Fund	Total State Contribution
2014-15	5.679%	\$ 13,233,214	\$ 2,470,374	\$ 634,347	\$ 16,337,935
2013-14	5.541%	12,571,992	2,451,432	616,029	15,639,453
2012-13	5.176%	11,527,019	2,248,151	645,407	14,420,577

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2015.

Litigation

The District is involved in litigation on various matters arising in the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2015.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

Construction Commitments:

As of June 30, 2015, the District had the following commitments with respect to the unfinished capital projects:

Capital Project Site	Remaining Construction Commitment	Expected Date of Completion
Aptos Middle School	\$ 83,031	September 2, 2015
Downtown High School	53,346	September 2, 2015
Francisco Middle School	78,480	September 2, 2015
Gordon J. Lau Elementary School	4,550,251	January 16, 2016
Hoover Middle School	95,026	September 2, 2015
Ida B. Wells High School	8,760,010	January 19, 2016
James Lick Elementary School	11,689,029	September 5, 2016
Jose Ortega Elementary School	1,189,615	August 7, 2015
Lakeshore Elementary School	557,950	September 9, 2015
Leadership High School	8,752,548	November 18, 2016
Longfellow Elementary School	9,486,021	September 29, 2016
Lowell High School	1,590,893	October 11, 2015
Marshall Elementary School	251,290	August 30, 2015
Martin Luther King, Jr. Middle School	83,432	September 2, 2015
McKinley Elementary School	3,016,127	February 1, 2016
Miraloma Elementary School	1,882,397	September 12, 2015
Mission Education Center	521,640	July 27, 2015
Paul Revere Elementary School	11,263,854	September 3, 2016
Phillip and Sala Burton High School	15,606,008	September 6, 2016
Presidio Middle School	10,141,943	September 4, 2016
Raoul Wallenberg High School	39,635	September 2, 2015
Roosevelt Elementary School	2,212,483	August 24, 2015
Ruth Asawa San Francisco School of the Arts - McAtteer campus	8,616,935	November 18, 2016
San Francisco Public Montessori School	93,280	September 2, 2015
Starr King Elementary School	1,099,715	August 1, 2015
Sunnyside Elementary School	724,313	October 2, 2015
Visitacion Valley Elementary School	7,191,550	August 24, 2016
Visitacion Valley Middle School	14,129,595	January 17, 2017
Webster Elementary School	9,621,495	July 11, 2016
Willie L. Brown Jr. Middle School	3,068,576	July 30, 2015
Total outstanding construction commitments	<u>\$ 136,450,468</u>	

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2015

NOTE 16 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

The District is a member of the School Project for Utility Rate Reduction (SPURR) and participates in the Schools Excess liability Fund (SELF) joint powers authority (JPA). The District pays annual contributions to SELF for additional excess liability coverage. The relationship between the District and the JPA's is such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

NOTE 17 - PRIOR PERIOD ADJUSTMENT

As discussed under Note 1, the District implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, effective July 1, 2014. Refer to Note 14 for further disclosures related to the plan and related balances. As a result of the implementation, the District restated beginning net position for governmental activities as noted below:

	Government- Wide Governmental Activities
Beginning of year, net position as previously reported	\$ 503,326,145
Contributions after the measurement date - deferred outflows of resources	39,924,824
Net pension liability as of the measurement date of June 30, 2013	(573,478,350)
Beginning of year, net position as restated	<u>\$ (30,227,381)</u>

Following is the pro forma effect of the retroactive application:

	Previously Presented	Restatement	July 1, 2014 Restated
Deferred outflows of resources	\$ -	\$ 39,924,824	\$ 39,924,824
Net pension liability	-	(573,478,350)	(573,478,350)
Total restatement of net position	<u>\$ -</u>	<u>\$ (533,553,526)</u>	<u>\$ (533,553,526)</u>

In accordance with GASB Statement No. 68, the restatement of all deferred outflows and inflows was not practical and therefore not included in the statement of beginning balances.

REQUIRED SUPPLEMENTARY INFORMATION

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable (Unfavorable)
Revenues				Final to Actual
Local control funding formula	\$ 402,907,610	\$ 417,485,728	\$ 419,388,497	\$ 1,902,769
Federal sources	30,075,115	36,848,899	31,346,764	(5,502,135)
Other state sources	37,374,468	36,015,602	29,448,879	(6,566,723)
Other local sources	157,589,093	166,337,914	179,667,253	13,329,339
TOTAL REVENUES¹	627,946,286	656,688,143	659,851,393	3,163,250
Expenditures				
Current				
Certificated salaries	261,187,739	262,596,351	262,445,080	151,271
Classified salaries	77,823,495	79,180,446	75,836,213	3,344,233
Employee benefits	125,742,304	129,244,047	127,187,980	2,056,067
Books and supplies	24,600,075	25,965,789	28,830,713	(2,864,924)
Services and operating expenditures	54,925,772	61,856,869	60,885,106	971,763
Other outgo	81,625,904	87,055,145	84,486,891	2,568,254
Capital outlay	1,071,991	1,387,028	925,601	461,427
Debt service - principal	1,100,180	1,100,180	1,100,180	-
Debt service - interest	2,326,630	2,326,630	2,326,630	-
TOTAL EXPENDITURES¹	630,404,090	650,712,485	644,024,394	6,688,091
Excess (deficiency) of revenues over expenditures	(2,457,804)	5,975,658	15,826,999	9,851,341
Other Financing Uses				
Transfers out	(11,200,971)	(11,537,379)	(9,248,336)	2,289,043
NET FINANCING SOURCES (USES)	(11,200,971)	(11,537,379)	(9,248,336)	2,289,043
NET CHANGE IN FUND BALANCES	(13,658,775)	(5,561,721)	6,578,663	12,140,384
Fund balance - Beginning	62,737,840	62,737,840	62,737,840	-
Fund balance - Ending	\$ 49,079,065	\$ 57,176,119	\$ 69,316,503	\$ 12,140,384

¹ For comparison purpose, on behalf payments of \$13,233,214 in Note 14 of the financial statements are excluded from this schedule.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**COUNTY SCHOOL SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2015**

	Budgeted Amounts			Variances -
	Original	Final	Actual	Favorable
				(Unfavorable)
Revenue				Final
	Original	Final	Actual	to Actual
Local control funding formula	\$ 22,117,639	\$ 10,952,691	\$ 10,464,987	\$ (487,704)
Federal sources	13,164,077	13,782,584	14,802,743	1,020,159
Other state sources	43,263,493	42,023,992	41,157,508	(866,484)
Other local sources	73,953,907	86,380,584	87,364,297	983,713
TOTAL REVENUES¹	152,499,116	153,139,851	153,789,535	649,684
Expenditures				
Current				
Certificated salaries	48,760,564	49,119,248	48,993,197	126,051
Classified salaries	28,392,870	28,428,244	28,349,789	78,455
Employee benefits	29,945,716	28,543,127	29,687,137	(1,144,010)
Books and supplies	3,416,515	3,512,324	2,235,894	1,276,430
Services and operating expenditures	42,196,082	42,280,077	42,559,194	(279,117)
Capital outlay	-	104,746	3,450	101,296
TOTAL EXPENDITURES¹	152,711,747	151,987,766	151,828,661	159,105
NET CHANGE IN FUND BALANCES	(212,631)	1,152,085	1,960,874	808,789
Fund balance - Beginning	7,889,463	7,889,463	7,889,463	-
Fund balance - Ending	\$ 7,676,832	\$ 9,041,548	\$ 9,850,337	\$ 808,789

¹ For comparison purpose, on behalf payments of \$ 2,470,374 in Note 14 of the financial statements are excluded from this schedule.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2015**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
December 1, 2013	\$ -	\$ 680,924,643	\$ 680,924,643	0.00%	\$ 422,361,017	161%
December 1, 2011	-	736,931,483	736,931,483	0.00%	396,102,456	186%
November 1, 2009	-	552,653,686	552,653,686	0.00%	370,787,776	149%

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2015

<i>(Amounts in thousands)</i>	<u>2015⁽¹⁾</u>
CalSTRS	
District's proportion of the net pension liability	<u>0.6550%</u>
District's proportionate share of the net pension liability	<u>\$ 382,762</u>
State's proportionate share of the net pension liability associated with the District	<u>231,113</u>
Total	<u>\$ 613,875</u>
District's covered employee payroll at the measurement date	<u>\$ 300,327</u>
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	<u>127.45%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77%</u>
 SFERS	
District's proportion of the net pension liability	<u>2.976%</u>
District's proportionate share of the net pension liability	<u>\$ 52,686</u>
District's covered employee payroll at the measurement date	<u>\$ 63,892</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>82.5%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>91.84%</u>

⁽¹⁾ *Historical information is required only for measurement periods for which GASB Statement No. 68 is applicable.*

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2015**

<i>(Amounts in thousands)</i>	2012 ⁽¹⁾	2013 ⁽¹⁾	2014 ⁽¹⁾	2015 ⁽¹⁾
CalSTRS				
Contractually required contribution	\$ 23,290	\$ 23,740	\$ 24,777	\$ 27,915
Contributions in relation to the contractually required contribution	(23,290)	(23,740)	(24,777)	(27,915)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered - employee payroll	\$ 282,303	\$ 287,758	\$ 300,327	\$ 314,358
Contributions as a percentage of covered - employee payroll	8.25%	8.25%	8.25%	8.88%
SFERS				
Contractually required contribution	\$ 11,692	\$ 12,388	\$ 15,858	\$ 18,475
Contributions in relation to the contractually required contribution	(11,692)	(12,388)	(15,858)	(18,475)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -
District's covered - employee payroll	\$ 64,632	\$ 67,168	\$ 63,892	\$ 69,040
Contributions as a percentage of covered - employee payroll	18.09%	18.44%	24.82%	26.76%

⁽¹⁾ Information not available prior to 2012.

SUPPLEMENTARY INFORMATION

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education			
Safe and Supportive Schools Programmatic Intervention	84.184	¹	\$ 117,923
Career and Technical Education	84.048	14894	463,900
No Child Left Behind			
Title I			
School Improvement Grant	84.377	15127	515,686
ARRA - School Improvement Grant	84.388	15004	1,337,085
Part A, Basic Grants Low Income and Neglected Part A, Program Improvement LEA Corrective Action, Extensive Performance Problems	84.010	14329	12,670,738
Part B, Reading First Program	84.010	14955	36,335
Part C, Migrant Ed - Regular Program	84.357	14328	237,813
Part C, Migrant Ed - Summer Program	84.011	14326	253,349
Part C, Migrant Ed - Summer Program	84.011	10005	14,433
Part D, Local Delinquent Programs	84.010	14357	451,764
Part G, Advanced Placement Test Fee Reimbursement	84.000	¹	219,504
Title II			
Part A, Teacher Quality	84.367	14341	3,146,265
Part B, CA Mathematics and Science Partnership	84.366	14512	48,093
Part D, Enhancing Education Through Technology	84.318	14334	14,979
Title III			
Limited English Proficient Student Program	84.365	14346	1,751,375
Title IV			
Part B, 21st Century Community Learning Centers	84.287	14349	7,620,794
Individuals with Disabilities Education Act			
Early Intervention Grants	84.181	23761	162,626
Part B, Sec 611, Basic Local Assistance Entitlement	84.027	13379	11,398,289
Part B, Sec 611, Mental Health Allocation Plan	84.027	14468	1,222,119
Part B, Sec 611, Preschool Local Entitlement	84.027A	13682	332,278
Part B, Sec 619, Preschool Grants	84.173	13430	419,878
Part B, Sec 619, Preschool Staff Development	84.173A	13431	723
Passed through California Department of Rehabilitation			
Workability II, Transition Partnership	84.158	10006	68,806

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION (CONTINUED)			
Direct Grants			
Conservation Connection Urban Watershed Project	84.184B	1	7,641
Mission Promise Neighborhood	84.215N	1	696,176
Gaining Early Awareness and Readiness for Undergraduates	84.334A	1	42,342
Transition to Teaching	84.350A	1	217,108
Indian Education	84.060	1	28,058
Integrated School-Based Violence Intervention	84.184M	1	63,206
Safe Schools - Healthy Students Initiative	84.184L	1	3,333
Total U.S. Department of Education			<u>43,562,619</u>
U.S. DEPARTMENT OF DEFENSE			
Passed through California Department of Education			
Junior Reserve Officers Training Corps	12.000	1	336,848
Total U.S. Department of Defense			<u>336,848</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education			
Especially Needy Breakfast Program	10.553	13526	2,119,772
Special Milk Program for Children	10.556	13527	709,869
National School Lunch Program	10.555	13391/13396	10,274,971
Child and Adult Care Food Program	10.558	13393	2,020,338
Child Care Food Program - Centers and Family Day Homes	10.558	13393	1,122,980
Commodity Supplemental Food Program ³	10.555	1	339,797
Child Nutrition: Equipment Assistance Grants	10.579	14906	26,773
Fresh Fruit and Vegetable Program	10.582	14968	13,790
Total U.S. Department of Agriculture			<u>16,628,290</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2015**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF JUSTICE			
Direct Grant			
Mentoring for Success - Youth with Disabilities	16.000	¹	113,908
Mentoring for Success - Truancy Focus	16.000	¹	1,382
Passed through University of Georgia			
Group Mentoring for Resilience: Increasing Positive Development and Reducing involvement in the Juvenile Justice System	16.726	¹	<u>35,667</u>
Total U.S. Department of Justice			<u>150,957</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Grant			
Substance Abuse and Mental Health Services	93.243	¹	87,562
Passed through California Department of Education			
Federal Child Care, Center-based	93.596	13609	8,177,756
Passed through Centers for Disease Control			
School-Based Surveillance	93.079	¹	625,375
Passed through California Department of Health Care Services			
Medi-Cal Billing Option	93.778	10013	<u>1,372,356</u>
Total U.S. Department of Health and Human Services			<u>10,263,049</u>
Total Expenditures of Federal Awards			<u><u>\$ 70,941,763</u></u>

¹ Pass-through identifying number not applicable/available.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2015

ORGANIZATION

The San Francisco Unified School District was established in 1851 and consists of an area comprising approximately 49 square miles. The District operates 9 transitional kindergartens, 65 elementary schools, 13 middle schools, 18 senior high schools (including two continuation schools and an independent study school), 4 court and county community schools, and 34 state-funded preschool sites.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Emily M. Murase, Ph. D	President	2019
Rachel Norton	Commissioner	2017
Sandra Lee Fewer	Commissioner	2017
Matthew Haney	Vice President	2017
Shamann Walton	Commissioner	2019
Hydra B. Mendoza	Commissioner	2019
Jill Wynns	Commissioner	2017

ADMINISTRATION

Richard Carranza	Superintendent of Schools
Danielle Houck	General Counsel
Guadalupe Guerrero	Deputy Superintendent, Instruction, Innovation & Social Justice
Myong Leigh	Deputy Superintendent, Policy & Operations
Laura Moran	Chief of Strategy and Fund Development
Abram Jimenez	Chief of Schools
Richard Curci	Assistant Superintendent, Elementary - Cohort I
David Wong	Assistant Superintendent, Elementary - Cohort II
Anakarita Allen	Assistant Superintendent, Elementary - Cohort III
Karling Aguilera Fort	Assistant Superintendent, Elementary - Cohort IV
Jeannie Pon	Assistant Superintendent, Middle Schools
Bill Sanderson	Assistant Superintendent, High Schools
Elizabeth Blanco	Chief, Special Education
Gentle Blythe	Chief Communications Officer
Carla Bryant	Chief of Early Childhood Education
Melissa Dodd	Chief Technology Officer
David Goldin	Chief Facilities Officer
Jill Hoogendyk	Chief, Strategic Initiatives
Ritu Khanna	Chief, Research Planning and Assessment
Reeta Madhavan	Chief Financial Officer
Brent Stephens	Chief Academic Officer, Curriculum and Instruction
Kevin Truitt	Chief, Student, Family and Community Support Division
Monica Vasquez	Chief, Human Resources

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2015**

	Final Report	
	Amended Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	17,262.11	17,253.12
Fourth through sixth	11,738.08	11,738.71
Seventh and eighth	6,786.06	6,799.11
Ninth through twelfth	15,071.73	15,006.63
Total Regular ADA	<u>50,857.98</u>	<u>50,797.57</u>
Extended Year Special Education		
Transitional kindergarten through third	28.34	28.34
Fourth through sixth	20.79	20.79
Seventh and eighth	12.71	12.71
Ninth through twelfth	35.79	35.79
Total Extended Year Special Education	<u>97.63</u>	<u>97.63</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	5.73	6.85
Fourth through sixth	17.94	19.76
Seventh and eighth	25.53	26.43
Ninth through twelfth	59.62	68.04
Total Special Education, Nonpublic, Nonsectarian Schools	<u>108.82</u>	<u>121.08</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.34	0.34
Fourth through sixth	2.05	2.05
Seventh and eighth	3.86	3.86
Ninth through twelfth	9.94	9.94
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>16.19</u>	<u>16.19</u>
Community Day School		
Seventh and eighth	1.48	2.02
Ninth through twelfth	24.37	27.27
Total Community Day School	<u>25.85</u>	<u>29.29</u>
Juvenile Halls, Homes and Camp, Probation Referred		
Elementary	5.19	4.55
High School	98.56	89.38
Total Juvenile Halls, Homes and Camp, Probation Referred	<u>103.75</u>	<u>93.93</u>
Total ADA	<u><u>51,210.22</u></u>	<u><u>51,155.69</u></u>

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2015**

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>Reduced 1986-87 Minutes Requirement</u>	<u>2014-2015 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	35,000	44,400	180	Complied
Grades 1 - 3					
Grade 1	50,400	49,000	50,460	180	Complied
Grade 2	50,400	49,000	50,550	180	Complied
Grade 3	50,400	49,000	50,550	180	Complied
Grades 4 - 6					
Grade 4	54,000	52,500	54,000	180	Complied
Grade 5	54,000	52,500	54,000	180	Complied
Grade 6	54,000	52,500	57,744	180	Complied
Grades 7 - 8					
Grade 7	54,000	52,500	57,744	180	Complied
Grade 8	54,000	52,500	57,744	180	Complied
Grades 9 - 12					
Grade 9	64,800	63,000	64,845	180	Complied
Grade 10	64,800	63,000	64,845	180	Complied
Grade 11	64,800	63,000	64,845	180	Complied
Grade 12	64,800	63,000	64,845	180	Complied

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2015

Summarized below are the fund balance reconciliations between the unaudited actual financial report and the audited financial statements.

	General Fund
Balance, June 30, 2015, unaudited actual financial report	\$ 71,817,912
Increase in accounts payable due to errors in the local control funding formula unduplicated pupil count. Additional information is located at the schedule of findings and questioned costs as 2015-001.	(2,501,409)
Balance, June 30, 2015, audited financial statements	<u>\$ 69,316,503</u>

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2015**

	(Budget) 2016 ¹	2015	2014	2013
GENERAL FUND				
Revenues	\$ 733,328,118	\$ 659,851,393	\$ 607,265,622	\$ 561,310,549
Expenditures	695,499,300	644,024,394	595,889,105	567,080,123
Other uses and transfers out	12,838,579	9,248,336	9,043,610	11,718,037
Total Expenditures and Other Uses	708,337,879	653,272,730	604,932,715	578,798,160
CHANGE IN FUND BALANCE	\$ 24,990,239	\$ 6,578,663	\$ 2,332,907	\$ (17,487,611)
ENDING FUND BALANCE	\$ 94,306,742	\$ 69,316,503	\$ 62,737,840	\$ 60,404,933
AVAILABLE RESERVES	\$ 56,730,760	\$ 35,819,276	\$ 20,107,328	\$ 31,946,753
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	8.01%	5.48%	3.32%	5.52%
LONG-TERM OBLIGATIONS	\$ 1,473,074,234	\$ 1,515,183,926	\$ 1,089,419,341	\$ 873,207,330
ATTENDANCE				
AT P-2 ²	51,027	51,210	51,241	51,269

The General Fund balance has increased by \$8.9 million over the past two years. The fiscal year 2015-16 budget projects an increase of \$25 million, or 36 percent. For a district this size, the State recommends available reserves of at least two percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in the General Fund during one of the three prior years. However, the General Fund experienced an operating surplus in fiscal year 2015 and fiscal year 2014. The District anticipates a General Fund operating surplus during the 2015-16 fiscal year. Total long-term liabilities have increased by \$642 million over the past two years. The fiscal year 2013 column does not include the aggregate net pension liability because the District implemented GASB Statement No. 68 effective July 1, 2014, resulting in recognition of long-term liabilities of \$573 million.

Average daily attendance has decreased by 59 over the past two years. A decrease of 183 ADA is anticipated during fiscal year 2015-16.

Available reserves increased \$3.9 million from 2012-13. The District projects an increase of \$2.9 million during the 2015-16 fiscal year.

¹ Budget 2016 is based on the most current District projection and is included for analytical purposes only and has not been subjected to audit.

² ADA amounts include District and County programs.

³ On behalf payments of \$13,233,214, \$12,571,992, and \$11,527,019 are excluded from this schedule.

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2015

<u>Name of Charter School</u>	<u>Included in Audit Report</u>
City Arts and Technology High School	No
Creative Arts Charter School	No
Five Keys Adult School	No
Five Keys Charter School	No
Five Keys Independence High School	No
Gateway High School	No
Gateway Middle School	No
KIPP Bayview Academy	No
KIPP San Francisco Bay Academy	No
KIPP San Francisco College Preparatory	No
Leadership High School	No
Life Learning Academy	No
Thomas Edison Charter Academy	No

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2015**

	Special Revenue Funds		
	Child Development	Cafeteria	Deferred Maintenance
ASSETS			
Cash	\$ -	\$ 35,540	\$ 7,589
Investments	414,878	-	867,175
Receivables	3,883,152	2,767,089	717
Stores inventories	-	93,700	-
Total Assets	\$ 4,298,030	\$ 2,896,329	\$ 875,481
LIABILITIES AND FUND BALANCES			
Liabilities			
Overdrafts	\$ -	\$ 2,358,223	\$ -
Accounts payable	597,129	384,337	296,684
Unearned revenue	1,378,683	17,778	-
Total Liabilities	1,975,812	2,760,338	296,684
Fund Balances			
Nonspendable	-	129,240	-
Restricted	2,322,218	6,751	-
Assigned	-	-	578,797
Total Fund Balances	2,322,218	135,991	578,797
Total Liabilities and Fund Balances	\$ 4,298,030	\$ 2,896,329	\$ 875,481

See accompanying note to supplementary information.

Capital Project Funds				Debt Service Funds		Total Nonmajor Governmental Funds
Capital Facilities	State School Building	County School Facilities	Special Reserve Capital Outlay	Bond Interest and Redemption	Tax Override	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,129
36,867,261	4,322,476	9,032,921	9,324,261	23,875,205	33,269	84,737,446
30,493	3,575	7,471	-	51,282	-	6,743,779
-	-	-	-	-	-	93,700
<u>\$ 36,897,754</u>	<u>\$ 4,326,051</u>	<u>\$ 9,040,392</u>	<u>\$ 9,324,261</u>	<u>\$ 23,926,487</u>	<u>\$ 33,269</u>	<u>\$ 91,618,054</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,358,223
985,051	-	406,187	337,571	-	-	3,006,959
-	3,756,272	-	656,001	-	-	5,808,734
<u>985,051</u>	<u>3,756,272</u>	<u>406,187</u>	<u>993,572</u>	<u>-</u>	<u>-</u>	<u>11,173,916</u>
-	-	-	-	-	-	129,240
35,912,703	569,779	8,634,205	7,975,995	23,926,487	33,269	79,381,407
-	-	-	354,694	-	-	933,491
<u>35,912,703</u>	<u>569,779</u>	<u>8,634,205</u>	<u>8,330,689</u>	<u>23,926,487</u>	<u>33,269</u>	<u>80,444,138</u>
<u>\$ 36,897,754</u>	<u>\$ 4,326,051</u>	<u>\$ 9,040,392</u>	<u>\$ 9,324,261</u>	<u>\$ 23,926,487</u>	<u>\$ 33,269</u>	<u>\$ 91,618,054</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015**

	Special Revenue Funds		
	Child Development	Cafeteria	Deferred Maintenance
REVENUES			
Federal sources	\$ 9,300,736	\$ 15,151,723	\$ -
Other state sources	15,404,192	1,194,663	-
Other local sources	10,789,326	1,855,428	7,112
Total Revenues	35,494,254	18,201,814	7,112
EXPENDITURES			
Current			
Instruction	24,042,836	-	-
Instruction related activities:			
Supervision of instruction	6,059,034	-	-
School site administration	3,677,411	-	-
Pupil Services:			
Food services	3,373,957	19,195,774	-
All other pupil services	97,805	-	-
General administration:			
All other general administration	1,546,415	812,194	-
Plant services	591,574	-	-
Facility acquisition and construction	175,839	-	831,103
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	39,564,871	20,007,968	831,103
Excess (deficiency) of revenues over expenditures	(4,070,617)	(1,806,154)	(823,991)
Other Financing Sources:			
Transfers in	4,847,864	1,907,474	-
Other sources	-	-	-
Transfers out	-	-	-
Net Financing Sources	4,847,864	1,907,474	-
NET CHANGE IN FUND BALANCES	777,247	101,320	(823,991)
Fund Balance - Beginning	1,544,971	34,671	1,402,788
Fund Balance - Ending	\$ 2,322,218	\$ 135,991	\$ 578,797

See accompanying note to supplementary information.

Capital Project Funds				Debt Service Funds		Total Nonmajor Governmental Funds
Capital Facilities	State School Building	County School Facilities	Special Reserve Capital Outlay	Bond Interest and Redemption	Tax Override	
\$ -	\$ -	\$ -	\$ -	\$ 1,997,507	\$ -	\$ 26,449,966
-	-	9,077,361	-	222,969	-	25,899,185
8,728,641	30,522	85,260	1,620,526	63,602,282	-	86,719,097
8,728,641	30,522	9,162,621	1,620,526	65,822,758	-	139,068,248
-	-	-	-	-	-	24,042,836
-	-	-	-	-	-	6,059,034
-	-	-	-	-	-	3,677,411
-	-	-	-	-	-	22,569,731
-	-	-	-	-	-	97,805
-	-	-	-	-	-	2,358,609
-	-	-	-	-	-	591,574
2,321,856	-	451,889	8,657,175	-	-	12,437,862
-	-	-	1,508,130	35,485,000	-	36,993,130
-	-	-	984,868	38,165,908	-	39,150,776
2,321,856	-	451,889	11,150,173	73,650,908	-	147,978,768
6,406,785	30,522	8,710,732	(9,529,647)	(7,828,150)	-	(8,910,520)
-	-	-	2,492,998	-	-	9,248,336
-	-	-	10,225,000	-	-	10,225,000
-	-	(9,096,513)	-	-	-	(9,096,513)
-	-	(9,096,513)	12,717,998	-	-	10,376,823
6,406,785	30,522	(385,781)	3,188,351	(7,828,150)	-	1,466,303
29,505,918	539,257	9,019,986	5,142,338	31,754,637	33,269	78,977,835
\$ 35,912,703	\$ 569,779	\$ 8,634,205	\$ 8,330,689	\$ 23,926,487	\$ 33,269	\$ 80,444,138

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GENERAL UNRESTRICTED AND RESTRICTED FUNDS

BALANCE SHEET SCHEDULES

JUNE 30, 2015

	Unrestricted	Restricted	Total General Fund
ASSETS			
Cash and cash equivalents	\$ 500	\$ -	\$ 500
Investments	91,812,196	23,779,620	115,591,816
Receivables	11,112,780	19,581,614	30,694,394
Stores inventories	537,026	-	537,026
Prepaid expenditures	60,762	-	60,762
Total Assets	\$ 103,523,264	\$ 43,361,234	\$ 146,884,498
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 13,123,823	\$ 7,603,673	\$ 20,727,496
Current loans	53,981,877	-	53,981,877
Unearned revenue	-	2,858,622	2,858,622
Total Liabilities	67,105,700	10,462,295	77,567,995
Fund Balances			
Nonspendable	598,288	-	598,288
Restricted	-	32,898,939	32,898,939
Unassigned	35,819,276	-	35,819,276
Total Fund Balances	36,417,564	32,898,939	69,316,503
Total Liabilities and Fund Balances	\$ 103,523,264	\$ 43,361,234	\$ 146,884,498

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**GENERAL UNRESTRICTED AND RESTRICTED FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2015**

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total General Fund</u>
REVENUES			
Local control funding formula	\$ 419,388,497	\$ -	\$ 419,388,497
Federal sources	556,352	30,790,412	31,346,764
Other state sources	11,943,133	30,738,960	42,682,093
Other local sources	57,160,164	122,507,089	179,667,253
Total Revenues	<u>489,048,146</u>	<u>184,036,461</u>	<u>673,084,607</u>
EXPENDITURES			
Current			
Instruction	217,951,282	71,206,143	289,157,425
Instruction related activities	61,607,372	79,447,765	141,055,137
Pupil Services	24,714,761	19,021,552	43,736,313
General administration	25,691,539	4,169,925	29,861,464
Plant services	43,369,690	15,102,529	58,472,219
Ancilliary services	435,720	1,935,952	2,371,672
Other outgo	87,346,794	1,825,336	89,172,130
Enterprise services	-	4,438	4,438
Debt service			
Principal	1,100,180	-	1,100,180
Interest	2,326,630	-	2,326,630
Total Expenditures	<u>464,543,968</u>	<u>192,713,640</u>	<u>657,257,608</u>
Excess of expenditures over revenues	24,504,178	(8,677,179)	15,826,999
OTHER FINANCING SOURCES (USES):			
Transfers out	(7,684,336)	(1,564,000)	(9,248,336)
Other sources (uses)	(4,780,426)	4,780,426	-
Net Financing Uses	<u>(12,464,762)</u>	<u>3,216,426</u>	<u>(9,248,336)</u>
NET CHANGE IN FUND BALANCES	12,039,416	(5,460,753)	6,578,663
Fund Balance - Beginning	24,378,148	38,359,692	62,737,840
Fund Balance - Ending	<u>\$ 36,417,564</u>	<u>\$ 32,898,939</u>	<u>\$ 69,316,503</u>

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2015**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances and the related expenditures reported on the Schedule of Expenditures of Federal Awards.

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 72,599,473
Federal interest subsidy on Qualified Construction Bonds and Build America Bonds	Not Applicable	(1,997,507)
Noncash Federal awards are not recorded on the Financial Statements	10.555	339,797
Total Schedule of Expenditures of Federal Awards		<u>\$ 70,941,763</u>

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided Federal awards to sub-recipients as follows:

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Title I, Part A, Basic Grants Low Income and Neglected	84.010	\$ 1,564,000

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2015

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District neither met nor exceeded its target funding. The schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of *Education Code* Sections 46200 through 46206. Districts must maintain their instructional minutes at the 1986-87 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report, to the audited financial statements.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Schedule of Charter Schools

This schedule lists all schools chartered by the District or County Office of Education, and displays information for each charter school on whether or not the school is included in the District audit.

Nonmajor Governmental Funds – Combining Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances

The Nonmajor Governmental Funds Combining Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Nonmajor Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

General Unrestricted and Restricted Funds – Balance Sheet Schedule and Schedule of Revenues, Expenditures and Changes in Fund Balances

The General Unrestricted and Restricted Funds Balance Sheet and Schedule of Revenues, Expenditures and Changes in Fund Balances is included to provide information regarding the unrestricted and restricted funds that have been included in the General Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

INDEPENDENT AUDITOR'S REPORTS



**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***

Board of Education
San Francisco Unified School District
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, each major fund, and the aggregate remaining fund information of the San Francisco Unified School District (the District) as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 29, 2015.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 17 to the financial statements, the District adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* as of July 1, 2014. Adoption of these pronouncements required restatement of beginning net position.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the District'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 District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District'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 District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control related to unduplicated local control funding formula pupil counts, described in the accompanying schedule of findings and questioned costs as 2015-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District'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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and questioned costs as 2015-001 related to unduplicated local control funding formula pupil counts.

District's Response to Findings

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The District'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 District'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 District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Vasinek Trime Day + Co. LLP

Palo Alto, California
December 29, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR FEDERAL PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

Board of Education
San Francisco Unified School District
San Francisco California

Report on Compliance for Each Major Federal Program

We have audited the San Francisco Unified School District's (the District) 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 District's major federal programs for the year ended June 30, 2015. The major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District'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 District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District 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, 2015.

Report on Internal Control Over Compliance

Management of the District 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 District's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. 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 OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Varrinck Trime Day + Co. LLP

Palo Alto, California
December 29, 2015



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Board of Education
San Francisco Unified School District
San Francisco California

Report on State Compliance

We have audited the San Francisco Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the District's State government programs as noted below for the year ended June 30, 2015.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit 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 *2014-2015 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the District'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 opinions. Our audit does not provide a legal determination of the District's compliance with those requirements.

Basis for Qualified Opinion

As described in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding unduplicated local control funding formula pupil counts, as noted at finding 2015-001 in the schedule of findings and questioned costs. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion on Unduplicated Local Control Funding Formula Pupil Counts

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2015.

Unmodified Opinion on Each of the Other Programs

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2015, except as described in the schedule of state awards findings and questioned costs section of the accompanying schedule of findings and questioned costs.

In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the State laws and regulations applicable to the following items:

	<u>Procedures Performed</u>
Attendance Accounting:	
Attendance Reporting	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Regional Occupational Centers or Programs Maintenance of Effort	No, see below
Adult Education Maintenance of Effort	No, see below
California Clean Energy Jobs Act	Yes
After School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Common Core Implementation Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Charter Schools:	
Contemporaneous Records of Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

The District does not offer an early retirement incentive program; therefore, we did not perform procedures related to the early retirement incentive program.

The District does not have a school that meets the definition of a middle college high school as described in Education Code section 11300 or early college high school as described in Education Code section 11302; therefore, we did not perform procedures related to the middle or early college high schools.

The District does not have any regional occupational centers or programs expenditures as specified in Education Code section 2575(k) or 42238.03(a)(7); therefore, we did not perform procedures related to regional occupational centers or programs maintenance of effort.

The District does not have any adult education expenditures as specified in Education Code section 2575(k) or 42238.03(a)(7) in the 2012-13 fiscal year; therefore, we did not perform procedures related to adult education maintenance of effort.

The District does not offer a before school education and safety program; therefore, we did not perform any procedures related to the before school education and safety program.

The District does not have any charter schools; therefore, we did not perform any procedures for charter school programs.

Vawter Time Day + Co. LLP

Palo Alto, California
December 29, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR’S RESULTS
FOR THE YEAR ENDED JUNE 30, 2015**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>Yes</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of OMB Circular A-133?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.287</u>	<u>Twenty-First Century Community Learning Centers</u>
<u>84.010</u>	<u>Title I, Grants To Local Educational Agencies</u>
<u>84.367</u>	<u>Improving Teacher Quality State Grants</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 2,128,253</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for programs:
Unmodified for all programs except for the following program which was qualified:

<u>Name of Program</u>
<u>Unduplicated Local Control Funding Formula Pupil Counts</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2015**

None reported.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

2015-001 Unduplicated Local Control Funding Formula Pupil Counts

Code

State Compliance (40000)

Criteria or Specific Requirements

Supplemental and concentration grant amounts are calculated based on the percentage of “unduplicated pupils” enrolled in the District over census day (first Wednesday in October). The percentage equals:

Unduplicated count of pupils who (1) are English learners, (2) meet income or categorical eligibility requirements for free or reduced-price meals under the National School Lunch Program, or (3) are foster youth. Divided by total enrollment in the LEA [EC sections 2574(b)(1) and 42238.02(b)(5)].

“Unduplicated count” means that each pupil is counted only once even if the pupil meets more than one of these criteria [EC sections 2574(b) (2) and 42238.02(b)(1)].

Data submitted by LEAs to CALPADS is used as the starting point for calculating the unduplicated student count. CALPADS Certification Report 1.17 – FRPM/English Learner/Foster Youth – Count, displays the counts of students by category and an unduplicated total.

In order to be counted in Report 1.17, a student must have an open primary or short-term enrollment in CALPADS over census day and meet one or more of the following criteria:

- Have a program record with an education program code of Homeless (191), Migrant (135), Free Meal Program (181), or Reduced-Price Meal Program (182), that is open over census day.
- Have an English Language Acquisition Status (ELAS) of “English learner” (EL) that is effective over census day.
- Be directly certified in July through November as being eligible for free meals based on a statewide match conducted by CALPADS.
- Be identified as a foster youth based on a statewide match conducted by CALPADS.
- Be identified as a foster youth through a local data matching process and submitted to and validated by CALPADS.

Condition

From the CALPADS certification reports, we selected samples of students that are only free or reduced priced meal eligible (FRPM) identified under the “NSLP Program” column (which means students are indicated as a “No” under the “Direct Certification” column, blank under the “Primary Residence” column, blank under the “Migrant Ed Program” column, and “Free” or “Reduced” under the “NSLP Program” column) in order to verify there is supporting documentation such as a Free and Reduced Price Meal (FRPM) eligibility application under a federal nutrition program, an alternative household income data collection form that indicates the student was eligible for the designation, or a direct certification list obtained from the county welfare department, or from CALPADS that matches enrolled students against those children/households receiving CalFresh (or CALWORKS) benefits.

We identified instances where students were improperly classified as FRPM eligible when the supporting documentation indicated the correct classification of “paid.”

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

Questioned Costs

In order to determine the total impact of the error, management of the District assessed the complete population of CALPADS reported data for the 2014-15 fiscal year. It was determined that CALPADS overstated the unduplicated count by 1,898 pupils erroneously designated as only free or reduced priced meal eligible, when in fact the pupils did not qualify for such designation. This overstatement resulted in a dollar impact of additional LCFF revenue in the amount of \$2,501,409.

Context

CALPADS certified total enrollment count was 52,961 and the certified total unduplicated pupil count was 36,725. Decreases to the unduplicated pupil count based on the audit are 1,898 resulting in an adjusted count of 34,827. All of the decreases are to the category of pupils designated as eligible for free or reduced price meals.

Effect

The percentage of “unduplicated pupils” enrolled in the District over census day was overstated, resulting in the District receiving excess supplemental and concentration grants.

Cause

The overstatement is due to challenges experienced with integrating and analyzing data across several data systems, significant staff turnover on the CALPADS reporting team, and an absence of a formalized, cross-functional process for CALPADS data review and validation.

Recommendation

The District should appoint an individual to review the listing of pupils designated as free and reduced price eligible in report 1.18 and reconcile the listing with data from the student nutrition department.

Corrective Action Plan/District Response

The District will submit a correction through the Principal Apportionment Data Collection Software (PADC), accompanied by the audit finding.

SFUSD has taken measures to address the three factors that contributed to the overstatement in 2014-15:

- SFUSD has established connections with other California school districts using the same (Student Information System) SIS to learn from their experience with respect to CALPADS submissions. The district has also re-established a much-needed strong working partnership with the SIS vendor to address our needs with regard to data integration and CALPADS submission. This partnership has ensured that SFUSD has significantly improved technical support so that the team can focus on data quality and analysis.
- To address the staffing challenges, the CALPADS team is working closer with the functional areas with regard to data review and validation. We are also working to establish more system controls in our SIS to prevent inaccurate data entries. We have also engaged in a number of review sessions and workshops on the LCFF funding model to ensure that team members have the requisite knowledge and understanding of the funding formula and rules.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2015

- SFUSD is establishing a formal review and sign-off process of all CALPADS data prior to the submission deadline by a cross-functional team that includes Finance, IT, functional departments (Student Nutrition Services, Special Education, Multilingual Pathways Department) and senior district leadership. This process began in summer 2015 and will be fully implemented by the Fall 1 submission in March 2016.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2015**

Financial Statement Findings

None reported.

Federal Awards Findings

None reported.

State Awards Findings

None reported.