

**SAN FRANCISCO UNIFIED
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2018**

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SAN FRANCISCO UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2018

FINANCIAL SECTION

Independent Auditor's Report	2
Management's Discussion and Analysis	5
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Position	15
Statement of Activities	16
Fund Financial Statements	
Governmental Funds - Balance Sheet	17
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position	19
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balances	20
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	22
Proprietary Fund - Statement of Net Position	24
Proprietary Fund - Statement of Revenues, Expenses, and Changes in Fund Net Position	25
Proprietary Fund - Statement of Cash Flows	26
Fiduciary Funds - Statement of Fiduciary Net Position	27
Notes to Financial Statements	28

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	71
County School Service Fund – Budgetary Comparison Schedule	72
Schedule of Changes in the District's Total OPEB Liability and Related Ratios	73
Schedule of the District's Proportionate Share of the Net Pension Liability	74
Schedule of District Pension Contributions	75
Note to Required Supplementary Information	76

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	78
Local Education Agency Organization Structure	81
Schedule of Average Daily Attendance	82
Schedule of Instructional Time	83
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements	84
Schedule of Financial Trends and Analysis	85
Schedule of Charter Schools	86
Combining Statements - Nonmajor Governmental Funds	
Combining Balance Sheet	87
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances	89
Combining Schedules - General Unrestricted and Restricted Funds	
Balance Sheet Schedules	91
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balances	92
Note to Supplementary Information	93

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2018

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>	96
Report on Compliance for Each Major Program on Internal Control Over Compliance Required by the Uniform Guidance	98
Report on State Compliance	100

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditor's Results	104
Financial Statement Findings	105
Federal Awards Findings and Questioned Costs	106
State Awards Findings and Questioned Costs	107
Summary Schedule of Prior Audit Findings	108

FINANCIAL SECTION

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

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Francisco Unified School District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the San Francisco Unified School District, as of June 30, 2018, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in note 1 and note 17, the District implemented Governmental Accounting Standards Board (GASB) Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, effective July 1, 2017. Our opinions are not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and other 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.

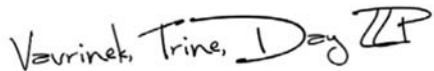
Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 14, 2018, on our consideration of the San Francisco Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of San Francisco Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering San Francisco Unified School District's internal control over financial reporting and compliance.



Palo Alto, California
December 14, 2018

MANAGEMENT'S DISCUSSION AND ANALYSIS

PROFILE OF THE DISTRICT

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

The District and County Office of Education provide pre-kindergarten, transitional kindergarten, kindergarten, elementary, middle and secondary education in the City and County of San Francisco through a network of 136 schools as follows:

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

The District's diverse student demographics includes 35% Asian, 27% Hispanic, 15% White, 7% African American, 5% Filipino, 1% Pacific Islander and 10% "Other". Approximately 29% of the student population is designated as English Language Learners, 11% Special Education and 55% is free and reduced-price lunch eligible.

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

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

SFUSD's commitment to high-quality teaching and learning for all students and our commitment to delivering on the promises that we make to our students and families has led us to be the highest performing large urban school district in the state of California. Despite persistent challenges around the adequacy of funding for K-12 education at the state level (California remains in the bottom 25% in the nation in per-pupil funding), the District's students have achieved more than a decade of continuous growth in academic performance, including significant gains by all groups of students. In the first year of implementation of the new statewide standardized test, the Smarter Balanced Assessment Consortium (SBAC), SFUSD outperformed all other districts in California. The 2017 SBAC results show SFUSD students remaining ahead of their peers in California and in most large urban districts in both English Language Arts and Mathematics. 55% of district students overall are now meeting or exceeding the standards in English Language Arts, up from 53% in the previous year, and higher than the state average of 49%.

In Math, 51% of students are now meeting or exceeding the standards, an increase from 50% from last year, and higher than the state average of 38%. Students from our district graduate high school in four years at a rate of 84%. At the same time, however, wide gaps in achievement between subgroups of students persist.

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

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

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

In the fall of 2013, the superintendent of San Francisco Unified School District (SFUSD), under the leadership of the Board of Education, launched an ambitious undertaking: to develop a new vision for the future of public education in San Francisco, and then use that vision as a guide to transform the city's school system, over the next decade, into one of the premier systems in the world. SFUSD maintains its commitment to preparing all students to thrive in the 21st Century by develop strong academic knowledge and skills, as well as a host of dispositions and behaviors, that increase their curiosity and engagement, activate their full potential for learning, and prepare them for life, work, and study beyond their secondary school years. While the pace and the path toward achieving these outcomes will vary among students and unfold along a set of learning progressions, the goal is for every SFUSD student to possess these capacities by the time they graduate. These capacities are outlined in the **Graduate Profile**.

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

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

Dr. Vincent C. Matthews was hired as the new Superintendent in May, 2017 after the departure of Richard A. Carranza in September, 2016 and following an exhaustive national recruitment effort. Myong Leigh, Deputy Superintendent for Policy and Operations, served as the Interim Superintendent during the transition period. Dr. Matthews is committed to continuing the work started by Mr. Carranza in building a rigorous Common Core-based curriculum, investing in the professional learning of teachers, leaders and school staff, enlisting partners and engaging families, and building an accountability system that includes a comprehensive assessment of student learning.

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

District staff also continue to refine practices in financial planning and monitoring spending levels. SFUSD's ability to analyze and estimate revenues and expenses is essential due to the historical unpredictability of financial resources and the federal and state-wide political and economic trends that may continue to affect the District's financial condition over the next several years, even as the State continues to fully implement the new Local Control Funding Formula. The State of California's fiscal challenges, including volatility in revenues, particularly over the past decade, have had a significant impact on the funds available for school budgets. As the state's economy stabilizes and K-12 education funding is restored to its inflation-adjusted pre-recession level through the implementation of the Local Control Funding Formula, the District has continued to deliver high-quality educational services by directing additional resources to schools, as well as providing competitive compensation increases to our teachers and educators, while continuing to maintain a healthy fiscal status. As financial resources gradually stabilize and improve, the District's teachers, site administrators, and other staff members are continuing their efforts to raise academic achievement of already high performing students and dramatically accelerate the achievement of those who need the most support to achieve SFUSD's vision for student success.

FINANCIAL HIGHLIGHTS

RESULTS OF OPERATION

Unrestricted General Fund Results of Operations

During fiscal year 2017-18, the District's unrestricted general fund ending balance, which includes nonspendable, assigned, and unassigned balances, decreased from \$69.8 million to \$50.4 million, a \$19.5 million or 28% decrease. Total unrestricted general fund revenues in the current year were \$571.5 million, an increase of \$11.7 million, or 2% compared to 2016-17. This increase was due primarily to higher LCFF revenues resulting from a cost of living adjustment of 1.56% over the previous year's per ADA funding level, as well as a slight increase in the average daily attendance.

Total unrestricted general fund expenditures and transfers out of \$591.0 million represent an increase of \$29.0 million or 5% over 2016-17. This is due primarily to an increase in employee salaries negotiated under a new three year contract that became effective as of the start of the fiscal year as well as increases in the CALSTRS retirement contribution rate. Total salaries increased by 7% to \$305.6 million from \$285.5 million the previous year, while the employer contribution rate for teachers' retirement rose from 12.58% of certificated payroll to 14.43% of certificated payroll, a 1.82% increase.

The unrestricted general fund was required to contribute to other funds, primarily to the debt service, child development, and cafeteria funds. Transfers to other funds in the amount of \$9.3 million are \$2.6 million or 22% lower than 2016-17 levels due primarily to a reduction in the unrestricted general fund contribution to the child development program.

General Fund Ending Balance and Reserves

The District's combined general fund ending balance at June 30, 2018 (restricted plus unrestricted) was \$98.7 million. The restricted portion of \$48.3 million will largely be used for instructional activities, although its use is restricted for specific program activities and cannot be counted as available (i.e., unrestricted reserves). The District's available reserves, consisting of reserves for economic uncertainty, and other unassigned fund balances of the general fund, were \$39.9 million, which is a decrease of \$19.2 million or 32% over fiscal year 2016-17.

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

Table I

<i>(Amounts in thousands)</i>	2017	2018	Variance	
			\$	%
Local control funding formula	\$ 488,143	\$ 501,473	\$ 13,330	2.7%
Federal sources	29,931	25,569	(4,362)	-14.6%
Other state sources	60,364	72,008	11,644	19.3%
Local sources	191,451	202,436	10,985	5.7%
	<u>\$ 769,889</u>	<u>\$ 801,486</u>	<u>\$ 31,597</u>	<u>4.1%</u>

Table II

<i>(Amounts in thousands)</i>	2017	2018	Variance	
			\$	%
Instruction	\$ 321,793	\$ 414,235	\$ 92,442	28.7%
Instruction related activities	161,759	175,535	13,776	8.5%
Pupil services	55,494	61,808	6,314	11.4%
General administration	35,629	39,506	3,877	10.9%
Plant services	62,464	64,923	2,459	3.9%
Facility acquisition and construction	5,787	8,708	2,921	50.5%
Ancillary and enterprise services	4,742	4,962	220	4.6%
Other outgo	104,804	40,443	(64,361)	-61.4%
Debt service	1,279	148	(1,131)	-88.4%
Transfers out	13,454	13,796	342	2.5%
	<u>\$ 767,205</u>	<u>\$ 824,064</u>	<u>\$ 56,859</u>	<u>7.4%</u>

The \$92.4 million increase in instruction expenditure is largely due to negotiated salary increases due to collective bargaining agreements, increases in the district's contributions to teachers' retirement plans, as well as expenditures related to state categorical programs like the College Readiness Block Grant.

The \$64.9 million decline in “Other Outgo” is mainly related to a change in methodology by which the District’s general fund support to the Special Education program is accounted for. Instead of transferring the \$64.9 million to the COE as “Other Outgo”, salaries and other related expenditures of the Special Education program are now recognized as expenses on the District’s books, resulting in a proportionate reduction in the amount transferred to the COE

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 2017-18 budget in accordance with provisions of the California Education Code. The budget reflects the District’s goals to emphasize the achievement of all students and to narrow the achievement gap for our African-American students. Throughout the budget development process, staff is encouraged to work with the community to develop sound decisions that support the needs of all students.

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

As program needs change during the year, changes and revisions to the adopted budget are made throughout the year to reflect these changes. Budget transfers and budget revisions are made on an ongoing basis, and new programs are budgeted throughout the fiscal year. We have included a budgetary comparison schedule on page 70 providing the adopted and final budgets compared with actual revenues and expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-Wide Statements

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

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

THE DISTRICT AS A TRUSTEE

Reporting the Districts Fiduciary Responsibilities

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Position

The District's government-wide deficit net position at June 30, 2018 totaled \$(326.3) million. Of this amount, \$717.0 million represents net investment in capital assets, while \$170.0 million is restricted for various purposes. The deficit unrestricted net position of \$(1,212) million is primarily due to the aggregate net pension liability and the total postemployment benefits obligation, which totals \$771.8 million and \$733.5 million, respectively at June 30, 2018. The aggregate net pension liability increased \$94.8 million or 14.0% from June 30, 2017. The postemployment benefits liability increased \$48.8 million or 7.1% from June 30, 2017. A reconciliation of the unrestricted deficit net position and the positive unassigned general fund is on page 51.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

For financial accounting purposes, capital assets are valued at historical cost less accumulated depreciation, which differs considerably from fair market value. At the close of the year ended June 30, 2018, the District's capital assets totaled \$2,183 million. Accumulated depreciation was \$576.5 million at year end. Depreciation expense for the year totaled \$55.3 million. Net book value (the amount of total assets after applying depreciation) increased by \$48.70 million to \$1,607 million.

The original historical construction cost of most school sites dating back to the date the school was first opened have not been included as such costs would have been fully depreciated by the beginning year date of July 1, 2001, when accounting standards required such information to be reported. See note 4 on page 44 to the accompanying financial statements for a complete summary of the District's capital assets.

Long-Term Obligations

Long-term obligations consist primarily of the unfunded portions of employee pensions, unfunded portions of post-employment medical benefits and general obligation bonded debt. The following tables presents a summary of the District's most significant long-long obligations on June 30, 2018, and presents the increase from the previous fiscal year.

			Net Variance		
	(Amounts in thousands)	2017	2018		
				\$	
				%	
CalSTRS and SFRERS unfunded pension amounts	\$	677,003	\$ 771,834	\$ 94,831.3	14.0%
Post-employment medical unfunded amounts		684,670	733,481	48,810.9	7.1%
Bonded debt		1,124,757	1,045,995	(78,762.0)	-7.0%
Other		57,544	54,764	(2,780.2)	-4.8%
		\$ 2,543,974	\$ 2,606,074	\$ 62,100	2.4%

The total OPEB liability and the net pension liability is (collectively \$1.5 billion) in-effect “unpaid compensation” to employees for past service. Unlike other forms of long-term liabilities such as general obligation bonds, these amounts will be funded with District resources, primarily from the general fund. The District has earmarked \$25.9 million within the self-insurance fund towards the \$733 million OPEB liability. More information regarding OPEB and pension is described in note 12 and note 14.

FACTORS BEARING ON THE DISTRICT’S FUTURE

The District’s staff continues to use assessments to measure and re-evaluate our investments in sound, educational and programmatic activities while ensuring financial solvency. The District achieved its required reserve target of 2% for fiscal year 2017-18, and currently projects that it will maintain its minimum reserve in both fiscal year 2018-19 and fiscal year 2019-20.

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

Another local revenue source that has been greatly beneficial to SFUSD is the Public Education Enrichment Fund (PEEF), a ballot initiative that was approved by the voters of San Francisco in March, 2004, and established as law in the City Charter, Section 16.123.1-10. Originally set to expire on June 30, 2015, Proposition C, the “Children and Families First” initiative passed in November, 2014, extended the PEEF funding through 2041, and ensured a sustained and guaranteed investment in our children’s future. PEEF funds have been critical in allowing the district to maintain, and in most cases, expand, programs during the economic downturn. The district receives two-thirds of the annual PEEF allocation from the City with the remaining one-third going to the City’s Department of Early Care and Education for support to preschool. The district’s portion of PEEF is used to support sports, libraries, the arts and music (SLAM) as well as programs such as Wellness Centers, Student Support Professionals at schools, Translation Services, STEAM curriculum, and Peer Resources, to name a few. The District received \$69.5 million of PEEF revenue in 2017-18.

Proposition G, The Living Wage for Educators Act (LWEA), is a new parcel tax measure that was placed on the June 8, 2018 ballot and passed with a 61% vote. The measure is projected to generate \$50 million of revenue annually, starting in 2018. The majority of the revenue is targeted to increasing educator salaries and supporting teacher professional development.

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 welcomed departure from the past several years, prospects for State funding are brighter due to a sustained improvement in California's economy and the implementation of the Local Control Funding Formula which has provided increased funds to K-14 education under the Governor's budget.

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION JUNE 30, 2018

	Governmental Activities
Assets	
Cash and investments	\$ 537,062,342
Receivables	240,359,679
Other	914,133
Capital Assets	
Land and construction in progress	7,100,000
Other capital assets, net of depreciation	1,599,877,708
Total capital assets	1,606,977,708
Total assets	2,385,313,862
Deferred outflows of resources	
Deferred amounts on refunding	3,040,550
Deferred amounts related to OPEB	30,758,229
Deferred amounts related to pensions	299,767,325
Total deferred outflows of resources	333,566,104
Liabilities	
Accounts payable and accrued expenses	308,019,569
Overdrafts	5,331,256
Interest payable	2,127,585
Unearned revenue	6,697,032
Long-term liabilities	
Due within one year	79,789,468
Due in more than one year	986,731,386
Claims liability	34,237,835
Total post-employment benefits liability	733,480,927
Aggregate net pension liability	771,834,276
Total liabilities	2,928,249,334
Deferred inflows of resources	
Deferred inflows of resources related to pensions	116,930,978
Total deferred inflows of resources	116,930,978
Net position	
Net investment in capital assets	717,050,724
Restricted for:	
Educational programs	54,679,758
Debt service	39,747,749
Capital projects	64,193,746
Self insurance	10,378,134
Unrestricted (deficit)	(1,212,350,457)
Total net position	\$ (326,300,346)

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, 2018**

Functions/Programs	Expenses	Program Revenues		Net Revenues (Expenses) and Changes in Net Position
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental Activities				
Instruction	\$ 578,958,932	\$ 582,580	\$ 105,520,106	\$ (472,856,246)
Instruction related activities				
Supervision of instruction	177,337,921	571,427	75,807,677	(100,958,817)
Instructional library and technology	4,516,149	21,137	1,417,169	(3,077,843)
School site administration	64,348,114	21,404	6,328,342	(57,998,368)
Pupil services				
Home-to-school transportation	37,408,711	3,305	165,070	(37,240,336)
Food services	34,542,915	1,250,114	21,729,342	(11,563,459)
All other pupil services	92,542,420	212,069	30,625,593	(61,704,758)
General administration				
Data processing	12,844,680	6,927	356,911	(12,480,842)
All other general administration	39,102,586	74,875	4,897,277	(34,130,434)
Plant services	74,954,442	4,389	516,593	(74,433,460)
Ancillary services	5,909,335	44,378	2,266,455	(3,598,502)
Enterprise activities	-	48	725,994	726,042
Interest on long-term obligations	40,982,549	-	-	(40,982,549)
Other outgo	1,293,841	11,735	4,391,946	3,109,840
Total governmental activities	<u>\$ 1,164,742,595</u>	<u>\$ 2,804,388</u>	<u>\$ 254,748,475</u>	<u>(907,189,732)</u>
General revenues and subventions				
Property taxes, levied for general purposes				284,964,792
Property taxes, levied for debt service				118,211,551
Taxes levied for other specific purposes				87,764,957
Federal and state aid not restricted to specific purposes				245,587,747
Interest and investment earnings				3,630,360
Miscellaneous				145,751,023
Subtotal, general revenues				<u>885,910,430</u>
Change in net position				<u>(21,279,302)</u>
Net Position - Beginning of year, as restated				<u>(305,021,044)</u>
Net Position - Ending				<u><u>\$ (326,300,346)</u></u>

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2018

	General Fund	County School Service Fund	Building Fund
ASSETS			
Cash and investments	\$ 167,605,797	\$ 13,662,522	\$ 171,161,762
Receivables	210,003,279	14,273,709	3,099,677
Prepaid expenditures	101,333	-	-
Stores inventories	771,431	-	-
Total sssets	<u>\$ 378,481,840</u>	<u>\$ 27,936,231</u>	<u>\$ 174,261,439</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Overdrafts	\$ -	\$ -	\$ -
Accounts payable	273,544,939	13,846,824	12,165,858
Unearned revenue	6,245,824	58,468	-
Total liabilities	<u>279,790,763</u>	<u>13,905,292</u>	<u>12,165,858</u>
Fund Balances			
Nonspendable	873,264	-	-
Restricted	48,272,394	4,056,925	162,095,581
Committed	-	-	-
Assigned	9,630,000	9,974,014	-
Unassigned	39,915,419	-	-
Total Fund Balances	<u>98,691,077</u>	<u>14,030,939</u>	<u>162,095,581</u>
Total Liabilities and Fund Balances	<u>\$ 378,481,840</u>	<u>\$ 27,936,231</u>	<u>\$ 174,261,439</u>

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

Bond Interest And Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ 40,811,238	\$ 73,213,512	\$ 466,454,831
1,030,827	10,895,770	239,303,262
-	-	101,333
-	41,369	812,800
<u>41,842,065</u>	<u>\$ 84,150,651</u>	<u>\$ 706,672,226</u>

\$ -	\$ 5,331,256	\$ 5,331,256
-	8,003,500	307,561,121
-	392,740	6,697,032
<u>-</u>	<u>13,727,496</u>	<u>319,589,409</u>

-	-	873,264
41,842,065	66,577,454	322,844,419
-	3,845,701	3,845,701
-	-	19,604,014
-	-	39,915,419
<u>41,842,065</u>	<u>70,423,155</u>	<u>387,082,817</u>
<u>\$ 41,842,065</u>	<u>\$ 84,150,651</u>	<u>\$ 706,672,226</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2018

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

Total fund balance - governmental funds		\$ 387,082,817
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 2,183,473,102	
Accumulated depreciation is	<u>(576,495,394)</u>	
Net capital assets		1,606,977,708
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. In the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred.		(2,127,585)
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.		36,967,645
Unamortized deferred charge on refunding is recognized as a deferred outflow on the statement of net position. The deferred charges are recognized in the governmental funds when they were paid.		3,040,550
Long-term liabilities are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds.		
Long-term liabilities at year end consist of the following items:		
General obligation bonds and premium	(1,045,994,727)	
Capital leases payable	(9,068,388)	
Compensated absences (vacations)	(11,457,739)	
Aggregate net pension liability net of deferrals	(588,997,929)	
Total post-employment benefits liability net of deferrals	<u>(702,722,698)</u>	
Total long-term liabilities		<u>(2,358,241,481)</u>
Total net position - governmental activities		<u><u>\$ (326,300,346)</u></u>

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

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SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	County School Service Fund	Building Fund
REVENUES			
Local control funding formula	\$ 501,472,812	\$ 10,426,242	\$ -
Federal sources	25,568,806	14,925,838	-
Other state sources	72,008,253	44,604,103	-
Local sources	202,436,343	39,154,698	2,832,256
Total Revenues	801,486,214	109,110,881	2,832,256
EXPENDITURES			
Current			
Instruction	414,235,041	41,715,677	-
Instruction related activities:			
Supervision of instruction	124,934,024	16,494,952	-
Instructional library and technology	3,561,658	226,809	-
School site administration	47,038,876	2,513,469	-
Pupil Services			
Home-to-school transportation	5,922,982	25,458,107	-
Food services	-	-	-
All other pupil services	55,885,278	22,002,786	-
General administration			
Data processing	10,499,521	275,511	-
All other general administration	29,006,237	1,342,801	-
Plant services	64,922,653	1,328,980	-
Ancillary services	4,957,170	-	-
Other outgo	40,596,119	-	-
Capital outlay	8,707,560	21,620	72,549,403
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	810,267,119	111,380,712	72,549,403
Excess (Deficiency) of			
Revenues Over Expenditures	(8,780,905)	(2,269,831)	(69,717,147)
OTHER SOURCES (USES)			
Transfers in	-	-	-
Transfers out	(13,795,740)	-	-
Net Financing Sources (Uses)	(13,795,740)	-	-
Net change in fund balances	(22,576,645)	(2,269,831)	(69,717,147)
Fund Balance - Beginning	121,267,722	16,300,770	231,812,728
Fund Balance - Ending	\$ 98,691,077	\$ 14,030,939	\$ 162,095,581

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

Bond Interest Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 511,899,054
2,044,306	23,963,782	66,502,732
285,364	23,543,952	140,441,672
118,857,167	36,103,310	399,383,774
<u>121,186,837</u>	<u>83,611,044</u>	<u>1,118,227,232</u>
-	26,560,687	482,511,405
-	7,334,467	148,763,443
-	-	3,788,467
-	4,427,432	53,979,777
-	-	31,381,089
-	28,354,398	28,354,398
-	365,761	78,253,825
-	-	10,775,032
-	2,452,993	32,802,031
-	747,541	66,999,174
-	-	4,957,170
-	-	40,596,119
-	22,537,795	103,816,378
72,330,000	2,062,283	74,392,283
46,427,584	661,883	47,089,467
<u>118,757,584</u>	<u>95,505,240</u>	<u>1,208,460,058</u>
<u>2,429,253</u>	<u>(11,894,196)</u>	<u>(90,232,826)</u>
-	13,795,740	13,795,740
-	-	(13,795,740)
-	13,795,740	-
2,429,253	1,901,544	(90,232,826)
39,412,812	68,521,611	477,315,643
<u>\$ 41,842,065</u>	<u>\$ 70,423,155</u>	<u>\$ 387,082,817</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

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	\$ (90,232,826)
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Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities those costs are capitalized in the statement of net position as property and equipment. The cost is allocated over the estimated useful life of the asset as depreciation expense in the statement of activities.

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

Capital asset additions - current year	\$ 104,020,536	
Less current year depreciaton expense	<u>(55,320,905)</u>	48,699,631

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.	2,062,283
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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.	72,330,000
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Amortization of bond premium is a revenue source in the statement of activities, but is not recognized in the governmental funds.	6,432,682
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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).	(1,567,489)
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In the governmental funds, OPEB costs are based on employer medical insurance premiums paid. However, in the full-accrual statement of activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows, and total actuarially determined OPEB liability during the year.	(47,608,412)
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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, 2018

Amortization of deferred charges on refunding reduces deferred balance in the statement of net position and is recorded in the statement of activities as an expense, but does not affect the governmental funds.	(469,654)
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is paid, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is paid. The interest expense reported in the statement of activities is the result of this difference.	292,151
In the governmental funds, pension costs are based on employer contributions made to CalSTRS and SFERS during the year. However, in the statement of activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and the actuarially determined net pension liability during the year.	(17,857,887)
An internal service fund is used by the District's management to charge the costs of the self insurance programs to the individual funds and to accumulate resources for post-employment mendical benefits. 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>6,640,219</u>
Change in net position of governmental activities	<u><u>\$ (21,279,302)</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, 2018**

		Governmental Activities Internal Service Fund
ASSETS		
Cash and cash equivalents	\$ 2,237,477	
Investments	<u>68,370,034</u>	
Total cash and investments		\$ 70,607,511
Receivables		<u>1,056,417</u>
Total assets		<u>71,663,928</u>
LIABILITIES		
Accounts payable		458,448
Claim liability - workers' compensation		33,835,544
Claim liability - dental		<u>402,291</u>
Total Liabilities		<u>34,696,283</u>
NET POSITION		
Restricted		10,378,134
Unrestricted		<u>26,589,511</u>
Total Net Position		<u>\$ 36,967,645</u>

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018**

	Governmental Activities Internal Service Fund
OPERATING REVENUES	
In-district premiums	\$ 19,153,353
Other local revenue	939,153
Total operating revenues	<u>20,092,506</u>
OPERATING EXPENSES	
Payroll costs	790,616
Claims expense	16,548,221
Total operating expenses	<u>17,338,837</u>
Net operating income	2,753,669
NONOPERATING REVENUES	
Interest income	986,550
Contributions earmarked for post-employment medical benefits	2,900,000
Total nonoperating revenues	<u>3,886,550</u>
Change in Net Position	6,640,219
Net Position - Beginning	<u>30,327,426</u>
Net Position - Ending	<u><u>\$ 36,967,645</u></u>

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND **STATEMENT OF CASH FLOWS** **FOR THE YEAR ENDED JUNE 30, 2018**

	Governmental Activities Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 20,092,506
Cash payments for insurance claims	(18,832,920)
Cash payments for payroll expense	(1,212,030)
Net cash provided by operating activities	<u>47,556</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Cash transfers for post-employment medical benefits	<u>2,900,000</u>
Net cash provided by noncapital financing activities	<u>2,900,000</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	<u>18,845</u>
Net cash provided by investing activities	<u>18,845</u>
Net increase in cash and cash equivalents	2,966,401
Cash and cash equivalents - Beginning of year	<u>67,641,110</u>
Cash and cash equivalents - End of year	<u><u>\$ 70,607,511</u></u>
RECONCILIATION OF OPERATING PROFIT TO NET	
CASH USED FOR OPERATING ACTIVITIES	
Operating income	\$ 2,753,669
Increase in accrued liabilities	(2,706,113)
Net cash provided by operating activities	<u><u>\$ 47,556</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, 2018

	<u>Agency Fund</u>
ASSETS	
Cash and cash equivalents	\$ 2,824,626
Investments	5,674,717
Receivables	57,660
Total Assets	<u><u>\$ 8,557,003</u></u>
LIABILITIES	
Salaries and benefits payable	\$ 5,732,377
Due to student groups	2,824,626
Total Liabilities	<u><u>\$ 8,557,003</u></u>

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The San Francisco Unified School District (the District) was established as the San Francisco School System in 1851 under the laws of the State of California. The District and County Office of Education (COE) operate under a locally-elected seven-member Board form of government and provide educational services to grades K - 12 as mandated by state and federal agencies. The District and COE provide child care, elementary and secondary education in the City and County of San Francisco, California. The District operates 8 alternatively configured (TK-8), 64 elementary schools, 13 middle schools, 17 senior high schools (including two continuation schools and an independent study school), 8 court and county community schools, 34 state-funded preschool sites, and 12 early education centers. The District sponsors 14 independent charter schools.

For financial reporting purposes, the District includes all funds, account groups, agencies, and authorities that are controlled by or are dependent on the District's executive or legislative branches. Control by or dependence on the District was determined on the basis of budget adoption, taxing authority, outstanding debt secured by revenues or general obligations of the District, obligations of the District to finance any deficits that may occur, or receipt of significant subsidies from the District.

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

Component Units

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Other Related Entities

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

Basis of Presentation - Fund Accounting

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

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

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

County School Service Special Revenue Fund The county school service special revenue fund is used to account for resources committed to special education or other school programs that would otherwise be operated by a county office of education, as well as to general and administrative oversight.

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

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

Nonmajor Governmental Funds

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

Deferred Maintenance Fund The deferred maintenance fund is used to account separately for revenues that are restricted or committed for deferred maintenance purposes (*Education Code* Section 17582).

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

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

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

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

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

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Proprietary Funds Proprietary funds are used to account for activities that are more business-like than government-like in nature. The District reports self-insurance related activity in such a fund.

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

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

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

Payroll Revolving Agency Fund The payroll revolving fund is used to account for assets held for employees for payroll withholding for subsequent remittance to taxing agencies or benefit providers.

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

Basis of Accounting - Measurement Focus

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

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

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

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

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

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

Cash and Cash Equivalents

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

Investments

Investments are stated at fair value. Fair value is estimated based on quoted market price at year-end. On June 30, 2018, investments consist of cash deposits with the City and County of San Francisco Treasury Investment Pool.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Restricted Assets

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

Prepaid Expenditures

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

Stores Inventories

Inventories consist of expendable food and supplies held for consumption.

Capital Assets and Depreciation

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

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

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

Compensated Absences

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

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

Accrued Liabilities and Long-term Obligations

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

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

Debt Issuance Costs, Premiums and Discounts

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

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

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of net position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for deferred charges on refunding of debt, for pension related items, and for OPEB related items.

In addition to liabilities, the Statement of Net Position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for deferred charges on refunding of debt, for pension related items, and for OPEB related items.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Pensions

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

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the total OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and additions to/deductions from the District Plan. For this purpose, the District Plan recognizes benefit payments when due and payable in accordance with the benefit terms.

Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are not in spendable form such as inventory or prepaid amounts.

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 Board of Education. The Board of Education 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. Under the District's policy, only the governing board or chief financial officer or designee, may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Spending Order Policy

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

Net Position

Net position represents the difference between assets and liabilities. Net position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments.

Operating Revenues and Expenses

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

Interfund Activity

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

Estimates

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Budgetary Data

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

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

Property Taxes

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

New Accounting Principles

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

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

The District has implemented the provisions of this statement as of July 1, 2017, the effect of which is described at note 12 and note 17.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

- GASB Statement No. 85, *Omnibus 2017*
- GASB Statement No. 86, *Certain Debt Extinguishment Issues*
- GASB Statement No. 83, *Certain Asset Retirement Obligations*
- GASB Statement No. 84, *Fiduciary Activities*
- GASB Statement No. 87, *Leases*
- GASB Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*
- GASB Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*
- GASB Statement No. 90, *Majority Equity Interests an amendment of GASB Statements No. 14 and No. 61*

The District has not determined the effect of these pronouncements.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments on June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 466,454,831	
Less: deficit cash (overdraft)	<u>(5,331,256)</u>	
Total governmental funds		\$ 461,123,575
Self insurance fund		70,607,511
Fiduciary funds		8,499,343
Total Deposits and Investments		<u><u>\$ 540,230,429</u></u>

Deposits and investments as of June 30, 2018, consist of the following:

Cash on hand and in banks		\$ 5,077,154
Deposits with county treasurer	540,484,531	
Less: deficit cash (overdraft)	<u>(5,331,256)</u>	
Total deposits with county treasurer		<u>535,153,275</u>
Total Deposits and Investments		<u><u>\$ 540,230,429</u></u>

Policies and Practices

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the City and County of San Francisco Treasury Investment Pool. The sensitivity of the fair values of the District's investments to market interest rate fluctuation is measured as the weighted average maturity of the investment portfolio, which was 466 days on June 30, 2018.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the county pool is not rated as of June 30, 2018.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Custodial Credit Risk - Deposits

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. The California Government Code and the District's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits other than the following provision: the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110% of the total amount deposited by the public agencies. California law also allows financial institutions to secure deposits by pledging first trust deed mortgage notes having a value of 150% of the secured public deposits.

As of June 30, 2018, the District's bank balance of \$4.5 million was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Fair Value Measurements

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

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active.

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

Uncategorized - Deposits and withdrawals in the City and County of San Francisco Treasury Investment Pool are made on the basis of \$1 and not fair value. Accordingly, the District's proportionate share of investments at June 30, 2018 is an uncategorized input not defined as a Level 1, Level 2, or Level 3 input.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 3 - RECEIVABLES

Receivables at June 30, 2018, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	County School Service Fund	Building Fund	Bond Interest and Redemption Fund
Federal sources	\$ 6,594,138	\$ 12,962,222	\$ -	\$ -
State sources	156,049,167	1,311,487	-	-
Local sources	44,943,161	-	-	-
Investments	2,416,813	-	3,099,677	1,030,827
Total	<u>\$ 210,003,279</u>	<u>\$ 14,273,709</u>	<u>\$ 3,099,677</u>	<u>\$ 1,030,827</u>

	Nonmajor Governmental Funds	Total Governmental Funds	Proprietary Fund
Federal sources	\$ 5,285,189	\$ 24,841,549	\$ -
State sources	530,634	157,891,288	-
Local sources	4,177,366	49,120,527	-
Investments	902,581	7,449,898	1,056,417
Total	<u>\$ 10,895,770</u>	<u>\$ 239,303,262</u>	<u>\$ 1,056,417</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2018, was as follows:

	Balance June 30, 2017	Additions	Balance June 30, 2018
Governmental Activities			
Capital assets not depreciated			
Land	\$ 7,100,000	\$ -	\$ 7,100,000
Capital assets being depreciated			
Buildings and improvements	2,021,549,797	103,742,016	2,125,291,813
Furniture and equipment	50,802,769	278,520	51,081,289
Total capital assets	<u>2,079,452,566</u>	<u>104,020,536</u>	<u>2,183,473,102</u>
Less accumulated depreciation			
Buildings and improvements	481,453,987	53,461,865	534,915,852
Furniture and equipment	39,720,502	1,859,040	41,579,542
Total accumulated depreciation	<u>521,174,489</u>	<u>55,320,905</u>	<u>576,495,394</u>
Governmental activities - capital assets, net	<u>\$ 1,558,278,077</u>	<u>\$ 48,699,631</u>	<u>\$ 1,606,977,708</u>

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

Governmental Activities	
Instruction	\$ 28,319,329
Supervision of instruction	8,731,152
Instructional library and technology	222,351
School site administration	3,168,155
Home to school transportation	1,841,804
Food services	1,700,708
All other pupil services	4,556,291
Ancillary services	290,944
Enterprise activities	285
All general administration	1,925,201
Data processing services	632,403
Plant services	3,932,282
Total depreciation expense, governmental activities	<u>\$ 55,320,905</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Transfers

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

For the year ended June 30, 2018, interfund transfers consisted of \$13.8 million as follows:

- The general fund transferred \$4.3 million to the child development fund to cover its operating deficit.
- The general fund transferred \$5.3 million to the cafeteria fund to cover its operating deficit.
- The general fund transferred \$1.5 million to the deferred maintenance fund.
- The general fund transferred \$2.7 million to the special reserve capital fund for the energy retrofit capital lease payments.

Exchange Transactions

Included as other local sources in the statement of revenues, expenditures, and changes in fund balances of the county school service special revenue fund is \$39.2 million, of which the source is the general fund. This represents general fund expenditures incurred primarily in support of special education and other county office of education functions that are funded by the general fund.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

	General Fund	County School Service Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
Trade payables	\$ 17,895,710	\$ 13,841,964	\$ 12,165,858	\$ 7,847,787	\$ 51,751,319
State government	30,675,185	4,860	-	155,713	30,835,758
Local government	224,974,044	-	-	-	224,974,044
Total	<u>\$ 273,544,939</u>	<u>\$ 13,846,824</u>	<u>\$ 12,165,858</u>	<u>\$ 8,003,500</u>	<u>\$ 307,561,121</u>

Additional interest payable in the statement of net position includes \$2,127,585 for accrued interest on long term obligations.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 7 - UNEARNED REVENUE

Unearned revenue at June 30, 2018, consisted of the following:

	General Fund	County School Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
Federal financial assistance	\$ 48,589	\$ 892	\$ 19,687	\$ 69,168
State categorical aid	6,197,235	57,576	373,053	6,627,864
Total	<u>\$ 6,245,824</u>	<u>\$ 58,468</u>	<u>\$ 392,740</u>	<u>\$ 6,697,032</u>

NOTE 8 - TAX AND REVENUE ANTICIPATION NOTES

During September, 2016, the District issued \$45 million of tax and revenue anticipation notes bearing interest at two percent. The notes were issued to supplement cash flows. Repayment requirements are that 50 percent of principal and interest be deposited with the fiscal agent by July 31, 2017, until 100 percent of principal and interest is due on account by August 2017. No amounts remained outstanding as of June 30, 2018.

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

Issue Date	Rate	Maturity Date	Outstanding July 1, 2017	Additions	Payments	Outstanding June 30, 2018
9/21/2016	2.00%	8/31/2017	<u>\$ 45,000,000</u>	<u>\$ -</u>	<u>\$ 45,000,000</u>	<u>\$ -</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 9 - LONG-TERM OBLIGATIONS (in thousands)

Summary

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

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018	Due in one year
General obligation bonds	\$ 1,041,245	\$ -	\$ 72,330	\$ 968,915	\$ 70,130
Bond premiums	83,512	-	6,432	77,080	7,384
Accumulated vacation	9,890	1,568	-	11,458	-
Capital leases	11,131	-	2,063	9,068	2,275
	<u>\$ 1,145,778</u>	<u>\$ 1,568</u>	<u>\$ 80,825</u>	<u>\$ 1,066,521</u>	<u>\$ 79,789</u>

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

Outstanding general obligation bonded debt

Bond Issuance	Issue Date	Maturity Date	Interest Rate	Original Issue	July 1, 2017	Issued (Redeemed/ Defeased)	June 30, 2018
2006, Series 2007A	02/28/07	6/15/27	3.00-5.00%	\$ 100,000	\$ 27,820	\$ -	\$ 27,820
2006, Series 2009B	01/22/09	6/15/27	1.50-5.25%	150,000	20,235	(9,890)	10,345
2006, Series 2010C	05/19/10	5/15/27	5.74%	12,955	12,955	-	12,955
2006, Series 2010D	05/19/10	6/15/30	5.74%	72,370	72,370	-	72,370
2006, Series 2010E	05/19/10	6/15/23	0.50-5.00%	99,675	54,410	(8,025)	46,385
2011, Series 2012A	03/06/12	6/15/32	4.00-5.00%	115,000	95,060	(4,605)	90,455
2012 Refunding	03/06/12	6/15/25	0.30-5.00%	116,140	76,255	(8,580)	67,675
2011, Series 2014B	01/23/14	6/15/33	3.0%-5.0%	205,000	176,940	(7,675)	169,265
2006, Series 2015F	10/08/15	6/15/35	3.0%-5.0%	15,000	14,145	(525)	13,620
2011, Series 2015C	10/08/15	6/15/35	3.0%-5.0%	211,000	198,890	(7,410)	191,480
2015 Refunding	10/08/15	6/15/26	2.0%-5.0%	63,655	59,220	(7,280)	51,940
2016, Series 2016A	03/17/17	6/15/24	2.0%-5.0%	180,000	180,000	(18,340)	161,660
2017 Refunding	03/17/17	6/15/37	2.0%-5.0%	53,890	52,945	-	52,945
					<u>\$ 1,041,245</u>	<u>\$ (72,330)</u>	<u>968,915</u>
					Unamortized bond premium		77,080
						Total	<u>\$ 1,045,995</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Debt Service Requirement to Maturity

Fiscal Year	Principal	Interest to Maturity	Total
2019	\$ 70,130	\$ 44,281	\$ 114,411
2020	65,465	38,151	103,616
2021	66,595	35,211	101,806
2022	69,620	32,145	101,765
2023	72,300	29,226	101,526
2024-2028	308,120	102,307	410,427
2029-2033	237,905	42,140	280,045
2034-2037	78,780	6,555	85,335
Total	<u>\$ 968,915</u>	<u>\$ 330,016</u>	<u>\$ 1,298,931</u>

Accumulated Unpaid Employee Vacation and Vested Sick Leave

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

Increases to vested compensated absences reflect net changes during the year ended June 30, 2018. Also, the City and County of San Francisco Charter provisions allow classified employees to accumulate up to 130 working days of sick leave. Certificated employees, under State law, are allowed to accumulate unlimited days of sick leave. Upon normal retirement, the District will redeem 100 percent of the sick leave accrued by classified personnel prior to December 5, 1978, and no sick leave accrued after December 5, 1978. No sick leave amounts are payable to certificated personnel upon normal retirement, or to employees who terminate for any reason prior to retirement.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Capital Leases

Reported with capital assets is the energy retrofit capital lease of \$32.9 million and corresponding accumulated depreciation of \$25.0 million at June 30, 2018. The District's liabilities on lease agreements with options to purchase are summarized below (in thousands):

	Energy Retrofit
Balance, Beginning of Year	\$ 11,131
Payments	(2,063)
Balance, End of Year	<u>\$ 9,068</u>

The capital lease has minimum lease payments as follows (in thousands):

Year Ending June 30,	Lease Payment
2019	\$ 2,806
2020	2,890
2021	2,977
2022	1,583
Total	10,256
Less: Amount Representing Interest	1,188
Present Value of Minimum Lease Payments	<u>\$ 9,068</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 10 - COMPONENTS OF FUND BALANCES AND NET POSITION OF THE SELF-INSURANCE FUND (in thousands)

Fund balances are composed of the following elements on June 30, 2018:

	General Fund	County School Service Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable						
Revolving cash	\$ 1	\$ -	\$ -	\$ -	\$ -	\$ 1
Stores inventories	771	-	-	-	-	771
Prepaid expenditures	101	-	-	-	-	101
Total nonspendable	873	-	-	-	-	873
Restricted						
Educational programs	48,272	4,057	-	-	2,350	54,679
Capital projects	-	-	162,096	-	64,194	226,290
Debt services	-	-	-	41,842	33	41,875
Total restricted	48,272	4,057	162,096	41,842	66,577	322,844
Committed						
Capital projects	-	-	-	-	3,846	3,846
Total committed	-	-	-	-	3,846	3,846
Assigned						
Special education	-	9,974	-	-	-	9,974
Technology upgrades	9,630	-	-	-	-	9,630
Total assigned	9,630	9,974	-	-	-	19,604
Unassigned						
Reserve for economic uncertainties	16,481	-	-	-	-	16,481
Remaining unassigned	23,434	-	-	-	-	23,434
Total unassigned	39,915	-	-	-	-	39,915
Total fund balances	\$ 98,690	\$ 14,031	\$ 162,096	\$ 41,842	\$ 70,423	\$ 387,082

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Balance per governmental funds balance sheet	\$ 39,915
Add Back	
County school fund assigned fund balance	9,974
General fund prepaid operating expenditures	101
General fund inventory	771
General fund assigned fund balance	9,630
Deferred maintenance fund assigned fund balance	3,846
Resources earmarked for post-employment benefits which are reported in the self-insurance fund	26,642
Deduct	
Unrestricted deficit portion of the total self-insurance fund net position	(53)
Compensated absences liability	(11,458)
Aggregate net pension liability and related deferrals	(588,996)
Other post employment benefits liability and related deferrals	(702,723)
Balance per statement of net position	<u>\$ (1,212,350)</u>

Net position of the self-insurance fund is comprised of the following components as of June 30, 2018:

Restricted	
Self-insurance programs	\$ 10,070
Insurance settlements	308
Total restricted	<u>10,378</u>
Unrestricted	
Earmarked for	
Post-employment benefits (OPEB)	25,970
Post-employment benefits (PARS)	672
Remaining unrestricted net position	(53)
Total unrestricted	<u>26,590</u>
Total net position	<u>\$ 36,968</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 11 - LEASE REVENUES (in thousands)

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

Year Ending June 30,	Lease Revenue
2019	\$ 7,039
2020	7,184
2021	6,758
2022	6,693
2023	6,693
Thereafter	88,602
Total	<u>\$ 122,969</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 12 - POSTEMPLOYMENT BENEFITS OTHER THAN PENSIONS (OPEB)

As of June 30, 2018, the District reported the following amounts for total OPEB liability, deferred outflows of resources, deferred inflows of resources, and OPEB expense:

Total OPEB Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	OPEB Expense
<u>\$ 733,480,927</u>	<u>\$ 30,758,229</u>	<u>\$ -</u>	<u>\$ 75,945,369</u>

General Information about the OPEB Plan

Plan Description

The San Francisco Unified School District Other Postemployment Benefit Plan (Plan) is an agent multiple-employer (agent) defined benefit healthcare plan administered by the City and County of San Francisco Health Service System (HSS). The Plan provides medical insurance benefits to eligible retirees and their spouses. HSS is responsible for designing health care benefits, selecting and managing plan providers, and determining some aspects of benefit eligibility to supplement the eligibility rules contained in the City Charter and applicable ordinances. In addition, HSS is responsible for administration of health care benefits, including maintaining employee membership and financial accounting records.

Benefits Provided

The Plan provides medical insurance benefits to eligible retirees and their spouses. To be eligible for retiree health benefits, employees hired after January 9, 2009 must have at least five years of credited service with a City employer: City and County of San Francisco, San Francisco Unified School District, San Francisco Community College District, or San Francisco Superior Court. Other government service is not credited.

Employees must retire within 180 days of separation from employment to be eligible for retiree health benefits. That means an employee must have the credited service and the age required for retirement at the time of separation from service to be eligible for retiree health benefits. A surviving dependent may be eligible for retiree health benefits if a deceased employee accrued 10 or more years of credited service with City employers.

Different premium contribution rates apply for *classified* employees hired after January 9, 2009, based on years of credited service with the City employers.

- With at least 5 years, but less than 10 years of credited service, the retiree member must pay the full premium rate and does not receive any employer premium contribution.
- With at least 10 years but less, than 15 years of credited service, the retiree will receive 50% of the employer premium contribution for themselves and eligible dependents.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

- With at least 15 years, but less than 20 years of credited service, the retiree will receive 75% of the employer premium contribution for themselves and eligible dependents.
- With 20 or more years of credited service or disability retirement, the retiree will receive 100% of the employer premium contribution for themselves and eligible dependents.

Certificated teachers hired after July 1, 2004, with 20 or more years of credited service or disability retirement, the retiree will receive 100% of the employer premium contribution for themselves and eligible dependents.

Paraprofessionals hired after July 1, 2004, with 10 or more years of credited service or disability retirement, the retiree will receive 100% of the employer premium contribution for themselves and eligible dependents.

Employees who separated service from a City employer before June 30, 2001 and retire after January 6, 2012 receive the employer health premium subsidies in effect at the time of their separation. The retiree member receives 100% of the employer premium contribution defined by the City Charter. The retiree pays the full premium for any other enrolled dependents.

Employees Covered by Benefit Terms

As of the June 30, 2017 measurement date, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefits payments	4,922
Active employees	8,013
	<u>12,935</u>

Total OPEB liability

The District's total OPEB liability of \$733,480,927 was measured as of June 30, 2017 and was determined by an actuarial valuation as of that date.

Actuarial Assumptions and Other Inputs

The total OPEB liability in the June 30, 2017 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Discount rate	3.50 percent, net of OPEB plan investment expense, including inflation
Healthcare cost trend rates	4.00 percent per year

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and PR2000 Active Mortality for classified employees.

Retirement assumptions were based on the Retirement Tables of San Francisco ERS and 2009 CalSTRS Retirement Rates.

Turnover assumptions were based on the Turnover Tables of 2009 CalSTRS Termination Rates and 2009 CalSTRS Termination Rates for School Employees.

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at the June 30, 2016 measurement date	\$ 684,669,684
Changes for the year:	
Service cost	52,782,368
Interest	24,365,832
Benefit payments	(28,336,957)
Net changes	48,811,243
Balance at the June 30, 2017 measurement date	\$ 733,480,927

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

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

Discount Rate	Total OPEB Liability
1% decrease (2.50%)	\$ 834,488,415
Current discount rate (3.50%)	733,480,927
1% increase (4.50%)	651,203,645

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

Healthcare Cost Trend Rates	Total OPEB Liability
1% decrease (3.00%)	\$ 654,108,602
Current healthcare cost trend rate (4.00%)	733,480,927
1% increase (5.00%)	826,834,858

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$75,945,369.

At June 30, 2018, the District reported deferred outflows of resources for OPEB contributions subsequent to measurement date of \$30,758,229. This deferred outflow of resources will be recognized in OPEB expense during fiscal year 2018-19.

NOTE 13 - RISK MANAGEMENT

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

Commercial insurance is purchased for excess workers' compensation, property, general liability, crime, student foreign travel, and student accidents. For workers' compensation coverage, the District maintains a \$500,000 self-insured retention, with Statutory Limits through ARCH Insurance Group for excess coverage. For liability exposures, the District maintains a layered insurance program with limits of \$55 million per occurrence, with a \$250,000 self-insured retention per claim. As part of the liability insurance structure, 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 over \$5M. The District maintains property coverage through Axis Insurance and RSUI Indemnity Company in the amount of \$300 million per occurrence, with a \$100,000 deductible. The District does not maintain insurance for earthquake risks.

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Claim Liabilities - Self Insurance Fund

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities for workers' compensation are based on a current actuarial study using the "expected value" as the basis for the total liability. The workers' 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, 2016 to June 30, 2018:

	Total
Liability Balance, July 1, 2016	\$ 35,542,114
Claims and changes in estimates	21,652,123
Claims payments	(20,671,703)
Liability Balance, June 30, 2017	36,522,534
Claims and changes in estimates	14,263,522
Claims payments	(16,548,221)
Liability Balance, June 30, 2018	\$ 34,237,835
Assets available to pay claims at June 30, 2018	\$ 44,615,969

NOTE 14 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Net Pension Liability	Deferred Outflows of Resources	Deferred Inflows of Resources	Pension Expense
CalSTRS	\$ 617,389,276	\$ 246,299,522	\$ 103,488,978	\$ 64,534,445
SFERS	154,445,000	53,467,803	13,442,000	26,603,000
Aggregate	\$ 771,834,276	\$ 299,767,325	\$ 116,930,978	\$ 91,137,445

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications. The CalSTRS website can be accessed at this address: <http://www.calstrs.com/member-publications>.

Benefits Provided

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

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required state contribution rate	9.328%	9.328%

Contributions

Required member, District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$53,763,701.

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

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total net pension liability, including State share	
District's proportionate share of net pension liability	\$ 617,389,276
State's proportionate share of the net pension liability associated with the District	365,242,280
Total	<u><u>\$ 982,631,556</u></u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the state, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, was 0.668 percent and 0.624 percent respectively, resulting in a net increase in the proportionate share of 0.044 percent.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$64.5 million. In addition, the District recognized pension expense and revenue of \$27.8 million for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 53,763,701	\$ -
Net change in proportionate share of net pension liability	75,874,083	76,278,475
Changes of assumptions	114,378,573	-
Difference between projected and actual earnings on pension plan investments	-	16,442,797
Differences between expected and actual experience in the measurement of the total pension liability	2,283,165	10,767,706
Total	<u>\$ 246,299,522</u>	<u>\$ 103,488,978</u>

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ (13,671,611)
2020	10,345,019
2021	1,491,912
2022	(14,608,117)
Total	<u>\$ (16,442,797)</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

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

Year Ended June 30,	Deferred Outflows/(Inflows) of Resources
2019	\$ 38,728,970
2020	38,728,970
2021	34,784,882
2022	(711,914)
2023	(11,224,557)
Thereafter	5,183,289
Total	<u>\$ 105,489,640</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying updated procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%
	100%	

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

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

Discount Rate	Net Pension Liability
1% decrease (6.10%)	\$ 906,523,462
Current discount rate (7.10%)	\$ 617,389,276
1% increase (8.10%)	\$ 382,737,290

San Francisco Employees' Retirement System (SFERS)

Plan Description

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

Benefits Provided

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

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Contributions

Contributions are made to the plan by both the employers and the participating employees. The basic employer contributions are the amounts deemed necessary, on an actuarial basis using the entry age normal cost method, to provide the plan with assets sufficient to pay the basic benefits that are not provided for by employees' contributions. Employee and employer contributions are mandatory, as required by the City Charter. The District's contributions to SFERS, for the year ended June 30, 2018 were \$19.5 million. Employee contribution rates for fiscal year 2017-2018 varied from 7.5% to 12.0% as a percentage of gross covered salary. The District is required to contribute at an actuarially determined rate. Based on the July 1, 2016 actuarial report, the required employer contribution rate for fiscal year 2017-2018 was 18.83% to 20.07%.

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

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the collective SFERS net pension liability totaling \$154.4 million. The net pension liability of the plan is measured as of June 30, 2017, and the total pension liability for the plan used to calculate the net pension liability was determined by an actuarial valuation as of June 30, 2016, rolled forward to June 30, 2017 using standard update procedures. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. The following table illustrates the change in the District's proportion during the year:

	Miscellaneous Non-safety
Proportion - June 30, 2016 measurement date	<u>2.9698%</u>
Proportion - June 30, 2017 measurement date	<u>3.0930%</u>
Change in proportion	<u>0.1232%</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$26.6 million, including amortization of deferred outflows/inflows related pension items. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 19,529,803	\$ -
Difference between expected and actual experience	1,433,000	4,663,000
Changes in assumptions	25,043,000	454,000
Adjustment due to differences in proportions	7,462,000	2,564,000
Net difference between projected and actual earnings on plan investments	-	5,761,000
Total	<u>\$ 53,467,803</u>	<u>\$ 13,442,000</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period. The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the measurement period is 3.9 years.

The amounts to be recognized in pension expense are as follows:

Year Ended June 30,	Amortization
2019	\$ 3,256,000
2020	14,090,000
2021	8,424,000
2022	(5,274,000)
Total	<u>\$ 20,496,000</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Actuarial Methods and Assumptions

The total pension liability was determined by an actuarial valuation as of June 30, 2016, which was rolled forward to June 30, 2017 using generally accepted actuarial procedures. The following is a summary of the actuarial methods and assumptions used in the actuarial valuation:

Valuation date	June 30, 2016 updated to June 30, 2017
Measurement date	June 30, 2017
Actuarial cost method	Entry-age normal cost
Inflation	3.25%
Salary increases	3.75% plus merit component
Investment rate of return	7.50%, net of investment expense and inflation
Municipal bond yield	3.58%
Discount rate	7.50%
Administrative expense	0.60% of payroll
Basic COLA	2.00%

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

Discount Rate

The discount rate used to measure the total pension liability as of June 30, 2017 was 7.50%. The projection of cash flows used to determine the discount rate assumed that plan member contributions will continue to be made at the rates specified in the Charter. Employer contributions were assumed to be made in accordance with the contribution policy in effect for July 1, 2016 actuarial valuation. That policy includes contributions equal to the employer portion of the entry age normal costs for members as of the valuation data plus an amortization payment on the unfunded actuarial liability.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The plan's fiduciary net position was projected to be available to make projected future benefit payments for current members until fiscal year-end 2096, when only a portion of the projected benefit payments can be made from the projected fiduciary net position. Projected benefit payments are discounted at the long-term expected return on assets of 7.50% to the extent the fiduciary net position is available to make the payments and at the municipal bond rate of 3.58% to the extent they are not available. Since the payments discounted at the municipal bond rate are relatively few and far in the future, the municipal bond rate does not affect the single equivalent rate when rounded to two decimal places. Consequently, the single equivalent rate used to determine the total pension liability as of June 30, 2017 is 7.50%.

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

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	40%	5.3%
Fixed income	20%	1.6%
Private equity	18%	6.5%
Real estate	17%	4.6%
Hedge funds / absolute return	5%	3.6%
Total	100%	

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The following presents the District's allocation of the its proportionate share of the net pension liability, calculated using the 7.50% discount rate, as well as what the District's allocation would be if it were calculated using a discount rate that is 1% lower or 1% higher than the current rate:

<u>Discount rate</u>	<u>Net Pension Liability</u>
1% decrease (6.50%)	\$ 264,590,000
Current discount rate (7.50%)	\$ 154,445,000
1% increase (8.50%)	\$ 63,309,000

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. The State contributions are recorded in these financial statements as a component of state revenue and pension expense.

<u>Percent of Annual Payroll</u>	<u>General Fund</u>	<u>County School Fund</u>	<u>Child Development Fund</u>	<u>Total State Contribution</u>
9.328%	\$ 20,836,494	\$ 3,867,015	\$ 990,860	\$ 25,694,369

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, 2018.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management, 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, 2018.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Construction Commitments

As of June 30, 2018, the District had the following commitments with respect to the unfinished capital projects as follows:

- Proposition A 2006 general obligation bond program, \$1.5 million committed through September 2018.
- Proposition A 2011 general obligation bond program, \$3.5 million committed through September 2018.
- Proposition A 2016 general obligation bond program, \$12.4 million committed through September 2019.
- General facilities, \$23.9 million committed through October 2019.

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

The District is a member of the School Project for Utility Rate Reduction (SPURR) and participates in the Schools Excess Liability Fund (SELF) joint powers authority (JPA). The District pays annual contributions to SELF for additional excess liability coverage. During the fiscal year ending June 30, 2018 the District paid SELF \$316 thousand for member contribution insurance premiums.

The relationship between the District and the JPA's is such that they are not component units of the District for financial reporting purposes. These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

NOTE 17 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Net Position - Beginning	\$ 58,223,229
Changes from adoption of new GASB accounting pronouncement as of July 1, 2017	
Deletion of the GASB Statement No. 45 Net OPEB Obligation	291,870,013
Recognition of the GASB Statement No. 75 Total OPEB Liability	(684,669,684)
Inclusion of deferred outflows of resources related to GASB Statement No. 75	29,555,398
Net restatement of beginning net position	<u>(363,244,273)</u>
Net Position - Beginning at Restated	<u>\$ (305,021,044)</u>

REQUIRED SUPPLEMENTARY INFORMATION

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**COUNTY SCHOOL SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts			Variances - Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
Revenues				
Local control funding formula	\$ 500,613,108	\$ 502,447,673	\$ 501,472,812	\$ (974,861)
Federal sources	24,902,966	33,811,359	25,568,806	(8,242,553)
Other state sources	50,708,615	63,798,191	51,171,759	(12,626,432)
Other local sources	188,245,895	186,797,910	202,436,343	15,638,433
TOTAL REVENUES	764,470,584	786,855,133	780,649,720	(6,205,413)
Expenditures				
Current				
Certificated salaries	300,923,658	316,547,692	347,050,985	(30,503,293)
Classified salaries	92,863,882	96,179,136	114,046,586	(17,867,450)
Employee benefits	174,442,981	175,139,638	177,319,449	(2,179,811)
Books and supplies	24,780,838	24,780,838	24,911,809	(130,971)
Services and operating expenditures	72,407,495	70,836,046	82,507,328	(11,671,282)
Other outgo	98,789,030	102,238,422	37,990,004	64,248,418
Capital outlay	668,300	11,373,867	5,604,464	5,769,403
TOTAL EXPENDITURES	764,876,184	797,095,639	789,430,625	7,665,014
Excess (deficiency) of revenues over expenditures	(405,600)	(10,240,506)	(8,780,905)	1,459,601
Other Financing Uses				
Transfers out	(13,990,656)	(14,281,731)	(13,795,740)	485,991
TOTAL FINANCING SOURCES (USES)	(13,990,656)	(14,281,731)	(13,795,740)	485,991
NET CHANGE IN FUND BALANCES	(14,396,256)	(24,522,237)	(22,576,645)	1,945,592
Fund balance - Beginning	121,267,722	121,267,722	121,267,722	-
Fund balance - Ending	\$ 106,871,466	\$ 96,745,485	\$ 98,691,077	\$ 1,945,592

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**COUNTY SCHOOL SERVICE FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2018**

	Budgeted Amounts			Variances - Favorable (Unfavorable)
	Original	Final	Actual	Final to Actual
Revenue				
Local control funding formula	\$ 10,456,475	\$ 10,411,540	\$ 10,426,242	\$ 14,702
Federal sources	13,451,765	13,667,852	14,925,838	1,257,986
Other state sources	48,960,056	45,146,691	40,737,088	(4,409,603)
Other local sources	100,146,608	103,538,587	39,154,698	(64,383,889)
TOTAL REVENUES	173,014,904	172,764,670	105,243,866	(67,520,804)
Expenditures				
Current				
Certificated salaries	54,377,067	54,506,715	24,367,634	30,139,081
Classified salaries	29,125,150	28,577,537	14,345,637	14,231,900
Employee benefits	41,213,724	37,343,388	14,522,190	22,821,198
Books and supplies	4,313,554	4,097,213	1,552,020	2,545,193
Services and operating expenditures	46,212,837	46,205,578	52,668,025	(6,462,447)
Capital outlay	-	-	58,191	(58,191)
TOTAL EXPENDITURES	175,242,332	170,730,431	107,513,697	63,216,734
NET CHANGE IN FUND BALANCES	(2,227,428)	2,034,239	(2,269,831)	(4,304,070)
Fund balance - Beginning	16,300,770	16,300,770	16,300,770	-
Fund balance - Ending	<u>\$ 14,073,342</u>	<u>\$ 18,335,009</u>	<u>\$ 14,030,939</u>	<u>\$ (4,304,070)</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2018

	2018
Total OPEB Liability	
Service cost	\$ 52,782,368
Interest	24,365,832
Benefit payments	(28,336,957)
Net change in total OPEB liability	48,811,243
Total OPEB liability - beginning	684,669,684
Total OPEB liability - ending	<u>\$ 733,480,927</u>
 Covered-employee payroll	 <u>\$ 433,224,000</u>
 Total OPEB liability as a percentage of covered-employee payroll	 <u>169%</u>
 Measurement date	 June 30, 2017

Note: Until the full ten year trend is compiled, information is presented only for those years which information is available.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2018

(Amounts in thousands)

	2015	2016	2017	2018
CalSTRS				
District's proportion of the net pension liability	0.655%	0.768%	0.624%	0.668%
District's proportionate share of the net pension liability	\$ 382,762	\$ 517,072	\$ 504,375	\$ 617,389
State's proportionate share of the net pension liability associated with the District	231,113	273,474	287,132	365,242
Total	\$ 613,875	\$ 790,546	\$ 791,507	\$ 982,632
District's covered employee payroll at the measurement date	\$ 300,327	\$ 314,358	\$ 334,115	\$ 353,820
District's proportionate share of the net pension liability as a percentage of its covered payroll	127.45%	164.49%	150.96%	174.49%
Plan fiduciary net position as a percentage of the total pension liability	77%	74%	77%	69%
Measurement Date	June 30, 2014	June 30, 2015	June 30, 2016	June 30, 2017
SFERS				
District's proportion of the net pension liability	2.976%	3.119%	2.970%	3.0930%
District's proportionate share of the net pension liability	\$ 52,686	\$ 71,606	\$ 172,628	\$ 154,445
District's covered payroll at the measurement date	\$ 63,892	\$ 69,040	\$ 77,547	\$ 79,404
District's proportionate share of the net pension liability as a percentage of its covered payroll	82.46%	103.72%	222.61%	194.51%
Plan fiduciary net position as a percentage of the total pension liability	92%	90%	78%	82%

Note: Until the full ten year trend is compiled, information is presented only for those years which information is available.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF DISTRICT PENSION CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2018

(Amounts in thousands)

	2012	2013	2014	2015	2016	2017	2018
CalSTRS							
Contractually required contribution	\$ 23,290	\$ 23,740	\$ 24,777	\$ 27,915	\$ 35,778	\$ 44,510	\$ 53,764
Contributions in relation to the contractually required contribution	(23,290)	(23,740)	(24,777)	(27,915)	(35,778)	(44,510)	(53,764)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 282,303	\$ 287,758	\$ 300,327	\$ 314,358	\$ 334,115	\$ 353,820	\$ 372,505
Contributions as a percentage of covered payroll	8.25%	8.25%	8.25%	8.88%	10.71%	12.58%	14.43%
SFERS							
Contractually required contribution	\$ 11,692	\$ 12,388	\$ 15,858	\$ 18,483	\$ 15,645	\$ 17,068	\$ 19,530
Contributions in relation to the contractually required contribution	(11,692)	(12,388)	(15,858)	(18,483)	(15,645)	(17,068)	(19,530)
Contribution deficiency (excess)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
District's covered payroll	\$ 64,632	\$ 67,168	\$ 63,892	\$ 69,040	\$ 77,547	\$ 79,404	\$ 82,059
Contributions as a percentage of covered payroll	18.09%	18.44%	24.82%	26.77%	20.17%	21.50%	23.80%

Note: Until the full ten year trend is compiled, information is presented only for those years which information is available.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board. The budgets are revised during the year by the board of education to provide for revised priorities. Expenditures cannot legally exceed appropriations by major object code. The originally adopted and final revised budgets for the general fund and county school service fund are presented as required supplementary information. The basis of budgeting is the same as GAAP, except state of California on behalf payments described in note 14 are excluded from state revenues and benefits expense for comparability.

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances. In the future, as data becomes available, ten years of information will be presented. Until the full ten-year trend is compiled, information is presented only for those years which information is available.

Schedule of District Pension Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. Until the full ten-year trend is compiled, information is presented only for those years which information is available.

Changes in Benefit Terms

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

Changes in Assumptions

As of the June 30, 2017 measurement date, the CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent, consumer price inflation rate was changed from 3.00 percent to 2.75 percent, and wage growth rate was changed from 3.75 percent to 3.50 percent. As of the June 30, 2015 measurement date, the SFERS plan rate of investment return assumption was changed from 7.58 percent to 7.50 percent since the previous valuation. As of the June 30, 2016 measurement date, the SFERS plan municipal bond yield was changed from 3.85 percent to 2.85 percent, rate of investment return assumption was changed from 7.50 percent to 7.46 percent, and administrative expenses was changed from 0.45 percent of payroll to 0.60 percent of payroll since the previous valuation. As of the June 30, 2017 measurement date, the SFERS plan municipal bond yield rate was changed from 2.85 percent to 3.58 percent.

SUPPLEMENTARY INFORMATION

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2018**

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			
Career and Technical Education	84.048	14891/14894	\$ 389,414
Title I grants to Local Educational Agencies			
Title I, Part A, Basic Grants Low Income and Neglected	84.010	14329	13,624,869
Title I, Part A, Program Improvement District Intervention	84.010	14581	954
Title I, Part D, Local Delinquent Programs	84.010	14357	428,929
Total, Title I grants to Local Educational Agencies			14,054,752
Title I, Migration Education			
Title I, Part C, Migrant Ed - Regular Program	84.011	14838	170,695
Title I, Part C, Migrant Ed - Summer Program	84.011	10005	22,998
Total Title I, Migrant Education			193,693
Title II, Supporting Effective Instruction State Grant			
Title II, Part A, Teacher Quality	84.367	14341	2,731,237
Total Title II, Supporting Effective Instruction State Grant			2,731,237
Title III, English Language Acquisition State Grants			
Title III, Immigrant Education Program	84.365	15146	443,714
Title III, Limited English Proficient Student Program	84.365	14346	1,232,825
Total Title III, English Language Acquisition State Grants			1,676,539
Title IV, Part B, 21st Century Community Learning Centers	84.287	14349	4,430,987
Title X, Education for Homeless Children and Youth	84.196	14332	33,968

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION (CONTINUED)			
Individuals with Disabilities Education Act Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	11,707,310
IDEA Mental Health Allocation Plan, Part B, Sec 611	84.027	15197	604,512
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	703,626
IDEA Preschool Grants, Part B, Sec 619	84.173	13430	296,121
IDEA Alternate Dispute Resolution, Part B, Sec 611	84.173A	13007	57,786
IDEA Preschool Staff Development, Part B, Sec 611	84.173A	13431	4,916
IDEA Early Intervention Programs, Part C	84.181	23761	162,626
Total, Individuals with Disabilities Education Act Cluster			13,536,897
Passed through California Department of Rehabilitation			
Workability II, Transition Partnership	84.158	10006	58,902
Safe Schools - Healthy Students Initiative	84.184L	¹	17,998
Title VII	84.060	¹	21,878
Total, U.S. Department of Education			37,146,265
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education			
Child Nutrition Cluster			
Especially Needy Breakfast Program	10.553	13526	2,901,745
School Breakfast Program	10.553	13390	70,120
National School Lunch Program	10.555	13391/13396	11,175,490
Commodity Supplemental Food Program	10.555	¹	532,807
Total, Child Nutrition Cluster			14,680,162
Child Care Food Program - Centers and Family Day Homes	10.558	13393	4,770,318
Fresh Fruit and Vegetable Program	10.582	14968	9,857
Total, U.S. Department of Agriculture			19,460,337

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (Continued)
FOR THE YEAR ENDED JUNE 30, 2018**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-through Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF DEFENSE			
Passed through California Department of Education			
Junior Reserve Officers Training Corps	12.000	¹	602,684
Total, U.S. Department of Defense			<u>602,684</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Education			
Federal Child Care, Center-based	93.596	13609	5,046,110
Passed through Centers for Disease Control			
School-Based Surveillance	93.079	¹	1,841,897
Passed through California Department of Health Care Services			
Medi-Cal Billing Option	93.778	10013	893,940
Total, U.S. Department of Health and Human Services			<u>7,781,947</u>
Total, Expenditures of Federal Awards			<u>\$ 64,991,233</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, 2018

ORGANIZATION

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

GOVERNING BOARD

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

ADMINISTRATION

Vincent Matthews	Superintendent of Schools
Danielle Houck	General Counsel
Bradley Stam	Deputy Superintendent, Instruction, Innovation and Social Justice
Myong Leigh	Deputy Superintendent, Policy & Operations
Viva Mogi	Interim Chief of Strategy and Fund Development
Ana De Arce	Assistant Superintendent, K-8 - Cohort I
David Wong	Assistant Superintendent, K-8 - Cohort II
Enikia Ford	Assistant Superintendent, K-8 - Cohort III
Anakarita Allen	Assistant Superintendent, K-8 - Cohort IV
Richard Curci	Assistant Superintendent, K-8 - Cohort V
Cadwallader Payne	Assistant Superintendent, K-8 - Cohort VI
Bill Sanderson	Assistant Superintendent, High Schools
Jean Robertson	Chief, Special Education
Gentle Blythe	Chief Communications Officer
Meenoo Yashar	Chief of Early Childhood Education
Melissa Dodd	Chief Technology Officer
Yonko Radonov	Interim Chief Facilities Officer
Jill Hoogendyk	Chief, Strategic Initiatives
Ritu Khanna	Chief, Research Planning and Assessment
Reeta Madhavan	Chief Financial Officer
Brent Stephens	Chief Academic Officer, Curriculum and Instruction
Kevin Truitt	Chief, Student, Family and Community Support Division
Daniel Menezes	Chief, Human Resources

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Amended Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	16,788.68	16,795.07
Fourth through sixth	11,528.13	11,520.39
Seventh and eighth	7,173.66	7,177.63
Ninth through twelfth	14,792.90	14,729.05
Total Regular ADA	50,283.37	50,222.14
Extended Year Special Education		
Ninth through twelfth	37.47	37.47
Total Extended Year Special Education	37.47	37.47
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	8.40	9.34
Fourth through sixth	12.64	13.93
Seventh and eighth	26.78	26.83
Ninth through twelfth	65.97	70.15
Total Special Education, Nonpublic, Nonsectarian Schools	113.79	120.25
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.67	0.67
Fourth through sixth	1.45	1.45
Seventh and eighth	3.01	3.01
Ninth through twelfth	10.93	10.93
Total Extended Year Special Education,	16.06	16.06
Community Day School		
Seventh and eighth	2.56	3.93
Ninth through twelfth	32.39	36.20
Total Community Day School	34.95	40.13
Juvenile Halls, Homes and Camp, Probation Referred		
Elementary	1.34	5.00
High School	31.04	72.42
Total Juvenile Halls, Homes and Camp, Probation Referred	32.38	77.42
Total ADA	50,518.02	50,513.47

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	36,000	43,750	180	Complied
Grades 1 - 3				
Grade 1	50,400	50,400	180	Complied
Grade 2	50,400	50,400	180	Complied
Grade 3	50,400	50,400	180	Complied
Grades 4 - 6				
Grade 4	54,000	54,000	180	Complied
Grade 5	54,000	54,000	180	Complied
Grade 6	54,000	55,890	180	Complied
Grades 7 - 8				
Grade 7	54,000	55,890	180	Complied
Grade 8	54,000	55,890	180	Complied
Grades 9 - 12				
Grade 9	64,800	64,805	180	Complied
Grade 10	64,800	64,805	180	Complied
Grade 11	64,800	64,805	180	Complied
Grade 12	64,800	64,805	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, 2018**

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

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

(Amounts in thousands, except average daily attendance)

	(Budget) 2019 ¹	2018	2017	2016
GENERAL FUND				
Revenues	\$ 804,115	\$ 801,486	\$ 769,889	\$ 770,311
Expenditures	808,044	810,267	753,751	704,384
Other uses and transfers out	15,425	13,796	13,454	16,659
Total Expenditures and Other Uses	823,469	824,063	767,205	721,043
CHANGE IN FUND BALANCE	\$ (19,354)	\$ (22,577)	\$ 2,684	\$ 49,268
ENDING FUND BALANCE	\$ 79,338	\$ 98,692	\$ 121,269	\$ 118,585
AVAILABLE RESERVES	\$ 20,561	\$ 39,915	\$ 59,100	\$ 61,410
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	2.50%	4.84%	7.70%	8.52%
LONG-TERM OBLIGATIONS	\$ 2,519,437	\$ 2,606,073	\$ 2,536,649	\$ 1,834,390
AVERAGE DAILY ATTENDANCE AT P-2 ²	50,538	50,518	50,788	50,787

The general fund balance has decreased by \$19.9 million over the past two years. The fiscal year 2018-19 budget projects a decrease of \$19.4 million, or 20 percent. For a district this size, the state recommends available reserves of at least two percent of total general fund expenditures, transfers out, and other uses (total outgo). Available reserves on June 30, 2018 were 4.84%, which is a decrease of \$19.2 million or 32.5% from fiscal year 2016-17. The District projects a fund balance decrease of \$19.4 million during the 2018-19 fiscal year.

The District has incurred an operating surplus in the general fund over the multi-year period starting with fiscal year 2015-16. However, during fiscal year 2017-18, the general fund incurred an operating deficit. The District also expects a general fund operating deficit during the 2018-19 fiscal year. CalSTRS on behalf revenue and expenditures are included in the 2018-19 budget column for comparability with the GAAP financial statements.

Total long-term liabilities have increased by \$772 million over the past two years. Approximately \$393 million of this total increase is due to changes in how the other post-employment benefits total liability is calculated as per GASB Statement No. 75 which was implemented as of July 1, 2017.

Average daily attendance has decreased by 269 over the past two years. An increase of 20 ADA is budgeted for fiscal year 2018-19.

¹ Budget 2019 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.

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS FOR THE YEAR ENDED JUNE 30, 2018

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

See accompanying note to supplementary information.

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SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2018**

	Child Development	Cafeteria	Deferred Maintenance
ASSETS			
Cash and Investments	\$ -	\$ 6,955	\$ 3,840,560
Receivables	4,189,379	5,803,810	43,756
Stores inventories	-	41,369	-
Total Assets	\$ 4,189,379	\$ 5,852,134	\$ 3,884,316
LIABILITIES AND FUND BALANCES			
Liabilities			
Overdrafts	\$ 1,684,541	\$ 3,646,715	\$ -
Accounts payable	269,321	2,069,071	38,615
Unearned revenue	1,739	19,687	-
Total Liabilities	1,955,601	5,735,473	38,615
Fund Balances			
Restricted	2,233,778	116,661	-
Committed	-	-	3,845,701
Total Fund Balances	2,233,778	116,661	3,845,701
Total Liabilities and Fund Balances	\$ 4,189,379	\$ 5,852,134	\$ 3,884,316

See accompanying note to supplementary information.

Capital Facilities	State School Building	County School Facilities	Special Reserve Capital Outlay	Mello-Roos Capital Project	Tax Override	Nonmajor Governmental Funds
\$ 41,376,985	\$ 1,771,637	\$ 1,243,056	\$ 13,085,259	\$ 11,855,791	\$ 33,269	\$ 73,213,512
629,113	27,593	19,978	-	182,141	-	10,895,770
-	-	-	-	-	-	41,369
<u>\$ 42,006,098</u>	<u>\$ 1,799,230</u>	<u>\$ 1,263,034</u>	<u>\$ 13,085,259</u>	<u>\$ 12,037,932</u>	<u>\$ 33,269</u>	<u>\$ 84,150,651</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,331,256
2,393,810	-	100,508	1,216,859	1,915,316	-	8,003,500
-	-	-	371,314	-	-	392,740
<u>2,393,810</u>	<u>-</u>	<u>100,508</u>	<u>1,588,173</u>	<u>1,915,316</u>	<u>-</u>	<u>13,727,496</u>
39,612,288	1,799,230	1,162,526	11,497,086	10,122,616	33,269	66,577,454
-	-	-	-	-	-	3,845,701
<u>39,612,288</u>	<u>1,799,230</u>	<u>1,162,526</u>	<u>11,497,086</u>	<u>10,122,616</u>	<u>33,269</u>	<u>70,423,155</u>
<u>\$ 42,006,098</u>	<u>\$ 1,799,230</u>	<u>\$ 1,263,034</u>	<u>\$ 13,085,259</u>	<u>\$ 12,037,932</u>	<u>\$ 33,269</u>	<u>\$ 84,150,651</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, 2018**

	Child Development	Cafeteria	Deferred Maintenance
REVENUES			
Federal sources	\$ 5,046,109	\$ 18,917,673	\$ -
Other state sources	22,195,506	1,144,977	-
Other local sources	11,450,166	1,725,661	38,444
Total Revenues	38,691,781	21,788,311	38,444
EXPENDITURES			
Current			
Instruction	26,560,687	-	-
Instruction related activities:			
Supervision of instruction	7,334,467	-	-
School site administration	4,427,432	-	-
Pupil Services:			
Food services	2,136,654	26,217,744	-
All other pupil services	365,761	-	-
General administration:			
All other general administration	1,455,801	997,192	-
Plant services	747,541	-	-
Capital Outlay	-	-	1,428,765
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	43,028,343	27,214,936	1,428,765
Excess (deficiency) of revenues over expenditures	(4,336,562)	(5,426,625)	(1,390,321)
Other Financing Sources:			
Transfers in	4,258,407	5,337,683	1,475,484
Net Financing Sources	4,258,407	5,337,683	1,475,484
NET CHANGE IN FUND BALANCES	(78,155)	(88,942)	85,163
Fund Balance - Beginning	2,311,933	205,603	3,760,538
Fund Balance - Ending	\$ 2,233,778	\$ 116,661	\$ 3,845,701

See accompanying note to supplementary information.

Capital Facilities	State School Building	County School Facilities	Special Reserve Capital Outlay	Mello-Roos Capital Project	Tax Override	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 23,963,782
-	-	-	203,469	-	-	23,543,952
11,305,734	25,182	17,893	3,004,931	8,535,299	-	36,103,310
11,305,734	25,182	17,893	3,208,400	8,535,299	-	83,611,044
-	-	-	-	-	-	26,560,687
-	-	-	-	-	-	7,334,467
-	-	-	-	-	-	4,427,432
-	-	-	-	-	-	28,354,398
-	-	-	-	-	-	365,761
-	-	-	-	-	-	2,452,993
-	-	-	-	-	-	747,541
7,694,438	-	80,860	2,956,841	10,376,891	-	22,537,795
-	-	-	2,062,283	-	-	2,062,283
-	-	-	661,883	-	-	661,883
7,694,438	-	80,860	5,681,007	10,376,891	-	95,505,240
3,611,296	25,182	(62,967)	(2,472,607)	(1,841,592)	-	(11,894,196)
-	-	-	2,724,166	-	-	13,795,740
-	-	-	2,724,166	-	-	13,795,740
3,611,296	25,182	(62,967)	251,559	(1,841,592)	-	1,901,544
36,000,992	1,774,048	1,225,493	11,245,527	11,964,208	33,269	68,521,611
\$ 39,612,288	\$ 1,799,230	\$ 1,162,526	\$ 11,497,086	\$ 10,122,616	\$ 33,269	\$ 70,423,155

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**GENERAL UNRESTRICTED AND RESTRICTED FUNDS
BALANCE SHEET SCHEDULES
JUNE 30, 2018**

	Unrestricted	Restricted	Total General Fund
ASSETS			
Cash and investments	\$ 128,142,838	\$ 39,462,959	\$ 167,605,797
Receivables	184,101,386	25,901,893	210,003,279
Prepaid expenditures	60,881	40,452	101,333
Stores inventories	771,431	-	771,431
Total assets	<u>\$ 313,076,536</u>	<u>\$ 65,405,304</u>	<u>\$ 378,481,840</u>
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 262,677,363	\$ 10,867,576	\$ 273,544,939
Unearned revenue	20,942	6,224,882	6,245,824
Total liabilities	<u>262,698,305</u>	<u>17,092,458</u>	<u>279,790,763</u>
Fund Balances			
Nonspendable	832,812	40,452	873,264
Restricted	-	48,272,394	48,272,394
Assigned	9,630,000	-	9,630,000
Unassigned	39,915,419	-	39,915,419
Total Fund Balances	<u>50,378,231</u>	<u>48,312,846</u>	<u>98,691,077</u>
Total Liabilities and Fund Balances	<u>\$ 313,076,536</u>	<u>\$ 65,405,304</u>	<u>\$ 378,481,840</u>

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**GENERAL UNRESTRICTED AND RESTRICTED FUNDS
COMBINING SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018**

	Unrestricted	Restricted	Total General Fund
REVENUES			
Local control funding formula	\$ 501,472,812	\$ -	\$ 501,472,812
Federal sources	308,743	25,260,063	25,568,806
Other state sources	18,258,843	53,749,410	72,008,253
Other local sources	51,496,700	150,939,643	202,436,343
Total Revenues	571,537,098	229,949,116	801,486,214
EXPENDITURES			
Current			
Instruction	267,569,605	146,665,436	414,235,041
Instruction related activities	77,915,752	97,618,806	175,534,558
Pupil Services	33,496,832	28,311,428	61,808,260
General administration	33,596,757	5,909,001	39,505,758
Ancillary services	418,587	4,538,583	4,957,170
Plant services	37,807,405	27,115,248	64,922,653
Other outgo	39,404,350	1,191,769	40,596,119
Capital outlay	8,707,560	-	8,707,560
Total Expenditures	498,916,848	311,350,271	810,267,119
Excess of expenditures over revenues	72,620,250	(81,401,155)	(8,780,905)
OTHER FINANCING SOURCES (USES):			
Transfers out	(9,256,256)	(4,539,484)	(13,795,740)
Interfund transfers	(82,829,509)	82,829,509	-
Net Financing Uses	(92,085,765)	78,290,025	(13,795,740)
NET CHANGE IN FUND BALANCES	(19,465,515)	(3,111,130)	(22,576,645)
Fund Balance - Beginning	69,843,746	51,423,976	121,267,722
Fund Balance - Ending	\$ 50,378,231	\$ 48,312,846	\$ 98,691,077

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

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

	CFDA Number	Amount
Total federal revenues reported on the statement of revenues, expenditures and changes in fund balance:		\$ 66,502,732
Federal interest subsidy on qualified construction bonds and build america bonds	Not Applicable	(2,044,306)
Noncash federal awards are not recorded on the financial statements	10.555	532,807
Total schedule of expenditures of federal awards		<u>\$ 64,991,233</u>

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2018

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the unaudited actual financial report, to the audited financial statements.

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

The nonmajor governmental funds combining balance sheet and statement of revenues, expenditures and changes in fund balances is included to provide information regarding the individual funds that have been included in the nonmajor governmental funds column on the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances.

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

The general unrestricted and restricted funds balance sheet and schedule of revenues, expenditures and changes in fund balances is included to provide information regarding the unrestricted and restricted funds that have been included in the general funds column on the governmental funds balance sheet and statement of revenues, expenditures and changes in fund balances.

INDEPENDENT AUDITOR'S REPORTS



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

VALUE THE *difference*

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Francisco Unified School District (District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements, and have issued our report thereon dated December 14, 2018.

Internal Control Over Financial Reporting

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

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

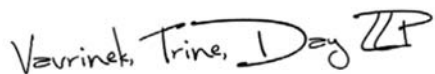
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not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

A handwritten signature in black ink that reads "Vavrinek, Trine, Day ZP". The signature is written in a cursive, somewhat stylized font.

Palo Alto, California
December 14, 2018



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

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

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

Report on Compliance for Each Major Federal Program

We have audited San Francisco Unified School District's (District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of the District's major federal programs for the year ended June 30, 2018. The District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the District's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

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

Opinion on Each Major Federal Program

In our opinion, San Francisco Unified School 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, 2018.

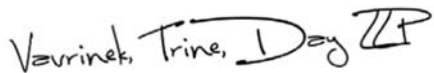
Report on Internal Control Over Compliance

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

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

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

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



Palo Alto, California
December 14, 2018



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

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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited San Francisco Unified School District's (District) compliance with the types of compliance requirements identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the District's State government programs as noted below for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the San Francisco Unified School 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 *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about San Francisco Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of San Francisco Unified School District's compliance with those requirements.

Unmodified Opinion

In our opinion, San Francisco Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

Other Matters

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	Yes
Continuation Education	Yes
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	Yes
Middle or Early College High Schools	No, see below
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	Yes
After School	Yes
Before School	No, see below

	Procedures Performed
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

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

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

Vaurinek, Trine, Day ZP

Palo Alto, California
December 14, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I grants to Local Educational Agencies</u>
<u>84.367</u>	<u>Title II, Supporting Effective Instruction State Grant</u>
<u>84.287</u>	<u>Title IV, Part B, 21st Century Community Learning Centers</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,949,737</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

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

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Summarized below is the status of all audit findings reported in the prior year schedule of financial statement findings.

FINANCIAL STATEMENT FINDINGS

2017-001 – Pension Maintenance Internal Control, Code 30000

Finding

During our testing of this control process, the District was unable to provide all of documentation necessary to satisfy us with respect to the completeness and accuracy of the pensionable earnings self-reported to the pension plans. We performed alternative audit procedures. However, this process involves a large volume of transactions. Errors may exist that were not detected by our alternative procedures.

Recommendation

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

Current Status

Resolved.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

STATE AWARDS FINDINGS AND QUESTIONED COSTS

2017-002 Attendance Records Maintenance, Code 10000, 40000

Finding

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

Recommendation

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

Current Status

Resolved.

2017-003 Instructional Minutes, Code 40000

Finding

One of the District's high school sites provided 64,281 annual instructional minutes in grades 9 to 12, which is short by 519 minutes. The same site offered 177 days of instruction, which is short by three days.

Recommendation

We recommend the district file for a summary review with the Education Audit Appeals Panel (EAAP) on the grounds that it has substantially complied. Going forward, District office personnel responsible for overseeing compliance with the annual instructional minutes should approve revisions to bell schedules.

Current Status

Resolved.