

**SAN FRANCISCO UNIFIED
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2016**

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITOR'S REPORT

Board of Education
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, 2016, 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 *2015-16 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, 2016, 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.

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 Title 2 U.S. Code of Federal Regulations (CFR) Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, and other accompanying supplementary information as listed on 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 14, 2016, 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.



Palo Alto, California
December 14, 2016

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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, transitional kindergarten, kindergarten, elementary, middle and secondary education in the City and County of San Francisco through a network of 143 schools as follows:

- 12 early education schools
- 64 elementary schools (K-5)
- 8 alternatively configured schools (K-8)
- 13 middle schools (6-8)
- 19 high schools (9-12)
- 5 continuation/alternative schools, including an independent study school
- 9 court and county community schools and programs
- 13 charter schools

The District’s diverse student demographics includes 36% Chinese, 27% Latino, 13% White, 8% African American, 4% Filipino and 12% “Other”. Approximately 62% of the student population is free and reduced-price lunch eligible.

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’s commitment to high-quality teaching and learning for all students and our commitment to delivering on the promises that we make to our students and families has led us to be the highest performing large urban school district in the state of California. Despite recent 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. In the first year of implementation of the new statewide standardized test, the Smarter Balanced Assessment Consortium (SBAC), SFUSD outperformed all other districts in California. Students from our district graduate high school in four years at a rate of 82%. At the same time, however, wide gaps in achievement between groups of students persist.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

SFUSD began a deliberate course of action in 2008 with its strategic plan, *Beyond the Talk: Taking Action to Educate Every Child Now*. *Beyond the Talk* represented our community's bold aspirational goals that have remained unchanged, while we continue our deep and unrelenting commitment to our three District goals:

- **Access and Equity** – Make social justice a reality by ensuring every student has access to high quality teaching and learning.
- **Student Achievement** – Create learning environments in all SFUSD schools that foster highly engaged and joyful learners and that support every student reaching their potential.
- **Accountability** – Keep district promises to students and families and enlist everyone in the community to join in doing so.

These goals are reflected in both the current strategic plan, *Transform Learning, Transform Lives. A Guidebook Towards Vision 2025*, as well as SFUSD's Local Control and Accountability Plan (LCAP). Both the strategic plan and the LCAP can be found at www.sfusd.edu.

In the fall of 2013, the superintendent of San Francisco Unified School District (SFUSD), under the leadership of the Board of Education, launched an ambitious undertaking: to develop a new vision for the future of public education in San Francisco, and then use that vision as a guide to transform the city's school system, over the next decade, into one of the premier systems in the world. SFUSD maintains its commitment to helping all students develop strong academic knowledge and skills, as well as a host of dispositions and behaviors, that increase their curiosity and engagement, activate their full potential for learning, and prepare them for life, work, and study beyond their secondary school years. While the pace and the path toward achieving these outcomes will vary among students and unfold along a set of learning progressions, the goal is for every SFUSD student to possess these capacities by the time they graduate. These capacities are outlined in the Graduate Profile.

SFUSD's aim is to make sure all students graduate from high school with the skills, capacities and dispositions for 21st Century success. Our focal areas of support for student success include:

- **Content Knowledge** – we help our students master the fundamentals in math, English, computer science and art, and develop problem-solving and critical analytical skills.
- **Creativity** – we provide opportunities for our students to be creative, tackle environmental problems and make communities more inclusive.
- **Career and Life Skills** – we help students to acquire knowledge, skills, and experience they need to navigate in the world, think critically and communicate effectively.
- **Global, Local and Digital Identity** – we help to equip students with the skills of the future, including learning new languages, understanding new technologies, and participating in local apprenticeships.
- **Leadership, Empathy, and Collaboration** – we organize and encourage teamwork and collaboration, both with peers and partners outside the classroom, such as family members and mentors.
- **Sense of Purpose and Sense of Self** – we nurture our students growth and teach them life lessons so they can recognize their purpose and value, and encourage each student to reach their full potential, whether they require extra support or a new challenge.

Myong Leigh assumed the role of Interim Superintendent for SFUSD in September, 2016, following the departure of Richard A. Carranza. Mr. Leigh, who previously served as the Deputy Superintendent for Policy and Operations, will continue the work started by Mr. Carranza 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, 2016

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.

District staff 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. 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 and improve, 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.

FINANCIAL HIGHLIGHTS

RESULTS OF OPERATION

Unrestricted General Fund Results of Operations

During fiscal year 2015-16, the District's unrestricted General Fund ending balance, which includes nonspendable, assigned, and unassigned balances, increased from \$36.4 million to \$72.0 million, a \$35.6 million or 98% increase. Total unrestricted General Fund revenues in the current year were \$566.4 million, an increase of \$77.4 million, or 15.8% compared to 2014-15.

Total expenditures of \$503.1 million represent an increase of \$38.6 million or 8% over 2014-15. Transfers to the County School Service Fund of \$98.7 million, is an increase of \$11.4 million or 13% from 2014-15.

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 \$11.2 million are \$3.5 million or 46% greater than 2014-15.

General Fund Ending Balance and Reserves

The District's combined General Fund ending balance at June 30, 2016 (restricted plus unrestricted) is \$118.6 million. The restricted fund balance portion of \$46.6 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 \$61.4 million.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2016**

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

<i>(Amounts in thousands)</i>	2015	2016	Variance	
			\$	%
Local control funding formula	\$ 419,388	\$ 475,932	\$ 56,544	13.5%
Federal sources	31,347	29,374	(1,973)	-6.3%
Other state sources	42,682	75,654	32,972	77.3%
Other local sources	179,667	189,350	9,683	5.4%
	<u>\$ 673,084</u>	<u>\$ 770,310</u>	<u>\$ 97,226</u>	<u>14.4%</u>

Table II

<i>(Amounts in thousands)</i>	2015	2016	Variance	
			\$	%
Instruction	\$ 289,157	\$ 290,600	\$ 1,443	0.5%
Instruction related activities	141,055	162,793	21,738	15.4%
Pupil services	43,736	49,104	5,368	12.3%
General administration	29,861	32,204	2,343	7.8%
Plant services	55,050	58,120	3,070	5.6%
Facility acquisition and construction	3,422	3,723	301	8.8%
Ancilliary and enterprise services	2,376	4,868	2,492	104.9%
Other outgo	89,172	99,830	10,658	12.0%
Debt service	3,427	3,143	(284)	-8.3%
Transfers out	9,248	16,659	7,411	80.1%
	<u>\$ 666,504</u>	<u>\$ 721,044</u>	<u>\$ 54,540</u>	<u>8.2%</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 2015-16 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.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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.

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, 2016

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.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's government-wide net position at June 30, 2016 totaled \$90.3 million. Of this amount, \$635.2 million represents net investment in capital assets, while \$141.7 million is restricted for various purposes. The deficit unrestricted net position of \$686.5 million is primarily due to the aggregate net pension liability and the postemployment benefits obligation, which totals \$588.7 million and \$255.0 million, respectively at June 30, 2016. The aggregate net pension liability increased \$153.2 million or 35.2% from June 30, 2015. The postemployment benefits liability increased \$35.2 million or 16.0% from June 30, 2015.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2016

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the close of the year ended June 30, 2016, the District's capital assets totaled \$1,950 million. Accumulated depreciation was \$468.6 million at year end. Depreciation expense for the year totaled \$48.8 million. Net book value (the amount of total assets after applying depreciation) increased by \$155.9 million to \$1,482 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 5 to the accompanying financial statements for a complete summary of the District's capital assets.

Long-Term Obligations

Long-term obligations consist primarily of the unfunded portions of employee pensions, unfunded portions of post-employment medical benefits and general obligation bonded debt. The following tables presents a summary of the District's most significant long-term obligations on June 30, 2016, and presents the increase from the previous fiscal year.

<i>(Amounts in thousands)</i>	2015	2016	Variance	
			\$	%
Unfunded portion of employee pensions (Note 14)	\$ 435,448	\$ 588,678	\$ 153,230	35.2%
Unfunded portion of post-employment medical benefits (Note 12)	219,784	255,023	35,239	16.0%
Bonded debt (Note 09)	782,645	916,490	133,845	17.1%
	<u>\$ 1,437,877</u>	<u>\$ 1,760,191</u>	<u>\$ 322,314</u>	<u>22.4%</u>

Additional long-term obligations include an estimate of the workers' compensation self-insurance claims liability, which is fully funded and described in detail at note 13 to the financial statements. Furthermore, the District has earmarked \$19.5 million towards the unfunded portion of the post-employment medical liability.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2016

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 fiscal year 2015-16, and currently projects that it will maintain its minimum reserve in both fiscal year 2016-17 and fiscal year 2017-18.

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 Public Education Enrichment Fund (PEEF), a ballot initiative that was approved by the voters of San Francisco in March, 2004, and established as law in the City Charter, Section 16.123.1-10. Originally set to expire on June 30, 2015, Proposition C, the "Children and Families First" initiative passed in November, 2014, extended the PEEF funding through 2041, and ensured a sustained and guaranteed investment in our children's future. PEEF funds have been critical in allowing the district to maintain, and in most cases, expand, programs during the economic downturn. The district receives approximately \$64 million or two-thirds of the annual PEEF allocation from the City (the remaining one-third going to the City's Department of Early Care and Education for support to preschool). The district's portion of PEEF is used to support sports, libraries, the arts and music (SLAM) as well as programs such as Wellness Centers, Student Support Professionals, Translation Services, STEAM curriculum, and Peer Resources, to name a few.

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 a sustained improvement in California's economy and the implementation of the Local Control Funding Formula which has provided increased funds to K-14 education under the Governor's budget.

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 strong and 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, 2016

	Governmental Activities
Assets	
Current assets	
Cash and cash equivalents	\$ 2,569,223
Investments	543,891,848
Receivables	63,839,497
Other assets	694,756
Total current assets	<u>610,995,324</u>
Non current assets	
Capital assets, net of accumulated depreciation	1,481,897,064
Total noncurrent assets	<u>1,481,897,064</u>
Total assets	<u>2,092,892,388</u>
Deferred outflows of resources	
Deferred amounts on refunding	3,115,270
Deferred amounts related to pensions	135,373,797
Total deferred outflows of resources	<u>138,489,067</u>
Liabilities	
Current liabilities	
Overdrafts	5,392,893
Accounts payable	93,380,675
Interest payable	4,502,602
Unearned revenue	8,006,066
Claim liability	7,108,423
Current loans	60,000,000
Current portion of bonds and capital leases	59,000,958
Total current liabilities	<u>237,391,617</u>
Noncurrent liabilities	
Claims liability	28,433,691
General obligation bonds, premiums, and capital leases	947,546,956
Compensated absences	9,921,506
Other post-employment benefits	255,022,529
Aggregate net pension liability	588,678,435
Total noncurrent liabilities	<u>1,829,603,117</u>
Total liabilities	<u>2,066,994,734</u>
Deferred inflows of resources	
Deferred inflows of resources related to pensions	74,051,620
Total deferred inflows of resources	<u>74,051,620</u>
Net position	
Net investment in capital assets	635,194,849
Restricted	
Educational programs	55,481,996
Debt service	25,241,001
Capital projects	52,713,404
Self insurance	8,218,431
Unrestricted	(686,514,580)
Total net position	<u>\$ 90,335,101</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, 2016**

Functions/Programs	Expenses	Program Revenues		Net Revenues (Expenses) and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction	\$ 459,670,377	\$ 236,763	\$ 87,610,113	\$ (371,823,501)
Instruction related activities				
Supervision of instruction	148,240,498	238,492	60,340,027	(87,661,979)
Instructional library and technology	12,445,326	60,115	2,827,286	(9,557,925)
School site administration	51,552,063	7,697	4,544,707	(46,999,659)
Pupil services				
Home-to-school transportation	32,373,126	1,601	66,187	(32,305,338)
Food services	28,330,158	1,258,493	20,225,213	(6,846,452)
All other pupil services	70,896,562	106,368	17,110,786	(53,679,408)
General administration				
Data processing	8,196,311	1,355	57,592	(8,137,364)
All other general administration	32,194,279	62,159	4,173,533	(27,958,587)
Plant services	60,753,026	8,223	1,385,678	(59,359,125)
Ancillary services	5,387,199	27,788	1,161,082	(4,198,329)
Interest on long-term obligations	39,435,591	-	-	(39,435,591)
Other outgo	1,182,633	599,269	26,836,447	26,253,083
Total Governmental Activities	\$ 950,657,149	\$ 2,608,323	\$ 226,338,651	(721,710,175)
General revenues and subventions				
				381,396,320
				107,352,538
				82,408,542
				143,230,679
				4,317,584
				1,348,794
				87,267,661
				<u>807,322,118</u>
				<u>85,611,943</u>
				<u>4,723,158</u>
				<u>\$ 90,335,101</u>

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016**

	General Fund	County School Service Fund	Building Fund
ASSETS			
Cash	\$ 500	\$ -	\$ -
Investments	203,213,074	7,565,366	176,831,379
Receivables	36,737,228	16,968,631	227,854
Prepaid expenditures	83,689	-	-
Stores inventories	530,540	-	-
Total Assets	\$ 240,565,031	\$ 24,533,997	\$ 177,059,233
LIABILITIES AND FUND BALANCES			
Liabilities			
Overdrafts	\$ -	\$ -	\$ -
Accounts payable	56,225,545	8,136,759	20,328,804
Interest payable	2,357,402	-	-
Current loans	60,000,000	-	-
Unearned revenue	3,398,522	190,841	-
Total Liabilities	121,981,469	8,327,600	20,328,804
Fund Balances			
Nonspendable	610,409	-	-
Restricted	46,563,253	6,522,637	156,730,429
Assigned	10,000,000	9,683,760	-
Unassigned	61,409,900	-	-
Total Fund Balances	118,583,562	16,206,397	156,730,429
Total Liabilities and Fund Balances	\$ 240,565,031	\$ 24,533,997	\$ 177,059,233

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

Bond Interest And Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 14,742	\$ 15,242
27,272,750	67,345,411	482,227,980
80,182	9,761,137	63,775,032
-	-	83,689
-	80,527	611,067
<u>27,352,932</u>	<u>\$ 77,201,817</u>	<u>\$ 546,713,010</u>
\$ -	\$ 5,392,893	\$ 5,392,893
-	7,696,372	92,387,480
-	-	2,357,402
-	-	60,000,000
-	4,416,703	8,006,066
<u>-</u>	<u>17,505,968</u>	<u>168,143,841</u>
-	87,677	698,086
27,352,932	55,055,102	292,224,353
-	4,553,070	24,236,830
-	-	61,409,900
<u>27,352,932</u>	<u>59,695,849</u>	<u>378,569,169</u>
<u>27,352,932</u>	<u>\$ 77,201,817</u>	<u>\$ 546,713,010</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2016**

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		\$ 378,569,169
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.</p>		
The cost of capital assets is	\$ 1,950,459,548	
Accumulated depreciation is	<u>(468,562,484)</u>	
Net capital assets		1,481,897,064
<p>In governmental funds, unamortized interest on long-term obligations is recognized in the period when it is due. In the government-wide statements, unamortized interest on long-term obligations is recognized when it is incurred.</p>		
		(2,145,200)
<p>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.</p>		
		27,747,005
<p>The advance refunding of the Series 2006 C and Series 2007 A general obligation bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$29.2 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2026 as a component of interest expense. This is the amount remaining as of June 30, 2016.</p>		
		3,115,270
<p>Long-term liabilities are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.</p>		
<p>Long-term liabilities at year end consist of the following items:</p>		
General obligation bonds and premium	(993,553,416)	
Capital leases payable	(12,994,498)	
Compensated absences (vacations)	(9,921,506)	
Post employment liability	(255,022,529)	
Net pension liability and related deferrals	<u>(527,356,258)</u>	
Long-term liabilities		<u>(1,798,848,207)</u>
Total net position - governmental activities		<u>\$ 90,335,101</u>

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

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SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016**

	General Fund	County School Service Fund	Building Fund
REVENUES			
Local control funding formula	\$ 475,932,385	\$ 10,475,770	\$ -
Federal sources	29,374,279	13,494,741	-
Other state sources	75,654,380	45,209,080	-
Other local sources	189,349,630	99,114,562	9,529,081
Total Revenues	770,310,674	168,294,153	9,529,081
EXPENDITURES			
Current			
Instruction	290,599,624	98,533,196	-
Instruction related activities:			
Supervision of instruction	110,500,541	15,256,565	-
Instructional library and technology	11,235,012	1,045	-
School site administration	41,057,388	1,626,118	-
Pupil Services:			
Home-to-school transportation	3,615,727	25,611,812	-
Food services	640,128	-	-
All other pupil services	44,847,937	18,929,561	-
General administration:			
Data processing	7,105,747	294,157	-
All other general administration	25,098,401	1,570,202	-
Plant services	58,119,648	115,437	-
Facility acquisition and construction	3,722,516	-	183,991,311
Ancillary services	4,863,744	-	-
Other outgo	99,830,006	-	-
Enterprise services	4,582	-	-
Debt service			
Principal	-	-	-
Interest and other	3,143,303	-	-
Total Expenditures	704,384,304	161,938,093	183,991,311
Excess (deficiency) of revenues over expenditures	65,926,370	6,356,060	(174,462,230)
OTHER SOURCES (USES)			
Transfers in	-	-	-
Proceeds from the sale of bonds	-	-	226,000,000
Transfers out	(16,659,311)	-	-
Payments to escrow agent	-	-	-
Net Financing Sources (Uses)	(16,659,311)	-	226,000,000
NET CHANGE IN FUND BALANCES			
	49,267,059	6,356,060	51,537,770
Fund Balance - Beginning	69,316,503	9,850,337	105,192,659
Fund Balance - Ending	\$ 118,583,562	\$ 16,206,397	\$ 156,730,429

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

Bond Interest Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 486,408,155
1,681,074	24,132,761	68,682,855
349,066	19,149,652	140,362,178
107,309,075	27,349,523	432,651,871
<u>109,339,215</u>	<u>70,631,936</u>	<u>1,128,105,059</u>
-	25,872,942	415,005,762
-	8,079,364	133,836,470
-	-	11,236,057
-	3,859,417	46,542,923
-	-	29,227,539
-	24,937,284	25,577,412
-	230,284	64,007,782
-	-	7,399,904
-	2,397,466	29,066,069
-	631,360	58,866,445
-	16,885,938	204,599,765
-	-	4,863,744
-	-	99,830,006
-	-	4,582
65,610,000	1,679,411	67,289,411
40,302,770	888,377	44,334,450
<u>105,912,770</u>	<u>85,461,843</u>	<u>1,241,688,321</u>
<u>3,426,445</u>	<u>(14,829,907)</u>	<u>(113,583,262)</u>
-	16,659,311	16,659,311
95,606,465	1,348,794	322,955,259
-	-	(16,659,311)
<u>(95,606,465)</u>	<u>-</u>	<u>(95,606,465)</u>
<u>-</u>	<u>18,008,105</u>	<u>227,348,794</u>
3,426,445	3,178,198	113,765,532
23,926,487	56,517,651	264,803,637
<u>\$ 27,352,932</u>	<u>\$ 59,695,849</u>	<u>\$ 378,569,169</u>

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, 2016

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 \$ 113,765,532

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	\$ 204,599,765	
Depreciation expense	<u>(48,751,234)</u>	155,848,531

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. 1,679,411

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. 155,810,000

Amortization of bond premium is a revenue source in the statement of activities, but is not recognized in the governmental funds. 7,612,186

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). 240,438

The advance refunding of the Series 2006 C and Series 2007 A general obligation bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$3.5 million. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2026 as a component of interest expense.

Defeasance costs	3,461,411	
Amount charged to operations in the current year	<u>(346,141)</u>	3,115,270

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, 2016**

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.	(169,058)
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.	(2,558,204)
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.	(35,238,869)
Proceeds and premium received from issuance of bonds and refunding bonds are revenues in the governmental funds, but increase long-term obligations in the statement of net position and does not affect the statement of activities.	(321,859,539)
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>7,366,245</u>
Change in net position of governmental activities	<u><u>\$ 85,611,943</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, 2016**

		Governmental Activities
		Internal Service Fund
ASSETS		
Cash and cash equivalents	\$ 2,553,981	
Investments	61,663,868	
Total cash and investments		\$ 64,217,849
Receivables		64,465
Total Assets		64,282,314
LIABILITIES		
Accounts payable		993,195
Claim liability - workers' compensation		35,057,000
Claim liability - dental		485,114
Total Liabilities		36,535,309
NET POSITION		
Restricted - insurance programs		8,218,431
Unrestricted - earmarked for OPEB		19,528,574
Total Net Position		\$ 27,747,005

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, 2016**

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
In-district premiums	\$ 28,077,264
Other local revenue	265,611
Total operating revenues	<u>28,342,875</u>
OPERATING EXPENSES	
Payroll costs	702,758
Claims expense	20,625,166
Total operating expenses	<u>21,327,924</u>
Net operating income	7,014,951
NONOPERATING REVENUES	
Interest income	<u>351,294</u>
Change in Net Position	7,366,245
Net Position - Beginning	<u>20,380,760</u>
Net Position - Ending	<u>\$ 27,747,005</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, 2016

	<u>Governmental Activities</u> <u>Internal Service Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 28,342,875
Cash payments for insurance claims	(19,437,285)
Cash payments for payroll expense	(25,783)
Net cash provided by operating activities	<u>8,879,807</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>329,130</u>
 Net increase in cash and cash equivalents	9,208,937
Cash and cash equivalents - Beginning of year	<u>55,008,912</u>
Cash and cash equivalents - End of year	<u>\$ 64,217,849</u>
 RECONCILIATION OF OPERATING PROFIT TO NET CASH USED FOR OPERATING ACTIVITIES	
Operating income	\$ 7,014,951
Increase in accrued liabilities	1,864,856
Net cash provided by operating activities	<u>\$ 8,879,807</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, 2016**

	Payroll Revolving Agency Fund	Student Body Agency Fund	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 2,805,702	\$ 2,805,702
Investments	1,843,956	-	1,843,956
Total Assets	\$ 1,843,956	\$ 2,805,702	\$ 4,649,658
LIABILITIES			
Salaries and benefits payable	\$ 1,843,956	\$ -	\$ 1,843,956
Due to student groups	-	2,805,702	2,805,702
Total Liabilities	\$ 1,843,956	\$ 2,805,702	\$ 4,649,658

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 64 elementary schools, 13 middle schools, and 19 high schools including 4 continuation schools, 12 early childhood education centers and an independent study alternative school. The District sponsors 13 Charter 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, 2016

Other Related Entities

Charter 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.

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).

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.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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).

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.

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).

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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:

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.

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Net position is 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.

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.

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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, 2016 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.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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 deferred charges on refunding of debt and for pension related items.

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 pension related items.

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, 2016, 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 \$94.1 million in net position as of June 30, 2016, including \$638.5 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.

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NOTES TO FINANCIAL STATEMENTS

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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.

New Accounting Principles

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 District has implemented the provisions of this Statement as of June 30, 2016.

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.

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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.

The provisions in this Statement effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of Statement No. 68 are effective for periods beginning after June 15, 2016.

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 District has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants, (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

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This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

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

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

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

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

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This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local government pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

In January 2016, the GASB issued Statement No. 80, *Blending Requirements for Certain Component Units - amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

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

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and 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*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 482,243,222	
Less: deficit cash (overdraft)	<u>(5,392,893)</u>	
Total governmental funds		\$ 476,850,329
Self insurance fund		64,217,849
Fiduciary funds		<u>4,649,658</u>
Total Deposits and Investments		<u><u>\$ 545,717,836</u></u>

Deposits and investments as of June 30, 2016, consist of the following:

Cash on hand and in banks		\$ 5,374,925
Deposits with county treasurer	545,735,804	
Less: deficit cash (overdraft)	<u>(5,392,893)</u>	
Total deposits with county treasurer		<u>540,342,911</u>
Total Deposits and Investments		<u><u>\$ 545,717,836</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, 2016

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, 2016 is \$540.3 million and the fair value is \$540.4 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 372 days on June 30, 2016.

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, 2016.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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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, 2016, the District's bank balance of \$5,198,077 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, 2016 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.

Fair Value Measurements

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the San Francisco County Treasury Investment Pool and/or Local Agency Investment Funds/State Investment Pools are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 3 - RECEIVABLES

Receivables at June 30, 2016, 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	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds	Proprietary Fund
Federal Government							
Categorical aid	\$10,012,391	\$11,629,059	\$ -	\$ -	\$ 4,382,382	\$26,023,832	\$ -
State Government							
Categorical aid	1,683,366	5,339,572	-	-	799,063	7,822,001	-
Lottery	6,181,959	-	-	-	-	6,181,959	-
Local Government							
Interest	240,520	-	227,854	80,182	58,310	606,866	-
Local Sources	18,618,992	-	-	-	4,521,382	23,140,374	64,465
Total Accounts Receivable	<u>\$36,737,228</u>	<u>\$16,968,631</u>	<u>\$ 227,854</u>	<u>\$ 80,182</u>	<u>\$ 9,761,137</u>	<u>\$63,775,032</u>	<u>\$ 64,465</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	Balance June 30, 2015	Additions	Balance June 30, 2016
Governmental Activities			
Capital assets not depreciated			
Land	\$ 7,100,000	\$ -	\$ 7,100,000
Capital assets being depreciated			
Buildings and improvements	1,688,442,526	204,526,871	1,892,969,397
Furniture and equipment	50,317,257	72,894	50,390,151
Total capital assets	<u>1,745,859,783</u>	<u>204,599,765</u>	<u>1,950,459,548</u>
Less accumulated depreciation			
Buildings and improvements	383,588,367	46,997,304	430,585,671
Furniture and equipment	36,222,883	1,753,930	37,976,813
Total accumulated depreciation	<u>419,811,250</u>	<u>48,751,234</u>	<u>468,562,484</u>
Governmental activities - capital assets, net	<u>\$ 1,326,048,533</u>	<u>\$ 155,848,531</u>	<u>\$ 1,481,897,064</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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

Governmental Activities	
Instruction	\$ 24,504,837
Supervision of instruction	7,902,639
Instructional library and technology	663,455
School site administration	2,748,219
Home to school transportation	1,725,798
Food services	1,510,269
All other pupil services	3,779,466
Anciliary services	287,189
Enterprise activities	270
All general administration	1,716,264
Data processing services	436,942
Plant services	3,475,886
Total depreciation expense, governmental activities	<u>\$ 48,751,234</u>

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.

For the year ended June 30, 2016, the General Fund transferred \$16,659,311 to various nonmajor governmental funds as follows:

- The restricted General Fund transferred \$1,564,000 to the Child Development Fund to cover the operating deficit.
- The unrestricted General Fund transferred \$5,560,860 to the Child Development Fund to cover the operating deficit.
- The unrestricted General Fund transferred \$3,096,672 to the Cafeteria Fund to cover the operating deficit.
- The restricted General Fund transferred \$3,869,991 to the Deferred Maintenance Fund for on-going maintenance costs.
- The unrestricted General Fund transferred \$2,567,788 to the Special Reserve Capital Fund for the energy retrofit capital lease payments.

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 \$98.7 million, of which the source is the District General Fund.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016, consisted of the following:

	General Fund	County School Service Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds	Proprietary Fund
Vendor payables	\$ 22,127,678	\$ 7,680,101	\$ 20,328,804	\$ 7,658,481	\$ 57,795,064	\$ 993,195
State apportionment	34,096,474	-	-	-	34,096,474	-
State categorical	1,393	456,658	-	37,891	495,942	-
Total Accounts Payable	<u>\$ 56,225,545</u>	<u>\$ 8,136,759</u>	<u>\$ 20,328,804</u>	<u>\$ 7,696,372</u>	<u>\$ 92,387,480</u>	<u>\$ 993,195</u>

Additional interest payable in the statement of net position includes \$2,145,200 for accrued interest on long term obligations, and \$2,357,402 for interest payable related to the tax and revenue anticipation notes.

NOTE 7 - UNEARNED REVENUE

Unearned revenue at June 30, 2016, consists of the following:

	General Fund	County School Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Federal financial assistance	\$ 203,677	\$ 81,388	\$ -	\$ 285,065
State categorical aid	3,194,845	109,453	4,416,703	7,721,001
Total unearned revenue	<u>\$ 3,398,522</u>	<u>\$ 190,841</u>	<u>\$ 4,416,703</u>	<u>\$ 8,006,066</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

During September, 2015, the District issued \$60 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, 2016, until 100 percent of principal and interest is due on account by April, 2016. Interest and principal are due and payable during August, 2016. Accrued interest on the TRANS obligation was \$2,357,402 at June 30, 2016. Outstanding TRANS on June 30, 2016 consists of the following:

Issue Date	Rate	Maturity Date	Outstanding July 1, 2015	Additions	Payments	Outstanding June 30, 2016
9/25/2014	5.00%	9/24/2015	\$ 52,000,000	\$ -	\$ 52,000,000	\$ -
9/2/2015	5.00%	8/31/2016	-	60,000,000	-	60,000,000
Total			<u>\$ 52,000,000</u>	<u>\$ 60,000,000</u>	<u>\$ 52,000,000</u>	<u>\$ 60,000,000</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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, 2015	Additions	Deductions	Balance June 30, 2016	Due in one year
General obligation bonds	\$ 782,645,000	\$ 289,655,000	\$ 155,810,000	\$ 916,490,000	\$ 51,470,000
Bond premium	52,471,063	32,204,539	7,612,186	77,063,416	5,667,131
Accumulated vacation	10,161,944	-	240,438	9,921,506	-
Capital leases	14,673,909	-	1,679,411	12,994,498	1,863,827
	<u>\$ 859,951,916</u>	<u>\$ 321,859,539</u>	<u>\$ 165,342,035</u>	<u>\$ 1,016,469,420</u>	<u>\$ 59,000,958</u>

Payment of the general obligation bonds will be made by the Bond Interest and Redemption Fund, using property tax revenues which are restricted solely for repayment of principal and interest due on these obligations. The accumulated vacation will be paid by the fund for which the employee works at time of payment. Payments on capital leases will be made by the Special Reserve – Capital Fund, which receives contributions from the General Fund.

Outstanding general obligation bonded debt

Bond Issuance	Issue Date	Maturity Date	Interest Rate	Original Issue	Outstanding July 1, 2015	Issued (Redeemed)	Outstanding June 30, 2016
2003, Series 2006C	10/12/06	6/15/26	4.00-5.00%	\$ 92,000,000	\$ 60,545,000	\$ (60,545,000)	\$ -
2006, Series 2007A	02/28/07	6/15/27	3.00-5.00%	100,000,000	71,120,000	(38,530,000)	32,590,000
2006, Series 2009B	01/22/09	6/15/27	1.50-5.25%	150,000,000	95,440,000	(9,035,000)	86,405,000
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	69,395,000	(7,325,000)	62,070,000
2011, Series 2012A	03/06/12	6/15/32	4.00-5.00%	115,000,000	103,620,000	(4,175,000)	99,445,000
2012 Refunding	03/06/12	6/15/25	0.30-5.00%	116,140,000	92,200,000	(7,775,000)	84,425,000
2011, Series 2014B	01/23/14	6/15/33	3.0%-5.0%	205,000,000	205,000,000	(20,750,000)	184,250,000
2006, Series 2015F	10/08/15	6/15/35	3.0%-5.0%	15,000,000	-	14,650,000	14,650,000
2011, Series 2015C	10/08/15	6/15/35	3.0%-5.0%	211,000,000	-	205,950,000	205,950,000
2015 Refunding	10/08/15	6/15/26	2.0%-5.0%	63,655,000	-	61,380,000	61,380,000
					<u>\$ 782,645,000</u>	<u>\$ 133,845,000</u>	916,490,000
						Unamortized bond premium	77,063,416
						Total	<u>\$ 993,553,416</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Debt Service Requirement to Maturity

Fiscal Year	Principal	Interest to Maturity	Total
2017	\$ 51,470,000	\$ 43,162,787	\$ 94,632,787
2018	53,990,000	38,170,737	92,160,737
2019	56,620,000	35,542,937	92,162,937
2020	58,915,000	32,738,437	91,653,437
2021	61,650,000	29,962,337	91,612,337
2022-2026	310,830,000	107,556,286	418,386,286
2027-2031	224,190,000	47,312,715	271,502,715
2032-2035	98,825,000	8,069,448	106,894,448
Total	<u>\$ 916,490,000</u>	<u>\$ 342,515,684</u>	<u>\$ 1,259,005,684</u>

Debt Refunding

During October 2015, the District issued \$63.7 million in general obligation bonds with an interest rate range of 2.0 percent to 5.0 percent to advance refund \$56.2 million of outstanding 2006 C series and 2007 A bonds with interest rates 4.0 percent to 5.0 percent, and \$34.0 million of outstanding 2007 A series bonds with interest rates between 3.0 percent and 5.0 percent. The net proceeds of \$95.6 million (including premiums and other sources of \$32.2 million and costs of issuance and other fees of \$0.3 million) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the 2006 C and 2007 A series bonds. As a result, the 2006 C and portions of 2007 A series bonds are considered to be defeased and the liability for defeased bonds has been removed from the government-wide statement of net position.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$3.5 million. The District completed the advance refunding to reduce its total debt service payments over the next 11 years by \$36.5 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$27.7 million.

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, 2016. 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.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Capital Leases

Reported with capital assets is the energy retrofit capital lease of \$32,947,132 and corresponding accumulated depreciation of \$22,404,050 at June 30, 2016. The District's liabilities on lease agreements with options to purchase are summarized below:

	Energy Retrofit
Balance, Beginning of Year	\$ 18,192,884
Payments	(2,567,788)
Balance, End of Year	<u>\$ 15,625,096</u>

The capital lease has minimum lease payments as follows:

Year Ending June 30,	Lease Payment
<u>2017</u>	\$ 2,644,822
2018	2,724,166
2019	2,805,890
2020	2,890,068
2021	2,976,680
2022	1,583,470
Total	<u>15,625,096</u>
Less: Amount Representing Interest	2,630,598
Present Value of Minimum Lease Payments	<u>\$ 12,994,498</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	County School Service Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable						
Revolving cash	\$ 500	\$ -	\$ -	\$ -	\$ 7,150	\$ 7,650
Stores inventories	530,540	-	-	-	80,527	611,067
Prepaid expenditures	79,369	-	-	-	-	79,369
Total nonspendable	610,409	-	-	-	87,677	698,086
Restricted						
Educational programs	46,563,253	6,522,637	-	-	2,308,429	55,394,319
Capital projects	-	-	156,730,429	-	52,713,404	209,443,833
Debt services	-	-	-	27,352,932	33,269	27,386,201
Total restricted	46,563,253	6,522,637	156,730,429	27,352,932	55,055,102	292,224,353
Assigned						
Special education	-	9,683,760	-	-	-	9,683,760
Capital projects	-	-	-	-	4,553,070	4,553,070
Technology upgrades	10,000,000	-	-	-	-	10,000,000
Total assigned	10,000,000	9,683,760	-	-	4,553,070	24,236,830
Unassigned						
Reserve for economic uncertainties	14,345,347	-	-	-	-	14,345,347
Remaining unassigned	47,064,553	-	-	-	-	47,064,553
Total unassigned	61,409,900	-	-	-	-	61,409,900
Total fund balances	\$ 118,583,562	\$ 16,206,397	\$ 156,730,429	\$ 27,352,932	\$ 59,695,849	\$ 378,569,169

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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	\$ 61,409,900
Add Back	
County School Fund assigned fund balance	9,683,760
General Fund revolving cash	500
General Fund prepaid operating expenditures	79,369
General Fund inventory	530,540
General Fund assigned fund balance	10,000,000
Deferred Maintenance Fund assigned fund balance	4,198,376
Special Reserve Fund for Capital Outlay assigned fund balance	354,694
Resources earmarked for OPEB in the self-insurance fund	19,528,574
Deduct	
Compensated absences liability	(9,921,506)
Aggregate net pension liability	(588,678,435)
Net deferred inflows and outflows related to pensions	61,322,177
Other post employment benefits liability	(255,022,529)
Balance per statement of net position	<u><u>\$ (686,514,580)</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 June 30,	Lease Revenue
2017	\$ 7,100,753
2018	7,062,286
2019	7,226,033
2020	7,196,032
2021	6,654,021
Thereafter	88,563,314
Total	<u><u>\$ 123,802,439</u></u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 7.3 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 2015-16, the District contributed \$34.7 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	\$ 69,823,518
Interest on net accrued OPEB obligation	9,890,265
Adjustment to annual required contribution	<u>(9,734,895)</u>
Annual OPEB cost (expense)	69,978,888
Contributions made	<u>(34,740,019)</u>
Increase in net OPEB obligation	35,238,869
Net OPEB obligation, beginning of year	<u>219,783,660</u>
Net OPEB obligation, end of year	<u><u>\$ 255,022,529</u></u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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
2016	\$ 69,978,888	\$ 34,740,019	49.6%	\$ 255,022,529
2015	65,212,435	33,053,583	50.7%	219,783,660
2014	65,037,374	34,361,976	52.8%	187,624,808

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, 2015	\$ -	\$ 624,009,553	\$ 624,009,553	0.00%	\$ 471,791,841	132%

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, 2015, 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, 2016, 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, 2016

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.

Commercial insurance is 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 specific excess statutory coverage through ARCH Insurance Company. 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. Excess Liability is a layered indemnity program with three insurers; BRIT, Berkley and the Schools Excess Liability Fund joint powers authority (JPA). The district maintains \$50M in excess liability limits with a \$250,000 self-insured retention.

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, 2014 to June 30, 2016:

	Total
Liability Balance, July 1, 2014	\$ 33,078,167
Claims and changes in estimates	18,083,207
Claims payments	<u>(16,807,141)</u>
Liability Balance, June 30, 2015	34,354,233
Claims and changes in estimates	21,813,047
Claims payments	<u>(20,625,166)</u>
Liability Balance, June 30, 2016	<u>\$ 35,542,114</u>
Assets available to pay claims at June 30, 2015	<u>\$ 43,760,545</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, 2016**

For the fiscal year ended June 30, 2016 the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Pension Liability</u>	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>	<u>Pension Expense</u>
CalSTRS	\$ 517,072,054	\$ 106,364,644	\$ 50,790,172	\$ 53,022,237
SFERS	71,606,381	29,009,153	23,261,448	5,891,914
Total	<u>\$ 588,678,435</u>	<u>\$ 135,373,797</u>	<u>\$ 74,051,620</u>	<u>\$ 58,914,151</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, 2014, 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, 2016**

The STRP provisions and benefits in effect at June 30, 2016, 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	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required state contribution rate	7.12589%	7.12589%

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, 2016, are presented above. The District's contributions to CalSTRS, for the year ended June 30, 2016 were \$35.8 million or 10.7% of covered payroll.

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

At June 30, 2016, 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	\$ 517,072,054
State's proportionate share of the net pension liability associated with the District	273,474,116
Total	<u>\$ 790,546,170</u>

The net pension liability was measured as of June 30, 2015. 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. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively, was 0.768 percent and 0.655 percent, resulting in a net increase in the proportionate share of 0.113 percent.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

For the year ended June 30, 2016, the District recognized pension expense of \$53.0 million. In addition, the District recognized pension expense and revenue of \$21.3 million for support provided by the State. At June 30, 2016, 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	\$ 35,778,381	\$ -
Net change in proportionate share of net pension liability	70,586,263	-
Difference between projected and actual earnings on pension plan investments	-	42,149,775
Differences between expected and actual experience in the measurement of the total pension liability	-	8,640,397
Total	<u>\$ 106,364,644</u>	<u>\$ 50,790,172</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ (17,444,960)
2018	(17,444,960)
2019	(17,444,960)
2020	10,185,105
Total	<u>\$ (42,149,775)</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL of the 2014-15 measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2017	\$ 10,324,311
2018	10,324,311
2019	10,324,311
2020	10,324,311
2021	10,324,311
Thereafter	10,324,311
Total	<u>\$ 61,945,866</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
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.

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's 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 independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on Teachers' Retirement Board of the California State Teachers' Retirement System (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%
	100.00%	

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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%)	\$ 780,738,556
Current discount rate (7.60%)	\$ 517,072,054
1% increase (8.60%)	\$ 297,973,916

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.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

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

	City Employer Pool (Miscellaneous Non-Safety Membership)		
	On or after November 2, 1976 and before July 1, 2010	On or after July 1, 2010 and before January 7, 2012	On or after January 7, 2012
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	0.13	0.13	0.13
Required employer contribution rate	0.2038	0.2038	0.2038

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.

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, 2016 were \$15.7 million or 20.4% of covered payroll.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the collective SFERS net pension liability totaling \$71.6 million. The net pension liability of the plan is measured as of June 30, 2015, 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, 2014, rolled forward to June 30, 2015 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. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively, was 3.119 percent and 2.976 percent, resulting in a net increase in the proportionate share of 0.143 percent. The following table illustrates the change in the District's proportion during the year:

	Miscellaneous Non-safety
Proportion - June 30, 2014 measurement date	<u>2.9759%</u>
Proportion - June 30, 2015 measurement date	<u>3.1187%</u>
Change in proportion	<u><u>0.1428%</u></u>

For the year ended June 30, 2016, the District recognized pension expense of \$5.9 million, including amortization of deferred outflows/inflows related pension items. At June 30, 2016, 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	\$ 15,731,859	\$ -
Difference between expected and actual experience	-	4,939,553
Changes in assumptions	5,410,196	1,371,885
Adjustment due to differences in proportions	7,867,098	-
Net difference between projected and actual earnings on plan investments	-	16,950,010
Total	<u>\$ 29,009,153</u>	<u>\$ 23,261,448</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended <u>June 30,</u>	<u>Amortization</u>
2017	\$ (7,058,440)
2018	(7,058,440)
2019	(7,058,440)
2020	4,225,310
Total	<u><u>\$ (16,950,010)</u></u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL of the 2014-15 measurement period is five years and will be recognized in pension expense as follows:

Year Ended <u>June 30,</u>	<u>Amortization</u>
2017	\$ 1,964,140
2018	1,964,140
2019	1,964,140
2020	1,073,436
Total	<u><u>\$ 6,965,856</u></u>

Actuarial Methods and Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2014, which was rolled forward to June 30, 2015 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, 2014 updated to June 30, 2015
Measurement date	June 30, 2015
Actuarial cost method	Entry-age normal cost
Inflation	3.33%
Salary increases	3.83% plus merit component
Investment rate of return	7.50%, net of investment expense and inflation
Municipal bond yield	3.85%
Discount rate	7.46%
Administrative expense	0.45% of payroll
Basic COLA	2.00%

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 probability of a Supplemental COLA as of June 30, 2015 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>
2016	0.000%
2021	0.345%
2026	0.375%
2031	0.375%
Thereafter	0.375%

Discount Rate

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

The discount rate used to measure the total pension liability as of June 30, 2015 was 7.46%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2015 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 2084, 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 7.46% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.85% to the extent they are not available. 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, 2015 is 7.46%

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

The long-term expected rate of return on pension plan investments was 7.46%. 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	40%	5.1%
Global fixed income	20%	1.2%
Private equity	18%	7.5%
Real estate	17%	4.1%
Hedge Funds/Absolute Returns	5%	3.5%
Total	<u>100%</u>	

The following presents the District’s allocation of the its proportionate share of the net pension liability, calculated using the 7.46% 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 (6.46%)	\$ 158,346,503
Current discount rate (7.46%)	\$ 71,606,381
1% increase (8.46%)	\$ (1,138,419)

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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
2015-16	7.101%	\$ 17,138,294	\$ 3,341,823	\$ 839,778	\$ 21,319,895
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

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, 2016.

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, 2016.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2016

Construction Commitments

As of June 30, 2016, the District had the following commitments with respect to the unfinished capital projects:

Capital Project Site	Remaining Construction Commitment	Expected Date of Completion
Cesar Chavez Elementary School	\$ 85,943	August 19, 2016
Cleveland Elementary School	83,100	August 22, 2016
El Dorado Elementary School	256,123	November 8, 2016
Frank McCoppin Elementary School	7,941,339	August 31, 2017
George Peabody Elementary School	70,795	August 19, 2016
Gordon J. Lau Elementary School	1,406,445	August 31, 2016
Ida B. Wells High School	34,050	July 13, 2016
James Lick Elementary School	1,726,576	September 5, 2016
John Yehall Chin Elementary School	10,011,781	May 30, 2017
Lakeshore Elementary School	267,313	October 14, 2016
Leadership High School	2,425,535	November 18, 2016
Longfellow Elementary School	1,737,346	September 29, 2016
McKinley Elementary School	206,010	August 15, 2016
Miraloma Elementary School	36,625	August 19, 2016
Monroe Elementary School	80,693	August 19, 2016
Paul Revere Elementary School	3,352,770	September 3, 2016
Phillip and Sala Burton High School	2,285,315	September 6, 2016
Presidio Middle School	1,127,672	September 4, 2016
Robert L Stevenson Elementary School	14,211,231	September 12, 2017
Roosevelt Elementary School	310,698	July 30, 2016
Ruth Asawa San Francisco School of the Arts - McAteer campus	2,869,920	November 18, 2016
Sutro Elementary School	447,614	August 25, 2016
Sunnyside Elementary School	87,660	August 19, 2016
Visitacion Valley Elementary School	1,416,063	August 24, 2016
Visitacion Valley Middle School	5,440,348	January 17, 2017
Webster Elementary School	995,118	August 1, 2016
Willie L. Brown Jr. Middle School	63,118	August 14, 2016
Yick Wo Elementary School	99,658	August 19, 2016
Total outstanding construction commitments	\$ 59,076,859	

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.

REQUIRED SUPPLEMENTARY INFORMATION

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable (Unfavorable)
				Final to Actual
Revenues				
Local control funding formula	\$ 475,617,066	\$ 469,568,380	\$ 475,932,385	\$ 6,364,005
Federal sources	29,559,993	32,516,406	29,374,279	(3,142,127)
Other state sources	58,345,992	74,404,502	58,516,086	(15,888,416)
Other local sources	169,805,067	176,264,198	189,349,630	13,085,432
TOTAL REVENUES¹	733,328,118	752,753,486	753,172,380	418,894
Expenditures				
Current				
Certificated salaries	277,417,479	284,429,222	277,893,869	6,535,353
Classified salaries	89,180,763	90,427,966	80,068,179	10,359,787
Employee benefits	142,068,631	163,403,969	135,080,384	28,323,585
Books and supplies	23,699,743	23,431,414	27,789,158	(4,357,744)
Services and operating expenditures	60,917,357	65,113,979	68,208,865	(3,094,886)
Other outgo	98,755,069	94,155,069	94,289,238	(134,169)
Capital outlay	316,956	1,125,383	773,014	352,369
Debt service - interest	3,143,303	3,143,303	3,143,303	-
TOTAL EXPENDITURES¹	695,499,301	725,230,305	687,246,010	37,984,295
Excess (deficiency) of revenues over expenditures	37,828,817	27,523,181	65,926,370	38,403,189
Other Financing Uses				
Transfers out	(12,838,579)	(12,838,579)	(16,659,311)	(3,820,732)
TOTAL FINANCING SOURCES (USES)	(12,838,579)	(12,838,579)	(16,659,311)	(3,820,732)
NET CHANGE IN FUND BALANCES	24,990,238	14,684,602	49,267,059	34,582,457
Fund balance - Beginning	69,316,503	69,316,503	69,316,503	-
Fund balance - Ending	\$ 94,306,741	\$ 84,001,105	\$ 118,583,562	\$ 34,582,457

¹ For comparison purpose, on behalf payments of \$17,138,294 are excluded from this schedule.

See accompanying note to required supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**COUNTY SCHOOL SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable (Unfavorable)
Revenue				Final to Actual
Local control funding formula	\$ 10,974,621	\$ 10,503,207	\$ 10,475,770	\$ (27,437)
Federal sources	13,436,324	13,873,633	13,494,741	(378,892)
Other state sources	43,518,928	47,188,778	41,867,257	(5,321,521)
Other local sources	97,933,944	98,833,944	99,114,562	280,618
TOTAL REVENUES¹	165,863,817	170,399,562	164,952,330	(5,447,232)
Expenditures				
Current				
Certificated salaries	50,599,747	50,587,951	49,881,370	706,581
Classified salaries	31,448,471	31,467,888	29,201,988	2,265,900
Employee benefits	31,897,177	34,360,242	29,779,617	4,580,625
Books and supplies	3,990,358	3,781,004	2,071,204	1,709,800
Services and operating expenditures	47,044,723	47,281,399	47,662,091	(380,692)
Capital outlay	104,746	71,746	-	71,746
TOTAL EXPENDITURES¹	165,085,222	167,550,230	158,596,270	8,953,960
NET CHANGE IN FUND BALANCES	778,595	2,849,332	6,356,060	3,506,728
Fund balance - Beginning	9,850,337	9,850,337	9,850,337	-
Fund balance - Ending	\$ 10,628,932	\$ 12,699,669	\$ 16,206,397	\$ 3,506,728

¹ For comparison purpose, on behalf payments of \$3,341,823 are excluded from this schedule.

See accompanying note to required supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016**

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, 2015	\$ -	\$ 624,009,553	\$ 624,009,553	0.00%	\$ 471,791,841	132%
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%

See accompanying note to required supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2016

<i>(Amounts in thousands)</i>	2015 ⁽¹⁾	2016 ⁽¹⁾
CalSTRS		
District's proportion of the net pension liability	0.655%	0.768%
District's proportionate share of the net pension liability	\$ 382,762	\$ 517,072
State's proportionate share of the net pension liability associated with the District	231,113	273,474
Total	<u>\$ 613,875</u>	<u>\$ 790,546</u>
District's covered employee payroll at the measurement date	<u>\$ 300,327</u>	<u>\$ 314,358</u>
District's proportionate share of the net pension liability as a percentage of its covered employee payroll	<u>127.45%</u>	<u>164.49%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>77%</u>	<u>74%</u>
 SFERS		
District's proportion of the net pension liability	2.976%	3.119%
District's proportionate share of the net pension liability	\$ 52,686	\$ 71,606
District's covered employee payroll at the measurement date	<u>\$ 63,892</u>	<u>\$ 69,040</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	<u>82.46%</u>	<u>103.72%</u>
Plan fiduciary net position as a percentage of the total pension liability	<u>92%</u>	<u>90%</u>

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

See accompanying note to required supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016**

<i>(Amounts in thousands)</i>	2012 ⁽¹⁾	2013 ⁽¹⁾	2014 ⁽¹⁾	2015 ⁽¹⁾	2016 ⁽¹⁾
CalSTRS					
Contractually required contribution	\$ 23,290	\$ 23,740	\$ 24,777	\$ 27,915	\$ 35,778
Contributions in relation to the contractually required contribution	<u>(23,290)</u>	<u>(23,740)</u>	<u>(24,777)</u>	<u>(27,915)</u>	<u>(35,778)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
District's covered - employee payroll	<u>\$ 282,303</u>	<u>\$ 287,758</u>	<u>\$ 300,327</u>	<u>\$ 314,358</u>	<u>\$ 334,115</u>
Contributions as a percentage of covered - employee payroll	<u>8.25%</u>	<u>8.25%</u>	<u>8.25%</u>	<u>8.88%</u>	<u>10.71%</u>
SFERS					
Contractually required contribution	\$ 11,692	\$ 12,388	\$ 15,858	\$ 18,475	\$ 15,732
Contributions in relation to the contractually required contribution	<u>(11,692)</u>	<u>(12,388)</u>	<u>(15,858)</u>	<u>(18,475)</u>	<u>(15,732)</u>
Contribution deficiency (excess)	<u>\$ -</u>				
District's covered - employee payroll	<u>\$ 64,632</u>	<u>\$ 67,168</u>	<u>\$ 63,892</u>	<u>\$ 69,040</u>	<u>\$ 77,181</u>
Contributions as a percentage of covered - employee payroll	<u>18.09%</u>	<u>18.44%</u>	<u>24.82%</u>	<u>26.76%</u>	<u>20.38%</u>

⁽¹⁾ Information not available prior to 2012.

See accompanying note to required supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the Board of Education to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the General Fund and County School Service Fund are presented as required supplementary information. The basis of budgeting is the same as GAAP.

The excess of expenditures over appropriations in the general fund and county school service fund at June 30, 2016 are as follows:

Fund	Excess Expenditures
General Fund	
Books and supplies	\$ 4,357,744
Services and operating expenditures	3,094,886
County School Service Fund	
Services and operating expenditures	380,692

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Schedule of District Pension Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for either CalSTRS and SFERS.

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The SFERS plan rate of investment return assumption was changed from 7.58 percent to 7.50 percent since the previous valuation.

SUPPLEMENTARY INFORMATION

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016**

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	15164	\$ 26,162
Career and Technical Education	84.048	14891/14894	373,063
Title I grants to Local Educational Agencies			
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	12,130,383
Title I, Part A, Program Improvement District Intervention	84.010	14581	71,083
Title I, Part D, Local Delinquent Programs	84.010	14357	<u>111,305</u>
Total, Title I grants to Local Educational Agencies			12,312,771
Title I, Part B, Reading First Program	84.357	14328	257,383
Title I, Migration Education			
Title I, Part C, Migrant Ed - Regular Program	84.011	14838	248,888
Title I, Part C, Migrant Ed - Summer Program	84.011	10005	<u>40,007</u>
Total Title I, Migration Education			288,895
Title II, Supporting Effective Instruction State Grant			
Title II, Part A, Teacher Quality	84.367	14341	2,748,686
Title II, Part A, Administrator Training	84.367	14344	<u>6,607</u>
Total Title II, Supporting Effective Instruction State Grant			2,755,293
Title II, Part B, Mathematics and Science Partnerships	84.366	14512	386
Title II, Part D, Enhancing Education Through Technology	84.318	14334	4,282
Title III, English Language Acquisition State Grants			
Title III, Immigrant Education Program	84.365	15146	2,411
Title III, Limited English Proficient Student Program	84.365	14346	<u>1,466,817</u>
Total Title III, English Language Acquisition State Grants			1,469,228
Title IV, Part B, 21st Century Community Learning Centers	84.287	14349	7,938,842

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION (CONTINUED)			
Individuals with Disabilities Education Act Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	11,267,786
IDEA Mental Health Allocation Plan, Part B, Sec 611	84.027	15197	577,257
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	382,513
IDEA Preschool Grants, Part B, Sec 619	84.173	13430	180,958
IDEA Alternate Dispute Resolution, Part B, Sec 611	84.173A	13007	10,595
IDEA Preschool Staff Development, Part B, Sec 611	84.173A	13431	2,852
Total, Individuals with Disabilities Education Act Cluster			<u>12,421,961</u>
Speical Education - Grants for Infants and Families	84.181	23761	162,626
Passed through California Department of Rehabilitation			
Workability II, Transition Partnership	84.158	10006	75,714
Direct Grants			
Mission Promise Neighborhood	84.215N	¹	709,193
Gaining Early Awareness and Readiness for Undergraduates	84.334A	¹	208,688
Transition to Teaching	84.350A	¹	208,124
Indian Education	84.060	¹	21,583
Integrated School-Based Violence Intervention	84.184M	¹	286,665
Total, U.S. Department of Education			<u>39,520,859</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education			
Child Nutrition Act Cluster			
Especially Needy Breakfast Program	10.553	13526	2,478,818
School Breakfast Program	10.553	13390	46,120
National School Lunch Program	10.555	13391/13396	13,989,262
Commodity Supplemental Food Program ³	10.555	¹	347,396
Total, Child Nutrition Act Cluster			<u>16,861,596</u>
Child Care Food Program - Centers and Family Day Homes	10.558	13393	1,160,929
Child Nutrition: Equipment Assistance Grants	10.579	14906	17,078
Fresh Fruit and Vegetable Program	10.582	14968	11,418
Total, U.S. Department of Agriculture			<u>18,051,021</u>

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2016**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF DEFENSE			
Passed through California Department of Education			
Junior Reserve Officers Training Corps	12.000	1	742,694
Total, U.S. Department of Defense			<u>742,694</u>
U.S. DEPARTMENT OF JUSTICE			
Direct Grant			
Mentoring for Success - Youth with Disabilities	16.000	1	2,604
Passed through University of Georgia			
Group Mentoring for Resilience: Increasing Positive Development and Reducing involvement in the Juvenile Justice System	16.726	1	83,808
Total, U.S. Department of Justice			<u>86,412</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Grant			
Substance Abuse and Mental Health Services	93.243	1	24,838
Comprehensive School Health Programs	93.938	1	143,432
Passed through California Department of Education			
Federal Child Care, Center-based	93.596	13609	6,440,553
Passed through Centers for Disease Control			
School-Based Surveillance	93.079	1	551,400
Passed through California Department of Health Care Services			
Medi-Cal Billing Option	93.778	10013	1,787,968
Total, U.S. Department of Health and Human Services			<u>8,948,191</u>
Total, Expenditures of Federal Awards			<u>\$ 67,349,177</u>

¹ Pass-through identifying number not applicable/available.

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2016

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
Don Daves-Rougeaux	Chief of Strategy and Fund Development
Open	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, 2016**

	Final Report	
	Amended Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	17,034.95	17,055.03
Fourth through sixth	11,867.84	11,878.43
Seventh and eighth	6,845.34	6,860.64
Ninth through twelfth	14,703.57	14,659.49
Total Regular ADA	<u>50,451.70</u>	<u>50,453.59</u>
Extended Year Special Education		
Transitional kindergarten through third	30.08	30.08
Fourth through sixth	19.64	19.64
Seventh and eighth	9.82	9.82
Ninth through twelfth	31.60	31.60
Total Extended Year Special Education	<u>91.14</u>	<u>91.14</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	8.46	9.17
Fourth through sixth	16.84	18.13
Seventh and eighth	22.84	25.25
Ninth through twelfth	57.76	66.68
Total Special Education, Nonpublic, Nonsectarian Schools	<u>105.90</u>	<u>119.23</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	1.18	1.18
Fourth through sixth	2.14	2.14
Seventh and eighth	3.18	3.18
Ninth through twelfth	7.90	7.90
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	<u>14.40</u>	<u>14.40</u>
Community Day School		
Fourth through sixth	0.24	0.18
Seventh and eighth	2.26	2.58
Ninth through twelfth	25.93	28.35
Total Community Day School	<u>28.43</u>	<u>31.11</u>
Juvenile Halls, Homes and Camp, Probation Referred		
Elementary	3.65	3.82
High School	92.23	86.35
Total Juvenile Halls, Homes and Camp, Probation Referred	<u>95.88</u>	<u>90.17</u>
Total ADA	<u><u>50,787.45</u></u>	<u><u>50,799.64</u></u>

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016**

Grade Level	1986-87 Minutes Requirement	2015-2016 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	44,400	180	Complied
Grades 1 - 3				
Grade 1	50,400	50,520	180	Complied
Grade 2	50,400	50,520	180	Complied
Grade 3	50,400	50,460	180	Complied
Grades 4 - 6				
Grade 4	54,000	54,000	180	Complied
Grade 5	54,000	54,000	180	Complied
Grade 6	54,000	57,584	180	Complied
Grades 7 - 8				
Grade 7	54,000	57,584	180	Complied
Grade 8	54,000	57,584	180	Complied
Grades 9 - 12				
Grade 9	64,800	64,820	180	Complied
Grade 10	64,800	64,820	180	Complied
Grade 11	64,800	64,820	180	Complied
Grade 12	64,800	64,820	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, 2016**

No adjustments are necessary to reconcile the unaudited actual financial report and the audited financial statements.

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2016

	(Budget) 2017 ¹	2016	2015	2014
GENERAL FUND				
Revenues	\$ 746,120,913	\$ 753,172,380	\$ 659,851,393	\$ 607,265,622
Expenditures	747,609,616	687,246,010	644,024,394	595,889,105
Other uses and transfers out	12,990,399	16,659,311	9,248,336	9,043,610
Total Expenditures and Other Uses	760,600,015	703,905,321	653,272,730	604,932,715
CHANGE IN FUND BALANCE	\$ (14,479,102)	\$ 49,267,059	\$ 6,578,663	\$ 2,332,907
ENDING FUND BALANCE	\$ 104,104,460	\$ 118,583,562	\$ 69,316,503	\$ 62,737,840
AVAILABLE RESERVES	\$ 46,930,798	\$ 61,409,900	\$ 35,819,276	\$ 20,107,328
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	6.17%	8.72%	5.48%	3.32%
LONG-TERM OBLIGATIONS	\$ 947,546,956	\$ 1,040,927,631	\$ 1,515,183,926	\$ 1,089,419,341
AVERAGE DAILY ATTENDANCE AT P-2 ²	50,595	50,787	51,210	51,241

The General Fund balance has increased by \$55.8 million over the past two years. The fiscal year 2016-17 budget projects a decrease of \$14.5 million, or 12 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 gain in the General Fund during past three years. However, the District anticipates a General Fund operating deficit during the 2016-17 fiscal year. Total long-term liabilities have increased by \$806.3 million over the past two years.

Average daily attendance has decreased by 454 over the past two years. A decrease of 192 ADA is anticipated during fiscal year 2016-17.

Available reserves increased \$41.3 million from fiscal year 2013-14. The District projects a decrease of \$14.5 million during the 2016-17 fiscal year.

¹ Budget 2017 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 \$17,138,294, \$13,233,214, and \$12,571,992, 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, 2016

<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, 2016**

	Special Revenue Funds		
	Child Development	Cafeteria	Deferred Maintenance
ASSETS			
Cash	\$ -	\$ 7,150	\$ 7,592
Investments	-	-	4,236,208
Receivables	5,471,521	4,231,306	2,557
Stores inventories	-	80,527	-
Total Assets	\$ 5,471,521	\$ 4,318,983	\$ 4,246,357
LIABILITIES AND FUND BALANCES			
Liabilities			
Overdrafts	\$ 2,981,630	\$ 2,411,263	\$ -
Accounts payable	183,478	1,813,597	47,981
Unearned revenue	4,430	-	-
Total Liabilities	3,169,538	4,224,860	47,981
Fund Balances			
Nonspendable	-	87,677	-
Restricted	2,301,983	6,446	-
Assigned	-	-	4,198,376
Total Fund Balances	2,301,983	94,123	4,198,376
Total Liabilities and Fund Balances	\$ 5,471,521	\$ 4,318,983	\$ 4,246,357

See accompanying note to supplementary information.

Capital Facilities	Capital Project Funds			Debt Service Fund	Total Nonmajor Governmental Funds
	State School Building	County School Facilities	Special Reserve Capital Outlay	Tax Override	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 14,742
40,401,781	4,348,728	6,850,155	11,475,270	33,269	67,345,411
43,653	4,699	7,401	-	-	9,761,137
-	-	-	-	-	80,527
<u>\$ 40,445,434</u>	<u>\$ 4,353,427</u>	<u>\$ 6,857,556</u>	<u>\$ 11,475,270</u>	<u>\$ 33,269</u>	<u>\$ 77,201,817</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,392,893
2,874,464	-	2,476,899	299,953	-	7,696,372
-	3,756,272	-	656,001	-	4,416,703
<u>2,874,464</u>	<u>3,756,272</u>	<u>2,476,899</u>	<u>955,954</u>	<u>-</u>	<u>17,505,968</u>
-	-	-	-	-	87,677
37,570,970	597,155	4,380,657	10,164,622	33,269	55,055,102
-	-	-	354,694	-	4,553,070
<u>37,570,970</u>	<u>597,155</u>	<u>4,380,657</u>	<u>10,519,316</u>	<u>33,269</u>	<u>59,695,849</u>
<u>\$ 40,445,434</u>	<u>\$ 4,353,427</u>	<u>\$ 6,857,556</u>	<u>\$ 11,475,270</u>	<u>\$ 33,269</u>	<u>\$ 77,201,817</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, 2016**

	Special Revenue Funds		
	Child Development	Cafeteria	Deferred Maintenance
REVENUES			
Federal sources	\$ 7,601,482	\$ 16,531,279	\$ -
Other state sources	18,041,702	1,107,950	-
Other local sources	10,367,474	2,074,595	6,102
Total Revenues	36,010,658	19,713,824	6,102
EXPENDITURES			
Current			
Instruction	25,872,942	-	-
Instruction related activities:			
Supervision of instruction	8,079,364	-	-
School site administration	3,859,417	-	-
Pupil Services:			
Food services	2,952,197	21,985,087	-
All other pupil services	230,284	-	-
General administration:			
All other general administration	1,530,189	867,277	-
Plant services	631,360	-	-
Facility acquisition and construction	-	-	256,514
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	43,155,753	22,852,364	256,514
Excess (deficiency) of revenues over expenditures	(7,145,095)	(3,138,540)	(250,412)
Other Financing Sources:			
Transfers in	7,124,860	3,096,672	3,869,991
Other sources	-	-	-
Net Financing Sources	7,124,860	3,096,672	3,869,991
NET CHANGE IN FUND BALANCES	(20,235)	(41,868)	3,619,579
Fund Balance - Beginning	2,322,218	135,991	578,797
Fund Balance - Ending	\$ 2,301,983	\$ 94,123	\$ 4,198,376

See accompanying note to supplementary information.

Capital Facilities	Capital Project Funds			Debt	Total Nonmajor Governmental Funds
	State School Building	County School Facilities	Special Reserve Capital Outlay	Service Fund Tax Override	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,132,761
-	-	-	-	-	19,149,652
13,000,550	27,376	46,765	1,826,661	-	27,349,523
13,000,550	27,376	46,765	1,826,661	-	70,631,936
-	-	-	-	-	25,872,942
-	-	-	-	-	8,079,364
-	-	-	-	-	3,859,417
-	-	-	-	-	24,937,284
-	-	-	-	-	230,284
-	-	-	-	-	2,397,466
-	-	-	-	-	631,360
11,342,283	-	4,300,313	986,828	-	16,885,938
-	-	-	1,679,411	-	1,679,411
-	-	-	888,377	-	888,377
11,342,283	-	4,300,313	3,554,616	-	85,461,843
1,658,267	27,376	(4,253,548)	(1,727,955)	-	(14,829,907)
-	-	-	2,567,788	-	16,659,311
-	-	-	1,348,794	-	1,348,794
-	-	-	3,916,582	-	18,008,105
1,658,267	27,376	(4,253,548)	2,188,627	-	3,178,198
35,912,703	569,779	8,634,205	8,330,689	33,269	56,517,651
\$ 37,570,970	\$ 597,155	\$ 4,380,657	\$ 10,519,316	\$ 33,269	\$ 59,695,849

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**GENERAL UNRESTRICTED AND RESTRICTED FUNDS
BALANCE SHEET SCHEDULES
JUNE 30, 2016**

	Unrestricted	Restricted	Total General Fund
ASSETS			
Cash and cash equivalents	\$ 500	\$ -	\$ 500
Investments	169,554,555	33,658,519	203,213,074
Receivables	10,455,521	26,281,707	36,737,228
Prepaid expenditures	79,369	4,320	83,689
Stores inventories	530,540	-	530,540
Total Assets	\$ 180,620,485	\$ 59,944,546	\$ 240,565,031
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 46,242,774	\$ 9,982,771	\$ 56,225,545
Interest payable	2,357,402	-	2,357,402
Current loans	60,000,000	-	60,000,000
Unearned revenue	-	3,398,522	3,398,522
Total Liabilities	108,600,176	13,381,293	121,981,469
Fund Balances			
Nonspendable	610,409	-	610,409
Restricted	-	46,563,253	46,563,253
Assigned	10,000,000	-	10,000,000
Unassigned	61,409,900	-	61,409,900
Total Fund Balances	72,020,309	46,563,253	118,583,562
Total Liabilities and Fund Balances	\$ 180,620,485	\$ 59,944,546	\$ 240,565,031

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, 2016**

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total General Fund</u>
REVENUES			
Local control funding formula	\$ 475,932,385	\$ -	\$ 475,932,385
Federal sources	742,693	28,631,586	29,374,279
Other state sources	37,115,621	38,538,759	75,654,380
Other local sources	52,614,948	136,734,682	189,349,630
Total Revenues	<u>566,405,647</u>	<u>203,905,027</u>	<u>770,310,674</u>
EXPENDITURES			
Current			
Instruction	234,042,374	56,557,250	290,599,624
Instruction related activities	69,451,279	93,341,662	162,792,941
Pupil Services	26,837,375	22,266,417	49,103,792
General administration	27,956,951	4,247,197	32,204,148
Facility acquisition and plant services	42,608,351	19,233,813	61,842,164
Ancillary services	366,283	4,497,461	4,863,744
Other outgo	98,707,088	1,122,918	99,830,006
Enterprise services	-	4,582	4,582
Debt service			
Interest	3,143,303	-	3,143,303
Total Expenditures	<u>503,113,004</u>	<u>201,271,300</u>	<u>704,384,304</u>
Excess of expenditures over revenues	63,292,643	2,633,727	65,926,370
OTHER FINANCING SOURCES (USES):			
Transfers out	(11,225,320)	(5,433,991)	(16,659,311)
Interfund transfers	(16,464,578)	16,464,578	-
Net Financing Uses	<u>(27,689,898)</u>	<u>11,030,587</u>	<u>(16,659,311)</u>
NET CHANGE IN FUND BALANCES	35,602,745	13,664,314	49,267,059
Fund Balance - Beginning	36,417,564	32,898,939	69,316,503
Fund Balance - Ending	<u>\$ 72,020,309</u>	<u>\$ 46,563,253</u>	<u>\$ 118,583,562</u>

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016**

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirement, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

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:		\$ 68,682,855
Federal interest subsidy on qualified construction bonds and build america bonds	Not Applicable	(1,681,074)
Noncash federal awards are not recorded on the financial statements	10.555	347,396
Total schedule of expenditures of federal awards		<u>\$ 67,349,177</u>

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.

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.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2016

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 San Francisco Unified School District (the District) as of and for the year ended June 30, 2016, 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 14, 2016.

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.

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 no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the 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.



Palo Alto, California
December 14, 2016



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Board of Education
San Francisco Unified School District
San Francisco, California

Report on Compliance for Each Major Federal Program

We have audited San Francisco Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of San Francisco Unified School District's (the District) major federal programs for the year ended June 30, 2016. The District's 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 federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about 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, 2016.

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 the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Palo Alto, California
December 14, 2016



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 San Francisco Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2015-16 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, 2016.

Management's Responsibility

Management is responsible for compliance with the requirements of state laws, regulations, and the terms and conditions of its State awards applicable to its state 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 *2015-16 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.

Unmodified Opinion

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, 2016.

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

	<u>Procedures Performed</u>
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	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
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
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
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
Immunizations	Yes
CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	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 did not offer an early retirement incentive program during the current year; therefore, we did not perform procedures related to the early retirement incentive program.

The District does not have middle or early college high schools; therefore, we did not perform any procedures related to middle or early college high schools.

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 offer a course based independent study program; therefore, we did not perform any procedures related to the independent study - course based.

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


Palo Alto, California
December 14, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR’S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016**

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>None reported</u>
Noncompliance material to financial statements noted?	<u>No</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 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>
<u>84.027, 84.173</u>	<u>IDEA Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 2,020,475</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for all programs:	<u>Unmodified</u>
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SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016**

None reported.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Financial Statement Findings

None reported.

Federal Awards Findings

None reported.

State Awards Findings

2015-001 Code 40000

Unduplicated Local Control Funding Formula Pupil Counts

Finding

There were instances where students were improperly classified as free or reduced priced meal eligible (FRPM) when the supporting documentation indicated the correct classification of "paid."

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.

The overstatement was 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.

Current Status

Resolved.