

**SAN FRANCISCO UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Francisco Unified School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012*, 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously 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 San Francisco Unified School District, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2012, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Accounting principles generally accepted in the United States of America require that the required supplementary information, such as management's discussion and analysis, budgetary comparison information and schedule of other postemployment benefits funding progress, 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's financial statements. The supplementary information as listed in the table of contents, including the Schedule of Expenditures of Federal Awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* (Circular A-133), is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

Varrinck Time Day + Co. LLP

Palo Alto, California
December 13, 2012

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

PROFILE OF THE DISTRICT

The San Francisco Unified School District (“SFUSD” or the “District”) is the seventh largest school district in California, and currently educates approximately 56,000 students who live in the 49 square mile area of the City and County of San Francisco. The San Francisco Unified School District was established in 1851. The District is governed by an elected Board of seven members. The District also administers the County Office of Education.

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

- 73 elementary schools and K-8 schools
- 13 middle schools
- 18 senior high schools (including two continuation schools and an independent study school)
- 34 state-funded preschool sites

The majority of the District’s schools have designated attendance areas giving priority to students living within those attendance boundaries. The remaining schools are “alternative schools” with no designated attendance area. All SFUSD schools enroll students based on parent/guardian request and provide significant opportunities for parental choice in enrollment.

The District is also the chartering entity and has oversight responsibility for thirteen active charter schools: City Arts and Technology High School, Creative Arts Charter School, Five Keys Charter School, Five Keys Adult School, Five Keys Independent High School, Gateway High School, Gateway Middle School, KIPP Bay View Academy, KIPP Bay Academy, Leadership High School, Life Learning Academy, Metropolitan Arts and Technology High School, and Thomas Edison Charter Academy.

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

The Board of Education adopted in May 2008 the District’s strategic plan, *Beyond the Talk: Taking Action to Educate Every Child Now*.

As identified in the plan, SFUSD is focused on the following goals:

- Access & Equity – Make social justice a reality
- Student Achievement – Engage high achieving and joyful learners
- Accountability – Keep our promises to students and families

A great deal of information about the strategic plan, including the full text of the plan and related objectives, initiatives, and resources can be found at www.sfusd.edu.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

Richard A. Carranza, Deputy Superintendent for Instruction, Innovation, and Social Justice has assumed the role of Superintendent for San Francisco Unified School District on June 26, 2012, replacing Carlos A. Garcia who retired at the end of 2011-12. Mr. Garcia, who previously served as the Superintendent of several urban school districts, has led SFUSD in building an accountability system that includes a comprehensive assessment of programs to measure student learning, a technology infrastructure to support data collection and analysis, strategies for recognizing success and solving problems, and a training plan to show administrators and teachers how to use data to guide their planning, instruction, and organizational plans.

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

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

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

- Ensuring Access and Equity – We are implementing a rigorous core curriculum in all schools and all grades for all students. That means that every student, no matter which school he or she attends, can count on learning content that meets not only California standards but national and international standards.
- Building Strong Foundations in Reading and Writing – We want every one of our students to become curious, engaged readers who love language and explore the world through words. Therefore, we are training all of our pre-Kindergarten and early elementary teachers in a “balanced literacy” approach to instruction so that by 3rd grade all students will be reading at grade level and will be strong readers and writers in formats from multimedia to printed text.
- Graduating Students College- and Career-Ready – By strengthening and aligning high school course offerings and graduation requirements with college entrance requirements, we are ensuring that every student has the academic preparation to enroll in a California state college or university. To prepare students for careers, we offer more than 30 career preparation academies and pathways in our high schools.
- Providing Ongoing Assessment for Student Learning – Our teachers now have access to common performance assessments to better understand how students are learning on a regular basis throughout the year; they can use the results to tailor their instruction to better meet each student's needs.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

- Expanding Opportunities and Support – we want every school, no matter where it is located, to be excellent. Fourteen schools that need the most intensive support have been designated as the “Superintendent’s Zone” schools and are receiving additional assistance, including teacher mentors and skilled data analysts who can help teachers pinpoint where their students need more help.
- Partnering for Success – Our children rely on thousands of talented and caring adults to make our schools work. We are fortunate in San Francisco to have an extensive network of resources, including the city government, businesses, not-for-profits, universities, parents, and community volunteers.

District staff members also continue to improve practices in financial planning and monitoring spending levels. SFUSD’s ability to analyze and estimate revenues and expenses is essential due to the continued unpredictability of financial resources and the State-wide economic trends that will continue to affect the District’s financial condition over the next several years.

FINANCIAL HIGHLIGHTS

2012 RESULTS OF OPERATION

Unrestricted General Fund Results of Operations

During fiscal year 2011-2012, the District’s Unrestricted General Fund ending balance, which includes nonspendable, assigned, and unassigned balances, decreased from a balance of \$55,795,739 to \$50,768,141, a \$5.0 million or 9.0% decrease.

The Unrestricted General Fund ongoing Revenue Sources increased by \$4.9 million or 1.2%. There was an increase in Revenue Limit of \$0.9 million or 0.3%.

Local revenue increased by \$3.4 million or 8.7%. This was due to an increase in sales tax and Rainy Day Fund.

Expenses totaled \$394.0 million, which was \$32.5 million or 9.0% greater than 2010-11.

The Unrestricted General Fund was required to contribute to other funds, primarily Special Education, Transportation, Child Development, Student Nutrition, and Debt Service.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

General Fund Ending Balance and Reserves

The District's combined General Fund ending balance at June 30, 2012 (restricted plus unrestricted) is \$77,892,544. The District's restricted program fund balances, which total \$27,124,403, will largely be used for instructional activities, but their 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 reserves, totaled \$46,398,384.

The following comparison of revenue and expenditures focuses solely on General Fund operations. Table 1 shows the year to year revenue and Table 2 below shows the same comparison of expenditures.

Table 1

	2011	2012	Variance
Revenue limit sources	\$ 259,585,629	\$ 260,470,411	\$ 884,782
Federal sources	50,697,277	62,598,776	11,901,499
Other state sources	129,957,893	131,956,921	1,999,028
Other local sources	107,952,454	120,852,314	12,899,860
	<u>\$ 548,193,253</u>	<u>\$ 575,878,422</u>	<u>\$ 27,685,169</u>

Table 2

	2011	2012	Variance
Instruction	\$ 247,487,665	\$ 255,920,638	\$ (8,432,973)
Instruction related activities	112,045,160	119,568,020	(7,522,860)
Pupil services	38,822,115	39,927,154	(1,105,039)
General administration	26,473,422	27,365,596	(892,174)
Plant services	50,915,298	51,020,247	(104,949)
Facility acquisition and construction	3,415,638	3,494,719	(79,081)
Ancillary services	3,285,578	3,403,319	(117,741)
Enterprise	3,685	3,960	(275)
Other (outgo)	48,554,602	65,834,487	(17,279,885)
Debt service	3,223,875	2,853,909	369,966
Transfers out	12,480,772	6,882,333	5,598,439
	<u>\$ 546,707,810</u>	<u>\$ 576,274,382</u>	<u>\$ (29,566,572)</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

Budgeting

The 2012-13 Budget was developed reflecting the ongoing review and reductions, where appropriate, of the central office budget and the weighted student formula for school sites. This budget reflects the District's goal to emphasize the achievement of all students. Throughout the budget development process, the District staff is encouraged to work with the SFUSD community to develop sound decisions that support the needs of students.

The District held budget hearings and adopted the 2011-12 budget in accordance with provisions of the California Education Code. The SFUSD adopted budget is developed based on the latest information that we have from the Governor's May revision which is typically released months before the final state budget is passed. Changes and updates are made to the budget as needed during the year.

Only grants that the District is certain of receiving are included in the adopted budget. Additional programs are budgeted as grant awards are received. Grants are budgeted to be fully expended. Carryover funds are budgeted per instructions from program managers.

Program needs change during the year. As a result, budget transfers and revisions are ongoing throughout the fiscal year. We have included the Budgetary Comparison schedule on page 60 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.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2012

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 Assets 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 assets* and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or *position*.

- Over time, increases or decreases in the District's net assets 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 (like repaying its long-term debt) or to show that it is properly using certain revenues (like federal grants).

The District has three kinds of funds:

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The District's Entity-wide net assets at June 30, 2012 totaled \$523.8 million. Of this amount, \$506.5 million is the net investment in fixed assets; \$82.9 million is restricted for various purposes. The deficit in unrestricted fund balance of \$65.7 million is primarily due to the District's other postemployment benefits obligation, which totals \$127.3 million at June 30, 2012, an increase of \$28.7 million over the prior year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the close of the year ended June 30, 2012, the District's capital assets totaled \$1,380 million. Accumulated depreciation was \$298.9 million at year end. Depreciation expense for the year totaled \$35.4 million. Net book value (the amount of total assets after applying depreciation) increased by \$73.6 million to \$1,081 million.

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

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

Long-Term Obligations

The District's long-term debt obligations had a beginning balance of \$787.3 million. Additions were \$326.2 million and reductions were \$220.8 million. At June 30, 2012, the ending balance was \$892.7 million. The significant items comprising the District's long-term debt are as follows: \$726.5 million of general obligation bonds, \$127.3 million of postemployment benefits, \$10.5 million of certificates of participation and \$18.7 million of capital leases. The annual debt service requirement on these latter two obligations approximates \$3.2 million and is funded from the District's General Fund. General Obligation Bonds are funded by a separate property tax override and do not require the use of District resources.

Using proceeds generated from the sale of a site, the \$10.5 million of certificates of participation has been fully paid as of August, 2012. Going forward, this will result in a reduction of approximately \$0.9 million in the General Fund annual debt service requirements from \$3.2 million to \$2.3 million.

Other significant general long term obligations consist of the revenue limit deficit loan (of which \$3.3 million is outstanding as of June 30, 2012). Repayments will extend over a ten-year window, commencing in fiscal year 2005-06 and concluding in fiscal year 2014-15 by offsetting to the District's second principal apportionment revenue limit annually. See Note 9 to the accompanying financial statements for a complete summary of long-term liabilities.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

FACTORS BEARING ON THE DISTRICT'S FUTURE

The District's staff continues to use assessments to measure and re-evaluate ways to invest in sound, educational, and programmatic activities while ensuring financial solvency. The district achieved its required reserve target of 2% for FY 2011-12 and currently projects that it will reach or exceed its minimum reserve in both FY 2012-13 and FY 2013-14.

In addition to the Revenue Limit income source, the District also received approximately \$315.4 million of other program funding from the Federal, State, and Local sources. In June 2008, Proposition A, the Quality Teacher & Education Act was passed by the voters of San Francisco, bringing \$30+ million per year for the next twenty years to the District beginning in fiscal year 2008-2009. These resources will assist in recruiting and retaining effective teachers, increasing accountability, and improving the District's technology infrastructure.

Another local revenue source that has been greatly beneficial to SFUSD is the City and County's Rainy Day Reserve (the Reserve), also known as an Economic Stabilization Reserve, Pursuant to the San Francisco Administrative code charter section 9.113.3, San Francisco Unified School District is entitled to receive appropriations from the Reserve under certain conditions. The amount that the District is eligible for in 2012-13 is projected to be \$5.9 million.

As it relates to future State Budgets, the District cannot predict what actions will be taken in the future by the State Legislature and Governor to address the State's current or future budget deficits and cash management practices. Future State budgets will be affected by national and State economic conditions, including the current economic downturn, over which the District has no control, and other factors over which the District will have no control. To the extent that the State budget process results in reduced revenues, increased expenses or deferred revenues for the District, the District will be required to make adjustments to its budget and cash management practices. In the event current or future State budgets include decreases in the District's revenues or increases in required expenditures by the District from the levels assumed by the District, the District will be required to generate additional revenues, curtail programs and/or services, or spend down its reserves to ensure a balanced budget.

The District's Superintendent and senior staff members will continue to work very closely with the Board of Education to identify necessary expenditures reductions or additional revenues. The District is totally committed to take whatever measures necessary to maintain a strong 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.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2012

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 Joseph Grazioli, Chief Financial Officer of the San Francisco Unified School District, 135 Van Ness Avenue, San Francisco, California 94102, (415) 241-6542.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2012

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 13,291,229
Investments	292,664,782
Receivables	126,604,717
Prepaid expenses	2,689,391
Deferred charges	3,689,797
Stores inventories	573,082
Capital assets, net of accumulated depreciation	1,080,697,922
Total assets	<u>1,520,210,920</u>
Liabilities	
Overdrafts	14,831,884
Accounts payable	48,654,795
Interest payable	2,111,491
Deferred revenue	10,626,529
Claim liabilities	27,464,285
Current portion of long-term obligations	48,965,413
Noncurrent portion of long-term obligations	843,729,885
Total liabilities	<u>996,384,282</u>
Net Assets	
Invested in capital assets, net of related debt	506,549,287
Restricted for:	
Legally restricted	36,396,345
Debt service	7,649,005
Capital projects	27,974,900
Self insurance	10,912,790
Unrestricted	(65,655,689)
Total net assets	<u>\$ 523,826,638</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, 2012**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental activities:				
Instruction	\$ 406,808,945	\$ 258,385	\$ 95,186,265	\$ 18,833,572
Instruction related activities:				
Supervision of instruction	97,686,145	139,595	58,747,720	-
Instructional library and technology	8,001,474	43,092	1,533,633	-
School site administration	41,638,639	6,545	3,652,098	-
Pupil services:				
Home-to-school transportation	23,211,121	2,251	5,190,563	-
Food services	21,578,442	1,414,994	15,670,768	-
All other pupil services	50,065,789	80,499	19,620,940	-
General administration:				
Data processing	8,892,075	11,034	317,068	-
All other general administration	23,332,215	83,814	5,826,797	-
Plant services	68,925,988	11,548	1,271,410	-
Ancillary services	3,728,527	25,759	740,190	-
Enterprise services	4,338	34	980	-
Interest on long-term obligations	28,657,365	-	-	-
Other outgo	66,858,728	1,251,570	38,750,211	-
Total governmental activities	\$ 849,389,791	\$ 3,329,120	\$ 246,508,643	\$ 18,833,572

General revenues and subventions:
 Property taxes, levied for general purposes
 Property taxes, levied for debt service
 Taxes levied for other specific purposes
 Federal and state aid not restricted to specific purposes
 Interest and investment earnings
 Interagency revenue
 Miscellaneous
Subtotal, general revenues
Change in net assets
Net assets - beginning
Net assets - ending

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

**Net Revenues
(Expenses)
and Changes
in Net Assets**

**Governmental
Activities**

\$ (292,530,723)

(38,798,830)

(6,424,749)

(37,979,996)

(18,018,307)

(4,492,680)

(30,364,350)

(8,563,973)

(17,421,604)

(67,643,030)

(2,962,578)

(3,324)

(28,657,365)

(26,856,947)

(580,718,456)

244,542,668

52,674,884

33,121,111

124,575,797

2,647,033

55,742,488

81,876,442

595,180,423

14,461,967

509,364,671

\$ 523,826,638

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012**

	General Fund	County School Service Fund	Child Development Fund
ASSETS			
Cash	\$ 1,417,772	\$ -	\$ -
Investments	9,957,532	-	992,412
Receivables	88,523,196	25,842,459	7,968,107
Prepaid expenditures	2,673,026	16,365	-
Stores inventories	553,695	-	-
Total assets	\$ 103,125,221	\$ 25,858,824	\$ 8,960,519
LIABILITIES AND FUND BALANCES			
Liabilities:			
Overdrafts	\$ -	\$ 11,287,465	\$ -
Accounts payable	20,366,974	4,908,791	7,257,128
Deferred revenue	4,865,703	1,188,597	775,412
Total liabilities	25,232,677	17,384,853	8,032,540
Fund Balances:			
Nonspendable	3,227,221	16,365	-
Restricted	27,124,403	4,587,048	927,979
Committed	-	-	-
Assigned	1,142,536	-	-
Unassigned	46,398,384	3,870,558	-
Total fund balances	77,892,544	8,473,971	927,979
Total liabilities and fund balances	\$ 103,125,221	\$ 25,858,824	\$ 8,960,519

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

Building Fund	Bond Interest And Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 10,781,777	\$ 12,199,549
195,353,476	9,707,482	38,691,274	254,702,176
132,815	19,745	4,067,024	126,553,346
-	-	-	2,689,391
-	-	19,387	573,082
<u>\$ 195,486,291</u>	<u>\$ 9,727,227</u>	<u>\$ 53,559,462</u>	<u>\$ 396,717,544</u>

\$ -	\$ -	\$ 3,544,419	\$ 14,831,884
13,866,933	-	1,526,387	47,926,213
-	-	3,796,817	10,626,529
<u>13,866,933</u>	<u>-</u>	<u>8,867,623</u>	<u>73,384,626</u>

-	-	26,582	3,270,168
181,619,358	9,727,227	28,048,705	252,034,720
-	-	2,481,259	2,481,259
-	-	14,135,293	15,277,829
-	-	-	50,268,942
<u>181,619,358</u>	<u>9,727,227</u>	<u>44,691,839</u>	<u>323,332,918</u>
<u>\$ 195,486,291</u>	<u>\$ 9,727,227</u>	<u>\$ 53,559,462</u>	<u>\$ 396,717,544</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2012**

Amounts reported for governmental activities in the Statement of Net Assets are different because:

Total fund balance - governmental funds		\$ 323,332,918
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 1,379,587,562	
Accumulated depreciation is	<u>(298,889,640)</u>	
Net capital assets		1,080,697,922
Debt issuance costs are expensed in governmental funds. In the governmental-wide statements, they are capitalized and amortized to operations over the life of the related debt.		3,689,797
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.		(2,111,491)
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.		10,912,790
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:		
General obligation bonds and premium	726,540,171	
Certificates of participation	10,495,000	
Capital leases payable	18,732,822	
Compensated absences (vacations)	5,801,873	
Arbitrage liability	532,145	
Excess revenue limit transfers	3,300,538	
Post employment liability	<u>127,292,749</u>	
		<u>(892,695,298)</u>
Total net assets - governmental activities		<u><u>\$ 523,826,638</u></u>

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	General Fund	County School Service Fund	Child Development Fund
REVENUES			
Revenue limit sources	\$ 260,470,411	\$ 14,000,772	\$ -
Federal sources	62,598,776	16,369,216	18,571,900
Other state sources	131,956,921	48,669,170	11,624,510
Other local sources	120,852,314	56,106,846	5,765,505
Total Revenues	575,878,422	135,146,004	35,961,915
EXPENDITURES			
Current			
Instruction	255,920,638	93,136,810	23,512,973
Instruction related activities:			
Supervision of instruction	79,281,858	6,630,899	3,253,030
Instructional library and technology	7,303,571	-	-
School site administration	32,982,591	1,122,601	3,901,652
Pupil Services:			
Home-to school transportation	8,556,412	12,630,194	-
Food services	8,100	-	3,685,876
All other pupil services	31,362,642	14,165,879	170,442
General administration:			
Data processing	7,549,961	566,532	-
All other general administration	19,815,635	2,058,093	1,770,615
Plant services	51,020,247	121,201	552,071
Facility acquisition and construction	3,494,719	-	-
Ancillary services	3,403,319	-	-
Other outgo	65,834,487	1,024,241	-
Enterprise services	3,960	-	-
Debt service			
Principal	1,100,179	-	-
Interest and other	1,753,730	-	-
Total Expenditures	569,392,049	131,456,450	36,846,659
Excess (deficiency) of revenues over expenditures	6,486,373	3,689,554	(884,744)
OTHER FINANCING SOURCES (USES):			
Transfers in	-	-	1,405,286
Other sources	-	-	-
Transfers out	(6,882,333)	-	-
Other uses	-	-	-
Net Financing Sources (Uses)	(6,882,333)	-	1,405,286
NET CHANGE IN FUND BALANCES	(395,960)	3,689,554	520,542
Fund Balance - Beginning	78,288,504	4,784,417	407,437
Fund Balance - Ending	\$ 77,892,544	\$ 8,473,971	\$ 927,979

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

Building Fund	Bond Interest Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ -	\$ 274,471,183
-	2,154,808	11,648,827	111,343,527
-	224,481	19,720,879	212,195,961
8,901,974	52,742,584	10,327,389	254,696,612
8,901,974	55,121,873	41,697,095	852,707,283
-	-	-	372,570,421
-	-	-	89,165,787
-	-	-	7,303,571
-	-	-	38,006,844
-	-	-	21,186,606
-	-	16,002,356	19,696,332
-	-	-	45,698,963
-	-	-	8,116,493
-	-	764,634	24,408,977
-	-	64,387	51,757,906
112,198,794	-	7,372,103	123,065,616
-	-	-	3,403,319
-	-	-	66,858,728
-	-	-	3,960
-	31,460,000	1,429,893	33,990,072
-	28,850,424	1,723,692	32,327,846
112,198,794	60,310,424	27,357,065	937,561,441
(103,296,820)	(5,188,551)	14,340,030	(84,854,158)
17,148,064	-	5,477,047	24,030,397
115,000,000	145,113,644	10,767,000	270,880,644
-	-	(17,148,064)	(24,030,397)
-	(143,334,003)	-	(143,334,003)
132,148,064	1,779,641	(904,017)	127,546,641
28,851,244	(3,408,910)	13,436,013	42,692,483
152,768,114	13,136,137	31,255,826	280,640,435
\$ 181,619,358	\$ 9,727,227	\$ 44,691,839	\$ 323,332,918

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, 2012

Amounts reported for governmental activities in the Statement of Activities are different because:

Total net change in fund balances - governmental funds	\$ 42,692,483
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 Assets as property and equipment and this 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	\$ 108,955,867
Depreciation expense	(35,369,931) 73,585,936
Repayment of capital leases is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	1,064,893
Repayment of general obligation bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	168,845,000
In the Statement of Activities, certain operating expenses - compensated absences - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid).	343,325
Repayment of certificates of participation principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	365,000
Loss on refunding is recognized as a reduction of liabilities and does not affect the Statement of Activities.	2,229,257
Proceeds received from sale of bonds is a revenue source in the governmental funds, but it increases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	(231,140,000)
Premium received from the sale of bonds is a revenue source in the governmental funds, but it increases long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	(28,973,644)

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2012

Payment of costs of issuance on new bonds is an expenditure in the governmental funds, but it is recorded as a prepaid expense and amortized over the life of the bond in the Statement of Activities.	1,146,435
Amortization of bond premium is a revenue source in the statement of activities, but is not recognized in the governmental funds.	8,354,541
Amortization of issuance costs is an expense in the Statement of Activities, but is not recognized in the governmental funds.	(1,355,219)
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.	(36,297)
In the Statement of Activities, the arbitrage liability on interest earned for the tax exempt general obligation bonds is recognized as an expense, but is not recognized in the governmental funds until it is paid.	1,327,464
Amortization of defeasance costs is an expense in the statement of activities, but is not recognized in the governmental funds.	(159,233)
In the Statement of Activities, the unfunded Annual Required Contribution (ARC) for other post-employment benefits is recognized as an expense, but is not recognized in the governmental funds.	(28,714,823)
The excess revenue limit received during 2003-04 was recorded as revenue in the governmental funds and a long term liability in the Statement of Net Assets. The negotiated installment payments to repay the State is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets and does not affect the Statement of Activities.	1,100,179
An internal service fund is used by the District's management to charge the costs of the employment insurance program to the individual funds. The increase in net assets of the internal service fund is not reported in the governmental funds, but is reported in the Statement of Activities.	3,786,670
Increase in net assets of governmental activities	<u>\$ 14,461,967</u>

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET ASSETS
JUNE 30, 2012**

	Governmental Activities: Internal Service Fund
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 39,054,286
Receivables	51,371
Total current assets	<u>39,105,657</u>
LIABILITIES	
Current liabilities:	
Accounts payable	728,582
Claim liability - workers' compensation	26,824,000
Claim liability - dental	640,285
Total current liabilities	<u>28,192,867</u>
RESTRICTED NET ASSETS	<u>\$ 10,912,790</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, 2012**

	Governmental Activities: Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 21,871,664
Cash payments for insurance claims	(17,816,633)
Cash payments to suppliers for goods and services	(1,013,725)
Cash payments for excess insurance premium	(126,188)
Net cash provided by operating activities	<u>2,915,118</u>
 CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>360,416</u>
 Net increase in cash and cash equivalents	3,275,534
Cash and cash equivalents - Beginning of year	35,778,752
Cash and cash equivalents - End of year	<u><u>\$ 39,054,286</u></u>
 RECONCILIATION OF OPERATING PROFIT TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating profit	\$ 3,409,195
Decrease in receivables	25,844
Increase in accrued liabilities	(519,921)
Net cash provided by operating activities	<u><u>\$ 2,915,118</u></u>

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012**

	Payroll Revolving Agency Fund	Student Body Agency Fund	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 2,478,995	\$ 2,478,995
Investments	9,403,275	-	9,403,275
Total assets	\$ 9,403,275	\$ 2,478,995	\$ 11,882,270
LIABILITIES			
Salaries and benefits payable	\$ 9,403,275	\$ -	\$ 9,403,275
Due to student groups	-	2,478,995	2,478,995
Total liabilities	\$ 9,403,275	\$ 2,478,995	\$ 11,882,270

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The San Francisco Unified School District (the District) was established as the San Francisco School System in 1851 under the laws of the State of California. The District and County Office of Education (COE) operates under a locally-elected seven-member Board form of government and provides educational services to grades K - 12 as mandated by State and Federal agencies. The District and COE provide child care and elementary and secondary education in the City and County of San Francisco, California. The District also administers the COE fund (County School Service Fund). For financial reporting purposes, the District includes all funds, account groups, agencies, and authorities that are controlled by or dependent on the District's executive or legislative branches. Control by or dependence on the District was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the District, obligations of the District to finance any deficits that may occur, or receipt of significant subsidies from the District. The District operates 73 elementary schools, 13 middle schools, 18 high schools, including 2 continuation schools, and 1 independent study alternative school. The District sponsors 13 Charter Schools. The District also maintains 34 early childhood education centers.

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

Component Units

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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 Independent High School, Gateway High School, Gateway Middle School, KIPP Bay View Academy, KIPP Bay Academy, Leadership High School, Life Learning Academy, Metropolitan Arts and Technology High School, and Thomas Edison Charter Academy pursuant to Education Code Section 47605. The Charter Schools are sponsored by the District but operate independently. Their financial activity is not presented in the District's financial statements except for the pass-through of State aid and property tax revenues.

Basis of Presentation - Fund Accounting

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

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

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

In addition, under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, the uncommitted portion of Fund 14, Deferred Maintenance Fund does not currently meet the special revenue fund definition. Thus, this portion has been combined with the General Fund for financial statement presentation purposes. The remaining committed portion of Fund 14 is being shown in the special revenue fund category.

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

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.

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Nonmajor Governmental Funds

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

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

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

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

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

COP Debt Service Fund The COP Debt Service Fund is used to account for the interest and redemption of principal of certificates of participation.

Capital Projects Funds The Capital Project funds are used to account for and report 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), or the 2004 State School Facilities Fund (Proposition 55) 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.).

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position and cash flows. The District applies all GASB pronouncements as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has no enterprise funds.

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

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

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

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

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

Basis of Accounting - Measurement Focus

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

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

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

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

Proprietary Funds Proprietary funds are accounted for using the economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the Statement of Net Assets. The Statement of Revenues, Expenses and Changes in Fund Net Assets presents increases (revenues) and decreases (expenses) in net total assets. 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, 2012

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

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

Deferred Revenue Deferred 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 deferred revenue is removed from the combined balance sheet and revenue is recognized.

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

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

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2012 consist of deposits with the County Treasurer and are stated at amortized cost which approximates fair value. Fair value is provided by the County Treasurer.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Prepaid Expenditures

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

Stores Inventories

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

Capital Assets and Depreciation

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

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

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

Compensated Absences

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

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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, COP's and capital leases are recognized as expenditures in governmental funds when paid.

Deferred Issuance Costs, Premiums, and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term obligations are reported as liabilities in the applicable governmental activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Fund Balances - Governmental Funds

As of June 30, 2012, fund balances of the governmental funds are classified as follows:

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

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

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

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

Unassigned - all other spendable amounts.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The District has \$523,826,638 in net assets as of June 30, 2012. Of that amount, \$506,549,287 represents the District's investment in net fixed assets, net of related outstanding debt. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating Revenues and Expenses

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

Interfund Activity

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

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.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Budgetary Data

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

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

Property Taxes

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

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of GASB Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of GASB Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

In June 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*. This Statement provides financial reporting guidance for deferred outflows of resources and deferred inflows of resources. Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined those elements as a consumption of net assets by the government that is applicable to a future reporting period, and an acquisition of net assets by the government that is applicable to a future reporting period, respectively. Previous financial reporting standards do not include guidance for reporting those financial statement elements, which are distinct from assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2011. Earlier implementation is encouraged.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. This Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

In March 2012, the GASB issued Statement No. 66, *Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62*. The objective of this Statement is to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, Statements No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Earlier implementation is encouraged.

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of Statement No. 27*. The primary objective of this Statement is to improve accounting and financial reporting by state and local governments for pensions. It also improves information provided by State and local governmental employers about financial support for pensions that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for pensions with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency. This Statement is effective for fiscal years beginning after June 15, 2014. Earlier implementation is encouraged.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2012, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 266,901,725	
Less: deficit cash (overdraft)	<u>(14,831,884)</u>	
Total governmental funds		\$ 252,069,841
Self insurance fund		39,054,286
Fiduciary funds		<u>11,882,270</u>
Total deposits and investments		<u>\$ 303,006,397</u>

Deposits and investments as of June 30, 2012, consist of the following:

Cash on hand and in banks		\$ 15,770,224
Deposits with county treasurer	302,068,057	
Less: deficit cash (overdraft)	<u>(14,831,884)</u>	
Total deposits with county treasurer		<u>287,236,173</u>
Total deposits and investments		<u>\$ 303,006,397</u>

Policies and Practices

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

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 county pool.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Amortized Cost	Fair Value	Weighted Average Maturity in Years
County Investment Pool	\$ 287,236,173	\$ 289,650,393	2.65

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the county pool is not required to be rated, nor has been rated as of June 30, 2012.

Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105% of the secured deposits. As of June 30, 2012, the District was not exposed to any significant custodial credit risk.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 3 - RECEIVABLES

Receivables at June 30, 2012, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General	County School Service	Child Development	Building
Federal Government				
Categorical aid	\$ 25,782,017	\$ 4,751,872	\$ 6,372,600	\$ -
State Government				
Apportionment	37,420,614	19,902,681	15,686	-
Categorical aid	11,576,902	983,696	-	-
Lottery	3,964,196	195,663	-	-
Local Government				
Interest	12,081	-	-	132,515
Other Local Sources	9,767,386	8,547	1,579,821	300
Total	<u>\$ 88,523,196</u>	<u>\$ 25,842,459</u>	<u>\$ 7,968,107</u>	<u>\$ 132,815</u>
	Bond Interest and Redemption	Nonmajor Funds	Total Governmental	Total Proprietary
Federal Government				
Categorical aid	\$ -	\$ 2,694,867	\$ 39,601,356	\$ -
State Government				
Apportionment	-	-	57,338,981	-
Categorical aid	-	115,672	12,676,270	-
Lottery	-	-	4,159,859	-
Local Government				
Interest	19,745	47,747	212,088	51,371
Other Local Sources	-	1,208,738	12,564,792	-
Total	<u>\$ 19,745</u>	<u>\$ 4,067,024</u>	<u>\$ 126,553,346</u>	<u>\$ 51,371</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2012, was as follows:

	Balance June 30, 2011	Additions	Balance June 30, 2012
Governmental Activities *			
Capital assets being depreciated:			
Buildings and improvements	\$ 1,221,030,615	\$ 108,937,867	\$ 1,329,968,482
Furniture and equipment	49,601,080	18,000	49,619,080
Total capital assets being depreciated	<u>1,270,631,695</u>	<u>108,955,867</u>	<u>1,379,587,562</u>
Less accumulated depreciation:			
Buildings and improvements	234,128,923	33,617,237	267,746,160
Furniture and equipment	29,390,786	1,752,694	31,143,480
Total accumulated depreciation	<u>263,519,709</u>	<u>35,369,931</u>	<u>298,889,640</u>
Governmental activities - capital assets, net	<u>\$ 1,007,111,986</u>	<u>\$ 73,585,936</u>	<u>\$ 1,080,697,922</u>

* Costs of land and old buildings are not included as the majority of them were acquired more than 100 years ago. The acquisition costs are not material to the financial statements.

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

Governmental Activities	
Instruction	\$ 18,998,857
Supervision of instruction	4,727,921
Instructional library & media	387,264
School site administration	2,015,273
Home to school transportation	1,123,397
Food services	1,044,377
All other pupil services	2,423,139
Ancillary services	180,457
Enterprise activities	210
All general administration	1,294,260
Data processing services	430,368
Plant services	2,744,408
Total depreciation expense, governmental activities	<u>\$ 35,369,931</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 5 – INTERFUND TRANSACTIONS

Operating Transfers

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

Interfund transfers for the year ended June 30, 2012, consisted of the following:

Transfer Out	Transfer In			Total
	Child Development Fund	Building Fund	Nonmajor Governmental Funds	
General Fund	\$ 1,405,286	\$ -	\$ 5,477,047	\$ 6,882,333
Non-major Governmental Funds		17,148,064	-	17,148,064
Total	\$ 1,405,286	\$ 17,148,064	\$ 5,477,047	\$ 24,030,397

The General fund transferred to the Child Development Fund to cover the operating deficit.	\$ 1,405,286
The General fund transferred to the Cafeteria Fund to cover the operating deficit.	1,923,462
The General Fund transferred to the Special Reserve Fund - Capital for lease payments.	2,281,446
The General Fund transferred to the Debt Service Fund for COP principal and interest payments.	872,139
The General Fund transferred to the Deferred Maintenance Fund for maintenance projects.	400,000
The County School Facility Fund transferred to Building Fund for construction cost	17,148,064
Total interfund transfers	<u>\$ 24,030,397</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2012, consisted of the following:

	General Fund	County School Service	Child Development	Building
Vendor payables	\$ 20,279,338	\$ 4,908,231	\$ 961,742	\$ 13,866,933
State categorical payables	83,241	560	6,295,386	-
Federal categorical payables	4,395	-	-	-
Total	<u>\$ 20,366,974</u>	<u>\$ 4,908,791</u>	<u>\$ 7,257,128</u>	<u>\$ 13,866,933</u>

	Nonmajor Governmental	Total Governmental	Proprietary Funds
Vendor payables	\$ 1,526,387	\$ 41,542,631	\$ 728,582
State categorical payables	-	6,379,187	-
Federal categorical payables	-	4,395	-
Total	<u>\$ 1,526,387</u>	<u>\$ 47,926,213</u>	<u>\$ 728,582</u>

Additional interest payable in the Statement of Net Assets includes \$2,111,491 for accrued interest on long term obligations.

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2012, consists of the following:

	General	County School Service	Building	Nonmajor Funds	Total
Federal financial assistance	\$ 2,610,960	\$ 1,110,528	\$ 775,412	\$ 40,545	\$ 4,537,445
State categorical aid	2,254,743	78,069	-	3,756,272	6,089,084
Total	<u>\$ 4,865,703</u>	<u>\$ 1,188,597</u>	<u>\$ 775,412</u>	<u>\$ 3,796,817</u>	<u>\$ 10,626,529</u>

NOTE 8 – TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 1, 2011, the District issued \$80,000,000 Tax and Revenue Anticipation Notes bearing interest at two percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on June 29, 2012. By April 30, 2012, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes.

Issue Date	Rate	Maturity Date	Outstanding July 1, 2011	Additions	Payments	Outstanding June 30, 2012
7/1/2011	2.00%	6/29/2012	\$ -	\$ 80,000,000	\$ 80,000,000	\$ -

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 9 – LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2011	Additions	Deductions	Balance June 30, 2012	Due in one year
General obligation bonds	\$ 617,790,000	\$ 231,140,000	\$ 168,845,000	\$ 680,085,000	\$ 32,725,000
Bond premium	27,906,092	28,973,644	8,354,541	48,525,195	3,602,824
Bond defeasance costs	-	(2,229,257)	(159,233)	(2,070,024)	(159,233)
Certificates of participation	10,860,000	-	365,000	10,495,000	10,495,000
Accumulated vacation - net	6,145,198	-	343,325	5,801,873	-
Capital leases	19,797,715	-	1,064,893	18,732,822	1,201,643
Revenue limit deficit	4,400,717	-	1,100,179	3,300,538	1,100,179
Arbitrage liability	1,859,609	532,145	1,859,609	532,145	-
Post employment liability	98,577,926	67,745,652	39,030,829	127,292,749	-
	<u>\$ 787,337,257</u>	<u>\$ 326,162,184</u>	<u>\$ 220,804,143</u>	<u>\$ 892,695,298</u>	<u>\$ 48,965,413</u>

Payment of the general obligation bonds will be made by the Bond Interest and Redemption Fund. The Bond Interest and Redemption Fund receives property tax revenues which are used solely to repay the principal and interest due on these obligations. Payments on certificates of participation will be paid in 2012-13 using proceeds from sale of a site. The amount has been assigned in the fund balance of Special Reserve – Capital Projects Fund. The accrued vacation and postemployment liability will be paid by the fund for which the employee worked at time of payment. Payments on capital leases will be made by the Special Reserve – Capital Fund which also receives contributions from the General Fund. The revenue limit deficit will be deducted from the General Fund annual apportionment. The arbitrage liability will be paid by the Building Fund.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Bonded Debt

Defeased Bonded Debt

On March 6 2012, the District issued \$116,140,000 in General Obligation Bonds (the "2012 Refunding Bonds") with interest rates ranging from 0.3 to 5.0 percent to advance refund a total of \$137,385,000 of outstanding 2004 General Obligation Bonds (the "2004 Series A Bonds") and 2005 General Obligation Bonds (the "2005 Series A Bonds" with interest rates ranging from 3.0 to 5.0 percent. The net proceeds of \$143,334,003 (including the District's cash payment of \$13,102,697 and after payment of \$422,897 in issuance costs) 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 payment on the 2004 Series A Bonds and 2005 Series B Bonds. As a result, the 2004 Series A Bonds and 2005 Series B Bonds are considered to be defeased and the liability for those bonds has been removed from the government-wide Statement of Net Assets.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$2,229,257. This difference, reported in the accompanying financial statements as a deduction from bonds payable, is being charged to operations through the year 2025 using the straight line method. The District completed the advance refunding to reduce its total debt services payments over the next fourteen years by \$20,868,776 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$14,441,634.

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Outstanding June 30, 2011	Issued	Redeemed	Outstanding June 30, 2012
10/19/04	6/15/24	3.90%	\$58,000,000	\$ 42,465,000	\$ -	\$ 42,465,000	\$ -
10/12/05	6/10/25	3.00-5.00%	130,000,000	102,800,000	-	102,800,000	-
10/12/06	6/15/26	4.00-5.00%	92,000,000	76,200,000	-	3,685,000	72,515,000
02/28/07	6/15/27	3.00-5.00%	100,000,000	87,260,000	-	3,790,000	83,470,000
01/22/09	6/15/27	1.50-5.25%	150,000,000	127,785,000	-	7,550,000	120,235,000
05/19/10	5/15/27	5.74%	12,955,000	12,955,000	-	-	12,955,000
05/19/10	6/15/30	5.74%	72,370,000	72,370,000	-	-	72,370,000
05/19/10	6/15/23	0.50-5.00%	99,675,000	95,955,000	-	6,460,000	89,495,000
03/06/12	6/15/32	4.00-5.00%	115,000,000	-	115,000,000	-	115,000,000
03/06/12	6/15/25	0.30-5.00%	116,140,000	-	116,140,000	2,095,000	114,045,000
				<u>\$ 617,790,000</u>	<u>\$ 231,140,000</u>	<u>\$ 168,845,000</u>	<u>680,085,000</u>
						Unamortized bond premium	48,525,195
						Unamortized defeasance costs	(2,070,024)
						Total	<u>\$726,540,171</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Debt Service Requirement to Maturity

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2013	\$ 32,725,000	\$ 31,690,929	\$ 64,415,929
2014	34,230,000	30,241,429	64,471,429
2015	35,485,000	29,028,645	64,513,645
2016	37,185,000	27,320,795	64,505,795
2017	39,005,000	25,485,545	64,490,545
2018-2022	222,965,000	97,876,687	320,841,687
2023-2027	201,475,000	44,343,599	245,818,599
2028-2032	77,015,000	9,932,141	86,947,141
Total	<u>\$ 680,085,000</u>	<u>\$ 295,919,770</u>	<u>\$ 976,004,770</u>

Certificates of Participation

In January 1999, the District issued \$14,045,000 in certificates of participation to finance the acquisition and improvement of a new administrative building. Interest rates range from 3.4 to 4.15 percent. At June 30, 2012, the principal balance outstanding was \$10,495,000. The entire amount has been paid off in August 2012.

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.

Reductions to vested compensated absences reflect net changes during the year ended June 30, 2012. Also, the City and County of San Francisco Charter provisions allow classified employees to accumulate up to 130 working days of sick leave. Certificated employees, under State law, are allowed to accumulate unlimited days of sick leave. Upon normal retirement, the District will redeem 100 percent of the sick leave accrued by classified personnel prior to December 5, 1978, and no sick leave accrued after December 5, 1978. No sick leave amounts are payable to certificated personnel upon normal retirement, or to employees who terminate for any reason prior to retirement.

Capital Leases

Reported with capital assets are the energy retrofit capital lease of \$32,947,132 and corresponding accumulated depreciation of \$17,132,509 at June 30, 2012. The District's liabilities on lease agreements with options to purchase are summarized below:

Balance, Beginning of Year	<u>\$ 27,737,604</u>
Payments	<u>(2,281,446)</u>
Balance, End of Year	<u>\$ 25,456,158</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2013	\$ 2,349,890
2014	2,420,386
2015	2,492,998
2016	2,567,788
2017	2,644,822
2018-2022	12,980,274
Total	<u>25,456,158</u>
Less: Amount Representing Interest	6,723,336
Present Value of Minimum Lease Payments	<u>\$ 18,732,822</u>

Revenue Limit Deficit

Due to a change in the way the State calculated the revenue limit for the 2003-04 fiscal year, the District recorded negative State aid in the amount of \$10,051,433. This negative amount is normally considered to be a current liability as the District does owe the money back to the State. In view of their current financial condition, the District met with the State and the two parties agreed to a repayment plan that will allow the District to repay this obligation over ten years. At June 30, 2012, the principal balance outstanding for the District was \$3,300,538. The terms of the agreement call for the District to repay the balance, in the form of a reduction of subsequent years' state apportionments, without interest, as follows:

Year Ending June 30,	Payment
2013	\$ 1,100,179
2014	1,100,179
2015	1,100,180
Total	<u>\$ 3,300,538</u>

Arbitrage Rebate Liability

This liability represents the excess interest income earned by the District from the proceeds of its general obligation bond issues over those currently allowed by IRS regulations. The short-term excess interest earned must be paid back to the government within one year. The long-term excess interest earned will be paid back to the government no later than three years. Additional calculations will be required in subsequent years to update the actual amount of the liability due. As of June 30, 2012, there is no short-term liability due within one year and the amount of long term arbitrage rebate liability was \$532,145.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2012, was \$62,816,756, and contributions made by the District during the year were \$34,664,509. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$4,928,896 and \$(4,366,320), respectively, which resulted in an increase to the net OPEB obligation of \$28,714,823. As of June 30, 2012, the District has not funded the obligation. See Note 12 for additional information regarding the OPEB obligation and the postemployment benefits plan.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 10 – FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	County School Service Fund	Child Development Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable							
Revolving cash	\$ 500	\$ -	\$ -	\$ -	\$ -	\$ 7,195	\$ 7,695
Stores inventories	553,695	-	-	-	-	19,387	573,082
Prepaid expenditures	2,673,026	16,365	-	-	-	-	2,689,391
Total nonspendable	<u>3,227,221</u>	<u>16,365</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>26,582</u>	<u>3,270,168</u>
Restricted							
Legally restricted	27,124,403	4,587,048	927,979	-	-	40,536	32,679,966
Capital projects	-	-	-	181,619,358	-	27,974,900	209,594,258
Debt services	-	-	-	-	9,727,227	33,269	9,760,496
Total restricted	<u>27,124,403</u>	<u>4,587,048</u>	<u>927,979</u>	<u>181,619,358</u>	<u>9,727,227</u>	<u>28,048,705</u>	<u>252,034,720</u>
Committed							
Deferred maintenance	-	-	-	-	-	2,481,259	2,481,259
Total committed	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,481,259</u>	<u>2,481,259</u>
Assigned							
Tier III commitment	1,142,536	-	-	-	-	-	1,142,536
Capital projects	-	-	-	-	-	14,135,293	14,135,293
Total assigned	<u>1,142,536</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>14,135,293</u>	<u>15,277,829</u>
Unassigned							
Reserve for economic uncertainties	11,272,831	2,585,051	-	-	-	-	13,857,882
Remaining unassigned	35,125,553	1,285,507	-	-	-	-	36,411,060
Total unassigned	<u>46,398,384</u>	<u>3,870,558</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>50,268,942</u>
Total fund balances	<u>\$77,892,544</u>	<u>\$ 8,473,971</u>	<u>\$ 927,979</u>	<u>\$181,619,358</u>	<u>\$ 9,727,227</u>	<u>\$44,691,839</u>	<u>\$ 323,332,918</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

Reconciliation to Statement of Net Assets The following is a reconciliation of the difference between the unassigned general fund balance and the unrestricted net asset deficit as shown in the Statement of Net Assets:

Balance per Governmental Fund Balance Sheet	\$ 46,398,384
Add Back:	
Tier III assigned balance	1,142,536
General fund revolving cash	500
General fund prepaid operating expenditures	2,673,026
General fund inventory	553,695
County school service unassigned fund balance	3,870,558
County school service prepaid operating expenditures	16,365
Deferred maintenance program committed fund balance	2,481,259
Special Reserved - Capital Outlay assigned for capital project fund balance	14,135,293
Deduct:	
Compensated absences liability	(5,801,873)
Revenue limit deficit	(3,300,538)
Arbitrage liability	(532,145)
Other post-employment benefits liability	(127,292,749)
Balance per Statement of Net Assets	<u><u>\$ (65,655,689)</u></u>

NOTE 11 - LEASE REVENUES

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

Year Ending June 30,	Lease Revenue
2013	\$ 3,453,356
2014	3,453,356
2015	3,220,505
2016	3,152,888
2017	3,152,888
Thereafter	85,356,153
Total	<u><u>\$ 101,789,146</u></u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the San Francisco Unified School District. The Plan provides medical insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 4,996 retirees and their beneficiaries currently receiving benefits and 6,898 active plan members. The unfunded portion of the annual requirement contributions (net OPEB obligation) is presented in the Statement of Net Assets as a portion of long-term obligations.

Contribution Information

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 2011-12, the District contributed \$34,644,509 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 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	\$ 62,816,756
Interest on net accrued OPEB obligation	4,928,896
Adjustment to annual required contribution	<u>(4,366,320)</u>
Annual OPEB cost (expense)	63,379,332
Contributions made	<u>(34,664,509)</u>
Increase in net OPEB obligation	28,714,823
Net OPEB obligation, beginning of year	<u>98,577,926</u>
Net OPEB obligation, end of year	<u>\$ 127,292,749</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

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	Annual Contribution	Percentage Contributed	Net OPEB Obligation
2012	\$ 63,379,332	\$ 34,664,509	55%	\$ 127,292,749
2011	63,213,898	34,225,547	54%	98,577,926
2010	49,728,078	32,354,629	65%	69,589,575

Funded Status and Funding Progress

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

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, 2011	\$ -	\$ 736,931,483	\$ 736,931,483	0.00%	\$ 396,102,456	186%

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

Actuarial Methods and Assumptions

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

In the December 1, 2011, actuarial valuation, the entry age normal method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on assumed long term return on plan assets or employer assets, as appropriate. Healthcare cost trend rate is four percent with the assumption that trend increases in excess of general inflation result in fundamental changes in health care finance and/or delivery which will bring increases in health care costs more closely in line with general inflation. The UAAL is being amortized at a level percentage of payroll method. The UAAL is amortized using an opened amortization period of thirty years. The remaining amortization period at July 1, 2012, was thirty years. The actuarial value of assets was not determined in this actuarial valuation.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2012**

NOTE 13 - RISK MANAGEMENT

The District’s risk management activities are recorded in the General and Self-Insurance Funds. Employee life, health, and disability programs are administered through the purchase of commercial insurance. Employee dental and workers’ compensation insurance is provided on a self-funded basis. The District participates in Schools Excess Liability Fund (SELF) joint powers authority (JPA). The District pays annual contributions to SELF for additional excess liability coverage. Additional commercial insurance is also purchased for excess workers’ compensation, property, general liability, crime, student foreign travel, and student accidents.

For 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.

Claims 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, 2010 to June 30, 2012:

	Workers' Compensation	Dental	Total
Liability Balance, June 30, 2010	\$ 26,824,000	\$ 647,841	\$ 27,471,841
Claims and changes in estimates	5,287,824	6,945,976	12,233,800
Claims payments	(5,287,824)	(6,811,080)	(12,098,904)
Liability Balance, June 30, 2011	26,824,000	782,737	27,606,737
Claims and changes in estimates	4,995,500	7,213,030	12,208,530
Claims payments	(4,995,500)	(7,355,482)	(12,350,982)
Liability Balance, June 30, 2012	<u>\$ 26,824,000</u>	<u>\$ 640,285</u>	<u>\$ 27,464,285</u>
Assets available to pay claims at June 30, 2012			<u>\$ 38,377,075</u>

NOTE 14 – EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer retirement plans. All eligible employees are eligible to participate under defined benefit retirement plans maintained by agencies of the City and County of San Francisco and the State of California. Certificated employees hired as of or after July 1, 1972, are eligible to participate in the cost-sharing multiple-employer, contributory California State Teachers' Retirement System (CalSTRS). Classified employees and certain certificated employees hired prior to July 1, 1972, are eligible to participate in the single-employer San Francisco Employees’ Retirement System (SFERS).

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

CalSTRS

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826, or online at www.calstrs.com.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal 2011-2012 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2012, 2011 and 2010 were \$23,290,306, \$22,990,582, and \$24,239,282, respectively, and equal 100 percent of the required contributions for each year.

SFERS

Plan Description

The District contributes to the San Francisco Employees' Retirement System (SFERS). SFERS is a separate department of the City and County of San Francisco, deriving its powers, functions, and responsibility from the City charter and ordinances of the Board of Supervisors of the City and County of San Francisco. Substantially all employees of the City and County are a member 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. The retirement fund provides retirement, disability, and death benefits based on the employee's years of service, age, and final compensation. 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.

Funding Policy

In accordance with the City charter, District participants contribute 7.5 percent to 8.0 percent of their salaries to the SFERS. The funding policy of SFERS provides for actuarially determined periodic contributions by the District at rates such that sufficient assets will be available to SFERS to pay District participants' benefits when due. Employer contribution rate for the year ended June 30, 2012 was 18.09% of covered payroll.

During the years ended June 30, 2012, 2011, and 2010 the District's contributions were \$11,692,725, \$12,749,635, and \$10,484,730, respectively, and equal 100 percent of the required contributions for each year.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Funding Status and Progress

The pension benefit obligation is a standardized disclosure measure that results from applying actuarial assumptions to estimate the present value of pension benefits, adjusted for the effects of projected salary increases and step rate benefits, to be payable in the future as a result of employee service to date. The measure is intended to help users assess on a going-concern basis the funding status of SFERS, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons between retirement systems and employers. The measure is the actuarial present value of credited projected benefits and is independent of the funding method used. SFERS does not make separate measurements of assets and the pension benefit obligation for the District.

The pension benefit obligation of SFERS was computed as part of an actuarial valuation performed as of July 1, 2011. The significant actuarial assumptions used in the 2011 valuation to compute the pension benefit obligation were an assumed rate of return on investment assets of 7.75 percent and annual future wage inflation of 4.0 percent.

Information regarding the pension benefit obligation of SFERS for the year ended June 30, 2011 is based on the 2011 actuarial valuation (latest information available). Such valuation included plan assets at fair value and the pension benefit obligation computed as an actuarial accrued liability. The actuarial accrued liability and actuarial value of assets at June 30, 2011 (in millions) were \$18,599 and \$16,313, respectively. The underfunded liability (in millions) and funded ratio were \$2,286 and 87.7 percent, respectively. The underfunded amount represented 96.9 percent of the total covered payroll (in millions) of \$2,360 for the 2011 valuation year.

Historical Trend Information

Ten-year trend information for the years ended June 30, 2002 through 2011 is as follows (dollars in millions):

	2011*	2010	2009	2008	2007	2006	2005	2004	2003	2002
Actuarial value of assets										
available for benefit payments	\$ 16,313	\$ 16,069	\$ 16,005	\$ 15,941	\$ 14,929	\$ 13,598	\$ 12,660	\$ 11,300	\$ 11,174	\$ 11,102
Actuarial accrued liability - entry age underfunded (overfunded) actuarial accrued liability	18,599	17,643	16,499	15,359	13,541	12,515	11,766	10,885	10,250	9,416
	2,286	1,574	494	(582)	(1,388)	(1,083)	(894)	(415)	(924)	(1,686)
Funded ratio (actuarial value of assets as a percentage of actuarial accrued liability)	87.7%	91.1%	97.0%	103.8%	110.3%	108.7%	107.6%	103.8%	109.0%	117.9%
Covered payroll	\$ 2,360	\$ 2,398	\$ 2,545	\$ 2,457	\$ 2,376	\$ 2,177	\$ 2,053	\$ 2,155	\$ 2,130	\$ 2,019
Underfunded (overfunded) actuarial accrued liability as a percentage of covered payroll	96.9%	65.6%	19.4%	-23.7%	-58.4%	-49.7%	-43.5%	-19.3%	-43.4%	-83.5%
Annual required employer contribution made in accordance with actuarially determined requirements	\$ 427	\$ 325	\$ 241	\$ 123	\$ 140	\$ 136	\$ 135	\$ 97	\$ -	\$ -

* Most recent information available.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

Plan Description and Funding Policy

PARS

The District previously participated in three retirement plans administered by the Public Agency Retirement System (PARS) Trust: the Alternative Retirement System (ARS), the Target Benefit Plan (TBP), and the Supplementary Retirement Plan (SRP). PARS plans were defined contribution plans that covered employees who were not eligible to participate under CalSTRS or SFERS.

The District terminated the ARS and TBP retirement plans on October 12, 2011. At that time the members were automatically transferred to Social Security, except those members 55 years or older who were granted a one-time option to participate in an alternative plan. Approximately 150 members elected this option. Those members also have the option of transferring back into Social Security at any time.

Social Security/Alternative Plan

As established by Federal law, District employees who are not eligible members of the employer's existing retirement systems must be covered by Social Security or the Alternative Plan, as defined below. Under Social Security, the District contributes 6.2 percent of an employee's gross earnings and the employee is required to contribute 4.2 percent of gross earnings. Under the Alternative Plan, the District contributes 6.25 percent of gross earnings and the employee contributes 1.25 percent of gross earnings.

ARS

The ARS is a defined contribution plan previously available to District employees, including part-time, seasonal and temporary, who were not accruing benefit under Social Security or another retirement plan which meets the requirements of Internal Revenue code 3121(B)(7)(F). Employees participating in ARS contributed 3.25 percent with the District contributing a match of up to 6.20 percent. All contributions were immediately vested at 100 percent. During the years ended June 2011 and 2010, the District made contributions of \$70,573 and \$106,870, respectively. Effective October 12, 2011, the District no longer participates in this plan.

TBP

The TBP has components of a defined contribution and defined benefit plan and was available to District employees not accruing a benefit under another retirement system provided or maintained by the District. Employees participating in TBP contributed 5.25 percent of their salary which immediately vested at 100 percent. The District made an annual contribution of 6.25 percent to the Employer Reserve account. Annually, an allocation from the Employer Reserve account to each participant's Employer Allocation account is made based on an actuarial formula, which when combined with the employee contribution, would fully fund the projected target benefit of providing life annuity with a 2 percent cost-of living adjustment totaling 2 percent of the participant's 3 year average annual compensation for each year of service. The Employer Allocation account vests at 100 percent after 5 years of service (with a minimum of 700 hours in each year of service) with no partial vesting. During the year ended June 30, 2011 and 2010 the District's contributions were \$2,172,826, and \$2,274,402. Effective October 12, 2011, the District no longer participates in this plan.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

SRP

The SRP is a defined benefit retirement plan that was available to eligible certificated bargaining unit members that elected to participate during the enrollment period ending in fiscal years 1994 and 1998 as part of an early retirement program. Benefits available to participants under SRP include life annuity equal to 7 percent of final annual salary or other actuarially equivalent benefits. The District funds these benefits on a pay-as-you-go basis.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures; however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves and have not been included in the budget amounts reported in the General Fund Budgetary Comparison Schedule.

The State contributions to CalSTRS are as follows:

Fiscal Year	Percent of Annual Payroll	General	County School	Child Development	Total State Contribution
2011-12	4.855	\$ 11,532,668	\$ 2,203,878	\$ 526,720	\$ 14,263,266
2010-11	4.267	9,494,414	1,797,408	597,359	11,889,181
2009-10	4.267	10,148,774	1,779,610	608,467	12,536,851

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, 2012.

Litigation

The District is involved in litigation on various matters arising in the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2012.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Construction Commitments:

As of June 30, 2012, the District had the following commitments with respect to the unfinished capital projects:

Capital Project Site	Remaining Construction Commitment	Expected Date of Completion
Abraham Lincoln High School	\$ 403,250	Sep-2012
Alamo Elementary School	62,570	Aug-2012
Alice Fong Yu Elementary School	62,120	Aug-2012
Buena Vista/Horace Mann	682,837	Oct-2012
Dr. Charles Drew Elementary School	134,818	Nov-2012
Clair Lilenthal Alternative School	51,160	Aug-2012
Daniel Webster Elementary School	409,582	Aug-2012
District Administration Building	237,057	Dec-2012
Francis Scott Key Elementary School	397,102	Sep-2012
Francisco Middle School	3,911,694	Sep-2012
Frank McCoppin Elementary School	185,000	Oct-2012
Gateway KIPP	348,913	Aug-2012
Golden Gate Elementary School	2,621,948	Oct-2012
Grattan Elementary School	50,080	Aug-2012
Guadalupe Elementary School	961,492	Jul-2012
Hilltop High School/RAP	2,536,036	Oct-2012
John Muir Elementary School	170,905	Aug-2012
John Swett	928,982	Aug-2012
Longfellow Elementary School	295,259	Aug-2012
Lowell High School	440,009	Sep-2012
Marina Middle School	338,745	Aug-2012
McKinley Elementary School	875,826	Oct-2012
Modernization projects at various sites	413,762	Sep-2012
Newcomer High School (7th Ave)	123,745	Aug-2012
San Francisco International High School	635,706	Nov-2012
School of the Arts	57,500	Aug-2012
Student Nutrition Services	115,813	Dec-2012
Sunnyside Elementary School	100,830	Sep-2012
Sutro Child Development Center/Elementary School	306,500	Aug-2012
Dr. William Cobb Elementary School	58,630	Aug-2012
Total commitments for unfinished capital projects	\$ 17,917,871	

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012

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

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

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

NOTE 17 - SUBSEQUENT EVENT

The District issued \$85,000,000 of Tax and Revenue Anticipation Notes dated August 27, 2012. The notes mature on June 28, 2013, and yield 2.00 percent interest. The notes were issued to supplement cash flow. Repayment requirements are that 50 percent of principal and interest be deposited with the Fiscal Agent by January 31, 2013, until 100 percent of principal and interest is due on account by April 30, 2013.

REQUIRED SUPPLEMENTARY INFORMATION

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable (Unfavorable) Final to Actual
Revenues:				
Revenue limit sources	\$ 258,004,826	\$ 256,949,814	\$ 260,470,411	\$ 3,520,597
Federal sources	62,735,758	76,226,270	62,598,776	(13,627,494)
Other state sources	114,655,821	117,140,443	120,424,253	3,283,810
Other local sources	104,081,640	111,405,321	120,852,314	9,446,993
TOTAL REVENUES¹	539,478,045	561,721,848	564,345,754	2,623,906
Expenditures				
Certificated salaries	228,522,657	237,471,628	232,768,951	4,702,677
Classified salaries	67,943,159	71,302,125	68,747,721	2,554,404
Employee benefits	118,992,520	123,274,937	115,083,884	8,191,053
Books and supplies	20,189,884	25,610,737	18,719,358	6,891,379
Services and operating expenditures	59,008,838	62,617,235	57,355,089	5,262,146
Other outgo	50,151,485	51,166,617	61,545,508	(10,378,891)
Capital outlay	290,847	1,086,473	784,961	301,512
Debt service - principal	1,100,179	1,100,179	1,100,179	-
Debt service - interest	1,753,730	1,753,730	1,753,730	-
TOTAL EXPENDITURES¹	547,953,299	575,383,661	557,859,381	17,524,280
Excess (deficiency) of revenues over expenditures	(8,475,254)	(13,661,813)	6,486,373	20,148,186
Other Financing Uses:				
Transfers out	(13,981,501)	(12,567,627)	(6,882,333)	5,685,294
NET CHANGE IN FUND BALANCES	(22,456,755)	(26,229,440)	(395,960)	25,833,480
Fund balance - Beginning	78,288,504	78,288,504	78,288,504	-
Fund balance - Ending	<u>\$ 55,831,749</u>	<u>\$ 52,059,064</u>	<u>\$ 77,892,544</u>	<u>\$ 25,833,480</u>

¹ For comparison purpose, on behalf payments of \$11,532,668 are excluded from this schedule.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**COUNTY SCHOOL SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable (Unfavorable)
Revenues:				Final to Actual
Revenue limit sources	\$ 13,685,146	\$ 13,654,227	\$ 14,000,772	\$ 346,545
Federal sources	14,995,363	15,564,020	16,369,216	805,196
Other state sources	46,525,156	48,222,649	46,465,292	(1,757,357)
Other local sources	59,903,291	50,366,197	56,106,846	5,740,649
TOTAL REVENUES¹	135,108,956	127,807,093	132,942,126	5,135,033
Expenditures				
Current				
Certificated salaries	48,050,579	44,471,263	44,481,838	(10,575)
Classified salaries	24,944,149	23,760,453	24,334,107	(573,654)
Employee benefits	29,432,512	27,610,162	27,068,582	541,580
Books and supplies	1,753,894	1,059,023	1,154,621	(95,598)
Services and operating expenditures	30,572,529	29,333,105	31,189,183	(1,856,078)
Other outgo	489,497	1,539,360	1,024,241	515,119
TOTAL EXPENDITURES¹	135,243,160	127,773,366	129,252,572	(1,479,206)
NET CHANGE IN FUND BALANCES	(134,204)	33,727	3,689,554	3,655,827
Fund balance - Beginning	4,784,417	4,784,417	4,784,417	-
Fund balance - Ending	<u>\$ 4,650,213</u>	<u>\$ 4,818,144</u>	<u>\$ 8,473,971</u>	<u>\$ 3,655,827</u>

¹ For comparison purpose, on behalf payments of \$2,203,878 are excluded from this schedule.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**CHILD DEVELOPMENT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2012**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable (Unfavorable)
Revenues:				Final to Actual
Federal sources	\$ 14,417,460	\$ 15,343,461	\$ 18,571,900	\$ 3,228,439
Other state sources	12,256,824	12,834,689	11,097,790	(1,736,899)
Other local sources	5,005,060	5,832,503	5,765,505	(66,998)
TOTAL REVENUES¹	31,679,344	34,010,653	35,435,195	1,424,542
Expenditures				
Current				
Certificated salaries	13,587,074	11,092,839	10,631,020	461,819
Classified salaries	11,095,263	11,471,492	11,984,633	(513,141)
Employee benefits	10,224,931	9,372,167	9,149,802	222,365
Books and supplies	1,135,245	1,859,162	1,268,514	590,648
Services and operating expenditures	1,427,344	1,872,786	1,515,355	357,431
Other outgo	1,937,361	2,002,587	1,770,615	231,972
TOTAL EXPENDITURES¹	39,407,218	37,671,033	36,319,939	1,351,094
Excess (deficiency) of revenues over expenditures	(7,727,874)	(3,660,380)	(884,744)	2,775,636
Other Financing Sources:				
Transfers in	7,727,874	6,314,000	1,405,286	(4,908,714)
NET CHANGE IN FUND BALANCES	-	2,653,620	520,542	(2,133,078)
Fund balance - Beginning	407,437	407,437	407,437	-
Fund balance - Ending	\$ 407,437	\$ 3,061,057	\$ 927,979	\$ (2,133,078)

¹ For comparison purpose, on behalf payments of \$526,720 are excluded from this schedule.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2012**

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, 2011	\$ -	\$ 736,931,483	\$ 736,931,483	0.00%	\$ 396,102,456	186%
November 1, 2009	-	552,653,686	552,653,686	0.00%	370,787,776	149%
June 1, 2007	-	686,633,364	686,633,364	0.00%	352,008,018	195%

SUPPLEMENTARY INFORMATION

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Direct Grant:			
Alcohol Abuse Reduction	84.184A	2	\$ 420,473
Elementary and Secondary School Counseling Programs	84.215E	2	376,277
Foreign Language Assistance	84.293B	2	557,180
Improvement of Education-Programs of National Significance	84.215K	2	(431)
Indian Education	84.060	2	24,262
Mentoring Grants	84.184B	2	176,827
Readiness and Emergency Management for Schools	84.184E	2	745
Safe and Supportive Schools Programmatic Intervention	84.184	2	100,338
Safe Schools - Healthy Students Initiative	84.184L	2	1,358,175
Tech Assistance for Student Assignments	84.004F	2	4,258
Transition to Teaching Sub Award	84.350A	2	106,359
Passed through California Department of Education:			
ARRA - State Fiscal Stabilization Fund	84.394	24997	57,117
Carl D. Perkins Career and Technical Education, Section 131	84.048	14894	358,964
Education Jobs Fund	84.410	25152	9,555,997
No Child Left Behind			
Title I			
Basic School Support, Statewide System of School Support	84.010	14416	23,552
Part A, Basic Grants Low Income and Neglected	84.010	14329	11,316,648
ARRA - Part A, Basic Grants Low Income and Neglected	84.389	15005	476,287
Part A, School Wide Plan	84.010	10003	3,741,723
Part B, Even Start Family Literacy Program	84.213	14331	88,431
Part B, Reading First Program	84.357	14328	263,375
Part C, Migrant Ed (Regular and Summer Program)	84.011	14326	155,929
Part C, Migrant Ed Summer Program	84.011	10005	63,932
School Improvement Grant	84.377	15127	1,842,737
ARRA - School Improvement Grant	84.388	15004	13,834,453
Part D, Local Delinquent Programs	84.010	14357	330,273
ARRA - Part D, Local Delinquent Programs	84.389	15009	25,740

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education:			
No Child Left Behind			
Title II			
Part A, Teacher Quality	84.367	14341	\$ 3,290,403
Part B, CA Mathematics and Science Partnership	84.366	14512	424,552
Part D, Enhancing Education Through Technology (EETT)	84.318	14334	54,255
Part D, EETT, Competitive Grant	84.318	14368	75,650
ARRA - Part D, EETT, Formula Grant	84.386	15019	107,371
ARRA - Part D, EETT, Competitive Grants	84.386	15126	353,661
Title III			
Immigrant Education Program	84.365	15146	19,046
Limited English Proficient Student Program	84.365	14346	2,795,216
Title IV			
Part A, Drug-Free Schools	84.186	14347	6,935
Part A, Safe and Drug-Free Schools and Communities	84.186	14378	338
Part B, 21st Century Community Learning Centers	84.287	14349	6,492,832
Title V			
Part A, Innovative Education Strategies	84.298A	14354	27,785
Part B, Public Charter Schools Grant Program	84.282	14531	691,727
Title X			
McKinney-Vento Homeless Assistance Grants	84.196	14332	63,043
Individuals with Disabilities Education Act			
California Preschool Instructional Network (CPIN)	84.173	14530	27,331
Early Intervention Grants	84.181	23761	216,860
Part B, Sec 611, Basic Local Assistance Entitlement	84.027	13379	12,377,732
Part B, Sec 611, Mental Health Allocation Plan	84.027	14468	1,024,241
Part B, Sec 611, Preschool Local Entitlement	84.027A	13682	900,801
ARRA - Part B, Section 611, Preschool Local Entitlement	84.391	15002	142,838
Part B, Sec 611, Quality Assurance and Focused Monitoring	84.027	13693	4,471
Part B, Sec 619, Preschool Grants	84.173	13430	366,978
ARRA - Part B, Section 619, Preschool Grants	84.392	15000	234,160
Part B, Sec 619, Preschool Staff Development	84.173A	13431	2,554

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Rehabilitation:			
Workability II, Transition Partnership	84.158	10006	\$ 86,674
Passed through University of California:			
Gaining Early Awareness and Readiness for Undergraduate Programs	84.334A	10088	1,829,307
Total U.S. Department of Education			<u>76,876,382</u>
U.S. DEPARTMENT OF DEFENSE			
Direct Grant:			
Junior Reserve Officers Training Corps	12.000	²	619,657
U.S. DEPARTMENT OF AGRICULTURE			
Direct Grant:			
Child Care Food Program - Centers and Family Day Homes	10.558	13393	1,406,060
Commodity Supplemental Food Program ³	10.565	13391	215,172
Passed through California Department of Education:			
Fresh Fruit and Vegetable Program	10.582	14968	3,190
Basic School Breakfast Program	10.553	13390	12,254
Especially Needy Breakfast Program	10.553	13526	1,588,474
Special Milk Program for Children	10.556	13527	788,492
National School Lunch Program	10.555	13391/13396	9,259,608
Passed through California Department of Public Health:			
Supplemental Nutrition Assistance Program	10.561	²	1,335,528
Total U.S. Department of Agriculture			<u>14,608,778</u>
U.S. DEPARTMENT OF JUSTICE			
Direct Grant:			
Mentoring for Success - Foster Youth	16.000 ¹	²	206,177
Mentoring for Success - Student mentor program for Gang Prevention	16.000 ¹	²	80,510
Mentoring for Success - Youth with Disabilities	16.000 ¹	²	3,681
Total U.S. Department of Justice			<u>290,368</u>

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2012**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF COMMERCE			
Direct Grant:			
Marine Sanctuary Program	11.429	²	\$ 12,286
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Education:			
Federal Child Care, Center-based	93.596	13609	14,679,058
ARRA - Federal Child Care, Center-based	93.713	15013	8
Passed through California Department of Health Care Services:			
Medi-Cal Billing Option	93.778	10013	1,127,799
Project Good	93.243	¹	115,921
Head Start	93.600	10016	645,532
Comprehensive School Health Programs to Prevent the Spread of HIV and Other Important Health Problems	93.938	²	428,102
Total U.S. Department of Health and Human Services			<u>17,008,706</u>
Total Expenditures of Federal Awards			<u>\$ 109,403,891</u>

¹ CFDA number not available.

² Direct funded programs; pass-through identifying number not applicable.

³ Amount not included in financial statements.

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE

JUNE 30, 2012

ORGANIZATION

The San Francisco Unified School District was established in 1851 and consists of an area comprising approximately 49 square miles. The District operates 73 elementary schools, 13 middle schools, 18 senior high schools (including two continuation schools and an independent study school), and 34 state-funded preschool sites.

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Norman Yee	President	2013
Rachel Norton	Vice President	2013
Sandra Lee Fewer	Member	2013
Kim-Shree Maufas	Member	2015
Hydra B. Mendoza	Member	2015
Emily M. Murase, Ph. D	Member	2015
Jill Wynns	Member	2013

ADMINISTRATION

Carlos Garcia	Superintendent of Schools
Myong Leigh	Deputy Superintendent, Policy & Operations
Richard Carranza	Deputy Superintendent, Instruction, Innovation & Social Justice
Carla Bryant	Chief of Early Childhood Education
Roger Buschmann	Chief Human Resources Officer
Veronica Chavez	Assistant Superintendent, Elementary K-8
Margaret Chiu	Assistant Superintendent, Elementary K-8
DeeDee Desmond	Associate Superintendent, Academic & Professional Development
Elizabeth Blanco	Assistant Superintendent, Special Education
David Goldin	Chief Facilities Officer
Patricia Gray	Assistant Superintendent of Superintendent Zone - Bayview
Joseph Grazioli	Chief Financial Officer
Guadalupe Guerrero	Assistant Superintendent of Superintendent Zone - Mission
Nur Jehan Khalique	Assistant Superintendent, Elementary K-8
Matthew McKenzie	Chief Technology Officer
Donald Davis	General Counsel
Jeannie Pon	Assistant Superintendent, Middle Schools
Janet Schulze	Assistant Superintendent, High Schools
Kevin Truitt	Associate Superintendent, Student Support Services

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2012**

	Amended * Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	4,354	4,362
First through third	12,672	12,684
Fourth through sixth	10,675	10,684
Seventh and eighth	6,545	6,563
Home and hospital	12	12
County community school	8	8
Juvenile hall	6	5
Special education	1,133	1,098
Nonpublic/Nonsectarian schools	73	82
Total Elementary	35,478	35,498
SECONDARY		
Regular classes	14,404	14,393
Continuation education	361	348
Home and hospital	6	7
County community school	166	158
Juvenile hall	117	105
Special education	737	696
Nonpublic/Nonsectarian schools	112	119
Total Secondary	15,903	15,826
Grand Total	51,381	51,324

* District amended report on July 2012.

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2012

Grade Level	1982-83 Actual Minutes	Reduced 1982-83 Actual Minutes	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2011-12 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	32,014	31,125	36,000	35,000	42,200	176	Complied
Grades 1 - 3							
Grade 1	45,755	44,484	50,400	49,000	49,360	176	Complied
Grade 2	45,755	44,484	50,400	49,000	49,360	176	Complied
Grade 3	45,755	44,484	50,400	49,000	49,360	176	Complied
Grades 4 - 6							
Grade 4	48,788	47,433	54,000	52,500	52,810	176	Complied
Grade 5	48,788	47,433	54,000	52,500	52,810	176	Complied
Grade 6	48,788	47,433	54,000	52,500	56,340	176	Complied
Grades 7 - 8							
Grade 7	57,525	55,927	54,000	52,500	56,340	176	Complied
Grade 8	57,525	55,927	54,000	52,500	56,340	176	Complied
Grades 9 - 12							
Grade 9	58,458	56,834	64,800	63,000	63,415	176	Complied
Grade 10	58,458	56,834	64,800	63,000	63,415	176	Complied
Grade 11	58,458	56,834	64,800	63,000	63,415	176	Complied
Grade 12	58,458	56,834	64,800	63,000	63,415	176	Complied

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2012**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2012.

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2012**

	(Budget) 2013 ¹	2012	2011	2010
GENERAL FUND				
Revenues	\$ 560,021,529	\$ 564,345,754	\$ 538,698,839	\$ 536,621,617
Expenditures	557,369,226	557,859,381	524,732,624	544,177,840
Other uses and transfers out	12,343,017	6,882,333	12,480,772	13,493,580
Total Expenditures and Other Uses	569,712,243	564,741,714	537,213,396	557,671,420
CHANGE IN FUND BALANCE	\$ (9,690,714)	\$ (395,960)	\$ 1,485,443	\$ (21,049,803)
ENDING FUND BALANCE	\$ 68,201,830	\$ 77,892,544	\$ 78,288,504	\$ 76,803,061
AVAILABLE RESERVES	\$ 26,602,694	\$ 46,398,384	\$ 51,007,305	\$ 13,490,846
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	4.67%	8.22%	9.49%	2.42%
LONG-TERM OBLIGATIONS	\$ 843,729,885	\$ 892,695,298	\$ 787,337,257	\$ 788,575,326
AVERAGE DAILY ATTENDANCE AT P-2 ²	51,382	51,381	51,235	51,057

The General Fund balance has increased by \$1,089,483 over the past two years. The fiscal year 2012-13 budget projects a decrease of \$9,690,714, or 12.44 percent. For a district this size, the State recommends available reserves of at least 2 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus in the unrestricted General Fund in the past three years but anticipates incurring an operating deficit during the 2012-13 fiscal year. Total long-term liabilities have increased by \$104,119,972 over the past two years. The primary reason for the increase in long-term liabilities is due to the issuance of general obligation bonds of \$115,000,000 in March 2012.

Average daily attendance has increased by 324 over the past two years. An increase of 1 ADA is anticipated during fiscal year 2012-13.

Available reserves declined \$4,608,921 from 2010-11 and the District projects a further decrease of \$19,795,690 during the 2012-13 fiscal year.

¹ Budget 2013 is based on the most current District projection and is included for analytical purposes only and has not been subjected to audit.

² ADA amounts include District and County programs.

³ On behalf payments of \$11,532,668, \$9,494,414, and \$10,148,774, have been excluded from this schedule and the calculation of available reserves percentage for fiscal years ending June 30, 2012, 2011 and 2010.

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2012

<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
Leadership High School	No
Life Learning Academy	No
Metropolitan Arts and Technology High School	No
Thomas Edison Charter Academy	No

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012**

	Special Revenue Funds		
	Cafeteria	Deferred Maintenance	Capital Facilities
ASSETS			
Cash	\$ 7,195	\$ 7,582	\$ -
Investments	-	2,761,118	20,889,382
Receivables	3,742,510	3,736	305,034
Stores inventories	19,387	-	-
Total assets	\$ 3,769,092	\$ 2,772,436	\$ 21,194,416
LIABILITIES AND FUND BALANCES			
Liabilities:			
Overdrafts	\$ 3,544,419	\$ -	\$ -
Accounts payable	117,010	291,177	1,112,275
Deferred revenue	40,545	-	-
Total liabilities	3,701,974	291,177	1,112,275
Fund Balances:			
Nonspendable	26,582	-	-
Restricted	40,536	-	20,082,141
Committed	-	2,481,259	-
Assigned	-	-	-
Total fund balances	67,118	2,481,259	20,082,141
Total Liabilities and Fund Balances	\$ 3,769,092	\$ 2,772,436	\$ 21,194,416

See accompanying note to supplementary information.

Capital Project Funds			Debt Service Funds		
State School Building	County School Facilities	Special Reserve Capital Outlay	Tax Override	COP Debt Service	Total
\$ -	\$ -	\$ 10,767,000	\$ -	\$ -	\$ 10,781,777
4,215,726	7,418,986	3,372,793	33,269	-	38,691,274
5,705	10,039	-	-	-	4,067,024
-	-	-	-	-	19,387
<u>\$ 4,221,431</u>	<u>\$ 7,429,025</u>	<u>\$ 14,139,793</u>	<u>\$ 33,269</u>	<u>\$ -</u>	<u>\$ 53,559,462</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 3,544,419
-	1,425	4,500	-	-	1,526,387
<u>3,756,272</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,796,817</u>
<u>3,756,272</u>	<u>1,425</u>	<u>4,500</u>	<u>-</u>	<u>-</u>	<u>8,867,623</u>
-	-	-	-	-	26,582
465,159	7,427,600	-	33,269	-	28,048,705
-	-	-	-	-	2,481,259
-	-	14,135,293	-	-	14,135,293
<u>465,159</u>	<u>7,427,600</u>	<u>14,135,293</u>	<u>33,269</u>	<u>-</u>	<u>44,691,839</u>
<u>\$ 4,221,431</u>	<u>\$ 7,429,025</u>	<u>\$ 14,139,793</u>	<u>\$ 33,269</u>	<u>\$ -</u>	<u>\$ 53,559,462</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, 2012**

	Special Revenue Funds		
	Cafeteria	Deferred Maintenance	Capital Facilities
REVENUES			
Federal sources	\$ 11,648,827	\$ -	\$ -
Other state sources	1,002,495	-	-
Other local sources	2,201,149	26,706	5,290,345
Total Revenues	14,852,471	26,706	5,290,345
EXPENDITURES			
Current			
Pupil Services:			
Food services	16,002,356	-	-
General administration:			
All other general administration	764,634	-	-
Plant services	-	-	-
Facility acquisition and construction	-	1,371,197	5,020,905
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	16,766,990	1,371,197	5,020,905
Excess (deficiency) of revenues over expenditures	(1,914,519)	(1,344,491)	269,440
Other Financing Sources:			
Transfers in	1,923,462	400,000	-
Other sources	-	-	-
Transfers out	-	-	-
Net Financing Sources	1,923,462	400,000	-
NET CHANGE IN FUND BALANCES	8,943	(944,491)	269,440
Fund Balance - Beginning	58,175	3,425,750	19,812,701
Fund Balance - Ending	\$ 67,118	\$ 2,481,259	\$ 20,082,141

See accompanying note to supplementary information.

Capital Project Funds			Debt Service Funds		
State School Building	County School Facilities	Special Reserve Capital Outlay	Tax Override	COP Debt Service	Total
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 11,648,827
-	18,718,384	-	-	-	19,720,879
1,021,192	66,920	1,721,077	-	-	10,327,389
<u>1,021,192</u>	<u>18,785,304</u>	<u>1,721,077</u>	<u>-</u>	<u>-</u>	<u>41,697,095</u>
-	-	-	-	-	16,002,356
-	-	-	-	-	764,634
-	-	64,387	-	-	64,387
972,926	7,075	-	-	-	7,372,103
-	-	1,064,893	-	365,000	1,429,893
-	-	1,216,553	-	507,139	1,723,692
<u>972,926</u>	<u>7,075</u>	<u>2,345,833</u>	<u>-</u>	<u>872,139</u>	<u>27,357,065</u>
<u>48,266</u>	<u>18,778,229</u>	<u>(624,756)</u>	<u>-</u>	<u>(872,139)</u>	<u>14,340,030</u>
-	-	2,281,446	-	872,139	5,477,047
-	-	10,767,000	-	-	10,767,000
-	(17,148,064)	-	-	-	(17,148,064)
-	(17,148,064)	13,048,446	-	872,139	(904,017)
48,266	1,630,165	12,423,690	-	-	13,436,013
416,893	5,797,435	1,711,603	33,269	-	31,255,826
<u>\$ 465,159</u>	<u>\$ 7,427,600</u>	<u>\$ 14,135,293</u>	<u>\$ 33,269</u>	<u>\$ -</u>	<u>\$ 44,691,839</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**GENERAL UNRESTRICTED AND RESTRICTED FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012**

	Unrestricted	Restricted	Total
ASSETS			
Cash and cash equivalents	\$ 903,947	\$ 513,825	\$ 1,417,772
Investments	1,495,666	8,461,866	9,957,532
Receivables	55,627,361	32,895,835	88,523,196
Stores inventories	553,695	-	553,695
Prepaid expenses	2,673,026	-	2,673,026
Total assets	\$ 61,253,695	\$ 41,871,526	\$ 103,125,221
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 10,485,554	\$ 9,881,420	\$ 20,366,974
Deferred revenue	-	4,865,703	4,865,703
Total liabilities	10,485,554	14,747,123	25,232,677
Fund Balances:			
Nonspendable	3,227,221	-	3,227,221
Restricted	-	27,124,403	27,124,403
Assigned	1,142,536	-	1,142,536
Unassigned	46,398,384	-	46,398,384
Total fund balances	50,768,141	27,124,403	77,892,544
Total liabilities and fund balances	\$ 61,253,695	\$ 41,871,526	\$ 103,125,221

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**GENERAL UNRESTRICTED AND RESTRICTED FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2012**

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
REVENUES			
Revenue limit sources	\$ 260,470,411	\$ -	\$ 260,470,411
Federal sources	619,658	61,979,118	62,598,776
Other state sources	100,721,780	31,235,141	131,956,921
Other local sources	42,074,911	78,777,403	120,852,314
Interfund contributions	(8,001,557)	8,001,557	-
Total Revenues	<u>395,885,203</u>	<u>179,993,219</u>	<u>575,878,422</u>
EXPENDITURES			
Current			
Instruction	200,428,488	55,492,150	255,920,638
Instruction related activities:			
Supervision of instruction	14,553,875	64,727,983	79,281,858
Instructional library and technology	2,019,371	5,284,200	7,303,571
School site administration	32,536,502	446,089	32,982,591
Pupil Services:			
Home-to school transportation	5,470,470	3,085,942	8,556,412
Food services	1,134	6,966	8,100
All other pupil services	11,624,187	19,738,455	31,362,642
General administration:			
Data processing	6,273,137	1,276,824	7,549,961
All other general administration	14,109,944	5,705,691	19,815,635
Plant services	39,794,996	11,225,251	51,020,247
Facility acquisition and construction	487,985	3,006,734	3,494,719
Ancillary services	422,630	2,980,689	3,403,319
Other (outgo)	63,453,840	2,380,647	65,834,487
Enterprise services	-	3,960	3,960
Debt service			
Principal	1,100,179	-	1,100,179
Interest and other	1,753,730	-	1,753,730
Total Expenditures	<u>394,030,468</u>	<u>175,361,581</u>	<u>569,392,049</u>
Excess of revenues over expenditures	1,854,735	4,631,638	6,486,373
OTHER FINANCING USES:			
Transfers out	(6,882,333)	-	(6,882,333)
NET CHANGE IN FUND BALANCES	(5,027,598)	4,631,638	(395,960)
Fund Balance - Beginning	55,795,739	22,492,765	78,288,504
Fund Balance - Ending	<u>\$ 50,768,141</u>	<u>\$ 27,124,403</u>	<u>\$ 77,892,544</u>

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2012**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

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

Description:	CFDA Number	Amount
Total Federal Revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 111,343,527
Federal interest subsidy on Qualified Construction Bonds and Build America Bonds	Not Applicable	(2,154,808)
Commodities are not recorded on the Financial Statements	10.565	215,172
Total Schedule of Expenditures of Federal Awards		\$ 109,403,891

Subrecipients

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

Program Title	CFDA Number	Amount Provided to Subrecipients
Title I, Part A, Basic Grants Low Income and Neglected	84.010	\$ 439,685
ARRA - State Fiscal Stabilization Fund	84.394	119,694
Education Jobs Fund	84.410	494,718
Title II, Part A, Teacher Quality	84.367	30,922
Title II, Part D, Enhancing Education Through Technology, Formula	84.318	1,313
ARRA - Title II, Part D, Enhancing Education Through Technology	84.386	2,409
Total		\$ 1,088,741

Local Education Agency Organization Structure

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2012

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 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 either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

The General Unrestricted and Restricted Funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance 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 Balance.

INDEPENDENT AUDITOR'S REPORTS



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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Francisco Unified School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 13, 2012. 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.

Internal Control Over Financial Reporting

Management of the District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the District's internal control over financial reporting as a basis for designing our auditing procedures 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 over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting 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 financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of 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*.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Varrinck Trine Day + Co. LLP

Palo Alto, California
December 13, 2012



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited San Francisco Unified School District's (the District) compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that could have a direct and material effect on each of San Francisco Unified School District's major Federal programs for the year ended June 30, 2012. 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. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of the District's management. Our responsibility is to express an opinion the District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the District complied, in all material respects, with the 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, 2012.

Internal Control Over Compliance

Management of the District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered the District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

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 that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Varrinck Time Day + Co. LLP

Palo Alto, California
December 13, 2012



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

We have audited San Francisco Unified School District's (the District) compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies*, applicable to the District's government programs as noted below for the year ended June 30, 2012. Compliance with the requirements referred to above is the responsibility of the District's management. Our responsibility is to express an opinion on the District's compliance based on our audit.

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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of the District's compliance with those requirements.

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, 2012.

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 in Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance reporting	6	Yes
Teacher Certification and Misassignments	3	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not Applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Juvenile Court Schools	8	Yes
Exclusion of Pupils - Pertussis Immunization	2	Yes
Class Size Reduction Program (including in charter schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
Districts or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	5	Yes
Before school	6	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	3	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	4	Not Applicable

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, Federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Varrinek Time Day + Co. LLP

Palo Alto, California
December 13, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR’S RESULTS
FOR THE YEAR ENDED JUNE 30, 2012**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>

Any audit findings disclosed that are required to be reported in accordance with Section .510(a) of OMB Circular A-133? No

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>93.596</u>	<u>Child Care and Development Block Grant</u>
<u>84.287</u>	<u>Twenty-First Century Community Learning Center</u>
<u>84.410</u>	<u>Education Jobs Fund</u>
<u>84.377, ARRA - 84.388</u>	<u>School Improvement Grants (includes ARRA)</u>
<u>84.010, ARRA - 84.389</u>	<u>Title I Grants to Local Educational Agencies (includes ARRA)</u>
<u>84.367</u>	<u>Improving Teacher Quality</u>

Dollar threshold used to distinguish between Type A and Type B programs: \$ 3,000,000
 Auditee qualified as low-risk auditee? No

STATE AWARDS

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2012**

None reported.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2012

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

Financial Statement Findings

None reported.

Federal Awards Findings

2011-1 Code 50000

Time and Effort Documentation

Finding

During our examination of employee time and effort documentation for Title I, Part A (including ARRA) (84.010, 84.389), Title II, Part A (84.367), and School Improvement Grants (including ARRA) (84.377, 84.388), it was noted that not all employees are submitting time and effort documentation meeting the aforementioned requirements. We did review additional employee documentation including personnel records that did indicate to us the service was being performed and the services performed do appear to be in support of program objectives. However, the documentation required by OMB A-87 was not always available for inspection.

Recommendation

The District needs to take steps to ensure that OMB A-87 program requirements are adhered to and that adequate required documentation to support payroll charges is maintained. In house training should be provided to responsible personnel on procedures necessary to comply with OMB A-87. Procedures should include internal audit processes to ensure compliance throughout the year.

Current Status

Implemented

State Awards Findings

2011-2 Code 40000

After School Education and Safety Program

Finding

We performed attendance testing of the ASES program in two distinct steps. The first step dealt with testing attendance documentation at individual sites. The second step involved comparing the monthly attendance summaries prepared by the individual site to the attendance reports submitted to the State.

Individual Site Testing

We tested 2 months and 6 individual sites to compare the actual sign in sign out sheet documentation to the monthly attendance summaries prepared by the site. We tested the months of October 2010 and December 2010. The sites tested were as follows: Presidio, Harvey Milk, Sherman, Marshall, Sanchez and Marina. For Marina and Marshall, no discrepancies were noted. The following table provides a summary of the attendance discrepancies noted:

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

Name of ASES		Total Attendance per Sign In/Out Sheet	Total Attendance per Summary Sheet (excel)	(Over)/Under reported
Site	Month Tested			
Harvey Milk	October 2010	273	279	(6)
Harvey Milk	December 2010	241	254	(13)
Presidio	October 2010	276	235	41
Presidio	December 2010	143	135	8
Sherman	October 2010	97	97	0
Sherman	December 2010	369	374	(5)
Sanchez	October 2010	*	280	*
Sanchez	December 2010	*	264	*
		<u>1,399</u>	<u>1,918</u>	<u>25</u>

*Sign in/out sheets were missing dates, sign in/out times and signatures.

We were unable to determine a relevant audit count for Sanchez as the condition of the attendance sheets kept by the site did not allow us to make any meaningful counts.

Missing sign out signatures and times:

In order to provide documentation of meeting the minimum amount of hours per day and days per week of attendance in order to qualify for attendance reporting, the attendance sheets typically contain a space for the student or his or her guardian to sign out of the program along with the time of day. We noted, for the Sherman, Harvey Milk, Sanchez and Marshall sites, such attendance sheets were lacking sign out times and signatures. As a result there is no documentation to support how long the students were actually in the program on a daily basis. The above schedule of discrepancies noted does NOT take into consideration this lack of documentation. In other words, for purposes of the above schedule, the lack of a sign out time or signature was not considered to be a discrepancy. Nonetheless, the lack of such documentation could call into question the entire amount of reported attendance for these sites.

Verification of Semi-Annual Attendance Reporting (Step 2)

We selected ten ASES sites for verification of semi-annual attendance reporting to the State. This test involves comparing the amount of attendance compiled at the site from their monthly attendance summaries (which were generated from the daily attendance sheets tested above), to the amount of attendance actually reported to the State. The following table provides a summary of the sites and the discrepancies noted in reporting attendance to the State:

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012**

ASES Site	First Semi- Annual Report	Per Monthly Summaries	(Over)/Under Reported
Aptos Middle	15,885	15,885	0
Cesar Chavez Elementary	6,958	6,958	0
Martin Luther King Jr. Academic Middle	11,368	11,366	(2)
Malcolm X Academy	5,725	5,725	0
Roosevelt Middle	13,663	13,663	0
Sanchez Elementary	20,707	20,707	0
Sheridan Elementary	8,329	8,329	0
Spring Valley Elementary	7,150	7,152	2
Tenderloin Community	4,251	4,606	355
Ulloa Elementary	12,556	12,556	0
	106,592	106,947	355
ASES Site	Second Semi- Annual Report	Per Monthly Summaries	(Over)/Under Reported
Aptos Middle	16,540	16,535	(5)
Cesar Chavez Elementary	8,267	8,515	248
Martin Luther King Jr. Academic Middle	13,744	13,755	11
Malcolm X Academy	6,150	5,462	(688)
Roosevelt Middle	13,590	13,250	(340)
Sanchez Elementary	18,487	18,474	(13)
Sheridan Elementary	9,023	9,064	41
Spring Valley Elementary	8,740	8,740	0
Tenderloin Community	4,837	4,647	(190)
Ulloa Elementary	13,969	13,966	(3)
	113,347	112,408	(939)

Recommendation

It is recommended that the District standardize their methodology of attendance reporting and enforce this methodology through frequent internal audits of the sites. Further, because of the errors noted above, we believe the District should re-check each site’s semi-annual reported attendance to the State and correct the discrepancies in reporting that exist between the site monthly attendance summaries and the reported attendance. All District sites need to be reminded of the need to have a documented record of when a student actually signs out of the program, showing signature and time out. It is also recommended that the District provide additional training to site coordinators as regards the rules and regulations regarding attendance gathering. Because of the inevitable turnover of personnel that occurs, this type of training should be given on an as needed basis, but at least every year and when there is turnover at the site coordinator position.

Current Status

Implemented