

**SAN FRANCISCO UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2013

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS JUNE 30, 2013

FINANCIAL SECTION

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	13
Statement of Activities	14
Fund Financial Statements	
Governmental Funds - Balance Sheet	15
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	16
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	17
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	18
Proprietary Fund - Statement of Net Position	20
Proprietary Fund - Statement of Revenues, Expenses, and Changes in Fund Net Position	21
Proprietary Fund - Statement of Cash Flows	22
Fiduciary Funds - Statement of Fiduciary Net Position	23
Notes to Financial Statements	24

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	55
County School Service Fund – Budgetary Comparison Schedule	56
Schedule of Other Postemployment Benefits (OPEB) Funding Progress	57

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	59
Local Education Agency Organization Structure	62
Schedule of Average Daily Attendance	63
Schedule of Instructional Time	64
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	65
Schedule of Financial Trends and Analysis	66
Schedule of Charter Schools	67
Combining Statements – Nonmajor Governmental Funds	
Combining Balance Sheet	68
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	70
Combining Statements – General Unrestricted and Restricted Funds	
Combining Balance Sheet	72
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	73
Note to Supplementary Information	74

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS JUNE 30, 2013

INDEPENDENT AUDITOR'S REPORTS

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	77
Report on Compliance for Each Major Federal Program and Report on Internal Control Over Compliance Required by OMB Circular A-133	79
Report on State Compliance	81

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditor's Results	85
Financial Statement Findings	86
Federal Awards Findings and Questioned Costs	87
State Awards Findings and Questioned Costs	88
Summary Schedule of Prior Audit Findings	90

FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Francisco Unified School District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Education Agencies 2012-2013*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the District, as of June 30, 2013, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the required supplementary information, as listed in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information, as listed in the table of contents, such as 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*, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 16, 2013, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering District's internal control over financial reporting and compliance.

Varrinek Trine Day + Co. LLP

Palo Alto, California
December 16, 2013

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

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:

- 5 Transitional kindergarten schools
- 72 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 twelve 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, 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 eleven 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

Five years later and with a new leadership team at the helm, SFUSD has refreshed and deepened this plan in a recently published strategic plan document: “Impact Learning. Impact Lives.”

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2013

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.

Richard A. Carranza, Deputy Superintendent for Instruction, Innovation, and Social Justice has assumed the role of Superintendent for SFUSD on June 26, 2012, replacing Carlos A. Garcia who retired at the end of 2011-12. Mr. Carranza, who previously served as SFUSD's Deputy Superintendent for Instruction, Innovation and Social Justice, has led the District in building a rigorous Common Core-based curriculum, investing in the professional learning of teachers, leaders and school staff, enlisting partners and engaging families in a community schools strategy, and building an accountability system that includes a comprehensive assessment of student learning.

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

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

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

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

FINANCIAL HIGHLIGHTS

RESULTS OF OPERATION

Unrestricted General Fund Results of Operations

During fiscal year 2012-13, the District's Unrestricted General Fund ending balance, which includes nonspendable, assigned, and unassigned balances, decreased from a balance of \$50.8 million to \$36.1 million, a \$14.7 million or 28.9% decrease.

Total revenues of \$395.4 million decreased \$0.5 million or 0.13% compared to 2011-12.

Total expenditures of \$400.2 million represent an increase of \$6.2 million or 1.6% over 2011-12. Larger individual increases over 2011-12 include home-to-school which increased \$1.6 million or 29.1%; all other pupil services which increased \$3.4 million or 29.3%; and other outgo which increased \$3.5 million or 5.5%.

The Unrestricted General Fund was required to contribute to other funds, primarily for Special Education, Transportation, Child Development, Student Nutrition, and Debt Service. Transfers to other funds in the amount of \$9.9 million are \$3.0 million or 43.5% greater than 2011-12. Transfers to the County School Service Fund in the amount of \$58.3 million represent an increase of \$2.6 million or 4.7 % over 2011-12.

General Fund Ending Balance and Reserves

The District's combined General Fund ending balance at June 30, 2013 (restricted plus unrestricted) is \$60,404,933. The restricted fund balance portion of \$24,331,504, will largely be used for instructional activities, but its use is restricted for specific program activities and cannot be counted as available, i.e., unrestricted reserves. The District's available reserves, consisting of reserves for economic uncertainty, and other unassigned reserves, totaled \$31,946,753.

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

	<u>2012</u>	<u>2013</u>	<u>Variance</u>
Revenue limit sources	\$ 260,470,411	\$ 262,489,868	\$ 2,019,457
Federal sources	62,598,776	51,811,711	(10,787,065)
Other state sources	131,956,921	133,119,329	1,162,408
Other local sources	120,852,314	125,416,660	4,564,346
	<u>\$ 575,878,422</u>	<u>\$ 572,837,568</u>	<u>\$ (3,040,854)</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

Table 2

	<u>2012</u>	<u>2013</u>	<u>Variance</u>
Instruction	\$ 255,920,638	\$ 257,372,978	\$ (1,452,340)
Instruction related activities	119,568,020	121,255,168	(1,687,148)
Pupil services	39,927,154	41,640,007	(1,712,853)
General administration	27,365,596	27,367,240	(1,644)
Plant services	51,020,247	52,086,385	(1,066,138)
Facility acquisition and construction	3,494,719	3,171,096	323,623
Ancillary services	3,403,319	3,663,964	(260,645)
Enterprise	3,960	3,991	(31)
Other (outgo)	65,834,487	69,407,493	(3,573,006)
Debt service	2,853,909	2,638,820	215,089
Transfers out	6,882,333	11,718,037	(4,835,704)
	<u>\$ 576,274,382</u>	<u>\$ 590,325,179</u>	<u>\$ (14,050,797)</u>

Budgeting

The SFUSD adopted budget is developed based on the latest information on revenue projections received from the Governor's May revision to the State budget, which is typically released a few months before the final State budget is passed. The District held budget hearings and adopted the 2013-14 budget in accordance with provisions of the California Education Code. The budget reflects the District's goals to emphasize the achievement of all students and to narrow the achievement gap for the neediest students. Throughout the budget development process, staff are encouraged to work with the community to develop sound decisions that support the needs of all students.

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

As program needs change during the year, changes and revisions to the adopted budget are made throughout the year to reflect these changes. Budget transfers and budget revisions are made on an ongoing basis, and new programs are budgeted throughout the fiscal year. We have included a budgetary comparison schedule on page 56 providing the adopted and final budgets compared with actual revenues and expenditures.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-Wide Statements

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

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

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 position. These activities are excluded from the district-wide financial statements because the District cannot use these assets to finance its operations.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2013

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's government-wide net position at June 30, 2013 totaled \$518.8 million. Of this amount, \$546.5 million represents net investment in capital assets, while \$88.6 million is restricted for various purposes. The deficit in unrestricted net position of \$116.3 million is primarily due to the District's postemployment benefits obligation, which totals \$156.9 million at June 30, 2013, an increase of \$29.7 million over the prior year.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the close of the year ended June 30, 2013, the District's capital assets totaled \$1,449 million. Accumulated depreciation was \$335.9 million at year end. Depreciation expense for the year totaled \$37.0 million. Net book value (the amount of total assets after applying depreciation) increased by \$32.3 million to \$1,113.0 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 \$892.7 million. Additions were \$63.5 million and reductions were \$83.0 million. At June 30, 2013, the ending balance was \$873.2 million. The significant items comprising the District's long-term debt are as follows: \$690.7 million of general obligation bonds, \$156.9 million of postemployment benefits, and \$17.5 million of capital leases. The annual debt service requirement on the capital leases obligations approximates \$2.3 million and is funded from the 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.

Other significant general long term obligations consist of the revenue limit deficit loan (of which \$2.2 million is outstanding as of June 30, 2013). Repayments extends over a ten-year window, concluding in fiscal year 2014-15 by offsetting to the District's second principal apportionment revenue limit. 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, 2013

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 2012-13 and currently projects that it will maintain its minimum reserve in both FY 2013-14 and FY 2014-15.

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 2008-09. These resources assist in recruiting and retaining effective teachers, increasing accountability, and improving the District's technology infrastructure.

Another local revenue source that has been greatly beneficial to SFUSD is the City and County's Rainy Day Reserve (the Reserve), also known as an Economic Stabilization Reserve, Pursuant to the San Francisco Administrative code charter section 9.113.3, San Francisco Unified School District is entitled to receive appropriations from the Reserve under certain conditions. The amount that the District is eligible for in 2013-14 is projected to be \$5.9 million.

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to assist interested parties in understanding the District's sources and uses of resources. If you have questions about this report or need additional financial information, please contact 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 POSITION JUNE 30, 2013

	Governmental Activities
Assets	
Cash and cash equivalents	\$ 2,789,002
Investments	283,312,430
Receivables	88,183,755
Prepaid expenses	2,924,323
Deferred charges	3,438,367
Stores inventories	630,668
Capital assets, net of accumulated depreciation	1,113,028,009
Total Assets	1,494,306,554
Liabilities	
Overdrafts	12,640,073
Accounts payable	50,005,615
Interest payable	1,806,013
Deferred revenue	7,342,132
Claim liabilities	30,482,901
Current portion of long-term obligations	39,771,161
Noncurrent portion of long-term obligations	833,436,169
Total Liabilities	975,484,064
Net Position	
Net investment in capital assets	546,456,210
Restricted	
Legally restricted	30,565,549
Debt service	10,285,207
Capital projects	35,565,747
Self insurance	12,212,561
Unrestricted	(116,262,784)
Total Net Position	\$ 518,822,490

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, 2013**

Functions/Programs	Expenses	Program Revenues			Net Revenues (Expenses) and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$409,375,023	\$ 624,264	\$ 85,245,981	\$ 15,113,841	\$ (308,390,937)
Instruction related activities:					
Supervision of instruction	102,241,236	376,439	59,727,370	-	(42,137,427)
Instructional library and technology	9,499,106	131,916	2,406,331	-	(6,960,859)
School site administration	42,505,223	17,277	3,250,236	-	(39,237,710)
Pupil services:					
Home-to-school transportation	24,295,165	5,205	6,788,893	-	(17,501,067)
Food services	23,318,949	1,498,514	16,310,984	-	(5,509,451)
All other pupil services	53,604,597	215,011	18,267,683	-	(35,121,903)
General administration:					
Data processing	8,927,013	32,698	551,712	-	(8,342,603)
All other general administration	26,086,394	104,658	5,723,909	-	(20,257,827)
Plant services	57,937,764	32,686	1,579,202	-	(56,325,876)
Anciliary services	4,022,643	65,580	1,106,514	-	(2,850,549)
Enterprise services	-	80	1,351	-	1,431
Interest on long-term obligations	30,966,389	-	-	-	(30,966,389)
Other outgo	11,155,707	246,808	6,482,164	-	(4,426,735)
Total Governmental Activities	\$803,935,209	\$ 3,351,136	\$207,442,330	\$ 15,113,841	(578,027,902)
General revenues and subventions:					
Property taxes, levied for general purposes					252,497,837
Property taxes, levied for debt service					61,020,941
Taxes levied for other specific purposes					70,807,351
Federal and state aid not restricted to specific purposes					118,953,687
Interest and investment earnings					2,456,661
Miscellaneous					67,287,277
Subtotal, general revenues					573,023,754
Change in Net Position					(5,004,148)
Net Position - Beginning					523,826,638
Net Position - Ending					\$ 518,822,490

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2013

	General Fund	County School Service Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 534,703	\$ -	\$ -	\$ 37,695	\$ 572,398
Investments	35,510,516	-	149,340,166	57,277,772	242,128,454
Receivables	54,909,893	26,271,248	54,013	6,928,867	88,164,021
Prepaid expenditures	2,924,323	-	-	-	2,924,323
Stores inventories	599,967	-	-	30,701	630,668
Total Assets	\$ 94,479,402	\$ 26,271,248	\$ 149,394,179	\$ 64,275,035	\$ 334,419,864
LIABILITIES AND FUND BALANCES					
Liabilities:					
Overdrafts	\$ -	\$ 9,861,083	\$ -	\$ 2,778,990	\$ 12,640,073
Accounts payable	31,439,806	6,538,101	7,711,470	3,591,386	49,280,763
Deferred revenue	2,634,663	257,201	-	4,450,268	7,342,132
Total Liabilities	34,074,469	16,656,385	7,711,470	10,820,644	69,262,968
Fund Balances:					
Nonspendable	3,524,790	-	-	60,811	3,585,601
Restricted	24,331,504	5,143,830	141,682,709	45,248,004	216,406,047
Committed	-	-	-	1,848,552	1,848,552
Assigned	601,886	-	-	6,297,024	6,898,910
Unassigned	31,946,753	4,471,033	-	-	36,417,786
Total Fund Balances	60,404,933	9,614,863	141,682,709	53,454,391	265,156,896
Total Liabilities and Fund Balances	\$ 94,479,402	\$ 26,271,248	\$ 149,394,179	\$ 64,275,035	\$ 334,419,864

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
JUNE 30, 2013**

**Amounts reported for governmental activities in the Statement of
Net Position are different because of the following items:**

Total fund balance - governmental funds		\$ 265,156,896
<p>Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.</p>		
The cost of capital assets is	\$ 1,448,918,844	
Accumulated depreciation is	<u>(335,890,835)</u>	
Net capital assets		1,113,028,009
<p>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.</p>		
		3,438,367
<p>In governmental funds, unmatured interest on long-term obligations are 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.</p>		
		(1,806,013)
<p>An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.</p>		
		12,212,561
<p>Long-term liabilities are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of the following items:</p>		
General obligation bonds and premium	(690,723,329)	
Capital leases payable	(17,531,179)	
Compensated absences (vacations)	(5,803,053)	
Excess revenue limit transfers	(2,200,359)	
Post employment liability	<u>(156,949,410)</u>	
		<u>(873,207,330)</u>
Total Net Position - Governmental Activities		<u><u>\$ 518,822,490</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, 2013**

	General Fund	County School Service Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Revenue limit sources	\$ 262,489,868	\$ 12,386,116	\$ -	\$ -	\$ 274,875,984
Federal sources	51,811,711	14,138,966	-	30,646,692	96,597,369
Other state sources	133,119,329	49,859,304	-	26,483,104	209,461,737
Other local sources	125,416,660	58,440,984	8,878,190	82,410,314	275,146,148
Total Revenues	572,837,568	134,825,370	8,878,190	139,540,110	856,081,238
EXPENDITURES					
Current					
Instruction	257,372,978	90,670,562	-	26,115,311	374,158,851
Instruction related activities					
Supervision of instruction	79,132,289	10,148,809	-	3,843,783	93,124,881
Instructional library					
and technology	8,631,876	20,241	-	-	8,652,117
School site administration	33,491,003	1,455,115	-	3,769,121	38,715,239
Pupil Services:					
Home-to-school					
transportation	9,660,303	12,468,580	-	-	22,128,883
Food services	126,219	-	-	21,113,492	21,239,711
All other pupil services	31,853,485	16,737,500	-	233,949	48,824,934
General administration:					
Data processing	7,736,623	394,412	-	-	8,131,035
All other general					
administration	19,630,617	1,606,802	-	2,522,978	23,760,397
Plant services	52,086,385	182,457	-	679,394	52,948,236
Facility acquisition and					
construction	3,171,096	-	62,163,691	3,996,495	69,331,282
Ancilliary services	3,663,964	-	-	-	3,663,964
Other outgo	69,407,493	-	-	-	69,407,493
Enterprise services	3,991	-	-	-	3,991
Debt service					
Principal	1,100,179	-	-	44,421,643	45,521,822
Interest and other	1,538,641	-	-	33,105,783	34,644,424
Total Expenditures	578,607,142	133,684,478	62,163,691	139,801,949	914,257,260
Excess (deficiency) of revenues over expenditures	(5,769,574)	1,140,892	(53,285,501)	(261,839)	(58,176,022)
OTHER SOURCES (USES):					
Transfers in	-	-	13,348,852	11,718,037	25,066,889
Transfers out	(11,718,037)	-	-	(13,348,852)	(25,066,889)
Net Financing Sources (Uses)	(11,718,037)	-	13,348,852	(1,630,815)	-
NET CHANGE IN					
FUND BALANCES	(17,487,611)	1,140,892	(39,936,649)	(1,892,654)	(58,176,022)
Fund Balance - Beginning	77,892,544	8,473,971	181,619,358	55,347,045	323,332,918
Fund Balance - Ending	\$ 60,404,933	\$ 9,614,863	\$ 141,682,709	\$ 53,454,391	\$ 265,156,896

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued) FOR THE YEAR ENDED JUNE 30, 2013

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

Total net change in fund balances - governmental funds \$ (58,176,022)

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

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

Capitalized capital outlays	\$ 69,331,282	
Depreciation expense	<u>(37,001,195)</u>	32,330,087

Repayment of capital leases is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. 1,201,643

Repayment of general obligation bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. 32,725,000

In the Statement of Activities, compensated absences are measured by the amounts earned during the year. In the governmental funds, compensated absences are measured by the amount of financial resources used (essentially, the amounts actually paid). (1,180)

Repayment of certificates of participation principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities. 10,495,000

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES (Continued)
FOR THE YEAR ENDED JUNE 30, 2013**

Amortization of bond premium is a revenue source in the Statement of Activities, but is not recognized in the governmental funds.	3,251,075
Amortization of issuance costs is an expense in the Statement of Activities, but is not recognized in the governmental funds.	(251,430)
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.	305,478
In the governmental funds, the arbitrage liability on interest earned for the tax exempt general obligation bonds is recognized as an expense in the period that the amount is paid.	532,145
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.	(29,656,661)
The excess revenue limit received during 2003-04 was recorded as revenue in the governmental funds and a long term liability in the Statement of Net Position. The negotiated installment payments to repay the State is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Position and does not affect the Statement of Activities.	1,100,179
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 position of the internal service fund is not reported in the governmental funds, but is reported in the Statement of Activities.	<u>1,299,771</u>
Decrease in Net Position of Governmental Activities	<u><u>\$ (5,004,148)</u></u>

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET POSITION
JUNE 30, 2013**

	Governmental Activities: Internal Service Fund
ASSETS	
Current assets	
Cash and cash equivalents	\$ 43,400,580
Receivables	19,734
Total Current Assets	<u>43,420,314</u>
LIABILITIES	
Current liabilities	
Accounts payable	724,852
Claim liability - workers' compensation	30,000,000
Claim liability - dental	482,901
Total Current Liabilities	<u>31,207,753</u>
NET POSITION	
Restricted for insurance programs	12,212,561
Total Net Position	<u>\$ 12,212,561</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, 2013

	Governmental Activities: Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 22,646,234
Cash payments for insurance claims	(17,962,152)
Cash payments to suppliers for goods and services	(158,760)
Cash payments for payroll expense	(587,916)
Net cash provided by operating activities	<u>3,937,406</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>408,888</u>
Net increase in cash and cash equivalents	4,346,294
Cash and cash equivalents - Beginning of year	<u>39,054,286</u>
Cash and cash equivalents - End of year	<u><u>\$ 43,400,580</u></u>
RECONCILIATION OF OPERATING PROFIT TO NET CASH PROVIDED BY OPERATING ACTIVITIES	
Operating profit	\$ 922,520
Increase in accrued liabilities	3,014,886
Net cash provided by operating activities	<u><u>\$ 3,937,406</u></u>

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2013**

	Payroll Revolving Agency Fund	Student Body Agency Fund	Total
ASSETS			
Cash and cash equivalents	\$ -	\$ 2,464,538	\$ 2,464,538
Investments	8,744,227	-	8,744,227
Total Assets	\$ 8,744,227	\$ 2,464,538	\$ 11,208,765
LIABILITIES			
Salaries and benefits payable	\$ 8,744,227	\$ -	\$ 8,744,227
Due to student groups	-	2,464,538	2,464,538
Total Liabilities	\$ 8,744,227	\$ 2,464,538	\$ 11,208,765

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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 five transitional kindergartens, 72 elementary schools, 13 middle schools, 18 high schools, including two continuation schools, and one 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, 2013

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 San Francisco 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.

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

Nonmajor Governmental Funds

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

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

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

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

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

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

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

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

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

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

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

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

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

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

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

Basis of Accounting - Measurement Focus

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

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

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

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

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

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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 with 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, 2013 consist of deposits with the County Treasurer and are stated at amortized cost which approximates fair value. Fair value is provided by the County Treasurer.

Prepaid Expenditures

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

Stores Inventories

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

Capital Assets and Depreciation

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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

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

Compensated Absences

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

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

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

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

Accrued Liabilities and Long-term Obligations

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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 position. 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, 2013, 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.

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.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

Net Position

Net position represents the difference between assets and liabilities. The net investment in capital assets portion of net position consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. The District has \$518,822,490 in net position as of June 30, 2013. Of that amount, \$546,456,210 represents capital assets net of related debt. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Operating Revenues and Expenses

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

Interfund Activity

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

Estimates

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

Budgetary Data

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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.

Changes in Accounting Principles

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 position by the government that is applicable to a future reporting period, and an acquisition of net position 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.

Concepts Statement No. 4 also identifies net position as the residual of all other elements presented in a statement of financial position. This Statement amends the net asset reporting requirements in Statement No. 34, *Basic Financial Statements—and Management’s Discussion and Analysis—for State and Local Governments*, and other pronouncements by incorporating deferred outflows of resources and deferred inflows of resources into the definitions of the required components of the residual measure and by renaming that measure as net position, rather than net position.

The District has implemented the provisions of this Statement for the year ended June 30, 2013.

New Accounting Pronouncements

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.

Concepts Statement No. 4, *Elements of Financial Statements*, introduced and defined the elements included in financial statements, including deferred outflows of resources and deferred inflows of resources. In addition, Concepts Statement 4 provides that reporting a deferred outflow of resources or a deferred inflow of resources should be limited to those instances identified by the Board in authoritative pronouncements that are established after applicable due process. Prior to the issuance of this Statement, only two such pronouncements have been issued. Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, requires the reporting of a deferred outflow of resources or a deferred inflow of resources for the changes in fair value of hedging derivative instruments, and Statement No. 60, *Accounting and Financial Reporting for Service Concession Arrangements*, requires a deferred inflow of resources to be reported by a transferor government in a qualifying service concession arrangement. This Statement amends the financial statement element classification of certain items previously reported as assets and liabilities to be consistent with the definitions in Concepts Statement 4. This Statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012. Early implementation is encouraged.

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

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

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

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

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

Note disclosure and required supplementary information requirements about pensions also are addressed. Distinctions are made regarding the particular requirements for employers based on the number of employers whose employees are provided with pensions through the pension plan and whether pension obligations and pension plan assets are shared. Employers are classified in one of the following categories for purposes of this Statement:

- Single employers are those whose employees are provided with defined benefit pensions through single-employer pension plans—pension plans in which pensions are provided to the employees of only one employer (as defined in this Statement).
- Agent employers are those whose employees are provided with defined benefit pensions through agent multiple-employer pension plans—pension plans in which plan assets are pooled for investment purposes

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

but separate accounts are maintained for each individual employer so that each employer's share of the pooled assets is legally available to pay the benefits of only its employees.

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

In addition, this Statement details the recognition and disclosure requirements for employers with liabilities (payables) to a defined benefit pension plan and for employers whose employees are provided with defined contribution pensions. This Statement also addresses circumstances in which a non-employer entity has a legal requirement to make contributions directly to a pension plan.

This Statement is effective for fiscal years beginning after June 15, 2014. Early implementation is encouraged.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2013, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 242,700,852	
Less: deficit cash (overdraft)	<u>(12,640,073)</u>	
Total governmental funds		\$ 230,060,779
Self insurance fund		43,400,580
Fiduciary funds		<u>11,208,765</u>
Total Deposits and Investments		<u>\$ 284,670,124</u>

Deposits and investments as of June 30, 2013, consist of the following:

Cash on hand and in banks		\$ 5,253,540
Deposits with county treasurer	292,056,657	
Less: deficit cash (overdraft)	<u>(12,640,073)</u>	
Total deposits with county treasurer		<u>279,416,584</u>
Total Deposits and Investments		<u>\$ 284,670,124</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, 2013

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. 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:

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Investment Type	Amortized Cost	Fair Value	Weighted Average Maturity in Years
County Investment Pool	\$ 279,416,584	\$ 279,098,807	2.41

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, 2013.

Custodial Credit Risk – Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2013, the District's bank balance of \$1,500,718 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2013, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	County School Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds	Proprietary Fund
Federal Government						
Categorical aid	\$ 23,279,798	\$ 9,045,721	\$ -	\$ 4,359,804	\$ 36,685,323	\$ -
State Government						
Apportionment	12,778,234	4,329,831	-	-	17,108,065	-
Categorical aid	6,865,928	12,669,417	-	-	19,535,345	-
Lottery	4,159,394	172,098	-	-	4,331,492	-
Local Sources	7,826,539	54,181	54,013	2,569,063	10,503,796	19,734
Total Accounts Receivable	<u>\$ 54,909,893</u>	<u>\$ 26,271,248</u>	<u>\$ 54,013</u>	<u>\$ 6,928,867</u>	<u>\$ 88,164,021</u>	<u>\$ 19,734</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2013, was as follows:

	Balance June 30, 2012	Additions	Balance June 30, 2013
Governmental Activities *			
Capital assets being depreciated			
Buildings and improvements	\$ 1,329,968,482	\$ 69,230,455	\$ 1,399,198,937
Furniture and equipment	49,619,080	100,827	49,719,907
Total capital assets being depreciated	<u>1,379,587,562</u>	<u>69,331,282</u>	<u>1,448,918,844</u>
Less accumulated depreciation			
Buildings and improvements	267,746,160	35,339,852	303,086,012
Furniture and equipment	31,143,480	1,661,343	32,804,823
Total accumulated depreciation	<u>298,889,640</u>	<u>37,001,195</u>	<u>335,890,835</u>
Governmental activities - capital assets, net	<u>\$ 1,080,697,922</u>	<u>\$ 32,330,087</u>	<u>\$ 1,113,028,009</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	\$ 19,547,844
Supervision of instruction	5,060,320
Instructional library & media	470,148
School site administration	2,103,750
Home to school transportation	1,202,463
Food services	1,154,146
All other pupil services	2,653,102
Anciliary services	199,096
Enterprise activities	217
All general administration	1,291,118
Data processing services	441,833
Plant services	2,877,158
Total depreciation expense, governmental activities	<u>\$ 37,001,195</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2013, consisted of the following:

Transfer Out	Transfers In		
	Building Fund	Nonmajor Governmental Funds	Total
General Fund	\$ -	\$ 11,718,037	\$ 11,718,037
County School Facilities Fund	13,348,852	-	13,348,852
Total interfund transfers	<u>\$ 13,348,852</u>	<u>\$ 11,718,037</u>	<u>\$ 25,066,889</u>

The Restricted General Fund transferred to the Child Development Fund to cover the operating deficit.	\$ 1,814,000
The Unrestricted General Fund transferred to the Child Development Fund to cover the operating deficit.	5,101,037
The Unrestricted General Fund transferred to the Cafeteria Fund to cover the operating deficit.	2,453,111
The Unrestricted General Fund transferred to the Special Reserve Fund for Capital Outlay for lease payments.	2,349,889
The County School Facilities Fund transferred to Building Fund for construction cost reimbursements.	13,348,852
Total interfund transfers	<u>\$ 25,066,889</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2013, consisted of the following:

	General Fund	County School Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds	Proprietary Fund
Vendor payables	\$ 22,405,339	\$ 6,146,918	\$ 7,711,470	\$ 3,310,396	\$ 39,574,123	\$ 724,852
State categorical	9,034,289	391,183	-	280,990	9,706,462	-
Federal categorical	178	-	-	-	178	-
Total Accounts Payable	<u>\$ 31,439,806</u>	<u>\$ 6,538,101</u>	<u>\$ 7,711,470</u>	<u>\$ 3,591,386</u>	<u>\$ 49,280,763</u>	<u>\$ 724,852</u>

Additional interest payable in the Statement of Net Position includes \$1,806,013 for accrued interest on long term obligations.

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2013, consists of the following:

	General Fund	County School Fund	Nonmajor Governmental Funds	Total Governmental Funds
Federal financial assistance	\$ 1,194,816	\$ 182,981	\$ 693,996	\$ 2,071,793
State categorical aid	1,439,847	74,220	3,756,272	5,270,339
Total deferred revenue	<u>\$ 2,634,663</u>	<u>\$ 257,201</u>	<u>\$ 4,450,268</u>	<u>\$ 7,342,132</u>

NOTE 8 – TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On August 27, 2012, the District issued \$85,000,000 of 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 28, 2013. By April 30, 2013, 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, 2012	Additions	Payments	Outstanding June 30, 2013
8/27/2012	2.00%	6/28/2013	\$ -	\$ 85,000,000	\$ 85,000,000	\$ -

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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, 2012	Additions	Deductions	Balance June 30, 2013	Due in one year
General obligation bonds	\$ 680,085,000	\$ -	\$ 32,725,000	\$ 647,360,000	\$ 34,230,000
Bond premium	48,525,195	-	3,251,075	45,274,120	3,251,075
Bond defeasance costs	(2,070,024)	-	(159,233)	(1,910,791)	(159,233)
Certificates of participation	10,495,000	-	10,495,000	-	-
Accumulated vacation - net	5,801,873	1,180	-	5,803,053	-
Capital leases	18,732,822	-	1,201,643	17,531,179	1,349,140
Revenue limit deficit	3,300,538	-	1,100,179	2,200,359	1,100,179
Arbitrage liability	532,145	-	532,145	-	-
Post employment liability	127,292,749	63,543,205	33,886,544	156,949,410	-
	<u>\$ 892,695,298</u>	<u>\$ 63,544,385</u>	<u>\$ 83,032,353</u>	<u>\$ 873,207,330</u>	<u>\$ 39,771,161</u>

Payment of the general obligation bonds will be made by the Bond Interest and Redemption Fund. The Bond Interest and Redemption Fund receives property tax revenues which are used solely to repay the principal and interest due on these obligations. The amount has been assigned in the fund balance of Special Reserve – Capital Projects Fund. The 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.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Bonded Debt

Defeased bonded debt

In 2012, the District defeased the 2004 Series A Bonds and the 2006 Series A Bonds by creating an irrevocable trust. New debt has been issued and the proceeds have been used to purchase U.S. government securities that were placed in the trust. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the amount of defeased debt outstanding that is removed from the District's long term obligations is \$129,160,000.

Outstanding general obligation bonded debt

Issue Date	Maturity Date	Interest Rate	Original Issue	Outstanding June 30, 2012	Redeemed	Outstanding June 30, 2013
10/12/06	6/15/26	4.00-5.00%	\$ 92,000,000	\$ 72,515,000	\$ 3,835,000	\$ 68,680,000
02/28/07	6/15/27	3.00-5.00%	100,000,000	83,470,000	3,945,000	79,525,000
01/22/09	6/15/27	1.50-5.25%	150,000,000	120,235,000	7,895,000	112,340,000
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	89,495,000	6,405,000	83,090,000
03/06/12	6/15/32	4.00-5.00%	115,000,000	115,000,000	3,610,000	111,390,000
03/06/12	6/15/25	0.30-5.00%	116,140,000	114,045,000	7,035,000	107,010,000
				<u>\$ 680,085,000</u>	<u>\$ 32,725,000</u>	647,360,000
					Unamortized bond premium	45,274,120
					Unamortized defeasance costs	(1,910,791)
					Total	<u>\$ 690,723,329</u>

Debt Service Requirement to Maturity

Fiscal Year	Principal	Interest to Maturity	Total
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	40,910,000	23,590,945	64,500,945
2019-2023	232,525,000	87,484,775	320,009,775
2024-2028	170,740,000	35,057,741	205,797,741
2029-2032	57,280,000	6,018,966	63,298,966
Total	<u>\$ 647,360,000</u>	<u>\$ 264,228,841</u>	<u>\$ 911,588,841</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. As of August 2012, the District made payments using proceeds from the sale of a site to pay off the outstanding liability.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

Accumulated Unpaid Employee Vacation and Vested Sick Leave

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

Increases to vested compensated absences reflect net changes during the year ended June 30, 2013. 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 \$18,450,394 at June 30, 2013. The District's liabilities on lease agreements with options to purchase are summarized below:

	Energy Retrofit
Balance, Beginning of Year	\$ 25,456,158
Payments	(2,349,890)
Balance, End of Year	<u>\$ 23,106,268</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2014	\$ 2,420,386
2015	2,492,998
2016	2,567,788
2017	2,644,822
2018	2,724,166
2019-2022	10,256,108
Total	<u>23,106,268</u>
Less: Amount Representing Interest	5,575,089
Present Value of Minimum Lease Payments	<u>\$ 17,531,179</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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. 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, 2013, the principal balance outstanding for the District was \$2,200,359. 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
2014	\$ 1,100,179
2015	1,100,180
Total	<u>\$ 2,200,359</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, 2013, there is no arbitrage rebate liability due.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2013, was \$62,816,756, and contributions made by the District during the year were \$33,886,544. Interest on the net OPEB obligation and adjustments to the annual required contribution were \$6,364,637 and \$(5,638,188), respectively, which resulted in an increase to the net OPEB obligation of \$29,656,661. As of June 30, 2013, 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, 2013**

NOTE 10 – FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	County School Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable					
Revolving cash	\$ 500	\$ -	\$ -	\$ 30,110	\$ 30,610
Stores inventories	599,967	-	-	30,701	630,668
Prepaid expenditures	2,924,323	-	-	-	2,924,323
Total nonspendable	3,524,790	-	-	60,811	3,585,601
Restricted					
Legally restricted	24,331,504	5,143,830	-	1,029,404	30,504,738
Capital projects	-	-	141,682,709	35,565,747	177,248,456
Debt services	-	-	-	8,652,853	8,652,853
Total restricted	24,331,504	5,143,830	141,682,709	45,248,004	216,406,047
Committed					
Deferred maintenance	-	-	-	1,848,552	1,848,552
Total committed	-	-	-	1,848,552	1,848,552
Assigned					
Tier III commitment	601,886	-	-	-	601,886
Capital projects	-	-	-	6,297,024	6,297,024
Total assigned	601,886	-	-	6,297,024	6,898,910
Unassigned					
Reserve for economic uncertainties	11,553,960	2,628,727	-	-	14,182,687
Remaining unassigned	20,392,793	1,842,306	-	-	22,235,099
Total unassigned	31,946,753	4,471,033	-	-	36,417,786
Total fund balances	\$ 60,404,933	\$ 9,614,863	\$ 141,682,709	\$ 53,454,391	\$ 265,156,896

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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

Balance per Governmental Funds Balance Sheet	\$ 31,946,753
Add Back	
Tier III assigned balance	601,886
General Fund revolving cash	500
General Fund prepaid operating expenditures	2,924,323
General Fund inventory	599,967
County School Fund unassigned fund balance	4,471,033
Deferred Maintenance Fund committed fund balance	1,848,552
Special Reserve Fund for Capital Outlay assigned fund balance	6,297,024
Deduct	
Compensated absences liability	(5,803,053)
Revenue limit deficit	(2,200,359)
Other post employment benefits liability	(156,949,410)
Balance per Statement of Net Position	<u><u>\$ (116,262,784)</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
2014	\$ 3,739,893
2015	3,709,893
2016	3,482,400
2017	3,406,569
2018	3,369,569
Thereafter	92,562,074
Total	<u><u>\$ 110,270,398</u></u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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 5,038 retirees and their beneficiaries currently receiving benefits and 6,805 active plan members. The unfunded portion of the annual requirement contributions (net OPEB obligation) is presented in the Statement of Net Position as a portion of long-term obligations.

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 2012-13, the District contributed \$33,886,544 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	6,364,637
Adjustment to annual required contribution	<u>(5,638,188)</u>
Annual OPEB cost (expense)	63,543,205
Contributions made	<u>(33,886,544)</u>
Increase in net OPEB obligation	29,656,661
Net OPEB obligation, beginning of year	<u>127,292,749</u>
Net OPEB obligation, end of year	<u>\$ 156,949,410</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Contributions Made	Percentage Contributed	Net OPEB Obligation
2013	\$ 63,543,205	\$ 33,886,544	53%	\$ 156,949,410
2012	63,379,332	34,664,509	55%	127,292,749
2011	63,213,898	34,225,547	54%	98,577,926

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, 2013, was thirty years, on an open basis. The actuarial value of assets was not determined in the valuation.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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, 2011 to June 30, 2013:

	Total
Liability Balance, June 30, 2011	\$ 27,606,737
Claims and changes in estimates	12,208,530
Claims payments	(12,350,982)
Liability Balance, June 30, 2012	27,464,285
Claims and changes in estimates	21,135,798
Claims payments	(18,117,182)
Liability Balance, June 30, 2013	<u>\$ 30,482,901</u>
Assets available to pay claims at June 30, 2013	<u>\$ 42,695,462</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, 2013

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, 100 Waterfront Place, West Sacramento, CA 95605 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 2012-13 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, 2013, 2012 and 2011 were \$23,740,327, \$23,290,306, and \$22,990,582 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); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by the City and County of San Francisco (the City). SFERS is a separate department of the City, deriving its powers, functions, and responsibility from the City charter and ordinances of the Board of Supervisors of the City. Substantially all employees of the City and County are 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. SFERS issues a separate annual financial report that includes financial statements and required supplementary information. Copies of the SFERS annual financial report may be obtained online at www.sfers.org.

Funding Policy

In accordance with the City charter, District participants contribute 7.5 percent to 10.5 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, 2013 was 20.71 percent of covered payroll. During the years ended June 30, 2013, 2012, and 2011 the District's contributions were \$12,890,078, \$11,692,725, and \$12,749,635, respectively, and equal 100 percent of the required contributions for each year.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

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. The 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 Fund	County School Fund	Child Development Fund	Total State Contribution
2012-13	5.176%	\$ 11,527,019	\$ 2,248,151	\$ 645,407	\$ 14,420,577
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

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, 2013.

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, 2013.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Construction Commitments:

As of June 30, 2013, the District had the following commitments with respect to the unfinished capital projects:

Capital Project Site	Remaining Construction Commitment	Expected Date of Completion
20 Cook Street	\$ 378,950	December-13
2340 Jackson Street	130,000	August-13
Athletic Office	483,418	September-13
Bret Harte Elementary School	1,690,305	December-13
Cesar Chavez Elementary School	6,464,484	August-14
Chinese Education Center	193,800	September-13
Chinese Immersion at DeAvila	329,031	September-13
Claire Lilenthal Madison Campus	126,745	September-13
Door Lockset Replacement Project	919,000	August-13
Dr. George Washington Carver Elementary School	138,285	September-13
Dr. Martin Luther King Middle School	174,291	August-13
ER Taylor Elementary School	908,390	September-13
Glen Park Elementary School	198,250	September-13
IM Scott School	124,555	October-13
Leola Harvard Early Education School	550,000	November-13
Lowell High School	944,616	August-13
Miscellaneous construction commitments	839,100	October-13
Monroe Elementary School	4,300,191	January-14
San Francisco Community Elementary School	505,592	September-13
Thurgood Marshall Elementary School	430,750	August-13
Ulloa Elementary school	154,154	July-13
William L. Brown Jr. Academy	42,440,096	June-15
Yick Wo Elementary School	4,294,550	March-14
Total construction commitments	\$ 66,718,553	

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2013

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 \$90,000,000 of Tax and Revenue Anticipation Notes dated August 15, 2013. The notes mature on August 14, 2014, 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, 2014, until 100 percent of principal and interest is due on account by April 30, 2014.

REQUIRED SUPPLEMENTARY INFORMATION

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable (Unfavorable)
Revenues				Final to Actual
Revenue limit sources	\$ 260,428,252	\$ 264,982,371	\$ 262,489,868	\$ (2,492,503)
Federal sources	36,474,237	61,973,341	51,811,711	(10,161,630)
Other state sources	114,811,004	121,267,944	121,592,310	324,366
Other local sources	112,576,222	120,213,445	125,416,660	5,203,215
TOTAL REVENUES¹	524,289,715	568,437,101	561,310,549	(7,126,552)
Expenditures				
Current				
Certificated salaries	225,590,278	235,592,456	234,731,822	860,634
Classified salaries	69,531,587	72,661,805	69,980,246	2,681,559
Employee benefits	116,993,627	121,931,471	115,328,991	6,602,480
Books and supplies	16,735,885	27,319,713	21,508,789	5,810,924
Services and operating expenditures	51,451,270	62,852,031	57,013,413	5,838,618
Other outgo	63,424,523	67,814,947	65,345,874	2,469,073
Capital outlay	400,944	986,569	532,168	454,401
Debt service - principal	1,100,179	1,100,179	1,100,179	-
Debt service - interest	1,538,641	1,538,641	1,538,641	-
TOTAL EXPENDITURES¹	546,766,934	591,797,812	567,080,123	24,717,689
Excess (deficiency) of revenues over expenditures	(22,477,219)	(23,360,711)	(5,769,574)	17,591,137
Other Financing Uses				
Transfers out	(12,977,017)	(11,977,540)	(11,718,037)	259,503
NET CHANGE IN FUND BALANCES	(35,454,236)	(35,338,251)	(17,487,611)	17,850,640
Fund balance - Beginning	77,892,544	77,892,544	77,892,544	-
Fund balance - Ending	\$ 42,438,308	\$ 42,554,293	\$ 60,404,933	\$ 17,850,640

¹ For comparison purpose, on behalf payments of \$11,527,019 in Note 14 of the financial statements are excluded from this schedule.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**COUNTY SCHOOL SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2013**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Favorable (Unfavorable)
Revenue				Final to Actual
Revenue limit sources	\$ 13,685,146	\$ 12,607,427	\$ 12,386,116	\$ (221,311)
Federal sources	14,995,363	14,988,791	14,138,966	(849,825)
Other state sources	46,525,156	47,056,275	47,611,153	554,878
Other local sources	59,903,291	62,043,332	58,440,984	(3,602,348)
TOTAL REVENUES¹	135,108,956	136,695,825	132,577,219	(4,118,606)
Expenditures				
Current				
Certificated salaries	48,050,579	47,861,220	45,780,486	2,080,734
Classified salaries	24,944,149	23,931,789	24,065,316	(133,527)
Employee benefits	29,432,512	29,190,480	27,198,322	1,992,158
Books and supplies	1,753,894	1,153,429	1,403,142	(249,713)
Services and operating expenditures	30,572,529	33,164,058	32,989,061	174,997
Other outgo	489,497	15,225	-	15,225
TOTAL EXPENDITURES¹	135,243,160	135,316,201	131,436,327	3,879,874
NET CHANGE IN FUND BALANCES	(134,204)	1,379,624	1,140,892	(238,732)
Fund balance - Beginning	8,473,971	8,473,971	8,473,971	-
Fund balance - Ending	\$ 8,339,767	\$ 9,853,595	\$ 9,614,863	\$ (238,732)

¹ For comparison purpose, on behalf payments of \$2,248,151 in Note 14 of the financial statements are excluded from this schedule.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
PROGRESS
FOR THE YEAR ENDED JUNE 30, 2013**

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, 2013**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education			
Safe and Supportive Schools Programmatic Intervention	84.184	¹	\$ 211,030
ARRA - State Fiscal Stabilization Fund	84.394	24997	10
Career and Technical Education	84.048	14894	346,832
Education Jobs Fund	84.410	25152	367,439
No Child Left Behind			
Title I			
School Improvement Grant	84.377	15127	2,335,849
ARRA - School Improvement Grant	84.388	15004	13,998,898
Part A, Basic Grants Low Income and Neglected	84.010	14329	11,102,090
Part A, School Wide Plan	84.010	10003	4,056,119
Part B, Reading First Program	84.357	14328	377,207
Part C, Migrant Ed - Regular Program	84.011	14326	163,035
Part C, Migrant Ed - Summer Program	84.011	10005	51,896
Part D, Local Delinquent Programs	84.010	14357	251,294
Part G, Advanced Placement Test Fee Reimbursement	84.000	¹	2,451
Title II			
Part A, Teacher Quality	84.367	14341	3,145,133
Part B, CA Mathematics and Science Partnership	84.366	14512	368,850
Part D, Enhancing Education Through Technology	84.318	14334	1,730
Part D, Enhancing Education Through Technology	84.318	14368	(13)
Title III			
Immigrant Education Program	84.365	15146	368,821
Limited English Proficient Student Program	84.365	14346	1,878,073
Title IV			
Part B, 21st Century Community Learning Centers	84.287	14349	6,383,531
Title V			
Part B, Public Charter Schools Grant Program	84.282	14531	427,044
Individuals with Disabilities Education Act			
Early Intervention Grants	84.181	23761	162,129
Part B, Sec 611, Basic Local Assistance Entitlement	84.027	13379	9,717,557
Part B, Sec 611, Mental Health Allocation Plan	84.027	14468	2,372,380
Part B, Sec 611, Preschool Local Entitlement	84.027A	13682	576,140
Part B, Sec 611, Quality Assurance and Focused Monitoring	84.027	13693	35,503
Part B, Sec 619, Preschool Grants	84.173	13430	300,472
Part B, Private School ISPs	84.027	15000	255,340
Part B, Sec 619, Preschool Staff Development	84.173A	13431	2,000

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Direct Grants			
Alcohol Abuse Reduction	84.184A	1	169,677
Conservation Connection Urban Watershed Project	84.184B	1	5,619
Elementary and Secondary School Counseling Programs	84.215E	1	429,238
Maximizing our Transcultural Heritage Educational Resource	84.293A	1	83,971
Gaining Early Awareness and Readiness for Undergraduates	84.334A	1	1,478,953
Indian Education	84.060	1	31,061
Critical Language Initiative Project	84.293A	1	119,118
Safe Schools - Healthy Students Initiative	84.184L	1	90,338
Total U.S. Department of Education			<u>61,666,815</u>
U.S. DEPARTMENT OF DEFENSE			
Passed through California Department of Education			
Junior Reserve Officers Training Corps	12.000	1	424,250
Total U.S. Department of Defense			<u>424,250</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education			
Basic School Breakfast Program	10.553	13390	1,776
Especially Needy Breakfast Program	10.553	13526	1,754,994
Special Milk Program for Children	10.556	13527	854,179
National School Lunch Program	10.555	13391/13396	10,207,474
Child Care Food Program - Centers and Family Day Homes	10.558	13393	1,344,461
Commodity Supplemental Food Program ³	10.565	1	293,340
School Breakfast Startup	10.000	1	5,008
Passed through California Department of Public Health			
Supplemental Nutrition Assistance Program	10.561	1	1,469,737
Total U.S. Department of Agriculture			<u>15,930,969</u>

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2013**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF JUSTICE			
Direct Grant			
Mentoring for Success - Youth with Disabilities	16.000	¹	394,832
Total U.S. Department of Justice			<u>394,832</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Direct Grant			
Substance Abuse and Mental Health Services	93.243	¹	115,331
Comprehensive School Health Programs	93.938	¹	279,341
Passed through California Department of Education			
Federal Child Care, Center-based	93.596	13609	13,680,453
Passed through California Department of Health Care Services			
Medi-Cal Billing Option	93.778	10013	1,595,363
Head Start	93.600	10016	737,081
Total U.S. Department of Health and Human Services			<u>16,407,569</u>
Total Expenditures of Federal Awards			<u>\$ 94,824,435</u>

¹ Pass-through identifying number not applicable/available.

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE

JUNE 30, 2013

ORGANIZATION

The San Francisco Unified School District was established in 1851 and consists of an area comprising approximately 49 square miles. The District operates 5 transitional kindergartens, 72 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
Rachel Norton	President	2017
Sandra Lee Fewer	Vice President	2017
Matthew Haney	Member	2017
Kim-Shree Maufas	Member	2015
Hydra B. Mendoza	Member	2015
Emily M. Murase, Ph. D	Member	2015
Jill Wynns	Member	2017

ADMINISTRATION

Richard Carranza	Superintendent of Schools
Donald Davis	General Counsel
Guadalupe Guerrero	Deputy Superintendent, Instruction, Innovation & Social Justice
Myong Leigh	Deputy Superintendent, Policy & Operations
Laura Moran	Chief of Staff
Karling Aguilera Fort	Assistant Superintendent of Superintendent Zone - Mission
Elizabeth Blanco	Assistant Superintendent, Special Education
Carla Bryant	Chief of Early Childhood Education
Roger Buschmann	Chief of Human Resources
Margaret Chiu	Assistant Superintendent, Elementary - Cohort I
DeeDee Desmond	Assistant Superintendent of Superintendent Zone - Bayview
David Goldin	Chief Facilities Officer
Joseph Grazioli	Chief Financial Officer
Nur Jehan Khalique	Assistant Superintendent, Elementary - Cohort II
Matthew McKenzie	Chief Technology Officer
Jeannie Pon	Assistant Superintendent, Middle Schools
Janet Schulze	Assistant Superintendent, High Schools
Brent Stephens	Assistant Superintendent, Elementary - Cohort III
Kevin Truitt	Associate Superintendent, Student Support Services
Luis Valentino	Chief Academic Officer, Curriculum and Instruction

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2013**

	Amended Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	4,374	4,390
First through third	12,705	12,707
Fourth through sixth	10,968	10,967
Seventh and eighth	6,583	6,608
Home and hospital	11	11
County community school	5	6
Juvenile hall	6	7
Special education	980	969
Nonpublic/Nonsectarian schools	69	70
Total Elementary	35,701	35,735
SECONDARY		
Regular classes	14,268	14,219
Continuation education	318	300
Home and hospital	5	5
County community school	175	178
Juvenile hall	112	106
Special education	607	599
Nonpublic/Nonsectarian schools	83	85
Total Secondary	15,568	15,492
Grand Total	51,269	51,227

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2013

Grade Level	1982-83 Actual Minutes	Reduced 1982-83 Actual Minutes	1986-87 Minutes Requirement	Reduced 1986-87 Minutes Requirement	2012-13 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	32,014	31,125	36,000	35,000	42,580	180	Complied
Grades 1 - 3							
Grade 1	45,755	44,484	50,400	49,000	50,470	180	Complied
Grade 2	45,755	44,484	50,400	49,000	50,470	180	Complied
Grade 3	45,755	44,484	50,400	49,000	50,470	180	Complied
Grades 4 - 6							
Grade 4	48,788	47,433	54,000	52,500	54,000	180	Complied
Grade 5	48,788	47,433	54,000	52,500	54,000	180	Complied
Grade 6	48,788	47,433	54,000	52,500	57,626	180	Complied
Grades 7 - 8							
Grade 7	57,525	55,927	54,000	52,500	57,626	180	Complied
Grade 8	57,525	55,927	54,000	52,500	57,626	180	Complied
Grades 9 - 12							
Grade 9	58,458	56,834	64,800	63,000	64,835	180	Complied
Grade 10	58,458	56,834	64,800	63,000	64,835	180	Complied
Grade 11	58,458	56,834	64,800	63,000	64,835	180	Complied
Grade 12	58,458	56,834	64,800	63,000	64,835	180	Complied

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2013**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2013.

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2013**

	(Budget) 2014 ¹	2013	2012	2011
GENERAL FUND				
Revenues	\$ 588,225,863	\$ 561,310,549	\$ 564,345,754	\$ 538,698,839
Expenditures	586,354,966	567,080,123	557,859,381	524,732,624
Other uses and transfers out	11,486,386	11,718,037	6,882,333	12,480,772
Total Expenditures and Other Uses	597,841,352	578,798,160	564,741,714	537,213,396
CHANGE IN FUND BALANCE	\$ (9,615,489)	\$ (17,487,611)	\$ (395,960)	\$ 1,485,443
ENDING FUND BALANCE	\$ 50,789,444	\$ 60,404,933	\$ 77,892,544	\$ 78,288,504
AVAILABLE RESERVES	\$ 18,229,667	\$ 31,946,753	\$ 46,398,384	\$ 51,007,305
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	3.05%	5.52%	8.22%	9.49%
LONG-TERM OBLIGATIONS	\$ 833,436,169	\$ 873,207,330	\$ 892,695,298	\$ 787,377,257
AVERAGE DAILY ATTENDANCE AT P-2 ²	51,350	51,269	51,381	51,235

The General Fund balance has decreased by \$17,883,571 over the past two years. The fiscal year 2013-14 budget projects a decrease of \$9,615,489, or 15.92 percent. For a district this size, the State recommends available reserves of at least two percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in the unrestricted General Fund over the previous three years and anticipates incurring an operating deficit during the 2013-14 fiscal year. Total long-term liabilities have increased by \$85,830,073 over the past two years. The primary reason for the increase in long-term liabilities is due to the issuance of general obligation bonds and actuarially calculated post employment benefits.

Average daily attendance has increased by 34 over the past two years. An increase of 81 ADA is anticipated during fiscal year 2013-14.

Available reserves declined \$19,060,552 from 2011-12 and the District projects a further decrease of \$13,717,086 during the 2013-14 fiscal year.

¹ Budget 2014 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 \$11,527,019, \$11,532,668, and \$9,494,414, are excluded from this schedule and the calculation of available reserves percentage for fiscal years ending June 30, 2013, 2012 and 2011.

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2013

<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, 2013**

	Special Revenue Funds		
	Child Development	Cafeteria	Deferred Maintenance
ASSETS			
Cash	\$ -	\$ 30,110	\$ 7,585
Investments	286,168	-	2,019,627
Receivables	2,587,369	4,306,883	968
Stores inventories	-	30,701	-
Total Assets	\$ 2,873,537	\$ 4,367,694	\$ 2,028,180
LIABILITIES AND FUND BALANCES			
Liabilities			
Overdrafts	\$ -	\$ 2,778,990	\$ -
Accounts payable	1,168,479	1,509,551	179,628
Deferred revenue	693,996	-	-
Total Liabilities	1,862,475	4,288,541	179,628
Fund Balances			
Nonspendable	-	60,811	-
Restricted	1,011,062	18,342	-
Committed	-	-	1,848,552
Assigned	-	-	-
Total Fund Balances	1,011,062	79,153	1,848,552
Total Liabilities and Fund Balances	\$ 2,873,537	\$ 4,367,694	\$ 2,028,180

See accompanying note to supplementary information.

Capital Project Funds				Debt Service Funds		Total Nonmajor Governmental Funds
Capital Facilities	State School Building	County School Facilities	Special Reserve Capital Outlay	Bond Interest and Redemption	Tax Override	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 37,695
26,679,765	4,260,256	9,052,368	6,341,219	8,605,100	33,269	57,277,772
12,784	2,041	4,338	-	14,484	-	6,928,867
-	-	-	-	-	-	30,701
<u>\$ 26,692,549</u>	<u>\$ 4,262,297</u>	<u>\$ 9,056,706</u>	<u>\$ 6,341,219</u>	<u>\$ 8,619,584</u>	<u>\$ 33,269</u>	<u>\$ 64,275,035</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 2,778,990
653,538	-	35,995	44,195	-	-	3,591,386
-	3,756,272	-	-	-	-	4,450,268
<u>653,538</u>	<u>3,756,272</u>	<u>35,995</u>	<u>44,195</u>	<u>-</u>	<u>-</u>	<u>10,820,644</u>
-	-	-	-	-	-	60,811
26,039,011	506,025	9,020,711	-	8,619,584	33,269	45,248,004
-	-	-	-	-	-	1,848,552
-	-	-	6,297,024	-	-	6,297,024
<u>26,039,011</u>	<u>506,025</u>	<u>9,020,711</u>	<u>6,297,024</u>	<u>8,619,584</u>	<u>33,269</u>	<u>53,454,391</u>
<u>\$ 26,692,549</u>	<u>\$ 4,262,297</u>	<u>\$ 9,056,706</u>	<u>\$ 6,341,219</u>	<u>\$ 8,619,584</u>	<u>\$ 33,269</u>	<u>\$ 64,275,035</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, 2013**

	Special Revenue Funds		
	Child Development	Cafeteria	Deferred Maintenance
REVENUES			
Federal sources	\$ 15,761,995	\$ 12,818,423	\$ -
Other state sources	10,283,025	984,310	-
Other local sources	6,903,408	2,236,436	21,155
Total Revenues	32,948,428	16,039,169	21,155
EXPENDITURES			
Current			
Instruction	26,115,311	-	-
Instruction related activities:			
Supervision of instruction	3,843,783	-	-
School site administration	3,769,121	-	-
Pupil Services:			
Food services	3,409,291	17,704,201	-
All other pupil services	233,949	-	-
General administration:			
All other general administration	1,746,934	776,044	-
Plant services	633,283	-	-
Facility acquisition and construction	28,710	-	653,862
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	39,780,382	18,480,245	653,862
Excess (deficiency) of revenues over expenditures	(6,831,954)	(2,441,076)	(632,707)
Other Financing Sources:			
Transfers in	6,915,037	2,453,111	-
Transfers out	-	-	-
Net Financing Sources	6,915,037	2,453,111	-
NET CHANGE IN FUND BALANCES	83,083	12,035	(632,707)
Fund Balance - Beginning	927,979	67,118	2,481,259
Fund Balance - Ending	\$ 1,011,062	\$ 79,153	\$ 1,848,552

See accompanying note to supplementary information.

Capital Project Funds				Debt Service Funds		Total Nonmajor Governmental Funds
Capital Facilities	State School Building	County School Facilities	Special Reserve Capital Outlay	Bond Interest and Redemption	Tax Override	
\$ -	\$ -	\$ -	\$ -	\$ 2,066,274	\$ -	\$ 30,646,692
-	-	14,966,075	-	249,694	-	26,483,104
9,102,386	40,866	106,900	3,006,844	60,992,319	-	82,410,314
9,102,386	40,866	15,072,975	3,006,844	63,308,287	-	139,540,110
-	-	-	-	-	-	26,115,311
-	-	-	-	-	-	3,843,783
-	-	-	-	-	-	3,769,121
-	-	-	-	-	-	21,113,492
-	-	-	-	-	-	233,949
-	-	-	-	-	-	2,522,978
-	-	-	46,111	-	-	679,394
3,145,516	-	131,012	37,395	-	-	3,996,495
-	-	-	11,696,643	32,725,000	-	44,421,643
-	-	-	1,414,853	31,690,930	-	33,105,783
3,145,516	-	131,012	13,195,002	64,415,930	-	139,801,949
5,956,870	40,866	14,941,963	(10,188,158)	(1,107,643)	-	(261,839)
-	-	-	2,349,889	-	-	11,718,037
-	-	(13,348,852)	-	-	-	(13,348,852)
-	-	(13,348,852)	2,349,889	-	-	(1,630,815)
5,956,870	40,866	1,593,111	(7,838,269)	(1,107,643)	-	(1,892,654)
20,082,141	465,159	7,427,600	14,135,293	9,727,227	33,269	55,347,045
\$ 26,039,011	\$ 506,025	\$ 9,020,711	\$ 6,297,024	\$ 8,619,584	\$ 33,269	\$ 53,454,391

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**GENERAL UNRESTRICTED AND RESTRICTED FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2013**

	Unrestricted	Restricted	Total General Fund
ASSETS			
Cash and cash equivalents	\$ 20,878	\$ 513,825	\$ 534,703
Investments	32,337,205	3,173,311	35,510,516
Receivables	24,402,525	30,507,368	54,909,893
Stores inventories	599,967	-	599,967
Prepaid expenses	2,924,323	-	2,924,323
Total Assets	\$ 60,284,898	\$ 34,194,504	\$ 94,479,402
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 24,211,469	\$ 7,228,337	\$ 31,439,806
Deferred revenue	-	2,634,663	2,634,663
Total Liabilities	24,211,469	9,863,000	34,074,469
Fund Balances			
Nonspendable	3,524,790	-	3,524,790
Restricted	-	24,331,504	24,331,504
Assigned	601,886	-	601,886
Unassigned	31,946,753	-	31,946,753
Total Fund Balances	36,073,429	24,331,504	60,404,933
Total Liabilities and Fund Balances	\$ 60,284,898	\$ 34,194,504	\$ 94,479,402

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, 2013**

	Unrestricted	Restricted	Total
REVENUES			
Revenue limit sources	\$ 262,489,868	\$ -	\$ 262,489,868
Federal sources	426,701	51,385,010	51,811,711
Other state sources	94,364,433	38,754,896	133,119,329
Other local sources	42,676,260	82,740,400	125,416,660
Interfund contributions	(4,543,037)	4,543,037	-
Total Revenues	395,414,225	177,423,343	572,837,568
EXPENDITURES			
Current			
Instruction	197,861,199	59,511,779	257,372,978
Instruction related activities:			
Supervision of instruction	14,385,062	64,747,227	79,132,289
Instructional library and technology	1,903,858	6,728,018	8,631,876
School site administration	32,630,810	860,193	33,491,003
Pupil Services:			
Home-to school transportation	7,068,154	2,592,149	9,660,303
Food services	109,732	16,487	126,219
All other pupil services	15,006,426	16,847,059	31,853,485
General administration:			
Data processing	6,109,686	1,626,937	7,736,623
All other general administration	14,348,395	5,282,222	19,630,617
Plant services	40,276,661	11,809,724	52,086,385
Facility acquisition and construction	405,016	2,766,080	3,171,096
Ancillary services	400,977	3,262,987	3,663,964
Other outgo	67,060,104	2,347,389	69,407,493
Enterprise services	-	3,991	3,991
Debt service			
Principal	1,100,179	-	1,100,179
Interest and other	1,538,641	-	1,538,641
Total Expenditures	400,204,900	178,402,242	578,607,142
Excess of expenditures over revenues	(4,790,675)	(978,899)	(5,769,574)
OTHER FINANCING USES:			
Transfers out	(9,904,037)	(1,814,000)	(11,718,037)
Net Financing Uses	(9,904,037)	(1,814,000)	(11,718,037)
NET CHANGE IN FUND BALANCES	(14,694,712)	(2,792,899)	(17,487,611)
Fund Balance - Beginning	50,768,141	27,124,403	77,892,544
Fund Balance - Ending	\$ 36,073,429	\$ 24,331,504	\$ 60,404,933

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2013**

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

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

	<u>CFDA Number</u>	<u>Amount</u>
Total Federal Revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 96,597,369
Federal interest subsidy on Qualified Construction Bonds and Build America Bonds	Not Applicable	(2,066,274)
Noncash Federal awards are not recorded on the Financial Statements	10.565	293,340
Total Schedule of Expenditures of Federal Awards		<u>\$ 94,824,435</u>

Subrecipients

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

<u>Program Title</u>	<u>CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Title I, Part A, Basic Grants Low Income and Neglected Education Jobs Fund	84.010	\$ 440,289
Title II, Part A, Teacher Quality	84.410	686
Total	84.367	<u>17,285</u>
		<u>\$ 458,260</u>

Local Education Agency Organization Structure

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2013

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

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

INDEPENDENT AUDITOR'S REPORTS



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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Francisco Unified School District (the District) as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 16, 2013.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of This Report

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

Varrinek Trime Day + Co. LLP

Palo Alto, California
December 16, 2013



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

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

Report on Compliance for Each Major Federal Program

We have audited the San Francisco Unified School District's (the District) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the District's major Federal programs for the year ended June 30, 2013. Major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

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

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of the District's compliance.

Opinion on Each Major Federal Program

In our opinion, the District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2013.

Report on Internal Control over Compliance

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

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Varrinck Time Day + Co. LLP

Palo Alto, California
December 16, 2013



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited San Francisco Unified School District's (the District) compliance with the types of compliance requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2012-2013* that could have a direct and material effect on each of the District's State government programs as noted below for the year ended June 30, 2013.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2012-2013*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

Basis for Qualified Opinion

As described in the accompanying schedule of findings and questioned costs, the District did not comply with certain requirements regarding the After School Education and Safety program. Compliance with such requirements is necessary, in our opinion, for the District to comply with the requirements applicable to that program.

Qualified Opinion

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, the District complied, in all material respects, with the types of compliance requirements referred to above for the year ended June 30, 2013.

Other Matters

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	Yes
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
Juvenile Court Schools	8	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	1	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, audit committee, 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.

Vasrinek Trime Day + Co. LLP

Palo Alto, California
December 16, 2013

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR’S RESULTS
FOR THE YEAR ENDED JUNE 30, 2013**

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.377, 84.388</u>	<u>School Improvement Grant (including ARRA)</u>
<u>84.010</u>	<u>Title I, Part A - Grants to Local Education Agencies</u>
<u>84.367</u>	<u>Title II, Part A - Improving Teacher Quality</u>
<u>84.365</u>	<u>Title III, Part A - English Language Acquisition Grants</u>
<u>10.553, 10.555</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 2,844,733</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

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

Name of Program
After School Education and Safety

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2013**

None reported.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2013

The following findings represent instances of noncompliance relating to State program laws and regulations. The findings are coded as follows:

	<u>AB 3627 Finding Type</u>
40000	State Compliance

2013-1 Code 40000

Criteria

The purpose of the After School Education and Safety (ASES) program is to support student success in school by providing academic support and enrichment opportunities. An ASES after school program was never intended to be a drop-in or child care program. The legislature determined that regular attendance would serve as the measure for demonstrating compliance with the legislation's purpose (EDC §8483[a][1]), intent (EDC §8483[a][2]), and criteria for ongoing program funding (EDC §8483.7[a][1][A]).

Each site operating an After School Education and Safety (ASES) program is required to have sign-in and sign-out procedures, including early-release and late-arrival procedures, and to maintain documentation in order to support the reported attendance.

Condition

A portion of reported students served resulted from attendance inconsistent with the ASES early release policy because the established policy is not consistently followed. We identified instances of early dismissal, yet the sign out documentation lacks required elements such as time, signature, or reconciliation to the established early release policy. We also identified instances where the documentation does not provide a record of the dismissal time.

Questioned Costs

ASES grants are direct funded as three-year renewable grants per site; grants are not reimbursed for earned attendance. A discrepancy in the number of students served in the current year will not impact current year funding, but it could very well impact funding for future periods. The funding amounts for future years are based on a number of factors of which number of students served is one. As such it is not possible to project what the fiscal impact of the errors noted above will have on current or future site grant award amounts.

Context

We do not question if the District is providing an after school program consistent with the intent of the ASES program. However, the level of documentation related to attendance reporting does not meet the requirements set forth by regulatory literature for five identified sites of the District's 74 ASES after school programs.

Effect

Operating a program inconsistent from the intent can result in the District unable to provide a basis for future funding.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS (Continued) FOR THE YEAR ENDED JUNE 30, 2013

Recommendation

Sites and the District should enhance procedures to review the sign-in and sign-out documentation on a periodic basis to ensure that early dismissal is consistent with the established early release policy.

It is also recommended that the District provide additional training to site coordinators of rules and regulations regarding attendance tracking and reporting. Site coordinators should be reminded of the need to document when a student signs out of the program, signature, time, and a connection to the early release policy. Because of the inevitable turnover of personnel that occurs, this type of training should be given on an as needed basis, but at least annually. The District should consider frequent internal audits of the sites.

Corrective Action Plan

The District has redesigned its online attendance system to ensure increased compliance with the ASES early release policy. In addition to the annual August training on the rules and regulations regarding attendance tracking and reporting, the District has implemented quarterly attendance trainings to ensure that any new staff have the training they need to ensure compliance with the attendance tracking procedures. The District has also initiated bi-annual attendance site reviews in the Fall and the Spring. During the site visits, program staff are provided with individual training and given two weeks to correct any findings. Program staff are also required to attend the appropriated quarterly attendance training.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2013**

Financial Statement Findings

None reported.

Federal Awards Findings

None reported.

State Awards Findings

None reported.