

**SAN FRANCISCO UNIFIED  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT  
JUNE 30, 2017**

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# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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***FINANCIAL SECTION***

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**VAVRINEK, TRINE, DAY & CO., LLP**  
Certified Public Accountants

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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 (District) as of and for the year ended June 30, 2017, 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 *2016-2017 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of 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, 2017, 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, budgetary comparison schedules, schedule of OPEB funding progress, schedule of the proportionate share of the net pension liability, and schedule of pension contributions on pages 5—14 and 68—73 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.

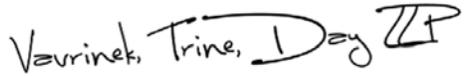
#### ***Other Information***

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, including 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*, 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 January 23, 2017, 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 solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.



Palo Alto, California  
January 23, 2018

## 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 136 schools as follows:

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

The District’s diverse student demographics includes 36% Asian, 27% Latino, 14% White, 7% African American, 4% Filipino and 12% “Other”. Approximately 24% of the student population is designated as English Language Learners, and 55% 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 fourteen 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, Thomas Edison Charter Academy and Mission Preparatory

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. The 2016 SBAC results show SFUSD students remaining ahead of their peers in California and in most large urban districts. 53% of district students overall are now meeting or exceeding the standards in English Language Arts, up from 52% in the previous year, and higher than the state average of 49%. In Math, 50% of students are now meeting or exceeding the standards, an increase from 48%

from last year, and higher than the state average of 37%. Students from our district graduate high school in four years at a rate of 84.9%. At the same time, however, wide gaps in achievement between subgroups of students persist.

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](http://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 21<sup>st</sup> 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, who previously served as the Deputy Superintendent for Policy and Operations, assumed the role of Interim Superintendent for SFUSD in September 2016, following the departure of Richard A. Carranza. Dr. Vincent C. Matthews was hired as the new Superintendent in May, 2017, following an exhaustive national search.

Both Dr. Matthews, and Mr. Leigh before him, are committed to continuing 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.

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 refine 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 federal and State-wide political and economic trends that may continue to affect the District's financial condition over the next several years, even as the State continues to fully implement the new Local Control Funding Formula. The State of California's fiscal challenges, including volatility in revenues, 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 maintained a healthy fiscal status while continuing 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 2016-17, the District's unrestricted general fund ending balance, which includes nonspendable, assigned, and unassigned balances, decreased from \$72.0 million to \$69.8 million, a \$2.2 million or 3% decrease. Total unrestricted general fund revenues in the current year were \$559.8 million, an increase of \$6.6 million, or 1% compared to 2015-16

Total unrestricted general fund expenditures and transfers out of \$562 million represent an increase of \$31.2 million or 6% over 2015-16. Transfers to the county school service fund of \$98.7 million, is an increase of \$5 million or 5% from 2015-16.

The unrestricted general fund balance was required to contribute to other funds, primarily to the debt service, child development, and cafeteria funds. Transfers to other funds in the amount of \$11.9 million are \$0.7 million or 6% greater than 2015-16.

## General Fund Ending Balance and Reserves

The District's combined general fund ending balance at June 30, 2017 (restricted plus unrestricted) was \$121.3 million. The restricted portion of \$51.4 million will largely be used for instructional activities, although 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, were \$59.1 million, which is a decrease of \$2.3 million or 4% over fiscal year 2015-16.

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>	<b>2016</b>	<b>2017</b>	<b>Variance</b>	
			<b>\$</b>	<b>%</b>
Local control funding formula	\$ 475,932	\$ 488,143	\$ 12,211	2.6%
Federal sources	29,374	29,931	557	1.9%
Other state sources	75,654	60,364	(15,290)	-20.2%
Other local sources	189,350	191,451	2,101	1.1%
	<u>\$ 770,310</u>	<u>\$ 769,889</u>	<u>\$ (421)</u>	<u>-0.1%</u>

**Table II**

<i>(Amounts in thousands)</i>	<b>2016</b>	<b>2017</b>	<b>Variance</b>	
			<b>\$</b>	<b>%</b>
Instruction	\$ 290,600	\$ 321,793	\$ 31,193	10.7%
Instruction related activities	162,793	161,759	(1,034)	-0.6%
Pupil services	49,104	55,494	6,390	13.0%
General administration	32,204	35,629	3,425	10.6%
Plant services	58,120	62,464	4,344	7.5%
Facility acquisition and construction	3,723	5,787	2,064	55.4%
Ancillary and enterprise services	4,868	4,742	(126)	-2.6%
Other outgo	99,830	104,804	4,974	5.0%
Debt service	3,143	1,279	(1,864)	-59.3%
Transfers out	16,659	13,454	(3,205)	-19.2%
	<u>\$ 721,044</u>	<u>\$ 767,205</u>	<u>\$ 46,161</u>	<u>6.4%</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 2016-17 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 our African-American 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 are received during the course of the year. Grants are budgeted to be fully expended. Carryover funds are budgeted when carryover balances are determined and per instructions from program managers.

As program needs change during the year, changes and revisions to the adopted budget are made throughout the year to reflect these changes. Budget transfers and budget revisions are made on an ongoing basis, and new programs are budgeted throughout the fiscal year. We have included a budgetary comparison schedule on page 68 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.

## **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. The District uses one internal service fund – the self-insurance fund – to account for and report activities related to the self-insured workers compensation program.
- *Fiduciary funds* – The District holds assets in a fiduciary capacity that belong to student groups (associated student body). 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 ASB funds cannot be used to finance operations.

## **REPORTING THE DISTRICT AS A WHOLE**

### **The Statement of Net Position and the Statement of Activities**

The statement of net position and the statement of activities report information about the District as a whole and about its activities. These statements include all assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net position and changes in them. Net position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's operating results. Since the governing board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the overall health of the District. The quality of the education and the safety of our schools will likely be an important component in this evaluation.

The statement of net position and the statement of activities report all of the District's financial activity as in support of "governmental activities." Governmental activities includes the education of kindergarten through grade twelve students, county office of education programs, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state, and local grants, as well as general obligation bonds, finance these activities.

## **REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS**

### **Fund Financial Statements**

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by state law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

**Governmental Funds** - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

**Proprietary Funds** - We use an internal service fund (a component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities, such as the District's self-insured workers compensation program. This activity is reported with governmental activities in the government-wide financial statements.

## **THE DISTRICT AS A TRUSTEE**

### **Reporting the Districts Fiduciary Responsibilities**

The District is the trustee, or fiduciary, for funds held on behalf of associated student body groups. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

## **FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

### **Net Position**

The District's government-wide net position at June 30, 2017 totaled \$58.2 million. Of this amount, \$657.7 million represents net investment in capital assets, while \$170.1 million is restricted for various purposes. The deficit unrestricted net position of \$769.6 million is primarily due to the aggregate net pension liability and the postemployment benefits obligation, which totals \$677.0 million and \$291.9 million, respectively at June 30, 2017. The aggregate net pension liability increased \$88.3 million or 15.0% from June 30, 2016. The postemployment benefits liability increased \$36.8 million or 14.4% from June 30, 2016. A reconciliation of the unrestricted deficit net position and the positive unassigned general fund is on page 51.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

For financial accounting purposes, capital assets are valued at historical cost less accumulated depreciation, which differs considerably from fair market value. At the close of the year ended June 30, 2017, the District's capital assets totaled \$2,079 million. Accumulated depreciation was \$521.2 million at year end. Depreciation expense for the year totaled \$52.6 million. Net book value (the amount of total assets after applying depreciation) increased by \$76.4 million to \$1,558 million.

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, when accounting standards required such information to be reported. See note 4 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-long obligations on June 30, 2017, and presents the increase from the previous fiscal year.

<i>(Amounts in thousands)</i>	<b>2016</b>	<b>2017</b>	<b>Net Variance</b>	
			<b>\$</b>	<b>%</b>
Unfunded portion of employee pensions (Note 14)	\$ 588,678	\$ 677,003	\$ 88,325	15.0%
Unfunded portion of post-employment medical benefits (Note 12)	255,023	291,870	36,847	14.4%
Bonded debt (Note 09)	916,490	1,041,245	124,755	13.6%
Compensated absences	9,922	9,890	(32)	-0.3%
	<u>\$ 1,770,113</u>	<u>\$ 2,020,008</u>	<u>\$ 249,895</u>	<u>14.1%</u>

Additional long-term obligations include an estimate of the workers' compensation self-insurance claims liability, described 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.

### **FACTORS BEARING ON THE DISTRICT'S FUTURE**

The District's staff continues to use assessments to measure and re-evaluate our investments in sound, educational, and programmatic activities while ensuring financial solvency. The District achieved its required reserve target of 2% for fiscal year 2016-17, and currently projects that it will maintain its minimum reserve in both fiscal year 2017-18 and fiscal year 2018-19.

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 to the District for the next twenty years 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 fully 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 and to prepare them for success in the twenty-first century.

#### **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, 2017**

	<b>Governmental Activities</b>
<b>Assets</b>	
Current assets	
Cash and investments	\$ 651,595,098
Receivables	50,879,594
Other	948,384
Total current assets	<u>703,423,076</u>
Non current assets	
Capital assets, net of accumulated depreciation	<u>1,558,278,077</u>
<b>Total assets</b>	<u>2,261,701,153</u>
<b>Deferred outflows of resources</b>	
Deferred amounts on refunding	3,510,204
Deferred amounts related to pensions	220,350,184
<b>Total deferred outflows of resources</b>	<u>223,860,388</u>
<b>Liabilities</b>	
Current liabilities	
Overdrafts	7,031,553
Accounts payable	101,372,582
Unearned revenue	8,273,074
Claims liability	7,304,507
Current loans	45,000,000
Current portion of bonds and capital leases	81,776,010
Total current liabilities	<u>250,757,726</u>
Noncurrent liabilities	
Claims liability	29,218,027
General obligation bonds, premiums, and capital leases	1,054,112,070
Compensated absences	9,890,250
Other post-employment benefits	291,870,013
Aggregate net pension liability	677,003,141
Total noncurrent liabilities	<u>2,062,093,501</u>
<b>Total liabilities</b>	<u>2,312,851,227</u>
<b>Deferred inflows of resources</b>	
Deferred inflows of resources related to pensions	114,487,085
<b>Total deferred inflows of resources</b>	<u>114,487,085</u>
<b>Net position</b>	
Net investment in capital assets	657,712,929
Restricted	
Educational programs	60,464,149
Debt service	37,026,345
Capital projects	61,855,574
Self insurance	10,798,852
Unrestricted	<u>(769,634,620)</u>
<b>Total net position</b>	<u>\$ 58,223,229</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, 2017**

Functions/Programs	Expenses	Program Revenues		Net Revenues (Expenses) and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>				
Instruction	\$ 523,066,930	\$ 603,503	\$ 101,611,888	\$ (420,851,539)
Instruction related activities				
Supervision of instruction	159,070,075	547,178	69,639,655	(88,883,242)
Instructional library and technology	4,312,230	16,905	1,412,130	(2,883,195)
School site administration	58,965,077	22,281	5,579,920	(53,362,876)
Pupil services				
Home-to-school transportation	36,816,319	2,728	112,874	(36,700,717)
Food services	31,591,510	1,254,407	21,622,971	(8,714,132)
All other pupil services	80,669,234	209,034	21,875,975	(58,584,225)
General administration				
Data processing	8,854,674	1,400	60,169	(8,793,105)
All other general administration	37,183,479	79,322	4,872,922	(32,231,235)
Plant services	72,587,570	6,997	1,148,838	(71,431,735)
Ancillary services	5,499,977	45,295	1,900,958	(3,553,724)
Interest on long-term obligations	37,231,128	-	-	(37,231,128)
Other outgo	1,267,548	12,151	2,595,156	1,339,759
<b>Total Governmental Activities</b>	<b>\$ 1,057,115,751</b>	<b>\$ 2,801,201</b>	<b>\$ 232,433,456</b>	<b>(821,881,094)</b>
General revenues and subventions				
				436,793,278
				93,284,283
				84,905,513
				82,978,817
				3,080,624
				88,726,707
				<u>789,769,222</u>
				(32,111,872)
				90,335,101
				<u>\$ 58,223,229</u>

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

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2017**

	County School		
	General Fund	Service Fund	Building Fund
<b>ASSETS</b>			
Cash and investments	\$ 215,492,277	\$ 15,541,815	\$ 243,783,794
Receivables	26,559,276	12,489,355	267,422
Prepaid expenditures	98,208	-	-
Stores inventories	644,963	-	-
<b>Total Assets</b>	<b>\$ 242,794,724</b>	<b>\$ 28,031,170</b>	<b>\$ 244,051,216</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Overdrafts	\$ -	\$ -	\$ -
Accounts payable	68,865,792	11,701,175	12,238,488
Current loans	45,000,000	-	-
Unearned revenue	7,661,210	29,225	-
<b>Total Liabilities</b>	<b>121,527,002</b>	<b>11,730,400</b>	<b>12,238,488</b>
<b>Fund Balances</b>			
Nonspendable	743,671	-	-
Restricted	51,423,976	6,522,637	231,812,728
Assigned	10,000,000	9,778,133	-
Unassigned	59,100,075	-	-
<b>Total Fund Balances</b>	<b>121,267,722</b>	<b>16,300,770</b>	<b>231,812,728</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 242,794,724</b>	<b>\$ 28,031,170</b>	<b>\$ 244,051,216</b>

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

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<b>Bond Interest And Redemption Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ 39,312,965	\$ 69,823,137	\$ 583,953,988
99,847	11,374,982	50,790,882
-	10,334	108,542
-	194,879	839,842
<u>39,412,812</u>	<u>\$ 81,403,332</u>	<u>\$ 635,693,254</u>

\$ -	\$ 7,031,553	\$ 7,031,553
-	5,267,529	98,072,984
-	-	45,000,000
-	582,639	8,273,074
<u>-</u>	<u>12,881,721</u>	<u>158,377,611</u>

-	-	743,671
39,412,812	64,406,379	393,578,532
-	4,115,232	23,893,365
-	-	59,100,075
<u>39,412,812</u>	<u>68,521,611</u>	<u>477,315,643</u>
<u>\$ 39,412,812</u>	<u>\$ 81,403,332</u>	<u>\$ 635,693,254</u>

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2017

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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		\$	477,315,643
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.			
The cost of capital assets is	\$	2,079,452,566	
Accumulated depreciation is		(521,174,489)	
Net capital assets			1,558,278,077
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. In the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred.			(2,419,736)
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.			30,327,426
Unamortized deferred charge on refunding is recognized as a deferred outflow on the statement of net position. The deferred charges are recognized in the governmental funds when they were paid.			3,510,204
Long-term liabilities are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of the following items:			
General obligation bonds and premium		(1,124,757,409)	
Capital leases payable		(11,130,671)	
Compensated absences (vacations)		(9,890,250)	
Post employment liability		(291,870,013)	
Net pension liability and related deferrals		(571,140,042)	
Long-term liabilities			(2,008,788,385)
Total net position - governmental activities		\$	<u>58,223,229</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, 2017**

	<b>General Fund</b>	<b>County School Service Fund</b>	<b>Building Fund</b>
<b>REVENUES</b>			
Local control funding formula	\$ 488,143,276	\$ 10,322,260	\$ -
Federal sources	29,930,570	13,860,210	-
Other state sources	60,363,936	43,434,020	-
Other local sources	191,451,049	103,549,209	1,276,830
<b>Total Revenues</b>	<b>769,888,831</b>	<b>171,165,699</b>	<b>1,276,830</b>
<b>EXPENDITURES</b>			
Current			
Instruction	321,792,861	103,458,253	-
Instruction related activities:			
Supervision of instruction	114,549,122	15,243,360	-
Instructional library and technology	3,334,834	379,035	-
School site administration	43,874,565	2,793,923	-
Pupil Services:			
Home-to-school transportation	5,588,457	26,119,263	-
Food services	-	-	-
All other pupil services	49,906,009	19,965,422	-
General administration:			
Data processing	7,402,856	224,874	-
All other general administration	28,226,320	1,402,636	-
Plant services	62,463,743	1,473,462	-
Ancillary services	4,736,805	-	-
Other outgo	104,804,480	-	-
Enterprise services	4,709	-	-
Facility acquisition and construction	5,787,096	11,098	94,371,923
Debt service			
Principal	-	-	-
Interest and other	1,278,838	-	-
<b>Total Expenditures</b>	<b>753,750,695</b>	<b>171,071,326</b>	<b>94,371,923</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>16,138,136</b>	<b>94,373</b>	<b>(93,095,093)</b>
<b>OTHER SOURCES (USES)</b>			
Transfers in	-	-	-
Proceeds from the sale of bonds	-	-	180,000,000
Transfers out	(13,453,976)	-	(11,822,608)
Payments to escrow agent	-	-	-
<b>Net Financing Sources (Uses)</b>	<b>(13,453,976)</b>	<b>-</b>	<b>168,177,392</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>2,684,160</b>	<b>94,373</b>	<b>75,082,299</b>
<b>Fund Balance - Beginning</b>	<b>118,583,562</b>	<b>16,206,397</b>	<b>156,730,429</b>
<b>Fund Balance - Ending</b>	<b>\$ 121,267,722</b>	<b>\$ 16,300,770</b>	<b>\$ 231,812,728</b>

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

<b>Bond Interest Redemption Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
\$ -	\$ -	\$ 498,465,536
2,415,296	24,280,747	70,486,823
262,789	22,045,388	126,106,133
93,469,496	34,718,498	424,465,082
<u>96,147,581</u>	<u>81,044,633</u>	<u>1,119,523,574</u>
-	25,235,503	450,486,617
-	7,205,173	136,997,655
-	-	3,713,869
-	4,114,476	50,782,964
-	-	31,707,720
-	26,514,880	26,514,880
-	297,234	70,168,665
-	-	7,627,730
-	2,393,205	32,022,161
-	679,880	64,617,085
-	-	4,736,805
-	-	104,804,480
-	-	4,709
-	28,410,283	128,580,400
52,415,000	1,863,827	54,278,827
41,616,326	780,994	43,676,158
<u>94,031,326</u>	<u>97,495,455</u>	<u>1,210,720,725</u>
<u>2,116,255</u>	<u>(16,450,822)</u>	<u>(91,197,151)</u>
-	25,276,584	25,276,584
72,067,441	-	252,067,441
-	-	(25,276,584)
(62,123,816)	-	(62,123,816)
<u>9,943,625</u>	<u>25,276,584</u>	<u>189,943,625</u>
12,059,880	8,825,762	98,746,474
27,352,932	59,695,849	378,569,169
<u>\$ 39,412,812</u>	<u>\$ 68,521,611</u>	<u>\$ 477,315,643</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, 2017**

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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 \$ 98,746,474

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	\$ 128,993,018	
Depreciation expense	<u>(52,612,005)</u>	76,381,013

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. 1,863,827

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. 109,135,000

Amortization of bond premium is a revenue source in the statement of activities, but is not recognized in the governmental funds. 11,728,444

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). 31,256

The advance refunding of the Series 2009 B general obligation bonds resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$864,588. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2023 as a component of interest expense. 864,588

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, 2017**

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Amortization of deferred charges on refunding reduce deferred balance in the statement of net position and is recorded in the statement of activities as expense, but does not affect the governmental funds.	(469,654)
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.	(274,536)
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.	(43,784,221)
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	(36,847,484)
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 do not affect the statement of activities.	(252,067,000)
An internal service fund is used by the District's management to charge the costs of the self insurance programs 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>2,580,421</u>
Change in net position of governmental activities	<u>\$ (32,111,872)</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, 2017**

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		<b>Governmental Activities Internal Service Fund</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,455,503	
Investments	65,185,607	
Total cash and investments		\$ 67,641,110
Receivables		88,712
<b>Total Assets</b>		<b>67,729,822</b>
<b>LIABILITIES</b>		
Accounts payable		879,862
Claim liability - workers' compensation		36,037,420
Claim liability - dental		485,114
<b>Total Liabilities</b>		<b>37,402,396</b>
<b>NET POSITION</b>		
Restricted - insurance programs		10,798,852
Unrestricted - earmarked for OPEB		19,528,574
<b>Total Net Position</b>		<b>\$ 30,327,426</b>

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, 2017**

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	<b>Governmental Activities</b>
	<b>Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
In-district premiums	\$ 23,361,948
<b>Total operating revenues</b>	<u>23,361,948</u>
<b>OPERATING EXPENSES</b>	
Payroll costs	717,004
Claims expense	20,671,703
<b>Total operating expenses</b>	<u>21,388,707</u>
Net operating income	1,973,241
<b>NONOPERATING REVENUES</b>	
Interest income	<u>607,180</u>
<b>Change in Net Position</b>	2,580,421
<b>Net Position - Beginning</b>	<u>27,747,005</u>
<b>Net Position - Ending</b>	<u>\$ 30,327,426</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, 2017**

	<u>Governmental Activities</u>
	<u>Internal Service Fund</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from user charges	\$ 23,361,948
Cash payments for insurance claims	(19,691,283)
Cash payments for payroll expense	(830,337)
<b>Net cash provided by operating activities</b>	<u>2,840,328</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	<u>582,933</u>
 Net increase in cash and cash equivalents	3,423,261
Cash and cash equivalents - Beginning of year	<u>64,217,849</u>
Cash and cash equivalents - End of year	<u>\$ 67,641,110</u>
 <b>RECONCILIATION OF OPERATING PROFIT TO NET CASH USED FOR OPERATING ACTIVITIES</b>	
Operating income	\$ 1,973,241
Increase in accrued liabilities	867,087
<b>Net cash provided by operating activities</b>	<u>\$ 2,840,328</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, 2017**

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	<b>Payroll Revolving Agency Fund</b>	<b>Student Body Agency Fund</b>	<b>Total</b>
<b>ASSETS</b>			
Cash and cash equivalents	\$ -	\$ 2,770,187	\$ 2,770,187
Investments	6,958,402	-	6,958,402
<b>Total Assets</b>	<b>\$ 6,958,402</b>	<b>\$ 2,770,187</b>	<b>\$ 9,728,589</b>
<b>LIABILITIES</b>			
Salaries and benefits payable	\$ 6,958,402	\$ -	\$ 6,958,402
Due to student groups	-	2,770,187	2,770,187
<b>Total Liabilities</b>	<b>\$ 6,958,402</b>	<b>\$ 2,770,187</b>	<b>\$ 9,728,589</b>

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

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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### NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Financial Reporting Entity

The San Francisco Unified School District (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 provide 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 operates 8 alternatively configured (TK-8), 64 elementary schools, 13 middle schools, 17 senior high schools (including two continuation schools and an independent study school), 8 court and county community schools, 34 state-funded preschool sites, and 12 early education centers. The District sponsors 14 independent charter schools.

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.

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 San Francisco Unified School District Financing Corporation (Financing Corporation) component unit has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board 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. The governing board of the Financing Corporation is the same as the governing board of the District.

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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### Other Related Entities

**Charter Schools** The District has approved Charters for City Arts and Technology High School, Creative Arts Charter School, Five Keys Charter School, Five Keys Adult School, Five Keys Independence High School, Gateway High School, Gateway Middle School, KIPP Bayview Academy, KIPP San Francisco Bay Academy, KIPP San Francisco College Preparatory, Leadership High School, Life Learning Academy, Mission Preparatory, 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 and 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 or other school programs that would otherwise be operated by a county office of education, as well as to general and administrative oversight.

**Building Fund** The Building Fund exists primarily to account separately for proceeds from the sale of general obligation bonds (*Education Code* Section 15146). The expenditures reported in this fund are restricted to capital outlays authorized for the purpose for which the related general obligation 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, 2017

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**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 revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

**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, 2017

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**Mello-Roos Capital Projects Fund** This fund is used to account for capital projects financed by mello-roos community facilities districts and similar entities that are considered blended component units of the District. The Mello-Roos Community Facilities Act of 1982 (Government Code Section 53311 et seq.) allows any county, city, special district, school district, or joint powers authority to establish, upon approval of two-thirds of the voters in the district, a "Community Facilities District" (CFD). This fund reports the financial activity of the 2010 Proposition A School Facilities Special Tax, the 1990 School Facilities Special Tax, and ADA capital improvements.

**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. The District reports self-insurance related activity in such a 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 programs.

**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 for subsequent remittance to taxing agencies or benefit providers.

**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.

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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

Net position 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.

**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 way 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.

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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**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. 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.

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.

**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. However, 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 are stated at fair value. Fair value is estimated based on quoted market price at year-end. On June 30, 2017, investments consist of cash deposits with the City and County of San Francisco Treasury Investment Pool.

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation.

### Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services.

### Stores Inventories

Inventories consist of expendable food and supplies held for consumption.

### 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 capitalized but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized in the government-wide statement of net position. The valuation basis for capital assets is historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 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.

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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**Instructional Aides** 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.

### 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.

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### 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.

### Current Loans

Current loans consist of amounts outstanding at June 30, 2017, for tax revenue and anticipation notes. The notes were issued as short-term obligations to provide cash flow needs. This liability is offset with cash deposits set aside to repay the notes.

### Fund Balances - Governmental Funds

As of June 30, 2017, 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.

**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. Under the District's policy, only the governing board or chief financial officer or designee, may assign amounts 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 assigned or unassigned fund balances are available, the District considers amounts to have been spent first out of the assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets 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. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

### 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 in-district insurance premiums. Operating expenses are necessary costs incurred to provide the good or service that is 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.

### 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.

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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### 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 City and County of San Francisco bills and collects the taxes in behalf of the District. Local property tax revenues are recorded when received.

### New Accounting Pronouncements

The GASB has issued the following accounting pronouncements that will become effective in future fiscal periods:

*GASB Statement No. 75 – Accounting and Financial Reporting for Postemployment Benefits Other than Pensions.*

*GASB Statement No. 81 – Irrevocable Split-Interest Agreements.*

*GASB Statement No. 83 – Certain Asset Retirement Obligations.*

*GASB Statement No. 84 – Fiduciary Activities.*

*GASB Statement No. 85 – Omnibus 2017.*

*GASB Statement No. 86 – Certain Debt Extinguishment Issues.*

*GASB Statement No. 87 – Leases.*

The District has not determined the effect of these pronouncements.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 2 - DEPOSITS AND INVESTMENTS**

**Summary of Deposits and Investments**

Deposits and investments on June 30, 2017, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 583,953,988	
Less: deficit cash (overdraft)	<u>(7,031,553)</u>	
Total governmental funds		\$ 576,922,435
Self insurance fund		67,641,110
Fiduciary funds		<u>9,728,589</u>
<b>Total Deposits and Investments</b>		<b><u>\$ 654,292,134</u></b>

Deposits and investments as of June 30, 2017, consist of the following:

Cash on hand and in banks	\$ 5,240,739
Total deposits with county treasurer	<u>649,051,395</u>
<b>Total Deposits and Investments</b>	<b><u>\$ 654,292,134</u></b>

**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 the county treasurer (*Education Code* Section 41001). The fair value of the District's investment in the treasury pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of amortized cost which approximates 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 City and County of San Francisco Treasurer, which is recorded on the amortized cost basis.

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### 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 City and County of San Francisco Treasury Investment Pool. The fair value of these investments at June 30, 2017 is \$649.1 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 471 days on June 30, 2017.

### 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 rated as of June 30, 2017.

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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### **Custodial Credit Risk – Deposits**

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits other than the following provision: The California Government Code requires that a financial institution secure deposits made by state or local governmental units 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% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2017, the District's bank balance of \$4.9 million 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.

### **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 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.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data.

Uncategorized - Deposits and withdrawals in the City and County of San Francisco Treasury Investment Pool are made on the basis of \$1 and not fair value. Accordingly, the District's proportionate share of investments at June 30, 2017 is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2017, 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
Federal sources	\$ 7,041,802	\$ 11,531,896	\$ -	\$ -
State sources	3,429,074	957,459	-	-
Local sources	15,756,886	-	-	-
Investments	331,514	-	267,422	99,847
Total	<u>\$ 26,559,276</u>	<u>\$ 12,489,355</u>	<u>\$ 267,422</u>	<u>\$ 99,847</u>

	Nonmajor Governmental Funds	Total Governmental Funds	Proprietary Fund
Federal sources	\$ 4,694,993	\$ 23,268,691	\$ -
State sources	1,520,614	5,907,147	-
Local sources	5,081,568	20,838,454	-
Investments	77,807	776,590	88,712
Total	<u>\$ 11,374,982</u>	<u>\$ 50,790,882</u>	<u>\$ 88,712</u>

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the year ended June 30, 2017, was as follows:

	Balance June 30, 2016	Additions	Deductions	Balance June 30, 2017
<b>Governmental Activities</b>				
Capital assets not depreciated				
Land	\$ 7,100,000	\$ -	\$ -	\$ 7,100,000
Capital assets being depreciated				
Buildings and improvements	1,892,969,397	128,580,400	-	2,021,549,797
Furniture and equipment	50,390,151	472,265	59,647	50,802,769
<b>Total capital assets</b>	<b>1,950,459,548</b>	<b>129,052,665</b>	<b>59,647</b>	<b>2,079,452,566</b>
Less accumulated depreciation				
Buildings and improvements	430,585,671	50,868,316		481,453,987
Furniture and equipment	37,976,813	1,803,336	59,647	39,720,502
<b>Total accumulated depreciation</b>	<b>468,562,484</b>	<b>52,671,652</b>	<b>59,647</b>	<b>521,174,489</b>
<b>Governmental activities - capital assets, net</b>	<b>\$ 1,481,897,064</b>	<b>\$ 76,381,013</b>	<b>\$ -</b>	<b>\$ 1,558,278,077</b>

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

<b>Governmental Activities</b>	
Instruction	\$ 26,982,478
Supervision of instruction	8,205,651
Instructional library and technology	222,447
School site administration	3,041,711
Home to school transportation	1,899,175
Food services	1,629,175
All other pupil services	4,161,333
Anciliary services	283,717
Enterprise activities	282
All general administration	1,918,009
Data processing services	456,873
Plant services	3,870,801
<b>Total depreciation expense, governmental activities</b>	<b>\$ 52,671,652</b>

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 5 - INTERFUND TRANSACTIONS**

**Interfund 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, 2017, interfund transfers consisted of \$13.5 million as follows:

- The general fund transferred \$7.1 million to the child development fund to cover the operating deficit.
- The general fund transferred \$3.8 million to the cafeteria fund to cover the operating deficit.
- The general fund transferred \$2.6 million to the special reserve capital fund for the energy retrofit capital lease payments.

Prior to July 1, 2016, the 2010 Proposition A School Facilities Special Tax was accounted in a separate resource within the building fund. The District established the capital projects fund for blended component units effective July 1, 2016. At that time, the building fund transferred the 2010 Proposition A School Facilities Special Tax fund balance of \$8.5 million to the new fund.

**Exchange Transactions**

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 \$103.5 million, of which the source is the general fund. This represents general fund expenditures incurred primarily in support of special education and other county office of education functions that are funded by the general fund.

**NOTE 6 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2017, consisted of the following:

	General Fund	County School Service Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
Vendors	\$ 22,626,653	\$ 11,606,552	\$ 12,238,488	\$ 5,101,105	\$ 51,572,798
State government	45,562,400	94,623	-	166,424	45,823,447
Interest	676,739	-	-	-	676,739
Total	<u>\$ 68,865,792</u>	<u>\$ 11,701,175</u>	<u>\$ 12,238,488</u>	<u>\$ 5,267,529</u>	<u>\$ 98,072,984</u>

Additional interest payable in the statement of net position includes \$2,419,736 for accrued interest on long term obligations.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**NOTE 7 - UNEARNED REVENUE**

Unearned revenue at June 30, 2017, consists of the following:

	General Fund	County School Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Federal financial assistance	\$ 1,446,474	\$ 5,755	\$ -	\$ 1,452,229
State categorical aid	6,214,736	23,470	582,639	6,820,845
Total	<u>\$ 7,661,210</u>	<u>\$ 29,225</u>	<u>\$ 582,639</u>	<u>\$ 8,273,074</u>

**NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES**

During September, 2016, the District issued \$45 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 July 31, 2017, until 100 percent of principal and interest is due on account by August 2017. Interest and principal are due and payable during August 2017. Accrued interest on the obligation was \$676,739 at June 30, 2017.

Changes in the notes during the year consisted of the following:

Issue Date	Rate	Maturity Date	Outstanding July 1, 2016	Additions	Payments	Outstanding June 30, 2017
9/2/2015	5.00%	8/31/2016	\$ 60,000,000	\$ -	\$ 60,000,000	\$ -
9/21/2016	2.00%	8/31/2017	-	45,000,000	-	45,000,000
	Total		<u>\$ 60,000,000</u>	<u>\$ 45,000,000</u>	<u>\$ 60,000,000</u>	<u>\$ 45,000,000</u>

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 9 - LONG-TERM OBLIGATIONS (in thousands)**

**Summary**

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

	Balance July 1, 2016	Additions	Deductions	Balance June 30, 2017	Due in one year
General obligation bonds	\$ 916,490	\$ 233,890	\$ 109,135	\$ 1,041,245	\$ 72,330
Bond premiums	77,063	18,177	11,728	83,512	7,384
Accumulated vacation	9,922	-	32	9,890	-
Capital leases	12,994	-	1,863	11,131	2,062
OPEB	255,023	70,004	33,156	291,871	-
Net pension liability	588,678	88,325	-	677,003	-
	<u>\$ 1,860,170</u>	<u>\$ 410,396</u>	<u>\$ 155,914</u>	<u>\$ 2,114,652</u>	<u>\$ 81,776</u>

Payment of the general obligation bonds will be made by the bond interest and redemption fund, using property tax revenues collected repayment of principal and interest on these obligations. The accumulated vacation, other post-employment benefits, and pension benefits will be paid by the fund for which the employee works. Payments on capital leases will be made by the special reserve capital fund, which receives contributions from the general fund.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

**Outstanding general obligation bonded debt**

Bond Issuance	Issue Date	Maturity Date	Interest Rate	Original Issue	July 1, 2016	Issued (Redeemed/ Defeased)	June 30, 2017
2006, Series 2007A	02/28/07	6/15/27	3.00-5.00%	\$ 100,000	\$ 32,590	\$ (4,770)	\$ 27,820
2006, Series 2009B	01/22/09	6/15/27	1.50-5.25%	150,000	86,405	(66,170)	20,235
2006, Series 2010C	05/19/10	5/15/27	5.74%	12,955	12,955	-	12,955
2006, Series 2010D	05/19/10	6/15/30	5.74%	72,370	72,370	-	72,370
2006, Series 2010E	05/19/10	6/15/23	0.50-5.00%	99,675	62,070	(7,660)	54,410
2011, Series 2012A	03/06/12	6/15/32	4.00-5.00%	115,000	99,445	(4,385)	95,060
2012 Refunding	03/06/12	6/15/25	0.30-5.00%	116,140	84,425	(8,170)	76,255
2011, Series 2014B	01/23/14	6/15/33	3.0%-5.0%	205,000	184,250	(7,310)	176,940
2006, Series 2015F	10/08/15	6/15/35	3.0%-5.0%	15,000	14,650	(505)	14,145
2011, Series 2015C	10/08/15	6/15/35	3.0%-5.0%	211,000	205,950	(7,060)	198,890
2015 Refunding	10/08/15	6/15/26	2.0%-5.0%	63,655	61,380	(2,160)	59,220
2016, Series 2016A	03/17/17	6/15/24	2.0%-5.0%	180,000	-	180,000	180,000
2017 Refunding	03/17/17	6/15/37	2.0%-5.0%	53,890	-	52,945	52,945
					<u>\$ 916,490</u>	<u>\$ 124,755</u>	<u>1,041,245</u>
					Unamortized bond premium		83,512
					Total		<u><u>\$ 1,124,757</u></u>

**Debt Service Requirement to Maturity**

Fiscal Year	Principal	Interest to Maturity	Total
2018	\$ 72,330	\$ 48,514	\$ 120,844
2019	70,130	44,281	114,411
2020	65,465	38,151	103,616
2021	66,595	35,211	101,806
2022	69,620	32,145	101,765
2023-2027	328,330	116,630	444,960
2028-2032	251,295	52,389	303,684
2033-2037	117,480	5,605	123,085
Total	<u>\$ 1,041,245</u>	<u>\$ 372,926</u>	<u>\$ 1,414,171</u>

**Debt Refunding**

On April 6, 2017, the District issued \$53.9 million in general obligation bonds with an interest rate range of 2.0 percent to 5.0 percent to advance refund \$56.7 million of Proposition A, Election of 2006 Series B 2009 (Series B 2009) with an interest rate range of 4.00 percent to 5.25 percent. The net proceeds of \$62.1 million (including premiums and other sources of \$8.70 million and costs of issuance but net of other fees of \$0.46 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 certain of the Series B 2009 bonds. As a result, the refunded portion of the Series B 2009 bonds are considered to be defeased and the liability for the defeased bonds is not reported on the statement of net position.

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

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The advance refunding resulted in a difference between the reacquisition price of the new debt (\$62.1 million placed with the escrow agent) and the net carrying amount of the old debt (\$56.7 million of bond principal and \$4.5 million of unamortized bond premiums) in the amount of \$865 thousand. The advance refunding decreases the total debt service payments, inclusive of principal and interest, over the next 8 years by \$5.2 million and results in an economic gain (difference between the present values of the old and new debt service payments) of \$4.5 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.

Decreases to vested compensated absences reflect net changes during the year ended June 30, 2017. 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, 2017

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### Capital Leases (in thousands)

Reported with capital assets is the energy retrofit capital lease of \$32.9 million and corresponding accumulated depreciation of \$23.7 million at June 30, 2017. The District's liabilities on lease agreements with options to purchase are summarized below:

	Energy Retrofit
Balance, Beginning of Year	\$ 15,625
Payments	(2,645)
Balance, End of Year	<u>\$ 12,980</u>

The capital lease has minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2018	\$ 2,724
2019	2,806
2020	2,890
2021	2,977
2022	1,583
Total	12,980
Less: Amount Representing Interest	1,849
Present Value of Minimum Lease Payments	<u>\$ 11,131</u>

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**NOTE 10 - FUND BALANCES (in thousands)**

Fund balances are composed of the following elements on June 30, 2017:

	General Fund	County School Service Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Nonspendable</b>						
Revolving cash	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ 1
Stores inventories	645	-	-	-	-	645
Prepaid expenditures	98	-	-	-	-	98
<b>Total nonspendable</b>	<b>744</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>744</b>
<b>Restricted</b>						
Educational programs	51,424	6,523	-	-	2,518	60,465
Capital projects	-	-	231,813	-	61,856	293,669
Debt services	-	-	-	39,413	33	39,446
<b>Total restricted</b>	<b>51,424</b>	<b>6,523</b>	<b>231,813</b>	<b>39,413</b>	<b>64,407</b>	<b>393,580</b>
<b>Assigned</b>						
Special education	-	9,778	-	-	-	9,778
Capital projects	-	-	-	-	4,115	4,115
Technology upgrades	10,000	-	-	-	-	10,000
<b>Total assigned</b>	<b>10,000</b>	<b>9,778</b>	<b>-</b>	<b>-</b>	<b>4,115</b>	<b>23,893</b>
<b>Unassigned</b>						
Reserve for economic uncertainties	14,345	-	-	-	-	14,345
Remaining unassigned	44,755	-	-	-	-	44,755
<b>Total unassigned</b>	<b>59,100</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>59,100</b>
<b>Total fund balances</b>	<b>\$ 121,268</b>	<b>\$ 16,301</b>	<b>\$ 231,813</b>	<b>\$ 39,413</b>	<b>\$ 68,522</b>	<b>\$ 477,317</b>

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**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	\$ 59,100
Add Back	
County school fund assigned fund balance	9,778
General fund prepaid operating expenditures	98
General Fund inventory	645
General fund assigned fund balance	10,000
Deferred maintenance fund assigned fund balance	3,761
Special reserve fund for capital outlay assigned fund balance	355
Resources earmarked for OPEB in the self-insurance fund	19,529
Deduct	
Compensated absences liability	(9,890)
Aggregate net pension liability and related deferrals	(571,141)
Other post employment benefits liability	(291,870)
Balance per statement of net position	<u>\$ (769,635)</u>

**NOTE 11 - LEASE REVENUES (in thousands)**

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
2018	\$ 7,114
2019	7,259
2020	6,833
2021	6,717
2022	6,717
Thereafter	88,601
Total	<u>\$ 123,241</u>

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**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 2016-17, the District contributed \$33.2 million to the plan, all of which was used for current premiums (approximately 50 percent of total premiums). The non-Medicare retirees pay 50% of active employee contributions up to cap and the Medicare retirees pay 50% of the difference between medicare and active employee contributions up to cap.

**Annual OPEB Cost and Net OPEB Obligation**

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

Annual required contribution	\$ 69,823,518
Interest on net accrued OPEB obligation	11,476,014
Adjustment to annual required contribution	<u>(11,295,733)</u>
Annual OPEB cost (expense)	70,003,799
Contributions made	<u>(33,156,315)</u>
Increase in net OPEB obligation	36,847,484
Net OPEB obligation, beginning of year	<u>255,022,529</u>
Net OPEB obligation, end of year	<u><u>\$ 291,870,013</u></u>

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**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
2017	\$ 70,003,799	\$ 33,156,315	47.4%	\$ 291,870,013
2016	69,978,888	34,740,019	49.6%	255,022,529
2015	65,212,435	33,053,583	50.7%	219,783,660

**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.

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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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 December 1, 2015, was thirty years, on an open basis. The actuarial value of assets was not determined in the valuation.

### 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.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**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, 2015 to June 30, 2017:

	<u>Total</u>
Liability Balance, July 1, 2015	\$ 34,354,233
Claims and changes in estimates	21,813,047
Claims payments	<u>(20,625,166)</u>
Liability Balance, June 30, 2016	35,542,114
Claims and changes in estimates	21,652,123
Claims payments	<u>(20,671,703)</u>
Liability Balance, June 30, 2017	<u>\$ 36,522,534</u>
 Assets available to pay claims at June 30, 2017	 <u>\$ 47,321,386</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.

For the fiscal year ended June 30, 2017 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	\$ 504,375,260	\$ 144,405,102	\$ 103,837,831	\$ 47,796,036
SFERS	172,627,881	75,945,082	10,649,254	42,823,831
Total	<u>\$ 677,003,141</u>	<u>\$ 220,350,184</u>	<u>\$ 114,487,085</u>	<u>\$ 90,619,867</u>

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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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, 2015, 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, 2017**

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The STRP provisions and benefits in effect at June 30, 2017, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
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	10.25%	9.205%
Required employer contribution rate	12.58%	12.58%
Required state contribution rate	8.83%	8.83%

**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, 2017, are presented above and the District's total contributions were \$45,485,630.

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

At June 30, 2017, 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	\$ 504,375,260
State's proportionate share of the net pension liability associated with the District	287,131,838
Total	<u>\$ 791,507,098</u>

The net pension liability was measured as of June 30, 2016. 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, 2016 and June 30, 2015, respectively, was 0.624 percent and 0.768 percent, resulting in a net increase in the proportionate share of 0.144 percent.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

For the year ended June 30, 2017, the District recognized pension expense of \$47.8 million. In addition, the District recognized pension expense and revenue of \$27.8 million for support provided by the State. At June 30, 2017, 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	\$ 45,485,630	\$ -
Net change in proportionate share of net pension liability	58,821,885	91,534,170
Difference between projected and actual earnings on pension plan investments	40,097,587	-
Differences between expected and actual experience in the measurement of the total pension liability	-	12,303,661
Total	<u>\$ 144,405,102</u>	<u>\$ 103,837,831</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 are 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
2018	\$ 874,797
2019	874,797
2020	23,308,866
2021	15,039,127
Total	<u>\$ 40,097,587</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 measurement period is seven years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2018	\$ (5,736,804)
2019	(5,736,804)
2020	(5,736,804)
2021	(5,736,804)
2022	(5,736,804)
Thereafter	(16,331,926)
Total	<u>\$ (45,015,946)</u>

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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**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, 2015, and rolling forward the total pension liability to June 30, 2016. The financial reporting actuarial valuation as of June 30, 2015, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2015
Measurement date	June 30, 2016
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%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%
	100%	

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### 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%)	\$ 725,909,750
Current discount rate (7.60%)	\$ 504,375,260
1% increase (8.60%)	\$ 320,387,826

### 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](http://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, 2017

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The membership groups and the related service retirement benefits are included in the notes to the basic financial statements of the retirement system, which are available on the SFERS website.

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, 2017 were \$17.1 million. Employee contribution rates for fiscal year 2016-17 varied from 7.5% to 12.0% as a percentage of gross covered salary. The District is required to contribute at an actuarially determined rate. Based on the July 1, 2015 actuarial report, the required employer contribution rate for fiscal year 2016-17 was 17.90% to 21.40%.

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

As of June 30, 2017, the District reported net pension liabilities for its proportionate share of the collective SFERS net pension liability totaling \$172.7 million. The net pension liability of the plan is measured as of June 30, 2016, 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, 2015, rolled forward to June 30, 2016 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, 2016 and June 30, 2015, respectively, was 2.970 percent and 3.119 percent, resulting in a net decrease in the proportionate share of 0.149 percent. The following table illustrates the change in the District's proportion during the year:

	Miscellaneous Non-safety
Proportion - June 30, 2015 measurement date	3.1187%
Proportion - June 30, 2016 measurement date	2.9698%
Change in proportion	<u>-0.1489%</u>

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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For the year ended June 30, 2017, the District recognized pension expense of \$42.8 million, including amortization of deferred outflows/inflows related pension items. At June 30, 2017, 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	\$ 17,082,312	\$ -
Difference between expected and actual experience	-	6,361,460
Changes in assumptions	29,696,634	870,924
Adjustment due to differences in proportions	5,563,324	3,416,870
Net difference between projected and actual earnings on plan investments	23,602,812	-
Total	<u>\$ 75,945,082</u>	<u>\$ 10,649,254</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,	Amortization
2018	\$ 1,315,156
2019	1,315,156
2020	12,598,906
2021	8,373,594
Total	<u>\$ 23,602,812</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 measurement period is five years and will be recognized in pension expense as follows:

Year Ended June 30,	Amortization
2018	\$ 6,866,387
2019	6,866,387
2020	5,975,682
2021	4,902,248
Total	<u>\$ 24,610,704</u>

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### Actuarial Methods and Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2015, which was rolled forward to June 30, 2016 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, 2015 updated to June 30, 2016
Measurement date	June 30, 2016
Actuarial cost method	Entry-age normal cost
Inflation	3.25%
Salary increases	3.75% plus merit component
Investment rate of return	7.50%, net of investment expense and inflation
Municipal bond yield	2.85%
Discount rate	7.50%
Administrative expense	0.60% of payroll
Basic COLA	2.00%

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

The 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>96-Prop C Assumption</u>	<u>Before 96 or After Prop C Assumption</u>
2018	0.000%	0.000%
2023	0.345%	0.345%
2028	0.375%	0.375%
2033	0.375%	0.375%
2038 and thereafter	0.375%	0.375%

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### 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 7.46% as of June 30, 2015 measurement date and 7.50% as of June 30, 2016 measurement date.

The discount rate used to measure the total pension liability as of June 30, 2016 was 7.50%. 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, 2016 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 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 2.85% 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, 2016 is 7.50%

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	40%	5.1%
Fixed income	20%	1.1%
Private equity	18%	6.3%
Real estate	17%	4.3%
Hedge funds / absolute return	5%	3.3%
Total	100%	

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2017**

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The following presents the District’s allocation of the its proportionate share of the net pension liability, calculated using the 7.50% 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:

Discount rate	Net Pension Liability
1% decrease (6.50%)	\$ 273,557,047
Current discount rate (7.50%)	\$ 172,627,881
1% increase (8.50%)	\$ 89,142,316

**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
2016-17	6.079%	\$ 15,615,812	\$ 2,964,995	\$ 763,451	\$ 19,344,258
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

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017

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### 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, 2017.

#### Litigation

The District is involved in various litigation arising from 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, 2017.

#### Construction Commitments

As of June 30, 2017, the District had the following commitments with respect to the unfinished capital projects as follows:

- Proposition A 2006 general obligation bond program, \$5.2 million through August 2017.
- Proposition A 2011 general obligation bond program, \$97.9 million through August 2017.
- Proposition A 2016 general obligation bond program, \$13.2 million through June 2018.
- General facilities, \$20.7 million through October 2017.

### 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. During the fiscal year ending June 30, 2017 the District paid SELF \$288 thousand for member contribution insurance premiums.

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.

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2017**

	<b>Budgeted Amounts</b>			<b>Variances -</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Favorable</b>
				<b>(Unfavorable)</b>
<b>Revenues</b>				<b>Final</b>
				<b>to Actual</b>
Local control funding formula	\$ 490,009,210	\$ 496,386,636	\$ 488,143,276	\$ (8,243,360)
Federal sources	29,813,391	33,335,552	29,930,570	(3,404,982)
Other state sources	54,950,547	63,330,049	60,363,936	(2,966,113)
Other local sources	171,347,765	182,843,634	191,451,049	8,607,415
<b>TOTAL REVENUES</b>	<b>746,120,913</b>	<b>775,895,871</b>	<b>769,888,831</b>	<b>(6,007,040)</b>
<b>Expenditures</b>				
Current				
Certificated salaries	296,860,539	301,456,164	300,792,569	663,595
Classified salaries	91,276,324	93,417,074	88,601,739	4,815,335
Employee benefits	171,017,570	173,300,808	159,861,869	13,438,939
Books and supplies	20,739,907	33,813,477	26,130,848	7,682,629
Services and operating expenditures	66,122,728	82,403,264	73,209,676	9,193,588
Other outgo	99,039,560	99,039,560	101,132,437	(2,092,877)
Capital outlay	1,274,150	4,141,995	2,742,719	1,399,276
Debt service - interest	1,278,838	1,278,838	1,278,838	-
<b>TOTAL EXPENDITURES</b>	<b>747,609,616</b>	<b>788,851,180</b>	<b>753,750,695</b>	<b>35,100,485</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(1,488,703)</b>	<b>(12,955,309)</b>	<b>16,138,136</b>	<b>29,093,445</b>
<b>Other Financing Uses</b>				
Transfers out	(12,990,399)	(12,990,399)	(13,453,976)	(463,577)
<b>TOTAL FINANCING SOURCES (USES)</b>	<b>(12,990,399)</b>	<b>(12,990,399)</b>	<b>(13,453,976)</b>	<b>(463,577)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(14,479,102)</b>	<b>(25,945,708)</b>	<b>2,684,160</b>	<b>28,629,868</b>
Fund balance - Beginning	118,583,562	118,583,562	118,583,562	-
Fund balance - Ending	<b>\$ 104,104,460</b>	<b>\$ 92,637,854</b>	<b>\$ 121,267,722</b>	<b>\$ 28,629,868</b>

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, 2017**

	<b>Budgeted Amounts</b>			<b>Variances - Favorable (Unfavorable)</b>
	<b>Original</b>	<b>Final</b>	<b>Actual</b>	<b>Final to Actual</b>
<b>Revenue</b>				
Local control funding formula	\$ 10,548,533	\$ 10,551,327	\$ 10,322,260	\$ (229,067)
Federal sources	14,055,360	14,256,866	13,860,210	(396,656)
Other state sources	43,578,520	43,645,520	43,434,020	(211,500)
Other local sources	101,787,097	101,787,097	103,549,209	1,762,112
<b>TOTAL REVENUES</b>	<b>169,969,510</b>	<b>170,240,810</b>	<b>171,165,699</b>	<b>924,889</b>
<b>Expenditures</b>				
Current				
Certificated salaries	50,727,645	51,019,598	52,796,963	(1,777,365)
Classified salaries	31,203,785	31,373,952	32,221,822	(847,870)
Employee benefits	37,313,307	37,444,973	34,101,843	3,343,130
Books and supplies	2,666,293	2,290,623	2,039,263	251,360
Services and operating expenditures	47,834,291	48,521,998	49,911,435	(1,389,437)
<b>TOTAL EXPENDITURES</b>	<b>169,745,321</b>	<b>170,651,144</b>	<b>171,071,326</b>	<b>(420,182)</b>
<b>NET CHANGE IN FUND BALANCES</b>	224,189	(410,334)	94,373	504,707
Fund balance - Beginning	16,206,397	16,206,397	16,206,397	-
Fund balance - Ending	<b>\$ 16,430,586</b>	<b>\$ 15,796,063</b>	<b>\$ 16,300,770</b>	<b>\$ 504,707</b>

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, 2017**

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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, 2017**

<i>(Amounts in thousands)</i>	2015 <sup>(1)</sup>	2016 <sup>(1)</sup>	2017 <sup>(1)</sup>
<b>CalSTRS</b>			
District's proportion of the net pension liability	0.655%	0.768%	0.768%
District's proportionate share of the net pension liability	\$ 382,762	\$ 517,072	\$ 504,375
State's proportionate share of the net pension liability associated with the District	231,113	273,474	287,132
Total	\$ 613,875	\$ 790,546	\$ 791,507
District's covered employee payroll at the measurement date	\$ 300,327	\$ 314,358	\$ 334,115
District's proportionate share of the net pension liability as a percentage of its covered payroll	127.45%	164.49%	150.96%
Plan fiduciary net position as a percentage of the total pension liability	77%	74%	77%
Measurement Date	June 30, 2014	June 30, 2015	June 30, 2016
<b>SFERS</b>			
District's proportion of the net pension liability	2.976%	3.119%	2.970%
District's proportionate share of the net pension liability	\$ 52,686	\$ 71,606	\$ 172,628
District's covered payroll at the measurement date	\$ 63,892	\$ 69,040	\$ 77,547
District's proportionate share of the net pension liability as a percentage of its covered payroll	82.46%	103.72%	222.61%
Plan fiduciary net position as a percentage of the total pension liability	92%	90%	78%
<sup>(1)</sup> Historical information is available only for measurement periods for which GASB Statement No. 68 is applicable.			
Measurement Date	June 30, 2014	June 30, 2015	June 30, 2016

See accompanying note to required supplementary information.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS  
FOR THE YEAR ENDED JUNE 30, 2017**

<i>(Amounts in thousands)</i>	2012 <sup>(1)</sup>	2013 <sup>(1)</sup>	2014 <sup>(1)</sup>	2015 <sup>(1)</sup>	2016 <sup>(1)</sup>	2017 <sup>(1)</sup>
<b>CalSTRS</b>						
Contractually required contribution	\$ 23,290	\$ 23,740	\$ 24,777	\$ 27,915	\$ 35,778	\$ 45,486
Contributions in relation to the contractually required contribution	(23,290)	(23,740)	(24,777)	(27,915)	(35,778)	(45,486)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 282,303	\$ 287,758	\$ 300,327	\$ 314,358	\$ 334,115	\$ 385,855
Contributions as a percentage of covered payroll	8.25%	8.25%	8.25%	8.88%	10.71%	11.79%
<b>SFERS</b>						
Contractually required contribution	\$ 11,692	\$ 12,388	\$ 15,858	\$ 18,483	\$ 15,645	\$ 17,082
Contributions in relation to the contractually required contribution	(11,692)	(12,388)	(15,858)	(18,483)	(15,645)	(17,082)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 64,632	\$ 67,168	\$ 63,892	\$ 69,040	\$ 77,547	\$ 82,444
Contributions as a percentage of covered payroll	18.09%	18.44%	24.82%	26.77%	20.17%	20.72%

See accompanying note to required supplementary information.

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2017

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### 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.

#### **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. As of the June 30, 2015 measurement date, the SFERS plan rate of investment return assumption was changed from 7.58 percent to 7.50 percent since the previous valuation. As of the June 30, 2016 measurement date, the SFERS plan municipal bond yield was changed from 3.85 percent to 2.85 percent, rate of investment return assumption was changed from 7.50 percent to 7.46 percent, and administrative expenses was changed from 0.45 percent of payroll to 0.60 percent of payroll since the previous valuation.

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***SUPPLEMENTARY INFORMATION***

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**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-through Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education			
Career and Technical Education	84.048	14891/14894	\$ 474,652
Title I grants to Local Educational Agencies			
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	12,188,080
Title I, Part D, Local Delinquent Programs	84.010	14357	258,959
Total, Title I grants to Local Educational Agencies			<u>12,447,039</u>
Title I, Migration Education			
Title I, Part C, Migrant Ed - Regular Program	84.011	14838	205,991
Title I, Part C, Migrant Ed - Summer Program	84.011	10005	45,919
Total Title I, Migrant Education			<u>251,910</u>
Title II, Supporting Effective Instruction State Grant			
Title II, Part A, Teacher Quality	84.367	14341	3,154,773
Total Title II, Supporting Effective Instruction State Grant			<u>3,154,773</u>
Title III, English Language Acquisition State Grants			
Title III, Immigrant Education Program	84.365	15146	372,936
Title III, Limited English Proficient Student Program	84.365	14346	1,366,354
Total Title III, English Language Acquisition State Grants			<u>1,739,290</u>
Title IV, Part B, 21st Century Community Learning Centers	84.287	14349	8,164,578

See accompanying note to supplementary information.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-through Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION (CONTINUED)</b>			
Individuals with Disabilities Education Act Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	11,387,036
IDEA Mental Health Allocation Plan, Part B, Sec 611	84.027	15197	518,918
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	489,216
IDEA Preschool Grants, Part B, Sec 619	84.173	13430	246,791
IDEA Alternate Dispute Resolution, Part B, Sec 611	84.173A	13007	28,069
IDEA Preschool Staff Development, Part B, Sec 611	84.173A	13431	1,782
Total, Individuals with Disabilities Education Act Cluster			12,671,812
Special Education - Grants for Infants and Families	84.181	23761	162,626
Passed through California Department of Rehabilitation			
Workability II, Transition Partnership	84.158	10006	46,124
Mission Promise Neighborhood	84.215N	1	728,113
Transition to Teaching	84.350A	1	613,400
Indian Education	84.060	1	25,877
Integrated School-Based Violence Intervention	84.184M	1	623,690
Total, U.S. Department of Education			41,103,884
<b>U.S. DEPARTMENT OF AGRICULTURE</b>			
Passed through California Department of Education			
Child Nutrition Cluster			
Especially Needy Breakfast Program	10.553	13526	2,630,015
School Breakfast Program	10.553	13390	64,820
National School Lunch Program	10.555	13391/13396	11,461,874
Commodity Supplemental Food Program	10.555	1	95,920
Total, Child Nutrition Cluster			14,252,629
Child Care Food Program - Centers and Family Day Homes	10.558	13393	4,707,017
Child Nutrition: Equipment Assistance Grants	10.579	14906	15,383
Fresh Fruit and Vegetable Program	10.582	14968	14,190
Total, U.S. Department of Agriculture			18,989,219

See accompanying note to supplementary information.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)  
FOR THE YEAR ENDED JUNE 30, 2017**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-through Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF DEFENSE</b>			
Passed through California Department of Education Junior Reserve Officers Training Corps	12.000	1	<u>799,819</u>
Total, U.S. Department of Defense			<u>799,819</u>
<b>U.S. DEPARTMENT OF JUSTICE</b>			
Passed through University of Georgia Group Mentoring for Resilience: Increasing Positive Development and Reducing involvement in the Juvenile Justice System	16.726	1	<u>28,854</u>
Total, U.S. Department of Justice			<u>28,854</u>
<b>U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</b>			
Substance Abuse and Mental Health Services	93.243	1	174
Passed through California Department of Education Federal Child Care, Center-based	93.596	13609	5,401,637
Passed through Centers for Disease Control School-Based Surveillance	93.079	1	538,347
Passed through California Department of Health Care Services Medi-Cal Billing Option	93.778	10013	<u>1,305,513</u>
Total, U.S. Department of Health and Human Services			<u>7,245,671</u>
Total, Expenditures of Federal Awards			<u><u>\$ 68,167,447</u></u>

<sup>1</sup> 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, 2017

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### ORGANIZATION

The San Francisco Unified School District was established in 1851 and consists of an area comprising approximately 49 square miles. The District operates 8 alternatively configured (TK-8), 64 elementary schools, 13 middle schools, 17 senior high schools (including two continuation schools and an independent study school), 8 court and county community schools, 34 state-funded preschool sites, and 12 early education centers. The District sponsors 14 independent charter schools.

### GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Shamann Walton	President	2019
Hydra B. Mendoza	Vice-President	2019
Emily M. Murase, Ph. D	Commissioner	2019
Mark Sanchez	Commissioner	2021
Matthew Haney	Commissioner	2021
Rachel Norton	Commissioner	2021
Stevon Cook	Commissioner	2021

### 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
Abram Jiminez	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, 2017**

	Final Report	
	Amended Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	16,958.55	16,960.50
Fourth through sixth	11,812.00	11,813.89
Seventh and eighth	7,049.36	7,060.36
Ninth through twelfth	14,638.76	14,646.68
Total Regular ADA	<u>50,458.67</u>	<u>50,481.43</u>
Extended Year Special Education		
Transitional kindergarten through third	36.05	68.26
Fourth through sixth	17.03	38.85
Seventh and eighth	13.27	27.67
Ninth through twelfth	39.43	39.43
Total Extended Year Special Education	<u>105.78</u>	<u>174.21</u>
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	5.79	7.12
Fourth through sixth	16.19	17.96
Seventh and eighth	19.72	21.91
Ninth through twelfth	59.37	64.73
Total Special Education, Nonpublic, Nonsectarian Schools	<u>101.07</u>	<u>111.72</u>
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.42	0.42
Fourth through sixth	1.40	1.40
Seventh and eighth	2.33	2.33
Ninth through twelfth	9.91	9.91
Total Extended Year Special Education,	<u>14.06</u>	<u>14.06</u>
Community Day School		
Seventh and eighth	1.44	2.34
Ninth through twelfth	25.90	28.68
Total Community Day School	<u>27.34</u>	<u>31.02</u>
Juvenile Halls, Homes and Camp, Probation Referred		
Elementary	3.94	4.71
High School	77.41	73.93
Total Juvenile Halls, Homes and Camp, Probation Referred	<u>81.35</u>	<u>78.64</u>
Total ADA	<u>50,788.27</u>	<u>50,891.08</u>

See accompanying note to supplementary information.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2017**

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Grade Level	1986-87 Minutes Requirement	2016-2017 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	43,750	180	Complied
Grades 1 - 3				
Grade 1	50,400	50,400	180	Complied
Grade 2	50,400	50,400	180	Complied
Grade 3	50,400	50,470	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	54,360	180	Complied
Grades 7 - 8				
Grade 7	54,000	54,360	180	Complied
Grade 8	54,000	54,360	180	Complied
Grades 9 - 12				
Grade 9	64,800	*64810	*180	*Complied
Grade 10	64,800	*64810	*180	*Complied
Grade 11	64,800	*64810	*180	*Complied
Grade 12	64,800	*64810	*180	*Complied

\*See finding 2017-003 in the schedule of findings and responses regarding noncompliance at one school site. That site is excluded from this schedule.

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, 2017**

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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, 2017**

(Amounts in thousands, except average daily attendance)

	(Budget) 2018 <sup>1</sup>	2017	2016	2015
<b>GENERAL FUND</b>				
Revenues	\$ 764,471	\$ 769,889	\$ 770,311	\$ 673,085
Expenditures	764,876	753,751	704,384	657,258
Other uses and transfers out	13,991	13,454	16,659	9,248
Total Expenditures and Other Uses	778,867	767,205	721,043	666,506
CHANGE IN FUND BALANCE	\$ (14,396)	\$ 2,684	\$ 49,268	\$ 6,579
ENDING FUND BALANCE	\$ 106,873	\$ 121,269	\$ 118,585	\$ 69,317
AVAILABLE RESERVES	\$ 44,704	\$ 59,100	\$ 61,410	\$ 35,819
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	5.74%	7.70%	8.52%	5.37%
LONG-TERM OBLIGATIONS	\$ 1,963,535	\$ 2,045,311	\$ 1,834,390	\$ 1,638,888
AVERAGE DAILY ATTENDANCE AT P-2 <sup>2</sup>	50,836	50,788	50,787	51,210

The general fund balance has increased by \$52.0 million over the past two years. The fiscal year 2017-18 budget projects a decrease of \$14.4 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). Available reserves on June 30, 2017 were 7.70%, which is an increase of \$23.3 million from fiscal year 2014-15. The District projects a decrease of \$14.4 million during the 2017-18 fiscal year.

The District has incurred an operating surplus in the general fund during past three years. However, the District anticipates a general fund operating deficit during the 2017-18 fiscal year. Total long-term liabilities have increased by \$406 million over the past two years.

Average daily attendance has decreased by 422 over the past two years. An increase of 48 ADA is budgeted for fiscal year 2017-18.

<sup>1</sup> Budget 2018 is based on the most current District projection and is included for analytical purposes only and has not been subjected to audit.

<sup>2</sup> ADA amounts include District and County programs.

See accompanying note to supplementary information.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2017**

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<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
Mission Preparatory	No

See accompanying note to supplementary information.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**NONMAJOR GOVERNMENTAL FUNDS  
COMBINING BALANCE SHEET  
JUNE 30, 2017**

	<u>Child Development</u>	<u>Cafeteria</u>	<u>Deferred Maintenance</u>
<b>ASSETS</b>			
Cash and Investments	\$ -	\$ 6,955	\$ 3,912,943
Receivables	6,549,786	4,747,389	5,315
Prepaid expenses	10,334	-	-
Stores inventories	-	194,879	-
<b>Total Assets</b>	<u>\$ 6,560,120</u>	<u>\$ 4,949,223</u>	<u>\$ 3,918,258</u>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Overdrafts	\$ 3,768,837	\$ 3,262,716	\$ -
Accounts payable	477,611	1,474,787	157,720
Unearned revenue	1,739	6,117	-
<b>Total Liabilities</b>	<u>4,248,187</u>	<u>4,743,620</u>	<u>157,720</u>
<b>Fund Balances</b>			
Restricted	2,311,933	205,603	-
Assigned	-	-	3,760,538
<b>Total Fund Balances</b>	<u>2,311,933</u>	<u>205,603</u>	<u>3,760,538</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 6,560,120</u>	<u>\$ 4,949,223</u>	<u>\$ 3,918,258</u>

See accompanying note to supplementary information.

<b>Capital Facilities</b>	<b>State School Building</b>	<b>County School Facilities</b>	<b>Special Reserve Capital Outlay</b>	<b>Mello-Roos Capital Project</b>	<b>Tax Override</b>	<b>Nonmajor Governmental Funds</b>
\$ 36,629,691	\$ 1,771,637	\$ 1,532,007	\$ 12,602,694	\$ 13,333,941	\$ 33,269	\$ 69,823,137
49,850	2,411	2,085	-	18,146	-	11,374,982
-	-	-	-	-	-	10,334
-	-	-	-	-	-	194,879
<u>\$ 36,679,541</u>	<u>\$ 1,774,048</u>	<u>\$ 1,534,092</u>	<u>\$ 12,602,694</u>	<u>\$ 13,352,087</u>	<u>\$ 33,269</u>	<u>\$ 81,403,332</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,031,553
678,549	-	308,599	782,384	1,387,879	-	5,267,529
-	-	-	574,783	-	-	582,639
<u>678,549</u>	<u>-</u>	<u>308,599</u>	<u>1,357,167</u>	<u>1,387,879</u>	<u>-</u>	<u>12,881,721</u>
36,000,992	1,774,048	1,225,493	10,890,833	11,964,208	33,269	64,406,379
-	-	-	354,694	-	-	4,115,232
<u>36,000,992</u>	<u>1,774,048</u>	<u>1,225,493</u>	<u>11,245,527</u>	<u>11,964,208</u>	<u>33,269</u>	<u>68,521,611</u>
<u>\$ 36,679,541</u>	<u>\$ 1,774,048</u>	<u>\$ 1,534,092</u>	<u>\$ 12,602,694</u>	<u>\$ 13,352,087</u>	<u>\$ 33,269</u>	<u>\$ 81,403,332</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, 2017**

	<b>Child Development</b>	<b>Cafeteria</b>	<b>Deferred Maintenance</b>
<b>REVENUES</b>			
Federal sources	\$ 6,543,171	\$ 17,737,576	\$ -
Other state sources	17,158,305	1,049,593	-
Other local sources	11,507,263	1,756,718	43,453
<b>Total Revenues</b>	<b>35,208,739</b>	<b>20,543,887</b>	<b>43,453</b>
<b>EXPENDITURES</b>			
Current			
Instruction	25,235,503	-	-
Instruction related activities:			
Supervision of instruction	7,205,173	-	-
School site administration	4,114,476	-	-
Pupil Services:			
Food services	3,240,089	23,274,791	-
All other pupil services	297,234	-	-
General administration:			
All other general administration	1,470,002	923,203	-
Plant services	679,880	-	-
Facility acquisition and construction	-	-	481,291
Debt service			
Principal	-	-	-
Interest and other	-	-	-
<b>Total Expenditures</b>	<b>42,242,357</b>	<b>24,197,994</b>	<b>481,291</b>
<b>Excess (deficiency) of revenues over expenditures</b>	<b>(7,033,618)</b>	<b>(3,654,107)</b>	<b>(437,838)</b>
<b>Other Financing Sources:</b>			
Transfers in	7,043,568	3,765,587	-
<b>Net Financing Sources</b>	<b>7,043,568</b>	<b>3,765,587</b>	<b>-</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>9,950</b>	<b>111,480</b>	<b>(437,838)</b>
<b>Fund Balance - Beginning</b>	<b>2,301,983</b>	<b>94,123</b>	<b>4,198,376</b>
<b>Fund Balance - Ending</b>	<b>\$ 2,311,933</b>	<b>\$ 205,603</b>	<b>\$ 3,760,538</b>

See accompanying note to supplementary information.

<b>Capital Facilities</b>	<b>State School Building</b>	<b>County School Facilities</b>	<b>Special Reserve Capital Outlay</b>	<b>Mello-Roos Capital Project</b>	<b>Tax Override</b>	<b>Nonmajor Governmental Funds</b>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 24,280,747
-	3,756,272	-	81,218	-	-	22,045,388
10,989,191	19,744	18,059	2,170,893	8,213,177	-	34,718,498
10,989,191	3,776,016	18,059	2,252,111	8,213,177	-	81,044,633
-	-	-	-	-	-	25,235,503
-	-	-	-	-	-	7,205,173
-	-	-	-	-	-	4,114,476
-	-	-	-	-	-	26,514,880
-	-	-	-	-	-	297,234
-	-	-	-	-	-	2,393,205
-	-	-	-	-	-	679,880
12,559,169	2,599,123	3,173,223	1,525,900	8,071,577	-	28,410,283
-	-	-	1,863,827	-	-	1,863,827
-	-	-	780,994	-	-	780,994
12,559,169	2,599,123	3,173,223	4,170,721	8,071,577	-	97,495,455
(1,569,978)	1,176,893	(3,155,164)	(1,918,610)	141,600	-	(16,450,822)
-	-	-	2,644,821	11,822,608	-	25,276,584
-	-	-	2,644,821	11,822,608	-	25,276,584
(1,569,978)	1,176,893	(3,155,164)	726,211	11,964,208	-	8,825,762
37,570,970	597,155	4,380,657	10,519,316	-	33,269	59,695,849
\$ 36,000,992	\$ 1,774,048	\$ 1,225,493	\$ 11,245,527	\$ 11,964,208	\$ 33,269	\$ 68,521,611

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**GENERAL UNRESTRICTED AND RESTRICTED FUNDS**

**BALANCE SHEET SCHEDULES**

**JUNE 30, 2017**

	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total General Fund</b>
<b>ASSETS</b>			
Cash and investments	\$ 162,523,746	\$ 52,968,531	\$ 215,492,277
Receivables	8,506,003	18,053,273	26,559,276
Prepaid expenditures	90,384	7,824	98,208
Stores inventories	644,963	-	644,963
<b>Total Assets</b>	<b>\$ 171,765,096</b>	<b>\$ 71,029,628</b>	<b>\$ 242,794,724</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities</b>			
Accounts payable	\$ 56,814,773	\$ 12,051,019	\$ 68,865,792
Interest payable	-	-	-
Current loans	45,000,000	-	45,000,000
Unearned revenue	106,577	7,554,633	7,661,210
<b>Total Liabilities</b>	<b>101,921,350</b>	<b>19,605,652</b>	<b>121,527,002</b>
<b>Fund Balances</b>			
Nonspendable	743,671	-	743,671
Restricted	-	51,423,976	51,423,976
Assigned	10,000,000	-	10,000,000
Unassigned	59,100,075	-	59,100,075
<b>Total Fund Balances</b>	<b>69,843,746</b>	<b>51,423,976</b>	<b>121,267,722</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 171,765,096</b>	<b>\$ 71,029,628</b>	<b>\$ 242,794,724</b>

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, 2017**

	<b>Unrestricted</b>	<b>Restricted</b>	<b>Total General Fund</b>
<b>REVENUES</b>			
Local control funding formula	\$ 488,143,276	\$ -	\$ 488,143,276
Federal sources	799,819	29,130,751	29,930,570
Other state sources	20,409,118	39,954,818	60,363,936
Other local sources	50,468,388	140,982,661	191,451,049
<b>Total Revenues</b>	<b>559,820,601</b>	<b>210,068,230</b>	<b>769,888,831</b>
<b>EXPENDITURES</b>			
Current			
Instruction	248,670,856	73,122,005	321,792,861
Instruction related activities	71,450,732	90,307,789	161,758,521
Pupil Services	29,835,182	25,659,284	55,494,466
General administration	30,217,892	5,411,284	35,629,176
Ancillary services	414,690	4,322,115	4,736,805
Other outgo	103,652,209	1,152,271	104,804,480
Enterprise services	-	4,709	4,709
Facility acquisition and plant services	42,457,954	25,792,885	68,250,839
Debt service			
Interest	1,278,838	-	1,278,838
<b>Total Expenditures</b>	<b>527,978,353</b>	<b>225,772,342</b>	<b>753,750,695</b>
<b>Excess of expenditures over revenues</b>	<b>31,842,248</b>	<b>(15,704,112)</b>	<b>16,138,136</b>
<b>OTHER FINANCING SOURCES (USES):</b>			
Transfers out	(11,889,976)	(1,564,000)	(13,453,976)
Interfund transfers	(22,128,835)	22,128,835	-
<b>Net Financing Uses</b>	<b>(34,018,811)</b>	<b>20,564,835</b>	<b>(13,453,976)</b>
<b>NET CHANGE IN FUND BALANCES</b>	<b>(2,176,563)</b>	<b>4,860,723</b>	<b>2,684,160</b>
<b>Fund Balance - Beginning</b>	<b>72,020,309</b>	<b>46,563,253</b>	<b>118,583,562</b>
<b>Fund Balance - Ending</b>	<b>\$ 69,843,746</b>	<b>\$ 51,423,976</b>	<b>\$ 121,267,722</b>

See accompanying note to supplementary information.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**NOTE TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2017**

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**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:		\$ 70,486,823
Federal interest subsidy on qualified construction bonds and build america bonds	Not Applicable	(2,415,296)
Noncash federal awards are not recorded on the financial statements	10.555	<u>95,920</u>
Total schedule of expenditures of federal awards		<u>\$ 68,167,447</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, 2017

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### **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.

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***INDEPENDENT AUDITOR'S REPORTS***

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**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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 (District) as of and for the year ended June 30, 2017, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated January 23, 2017.

**Internal Control Over Financial Reporting**

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and responses that we consider to be significant deficiencies, as described as 2017-001 in the schedule of findings and questioned costs.

## Compliance and Other Matters

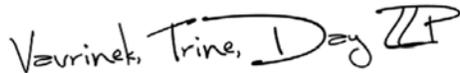
As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material 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*.

## The District's Response to Findings

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

## Purpose of This Report

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



Palo Alto, California  
January 23, 2018



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Certified Public Accountants

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**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 (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2017. 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 Example Entity'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 Example Entity'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, 2017.

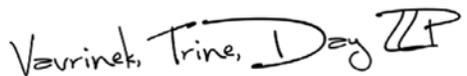
### **Report on Internal Control Over Compliance**

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  
January 23, 2018



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Certified Public Accountants

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## 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 (District) compliance with the types of compliance requirements identified in the *2016-2017 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, 2017.

### ***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 *2016-2017 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 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 District's compliance with those requirements.

***Basis for Qualified Opinion***

As described in the accompanying schedule of findings and questioned costs, the District did not comply with requirements regarding attendance (2017-002) and instructional minutes (2017-003). Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to those programs.

***Qualified Opinion***

In our opinion, except for the noncompliance described in the basis for qualified opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2017.

***Unmodified Opinion on Each of the Other Programs***

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2017.

***Other Matters***

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

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

	<u>Procedures Performed</u>
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

	<u>Procedures Performed</u>
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
Mental Health Expenditures	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

We did not perform procedures regarding certain State programs for the following reasons:

- The District did not offer an early retirement incentive program.
- The District does not have middle or early college high schools.
- The District does not offer a before school education and safety program.
- The District does not offer a course based independent study program.
- The District does not have any dependent charter schools.

*Vavrinek, Trine, Day ZP*

Palo Alto, California  
January 23, 2018

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**SUMMARY OF AUDITOR’S RESULTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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**FINANCIAL STATEMENTS**

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>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>
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Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>
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Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.558</u>	<u>Child and Adult Care Food Program</u>
<u>84.027, 84.173</u>	<u>Special Education IDEA Cluster</u>
<u>93.575, 93.596</u>	<u>Child Care and Development Fund</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 2,045,023</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Type of auditor's report issued on compliance for programs:

Unmodified for all programs except for the following programs which were qualified:

<u>Name of Program</u>
<u>Attendance (2017-002)</u>
<u>Instructional Minutes (2017-003)</u>

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2017

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### 2017-001 – Pension Maintenance Internal Control, Code 30000

#### Criteria

The District provides defined benefit pensions through two cost-sharing multiple-employer plans; California State Teachers' Retirement System (CalSTRS) and San Francisco Employees Retirement System (SFERS).

Employer pension contributions are calculated based on pensionable earnings of covered employees' self-reported by the District. The District is responsible to ensure the accuracy of information reported to the benefit providers.

#### Condition

During our testing of this control process, the District was unable to provide all of documentation necessary to satisfy us with respect to the completeness and accuracy of the pensionable earnings self-reported to the pension plans.

We performed alternative audit procedures which indicated to us that the overall employer contributions are fairly stated. However, this process involves a large volume of transactions. Errors may exist that were not detected by our alternative procedures.

#### Context

Total employer pension contributions were \$62.6 million, or 11.9% of unrestricted general fund expenditures for the year ending June 30, 2017.

#### Effect

Failure to accurately report pensionable earnings could result in an unrecorded liability of the unrestricted general fund.

#### Cause

We are not aware of formally documented policies or procedures which describe how the District reports pensionable earnings to the plans. Furthermore, various departments within the District are involved in this process. Interdepartmental communication between the various departments is not taking place.

#### Recommendation

We recommend the District appoint an employee responsible for overseeing this process across multiple departments. Internal control policies and procedures should be formally documented and communicated to the employees charged with the responsibility of carrying out those procedures. Management further should monitor compliance and verify that processes are being performed timely and consistently.

#### Views of responsible officials and planned corrective actions

The District will implement the recommendations of the auditor.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2017**

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None reported.

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2017

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### 2017-002 Attendance Records Maintenance Code 10000, 40000

#### Criteria

EDC §41601 requires the District to report average daily attendance (ADA) to the California Department of Education. Origination documentation must be retained to support the reported ADA. To this end, District policy requires classroom teachers to record attendance electronically in the Synergy student information system. In cases when electronic recording of attendance is not possible, District policy requires that attendance be recorded contemporaneously on paper for later entry to Synergy. In such instances, District policy requires origination documentation to be retained at the site.

#### Condition and context

In our site level attendance audit procedures, we identified instances where paper origination documentation was not retained. Most of these instances involved substitute teachers, who often did not have access to record attendance electronically in Synergy.

Because of the identified condition, we performed additional audit procedures to ascertain if the condition resulted in inappropriately reported units of ADA. In most cases, the District was able to provide alternative documentation to support the ADA. 6.30 units of ADA identified by the audit procedures were not supported by alternative documentation.

The District became aware of the questioned ADA prior to the P-2 reporting period. None of the questioned ADA was claimed for state funding. Therefore, the P-2 and P-Annual attendance reports include zero questioned ADA.

#### Effect

ADA is the basis to determine state funding. Failure to keep supporting documentation could result in an adverse fiscal impact to the unrestricted general fund.

#### Cause

Sites are not required to retain paper origination documentation, when attendance is electronically recorded directly in Synergy by the certificated employee. Site level personnel who handle attendance recording were not always aware of the requirements about when paper documents should be retained.

#### Questioned costs

None.

#### Recommendation

Site level personnel should be reminded of the District's policies and procedures about attendance recording. The District should also require that substitute teachers record attendance electronically in Synergy.

#### Views of responsible officials/corrective action plan

The District takes attendance reporting seriously. We began an investigation immediately upon learning of the audit finding. Revised attendance taking procedures were in place as of the first day of the 2017-18 school year.

## SAN FRANCISCO UNIFIED SCHOOL DISTRICT

### STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2017

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#### 2017-003 Instructional Minutes Code 40000

##### **Criteria**

EDC §46201(b) requires the District to provide a minimum of 64,800 annual instructional minutes in grades 9 to 12.

##### **Condition and context**

One of the District's high school sites provided 64,281 annual instructional minutes in grades 9 to 12, which is short by 519 minutes.

This condition applies only at one of the District's 94 regular education sites. At the beginning of the school year, the site planned to offer 65,277 annual instructional minutes. However, due to revisions made part-way through the year, three school days did not qualify for instructional minutes because classes were not offered, although school was open.

##### **Effect**

The site did not offer the minimum number of annual instructional minutes.

##### **Cause**

Site level personnel did not consider the broader implications when they revised the school schedule to include three "teacher workdays."

##### **Questioned costs**

The total ADA at the P-2 reporting period that is subject to this condition was 1,904.02, and the derived value of grade 9-12 ADA was \$9,081.56. The site was short 519 instructional minutes or 0.80%. The instructional time penalty is \$138,492.

##### **Recommendation**

District office personnel responsible for overseeing compliance with the annual instructional minutes should also approve revisions to bell schedules.

##### **Views of responsible officials/corrective action plan**

The site in question revised the bell schedule midway through the year with the best intentions. However, they did not consider the education code requirement of what constitutes an instructional minute. Upon learning of the situation, all sites were reminded that these changes must be pre-approved by the District office.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2017**

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There were no findings reported in the prior year schedule of findings and responses.