SUPPLEMENT, DATED AUGUST 6, 2013, TO PRELIMINARY OFFICIAL STATEMENT DATED JULY 30, 2013

$90,000,000*
SAN FRANCISCO UNIFIED SCHOOL DISTRICT
(CITY AND COUNTY OF SAN FRANCISCO)
2013 Tax and Revenue Anticipation Notes, Series A

This Supplement to the Preliminary Official Statement, dated August 6, 2013 (the "Preliminary Official Statement"), with respect to the above-referenced Notes is provided to replace in their entirety pages 11 and 13 in the Preliminary Official Statement with the attached pages 11 and 13. Page 11 is being replaced to correct the August 2013 "TRAN/Temporary Borrowing," and the June 2014 "Certificated Salaries," "Classified Salaries" and "Accounts Receivable" entries. Page 13 is being replaced to correct the "TRAN/Temporary Borrowing," "Certificated Salaries," "Employee Benefits" "Interfund Transfers Out/Repay Temporary Borrowing" and "Accounts Receivable" variances and the "Interfund Transfers Out/Repay Temporary Borrowing" variance explanation.

In addition, the Standard & Poor's "__" rating on the cover page and on page 17 under the caption "MISCELLANEOUS—Rating" is replaced with "SP-1+."

Further, the last paragraph of Section 3 on page F-2 is replaced in its entirety with the following:

"Whenever the District obtains knowledge of the occurrence of a Listed Event, but, in the case of a Listed Event described in (2), (7), (8) (if the event is a bond call), (10), (13) or (14) of this Section 3, only in the event the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall or shall cause to be filed a notice of such occurrence with the MSRB through its EMMA System, in an electronic format as prescribed by the MSRB, in a timely manner but not in excess of 10 business days after the occurrence of such Listed Event."

Date: August 6, 2013

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* Preliminary, subject to change.

PRELIMINARY OFFICIAL STATEMENT DATED JULY 30, 2013, AS SUPPLEMENTED BY THE SUPPLEMENT DATED AUGUST 6, 2013

NEW ISSUE – BOOK-ENTRY ONLY

RATING†:
Standard & Poor's: SP-1+

In the opinion of Sidley Austin LLP, San Francisco, California, Note Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the documents relating to the Series A Notes and requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Series A Notes is not includable in the gross income of the owners of the Series A Notes for federal income tax purposes. In the further opinion of Note Counsel, interest on the Series A Notes is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Series A Notes, however, is included as an adjustment in calculating federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability. In the further opinion of Note Counsel, interest on the Series A Notes is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" herein.

SFUSD SAN FRANCISCO PUBLIC SCHOOLS

$90,000,000*
SAN FRANCISCO UNIFIED SCHOOL DISTRICT
(CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA)
2013 Tax and Revenue Anticipation Notes, Series A

Interest Rate	Initial Public Offering Yield	CUSIP[1] No.
____%	____%	79771T ___

Dated: Date of Delivery **Due:** August 14, 2014

The San Francisco Unified School District (City and County of San Francisco, California) 2013 Tax and Revenue Anticipation Notes, Series A (the "Series A Notes") will be issued in fully registered form, without coupons and when delivered will be registered in the name of The Depository Trust Company, New York, New York ("DTC"). DTC will act as securities depository for the Series A Notes. Individual purchases of interests in the Series A Notes will be made in book-entry form only in the principal amount of $5,000 or integral multiples thereof. Purchasers of the Series A Notes will not receive physical certificates representing their interests in the Series A Notes when purchased. Principal of and interest on the Series A Notes will be payable at maturity. The principal of and interest on the Series A Notes is payable when due on behalf of the San Francisco Unified School District (the "District") by The Bank of New York Mellon Trust Company, N.A., as paying agent, to DTC for subsequent disbursement to DTC Participants (as defined herein) who will remit such payments to the beneficial owners of the Series A Notes. The Series A Notes are not subject to redemption prior to maturity.

The Series A Notes and the interest thereon are, in accordance with State of California law, a general obligation of the District but are payable solely from taxes, income, revenue, cash receipts and certain other moneys received by the District in its General Fund during the District's 2013-2014 fiscal year or accrued to the District and attributable to such fiscal year and lawfully available for payment thereof. The Series A Notes are secured by a pledge of certain revenues as described herein. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES" herein. Pursuant to the Resolution, one or more additional series of notes ("Additional Notes") may be issued on or prior to June 30, 2014, and would be payable from the same pledge of certain revenues as the Series A Notes. Additional Notes may be issued only if (1)(i) such Notes are payable subsequent to the payment of the Series A Notes and each other Series of Notes theretofore issued and outstanding, and (ii) there is on deposit in the Repayment Fund with respect to each Series of Notes then outstanding an amount equal to or greater than the sum of (A) the then unpaid principal amount of each such Series of Notes, and (B) any then unpaid interest due or to become due on each such Series of Notes or (2) no Notes previously issued under the Resolution are then outstanding. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES" herein.

This cover page contains certain information for reference only. It is not a summary of this issue. Potential investors must read the entire Official Statement to obtain information essential to the making of an informed investment decision.

BIDS TO BE RECEIVED BY 9:00 A.M., PACIFIC TIME, AUGUST 8, 2013. SEE "APPENDIX G—OFFICIAL NOTICE OF SALE AND OFFICIAL BID FORM."

The Series A Notes will be offered when, as and if issued, subject to the approval as to their legality by Sidley Austin LLP, San Francisco, California, Note Counsel. Legal matters for the District will be passed upon by General Counsel to the District. Tamalpais Advisors, Inc., Sausalito, California served as Financial Advisor to the District in connection with the issuance of the Series A Notes. It is anticipated that the Series A Notes will be available for delivery through the facilities of DTC in New York, New York on or about August 15, 2013.

Official Statement Date: ______, 2013

† For an explanation of the rating, see "MISCELLANEOUS—Rating" herein.
* Preliminary, subject to change.
(1) A registered trademark of The American Bankers Association. CUSIP data is provided by CUSIP Global Services managed on behalf of The American Bankers Association by Standard & Poor's Financial Services LLC. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Service. The CUSIP number is provided for convenience of reference and neither the District nor the Original Purchaser assume any responsibility for the accuracy of such data.

No dealer, broker, salesman or other person has been authorized by the District to give any information or to make any representations with respect to the Series A Notes other than those contained herein and, if given or made, such information or representation must not be relied upon as having been authorized by the District. This Official Statement does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Series A Notes by a person in any jurisdiction in which it is unlawful for such offer, solicitation or sale.

This Official Statement is not to be construed as a contract with the purchasers of the Series A Notes. Statements contained in this Official Statement which involve estimates, forecasts or matters of opinion, whether or not expressly so described herein, are intended solely as such and are not to be construed as a representation of facts.

The information set forth herein has been obtained from sources that are believed to be reliable, but is not guaranteed as to accuracy or completeness, and is not to be construed as a representation by the Original Purchaser. The information and expressions of opinion stated herein are subject to change without notice and neither delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the information or opinions set forth herein or in the affairs of the District since the date hereof. This Official Statement is submitted in connection with the sale of the Series A Notes referred to herein and may not be reproduced or used, in whole or in part, for any purpose, unless authorized in writing by the District.

The Series A Notes have not been registered under the Securities Act of 1933, in reliance upon an exemption contained in such Act. The Series A Notes have not been registered under the securities laws of any state.

IN CONNECTION WITH THIS OFFERING, THE ORIGINAL PURCHASER MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE SERIES A NOTES AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME. THE ORIGINAL PURCHASER MAY OFFER AND SELL THE SERIES A NOTES TO CERTAIN DEALERS AND BANKS AT YIELDS HIGHER THAN THE INITIAL PUBLIC OFFERING YIELD ON THE COVER PAGE HEREOF AND FOLLOWING THE INITIAL OFFERING PERIOD FOR THE NOTES, THE NOTES MAY BE OFFERED AT YIELDS THAT DIFFER FROM SAID INITIAL PUBLIC OFFERING YIELD.

CAUTIONARY STATEMENTS REGARDING FORWARD-LOOKING STATEMENTS IN THIS OFFICIAL STATEMENT

Certain statements included or incorporated by reference in this Official Statement constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "project," "projection" or other similar words. The achievement of certain results or other expectations contained in such forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. The District does not plan to issue any updates or revisions to those forward-looking statements if or when its expectations or events, conditions or circumstances on which such statements are based occur.

The District maintains a website at www.sfusd.edu. However, the information presented there is not part of this Official Statement, is not incorporated by reference herein and should not be relied upon in making an investment decision with respect to the Series A Notes.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

Board of Education

Name	Term Expires
Rachel Norton, President	January 2017
Sandra Lee Fewer, Vice President	January 2017
Matt Haney	January 2017
Kim-Shree Maufas	January 2015
Hydra B. Mendoza	January 2015
Emily M. Murase	January 2015
Jill Wynns	January 2017

District Officials

Richard Carranza, Superintendent
Myong Leigh, Deputy Superintendent, Policy and Operations
Donald Davis, Esq., General Counsel
Joseph C. Grazioli, Chief Financial Officer
Paulette Terrell, Director of Fiscal Services
Reeta Madhavan, Director of Budget Services

SPECIAL SERVICES

Financial Advisor

Tamalpais Advisors, Inc.
Sausalito, California

Note Counsel and Disclosure Counsel

Sidley Austin LLP
San Francisco, California

Paying Agent

The Bank of New York Mellon Trust Company, N.A.
San Francisco, California

Fiscal Agent

José Cisneros
Treasurer-Tax Collector of the
City and County of San Francisco

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OFFICIAL STATEMENT

$90,000,000*
SAN FRANCISCO UNIFIED SCHOOL DISTRICT
(CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA)
2013 Tax and Revenue Anticipation Notes, Series A

INTRODUCTION

General

This Official Statement provides information in connection with the issuance by the San Francisco Unified School District (the "District") of $90,000,000* of its 2013 Tax and Revenue Anticipation Notes, Series A (the "Series A Notes").

The Official Statement makes references to a resolution and to other documents and statutes. Such references do not purport to be complete, comprehensive or definite and are qualified in their entirety by reference to each such document.

The District

The San Francisco Unified School District has boundaries that are coterminous with the City and County of San Francisco. The District provides public education from Pre-Kindergarten through Grade 12. The District was established in 1851; however, the District has been a political subdivision of the State of California (the "State") since 1927. The administrative headquarters of the District are located at 555 Franklin Street, San Francisco, California.

The District operates 73 elementary and K-8 school sites, 13 middle schools, 18 senior high schools (including two continuation schools and an independent study school), and 34 State funded preschool sites. As of June 30, 2012, the District sponsored 13 independent charter schools; however, independent charter schools receive their funding directly from the State and function like independent agencies, including having control over their staffing and budget. For these reasons, information regarding enrollment, average daily attendance, budgets and other financial information relating to independent charter schools is not included in the District's audit reports or in this Official Statement. The District's enrollment for Fiscal Year 2012-13 is approximately 53,033. The District has an estimated total of 8,496 full-time equivalent certified administrators, teachers, para-professionals and classified personnel at the District and the County Office of Education operated by the District. See "APPENDIX A – DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION."

Authority for Issuance

The Series A Notes are issued under the authority of Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (commencing with Section 53850) of the State of California Government Code and pursuant to a resolution adopted by the Board of Education (the "Board") of the District on April 23, 2013 (the "Resolution").

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* Preliminary, subject to change.

Sale of Series A Notes

The District has scheduled the competitive sale of the Series A Notes on August 8, 2013, at 9:00 a.m., Pacific time, via the Ipreo LLC BidComp™/Parity® System, as further described in the Official Notice of Sale and Official Bid Form for the Series A Notes attached as APPENDIX G hereto.

Purpose of Issuance

Issuance of the Series A Notes and any Additional Notes (as defined herein) will provide funds to address the periodic cash flow deficits in the District's general fund (the "General Fund") so that Fiscal Year 2013-2014 General Fund expenditures, including operating expenses, capital expenditures, and the discharge of other obligations of the District can be timely paid.

The General Fund is used to finance the ordinary operations of the District and is available for any legally authorized purposes. While expenditures generally occur evenly throughout the fiscal year, cash receipts occur unevenly. As a result, the General Fund cash balance tends to show periodic deficits during parts of the fiscal year.

THE SERIES A NOTES

Description of the Series A Notes

The Series A Notes will be issued in the principal amount of $90,000,000* and will be issued in denominations of $5,000 or any integral multiple thereof. The Series A Notes will be dated and mature as shown on the cover hereof, and will bear interest calculated at the rate per annum as shown on the cover hereof computed on the basis of a 360-day year consisting of twelve 30-day months. Principal of and interest on the Series A Notes are payable at maturity.

The Series A Notes will be issued in book-entry form only and will be initially issued and registered in the name of Cede & Co., as nominee of DTC. Purchasers of beneficial ownership interests in the Series A Notes ("Beneficial Owners") from participants in the DTC system (the "DTC Participants") will not receive physical certificates representing their interests in the Series A Notes. Payment of principal of and interest on the Series A Notes will be made when due on behalf of the District by The Bank of New York Mellon Trust Company, N.A., as paying agent, to DTC, which will remit such principal and interest to the DTC Participants, which will in turn remit such principal and interest to the Beneficial Owners. See "APPENDIX E – BOOK-ENTRY ONLY SYSTEM."

Pursuant to the Resolution, one or more additional series of notes ("Additional Notes") may be issued on or prior to June 30, 2014, and would be payable from the same pledge of certain revenues as the Series A Notes. Any such Additional Notes, if issued by the District, will mature and be payable subsequent to the maturity date of the Series A Notes and the payment thereof. Additional Notes may be issued only if (1)(i) such Notes are payable subsequent to the payment of the Series A Notes and each other Series of Notes theretofore issued and outstanding, and (ii) there is on deposit in the Repayment Fund with respect to each Series of Notes then outstanding an amount equal to or greater than the sum of (A) the then unpaid principal amount of each such Series of Notes, and (B) any then unpaid interest due or to become due on each such Series of Notes or (2) no Notes previously issued under the Resolution are then outstanding. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES—Additional Notes" herein.

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* Preliminary, subject to change.

The Series A Notes are not subject to redemption prior to maturity. As of the date of this Official Statement, the District does not expect to issue Additional Notes.

SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES

Security for the Series A Notes

The Series A Notes and the interest thereon are general obligations of the District but are payable solely from taxes, income, revenue, cash receipts and other moneys of the District, including moneys deposited in inactive or term deposits (but excepting certain moneys encumbered for a special purpose) received by the District during Fiscal Year 2013-2014 or accrued by and attributable to Fiscal Year 2013-2014 and lawfully available for payment thereof (the "General Fund Revenues"). Pursuant to the Resolution and the Official Notice of Sale, certain of said moneys have been pledged by the District to the payment of the Series A Notes and the interest thereon (the "Pledged Revenues") as follows: an amount equal to fifty percent (50%) of the principal amount of the Series A Notes from the General Fund Revenues received by the District on or before January 31, 2014, and an amount equal to fifty percent (50%) of the principal amount and one hundred percent (100%) of the interest to be due on the Series A Notes from the General Fund Revenues received by the District on or before April 30, 2014. The principal of the Series A Notes and the interest thereon shall constitute a first lien and charge on the Pledged Revenues. To the extent not so paid from the Pledged Revenues, the Series A Notes shall be paid from any other moneys of the District lawfully available therefor.

The Pledged Revenues will be deposited by the District at the intervals outlined above in a special District fund held by the Treasurer and Tax Collector (the "Treasurer" and the "Fiscal Agent") of the City and County of San Francisco (the "City") designated as the "San Francisco Unified School District, City and County of San Francisco, California, 2013 Tax and Revenue Anticipation Notes Repayment Fund" (the "Repayment Fund"). Balances in the Repayment Fund will be invested as permitted by Section 53601 of the State Government Code or in the City and County of San Francisco's investment pool (the "City's Investment Pool"), unless otherwise directed in writing by the District. In the event that the District directs the investment of such moneys, the Resolution designates as authorized investments for the proceeds of the Series A Notes and the moneys in the Repayment Fund a guaranteed investment contract with a financial institution or insurance company that has at the date of execution thereof one or more outstanding issues of unsecured, uninsured and unguaranteed debt obligations or a claims paying ability rated not lower than "Aa2" by Moody's Investors Service and "AA-" by Standard & Poor's and the Local Agency Investment Fund administered by the State. As of the date hereof, the District intends to invest both the proceeds of the Series A Notes and the Repayment Fund in the City's Investment Pool. For a description of the City's Investment Pool, see "APPENDIX D – EXCERPTS FROM THE CITY AND COUNTY OF SAN FRANCISCO INVESTMENT PORTFOLIO REPORT."

No later than two days prior to the maturity date of the Series A Notes, the moneys in the Repayment Fund shall be transferred by the Fiscal Agent to the Paying Agent to be used, to the extent necessary, to pay the principal of and interest on the Series A Notes. After such date as the amount of Pledged Revenues deposited in the Repayment Fund shall be sufficient to pay in full the principal of and interest on the Series A Notes, when due, any moneys in excess of such amount remaining in or accruing to the Repayment Fund shall be transferred to the General Fund of the District.

Sources of Payment for the Series A Notes

In accordance with State law, the Series A Notes are obligations of the District, but are payable only out of taxes, income, revenue, cash receipts and other moneys of the District, including moneys deposited in inactive or term deposits (but excepting certain moneys encumbered for a special purpose), received by the District during Fiscal Year 2013-2014 or accrued by and attributable to Fiscal Year 2013-2014 and lawfully available for payment thereof. A 1978 change in the State Constitution substantially limits the District's ability to levy *ad valorem* property taxes for general operating purposes. See "APPENDIX A – DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION—CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS." The District may, under existing law, issue the Series A Notes only if the principal of and interest on the Series A Notes and any other short-term debt will not exceed 85% of the estimated moneys legally available for the payment of the Series A Notes and such other debt. The amount needed to repay the Series A Notes and the interest thereon is estimated to be $91.3 million, which equals 13.5% of the estimated General Fund moneys legally available for the payment of the Series A Notes and such other debt.

The District estimates that General Fund Revenues for the period in Fiscal Year 2013-2014 from August 1, 2013 through June 30, 2014 will be approximately $677.4 million as indicated in the following table. Except for the Pledged Revenues, these moneys will be expended during the course of the fiscal year, and, accordingly, no assurance can be given that any moneys, other than Pledged Revenues and Interfund Borrowing Capacity (defined below), if available, will be available to pay the Series A Notes and interest thereon.

San Francisco Unified School District
Estimated General Fund Revenues
August 1, 2013 through June 30, 2014
(Amounts in $ Thousands)

Source	Amount
Local Control Funding Formula	
State Aid	$ 0
Property Taxes	227,621
Education Protection Account	55,140
Federal Revenues	31,475
Other State Revenues	128,513
Other Local Revenue (including Sales Taxes, Rainy Day Reserve, Proposition H Funds and proceeds of the Series A Notes)	197,390
Parcel Taxes	37,265
General Fund Revenues Total	$677,404

For a description of the term "Local Control Funding Formula," see "APPENDIX A – DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION—DISTRICT FINANCIAL INFORMATION—Revenue Limit, LCFF and State Categorical Program Sources." For descriptions of the terms "Sales Taxes," "Proposition H Funds," "Parcel Taxes" and "Rainy Day Reserve," see "APPENDIX A – DISTRICT FINANCIAL INFORMATION AND DEMOGRAPHIC INFORMATION—DISTRICT FINANCIAL INFORMATION—Unique Revenue Sources."

Additional Notes

Any Additional Notes, if issued by the District, will mature and be payable subsequent to the maturity date of the Series A Notes and the payment thereof. Additional Notes may be issued only if (1)(i) such Notes are payable subsequent to the payment of the Series A Notes and each other Series of Notes theretofore issued and outstanding, and (ii) there is on deposit in the Repayment Fund with respect to each Series of Notes then outstanding an amount equal to or greater than the sum of (A) the then unpaid principal amount of each such Series of Notes, and (B) any then unpaid interest due or to become due on each such Series of Notes or (2) no Notes previously issued under the Resolution are then outstanding.

Interfund Borrowing and Intrafund Borrowing

The State Constitution allows borrowing from County held funds of other agencies by school districts up until the last Monday in April of each Fiscal Year in amounts that do not exceed 85% of taxes accrued. The District does not generally use such borrowing to cover temporary cash shortfalls in the General Fund and does not expect to use such borrowing to cover temporary cash shortfalls in Fiscal Year 2013-14.

Pursuant to Education Code 42603, the District could temporarily borrow, for cash flow purposes, up to 75 percent of the maximum of moneys held in any of its funds or accounts for the benefit of the General Fund ("Interfund Borrowing Capacity"). The District Board may direct that moneys held in any of its funds or accounts be temporarily transferred to another fund or account of the District for payment of obligations. Such a transfer would be accounted for as temporary borrowing between funds or accounts and such amounts would not be available for appropriation or be considered income to the borrowing fund or account. Pursuant to the Education Code, the District would have to repay the amounts transferred either in the same fiscal year or in the following fiscal year if the transfer takes place within the final 120 calendar days of a fiscal year. Further, the District may only temporarily borrow when the fund or account receiving the money will earn sufficient income, during or attributable to the current fiscal year, to repay the amount transferred.

The District routinely requests the District Board to provide authorization for such temporary borrowing by June 30 of each year, with such authorization applicable to the fiscal year beginning the following July 1. The District received authorization for Fiscal Year 2012-13 and has taken the necessary steps to request authorization for Fiscal Year 2013-14 transfers. The District's Interfund Borrowing Capacity is projected to be approximately $59.4 million at June 30, 2014.

The following table sets forth the largest funds comprising the District's Interfund Borrowing Capacity, measured as 75% of the maximum borrowable resources during Fiscal Years 2008-09 through 2013-14.

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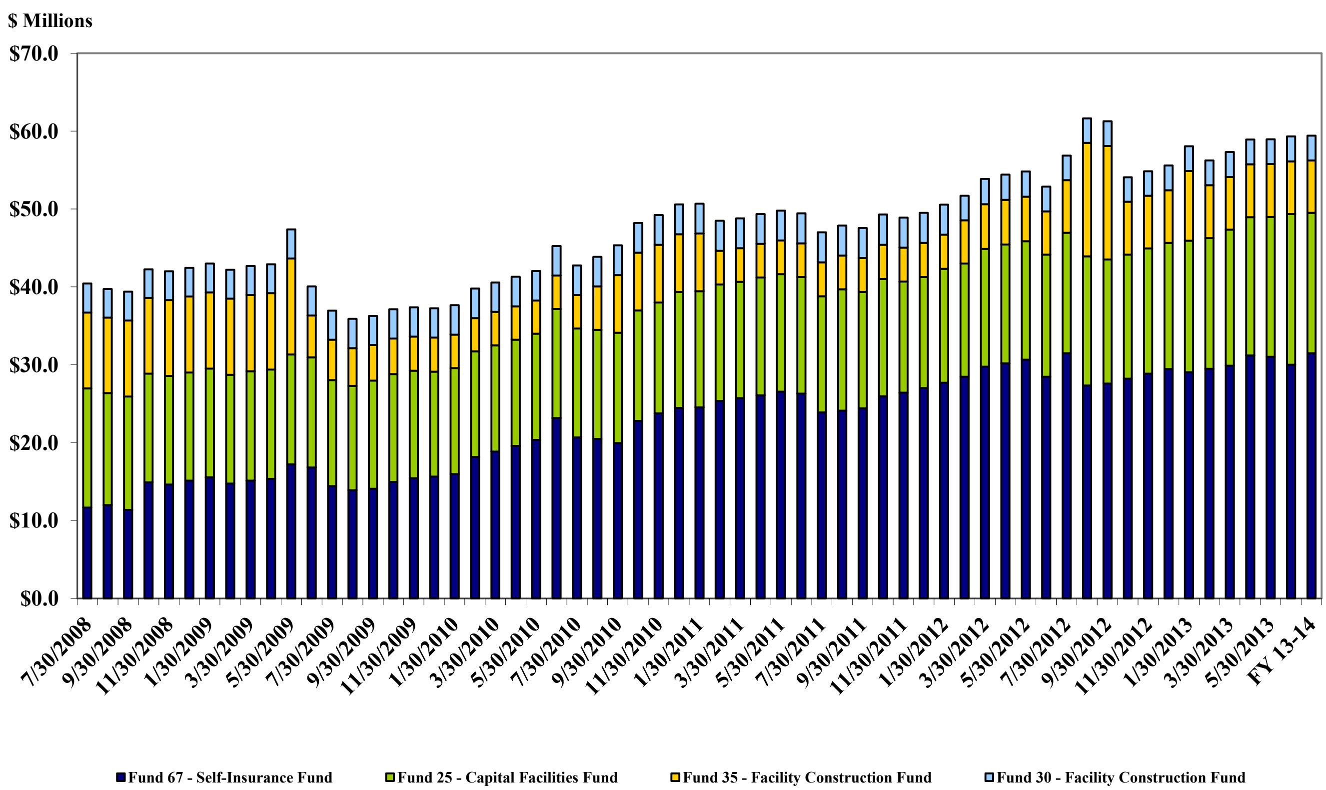
San Francisco Unified School District
Interfund Borrowing Capacity by Fund
(75% of Maximum Borrowable Resources)
Fiscal Years 2008-09 through 2013-14
(Amounts in Millions)

	2008-09	2009-10	2010-11	2011-12	2012-13	2013-14
Capital Facility (Fund 25)	$15.30	$14.00	$15.13	$15.67	$19.35	$18.00
Facility Construction (Fund 30)	3.74	3.80	3.86	3.89	3.19	3.15
Facility Construction (Fund 35)	12.34	5.20	7.42	5.72	14.58	6.75
Self Insurance (Fund 67)	17.24	23.17	26.54	30.65	31.20	31.50
Total	$48.62	$46.17	$52.95	$55.93	$68.32	$59.40

The following chart sets forth certain monthly balances of the largest funds comprising the District's Interfund Borrowing Capacity.



Cash Flow Projections and Assumptions

General. As described further below, the projected General Fund cash flow for Fiscal Year 2013-14 reflects:

(1) the estimated beginning cash balance for Fiscal Year 2013-14;

(2) the District's budget for Fiscal Year 2013-14; and

(3) the estimated Education Protection Account (defined below) receipts and cash deferrals pursuant to the State's cash management plan. See "—State Cash Management Plan and District Impacts" herein.

Estimated Beginning Cash Balance for Fiscal Year 2013-14. In connection with the District's updated actual and projected General Fund monthly cash through June 2013, the District projects that it will end Fiscal Year 2012-13 with a cash balance of about $17.1 million in the General Fund. Accordingly, the District estimates that the beginning cash balance for Fiscal Year 2013-14 will be $17.1 million.

Projected Fiscal Year 2013-14 Cash Flows Reflect District Budget and Certain Adjustments. The District's Board adopted the District's budget for Fiscal Year 2013-14 (the "Fiscal Year 2013-14 District Budget") on June 25, 2013. See "APPENDIX A – DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION—DISTRICT FINANCIAL INFORMATION—Proposed 2013-14 State Budget," "—2013-14 May Revision" and "—Changes in the 2013-14 State Budget from the 2013-14 May Revision Affecting K-12 School Districts" attached hereto. The District's cash flows for Fiscal Year 2013-14 reflect the actions taken in order to balance the District's Fiscal Year 2013-14 District Budget but also reflect the District's portion of the cash deferrals described in " – State Cash Management Plan and District Impacts" herein.

State Cash Management Plan and District Impacts. Pursuant to State law, the State may defer certain principal apportionment payments from the general fund of the State ("State Aid") to school and community college districts at various times within a fiscal year ("Intra-Fiscal Year Deferrals") and from one fiscal year to a subsequent fiscal year ("Cross-Fiscal Year Deferrals" and, together with the Intra-Fiscal Year Deferrals, the "State Aid Deferrals") in order to manage the State's cash flow. These State Aid Deferrals have deferred $8.0 billion of intra-fiscal year payments to K-12 districts in Fiscal Year 2012-13 and resulted in cross-fiscal year deferred payments totaling $7.4 billion into Fiscal Year 2013-14. These deferrals have created cash flow shortages for certain K-12 districts which have required an increased level of financing from cash flow borrowings. The State's enacted budget for Fiscal Year 2013-14 (the "2013-14 State Budget") pays down about $927 million of current Cross Fiscal-Year Deferrals into Fiscal Year 2014-15 and projects that the remaining accrued deferrals will be paid down by the end of Fiscal Year 2016-17. See "APPENDIX A – DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION—DISTRICT FINANCIAL INFORMATION—Proposed 2013-14 State Budget," "—2013-14 May Revision" and "—Changes in the 2013-14 State Budget from the 2013-14 May Revision Affecting K-12 School Districts" attached hereto.

For school districts that receive State Aid, the State will impose monthly Intra-Fiscal Year Deferrals in Fiscal Year 2013-14 in the aggregate statewide amount of $464 million per month, or $1.342 billion per quarter. These deferrals comprise the amounts related to the operation of the Education Protection Account created by Proposition 30 (the "Education Protection Account") for Fiscal Year 2013-14. The State projects that Education Protection Account revenues will be approximately $5.572 billion in Fiscal Year 2013-14, which amount will be distributed to school districts in equal quarterly amounts of about $1.342 billion. Schools will defer the monthly receipt of EPA funds from State Aid until the funds are distributed.

The District does not expect to receive State Aid in Fiscal Year 2013-14, with its revenue limit sources being comprised solely of property taxes and Education Protection Account receipts. The District is not subject to the Intra-Fiscal Year Deferrals and only about $2.0 million of Cross Fiscal Year Deferrals in Fiscal Year 2013-14 because the District's local property taxes are such a high percentage of the Local Control Funding Formula (the "LCFF," as defined in Appendix A hereto).

The tables below set forth the District's actual and projected cash flows for Fiscal Year 2012-13 and the projected cash flows for Fiscal Year 2013-14. The tables following the cash flows summarize the major variances in the cash flows between: (i) Fiscal Year 2012-13 actuals and projected figures and Fiscal Year 2012-13 projected figures at the time the District issued its 2012-13 Series A Notes; and (ii) Fiscal Year 2013-14 projected figures and Fiscal Year 2012-13 actuals and projected figures.

For detailed information regarding estimated monthly cash flow and debt service coverage on the Series A Notes at each respective pledge date and at maturity of the Series A Notes, see the "Fiscal Year 2013-14 Projected General Fund Cash Flows" table herein.

The estimates of amounts and timing of receipts and disbursements in the cash flow tables are based on certain assumptions and should not be construed as statements of fact. The assumptions are based on present circumstances and currently available information and are believed to be reasonable. The assumptions may be affected by numerous factors and there can be no assurance that such estimates will actually be achieved.

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SAN FRANCISCO UNIFIED SCHOOL DISTRICT
FISCAL YEAR 2012-2013
ACTUAL AND PROJECTED GENERAL FUND CASH FLOWS
(Amounts in $ Thousands)

	July 2012 (Actual)	Aug. 2012 (Actual)	Sept. 2012 (Actual)	Oct. 2012 (Actual)	Nov. 2012 (Actual)	Dec. 2012 (Actual)	Jan. 2013 (Actual)	Feb. 2013 (Actual)	Mar. 2013 (Actual)	Apr. 2013 (Actual)	May 2013 (Actual)	June 2013 (Projected)	2012-13 Total (Projected)
Beginning Balance (unaudited)	$11,375	$22,845	$73,627	$46,110	$24,699	$9,203	$123,516	$51,389	$29,533	$5,657	$9,228	$3,396	$11,375
Revenue Limit:													
State Aid	–	(200)	(1,080)	(481)	(891)	(1,605)	(891)	(460)	(265)	(135)	–	(4,111)	$(10,119)
Education Protection Account	–	–	–	–	–	–	–	–	–	–	–	45,832	45,832
Property Taxes	–	(2,879)	(1,311)	(1,307)	7,129	119,848	(465)	(952)	(1,536)	68,068	(995)	42,020	227,621
Federal Revenues	1,096	866	2,234	948	1,036	5,827	4,443	2,285	593	1,061	7,994	21,300	49,684
Other State Revenues	67	9,923	8,199	17,344	8,862	36,014	11,937	5,585	2,539	4,941	271	15,586	121,268
Other Local Revenues	767	2,098	5,859	515	11,883	4,702	33,637	3,664	3,172	2,636	3,057	5,881	77,871
Rainy Day Reserve	–	–	–	–	–	–	–	–	6,270	–	–	1,500	7,770
Parcel Tax (Prop A, 2009)	–	–	–	–	–	19,190	–	–	–	14,652	–	729	34,572
TRANs/Temporary Borrowing	–	85,000	–	–	–	–	–	–	–	–	25,000	–	85,000
	$1,930	$94,809	$13,900	$17,018	$28,020	$183,977	$48,661	$10,122	$10,773	$91,224	$35,327	$128,738	$639,499
Certificated Salaries	4,624	18,455	19,836	19,115	19,936	19,222	19,299	19,569	19,584	19,422	20,438	35,091	234,592
Classified Salaries	4,378	4,952	5,674	5,780	5,710	6,190	7,871	5,733	5,763	5,641	5,831	8,139	71,662
Employee Benefits	3,757	8,920	9,795	9,767	9,782	9,779	10,971	9,750	9,884	10,014	10,172	13,840	116,431
Supplies & Services	435	4,276	4,728	3,981	5,398	4,534	6,849	5,629	7,229	6,658	9,162	22,000	80,879
Capital Outlays	–	–	27	–	7	13	85	25	25	24	78	703	987
Other Outgo (Charter Schools)	–	1	121	577	292	332	558	560	1,495	914	145	2,847	7,842
Indirect Costs	(228)	(228)	(228)	(228)	(228)	(223)	(223)	(223)	(223)	(223)	(223)	(259)	(2,740)
Interfund Transfers Out/Repay Temporary Borrowing	7,872	6,697	6,697	6,749	6,492	4,992	6,413	5,200	5,300	7,114	5,300	29,664	73,491
Deposit to Repayment Fund (Interest)	–	–	–	–	–	–	–	–	–	1,421	–	–	1,421
Deposit to Repayment Fund (Principal)	–	–	–	–	–	–	42,500	–	–	42,500	–	–	85,000
	$20,837	$43,073	$46,650	$45,741	$47,387	$44,839	$94,323	$46,244	$49,057	$93,485	$50,902	$112,027	$669,566
Increase (Decrease) in:													
Accounts Receivable	(39,816)	(6,833)	(4,028)	(11,161)	(1,083)	23,601	25,203	(13,993)	(14,288)	(6,904)	(8,520)	22,000	(35,820)
Accounts Payable	(9,439)	(7,787)	1,205	(3,849)	2,789	(1,224)	(1,262)	272	120	(1,071)	1,223	19,000	(21)
Ending Cash Balance	$22,845	$73,627	$46,110	$24,699	$9,203	$123,516	$51,389	$29,533	$5,657	$9,228	$3,396	$17,107	$17,107

SAN FRANCISCO UNIFIED SCHOOL DISTRICT
FISCAL YEAR 2012-2013
PROJECTED CASH FLOWS AT THE TIME
THE FISCAL YEAR 2012-13 TAX AND REVENUE ANTICIPATION NOTES WERE ISSUED
(Amounts in $ Thousands)

	July 2012 (Projected)	Aug. 2012 (Projected)	Sept. 2012 (Projected)	Oct. 2012 (Projected)	Nov. 2012 (Projected)	Dec. 2012 (Projected)	Jan. 2013 (Projected)	Feb. 2013 (Projected)	Mar. 2013 (Projected)	Apr. 2013 (Projected)	May 2013 (Projected)	June 2013 (Projected)	2012-13 Total (Projected)
Beginning Balance (unaudited)	$50,434	$44,850	$117,240	$95,420	$56,747	$18,275	$134,562	$59,645	$50,024	$19,369	$68,266	$37,774	$50,434
Revenue Limit:													
State Aid	$48	$263	$1,111	$559	$860	$860	$1,556	$0	$0	$0	$0	$23,044	$28,301
State Aid Trigger if Election Fails	$0	–	–	–	–	–	–	(3,660)	(3,660)	(3,660)	(3,660)	(7,840)	(22,480)
Property Taxes	–	–	(3,900)	(1,200)	(1,300)	114,000	–	–	–	100,000	–	23,427	231,027
Federal Revenues	300	2,800	3,800	1,100	1,200	1,688	960	2,400	11,000	6,000	7,000	13,226	51,474
Other State Revenues	7,000	10,700	10,800	6,700	7,300	10,000	12,000	13,000	6,000	10,000	8,000	13,311	114,811
Other Local Revenues	2,400	700	8,000	2,700	3,100	12,000	2,600	13,500	3,500	10,500	3,000	9,734	71,734
Rainy Day Reserve	–	–	–	–	–	–	–	6,270	–	–	–	–	6,270
Parcel Tax (Prop A, 2009)	–	–	–	–	–	19,000	–	–	–	15,572	–	–	34,572
TRANs Net Proceeds	–	86,159	–	–	–	–	–	–	–	–	–	–	86,159
	$9,748	$100,622	$19,811	$9,859	$11,160	$157,548	$17,116	$31,510	$16,840	$138,412	$14,340	$74,903	$601,869
Certificated Salaries	$4,600	$18,000	$19,000	$19,000	$19,000	$19,000	$21,000	$19,000	$19,000	$19,000	$19,000	$34,990	$230,590
Classified Salaries	2,600	8,000	5,300	8,000	5,200	5,200	5,200	5,200	5,200	5,200	5,200	9,232	69,532
Employee Benefits	2,100	7,900	10,000	13,000	10,000	10,000	10,000	10,000	10,000	10,000	10,000	13,994	116,994
Supplies & Services	800	1,100	5,600	3,000	4,500	8,000	6,000	4,000	7,500	6,000	7,000	17,366	70,866
Capital Outlays	33	33	33	33	33	33	33	33	33	33	33	33	401
Other Outgo (Charter Schools)	422	422	422	422	422	422	422	422	422	422	422	422	5,060
Indirect Costs	(223)	(223)	(223)	(223)	(223)	(223)	(223)	(223)	(223)	(223)	(223)	(223)	(2,679)
Interfund Transfers Out	6,000	5,000	5,000	7,000	15,000	500	4,000	4,000	4,000	4,000	4,000	14,380	72,880
Deposit to Repayment Fund (Interest)	–	–	–	–	–	–	–	–	–	1,421	–	–	1,421
Deposit to Repayment Fund (Principal)	–	–	–	–	–	–	42,500	–	–	42,500	–	–	85,000
	$16,332	$40,232	$45,132	$50,232	$53,932	$42,932	$88,932	$42,432	$45,932	$88,353	$45,432	$90,194	$650,065
Increase (Decrease) in:													
Accounts Receivable	(15,000)	(14,000)	(5,000)	(4,000)	(3,000)	(770)	100	(1,000)	33	(338)	(400)	45,000	1,625
Accounts Payable	(14,000)	(2,000)	(1,500)	(2,300)	1,300	900	(3,000)	300	(1,530)	(1,500)	200	46,000	22,870
Ending Cash Balance	$44,850	$117,240	$95,420	$56,747	$18,275	$134,562	$59,645	$50,024	$19,369	$68,266	$37,774	$23,483	$23,483

SAN FRANCISCO UNIFIED SCHOOL DISTRICT
FISCAL YEAR 2013-2014
PROJECTED GENERAL FUND CASH FLOWS
(Amounts in $ Thousands)

	July 2013 (Projected)	Aug. 2013 (Projected)	Sept. 2013 (Projected)	Oct. 2013 (Projected)	Nov. 2013 (Projected)	Dec. 2013 (Projected)	Jan. 2014 (Projected)	Feb. 2014 (Projected)	Mar. 2014 (Projected)	Apr. 2014 (Projected)	May 2014 (Projected)	June 2014 (Projected)	2013-14 Total (Projected)
Beginning Balance (unaudited)	$17,107	$3,627	$59,897	$43,828	$27,476	$4,885	$130,352	$54,203	$40,620	$23,056	$79,525	$52,026	$17,107
LCFF Funding Formula:													
State Aid	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0	$0
Education Protection Account	–	–	13,785	–	–	13,785	–	–	13,785	–	–	13,785	55,140
Property Taxes	–	(2,600)	(1,300)	(1,300)	(1,300)	128,000	(1,300)	(1,300)	(1,300)	100,000	–	10,021	227,621
Federal Revenues	1,000	1,000	2,000	1,000	1,000	6,000	1,000	2,400	3,000	6,000	5,000	3,075	32,475
Other State Revenues	100	10,000	8,000	17,000	9,000	36,000	11,000	5,000	3,000	9,000	5,000	15,513	128,613
Other Local Revenues	767	2,098	5,859	515	11,883	4,392	25,000	3,600	3,500	10,500	3,000	30,171	101,285
Rainy Day Reserve	–	–	–	–	–	–	–	5,827	–	–	–	–	5,827
Parcel Tax (Prop A, 2009)	–	–	–	–	–	19,500	–	–	–	17,765	–	–	37,265
TRANs/Temporary Borrowing	–	91,040	–	10,000	–	–	–	–	–	–	–	–	101,040
	$1,867	$101,538	$28,344	$27,215	$20,583	$207,677	$35,700	$15,527	$21,985	$143,265	$13,000	$72,565	$689,265
Certificated Salaries	$5,000	$19,500	$19,500	$19,500	$19,500	$19,500	$19,500	$19,500	$19,500	$19,500	$19,500	$42,100	$242,100
Classified Salaries	4,500	5,000	5,700	5,700	5,700	7,800	5,700	5,700	5,700	5,700	5,700	10,168	73,068
Employee Benefits	3,800	9,000	9,800	9,800	9,800	11,000	9,800	9,800	9,800	9,800	9,800	17,800	120,000
Supplies & Services	480	4,300	4,800	4,000	5,400	4,600	6,800	4,500	7,500	6,000	8,500	14,817	71,697
Capital Outlays	–	–	25	–	7	13	82	82	82	82	82	253	708
Other Outgo (Charter Schools)	–	–	120	600	300	330	600	560	1,500	900	150	2,433	7,493
Indirect Costs	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(233)	(2,792)
Interfund Transfers Out/Repay Temporary Borrowing	7,800	6,700	6,700	6,700	6,500	15,000	6,400	5,200	5,200	5,200	5,200	10,881	87,481
Deposit to TRANs Repayment Fund (Interest)	–	–	–	–	–	–	–	–	–	1,346	–	–	1,346
Deposit to TRANs Repayment Fund (Principal)	–	–	–	–	–	–	45,000	–	–	45,000	–	–	90,000
	$21,347	$44,267	$46,412	$46,067	$46,974	$58,010	$93,649	$45,109	$49,049	$93,296	$48,699	$98,219	$691,101
Increase (Decrease) in:													
Accounts Receivable	(15,000)	(5,000)	(4,000)	(2,000)	(1,000)	23,000	17,000	(13,000)	(12,000)	(5,000)	(8,000)	14,000	(11,000)
Accounts Payable	(9,000)	(6,000)	(2,000)	500	2,800	(1,200)	(1,200)	3,000	(2,500)	1,500	200	19,000	5,100
Ending Cash Balance	$3,627	$59,897	$43,828	$27,476	$4,885	$130,352	$54,203	$40,620	$23,056	$79,525	$52,026	$31,371	$31,371
Coverage Factors							2.20			2.72			1.34
Coverage Factor Assuming $59.4 Million of Interfund Borrowing Capacity (75% of gross capacity)							3.55			4.02			2.01

SAN FRANCISCO UNIFIED SCHOOL DISTRICT
EXPLANATION OF VARIANCES
Fiscal Year 2012-13 Actuals/Projected Less Fiscal Year 2012-13 as Projected at the Time of the TRANs in August 2012
(Amounts in $ Thousands)

ITEM	VARIANCE	EXPLANATION
BEGINNING BALANCE	($39,059)	At the time of last year's TRANs, the District estimated that cash would decline to about $50.4 million at the of Fiscal Year 2011-12 versus the beginning of that year, largely due to repayment to the State of prior years' State Aid overpayments and some deficit spending. However, cash actually fell to about $11.4 million as a result of larger variances in accounts receivable and payable in Fiscal Year 2011-12 than expected. Thus, the beginning cash balance for Fiscal Year 2012-13 was lower than expected.
RECEIPTS:		
Revenue Limit		
State Aid	($38,420)	Reflects aggregate apportionment deferrals that were imposed per the 2012-13 State Budget trailer bill, but were repaid in June 2013 from the Education Protection Account.
Education Protection Account/ State Aid Trigger Cuts if Election Fails	68,312	District had assumed imposition of $22.5 million of trigger cuts at the time of the TRANs, but they did not occur because Proposition 30 was approved by voters. In addition, the District received $45.8 million of Education Protection Account fund in June 2013.
Property Taxes	(3,406)	Relatively minor variance.
Federal Revenues	(1,791)	Relatively minor variance.
Other State Revenues	6,457	Relatively minor variance.
Other Local Revenues	6,137	District received higher sales tax revenues and other local revenues in Fiscal Year 2012-13 than expected.
Rainy Day Reserve	1,500	After the fiscal year started, the City put an additional $6.0 million in the Rainy Day Reserve; the District then drew its 25% portion.
Parcel Tax (Prop. A, 2008)	0	No variance.
TRANs/Temporary Borrowing	23,841	Primarily reflects $25.0 million of temporary borrowing undertaken in May 2013.
TOTAL RECEIPTS	$62,630	
DISBURSEMENTS:		
Certificated Salaries	$ 4,002	Primarily reflects elimination of furlough days after Proposition 30 passed.
Classified Salaries	2,130	Primarily reflects elimination of furlough days after Proposition 30 passed.
Employee Benefits	(562)	Minor variance.
Supplies & Services	10,013	Reflects the expenditure of carryover balances not anticipated at the time of last year's TRANs. District is conservatively projecting the June 2013 expenditures.
Capital Outlays	586	Minor variance.
Other Outgo (Charter Schools)	2,782	Relatively minor variance.
Indirect Costs	(61)	Minor variance.
Interfund Transfers Out/Repay Temporary Borrowing	25,160	Primarily reflects repayment in June 2013 of $25.0 million of temporary borrowing undertaken in May 2013.
Deposit to Repayment Fund (Interest)	0	No variance.
Deposit to Repayment Fund (Principal)	0	No variance.
TOTAL DISBURSEMENTS	$44,500	
Increase (Decrease) in:		
Accounts Receivable	($37,445)	Reflects the offset of the increased Accounts Receivable in June 2012, as most of the cash came in in July 2012.
Accounts Payable	(22,891)	Primarily reflects reduced Accounts Payable estimates for June 2013.
ENDING BALANCE	($6,376)	Reflects the net change of the above line items.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Fiscal Year 2013-2014 Projections Less Fiscal Year 2012-2013 Actuals/Projected
(Amounts in $ Thousands)

ITEM	VARIANCE	EXPLANATION
BEGINNING BALANCE	$ 5,732	
RECEIPTS:		
LCFF Funding Formula/Revenue Limit		
State Aid	10,119	There is no State Aid transferred to the County Office under the LCFF when compared to the prior fiscal year.
Education Protection Account	9,308	Reflects part of the additional funding coming from the LCFF in Fiscal Year 2013-14.
Local Control Funding Formula		District has projected flat property taxes for the current fiscal year.
Federal Revenues	(17,209)	The District will not budget certain Federal grants such as the School Improvement Grant until the funds are received after the federal fiscal year begins on October 1, 2013. At that time, the District will budget corresponding expenditures.
Other State Revenues	7,345	Primarily reflects receipt of $10.3 million of Common Core State Standards funding net of small reductions in other State programs.
Other Local Revenues	23,414	Primarily reflects an increase in Proposition H revenues due to a stronger budget position of the City versus prior years when the formula for said revenues was impacted by the weaker City budget parameters.
Rainy Day Reserve	(1,943)	Reflects budgeted Rainy Day Reserve amount being slightly reduced from the prior year.
Parcel Tax (Prop. A, 2008)	2,693	Reflects an increase from the prior year due to the CPI adjustment.
TRANs/Temporary Borrowing	(8,960)	Reflects larger TRANs size in 2013 and $10.0 million of temporary borrowing in October versus the prior year.
TOTAL RECEIPTS	$24,766	
DISBURSEMENTS:		
Certificated Salaries	$ 7,508	Reflects an anticipated increase in positions due to additional LCFF funding.
Classified Salaries	1,406	Relatively minor variance.
Employee Benefits	3,569	Reflects the impact of additional certificated positions being added in the current fiscal year.
Supplies & Services	(9,183)	Expenditures on certain Federal grant programs will not be budgeted until the federal fiscal year starts on October 1, 2013.
Capital Outlays	(279)	Minor variance.
Other Outgo (Charter Schools)	(348)	Minor variance.
Indirect Costs	(52)	Minor variance.
Interfund Transfers Out/Repay Temporary Borrowing	(11,009)	Primarily reflects repayment in December 2013 of temporary borrowing undertaken in October 2013.
Deposit to TRANS Repayment Fund (Interest)	(75)	Minor variance.
Deposit to TRANs Repayment Fund (Principal)	5,000	Reflects larger TRANs size in 2013 versus the prior year.
TOTAL DISBURSEMENTS	($ 3,464)	
Increase (Decrease) in:		
Accounts Receivable	24,820	District expects a small negative balance in Accounts Receivable at the end of Fiscal Year 2013-14 versus the prior fiscal year.
Accounts Payable	5,121	Reflects relatively stable Accounts Payable patterns for Fiscal Year 2013-14 compared to the prior fiscal year.
ENDING BALANCE	$14,264	Reflects the net change of the above line items

RISK FACTORS

The purchase and ownership of the Series A Notes involves certain investment risks that are discussed throughout this Official Statement. Accordingly, each prospective purchaser of the Series A Notes (or a beneficial interest therein) should make an independent evaluation of all of the information presented in this Official Statement in order to make an informed investment decision. Some of the risks that could affect the Series A Notes and the financial condition of the District are described below.

State Budget

The District receives a significant portion of its General Fund Revenues from non-revenue limit funds apportioned or controlled by the State. As a result, decreases in or deferrals of State revenues, or in State legislative appropriations made to fund education, may significantly affect District operations. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES—Cash Flow Projections and Assumptions" herein and "APPENDIX A – DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION—DISTRICT FINANCIAL INFORMATION—State Budget—General Overview."

Seismic Considerations

Like most regions in the State, the City is subject to unpredictable seismic activity. A number of known faults run through the City, and the City lies near the San Andreas Fault. An earthquake may significantly affect District operations and reduce the *ad valorem* property tax portion of the District's revenue limit because of a decline in assessed valuation. The District does not maintain insurance for earthquake risks, relying on its general reserves and the expectation that funds will be available from the Federal Emergency Management Agency ("FEMA") to repair damaged school facilities. There is no guarantee that sufficient reserves or FEMA assistance would be available in the event of a major seismic event in the San Francisco Bay Area.

TAX MATTERS

General

In the opinion of Sidley Austin LLP, San Francisco, California, Note Counsel, based on existing statutes, regulations, rulings and judicial decisions and assuming compliance with certain covenants in the Resolution and other documents pertaining to the Series A Notes and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), regarding the use, expenditure and investment of proceeds of the Series A Notes and the timely payment of certain investment earnings to the United States, interest on the Series A Notes is not includable in the gross income of the owners of the Series A Notes for federal income tax purposes. Failure to comply with such covenants and requirements may cause interest on the Series A Notes to become included in the gross income of such owners for federal income tax purposes retroactive to the date of issuance of the Series A Notes.

In the further opinion of Note Counsel, interest on the Series A Notes is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Series A Notes, however, is included as an adjustment in calculating federal corporate alternative minimum taxable income and may therefore affect a corporation's alternative minimum tax liability.

Ownership of, or the receipt of interest on, tax-exempt obligations may result in collateral tax consequences to certain taxpayers, including, without limitation, financial institutions, property and casualty insurance companies, certain foreign corporations doing business in the United States, certain S corporations with excess passive income, individual recipients of Social Security or Railroad Retirement benefits, taxpayers that may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations and taxpayers who may be eligible for the earned income tax credit. Note Counsel expresses no opinion with respect to any collateral tax consequences and, accordingly, prospective purchasers of the Series A Notes should consult their tax advisors as to the applicability of any collateral tax consequences.

Certain requirements and procedures contained or referred to in the Resolution and other documents pertaining to the Series A Notes may be changed, and certain actions may be taken or not taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. Note Counsel expresses no opinion as to the effect of any change to any document pertaining to the Series A Notes or of any action taken or not taken where such change is made or action is taken or not taken without the approval of Sidley Austin LLP or in reliance upon the advice of counsel other than Sidley Austin LLP with respect to the exclusion from gross income of the interest on the Series A Notes for federal income tax purposes.

Sale at Premium

The Series A Notes will be purchased in the initial public offering for an amount in excess of their principal amount. The excess of the tax basis of a purchaser of a Series A Note (other than a purchaser who holds a Series A Note as inventory, stock in trade or for sale to customers in the ordinary course of business) over the principal amount of such Series A Note is "bond premium." Bond premium is amortized for federal income tax purposes over the term of a Series A Note based on the purchaser's yield to maturity in the Series A Note. A purchaser of a Series A Note is required to decrease his or her adjusted basis in such Series A Note by the amount of such amortized bond premium. The amortization of bond premium is not deductible for federal income tax purposes. Purchasers of the Series A Notes should consult their tax advisors with respect to the precise determination for federal income tax purposes of the amount of amortization of bond premium in each taxable year, and the effect of bond premium on the sale or other disposition of a Series A Note, and with respect to the state and local tax consequences of owning and disposing of a Series A Note.

Information Reporting and Backup Withholding

Interest paid on tax-exempt obligations is subject to information reporting in a manner similar to interest paid on taxable obligations. While this reporting requirement does not, by itself, affect the excludability of interest from gross income for federal income tax purposes, the reporting requirement causes the payment of interest on the Series A Notes to be subject to backup withholding if such interest is paid to beneficial owners that (a) are not "exempt recipients," and (b) either fail to provide certain identifying information (such as the beneficial owner's taxpayer identification number) in the required manner or have been identified by the IRS as having failed to report all interest and dividends required to be shown on their income tax returns. Generally, individuals are not exempt recipients, whereas corporations and certain other entities are exempt recipients. Amounts withheld under the backup withholding rules from a payment to a beneficial owner are allowed as a refund or credit against such beneficial owner's federal income tax liability so long as the required information is furnished to the IRS.

State Tax Exemption

In the further opinion of Note Counsel, interest on the Series A Notes is exempt from personal income taxes imposed by the State of California.

Future Developments

Future or pending legislative proposals, if enacted, regulations, rulings or court decisions may cause interest on the Series A Notes to be subject, directly or indirectly, to federal income taxation or to State or local income taxation, or may otherwise prevent beneficial owners from realizing the full current benefit of the tax status of such interest. Legislation or regulatory actions and future or pending proposals may also affect the economic value of the federal or State tax exemption or the market value of the Series A Notes. Prospective purchasers of the Series A Notes should consult their tax advisors regarding any future, pending or proposed federal or State tax legislation, regulations, rulings or litigation as to which Note Counsel expresses no opinion.

For example, various proposals have been made in Congress and by the President (the "Proposed Legislation"), which, if enacted, would subject interest on bonds that is otherwise excludable from gross income for federal income tax purposes, including interest on the Series A Notes, to a tax payable by certain bondholders that are individuals, estates or trusts with adjusted gross income in excess of thresholds specified in the Proposed Legislation. It is unclear if the Proposed Legislation will be enacted, whether in its current or an amended form, or if other legislation that would subject interest on the Series A Notes to a tax or cause interest on the Series A Notes to be included in the computation of a tax, will be introduced or enacted. Prospective purchasers should consult their tax advisors as to the effect of the Proposed Legislation, if enacted, in its current form or as it may be amended, or such other legislation, on their individual situations.

A copy of the proposed form of opinion of Note Counsel is attached hereto as APPENDIX C.

LEGAL OPINION

The issuance of the Series A Notes is subject to the approving opinion of Sidley Austin LLP, Note Counsel. A copy of the proposed form of opinion of Note Counsel is attached hereto as APPENDIX C. Sidley Austin LLP has also acted as Disclosure Counsel to the District. Certain legal matters will be passed upon for the District by the District's General Counsel. Neither Note Counsel nor Disclosure Counsel undertakes any responsibility for the accuracy, completeness or fairness of this Official Statement.

FINANCIAL ADVISOR

The District has retained Tamalpais Advisors, Inc. as Financial Advisor in connection with the execution and delivery of the Series A Notes and certain other financial matters. The Financial Advisor is not obligated to undertake and has not undertaken to make an independent verification of the accuracy, completeness or fairness of the information contained in this Official Statement. The Financial Advisor is an independent advisory firm and is not engaged in the businesses of underwriting, trading or distributing municipal securities or other negotiable instruments.

LEGAL MATTERS

No litigation is pending or threatened concerning the validity of the Series A Notes. In the opinion of the District, there are no lawsuits or claims pending against the District that would impair the ability of the District to repay the Series A Notes.

PURCHASE OF THE SERIES A NOTES

Pursuant to the terms of a public sale held on ______, 2013, ___________ (the "Original Purchaser") has agreed to purchase all of the Series A Notes from the District at the purchase price of $_______________ (which represents the principal amount of the Series A Notes plus an original issue premium of $_______________ and less purchaser's discount of $_______________).

The Original Purchaser will purchase all of the Series A Notes. The Original Purchaser may offer and sell the Series A Notes to certain dealers and others at prices or yields different from the initial public offering price or yield stated on the cover page of this Official Statement. The initial public offering price or yield may be changed from time to time by the Original Purchaser, as applicable.

CONTINUING DISCLOSURE

The District has covenanted for the benefit of the holders and beneficial owners of the Series A Notes to provide notices of the occurrence of certain listed events. The District will file these notices with the Municipal Securities Rulemaking Board through the Electronic Municipal Market Access (EMMA) website of the Municipal Securities Rulemaking Board. The information to be contained in the notices of enumerated events is set forth in "APPENDIX F – FORM OF CONTINUING DISCLOSURE CERTIFICATE." These covenants have been made in order to assist the Original Purchaser in complying with Securities and Exchange Commission Rule 15c2-12(b)(5) (the "Rule"). In the previous five years the District has not failed to comply in all material respects with any previous undertaking to provide information under the Rule.

FINANCIAL STATEMENTS

The financial statements of the District for the Fiscal Year ended June 30, 2012, certain sections of which are included in APPENDIX B to this Official Statement, have been audited by Vavrinek, Trine, Day & Co., LLP, independent certified public accountants, as stated in their report appearing in APPENDIX B. The District has not requested nor has the District obtained the consent of Vavrinek, Trine, Day & Co., LLP to the inclusion of certain sections of its report in APPENDIX B. Vavrinek, Trine, Day & Co., LLP, as the District's independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Vavrinek, Trine, Day & Co., LLP also has not performed any procedures relating to this Official Statement.

MISCELLANEOUS

Rating

The District has obtained a rating of "SP-1+" on the Series A Notes from Standard & Poor's Ratings Services, a Standard & Poor's Financial Services LLC business. Certain information was supplied by the District to the rating agency to be considered in evaluating the Series A Notes. The rating issued reflects only the views of the rating agency, and any explanation of the significance of such rating should be obtained from the rating agency. There is no assurance that such rating will be retained for any given period of time or that the same will not be revised downward or withdrawn entirely by the rating agency if, in its judgment, circumstances so warrant. Any such downward revision or withdrawal of the rating obtained may have an adverse effect on the market price of the Series A Notes.

Legality for Investment

Under the provisions of the State Financial Code, the Series A Notes are legal investments for commercial banks in the State.

Additional Information

The purpose of this Official Statement is to supply information to prospective buyers of the Series A Notes. Quotations from and summaries and explanations of the Series A Notes, the Resolution, statutes and documents contained herein do not purport to be complete, and reference is made to said documents and statutes for full and complete statements of their provisions. Copies of the Resolution and certain other documents relating to the issuance of the Series A Notes are available for inspection at the District by request to the Chief Financial Officer at (415) 241-6542.

Any statements in this Official Statement involving matters of opinion, whether or not expressly so stated, are intended as such and not as representations of fact. This Official Statement is not to be construed as a contract or agreement between the District and the purchasers or owners of any of the Series A Notes.

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Execution and Delivery

The District has duly authorized the execution and delivery of this Official Statement.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

By: ____

Chief Financial Officer

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APPENDIX A

DISTRICT FINANCIAL AND DEMOGRAPHIC INFORMATION

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The Notes are general obligations of the San Francisco Unified School District (the "District"), payable from the taxes, income, revenue, cash receipts and other moneys of the District received for the General Fund of the District during or attributable to the Fiscal Year 2013-14 and which are available for the payment of current expenses and other obligations of the District, but excluding moneys encumbered for a special purpose. Investors must read the entire Official Statement, including this Appendix A to obtain information essential to making an informed investment decision. This Appendix A provides information concerning the operations, finances and demographics of the District.

THE DISTRICT

Introduction

The San Francisco Unified School District has boundaries that are coterminous with the City and County of San Francisco. The District provides public education from Pre-Kindergarten through Grade 12. The District was established in 1851; however, the District has been a political subdivision of the State of California (the "State") since 1927. The administrative headquarters of the District are located at 555 Franklin Street, San Francisco, California.

The District operates 72 elementary and K-8 school sites, 13 middle schools, 18 senior high schools (including two continuation schools and an independent study school), and 34 State funded preschool sites. As of June 30, 2013, the District sponsored 13 independent charter schools; however, independent charter schools receive their funding directly from the State and function like independent agencies, including having control over their staffing and budget. For these reasons, information regarding enrollment, average daily attendance, budgets and other financial information relating to independent charter schools is not included in the District's audit reports or in this Official Statement. The District's enrollment for Fiscal Year 2012-13 is approximately 52,989. The administration and faculty reflects the diversified ethnicity of this cosmopolitan population. The District's Fiscal Year 2013-14 General Fund budget estimates a total of 8,496 full-time equivalent certified administrators, teachers, para-professionals and classified personnel at the District and the County Office of Education operated by the District.

Enrollment History

Enrollment figures for the District for Fiscal Years 2008-09 through 2013-14 are set forth below. Enrollment figures are affected by a number of factors, such as changes in enrollment in private schools and the decline of the number of families with school-age children in the City due to housing prices and the general overall cost of living in the San Francisco Bay Area, which is especially acute in the City. However, enrollment has been stable in the District in recent years.

Fiscal Year	District Schools(1)
2008-09	52,596
2009-10	52,992
2010-11	53,033
2011-12	52,900
2012-13	52,989(2)
2013-14	53,150(3)

(1) Includes elementary, middle and high school students. Excludes independent charter schools and students in County Office of Education programs.
(2) Source: California Basic Educational Data System (CBEDS).
(3) Estimated.

Source: The District.

Population

The population of the City reached approximately 812,538 as of January 1, 2012, as provided by the California Department of Finance. The City comprises the service area for the District.

The following table shows the recent population figures and per capita income for the City and the State for calendar years 2008 through 2012.

POPULATION AND INCOME
2008 through 2012

Year	City Population[1]	State Population[1]	City Per Capita Income[2]	State Per Capita Income[3]
2008	800,239	36,966,713	$62,475	$44,003
2009	804,989	37,223,900	57,036	41,034
2010	805,235	37,253,956	58,567	41,893
2011	808,768	37,427,946	61,395	43,647
2012	812,538	37,678,563	[4]	44,980

Sources: [1] As of January 1; State Department of Finance, Demographic and Finance Research Units.
[2] For 2008-2011: U.S. Department of Commerce Bureau of Economic Analysis; City per capita income information based on the San Francisco, Oakland, Fremont, CA Metropolitan Area.
[3] U.S. Department of Commerce Bureau of Economic Analysis.
[4] Not yet available.

Board of Education

The District is governed by a seven-member elected board (the "Board of Education"), whose members are elected to four-year terms. The terms are staggered in two-year intervals, thereby providing continuity of governance.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Board of Education

Name	Office	Term Expires
Rachel Norton	President	January 2017
Sandra Lee Fewer	Vice President	January 2017
Matt Haney	Member	January 2017
Kim-Shree Maufas	Member	January 2015
Hydra B. Mendoza	Member	January 2015
Emily M. Murase	Member	January 2015
Jill Wynns	Member	January 2017

Superintendent and Administrative Personnel

The Superintendent of Schools of the District (the "Superintendent") is appointed by and reports to the Board of Education. The Superintendent is responsible for management of the District's day-to-day operations and supervises the work of other key District administrators.

Following are brief professional biographical summaries of the Superintendent and certain key administrative personnel.

Richard A. Carranza, Superintendent. Richard A. Carranza was sworn in as the new superintendent of the District on June 27, 2012. Prior to that Mr. Carranza had held the position of Deputy Superintendent for Instruction, Innovation and Social Justice for the District since 2009, in which position he led the implementation of the District's equity focused strategic plan.

Prior to his work with the District, Mr. Carranza was Northwest Region Superintendent for the Clark County School District in Las Vegas, Nevada, where he oversaw 66 schools and over 66,000 students. Under his leadership the Northwest Region made significant strides towards improving student achievement including an increase in the number of middle schools and high schools making Adequate Yearly Progress (AYP) and double digit reductions in the percentage of special education and Limited English Proficient (LEP) students performing below proficiency levels in mathematics and language arts.

He has also served as a high school principal in Tucson, Arizona, and in Las Vegas, Nevada; high school assistant principal; and a teacher of bilingual social studies and music. Mr. Carranza earned a B.A. in Secondary Education from the University of Arizona and a M.Ed., with distinction, in Educational Leadership from Northern Arizona University. He has also completed doctoral coursework through Northern Arizona University and is currently pursuing an Ed.D degree through Nova Southeastern University in Educational Leadership.

Myong Leigh, Deputy Superintendent, Policy and Operations. Myong Leigh has been a District staff member since August 2000 and oversees most non-instructional operations that support District schools. Areas of responsibility under Mr. Leigh's supervision include policy development and implementation, business services, facilities, human resources, information technology, student nutrition, intergovernmental relations, and public engagement and communications. His work has focused in subject areas including financial planning and resource allocation, school site-based academic decision-making and budgeting, student assignment and desegregation, collective bargaining and labor relations, capital facilities planning, and transportation. Mr. Leigh's work involves interaction and collaboration with numerous staff members in the District including all school sites and every department.

Immediately prior to working for the District, Mr. Leigh served as the Budget Director for the District of Columbia Public Schools. Prior to working in urban K-12 education, he was a financial advisor to state and local governments on capital facilities financing and budgeting. His clients included the District of Columbia, the City of Philadelphia, the Virginia Public School Authority, the City of Norfolk, and Montgomery County, Maryland.

Mr. Leigh holds a Master in Public Policy degree from Harvard University's John F. Kennedy School of Government and a Bachelor of Science degree in Economics from the Wharton School of the University of Pennsylvania.

Donald Davis, Esq., General Counsel. Mr. Davis began work as the General Counsel of the District on January 10, 2012 from the Office of General Counsel of the Los Angeles Unified School District, where he had served for eleven years. Prior to that, he was a U.S. Marine Corps Officer, serving for 30 years, initially as an aviator and later as a judge advocate. He retired in 2001 as a Colonel. Mr. Davis holds a degree in broadcast journalism from the University of Southern California. He received his law degree at the University of Southern California and has been a member of the State Bar of California for nearly 35 years.

Joseph C. Grazioli, Chief Financial Officer. Mr. Grazioli joined the District in December, 2004 as Chief Financial Officer. He directs the general accounting, budget, payroll, contracts, and purchasing functions for the entire District. The District has an all-funds budget that exceeds $900 million.

Prior to assuming the position of Chief Financial Officer at the District, Mr. Grazioli served as Managing Director, Finance & Administration for the Western Region (the "Region") of Cushman & Wakefield, a leading global real estate firm. The Region's operations included over $200 million in revenue, with 22 offices in 9 states. Mr. Grazioli played a key role in the Region's expansion during his tenure.

Mr. Grazioli holds a Bachelor of Science degree in Business Administration from the University of San Francisco and a Master of Business Administration degree in Accounting from Golden Gate University.

Paulette Terrell, Director of Fiscal Services. Ms. Terrell is the Director of Fiscal Services and graduated from the University of Arkansas AM&N College with a Bachelor of Science degree in Business Administration with a minor in Accounting. She has earned several certificates for additional educational course work in income tax accounting, cost accounting, real estate management, government accounting and school business training and management. Before joining the District, Ms. Terrell held other positions in the private sector and federal government. During her tenure with these organizations, she served as an auditor and fiscal manager between 1971 and 1999 and as Director of Fiscal Services for the District since March 2000.

Reeta Madhavan, Director of Budget Services. Ms. Madhavan has been with the District since September, 2002, during which time she has assumed increasingly challenging responsibilities in the Budget Office. Ms. Madhavan has experience in both corporate and commercial real estate banking. She served as an Assistant Vice-President of Commercial Real Estate Lending and managed a portfolio of construction and leasehold improvement loans in excess of $300 million at a medium-sized bank in Cambridge, Massachusetts.

Ms. Madhavan holds a Master of Arts degree from the State University of New York at Stony Brook, and a Master of Business Administration degree with a major in Finance and Accounting from Babson College, Massachusetts.

Ms. Madhavan is a member of the Business Services Council of the Association of California School Administrators (ACSA), and continues to participate in professional development related to school finance and legislation affecting the education budget and funding for schools.

DISTRICT FINANCIAL INFORMATION

Certain statements included or incorporated by reference in this Appendix A constitute "forward-looking statements." Such statements are generally identifiable by the terminology used such as "plan," "expect," "estimate," "budget," "project," "projection" or other similar words. Such statements are subject to risks, uncertainties and other factors that may cause actual results, performance or achievements described to be materially different from those contemplated in such forward-looking statements. Any forecast is subject to such uncertainties. Inevitably, some assumptions used to develop the forecasts will not be realized and unanticipated events and circumstances may occur. Therefore, there are likely to be differences between forecasts and actual results, and those differences may be material.

State Funding of School Districts

Prior to the 2013-14 State Budget Act, Annual State apportionments of basic and equalization aid to K-12 school districts for general purposes were based on a revenue limit per unit of average daily attendance ("A.D.A."). If a district's total revenue limit exceeded its property tax revenue, its annual State apportionments, subject to certain adjustments, amounted to the difference between revenue limit and its *ad valorem* property tax receipts. A.D.A. is determined by school districts twice a year, in December ("First Period A.D.A.") and April ("Second Period A.D.A.").

The calculation of the amount of State apportionment a school district was entitled to receive each year was a multiple step process. First, the prior year Statewide revenue limit per A.D.A. was recalculated with certain adjustments for equalization and other factors. Second, this adjusted prior year Statewide revenue limit per A.D.A. was inflated according to formulas based on the implicit price deflator for government goods and services and the Statewide average revenue limit per A.D.A. for each type of A.D.A. (elementary, high school or adult). This yielded the school district's current year revenue limit per A.D.A. Third, the current year revenue limit per A.D.A. for each type of A.D.A. was applied to the school district's A.D.A. for either the current or prior year, as the district elected. Fourth, revenue limit adjustments known as "add-ons" were calculated for each school district if the school district qualified for such add-ons. There were, for example, add-ons to adjust for small school district size and for providing meals for needy pupils, among others. Finally, local *ad valorem* property tax revenues were deducted from the total revenue limit calculated for each district to arrive at the amount of State apportionment to which each school district was entitled for the current year.

The State revenue limit was calculated and recalculated three times a year for each school district on the basis of projections submitted by the district on or about December 10, based on First Period A.D.A., and April 15 and June 30, both based on Second Period A.D.A. Calculations were reviewed by each county office of education and submitted to the State Department of Education which reviewed the calculations for accuracy, calculated the amount of State apportionment owed to such school district, and notified the State Controller of the amount, which was then distributed to the school districts. The first calculation was performed for the First Principal Apportionment in February, the second calculation for the Second Principal Apportionment in June, and the final calculation for the end of fiscal year Annual Principal Apportionment was made in October of the next fiscal year.

The 2013-14 State Budget established a new funding formula for school districts and county offices of education, the Local Control Funding Formula (the "LCFF"), to increase local control and flexibility, reduce State bureaucracy and to ensure that student needs drive the allocation of resources. The LCFF replaces the prior revenue limit funding system and most categorical programs, and distributes combined resources to school districts through a base revenue limit funding grant ("Base Grant") per unit of A.D.A. with additional supplemental funding allocated to local educational agencies that serve English language learners and economically disadvantaged students, provide lower class sizes in grades K-3, or offer career technical education classes in high school. See "DISTRICT FINANCIAL INFORMATION—Proposed 2013-14 State Budget" and "—2013-14 May Revision" in this Appendix A for additional information regarding the LCFF. See "DISTRICT FINANCIAL INFORMATION—Revenue Limit, LCFF and State Categorical Program Sources" in this Appendix A for information on the District's annual revenue limit and LCFF formula funding per A.D.A.

Basic Aid Districts

In the event that a school district's *ad valorem* property tax revenue equals or exceeds its allocation under the LCFF, that school district retains all of its *ad valorem* property tax revenue in excess of its LCFF allocation. Such districts are commonly known as "Basic Aid Districts." The District is not a Basic Aid District. Its percentage of revenue limit entitlement from State Aid was only 14.2% in Fiscal Year 2012-13 and is projected to be 19.5% of the LCFF funding formula in Fiscal Year 2013-14.

Average Daily Attendance

Information concerning A.D.A. in the District for Fiscal Years 2008-09 through 2012-13 is set forth below.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Average Daily Attendance

Fiscal Year	District Schools(1)
2008-09	51,091
2009-10	51,445
2010-11	51,211(2)
2011-12	51,324
2012-13	51,227(3)
2013-14	51,350(3)

(1) Includes elementary, middle and high school students and students in County Office of Education programs. Excludes independent charter schools. These figures represent revenue limit A.D.A. for both District and County Office programs combined.

(2) The decline in A.D.A. from 2009-10 to 2010-11 is due to reporting for certain county programs no longer being required.

(3) Estimated.

Sources: The District's Annual Financial Reports for Fiscal Years 2008-09 through 2011-12; the District's 2012-13 Annual A.D.A.; and the District's Fiscal Year 2013-14 Adopted Budget.

State Budget – General Overview

As is true for all non-Basic Aid school districts in California, the District's operating income consists primarily of two components: (1) State apportionments funded from the State's general fund (the "State General Fund"), and (2) property tax revenue derived from the District's share of the 1% local *ad valorem* property tax authorized by the State Constitution (the "1% Levy"). School districts also receive revenue from federal programs and the State lottery and may be eligible for other special State "categorical funding" for certain programs. Decreases in State revenues, or in State legislative appropriations made to fund education, may significantly affect District operations as revenue limit sources and other State revenues are expected to comprise approximately 67.9% of District revenues for Fiscal Year 2012-13, as projected in the District's Fiscal Year 2013-14 District Budget. The LCFF, as adopted by the 2013-14 State Budget fundamentally alters the method of state funding for schools. See "DISTRICT FINANCIAL INFORMATION—Proposed 2013-14 State Budget," "—2013-14 May Revision" and "—Changes in the 2013-14 State Budget from the 2013-14 May Revision Affecting K-12 School Districts" in this Appendix A for additional information regarding the LCFF.

The following discussion of the State's budget has been obtained from publicly available information which the District believes to be reliable; however none of the District, its counsel (including Disclosure Counsel), or the Financial Advisor guarantees the accuracy or completeness of this information and none of such entities has independently verified such information. Additional information regarding State budgets is available at various State-maintained websites, including www.dof.ca.gov. These websites are not incorporated herein by reference and none of the District, its counsel (including Disclosure Counsel) or the Financial Advisor makes any representation as to the accuracy of the information provided therein.

The State Budget Process. The State's Fiscal Year begins on July 1 and ends on June 30. According to the State Constitution, the Governor is required to propose a budget for the next fiscal year to the State Legislature no later than January 10 of each year, a final budget must be adopted by a simple majority of each house of the State Legislature no later than June 15 and the Governor must sign the adopted budget by no later than June 30. The budget becomes law upon the signature of the Governor.

Under State law, the annual proposed Governor's Budget cannot provide for projected expenditures in excess of projected revenues and balances available from prior fiscal years. Following the submission of the Governor's Budget, the State Legislature takes up the proposal. Under the State Constitution, money may be drawn from the State Treasury only through an appropriation made by law. The primary source of the annual expenditure authorizations is the Budget Act as approved by the State Legislature and signed by the Governor. The Budget Act must be approved by a majority vote of each House of the State Legislature. The Governor may reduce or eliminate specific line items in the Budget Act or any other appropriations bill without vetoing the entire bill. Such individual line-item vetoes are subject to override by a two-thirds majority vote of each House of the State Legislature. Appropriations also may be included in legislation other than the Budget Act. Bills containing appropriations must be approved by a majority vote in each House of the State Legislature and be signed by the Governor. Continuing appropriations, available without regard to fiscal year, may also be provided by statute or the State Constitution. Funds necessary to meet an appropriation need not be in the State Treasury at the time such appropriation is enacted; revenues may be appropriated in anticipation of their receipt. However, delays in the adoption of a final State budget in any fiscal year may affect payments of State funds during such budget impasse. See "–State Funding of Schools Without a State Budget" herein for a description of payments of appropriations during a budget impasse.

Recent Financial Stress on State Budget. In 2008, the State began experiencing the most significant economic downturn and financial pressure since the Great Depression of the 1930s. As a result of continuing weakness in the State economy, State tax revenues declined precipitously, resulting in large budget gaps and cash shortfalls. In response to the severe economic downturn, the State implemented substantial spending reductions, program eliminations, revenue increases, and other solutions in order to close an estimated $60 billion budget gap over the combined 2008-09 and 2009-10 Fiscal Years and to close a combined budget gap of $26.6 billion for Fiscal Years 2010-11 and 2011-12. A number of budget assumptions in the 2011-12 Budget were not achieved and in May 2012, the Governor announced that the State was facing a budget deficit of $15.7 billion through June 30, 2013. On June 27, 2012, the Governor signed the State budget for Fiscal Year 2012-13 which the Governor projected would close the $15.7 billion deficit and provide a $1 billion reserve at June 30, 2013. In the 2013-14 State Budget released on June 27, 2013 (the "2013-14 State Budget"), the Governor now estimates a $254 million reserve at June 1, 2013 and a reserve of approximately $1.1 billion at June 30, 2014. See "–State Budget for Fiscal Year 2012-13."

Cash Management by State and Impact on Schools. To conserve cash in light of declining revenues, the State has enacted several statutes, including the voter-approved Proposition 30, that defer the payment of amounts owed to public schools, until a later date in the current, or in a subsequent, fiscal year. This technique has been used in all of the State's budget bills since Fiscal Year 2008-09. Some of these statutory deferrals were made permanent, and others were implemented only for one fiscal year. These deferrals have deferred $8.0 billion of intra-fiscal year payments to K-12 districts in Fiscal Year 2012-13 and resulted in cross-fiscal year deferred payments totaling about $7.4 billion in Fiscal Year 2012-13. These deferrals have created cash flow shortages for certain K-12 districts which have required an increased level of cash flow borrowings. The 2013-14 State Budget established cross fiscal-year deferrals in Fiscal Year 2013-14 totaling approximately $6.5 billion in Fiscal Year 2013-14 and projects to pay down entirely the remaining accrued cross-fiscal year deferrals by the end of Fiscal Year 2016-17. See "–Proposed 2013-14 State Budget" and "Changes in the 2013-14 State Budget from the 2013-14 May Revision Affecting K-12 School Districts" of this Appendix A for additional information on cross-fiscal year deferrals. The 2013-14 State Budget also imposed monthly intra-fiscal year deferrals in the aggregate statewide amount of $464 million or approximately $5.6 billion in Fiscal Year 2013-14, although these will be offset by even quarterly payments to schools from the Education Protection Account.

State Budget for Fiscal Year 2012-13

On June 27, 2012, the Governor signed into law the State budget for Fiscal Year 2012-13. Prior to the conclusion of the State's regular legislative session, the Legislature adopted a series of trailer bills which made various amendments to the budget bill approved by the Governor. Collectively, the budget bill and related trailer bills are referred to as the "2012-13 State Budget." The Legislative Analyst's Office (the "LAO") has released a report entitled "California Spending Plan," which summarizes provisions of the 2012-13 State Budget (the "LAO Budget Summary"). The following information is drawn from the LAO Budget Summary.

The 2012-13 State Budget sought to close a budget gap of $15.7 billion through a combination of measures totaling $16.4 billion. Specifically, the 2012-13 State Budget authorized $4.7 billion of expenditure reductions, $8.8 billion of net revenue increases, and $5.8 billion of other measures. The 2012-13 State Budget assumed voter approval of a modified tax initiative proposed by the Governor in his May revision to the proposed State budget. The tax initiative, labeled as "Proposition 30," was approved by the voters at the November 6, 2012 general election. The 2012-13 State Budget estimated that Proposition 30 would generate approximately $8.5 billion in additional revenues for Fiscal Years 2011-12 and 2012-13. Pursuant to the provisions of Proposition 30, these additional revenues will placed into an Education Protection Account and included in the calculation of the Proposition 98 minimum funding guarantee. As a result, the minimum funding guarantee was projected to increase by $2.9 billion for Fiscal Year 2012-13, resulting in a net benefit to the State general fund of $5.6 billion for such Fiscal year. See also "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS – Proposition 30."

With the implementation of all measures, the 2012-13 State Budget assumed, for Fiscal Year 2011-12, total revenues of $86.8 billion and expenditures of $87.0 billion. For Fiscal Year 2012-13, the 2012-13 State Budget projected total revenues of $95.9 billion and authorized total expenditures of $91.3 billion. This represents an increase of $9 billion of revenue, or approximately 10%, from the prior year.

The 2012-13 State Budget authorized an additional $6 billion of trigger reductions which were to become effective in the event Proposition 30 did not pass. The trigger reductions would have included approximately $5.4 billion of reductions to schools and community college funding.

For Fiscal Year 2011-12, the Proposition 98 minimum funding guarantee was revised at $46.9 billion, including $33.1 billion from the State general fund. This amount is approximately $1.7 billion less than the level set by the State budget for Fiscal Year 2011-12. This reduction primarily reflects lower than estimated State general fund revenues and updated estimates of local property tax collections, offset by Proposition 30 revenues attributable to Fiscal Year 2011-12. To bring ongoing Proposition 98 funding in line with the reduced funding guarantee, the 2012-13 State Budget redirected $893 million of Fiscal Year 2011-12 appropriations towards other uses.

Specifically, (i) $672 million is counted towards meeting legal settlement obligations under the Quality Education Investment Act of 2006, and (ii) $221 million replaces ongoing Proposition 98 funds with one-time funds unspent from prior years. The LAO noted that this accounting adjustment does not affect the amount of funding schools and community colleges receive.

For Fiscal Year 2012-13, the Proposition 98 minimum funding guarantee was set at $53.5 billion, including $36.8 billion from the State general fund. This funding level reflects an increase of $6.6 billion, or approximately 14%, from the prior year. The funding increase is supported by a $3.7 billion growth in baseline revenues and $2.9 billion of Proposition 30 revenues.

Proposition 98 funding for K-12 education for Fiscal Year 2012-13 was set at $47.2 billion, reflecting an increase of $6 billion (or 14%) above the revised 2011-12 level. Programmatic spending remained relatively flat, as most of the additional funding was designated for existing Proposition 98 obligations. The 2012-13 State Budget provided that $3.3 billion would be used to backfill one-time spending decisions made in Fiscal Year 2011-12, and $2.2 billion would be designated to pay down existing cross-fiscal year apportionment deferrals. The LAO also noted that other spending increases would have no net programmatic effect. The 2012-13 State Budget provided $110 million to more closely align K-12 and community college educational mandate funding, $99 million to complete the shift in responsibility for mental health services from county health agencies to schools, and $60 million for anticipated student growth in a few categorical programs.

Significant features relating to K-12 education funding include the following:

- *Deferral Reduction*. The 2012-13 State Budget provides $2.2 billion in Proposition 98 funding to reduce school district and community college apportionment deferrals.

- *Charter Schools*. The 2012-13 State Budget included several changes to existing law that provide charter schools with additional access to facility space and short-term cash. The plan included provisions that give charter schools priority to lease or purchase surplus school district property, and authorized county offices of education and county treasurers to provide short-term loans to charter schools. Charter schools are further authorized to issue their own tax and revenue anticipation notes or have their respective county office of education issue such notes on their behalf.

- *Educational Mandates*. The 2012-13 State Budget provided $167 million to fund a discretionary block grant for K-12 educational mandates. Participating school districts and county offices of education would receive a $28 per-unit of ADA allocation, while participating charter schools would receive $14 per-unit of ADA allocation. In addition, county offices of education were to receive $1 per-unit of ADA for all ADA served within their respective counties. Local educational agencies that choose not to participate in this block grant program could continue to seek reimbursement for mandated activities through the existing claims process, subject to audits by the State Controller. The 2012-13 State Budget continued to suspend the same educational mandates that were suspended by the 2011-12 State budget legislation, and did not eliminate any further mandates.

- *Child Care and Preschool Programs*. The 2012-13 State Budget provided $2.2 billion in funding for subsidized child care and preschools programs. This represents a decrease of $185 million, or 8%, from the prior year. The 2012-13 State Budget also consolidated the State's subsidized preschool program by funding all part-day/part-year preschool slots within Proposition 98. The LAO notes that this consolidation is an accounting change, with no programmatic effect.

- *Gubernatorial Vetoes*. As part of approving the enacting legislation, the Governor vetoed (i) all funding for the Early Mental Health Initiative, for an expected savings of $15 million, (ii) $10 million in Proposition 98 funding for child nutrition in private schools and child care centers, and (iii) $8.1 million in one-time Proposition 98 funding for the support of regional activities and statewide administration of the Advancement Via Individual Determination program.

The 2012-13 State Budget assumed that schools and community colleges would receive $3.2 billion in revenues in Fiscal Year 2012-13 resulting from the dissolution of redevelopment agencies, including $2.5 billion for school districts and $165 million for county offices of education. This figure is composed of (i) $1.7 billion of anticipated residual property tax revenues and (ii) $1.5 billion in cash and other liquid assets of former redevelopment agencies. These increased revenues would offset Proposition 98 spending by an identical amount. The budget package also established a series of sanctions and incentives to encourage successor agency participation with redevelopment dissolution laws. The LAO noted that while the State currently backfills school districts if local property taxes fall short of budgetary assumptions, there has previously been no similar requirement for community colleges and K-12 special education. The 2012-13 State Budget provided authority for the State to do so if the sums anticipated from the dissolution of redevelopment agencies do not meet such assumptions.

Additional information regarding the 2012-13 State Budget may be obtained from the LAO at www.lao.ca.gov, from the Department of Finance at www.dof.ca.gov/budget and from the State of California's most recent official statement which may be accessed at www.emma.msrb.org. However, such information is not incorporated herein by any reference.

Proposed 2013-14 State Budget

On January 10, 2013, the Governor released his proposed State budget for Fiscal Year 2013-14 (the "2013-14 Proposed Budget"). The following information is drawn from the LAO's summary of the 2013-14 Proposed Budget.

The 2013-14 Proposed Budget reflected a projected improvement to State finances due to a continuing modest economic recovery, prior budgetary actions, and voter approval of certain revenue-raising measures at the November 6, 2012 general election. For Fiscal Year 2012-13, the 2013-14 Proposed Budget projected year-end revenues of $95.4 billion and expenditures of $93 billion. The State expected to end the fiscal year with a surplus of $167 million. For Fiscal Year 2013-14, the 2013-14 Proposed Budget projects revenues of $98.5 billion and expenditures of $97.7 billion. The State projected to end Fiscal Year 2013-14 with a $1 billion surplus. The Governor's multi-year forecast projected that revenues would continue to exceed expenditures annually, accumulating to a projected $2.5 billion general fund surplus by Fiscal Year 2016-17.

For Fiscal Year 2012-13, the 2013-14 Proposed Budget revised the Proposition 98 minimum funding guarantee at $53.5 billion, approximately $54 million less than the level set by the 2012-13 State Budget. To bring Proposition 98 spending in line with the reduced guarantee, the 2013-14 Proposed Budget reclassified a Fiscal Year 2012-13 appropriation towards prefunding legal settlement obligations under the Quality Education Investment Act of 2006 (the "QEIA"). For Fiscal Year 2013-14, the minimum funding guarantee was set at $56.2 billion, including $40.9 billion from the State general fund. This represented a net increase of $2.7 billion (or 9%) over the revised funding level for Fiscal Year 2012-13. The increase in spending was driven largely by year-to-year increases in baseline State revenues and the minimum funding guarantee's share of Proposition 30 revenues.

Proposition 98 funding for K-12 education in Fiscal Year 2013-14 is set at $49.2 billion, including $36.1 billion from the State general fund. This represented an increase of approximately $2.1 billion (or 4%) from the prior year. Significant features included the following:

- *New K-12 Funding Formula—the LCFF*. The 2013-14 Proposed State Budget proposed a new funding formula for school districts and county offices of education, the LCFF, to increase local control and flexibility, reduce State bureaucracy and to ensure that student needs drive the allocation of resources. The LCFF would replace the existing revenue limit funding system and most categorical programs, and would distribute combined resources to school districts through a Base Grant per unit of A.D.A. with additional supplemental funding allocated to local educational agencies that serve English language learners and economically disadvantaged students, provide lower class sizes in grades K-3, or offer career technical education classes in high school. Every school district would be entitled to a Base Grant adjusted for grade span cost differentials, multiplied by A.D.A. The average Base Grant, when fully implemented, is expected to be equal to the current average undeficited school district revenue limit. School districts would be entitled to supplemental funding increases up to 35% of the Base Grant. When the proportion of English language learners and economically disadvantaged students exceeds 50% of its total student population, a school district would receive an additional concentration grant equal to 35% of the Base Grant for each English language learner and economically disadvantaged student above the 50% threshold. Under the new formula, "basic aid districts" would be defined as school districts whose local property taxes equal or exceed their district's formula allocation and would continue to retain local property taxes in excess of their new formula allocation. The 2013-14 Proposed Budget allocated $1.6 billion to begin increasing funding levels to a target base rate, with supplemental grants adjusted in tandem with the base increase. The 2013-14 Proposed Budget estimated the new formula will be fully implemented by Fiscal Year 2019-20.

- *Deferral Reduction*. The 2012-13 State Budget provided $1.9 billion to pay down school district and community college cross-fiscal year apportionment deferrals. The 2013-14 Proposed Budget included a plan to eliminate all remaining cross-fiscal year apportionment deferrals by Fiscal Year 2016-17.

- *Growth Funding*. The 2012-13 State Budget provided $63 million to fund a 1.65% cost-of-living adjustment to certain categorical programs, including special education, child nutrition, and California American Indian Education Centers. Cost-of-living adjustments for school district and county office of education revenue limits would be provided through the proposed funding increase designed to implement a new K-12 funding formula (described below). The 2013-14 Proposed Budget also funded a 0.10% increase in K-12 ADA, but assumed no increase in funded enrollment levels at community colleges.

- *Energy Efficiency Projects*. The 2012-13 State Budget allocated supplemental corporate tax revenues raised by Proposition 39 (approved at the November 2012 general election) to schools and community colleges. Proposition 39 requires most interstate businesses to determine their taxable income using a single sales factor method, and provides that all revenues raised from the measure be transferred to a Clean Energy Job Creation Fund to support energy efficiency and alternative energy projects. The 2013-14 Proposed Budget would allocate all Proposition 39-related funding over the next five years exclusively to schools and community colleges, in an amount equal to $450 million in Fiscal Year 2012-13 and $550 million annually thereafter. For Fiscal Year 2013-14, this would include $400.5 million for school districts. Under the proposal, the California Department of Education and California Community College Chancellor's Office, in consultation with the California Energy Commission and California Public Utilities Commission, would develop guidelines for schools and community colleges in prioritizing the use of the funds.

- *Adult Education*. The 2013-14 Proposed Budget included several changes to adult education funding, including narrowing State support to core instructional programs such as adult elementary and secondary education, vocational training, English as a second language, and citizenship. The 2013-14 Proposed Budget would also eliminate school district adult education categorical programs and consolidate the associated funding (approximately $600 million) into the proposed new K-12 funding formula. Adult education, under the Governor's plan, would be funded entirely through the community college system. The 2013-14 Proposed Budget would provide $300 million to create a new adult education categorical program within the statewide community college budget. Funds would be distributed to colleges based on the number of students served in the prior fiscal year. While community colleges would be responsible for administering adult education, they would be authorized to contract with school districts to provide instruction through the latter's adult schools.

- *K-12 Educational Mandates*. The 2013-14 Proposed Budget provided $100 million to augment the existing block grant program, reflecting the addition of two large educational mandates within the program: the Graduation Requirements ("GR") mandate and Behavioral Intervention Plans ("BIP"). Unlike other mandates included in the block grant program, the 2013-14 Proposed

Budget does not provide school districts the option to submit independent claims for reimbursement in connection with GR and BIP.

- *Retiring K-14 Obligations*. The 2013-14 Proposed Budget would have used half of the projected year-to-year growth in Proposition 98 spending in Fiscal Years 2013-14 through 2015-16 to reduce outstanding obligations to schools and community colleges, including the reduction of all cross-fiscal year apportionment deferrals, funding settle-up payments to reduce outstanding mandate claims, and retiring the State's obligations associated with the Emergency Repair Program and the QEIA.

- *Redevelopment Agency Funds*. The 2013-14 Proposed Budget assumed lower State general fund savings from the distribution of offsetting residual property tax revenues and redevelopment agency liquid assets. For the current year, the 2013-14 Proposed Budget projected that redevelopment-related distributions will be $1.1 billion less than what was assumed by the State budget for Fiscal Year 2012-13. For Fiscal Year 2013-14, the 2013-14 Proposed Budget projected that such distributions will be $494 million less than previously assumed. The LAO noted that, while the Governor's projections were reasonable, the process for dissolving redevelopment agencies had yet to be fully implemented, subjecting associated State general fund savings projections to considerable uncertainty.

Additional information regarding the 2013-14 Proposed Budget is available from the LAO's website at www.lao.ca.gov and from the Department of Finance at www.dof.ca.gov. However, such information is not incorporated herein by any reference.

2013-14 May Revision

On May 14, 2013, the Governor released his May revision (the "2013-14 May Revision") to the 2013-14 Proposed Budget. The following is drawn from the LAO's summary of the 2013-14 May Revision, released on May 17, 2013.

For Fiscal Year 2012-13, the 2013-14 May Revision projects year-end revenues of $98.2 billion, approximately $2.8 billion higher than previously projected. The 2013-14 May Revision attributed this increase to higher personal income tax collections. Expenditures were also expected to increase by a like amount, for a year-end total of $95.7 billion. The 2013-14 May Revision projected that the State would end Fiscal Year 2012-13 with a $232 million general fund surplus. For Fiscal Year 2013-14, the 2013-14 May Revision projected revenues of $97.2 billion and authorized expenditures of $96.4 billion. The State was projected to end Fiscal Year 2013-14 with a $1.1 billion general fund surplus.

The 2013-14 May Revision continued to project modest improvements in the State and national economies, although the Governor's near-term economic outlook was weaker than that of the 2013-14 Proposed Budget. The 2013-14 May Revision attributed this primarily to the implementation of federal sequestration cuts and the expiration of the federal payroll tax holiday. The LAO's economic projections, however, were more optimistic. The LAO assumes a higher level of capital gains from the sale of commercial stock and other assets, with an attendant increase in personal income tax collections, offset slightly by a projected drop in sales and use tax collections. For Fiscal Years 2012-13 and 2013-14, the LAO's revenue projections were higher than the Governor's by $3.5 billion and $1 billion, respectively. For Fiscal Year 2012-13, the Proposition 98 minimum funding guarantee was revised at $56.5 billion (including $40.5 billion from the State general fund and Proposition 30 revenues), reflecting an increase of approximately $2.9 billion from the 2013-14 Proposed Budget. This increase was borne largely by the State general fund, as updated 2012-13 local property taxes were almost identical to that projected by the 2013-14 Proposed Budget. The 2013-14 May Revision allocated this increased funding, on a one-time basis, primarily to support implementation of the new Common Core academic standards, and to accelerate repayment of existing cross-fiscal year budgetary deferrals (as further discussed herein). For Fiscal Year 2013-14, the minimum funding guarantee was revised at $55.3 billion (including $39.3 billion from the State general fund and Proposition 30 revenues), a reduction of approximately $941 million from the 2013-14 Proposed Budget. The LAO indicated that this reduction was due largely to the 2013-14 May Revision's lower projection regarding State general fund revenues that count towards the minimum funding guarantee. The State general fund share of the minimum guarantee dropped by $1.5 billion, owing largely to higher projected property tax revenues for Fiscal Year 2013-14. Significant features of the 2013-14 May Revision include the following:

- *Common Core Funding*. For Fiscal Year 2012-13, the 2013-14 May Revision provided $1 billion of additional funding to implement the Common Core academic standards. Funding would be provided on a per-student basis, equating to approximately $170 per student. Schools districts would be required to use the funds for instructional materials, professional development and technology-related implementation. Districts would be required to develop an implementation plan and spend the funds over the next two fiscal years, with expenditures subject to an annual funding and compliance audit.

- *Deferral Reduction*. For Fiscal Year 2012-13, the 2013-14 May Revision provided an additional $1.8 billion to pay down school district and community college apportionment deferrals. As a result of the projected decline of the minimum funding guarantee in Fiscal Year 2013-14, the 2013-14 May Revision reduced the proposed pay down of deferrals in Fiscal Year 2013-14 by $1 billion (bringing total deferral reductions in that Fiscal Year to $920 million). As a result, the 2013-14 May Revision projected that, at the beginning of the Fiscal Year 2014-15, outstanding school district and community college deferrals will total $5.5 billion.

- *Local Control Funding Formula*. The 2013-14 May Revision proposed an additional $236 million to implement the Local Control Funding Formula included in the 2013-14 Proposed Budget. The 2013-14 May Revision also made certain adjustments related largely to supplemental funding for English learner and low income students, including (i) the use of a three-year rolling average percentage of English learner and low income students served by a local education agency for purposes of calculating supplemental and concentration grants, (ii) allowing English learner students to generate supplemental funding for seven (rather than five) years, and (iii) requiring local education agencies to allocate English learner and low income student funding in proportion to their enrollment of such students. Additionally, the 2013-14 May Revision proposed to strengthen academic accountability through a tiered intervention system through which county superintendents of schools, the Fiscal Crisis and Management Assistance Team and the State Superintendent of Public Instruction could intervene in local educational agencies that fail to meet academic performance targets.

- *Restructuring of Adult Education*. The 2013-14 May Revision rescinded the prior proposal that would have provided $300 million of funding to create a new adult education categorical program within the statewide community college budget. Instead, the 2013-14 May Revision provided $30 million in Fiscal Year 2013-14 to fund two-year planning and implementation grants for the development of regional adult education consortiums. Providers would have two years to form such consortiums and develop plans for coordinating and integrating services. Beginning in Fiscal Year 2015-16, the 2013-14 May Revision proposed to provide $500 million to fund adult education through consortiums. Under the Governor’s plan, consortiums would submit applications to the State Department of Education and the California Community College Chancellor’s Office, which would jointly review the applications and allocate funding. Funding would be limited to critical areas such as English as a second language and vocational instruction. Providers would receive the same funding level currently received by community colleges for enhanced, non-credit funding. To create an incentive for districts to continue providing adult education in Fiscal Years 2013-14 and 2014-15, the 2013-14 May Revision proposed to earmark two-thirds of the proposed $500 million augmentation to providers that meet this criteria.

- *Energy Efficiency Projects*. The 2013-14 May Revision included a revised estimate of Proposition 39 corporate tax revenue collections, resulting in an increase of $14 million of funding for support energy efficiency and alternative energy projects.

- *Local Property Tax Adjustments*. For Fiscal Year 2013-14, local property tax collections were projected to be $579 million than that assumed by the 2013-14 Proposed Budget, due largely to higher estimates of higher redevelopment agency revenues re-directed to schools and community colleges. These higher property taxes would offset State general fund support for education by a like amount.

- *Special Education*. The 2013-14 May Revision provided for an increase of $60.7 million in Proposition 98 funding for special education programs to backfill a federal sequestration cut to an Individuals with Disability Education Act grant.

Additional information regarding the 2013-14 May Revision may be obtained from the LAO at www.lao.ca.gov. However, such information is not incorporated herein by any reference.

Changes in the 2013-14 State Budget from the 2013-14 May Revision Affecting K-12 School Districts

According to the Governor's summary of the 2013-14 State Budget, which the Governor signed in to law on June 27, 2013, the 2013-14 State Budget reflects California's most stable fiscal footing in over a decade. With the spending cuts enacted over the past two years and new temporary revenues provided by the passage of Proposition 30, the Governor projects the State's budget will remain balanced for the foreseeable future. However, the administration notes that substantial risks, uncertainties, and liabilities remain. The 2013-14 State Budget overhauls the State's system of K-12 education finance.

With the passage of Proposition 30, the 2013-14 State Budget reinvests in, rather than cuts, education funding. From Fiscal Years 2011-12 through 2016-17, the Proposition 98 minimum funding guarantee will increase from $47.2 billion to $67.1 billion, an increase of approximately $20 billion for K-12 schools, and funding levels will increase by $1,045 per student through 2013-14 and by $2,835 per student through 2016-17.

The 2013-14 State Budget represents a multiyear plan that is balanced, maintains a $1.1 billion reserve, and pays down budgetary debt. The State's recent budget challenges have been exacerbated by the State's debt—an unprecedented level of debts, deferrals, and budgetary obligations accumulated over the prior decade. The 2013-14 State Budget dedicates billions to repay this budgetary borrowing. Moving forward, continuing to pay down the debt is key to increasing the State's fiscal capacity. In 2011, the level of outstanding budgetary borrowing totaled $35 billion. The debt will be reduced to less than $27 billion this year. Under the 2013-14 State Budget's projections, the debt will be reduced to below $5 billion by the end of 2016- 17. The 2013-14 State Budget remains balanced only by a narrow margin. The pace of the economic and revenue recovery is still uncertain, and California needs to address other liabilities that have been created over many decades. Eliminating the liabilities will take many years and constrain the State's capacity to make other investments. The administration has stated that only by continuing to exercise fiscal discipline can the State avoid repeating the boom and bust cycles of the last decade.

The centerpiece of the 2013-14 State Budget is the restructuring of the State's funding formula for K-12 schools through the implementation of the "Local Control Funding Formula" or the "LCFF." The 2013-14 State Budget allocates $2.1 billion to commence transitioning the State to the new formula, allocating proportionately more money to school districts with high levels of low-income students, those with limited English proficiency and foster children. Overall, the 2013-14 State Budget increases K-12 and community college funding to $55.3 billion while giving the University of California and California State University systems an additional $125 million each. The LCFF as enacted in the 2013-14 State Budget includes the following components:

- A base grant for each local education agency equivalent to $7,643 per unit of average daily attendance ("ADA"). This amount includes an adjustment of 10.4% to the base grant to support lowering class sizes in grades K-3, and an adjustment of 2.6% to reflect the cost of operating career technical education programs in high schools.

- A 20% supplemental grant for English learners, students from low-income families, and foster youth to reflect increased costs associated with educating those students.

- An additional concentration grant of up to 22.5% of a local education agency's base grant, based on the number of English learners, students from low-income families, and foster youth served by the local agency that comprise more than 55% of enrollment.

- An "Economic Recovery Target" to ensure that almost every local education agency receives at least their pre-recession funding level, adjusted for inflation, at full implementation of the LCFF.

Of the more than $25 billion in funding to be invested through the LCFF over the next eight years, the vast majority of new funding will be provided for base grants. Specifically, of every dollar invested through the LCFF, 84 cents will go to base grants, 10 cents will go to supplemental grants, and 6 cents will go to concentration grants. Under the 2013-14 State Budget, the average base grant is $7,643, which is an increase of $2,375 from the current average revenue limit.

The LCFF moves from a State-controlled system that emphasizes inputs to a locally-controlled system focused on improved outcomes. Local education agencies will decide the best way to target funds but will be required to increase or improve services for English learner, low income, and foster youth students in proportion to supplemental and concentration grant funding. Additionally, the new system is designed to align the State's accountability structure with the existing local budget process. All school districts, county offices of education, and charter schools will be required to develop and adopt local control and accountability plans, which will identify local goals in areas that are priorities for the State, including pupil achievement, parent engagement, and school climate. County superintendents will be required to review and provide support to the districts under their jurisdiction. The Superintendent of Public Instruction will perform a corresponding role for county offices of education. In addition, the 2013-14 State Budget creates the California Collaborative for Education Excellence to advise and assist school districts, county offices of education, and charter schools in achieving the goals identified in their plans.

Although the 2013-14 Proposed Budget and 2013-14 May Revision each proposed to reduce cross-fiscal year deferrals by $1.8 billion, the enacted 2013-14 State Budget reduced cross-fiscal year deferrals by only $930 million, deferring until July 2014 payments totaling $4,022,445,000. For school districts receiving State Aid, the 2013-14 State Budget also imposed monthly intra-fiscal year deferrals in the aggregate statewide amount of $464 million or approximately $5.6 billion in Fiscal Year 2013-14. However, these amounts are offset by even quarterly payments to schools from the Education Protection Account. The District does not expect to receive State Aid for Fiscal Year 2013-14, with its revenue limit sources being comprised solely of property taxes and Education Protection Account receipts. Thus, the District is not subject to intra-fiscal year deferrals and subject to only $2.0 million of cross-year deferrals in Fiscal Year 2013-14 because the District's local property taxes are such a high percentage of revenue limit.

Other significant K-12 adjustments include:

- *LCFF* —An increase of $2.1 billion Proposition 98 General Fund for school districts and charter schools, and $32 million Proposition 98 General Fund for county offices of education, to support first-year funding provided through the LCFF.

- *Common Core Implementation* — An increase of $1.25 billion in one-time Proposition 98 General Fund to support the implementation of the Common Core — new standards for evaluating student achievement in English-language arts and math. Funding will be distributed to local education agencies on the basis of enrollment to support necessary investments in professional development, instructional materials, and technology.

- *Career Technical Education Pathways Grant Program* —An increase of $250 million Proposition 98 General Fund for one-time competitive capacity-building grants for K-12 school districts and community colleges to support programs focused on work-based learning. K-12 schools and community colleges must obtain funding commitments from program partners to support ongoing program costs.

- *K-12 Mandates Block Grant* —An increase of $50 million Proposition 98 General Fund to reflect the inclusion of the Graduation Requirements mandate within the block grant program. This increase will be distributed to school districts, county offices of education and charter schools with enrollment in grades 9-12.

- *K-12 Deferrals* —An increase of $1.6 billion Proposition 98 General Fund in Fiscal Year 2012-13 and an increase of $242.3 million Proposition 98 General Fund in 2013-14 for the repayment of inter-year budgetary deferrals. When combined, total funding over the two-year period will reduce K-12 inter-year deferrals to $5.6 billion by the end of Fiscal Year 2013-14. This will reduce total outstanding deferrals by more than 40% of their peak value, when more than $9.5 billion was deferred.

- *Proposition 39 Implementation* —The 2013-14 State Budget allocates $381 million Proposition 98 General Fund to K-12 local education agencies to support energy efficiency projects approved by the California Energy Commission. Of this amount, 85% will be distributed based on ADA and 15% will be distributed based on free and reduced-price meal eligibility. The 2013-14 State Budget establishes minimum grant levels of $15,000 and $50,000 for small and exceptionally small local education agencies and allows these agencies to receive an advance on a future grant allocation. The 2013-14 State Budget will provide other local education agencies the greater of $100,000 or their weighted distribution amount. The 2013-14 State Budget provides $28 million for interest-free revolving loans to assist eligible energy projects at schools and community colleges. Additionally, the 2013-14 State Budget appropriates $3 million to the California Workforce Investment Board to develop and implement a competitive grant program for eligible workforce training organizations that prepare disadvantaged youth or veterans for employment in energy related fields.

- *Special Education Funding Reform* — The 2013-14 State Budget includes several consolidations for various special education programs in an effort to simplify special education finance and provide Special Education Local Plan Areas with additional funding flexibility.

Additional information regarding the 2013-14 State Budget and the Governor's summary of the 2013-14 State Budget may be obtained from the Department of Finance at www.ebudget.ca.gov. However, such information is not incorporated herein by any reference.

Litigation Regarding 2011-12 State Budgetary Provisions

On July 18, 2011, the California Redevelopment Association, the League of California Cities, and the Cities of Union City and San Jose filed petition for a writ of mandate (the "CRA Petition") with the Supreme Court of California alleging that ABx1 26 and ABx1 27 violate the California Constitution, as amended by Proposition 22. See "CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS—Proposition 1A and Proposition 22." The petitioners alleged, among other things, that ABx1 26 and ABx1 27 seek to illegally divert tax increment revenue from redevelopment agencies by threatening such agencies with dissolution if payments are not made to support the State's obligation to fund education. On December 29, 2011, the Supreme Court upheld the legality of ABx1 26, reasoning that the Legislature has broad powers to establish or dissolve local agencies as it sees fit. The Court, however, invalidated ABx1 27 on the grounds that the payments required of redevelopment agencies in order to remain in existence could not be characterized as voluntary, and thus violated Proposition 22. As a result, all redevelopment agencies in the State were dissolved effective February 1, 2012 and their affairs are being wound down by successor agencies; in most cases, the city or county in which such redevelopment agencies were located. The 2012-13 State Budget assumed that the liquidation of former redevelopment agency assets would result in a $3.155 billion reduction in required State Proposition 98 expenditures in Fiscal Year 2012-13. These savings may be delayed or reduced as a result of litigation that has been brought by a number of successor agencies.

Future Actions

The District cannot predict what actions will be taken in the future by the State legislature and the Governor to address changing State revenues and expenditures. The District also cannot predict the impact such actions will have on State revenues available in the current or future years for education. The State budget will be affected by national and State economic conditions and other factors over which the District will have no control. Certain actions or results could produce a significant shortfall of revenue and cash, and could consequently impair the State's ability to fund schools. Continued State budget shortfalls in future fiscal years may also have an adverse financial impact on the financial condition of the District.

Litigation Challenging Method of School Financing

In *Robles-Wong, et al. v. State of California* (Alameda County Superior Court, Case No. RG-10-515768), plaintiffs challenge the state's "education finance system" as unconstitutional. Plaintiffs, consisting of 62 minor school children, various school districts, including the District, the California Association of School Administrators and the California School Boards Association, allege the state has not adequately fulfilled its constitutional obligation to support its public schools, and seek an order enjoining the state from continuing to operate and rely on the current financing system and to develop a new education system that meets constitutional standards as declared by the court. In a related matter, *Campaign for Quality Education et al. ("CQE") v. State of California* (Alameda County Superior Court, Case No. RG-10-524770), other plaintiffs, consisting of more than 20 students and parents, the Campaign for Quality Education, Alliance of Californians for Community Empowerment, Californians for Justice, and the San Francisco Organizing Project, also challenge the constitutionality of the State's education finance system. The court issued a ruling that there was no constitutional right to a particular level of school funding. The court allowed plaintiffs to amend their complaint with respect to alleged violation of plaintiffs' right to equal protection. Plaintiffs have appealed the court's ruling rather than amending their complaint.

The District cannot predict the outcome of this litigation or its possible impact on the District's financial condition.

State Funding of Schools Without a State Budget

Although the State Constitution requires that the State Legislature adopt a State Budget by June 15 of the prior fiscal year and that the Governor sign a State Budget by June 30, this deadline has been missed from time to time. Delays in the adoption of a final State budget in any fiscal year could impact the receipt of State funding by the District. On May 29, 2002, the California Court of Appeal for the Second District decided the case of *Howard Jarvis Taxpayers Association, et al. v. Kathleen Connell* (as Controller of the State of California), et al. (also referred to as *White v. Davis*) ("Connell"). The Court of Appeal concluded that, absent an emergency appropriation, the State Controller may authorize the payment of State funds during a budget impasse only when payment is either (i) authorized by a "continuing appropriation" enacted by the State Legislature, (ii) authorized by a self-executing provision of the State Constitution, or (iii) mandated by federal law. The Court of Appeal specifically concluded that the provisions of Article XVI, Section 8 of the State Constitution – the provision establishing minimum funding of K-14 education enacted as part of Proposition 98 – did not constitute a self-executing authorization to disburse funds, stating that such provisions merely provide formulas for determining the minimum funding to be appropriated every budget year but do not appropriate funds. Nevertheless, the State Controller has concluded that the provisions of the Education Code establishing K-12 and county office of education revenue limit funding do constitute continuing appropriations enacted by the State Legislature and, therefore, has indicated that State payments of such amounts would continue during a budget impasse. The State Controller, however, has concluded that K-12 categorical programs are not authorized pursuant to a continuing appropriation enacted by the State Legislature and, therefore, cannot be paid during a budget impasse. To the extent the *Connell* decision applies to State payments reflected in the District's budget, the requirement that there be either a final budget bill or an emergency appropriation may result in the delay of some payments to the District while such required legislative action is delayed, unless the payments are self-executing authorizations, continuing appropriations or are subject to a federal mandate.

The State Supreme Court granted the State Controller's petition for review of the *Connell* case on a procedural issue unrelated to continuous appropriations and on the substantive question as to whether the State

Controller is authorized to pay State employees their full and regular salaries during a budget impasse. No other aspect of the Court of Appeal's decision was addressed by the State Supreme Court. On May 1, 2003, with respect to the substantive question, the State Supreme Court concluded that the State Controller is required, notwithstanding a budget impasse and the limitations imposed by State law, to timely pay those State employees who are subject to the minimum wage and overtime compensation provisions of the federal Fair Labor Standards Act.

County Office of Education

In each county there is a county superintendent of schools (the "County Superintendent") and a county board of education. The office of the county superintendent of schools, frequently known as the "County Office of Education" (the "County Office") provides the staff and organization that carries out the activities of the county superintendent and county board of education. Because the District is coterminous with the City, the District's Superintendent performs the duties of the County Superintendent and the District administers the local County Office of Education.

County Offices provide instructional and support services to school districts within their counties, and various State mandated services county-wide, particularly in special education and juvenile court education services. County Office business services departments act as a control point for a variety of information, including pupil data collection, attendance accounting, teacher credential registration, payroll accounting, retirement and tax information and school district budgets, and also report such information to the State Department of Education. Generally, all school district budgets must be approved by their County Office and each district must provide its County Office with scheduled interim reports throughout the fiscal year. County Offices also act as enforcement entities which intervene in district fiscal matters should a district fail to meet State budget and reporting criteria. However, since the District is conterminous with the City and the District's Superintendent performs the duties of the County Superintendent and the District administers the local County Office of Education, the District's budgets and the County of Education's budgets are submitted to and approved by the State Superintendent of Schools (the "State Superintendent").

School District Budget Process

School districts are required by provisions of the Education Code to maintain a balanced budget each year, in which the sum of expenditures and the ending fund balance cannot exceed the sum of revenues and the carry-over fund balance from the previous year. School districts' annual general fund expenditures are characterized in large part by multi-year expenditure commitments such as union contracts. Year-to-year fluctuations in State and local funding of school district general funds could result in revenue decreases which, if large enough, may not easily be offset by an equal reduction in expenditures until at least the following fiscal year. School districts are required by State law to maintain minimum reserves which can be drawn upon in the event of a resulting excess of expenditures over revenues for a given fiscal year. The State Department of Education imposes a uniform budgeting and accounting format for school districts.

School districts must adopt a budget no later than June 30 of each year. The District submits its budget to the State Superintendent within five days of adoption or by July 1, whichever occurs first. A district may be on either a dual or single budget cycle. The dual budget option requires a revised and readopted budget by September 1 that is subject to State mandated standards and criteria. The revised budget must reflect changes in projected income and expenses subsequent to July 1. The single budget is only readopted if it is disapproved or as needed. The District follows a single budget adoption cycle. The District's Adopted Budget for Fiscal Year 2013-14 was adopted by the Board of Education on June 25, 2013.

With respect to the District, the State Superintendent will examine the adopted budget submitted on or prior to July 1 for compliance with the standards and criteria adopted by the State Board of Education and identify technical corrections necessary to bring the budget into compliance, will determine if the budget allows the District to meet its current obligations and will determine if the budget is consistent with a financial plan that will enable the district to meet its multi-year financial commitments. On or before August 15, the State Superintendent will approve or disapprove the adopted budget for the District. Pursuant to State law, the State Superintendent has available various remedies by which to impose and enforce a budget that complies with State criteria, depending on the circumstances, if a budget is disapproved.

Subsequent to approval, the State Superintendent throughout the fiscal year will monitor the District pursuant to its adopted budget to determine on an ongoing basis if the District can meet its current or subsequent year financial obligations. If the State Superintendent determines that the District cannot meet its current or subsequent year obligations, the State Superintendent will notify the District's Board of Education of the determination and the State Superintendent may do either or both of the following: (a) assign a fiscal advisor to enable the District to meet those obligations or (b) if a study and recommendations are made and the District fails to take appropriate action to meet its financial obligations, the State Superintendent may then do any or all of the following for the remainder of the fiscal year: (i) request additional information regarding the District's budget and operations; (ii) develop and impose, after also consulting with the District's Board of Education, revisions to the budget that will enable the District to meet its financial obligations; and (iii) stay or rescind any action inconsistent with such revisions. However, the State Superintendent may not abrogate any provision of collective bargaining agreement that was entered into prior to the date upon which the State Superintendent assumed authority.

At a minimum, the District will file with the State Department of Education a First Period Interim Financial Report by December 15 covering financial operations from July 1 through October 30, and a Second Period Interim Financial Report by March 15 covering financial operations from July 1 through January 31. Section 42131 of the Education Code requires that each interim report be certified by the school board as either (a) "positive," certifying that the district, "based upon current projections, will meet its financial obligations for the current fiscal year and subsequent two fiscal years," (b) "qualified," certifying that the district, "based upon current projections, may not meet its financial obligations for the current fiscal year or two subsequent fiscal years," or (c) "negative," certifying that the district, "based upon current projections, will be unable to meet its financial obligations for the remainder of the fiscal year or the subsequent fiscal year." A certification by the District's Board of Education may by revised by the State Superintendent. If either the First or Second Period Interim Financial Report is not "positive," the State Superintendent may require the District to provide an additional financial report (the "June Report") covering financial operations from February 1 through April 30 by June 1, although the certification of the District cannot be changed on the basis of the June Report. If not required, a June Report is not prepared. Each interim report shows fiscal year-to-date financial operations and the current budget, with any budget amendments made in light of operations and conditions to that point. After the close of the fiscal year on June 30, an unaudited financial report for the fiscal year is prepared and filed without certification with the State Department of Education. The District currently has received a positive certification on the basis of its Second Period Interim Financial Report for Fiscal Year 2012-13. The District has not filed a qualified or negative certification in the last five years.

District Budgets

In Fiscal Year 2002-03, the District began allocating local funds to schools through a weighted student formula ("WSF"), as opposed to the alternative method of full-time equivalent staffing allocations. The WSF method focuses on allocating and distributing dollars and permits budgetary decisions to be made at the school site by the site administrator and local school site councils. A basic funding amount by grade level is provided for each student and supplemented by an additional amount if the student requires English language learner services or is from a low socioeconomic household. The school principal and local school site councils prepare and submit preliminary budgets using initial allocations that are based on enrollment projections. These preliminary budgets are subject to change as a result of changes in each school's actual enrollment and/or overall District funding levels. As budget allocations change, the school principal and local school site councils prepare revised spending plans.

Prior Actions Taken to Address Budget Deficits. In March 2010, the District projected General Fund budget deficits of \$9.2 million, \$51.9 million and \$52.3 million for Fiscal Years 2009-10 through 2011-12, respectively. The projected aggregate accumulated deficit was approximately \$113.4 million. To address the budget deficits, the District Board approved program cuts of \$52.6 million, labor cost reductions of \$44.3 million and the use of \$16.5 million of reserves over the three fiscal years. The labor cost reductions include employee furlough days and layoffs. The District and the teachers' union settled on a labor contract and agreed to labor cost reductions comprised of furlough days and reduced compensation totaling approximately \$39.0 million over the next two fiscal years. The \$16.5 million of reserves included as a budget deficit solution are comprised of unspent parcel taxes that have accumulated. The use of these reserves will not impair the District's ability to fund the level of reserves required under the Education Code. In April 2011, the District projected a new net General Fund deficit totaling \$24.1 million for Fiscal Year 2011-12 that, absent corrective action, would increase to approximately \$81.0 million in Fiscal Year 2012-13. To address the Fiscal Year 2011-12 deficit, the District cut programs by about $5.3 million, cut the central office by $5.5 million, made other adjustments of $5.0 million, and used available reserves of $8.5 million. The District identified another $59 million of budget solutions to be used toward balancing the Fiscal Year 2012-13 budget. See "Budget Outcomes for Fiscal Year 2011-12" and "Budget Outcomes for Fiscal Year 2012-13" below.

Budget Outcomes for Fiscal Year 2011-12. The mid-year trigger cuts imposed by the Governor in January 2011 for the Fiscal Year 2011-12 would have resulted in a loss to the District of approximately $13 per A.D.A. of revenue limit funding and a 50% reduction in the State funding for general education and special education transportation. These reductions to pupil transportation were reversed under Senate Bill 81 which shifted the pupil transportation trigger cut to the revenue limit by increasing the revenue limit deficit factor by 0.65%. The District completed Fiscal Year 2011-12 with an excess of revenues over expenditures of $6.5 million but offset by net other financing uses of $6.9 million, resulting in a General Fund balance of $77.9 million compared to General Fund balance of $78.3 million in the prior fiscal year.

Budget Outcomes for Fiscal Year 2012-13. The District addressed an estimated $48 million deficit in Fiscal Year 2012-13 through $17.5 million of adjustments from one-time sources such as furloughs, suspension of sabbaticals and use of professional development days, with the remaining $30.5 million deficit addressed through use of available prior year fund balances. The Fiscal Year 2012-13 District Budget also assumed passage of the Governor's Revised 2012 Tax Initiative ("Proposition 30") and four furlough days for employees that provided an estimated $7.2 million of budget relief. On August 1, 2012, the District settled collective bargaining negotiations with United Educators of San Francisco (UESF) whereby furloughs of certificated staff would be reduced to 1.5 days in Fiscal Year 2013-14 if either of the tax measures on the November 2012 Statewide ballot relating to school funding were to pass. If said measures were to both fail, UESF agreed to as many as five more furlough days in Fiscal year 2012-13 and a total of 10 furlough days in Fiscal Year 2013-14. Proposition 30 was approved by voters in November 2012, so no additional furlough days for Fiscal Year 2012-13 were triggered per the settlement and furloughs of 1.5 days in Fiscal Year 2013-14 were incorporated in budget planning for that fiscal year.

The District's estimated actual results for Fiscal Year 2012-13 reflect a decline in the General Fund balance of about $33.4 million, slightly higher than the $30 million it estimated at the time the Fiscal Year 2012-13 Budget was adopted.

District's General Fund Budget for Fiscal Year 2013-14

At the time the District's General Fund Budget for Fiscal Year 2013-14 was adopted on June 25, 2013, the District estimated a slightly higher ending fund balance of $34.1 million at June 30, 2014 for the unrestricted portion of the General Fund compared to the estimate of $32.1 million at the time of the Fiscal Year 2012-13 Second Interim. Thus, an additional $2.0 million of resources became available for use in the General Fund Budget for Fiscal Year 2013-14.

The District's revenue projections for Fiscal Year 2013-14 reflect the implementation of the State Legislature's compromise proposal of the Local Control Funding Formula (LCFF) that was negotiated with the Governor in late June. This proposal provides for $395 per-ADA funded growth in Fiscal Year 2013- 14, $431 per-ADA funded growth in Fiscal Year 2014-15 and $463 per-ADA funded growth in Fiscal Year 2015-16 so the District will use these amounts as assumed funding increases in each respective budget year.

For Fiscal Year 2013-14, the funding formula per LCFF is expected to provide $282.8 million, comprised of $227.7 million from local property taxes and $55.1 million from Education Protection Account. This represents an additional $20 million for the District's General Fund compared to the revenue limit funding from the prior budget year.

In addition to funds from the LCFF funding formula, the District's projected revenue for Fiscal Year 2013-14 reflect an assumed receipt of $128.6 million from State categorical and restricted funds (including $10.3 million for implementation of Common Core State Standards ("CCSS"), of which $4.0 million is expected to be spent in Fiscal Year 2013-14), $47.0 million from Proposition H, $32.5 million from federal sources, $37.3 million from parcel taxes, $26.3 million from sales taxes, $5.8 million from the Rainy Day Reserve and about $29.6 million from other sources.

The projected salary and benefit expenditures include step and column increases and potential negotiated collective bargaining settlements. The General Fund is expected to provide about: (1) $66.0 million to support the Special Education Program, on increase of $6.1 million compared to the prior budget yeas, (2) $2.6 million to the Student Nutrition Program, an increase of about $400,000 compared to the prior budget year, and (3) $4.7 million to the Child Development Program, a decrease of $1.9 million compared to the prior budget year.

The projected unreserved fund balance in the General Fund is expected to be $16.3 million at June 30, 2014.

The following table contains the District's Adopted General Fund Budgets for Fiscal Years 2011-12 and 2012-13, the District's Audited Actuals for Fiscal Year 2011-12, the District's projected figures for Fiscal Year 2012-13, which are based on the District's First and Second Period Interim Financial Reports for Fiscal Year 2012-13, and the District's General Fund Budget for Fiscal Year 2013-14 adopted on June 25, 2013. Amounts include both restricted and unrestricted income and expenditures.

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SAN FRANCISCO UNIFIED SCHOOL DISTRICT
General Fund Budget[1]
Fiscal Years 2011-12, 2012-13 and 2013-14
(Dollars in Thousands)

	Adopted Budget 2011-12	Audited Actual 2011-12	Adopted Budget 2012-13	Estimated Actual 2012-13	Adopted Budget 2013-14
Beginning Balance	$78,289	$78,289	$53,658	$77,893	$ 44,515
Income:					
Revenue Limit Sources	$256,905	$260,470	$259,328	$263,334	$282,761
Federal Revenue	62,736	62,599	36,474	61,973	32,475
Other State Revenue	114,656	120,424	114,811	121,268	128,613
Other Local Revenue	104,082	120,852	112,577	120,213	144,377
Total Income	$538,379	$564,345	$523,190	$566,788	$588,226
Total Beginning Balance and Income	$616,668	$642,634	$576,848	$644,681	$632,741
Expenditures:					
Certificated Salaries	$228,523	$232,769	$225,590	$234,592	$245,140
Classified Salaries	67,943	68,748	69,532	72,662	73,068
Employee Benefits	118,993	115,084	116,994	121,431	125,046
Books and Supplies	20,190	18,719	16,736	26,859	19,296
Services & Other Operating Expenses	59,009	57,355	54,130	65,042	52,401
Capital Outlay	291	785	401	987	708
Other Outgo/Indirect/Transfers	65,887	68,428	75,261	78,593	82,183
Debt Service – Principal	—	1,100	—	—	—
Debt Service – Interest	—	1,754	—	—	—
Total Expenditures	$560,836	$564,742	$558,644	$600,166	$597,842
Net Ending Balance	$55,832	$77,892	$18,204	$44,515	$34,899

Comparative Financial Statements

The table below summarizes the District's Statement of General Fund Revenues, Expenditures and Changes in Fund Balance for the Fiscal Years 2007-08 through 2011-12. See also Appendix B – "AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE YEAR ENDED JUNE 30, 2012" for further detail on the District's most recent audited financial performance.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Summary of Audited General Fund Revenues and Expenditures[(1)(2)]
Fiscal Years 2007-08 to 2011-12
(Dollars in Thousands)

	2007-08	2008-09	2009-10	2010-11	2011-12
REVENUES:					
Revenue limit sources	$281,171	$275,449	$244,154	$259,586	$260,470
Federal sources	35,760	66,087	48,898	50,697	62,599
Other State sources	146,229	128,743	129,569	129,958	131,957
Other local sources	67,915	114,220	124,150	107,952	120,852
Total Revenues	$531,076	$584,500	$546,770	$548,193	$575,878
EXPENDITURES:					
Current					
Instruction	243,205	246,668	265,899	247,488	255,921
Instruction related activities:					
Supervision of instruction	65,952	75,053	77,056	71,233	79,282
Instructional library, media and technology	6,736	7,695	7,569	7,196	7,304
School site administration	31,711	33,456	33,600	33,616	32,983
Pupil Services:					
Home-to-school transportation	9,003	9,033	9,254	8,034	8,556
Food services	—	—	6,538	11,230	8,100
All other pupil services	32,410	33,891	31,903	30,777	31,363
General Administration:					
Data processing	5,775	6,051	7,247	7,346	7,550
All other general administration	16,767	21,171	19,941	19,127	19,816
Plant services	50,573	50,996	50,897	50,915	51,020
Facility acquisition and construction	2,893	3,413	3,055	3,416	3,495
Ancillary services	2,939	3,420	3,113	3,286	3,403
Other (outgo)	41,620	46,110	42,453	48,555	65,834
Enterprise Services	—	—	3,718	4	4
Debt service					
Principal	1,191	1,282	1,204	1,100	1,100
Interest and other	3,630	2,494	1,125	2,124	1,754
Total Expenditures	$514,403	$540,733	$544,327	$534,227	$569,392
Excess of revenues over (under) expenditures	16,673	43,767	(7,556)	13,966	6,486
OTHER FINANCING SOURCES (USES):					
Transfers in	—	1,000	—	—	—
Other sources	—	—	—	—	—
Transfers out	(10,383)	(9,352)	(13,494)	(12,481)	(6,882)
Net Financing Sources (Uses)	(10,383)	(8,352)	(13,494)	(12,481)	(6,882)
NET CHANGE IN FUND BALANCES	6,289	35,416	(21,050)	1,486	(396)
Fund Balance – Beginning	56,148	62,437	97,853	76,803	78,289
Fund Balance – Ending	$62,437	$97,853	$76,803	$78,289	$77,893

(1) Totals may not add due to rounding.
(2) Figures include Charter Schools Pass-through Revenue Limit and Categorical Block Grant Pass-through.
Source: The District's Annual Financial Reports for Fiscal Years 2007-08 through 2011-12.

Revenue Limit, LCFF and State Categorical Program Sources

Since Fiscal Year 1973-74, California public school districts have operated under general purpose revenue limits established by the State Legislature. In general, the revenue limits are calculated for each school district by multiplying (1) the A.D.A. for each such district by (2) a base revenue limit per unit of A.D.A. The revenue limit calculations are adjusted annually in accordance with a number of factors designed primarily to provide cost of living increases and to equalize revenues among all school districts in the State of the same type. See "DISTRICT FINANCIAL INFORMATION—State Funding of School Districts" in this Appendix A. The 2013-14 State Budget established a new funding formula for school districts and county offices of education, the LCFF, to increase local control and flexibility, reduce State bureaucracy and to ensure that student needs drive the allocation of resources. The LCFF replaces the prior revenue limit funding system and most categorical programs, and distributes combined resources to school districts through a Base Grant per unit of A.D.A. with additional supplemental funding allocated to local educational agencies that serve English language learners and economically disadvantaged students, provide lower class sizes in grades K-3, or offer career technical education classes in high school. The District has estimated additional revenue of about $20 million it will receive pursuant the LCFF compared to the prior revenue limit funding model. See "DISTRICT FINANCIAL INFORMATION—Proposed 2013-14 State Budget," "—2013-14 May Revision" and "—Changes in the 2013-14 State Budget from the 2013-14 May Revision Affecting K-12 School Districts" in this Appendix A for additional information regarding the LCFF.

The following table sets forth the District's funded revenue limits per A.D.A. for the Fiscal Years 2008-09 through 2012-13 and the LCFF funding formula revenues per A.D.A. in Fiscal Year 2013-14. For Fiscal Year 2011-12, the District's base revenue limit per unit of A.D.A. is $5,149. For Fiscal Years 2012-13 and 2013-14, the District estimates that its base funded revenue limit per unit of A.D.A. is $5,205 and $5,511, respectively.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Funded Revenue Limit/LCFF Funding Formula per A.D.A.
Fiscal Years 2008-09 through 2012-13

Fiscal Year	Funded Revenue Limit/ LCFF Funding Formula
2008-09	$5,626
2009-10	4,945
2010-11	5,203
2011-12	5,149
2012-13	5,205*
2013-14	5,511*

* Estimated

In Fiscal Year 2011-12, the District received approximately $260.5 million from revenue limit sources, accounting for approximately 46% of its total General Fund revenues. For Fiscal Years 2012-13, the District estimates $263 million of revenue limit source income which is approximately 46.5% of its total budgeted General Fund revenues. The District estimated $283 million of LCCF funding formula revenues in Fiscal Year 2013-14 which is approximately 48.1% of total budgeted General Fund revenues.

Funding of the District's revenue limit going forward is accomplished by a mix of (1) local property taxes, (2) State apportionments of basic and equalization aid, if the District is eligible, and (3) Education Protection Account revenue. Generally, the State apportionments amount is equal to the difference between the District's revenue limit and its local property tax revenues. In Fiscal Year 2011-12, the portion of revenue limit coming from State apportionment was approximately 10.4% and is estimated to be approximately 14.2% in Fiscal Year 2012-13. See "DISTRICT FINANCIAL INFORMATION—State Funding of School Districts" in this Appendix A. Beginning in Fiscal Year 2013-14, the funding is determined pursuant to the LCCF formula and comprised of (1) local property tax, (2) Education Protection Account receipts and (3) state aid, if necessary.

Beginning in Fiscal Year 1978-79, Proposition 13 and its implementing legislation permitted each county to levy and collect *ad valorem* property taxes (except for levies to support prior voter-approved indebtedness) and prescribed how such levies on county-wide property values (the "1% Levy") were to be shared with local taxing entities within each county. The District estimates that its share of the 1% Levy will provide approximately $231 million in tax revenue for the General Fund for Fiscal Year 2012-13 and $227 million in Fiscal Year 2013-14.

In addition, the District received $120.4 million or 21.4% of its General Fund revenues in Fiscal Year 2011-12 from State categorical programs and expects to receive $121.3 million or approximately 21.4% of its General Fund revenues in Fiscal Year 2012-13 and $128.6 million in Fiscal Year 2013-14 or approximately 21.9% of its revenues from such categorical funds. See “DISTRICT FINANCIAL INFORMATION—District Budgets” in this Appendix A.

Unique Revenue Sources

In addition to revenue limit and State categorical program revenues, the District has several unique revenue sources that accounted for approximately 18.9% of General Fund Revenues in Fiscal Year 2012-13 and are expected to account for approximately 21.2% of General Fund Revenues in Fiscal Year 2013-14, as described below.

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Revenue Source[1]	District's Estimated Amounts for Fiscal Year 2012-13 ($ in millions)	District's Budgeted and Estimated Amounts for Fiscal Year 2013-14 ($ in millions)
1. Proposition A, Quality Teacher and Education Act (2008), approved by 69.75% of the voters, is a $198 annual tax per parcel that escalates annually at the rate of change in the CPI and sunsets in 2028. A major portion of the annual revenue (71.3%) is applied toward teacher compensation, training and support to make salaries competitive with surrounding school districts, with the remainder going to technology and infrastructure improvements, innovation, research and development, and additional teacher professional development.	$35.6	$37.3
2. A special sales tax (0.25%) was approved by voters in 1993 and continues into perpetuity. Portions of the sales tax revenue are allocated to the District and to San Francisco Community College District.	$24.7	$26.3
3. Proposition H (2004) created a Public Education Enrichment Fund ("PEEF") which is funded by the City until 2015. The annual amount can be funded from either "in-kind" services or dollars or both. A portion of the PEEF is to be allocated to pre-Kindergarten education throughout the City. The remaining PEEF can be used for General Fund purposes, as well as to meet academic program needs. The District is taking steps to put a measure on the November 2014 ballot, requesting voters to approve an extension or renewal of Proposition H, as its final fiscal year is currently Fiscal Year 2014-15.	$32.6	$47.0
4. The City and County of San Francisco Rainy Day Reserve established in the City Charter by voter approval of Proposition G in November 2003 provides unrestricted funds to the District in times of fiscal stress.[2]	$7.8	$5.8
6. The District receives annual revenues from facility permits and ground leases.	$5.2	$7.3
7. Proposition F (1998) is an admission tax on stadium sporting events which is allocated to after-school and school-related programs.[3]	$1.1	$1.1
Totals	$107.0	$124.8

(1) With respect to unique revenue sources outside the General Fund, Proposition B, a parcel tax approved by the voters in 1993 and renewed in 2010, provides $6.5 million for facilities, life safety and fire repairs.

(2) Whenever growth in the City's General Fund revenues exceeds five percent, 50 percent of the amount above the five percent threshold is deposited in the Rainy Day Reserve. The District receives funds if the City Controller projects that inflation-adjusted per pupil revenues will be reduced in a given fiscal year and if the District has issued significant layoff notices. The maximum draw from the Rainy Day Reserve is the lesser of: (1) 25 percent of the Rainy Day Reserve balance, or (2) the dollar value of the total decline in inflation-adjusted per pupil revenues.

(3) Revenues may be negatively impacted when the San Francisco 49ers no longer play at a stadium located in the City.

Source: The District.

Labor and Staffing

The District's employees are grouped into two general employee classifications: certificated and classified.

In 1974, the State Legislature enacted a public school employee collective bargaining law known as the Rodda Act, which outlines the parameters for collective bargaining. The law provides that employees are to be divided into appropriate bargaining units that are to be represented by an exclusive bargaining agent.

The approximately 3,660 certificated staff of the District are represented by the United Educators of San Francisco ("UESF"), which is affiliated with the California Teachers Association, National Education Association, California Federation of Teachers and American Federation of Teachers. UESF also represents approximately 1,346 paraprofessional employees who support and assist teachers and other certificated staff. On August 1, 2012, the District settled collective bargaining negotiations with UESF whereby furloughs of certificated staff would be reduced to 1.5 days in Fiscal Year 2013-14 if either of the tax measures on the November 2012 Statewide ballot relating to school funding were to pass. If said measures were to both fail, UESF agreed to as many as five more furlough days in Fiscal year 2012-13 and a total of 10 furlough days in Fiscal Year 2013-14. Proposition 30 was approved by voters in November 2012, so no additional furlough days for Fiscal Year 2012-13 were triggered per the settlement and furloughs of 1.5 days in Fiscal Year 2013-14 were incorporated in budget planning for that fiscal year. The termination date of the UESF contract is June 30, 2014. See "DISTRICT FINANCIAL INFORMATION—District Budgets."

Classified employees of the District are represented by several unions, the largest of which is the Service Employees International Union, Local 1021 ("SEIU"), whose collective bargaining agreement expired on June 30, 2013. The District is in negotiations with SEIU about a new contract.

Approximately 226 of the District's site administrators, program administrators and supervisors are represented by the United Administrators of San Francisco ("UASF"), which is affiliated with American Federation of School Administrators. Their most recent collective bargaining agreement expires on June 30, 2016.

Under State law, non-certificated employees of the District, except for certain paraprofessionals, are employed pursuant to the provisions of the City's charter that relate to the City's Civil Service Commission. The Civil Service Commission generally governs non-compensation related processes and oversees the City's civil service merit system. The Civil Service Commission specifically is charged with the responsibility of developing rules and policies regarding employment eligibility and certification; appointments, promotions, transfers, resignations, lay-offs or reduction in work force, both permanent and temporary; and the designation and filling of positions as exempt, temporary, provisional, part-time, seasonal or permanent.

Retirement Programs

Retirement Plans. Qualified employees are covered under multiple-employer retirement plans. All eligible employees are eligible to participate under defined benefit retirement plans maintained by agencies of the City and County of San Francisco and the State of California. Certificated employees hired as of or after July 1, 1972, are eligible to participate in the cost-sharing multiple-employer, contributory California State Teachers' Retirement System ("STRS"). Classified employees and certain certificated employees hired prior to July 1, 1972, are eligible to participate in the single-employer San Francisco Employees' Retirement System ("SFERS"). The District also provides pension benefits to employees not eligible for the STRS or SFERS systems.

GASB 67 and 68. On June 25, 2012, the Governmental Accounting Standards Board ("GASB") adopted final changes in pension accounting and financial reporting standards for state and local governments (GASB 67 and 68). These changes will impact the accounting treatment of pension plans, such as STRS and SFERS, in which state and local governments, like the District, participate. Major changes include: (i) the inclusion of net pension liabilities on the government's balance sheet (prior to the changes, such net liabilities were typically included as notes to the government's financial statements); (ii) full pension costs are required to be shown as expenses regardless of actual contribution levels; (iii) lower actuarial discount rates are required to be used for most plans for certain purposes of the financial statements, resulting in increased liabilities and pension expenses; and (iv) shorter amortization periods for unfunded liabilities are required to be used for certain purposes of the financial statements, which generally increase pension expenses. The provisions of GASB 67 will take effect for financial statements for periods beginning after June 15, 2013. The provisions of GASB 68 are effective for fiscal years beginning after June 15, 2014. The District is taking steps to comply with these requirements.

STRS. STRS is a defined benefit plan that covers all full-time certificated District employees and some classified District employees, which are District employees employed in a position that does not require a teaching credential from the State. Employees and the District contribute 8.00% and 8.25%, respectively, of gross salary expenditures to STRS. The District has not received any formal notice from STRS of any plans to change the rates currently in effect or of any proposed changes in the State law with respect to the contribution rates, although the 2013 STRS Funding Report (defined below) proposed increased contributions from employers such as the District, among other proposals. See "—Governor's Pension Reform" below.

STRS is operated on a Statewide basis and, based on publicly available information, has substantial unfunded liabilities. Additional funding of STRS by the State and the inclusion of adjustments to such State contributions based on consumer price changes were provided for in 1979 Statutes, Chapter 282. The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make to STRS. Accordingly, there can be no assurances that the District's required contributions to STRS will not significantly increase in the future above current levels. Pursuant to the STRS' comprehensive annual financial report for the Fiscal Year ended June 30, 2011, absent corrective action, the STRS fund will be depleted in 2042, and the State will be obligated to pay the difference between the benefits paid and the contributions received. The 2013 STRS Funding Report projected depletion of assets by 2047, absent corrective measures.

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A history of the District's annual contributions to STRS is set forth below. The District's historical contributions have equaled 100% of the required contribution for the relevant fiscal year.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Annual STRS Contributions
Fiscal Years 2008-09 Through 2012-13

Fiscal Year	Amount
2008-09	$22,714,691
2009-10	24,239,282
2010-11	22,990,582
2011-12	23,290,306
2012-13	23,830,000[1]
2013-14	24,500,000[1]

(1) Estimated.

Source: The District.

The unfunded actuarial accrued liabilities and funded status of the STRS pension fund as of June 30 of Fiscal Years June 30, 2007 through June 30, 2012 are set forth in the following table. The individual funding progress for the District is expected to be provided in its actuarial report from STRS beginning in Fiscal Year 2014-15.

CALIFORNIA STATE TEACHERS' RETIREMENT SYSTEM
Defined Benefit Program
Schedule of Funding Progress (Dollars in Millions)
Fiscal Years 2007-08 through 2011-12

Actuarial Valuation Date as of June 30	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (Funding Excess) (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2008	$155,215	$177,734	$22,519	87%	$27,118	83%
2009	145,142	185,683	40,541	78	27,327	148
2010	140,291	196,315	56,024	71	26,275	213
2011	143,930	208,405	64,475	69	25,576	252
2012	144,232	215,189	70,957	67	25,388	279

Source: California State Teachers' Retirement System, Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2012; California State Teachers' Retirement System Defined Benefit Program – 2012 Actuarial Evaluation.

The actuarial assumptions set forth in the California State Teachers' Retirement System Defined Benefit Program Actuarial Valuation as of June 30, 2012 (the "2012 STRS Actuarial Valuation") use the "Entry Age Normal Cost Method" and, among other things, an assumed 7.50% investment rate of return, and 4.50% interest on accounts, projected 3.00% inflation and demographic assumptions relating to mortality rates, length of service, rates of disability, rates of withdrawal, probability of refund, and merit salary increases. In addition, the Teacher's Retirement Board mortality assumption is 3.75%. The actuarial assumptions and methods used in the 2012 STRS Actuarial Valuation were based on the Experience Analysis July 1, 2006 – June 30, 2010 adopted by the Teacher's Retirement Board in February 2012 (the "STRS Experience Analysis"). The amounts of STRS' unfunded liability will vary from time to time depending upon actuarial assumptions, actual rates of return on investment, salary scales and levels of contribution.

STRS' Experience Analysis projects that bringing STRS to full funding would require a payroll contribution of 16.23% of projected expenditures. However, the 2012 STRS Actuarial Valuation projected that full funding would require an increase in employer rates to 14.6% of projected expenditures. The 2012 STRS Actuarial Valuation projects that, absent any changes in contribution rates or liabilities, the fund will deplete its assets in approximately 30 years. Benefit provisions are established by State legislation in accordance with the State Teachers' Retirement Law.

The market value of the STRS pension fund as of June 30, 2011 and June 30, 2012 was $147.1 billion and $143.1 billion, respectively. STRS produces a comprehensive annual financial report which includes financial statements and required supplementary information. Copies of the STRS' comprehensive annual financial report may be obtained from California State Teachers' Retirement System, P.O. Box 15275, Sacramento, California 95851. The information presented in these reports is not incorporated by reference in this Official Statement.

In February 2012, the STRS staff members presented a draft report (the "2013 STRS Funding Report") to the Teachers' Retirement Board with respect to the unfunded liability of STRS defined benefit program (the "Defined Benefit Program"). The 2013 STRS Funding Report indicated that the liabilities of the Defined Benefit Program exceed its assets by approximately $64 billion as of June 30, 2011. In addition, the 2013 STRS Funding Report projected that, absent corrective action, based on current economic and demographic assumptions, the Defined Benefit Program would deplete its assets by 2046. Due to the adoption of the PEPRA (defined herein), the 2013 STRS Funding Report acknowledges that there would be a slight improvement in the funded status of the Defined Benefit Program. However, the 2013 STRS Funding Report cautions that PEPRA may only delay the depletion of assets until 2047. See "—Governor's Pension Reform" below. The 2013 STRS Funding Report notes that the State, as the sponsor of the Defined Benefit Program, has a legal obligation to ensure that benefits continue to be paid notwithstanding the depletion of assets.

In order to improve the funded status of the Defined Benefit Program, the 2013 STRS Funding Report proposes that the State Legislature increase investment returns by increasing the risk of the investment portfolio reducing benefits offered to plan members, and increasing contributions. In addition, the 2013 STRS Funding Report states that the State Legislature must decide the financial objective that the State Legislature and Governor wish to achieve with respect to the Defined Benefit Program and consider having sufficient funds on hand to generate assets to pay liabilities, establish a funding target, increase contributions to avoid full depletion of assets, increase contributions to delay the full depletion of assets. Further, the 2013 STRS Funding Report recommends the State Legislature determined the period of time in which the expect to achieve the funding objective, determine when contribution rate increases begin, establish the speed of contribution rate increases.

SFERS. SFERS is charged with administering a defined benefit pension plan that covers substantially all City employees and certain other employees. At its December 2011 meeting, after review of the analysis and recommendation prepared by the consulting actuarial firm, the Retirement Board of SFERS (the "SFERS Retirement Board") voted to phase in reductions to SFER's long-term investment earnings assumption, long-term wage/inflation assumption and long-term consumer prices index assumption over a three-year period as follows: long-term investment earnings assumption from 7.75% to 7.50% (Fiscal Year 2011-12 to 7.66%; Fiscal Year 2012-13 to 7.58%; Fiscal Year 2013-14 to 7.50%); long-term wage inflation assumption from 4.00% to 3.75% (Fiscal Year 2011-12 to 3.91%; Fiscal Year 2012-13 to 3.83%; Fiscal Year 2013-14 to 3.75%); and long-term consumer price index assumption from 3.50% to 3.25% (Fiscal Year 2011-12 to 3.41%; Fiscal Year 2012-13 to 3.33%; Fiscal Year 2013-14 to 3.25%). These economic assumptions together with demographic assumptions based on periodic demographic studies are utilized to prepare the actuarial valuation of SFERS each year. Upon receipt of the consulting actuarial firm's valuation report, SFERS staff provides a recommendation to the SFERS Retirement Board for their acceptance of the consulting actuary's valuation report. In connection with such acceptance, the SFERS Retirement Board acts to set the annual employer contribution rates required by SFERS as determined by the consulting actuarial firm and approved by the SFERS Retirement Board.

In accordance with the Charter of the City, effective Fiscal Year 2012-13, District participants contribute 7.5 percent to 11.0 percent of their salaries to SFERS. The funding policy of SFERS provides for actuarially determined periodic contributions by the District at rates such that sufficient assets will be available to SFERS to pay District participants' benefits when due. The employer contribution rate for Fiscal Year 2012-13 was 20.71% of covered payroll.

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A history of the District's annual contributions to SFERS is set forth below. The District's historical contributions have equaled 100% of the required contribution for the relevant Fiscal Year.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Annual SFERS Contributions
Fiscal Years 2008-09 Through 2012-13

Fiscal Year	Amount
2008-09	$ 7,198,128
2009-10	10,484,730
2010-11	12,749,635
2011-12	11,692,725
2012-13	12,839,000[1]
2013-14	14,500,000[1]

(1) Estimated.

Source: The District.

The following table shows SFERS' contributions for Fiscal Years 2007-08 through 2011-12. "Market Value of Assets" reflects the fair market value of assets held in trust for payment of pension benefits. "Actuarial Value of Assets" refers to the value of assets held in trust adjusted according to SFERS's actuarial methods as summarized above. "Pension Benefit Obligation" reflects the accrued actuarial liability of SFERS. The "Market Funded" column is determined by dividing the market value of assets by the Pension Benefit Obligations. The "Actuarial Funded" column is determined by dividing the actuarial value of assets by the Pension Benefit Obligations. "Employer and Employee Contributions" reflects the total of mandated employee contributions and employer Actuarial Retirement Contributions received by SFERS for Fiscal Years 2007-08 through 2011-12.

CITY AND COUNTY OF SAN FRANCISCO
Employee Retirement System (Dollars in Thousands)
Fiscal Years 2007-08 through 2011-12

As of July 1	Market Value of Assets	Actuarial Value of Assets	Pension Benefit Obligation	Percent Funded	Employee & Employer Contribution	Employer Contribution Rates[1]
2008	$15,832,521	$15,941,390	$15,358,824	103.8%	$319,183	5.91%
2009	11,886,729	16,004,730	16,498,649	97.0	312,715	4.99
2010	13,136,786	16,069,100	17,643,400	91.1	413,562	9.49
2011	15,598,839	16,313,100	18,598,700	87.7	490,578	13.56
2012	15,293,725	16,027,683	19,393,854	82.6	608,957	18.09

(1) Employer contribution rate for Fiscal Year 2012-2013 is 20.71%.

Sources: SFERS' audited financial statements and supplemental schedules for Fiscal Years ended June 30, 2011, 2010, 2009, and 2008; SFERS' Actuarial Valuation reports as of July 1, 2012, July 1, 2011, July 1, 2010, July 1, 2009 and July 1, 2008.

The above table reflects that the Percent Funded ratio (that is, the Actuarial Value of Assets divided by the Pension Benefit Obligation) decreased to 82.6%, corresponding to an unfunded actuarial liability ("UAAL") of approximately $3.4 billion. The UAAL is the difference between the Actuarial Value of Assets and the total Pension Benefit Obligation. This means that as of June 30, 2012, for every dollar of pension benefits the District is obligated to pay, it had approximately $0.83 in assets available for payment.

Other District Retirement Plans. The District previously participated in three retirement plans administered by the Public Agency Retirement System ("PARS"): (i) the Alternative Retirement System ("ARS"); (ii) the Target Benefit Plan ("TBP"); and (iii) the Supplementary Retirement Plan ("SRP"). PARS plans were defined contribution plans that covered employees who were not eligible to participate under STRS or SFERS. The

District's contributions to these three retirement plans totaled $2.2 million in Fiscal Year 2010-11. For a discussion of these three retirement plans, see Note 14 in the Notes to the Financial Statements set forth in Appendix B hereto.

The District terminated the ARS and TBP retirement plans on October 12, 2011 and replaced them with two alternative plans. Members whose ages were 55 years or older were allowed to select either Social Security or a 403(b) plan, with the District contributing 6.25% and the member contributing 1.25% to the latter. Members who ages were less than 55 years were automatically transferred to Social Security.

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

Governor's Pension Reform. On August 28, 2012, Governor Brown and the State Legislature reached agreement on a new law that will reform pensions for State and local government employees. AB 340, which was signed into law on September 12, 1012, established the California Public Employees' Pension Reform Act of 2012 ("PEPRA") which governs pensions for public employers and public pension plans on and after January 1, 2013. For new employees, PEPRA, among other things, caps pensionable salaries at the Social Security contribution and wage base, which is $110,100 for 2012, or 120% of that amount for employees not covered by Social Security, increases the retirement age by two years or more for all new public employees while adjusting the retirement formulas, requires state employees to pay at least half of their pension costs, and also requires the calculation of benefits on regular, recurring pay to stop income spiking. For all employees, changes required by PEPRA include the prohibition of retroactive pension increases, pension holidays and purchases of service credit. PEPRA applies to all State and local public retirement systems, including county and district retirement systems. PEPRA only exempts the University of California system and charter cities and counties whose pension plans are not governed by State law. The District is unable to determine the extent of any impact PEPRA would have on the District's pension obligations at this time. Additionally, the District cannot predict if PEPRA will be challenged in court and, if so, whether any challenge would be successful.

The District is unable to predict what the amount of State pension liabilities will be in the future, or the amount of the contributions which the District may be required to make. Ca1STRS is more fully described in APPENDIX B — "AUDITED FINANCIAL STATEMENTS OF THE DISTRICT FOR THE FISCAL YEAR ENDED JUNE 30, 2012, Note 14."

Other Post-Employment Benefits. The District provides retiree health benefits to (i) all certificated employees hired before July 1, 2004 who were employed full-time for 9 to 12 (depending on retirement date) final years of consecutive service with the District prior to retirement, (ii) all certificated employees hired after July 1, 2004 who were employed full-time with the District for 20 final consecutive years of service, (iii) paraprofessionals hired before July 1, 2006 employed full-time with the District for 7 to 10 (depending on retirement date) final years of consecutive service, (iv) paraprofessionals hired after July 1, 2006 employed full-time with the District for 10 final consecutive years of service, (v) all classified employees hired on or before January 9, 2009 with at least 5 years of service and (vi) pursuant to Proposition B ("Proposition B"), which was approved by voters in June, 2008, to all classified employees hired on or after January 10, 2009 with at least 20 years of service with the District; retirees with at least 10 but less than 15 years of service with the District will qualify for a 50% retiree health subsidy and retirees with at least 15 but less than 20 years of service with the District will qualify for a 75% retiree health subsidy.

On June 21, 2004, the Governmental Accounting Standards Board ("GASB") released its Governmental Accounting Standards Board Statement No. 45, *Accounting and Financial Reporting by Employers for Post-employment Benefits Other Than Pensions*. Statement No. 45 establishes standards for the measurement, recognition and display of post-employment healthcare as well as other forms of post-employment benefits, such as life insurance, when provided separately from a pension plan expense or expenditures and related liabilities in the financial reports of state and local governments. Under Statement No. 45, governments will be required to: (i) measure the cost of benefits, and recognize other post-employment benefits expense, on the accrual basis of accounting in periods that approximate employees' years of service; (ii) provide information about the actuarial liabilities for promised benefits associated with past services and whether, or to what extent, those benefits have been funded; and provide information useful in assessing potential demands on the employer's future cash flows. The District's post-employment health benefits fall under Statement No. 45. The effective date of the Statement No. 45 reporting requirements for the District was Fiscal Year 2007-08 (the first fiscal year period beginning after December 15, 2006).

The District received an actuarial study dated December 8, 2011 (the "Study") that includes estimated post-retirement liabilities as of December 1, 2011. The Study updated a previous actuarial report regarding post-retirement liabilities as of November 1, 2009. The Study assumed an inflation rate of 3% per year, an investment return/discount rate of 5% per year, a long-term trend assumption of 4% per year, and a payroll increase of 3% per year. The Study estimates that the "pay-as-you-go" cost of providing retiree health benefits for current retirees in the year beginning December 1, 2011 to be $34,351,982. For current employees, the Study estimates that the value of benefits "accrued" in the year beginning December 1, 2011 (the "normal cost") is $27,778,366 and that the actuarial accrued liability ("AAL") of post-employment health benefits is $736,931,483. The Study estimates that the value of the remaining unamortized initial unfunded AAL is $696,176,456 and that the residual AAL, therefore, is $40,755,025. The Study estimates that the current year cost to amortize the residual unfunded AAL over 30 years is $1,805,166. The Study also estimates that the annual required contribution, to be used as a basis for determining retiree health plan expenses in accordance with Statement No. 45, is $62,816,756 (derived by combining the normal cost and the initial and residual unamortized AAL amortization costs). The District has been and is expected to continue to review the Study in conjunction with the District's obligations under its post-employment benefit plan to determine its course of action with respect to its contributions for post-employment benefits. The District expects to complete a new actuarial report on OPEB by approximately December 2013. The table below sets forth the District's annual payments on post-employment benefits for Fiscal Years 2008-09 through 2013-14.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Annual OPEB Payments
Fiscal Years 2008-09 Through 2013-14

Fiscal Year	Payment Amount[(1)] (Dollars in Millions)
2008-09	$31.7
2009-10	32.3
2010-11	34.2
2011-12	34.6
2012-13	34.0[(2)]
2013-14	35.0[(2)]

(1) Includes $2.0 million of funds that were deposited in each respective year through 2012-13 and estimated to be deposited in 2013-14 in a separate fund to prepay a portion of the District's OPEB liability.
(2) Estimated.
Source: The District.

Insurance

The District has a risk management department that is responsible for all insurance and risk management activities. The current structure combines self-insurance with excess, or reinsurance, protection beyond retained levels. The risk management staff works with other departments within the District on prevention strategies to minimize the risk of loss to people and property. The current financial strategy for the risk management program includes an actuarial study each year for the workers' compensation program. The property, liability and benefits programs are studied one time per year during marketing or prior to renewals.

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. Liability insurance is purchased in various layers through Genesis, Lloyds and Schools Excess Liability Fund. Coverage is $45 million per occurrence, with a self-insured retention of $250,000. For workers' compensation coverage, the District maintains a $500,000 self-insured retention, with $150,000,000 in coverage through Safety National for excess coverage.

The District does not maintain insurance for earthquake risks, relying on its general reserves and the expectation that funds will be available from the Federal Emergency Management Agency ("FEMA"). There is no guarantee that sufficient reserves or FEMA assistance would be available in the event of a major seismic event in the San Francisco Bay Area. The District will carry earthquake insurance when it deems it cost-effective.

The District offers its employees dental insurance through a self-insured program, life and long-term disability insurance that is purchased through commercial carriers, and health insurance that is purchased through the City Health Service System. While the District considers its insurance coverage to be adequate, the District is unable to predict the availability or cost of such insurance in the future.

Accounting Practices

The accounting policies of California school districts, including the District, conform to generally accepted accounting principles in accordance with policies and procedures of the California School Accounting Manual. This manual, according to Section 41010 of the Education Code, is to be followed by all California school districts. Revenues are recognized in the period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the period in which the liability is incurred.

CONSTITUTIONAL AND STATUTORY PROVISIONS AFFECTING DISTRICT REVENUES AND APPROPRIATIONS

Constitutionally Required Funding of Education

The State Constitution requires that from all State revenues there shall first be set apart the moneys to be applied by the State for the support of the public school system and public institutions of higher education. School districts receive a significant portion of their funding from State appropriations. As a result, decreases as well as increases in State revenues can significantly affect appropriations made by the State Legislature to school districts.

Article XIIIA of the State Constitution

On June 6, 1978, State voters approved Proposition 13 ("Proposition 13"), which added Article XIIIA to the State Constitution ("Article XIIIA"). Article XIIIA, as amended, limits the amount of any *ad valorem* property tax on real property to one percent (1%) of the full cash value thereof, i.e., the 1% Levy, except that additional *ad valorem* property taxes may be levied to pay debt service on indebtedness approved by the voters prior to July 1, 1978 or bonded indebtedness approved by a two-thirds vote on or after July 1, 1978, for the acquisition or improvement of real property. Proposition 39, approved by State voters on November 7, 2000, provides an alternative method of seeking voter approval for bonded indebtedness (see "Proposition 39" below). Article XIIIA defines full cash value to mean "the county assessor's valuation of real property as shown on the 1975-76 tax bill under "full cash value," or thereafter, the appraised value of real property when purchased, newly constructed, or a change in ownership has occurred after the 1975 assessment." This full cash value may be increased at a rate not to exceed two percent (2%) per year to account for inflation.

Article XIIIA has subsequently been amended to permit reduction of the "full cash value" base in the event of declining property values caused by damage, destruction or other factors, to provide that there would be no increase in the "full cash value" base in the event of reconstruction of property damaged or destroyed in a disaster, and in other minor or technical ways.

Legislation Implementing Article XIIIA

Legislation has been enacted and amended a number of times since 1978 to implement Article XIIIA. Under current law, local agencies are no longer permitted to levy directly any *ad valorem* property tax (except to pay voter-approved indebtedness). The 1% Levy is automatically levied by the City and distributed according to a formula among taxing agencies. The formula apportions the tax roughly in proportion to the relative shares of taxes levied prior to 1989.

Increases of assessed valuation resulting from reappraisals of property due to new construction, change in ownership or from the two percent annual adjustment are allocated among the various jurisdictions in the "taxing area" based upon their respective "situs." Any such allocation made to a local agency continues as part of its allocation in future years.

All taxable property is shown at full market value on the tax rolls. Consequently, the tax rate is expressed as $1 per $100 of taxable value. All taxable property value included in this Official Statement is shown at 100 percent of market value (unless noted differently) and all tax rates reflect the $1 per $100 of taxable value.

Article XIIIB of the State Constitution

An initiative to amend the State Constitution entitled "Limitation of Government Appropriations" was approved on September 6, 1979 thereby adding Article XIIIB to the State Constitution ("Article XIIIB"). In June 1990, Article XIIIB was amended by the voters through their approval of Proposition 111. Under Article XIIIB, the State and each local governmental entity has an annual "appropriations limit" and is not permitted to spend certain moneys that are called "appropriations subject to limitation" (consisting of tax revenues, State subventions and certain other funds) in an amount higher than the appropriations limit. Article XIIIB does not affect the appropriations of moneys that are excluded from the definition of "appropriations subject to limitation," including debt service on indebtedness existing or authorized as of January 1, 1979, or bonded indebtedness subsequently approved by the voters. In general terms, the appropriations limit is to be based on certain Fiscal Year 1978-79 expenditures, and is to be adjusted annually to reflect changes in consumer prices, populations, and services provided by these entities. Among other provisions of Article XIIIB, if these entities' revenues in any year exceed the amounts permitted to be spent, the excess would have to be returned by revising tax rates or fee schedules over the subsequent two years. However, in the event that a school district's revenues exceed its spending limit, the district may, in any fiscal year, increase its appropriations limit to equal its spending by borrowing appropriations limit from the State, provided the State has sufficient excess appropriations limit in such year.

Article XIIIC and Article XIIID of the State Constitution

On November 5, 1996, the voters of the State approved Proposition 218, the so-called "Right to Vote on Taxes Act." Proposition 218 added Articles XIIIC and XIIID to the State Constitution, which contain a number of provisions affecting the ability of local agencies, including school districts, to levy and collect both existing and future taxes, assessments, fees and charges.

Article XIIID deals with assessments and property-related fees and charges. Article XIIID explicitly provides that nothing in Article XIIIC or XIIID shall be construed to affect existing laws relating to the imposition of fees or charges as a condition of property development; however it is not clear whether the initiative power is therefore unavailable to repeal or reduce developer and mitigation fees imposed by the District in accordance with State allowances.

Proposition 26

On November 2, 2010, voters in the State approved Proposition 26. Proposition 26 amends Article XIIIC of the State Constitution to expand the definition of "tax" to include "any levy, charge, or exaction of any kind imposed by a local government" except the following: (1) a charge imposed for a specific benefit conferred or privilege granted directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of conferring the benefit or granting the privilege; (2) a charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product; (3) a charge imposed for the reasonable regulatory costs to a local government for issuing licenses and permits, performing investigations, inspections , and audits, enforcing agricultural marketing orders, and the administrative enforcement and adjudication thereof; (4) a charge imposed for entrance to or use of local government property, or the purchase, rental, or lease of local government property; (5) a fine, penalty, or other monetary charge imposed by the judicial branch of government or a local government, as a result of a violation of law; (6) a charge imposed as a condition of property development; and (7) assessments and property-related fees imposed in accordance with the provisions of Article XIIID. Proposition 26 provides that the local government bears the burden of proving by a preponderance of the evidence that a levy, charge, or other exaction is not a tax, that the amount is no more than necessary to cover the reasonable costs of the governmental activity, and that the manner in which those costs are allocated to a payor bear a fair or reasonable relationship to the payor's burdens on, or benefits received from, the governmental activity.

Proposition 62

On November 4, 1986, State voters adopted Proposition 62, a statutory initiative which amended the State Government Code by the addition of Sections 53720-53730. Proposition 62 requires that (i) any local tax for general governmental purposes (a "general tax") must be approved by a majority vote of the electorate; (ii) any local tax for specific purposes (a "special tax") must be approved by a two-thirds vote of the electorate; (iii) any general tax must be proposed for a vote by two-thirds of the legislative body; and (iv) proceeds of any tax imposed in violation of the vote requirements must be deducted from the local agency's property tax allocation. Provisions applying Proposition 62 retroactively from its effective date to 1985 are unlikely to be of any continuing importance; certain other restrictions were already contained in the Constitution.

Most of the provisions of Proposition 62 were affirmed by the 1995 California Supreme Court decision in *Santa Clara County Local Transportation Authority v. Guardino*, which invalidated a special sales tax for transportation purposes because fewer than two-thirds of the voters voting on the measure had approved the tax. Following the State Supreme Court's decision upholding Proposition 62, several actions were filed challenging taxes imposed by public agencies since the adoption of Proposition 62, which was passed in November 1986. On June 4, 2001, the State Supreme Court released its decision in one of these cases, *Howard Jarvis Taxpayers Association v. City of La Habra, et al.* ("La Habra"). In this case, the court held that public agency's continued imposition and collection of a tax is an ongoing violation, upon which the statute of limitations period begins anew with each collection. The court also held that, unless another statute or constitutional rule provided differently, the statute of limitations for challenges to taxes subject to Proposition 62 is three years. Accordingly, a challenge to a tax subject to Proposition 62 may only be made for those taxes received within three years of the date the action is brought.

Although by its terms Proposition 62 applies to school districts, the District has not experienced any substantive adverse financial impact as a result of the passage of this initiative or the Santa Clara or La Habra decisions.

Propositions 1A and 22

Proposition 1A (SCA 4) provides that the State may not reduce any local sales tax rate, limit existing local government authority to levy a sales tax rate or change the allocation of local sales tax revenues, subject to certain exceptions. Proposition 1A generally prohibits the State from shifting to schools or community colleges any share of property tax revenues allocated to local governments for any fiscal year, as set forth under the laws in effect as of November 3, 2004. Any change in the allocation of property tax revenues among local governments within a county must be approved by two-thirds of both houses of the State Legislature. Proposition lA provides, however, that beginning in Fiscal Year 2008-09, the State may shift to schools and community colleges up to 8% of local government property tax revenues, which amount must be repaid, with interest, within three years, if the Governor proclaims that the shift is needed due to a severe state financial hardship, the shift is approved by two-thirds of both houses of the State Legislature and certain other conditions are met. The State may also approve voluntary exchanges of local sales tax and property tax revenues among local governments within a county. Proposition lA also provides that if the State reduces the Vehicle License Fee rate from 0.65% of vehicle value, the State must provide local governments with equal replacement revenues. Further, Proposition 1A requires the State, beginning June 1, 2009, to suspend State mandates affecting cities, counties and special districts, schools or community colleges, excepting mandates relating to employee rights, in any year that the State does not fully reimburse local governments for their costs of compliance with such mandates.

Under Proposition 1A, the State no longer has the authority to permanently shift city, county, and special district property tax revenues to schools, or take certain other actions that affect local governments. In addition, Proposition 1A restricts the State's ability to borrow state gasoline sales tax revenues. These provisions in the Constitution, however, do not eliminate the State's authority to temporarily borrow or redirect some city, county, and special district funds or the State's authority to redirect local redevelopment agency revenues. However, Proposition 22, The Local Taxpayer, Public Safety, and Transportation Protection Act, approved by the voters of the State on November 2, 2010, reduces or eliminates the State's authority: (1) to use State fuel tax revenues to pay debt service on state transportation bonds; (2) to borrow or change the distribution of state fuel tax revenues; (3) to direct redevelopment agency property taxes to any other local government; (4) to temporarily shift property taxes from cities, counties, and special districts to schools; (5) and to use vehicle license fee revenues to reimburse local governments for state mandated costs. As a result, Proposition 22 impacts resources in the State's General Fund and transportation funds, the State's main funding source for schools and community colleges, as well as universities, prisons and health and social services programs. According to the LAO analysis of Proposition 22 submitted by the LAO on July 15, 2010, the expected reduction in resources available for the State to spend on these other programs as a consequence of the passage of Proposition 22 would be approximately $1 billion in Fiscal Year 2010-11, with an estimated immediate fiscal effect equal to approximately 1 percent of the State's total General Fund spending. The longer-term effect of Proposition 22, according to the LAO analysis, will be an increase in the State's General Fund costs by approximately $1 billion annually for several decades.

On December 30, 2011, the California Supreme Court issued its decision in the case of *California Redevelopment Association v. Matosantos*, finding California Assembly Bill x1 26 to be constitutional and California Assembly Bill x1 27 to be unconstitutional. As a result, all redevelopment agencies in California were dissolved on February 1, 2012, and the property tax revenue which previously flowed to the redevelopment agencies is now instead going to other local governments, including school districts. It is likely that the dissolution of redevelopment agencies has mooted some of the effects of Proposition 22.

Propositions 98 and 111

On November 8, 1988, State voters approved Proposition 98, a combined initiative, constitutional amendment and statute called the "Classroom Instructional Improvement and Accountability Act" (the "Accountability Act"). The Accountability Act changed State funding of public education below the university level, and the operation of the State's Appropriations Limit, primarily by guaranteeing State funding for K-12 school districts and community college districts (collectively, "K-14 districts").

Under Proposition 98 (as modified by Proposition 111, which was enacted on June 5, 1990), K-14 districts are guaranteed the greater of (a) in general, a fixed percent of the State General Fund revenues ("Test 1"), (b) the amount appropriated to K-14 schools in the prior year, adjusted for changes in the cost-of-living (measured as in Article XIIIB by reference to State per capita personal income) and enrollment ("Test 2"), or (c) a third test, which would replace Test 2 in any year when the percentage growth in per capita State General Fund revenues from the prior year plus one-half of one percent is less than the percentage growth in State per capita personal income ("Test 3"). Under Test 3, schools would receive the amount appropriated in the prior year adjusted for changes in enrollment and per capita State General Fund revenues, plus an additional small adjustment factor. If Test 3 is used in any year, the difference between Test 3 and Test 2 would become a "credit" to schools which would be the basis of payments in future years when per capita State General Fund revenue growth exceeds per capita personal income growth. Legislation adopted prior to the end of Fiscal Year 1988-89, implementing Proposition 98, determined the K-14 districts' funding guarantee under Test 1 to be 40.3% of the State General Fund tax revenues, based on 1986-87 appropriations. However, that percentage has been adjusted to 35% to account for a subsequent redirection of local property taxes whereby a greater proportion of education funding now comes from local property taxes.

Proposition 98 permits the State Legislature by a two-thirds vote of both houses, with the Governor's concurrence, to suspend the K-14 districts' minimum funding formula for a one-year period. In the fall of 1989, the Legislature and the Governor utilized this provision to avoid having 40.3% of revenues generated by a special supplemental sales tax enacted for earthquake relief go to K-14 districts. Proposition 98 also contains provisions transferring certain State tax revenues in excess of the Article XIIIB limit to K-14 districts.

The 2013-14 State Budget increases Proposition 98 expenditures for Fiscal Year 2013-14 to $55.3 billion, increasing the Proposition 98 base by more than $8.0 billion compared to the Proposition 98 expenditures for Fiscal Year 2011-12. See "DISTRICT FINANCIAL INFORMATION—State Budget" for further information concerning the State budget.

Proposition 39

Proposition 39 which was approved by State voters in November, 2000, and provides an alternative method for passage of school facilities bond measures by lowering the constitutional voting requirement from two-thirds to 55 percent of voters and allows property taxes to exceed the current 1 percent limit in order to repay such bonds. The lower 55 percent vote requirement would apply only for bond issues to be used for construction, rehabilitation, equipping of school facilities or the acquisition of real property for school facilities. The Legislature enacted additional legislation which placed certain limitations on this lowered threshold, requiring that (i) two-thirds of the governing board of a school district approve placing a bond issue on the ballot, (ii) the bond proposal be included on the ballot of a statewide or primary election, a regularly scheduled local election, or a statewide special election (rather than a school board election held at any time during the year), (iii) the tax rate levied as a result of any single election not exceed $25 for a community college district, $60 for a unified school district, or $30 for an elementary school or high school district per $100,000 of taxable property value, and (iv) the governing board of the school district appoint a citizen's oversight committee to inform the public concerning the spending of the bond proceeds. In addition, the school board of the applicable district is required to perform an annual, independent financial and performance audit until all bond funds have been spent to ensure that the funds have been used only for the projects listed in the measure.

The District's Election of 2003, Proposition A bond program, the Election of 2006, Proposition A bond program and the Election of 2011, Proposition A bond program were all authorized pursuant to Proposition 39. The District is in compliance with the Proposition 39 requirements applicable to such bond programs.

Proposition 30

On November 6, 2012, voters approved the Temporary Taxes to Fund Education, Guaranteed Local Public Safety Funding, Initiative Constitutional Amendment (also known as "Proposition 30" and the Governor's Tax Initiative), which temporarily increases the State Sales and Use Tax and personal income tax rates on higher incomes. Proposition 30 temporarily imposes an additional tax on all retailers, at the rate of 0.25% of gross receipts from the sale of all tangible personal property sold in the State from January 1, 2013 to December 31, 2017. Proposition 30 also imposes an additional excise tax on the storage, use, or other consumption in the State of tangible personal property purchased from a retailer on and after January 1, 2013 and before January 1, 2017, for storage, use, or other consumption in the State. This excise tax will be levied at a rate of 0.25% of the sales price of the property so purchased. For personal income taxes imposed beginning in the taxable year commencing January 1, 2012 and ending January 1, 2019, Proposition 30 increases the marginal personal income tax rate by: (i) 1% for taxable income over $250,000 but less than $300,000 for single filers (over $340,000 but less than $408,000 for joint filers), (ii) 2% for taxable income over $300,000 but less than $500,000 for single filers (over $408,000 but less than $680,000 for joint filers), and (iii) 3% for taxable income over $500,000 for single filers (over $608,000 for joint filers).

The revenues generated from the temporary tax increases will be included in the calculation of the Proposition 98 minimum funding guarantee for school districts and community college districts. See "Propositions 98 and 111." From an accounting perspective, the revenues generated from the temporary tax increases will be deposited into the State account created pursuant to Proposition 30 called the Education Protection Account (the "EPA"). Pursuant to Proposition 30, funds in the EPA will be allocated quarterly, with 89% of such funds provided to schools districts and 11% provided to community college districts. The funds will be distributed to school districts and community college districts in the same manner as existing unrestricted per-student funding, except that no school district will receive less than $200 per unit of ADA and no community college district will receive less than $100 per full time equivalent student. The governing board of each school district and community college district is granted sole authority to determine how the moneys received from the EPA are spent, provided that, the appropriate governing board is required to make these spending determinations in open session at a public meeting and such local governing boards are prohibited from using any funds from the EPA for salaries or benefits of administrators or any other administrative costs. The District has implemented procedures to assure compliance with Proposition 30's requirements.

State School Facilities Bonds

Proposition 47 and Proposition 1A. The Class Size Reduction Kindergarten – University Public Education Facilities Bond Act of 2002 ("Proposition 47") appeared on the November 5, 2002 ballot as Proposition 47 and was approved by the California voters. This measure authorizes the sale and issuance of $13.05 billion in general obligation bonds for construction and renovation of K-12 school facilities ($11.4 billion) and higher education facilities ($1.65 billion). Proposition 47 includes $6.35 billion for acquisition of land and new construction of K-12 school facilities. Of this amount, $2.9 billion will be set aside to fund backlog projects for which school districts submitted applications to the State on or prior to February 1, 2002. The balance of $3.45 billion would be used to fund projects for which school districts submitted applications to the State after February 1, 2002. K-12 school districts will be required to pay 50% of the costs for acquisition of land and new construction with local revenues. In addition, $100 million of the $3.45 billion would be available for charter school facilities. Proposition 47 makes available $3.3 billion for reconstruction or modernization of existing K-12 school facilities. Of this amount, $1.9 billion will be set aside to fund backlog projects for which school districts submitted applications to the State on or prior to February 1, 2002 and the balance of $1.4 billion would be use to fund projects for which school districts submitted applications to the State after February 1, 2002. K-12 school districts will be required to pay 40% of the costs for reconstruction or modernization with local revenues. Proposition 47 provides a total of $1.7 billion to K-12 school districts which are considered critically overcrowded, specifically to schools that have a large number of pupils relative to the size of the school site. In addition, $50 million will be available to fund joint-use projects. Proposition 47 also includes $1.65 billion to construct new buildings and related infrastructure, alter existing buildings and purchase equipment for use in the State's public higher education systems.

Proposition 1A was previously approved in November 1998 and provided $6.7 billion of capital funding for schools.

Proposition 55. The Kindergarten-University Public Education Facilities Bond Act of 2004 ("Proposition 55") appeared on the March 2, 2004 ballot as Proposition 55 and was approved by State voters by a margin of 1.4%. This measure authorizes the sale and issuance of $12.3 billion in general obligation bonds for the construction and renovation of K-12 school facilities ($10 billion) and higher education facilities ($2.3 billion). Proposition 55 includes $5.26 billion for the acquisition of land and construction of new school buildings. A district would be required to pay for 50% of costs with local resources unless it qualifies for state hardship funding. The measure also provides that up to $300 million of these new construction funds is available for charter school facilities.

Proposition 55 makes $2.25 billion available for the reconstruction or modernization of existing school facilities. Districts would be required to pay 40% of project costs from local resources. Proposition 55 directs a total of $2.44 billion to districts with schools which are considered critically overcrowded. These funds would go to schools that have a large number of pupils relative to the size of the school site. Proposition 55 also makes a total of $50 million available to fund joint-use projects. Proposition 55 includes $2.3 billion to construct new buildings and related infrastructure, alter existing buildings and purchase equipment for use in these buildings for the State's public higher education systems. The measure allocates $690 million to each University of California and California State University campus and $920 million to California community colleges. The Governor and the Legislature will select specific projects to be funded by the bond proceeds.

Proposition 1D. The Kindergarten-University Public Education Facilities Bond Act of 2006 ("Proposition 1D") appeared on the November 7, 2006 ballot as Proposition 1D and was approved by the California voters. This measure authorizes the sale and issuance of $10.4 billion in general obligation bonds by the State for funding the construction and renovation of public K-12 school facilities ($7.3 billion) and public higher education facilities ($3.1 billion). Proposition 1D includes $1.9 billion for the acquisition of land and construction of new school buildings. A school district would be required to pay for 50% of costs with local resources unless it qualifies for state hardship funding. Proposition 1D also provides that up to $500 million of these construction funds is available for charter school facilities.

Proposition 1D makes $3.3 billion available for the reconstruction or modernization of existing public school facilities. Districts would be required to pay 40% of project costs from local resources. Proposition 1D directs a total of $1.0 billion to school districts with schools which are considered critically overcrowded. These funds would go to schools that have a large number of pupils relative to the size of the school site. Proposition 1D also makes a total of $29 million available to fund joint-use projects. Proposition 1D includes $3.1 billion to construct new buildings and related infrastructure, alter existing buildings and purchase equipment for use in these buildings for California's public higher education systems. The measure allocates $890 million to University of California and $690 million to California State University campus and $1.5 billion to California community colleges. The Governor and the State Legislature will select specific projects to be funded by the bond proceeds.

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Set forth below is a table showing the District's actual apportionments from Proposition 1A and Proposition 47 and the District's estimated apportionments from Proposition 55 and Proposition 1D. No assurances can be given that the District will continue to apply for apportionments from future State bond initiatives or that the District will continue to receive funding from State bond initiatives to which it applies.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT
State Bond Initiative Funding
Apportionments
(Dollars in Thousands)

State Bond Measure	Total
Proposition 1A (actual)	$ 39,400
Proposition 47 (actual)	13,200
Proposition 55 (actual)	28,200
Proposition 1D (estimated)	80,000[1]
Total	$ 160,000

(1) As of June, 2013, the State Allocation Board has approved the release of $69.8 million of this amount to the District. The remaining apportionment is approved but unfunded by the State.

Future Initiatives

Article XIIIA, Article XIIIB, Article XIIIC, Article XIIID and Propositions 26, 62, 98, 39, 30, 1A, 47, 55 and 1D were each adopted as measures that qualified for the ballot pursuant to the State's initiative process. From time to time other initiative measures could be adopted, further affecting District revenues or the District's ability to expend revenues.

DISTRICT DEBT STRUCTURE

Long-Term Debt

As of June 30, 2013, the District had outstanding general obligation bonds and general obligation refunding bonds in the aggregate principal amount of $647,360,000. The District had $17.9 million of non-marketable capital leases for which $2.4 million of lease payments are due in Fiscal Year 2013-14. For additional details on the District's long-term liabilities, see Note 9 to the audited financial report in Appendix B hereto and "DIRECT AND OVERLAPPING DEBT."

General Obligation Bonds. The District has issued $280,000,000 of general obligation bonds authorized at an election of the registered voters held on November 4, 2003, at which more than the minimum requisite 55% of the persons voting on the measure voted to authorize the issuance and sale of up to $295,000,000 principal amount of general obligation bonds of the District. In March 2012, the District refunded $137,385,000 of these bonds from proceeds of its $116,140,000 2012 General Obligation Refunding Bonds. The amount of authorized but unissued bonds pursuant to this authorization is $15,000,000.

The District has issued $435,000,000 of general obligation bonds authorized at an election of the registered voters held on November 7, 2006, at which more than the minimum requisite 55% of the persons voting on the measure voted to authorize the issuance and sale of up to $450,000,000 principal amount of general obligation bonds of the District. The amount of authorized but unissued bonds pursuant to this authorization is $15,000,000.

The District has issued $115,000,000 of general obligation bonds authorized at an election of the registered voters held on November 8, 2011, at which more than the minimum requisite 55% of the persons voting on the measure voted to authorize the issuance and sale of up to $531,000,000 principal amount of general obligation bonds of the District. The amount of authorized but unissued bonds pursuant to this authorization is $416,000,000. The District expects to issue a second series of general obligation bonds in the aggregate principal amount of $205,000,000 in October 2013.

Capital Plan

The District has a 10-year Capital Plan that is updated annually to take into account an annual review of changing capital needs and improved information regarding project requirements and projected costs. Because of the need for reconstruction and repair of existing facilities, including structural changes to comply with disability access standards, the District's current 10-year Capital Plan anticipates a total capital facilities need of over $1.0 billion. In addition, pertinent District needs are reflected in the City's annual Capital Plan.

As part of the District's ongoing review of the 10-year Capital Plan, the District has completed building assessments of District properties that were not reviewed in connection with the 2003 and 2006 Proposition A Bond Program, in order to define the scope and projected costs of required new construction, replacement, modernization and deferred maintenance for such properties. The District anticipates funding its capital needs from a combination of proceeds from the sale of general obligation bonds, State-matching funds, developer fees, a facilities parcel tax, donations/capital funding campaigns, deferred maintenance allocations and other sources.

Future Financings

In addition to the Notes offered by this Official Statement, the District presently expects to issue approximately $200 million of general obligation bonds pursuant to its 2011 Proposition A Authorization by the end of 2015 and $16 million in 2016. The District also monitors market conditions for refunding opportunities for outstanding general obligation bonds.

Constitutional Debt Limit

The District's constitutional debt limit is 2.5% of the value of taxable property in the District and is currently equal to $4.14 billion, based upon Fiscal Year 2012-13 assessed valuation. The amount of outstanding general obligation bonds and refunding general obligation bonds as of June 30, 2013, was $647,360,000 (which amount excludes bonds issued by the City for the benefit of the District).

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DIRECT AND OVERLAPPING DEBT

Contained within the District are numerous overlapping local agencies providing public services. These local agencies have outstanding debt issued in the form of general obligation, lease revenue and special tax and assessment bonds. The direct and overlapping debt of the District as of June 30, 2013 is shown in the following table (the "Debt Statement"). Self-supporting revenue bonds, tax allocation bonds and non-bonded capital lease obligations are excluded from the Debt Statement.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT
STATEMENT OF DIRECT AND OVERLAPPING DEBT AND LONG-TERM OBLIGATIONS
(as of June 30, 2013)

2012-2013 Assessed Valuation (net of non-reimbursable & homeowner exemptions):	$165,043,120,290
	Outstanding
DIRECT GENERAL OBLIGATION BOND DEBT	**6/30/2013**
San Francisco Unified School District General Obligation Bonds, Elections of 2003, 2006 and 2011	$647,360,000
TOTAL GROSS DIRECT DEBT	$647,360,000
OVERLAPPING DEBT & LONG-TERM OBLIGATIONS	
City and County of San Francisco General Obligation Bonds	$1,889,683,269
San Francisco COPs, Series 2001A (30 Van Ness Ave. Property)	28,895,000
San Francisco COPs, Series 2003 (Juvenile Hall Replacement Project)	34,850,000
San Francisco Finance Corporation, Equipment LRBs Series 2008A, 2010A, 2011A, 2012A, and 2013A	35,235,000
San Francisco Finance Corporation Emergency Communication Refunding Series, 2010-R1	17,050,000
San Francisco Finance Corporation Moscone Expansion Center, Series, 2008-1, 2008-2	120,820,000
San Francisco Finance Corporation LRBs Open Space Fund (Various Park Projects) Series 2006, 2007	55,490,000
San Francisco Finance Corporation LRBs Library Preservation Fund Series, 2009A	30,870,000
San Francisco Redevelopment Agency Moscone Convention Center 1992	4,347,301
San Francisco Refunding Certificates of Participation, Series 2004-R1(San Francisco Courthouse Project)	18,670,000
San Francisco COPs, Series 2007A (City Office Buildings - Multiple Properties)	142,575,000
San Francisco COPs, Series 2009A Multiple Capital Improvement Projects (Laguna Honda Hospital)	148,545,000
San Francisco COPs, Series 2009B Multiple Capital Improvement Projects (Street Improvement Project)	35,200,000
San Francisco COPs, Series 2009C Office Project (525 Golden Gate Avenue) Tax Exempt	35,360,000
San Francisco COPs, Series 2009D Office Project (525 Golden Gate Avenue) Taxable BABs	129,550,000
San Francisco Refunding Certificates of Participation, Series 2010A	127,735,000
San Francisco COPs, Refunding Series 2011AB (Moscone)	86,195,000
San Francisco COPs, Series 2012A Multiple Capital Improvement Projects (Street Improvement Project)	41,860,000
San Francisco COPs, Series 2013A Moscone Center Improvement	35,575,000
Bayshore Hester Assessment District	680,000
San Francisco Bay Area Rapid Transit District (33%) Sales Tax Revenue Bonds	96,108,333
San Francisco Bay Area Rapid Transit District (29%) General Obligation Bonds, Series 2005A, 2007B	107,002,750
San Francisco Community College District General Obligation Bonds - Election of 2001, 2005	358,270,000
San Francisco Redevelopment Agency Hotel Tax Revenue Bonds - 2011	42,930,000
San Francisco Redevelopment Agency Obligations (Property Tax Increment)	846,357,806
San Francisco Redevelopment Agency Obligations (Special Tax Bonds)	212,777,800
Association of Bay Area Governments Obligations (Special Tax Bonds)	41,658,913
TOTAL OVERLAPPING DEBT & LONG-TERM OBLIGATIONS	$4,724,291,172
GROSS COMBINED TOTAL OBLIGATIONS	$5,371,651,172

Ratios to Assessed Valuation:	**Ratio**
Gross Direct Debt	0.4%
Gross Direct Debt and Overlapping Debt	3.3%

[1] The accreted value as of July 1, 2013 is $19,298,279

[2] Excludes revenue and mortgage revenue bonds and non-bonded third party financing lease obligations. Also excludes tax allocation bonds sold in August, 2009.

Sources: The District and the Office of Public Finance, City and County of San Francisco.

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APPENDIX B

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT
FOR THE YEAR ENDED JUNE 30, 2012

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SAN FRANCISCO UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2012

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

VALUE THE DIFFERENCE

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Francisco Unified School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2011-2012,* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to previously present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the San Francisco Unified School District, as of June 30, 2012, and the respective changes in financial position, and, where applicable, cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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

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

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

Vavrinek Trine Day + Co. LLP

Palo Alto, California
December 13, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

PROFILE OF THE DISTRICT

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- Ensuring Access and Equity – We are implementing a rigorous core curriculum in all schools and all grades for all students. That means that every student, no matter which school he or she attends, can count on learning content that meets not only California standards but national and international standards.

- Building Strong Foundations in Reading and Writing – We want every one of our students to become curious, engaged readers who love language and explore the world through words. Therefore, we are training all of our pre-Kindergarten and early elementary teachers in a "balanced literacy" approach to instruction so that by 3rd grade all students will be reading at grade level and will be strong readers and writers in formats from multimedia to printed text.

- Graduating Students College- and Career-Ready – By strengthening and aligning high school course offerings and graduation requirements with college entrance requirements, we are ensuring that every student has the academic preparation to enroll in a California state college or university. To prepare students for careers, we offer more than 30 career preparation academies and pathways in our high schools.

- Providing Ongoing Assessment for Student Learning – Our teachers now have access to common performance assessments to better understand how students are learning on a regular basis throughout the year; they can use the results to tailor their instruction to better meet each student's needs.

- Expanding Opportunities and Support – we want every school, no matter where it is located, to be excellent. Fourteen schools that need the most intensive support have been designated as the "Superintendent's Zone" schools and are receiving additional assistance, including teacher mentors and skilled data analysts who can help teachers pinpoint where their students need more help.

- Partnering for Success – Our children rely on thousands of talented and caring adults to make our schools work. We are fortunate in San Francisco to have an extensive network of resources, including the city government, businesses, not-for-profits, universities, parents, and community volunteers.

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

FINANCIAL HIGHLIGHTS

2012 RESULTS OF OPERATION

Unrestricted General Fund Results of Operations

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

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

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

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

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

General Fund Ending Balance and Reserves

The District's combined General Fund ending balance at June 30, 2012 (restricted plus unrestricted) is $77,892,544. The District's restricted program fund balances, which total $27,124,403, will largely be used for instructional activities, but their use is restricted for specific program activities and cannot be counted as available, i.e., unrestricted reserves. The District's available reserves, consisting of reserves for economic uncertainty, and other unassigned reserves, totaled $46,398,384.

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

Table 1

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

Table 2

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

Budgeting

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

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

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

Program needs change during the year. As a result, budget transfers and revisions are ongoing throughout the fiscal year. We have included the Budgetary Comparison schedule on page 60 providing the adopted and final budgets compared with actual revenues and expenditures.

OVERVIEW OF THE FINANCIAL STATEMENTS

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

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

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

Government-Wide Statements

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

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

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

Fund Financial Statements

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

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

The District has three kinds of funds:

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

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

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

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

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

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

Long-Term Obligations

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

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

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

FACTORS BEARING ON THE DISTRICT'S FUTURE

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

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

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

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

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS
JUNE 30, 2012

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2012

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

General revenues and subventions:
- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Taxes levied for other specific purposes
- Federal and state aid not restricted to specific purposes
- Interest and investment earnings
- Interagency revenue
- Miscellaneous

Subtotal, general revenues
Change in net assets
Net assets - beginning
Net assets - ending

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

Net Revenues (Expenses) and Changes in Net Assets
Governmental Activities
$ (292,530,723)
(38,798,830)
(6,424,749)
(37,979,996)
(18,018,307)
(4,492,680)
(30,364,350)
(8,563,973)
(17,421,604)
(67,643,030)
(2,962,578)
(3,324)
(28,657,365)
(26,856,947)
(580,718,456)
244,542,668
52,674,884
33,121,111
124,575,797
2,647,033
55,742,488
81,876,442
595,180,423
14,461,967
509,364,671
$ 523,826,638

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2012

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

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

	Building Fund	Bond Interest And Redemption Fund	Nonmajor Governmental Funds	Total Governmental Funds
	$ -	$ -	$ 10,781,777	$ 12,199,549
	195,353,476	9,707,482	38,691,274	254,702,176
	132,815	19,745	4,067,024	126,553,346
	-	-	-	2,689,391
	-	-	19,387	573,082
	$ 195,486,291	$ 9,727,227	$ 53,559,462	$ 396,717,544
	$ -	$ -	$ 3,544,419	$ 14,831,884
	13,866,933	-	1,526,387	47,926,213
	-	-	3,796,817	10,626,529
	13,866,933	-	8,867,623	73,384,626
	-	-	26,582	3,270,168
	181,619,358	9,727,227	28,048,705	252,034,720
	-	-	2,481,259	2,481,259
	-	-	14,135,293	15,277,829
	-	-	-	50,268,942
	181,619,358	9,727,227	44,691,839	323,332,918
	$ 195,486,291	$ 9,727,227	$ 53,559,462	$ 396,717,544

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SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

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

Total fund balance - governmental funds		$ 323,332,918
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.		
The cost of capital assets is	$ 1,379,587,562	
Accumulated depreciation is	(298,889,640)	
Net capital assets		1,080,697,922
Debt issuance costs are expensed in governmental funds. In the governmental-wide statements, they are capitalized and amortized to operations over the life of the related debt.		3,689,797
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. In the government-wide statements, unmatured interest on long-term obligations is recognized when it is incurred.		(2,111,491)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		10,912,790
Long-term liabilities are not due and payable in the current period and therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at year end consist of the following:		
General obligation bonds and premium	726,540,171	
Certificates of participation	10,495,000	
Capital leases payable	18,732,822	
Compensated absences (vacations)	5,801,873	
Arbitrage liability	532,145	
Excess revenue limit transfers	3,300,538	
Post employment liability	127,292,749	
		(892,695,298)
Total net assets - governmental activities		$ 523,826,638

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

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

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

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

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF NET ASSETS
JUNE 30, 2012

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

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 ASSETS
FOR THE YEAR ENDED JUNE 30, 2012

	Governmental Activities: Internal Service Fund
Operating revenues:	
Interfund premiums	$ 20,845,820
Other local revenue	1,000,000
Total operating revenues	21,845,820
Operating expenses:	
Payroll costs	625,314
Insurance claims and other	17,811,311
Total operating expenses	18,436,625
Operating profit	3,409,195
Nonoperating revenues:	
Interest income	377,475
Change in net assets	3,786,670
Net assets - Beginning of year	7,126,120
Net assets - End of year	$ 10,912,790

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2012

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2012

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

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Component Units

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

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

Other Related Entities

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

Basis of Presentation - Fund Accounting

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

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

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

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

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

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

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

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

Nonmajor Governmental Funds

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Basis of Accounting - Measurement Focus

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

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

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

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Investments

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

Prepaid Expenditures

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

Stores Inventories

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

Capital Assets and Depreciation

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

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

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

Compensated Absences

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

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

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Deferred Issuance Costs, Premiums, and Discounts

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

Fund Balances - Governmental Funds

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

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

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Assets

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

Operating Revenues and Expenses

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

lnterfund Activity

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

Estimates

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

Budgetary Data

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

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

Property Taxes

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

New Accounting Pronouncements

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

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

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

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

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

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

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

Policies and Practices

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

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

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool.

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

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

Credit Risk

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

Custodial Credit Risk – Deposits

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

NOTE 3 - RECEIVABLES

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

	General	County School Service	Child Development	Building
Federal Government				
Categorical aid	$ 25,782,017	$ 4,751,872	$ 6,372,600	$ -
State Government				
Apportionment	37,420,614	19,902,681	15,686	-
Categorical aid	11,576,902	983,696	-	-
Lottery	3,964,196	195,663	-	-
Local Government				
Interest	12,081	-	-	132,515
Other Local Sources	9,767,386	8,547	1,579,821	300
Total	$ 88,523,196	$ 25,842,459	$ 7,968,107	$ 132,815

	Bond Interest and Redemption	Nonmajor Funds	Total Governmental	Total Proprietary
Federal Government				
Categorical aid	$ -	$ 2,694,867	$ 39,601,356	$ -
State Government				
Apportionment	-	-	57,338,981	-
Categorical aid	-	115,672	12,676,270	-
Lottery	-	-	4,159,859	-
Local Government				
Interest	19,745	47,747	212,088	51,371
Other Local Sources	-	1,208,738	12,564,792	-
Total	$ 19,745	$ 4,067,024	$ 126,553,346	$ 51,371

NOTE 4 - CAPITAL ASSETS

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

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

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

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

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

NOTE 5 – INTERFUND TRANSACTIONS

Operating Transfers

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

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

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

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

NOTE 6 – ACCOUNTS PAYABLE

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

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

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

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

NOTE 7 – DEFERRED REVENUE

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

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

NOTE 8 – TAX AND REVENUE ANTICIPATION NOTES (TRANS)

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

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

NOTE 9 – LONG-TERM OBLIGATIONS

Summary

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

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

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

Bonded Debt

Defeased Bonded Debt

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

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

The outstanding general obligation bonded debt is as follows:

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

Debt Service Requirement to Maturity

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

Certificates of Participation

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

Accumulated Unpaid Employee Vacation and Vested Sick Leave

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

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

Capital Leases

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

	Energy Retrofit
Balance, Beginning of Year	$ 27,737,604
Payments	(2,281,446)
Balance, End of Year	$ 25,456,158

The capital leases have minimum lease payments as follows:

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

Revenue Limit Deficit

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

Year Ending June 30,	Payment
2013	$ 1,100,179
2014	1,100,179
2015	1,100,180
Total	$ 3,300,538

Arbitrage Rebate Liability

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

Other Postemployment Benefits (OPEB) Obligation

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

NOTE 10 – FUND BALANCES

Fund balances are composed of the following elements:

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

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

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

NOTE 11 - LEASE REVENUES

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

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

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

Plan Description

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

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District and the Teachers Association (CEA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, CEA, CSEA and the unrepresented groups. For fiscal year 2011-12, the District contributed $34,644,509 to the plan, all of which was used for current premiums (approximately 50 percent of total premiums). The non-Medicare retirees pay 50% of active employee contributions up to cap and the Medicare retirees pay 50% of the difference between active employee contributions up to cap.

Annual OPEB Cost and Net OPEB Obligation

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

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

Trend Information

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

Year Ended June 30,	Annual OPEB Cost	Annual Contribution	Percentage Contributed	Net OPEB Obligation
2012	$ 63,379,332	$ 34,664,509	55%	$ 127,292,749
2011	63,213,898	34,225,547	54%	98,577,926
2010	49,728,078	32,354,629	65%	69,589,575

Funded Status and Funding Progress

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
December 1, 2011	$ -	$ 736,931,483	$ 736,931,483	0.00%	$ 396,102,456	186%

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

Actuarial Methods and Assumptions

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

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

NOTE 13 - RISK MANAGEMENT

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

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

Claims Liabilities – Self Insurance Fund

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities for workers' compensation are based on a current actuarial study using the "expected value" as the basis for the total liability. The worker's compensation liabilities are reported at their present value using an expected future investment yield assumption of two percent. The following represents the changes in approximate aggregate liabilities for the District from July 1, 2010 to June 30, 2012:

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

NOTE 14 – EMPLOYEE RETIREMENT SYSTEMS

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

CalSTRS

Plan Description

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

Funding Policy

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

SFERS

Plan Description

The District contributes to the San Francisco Employees' Retirement System (SFERS). SFERS is a separate department of the City and County of San Francisco, deriving its powers, functions, and responsibility from the City charter and ordinances of the Board of Supervisors of the City and County of San Francisco. Substantially all employees of the City and County are a member including most of the District's classified permanent full-time employees and certain certificated employees hired prior to July 1, 1972. Members are classified according to City bargaining units as police, fire, and miscellaneous. District employees are members of the miscellaneous pool. The retirement fund provides retirement, disability, and death benefits based on the employee's years of service, age, and final compensation. Employees with 20 years of service who have attained age 50 or those with 10 years of service who have attained age 60 are eligible for retirement benefits.

Funding Policy

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

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

Funding Status and Progress

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

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

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

Historical Trend Information

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

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

* Most recent information available.

Plan Description and Funding Policy

PARS

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

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

Social Security/Alternative Plan

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

ARS

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

TBP

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

SRP

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

On Behalf Payments

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

The State contributions to CalSTRS are as follows:

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

NOTE 15 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2012.

Litigation

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

Construction Commitments:

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

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

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

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

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

NOTE 17 - SUBSEQUENT EVENT

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

REQUIRED SUPPLEMENTARY INFORMATION

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

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

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
December 1, 2011	$ -	$ 736,931,483	$ 736,931,483	0.00%	$ 396,102,456	186%
November 1, 2009	-	552,653,686	552,653,686	0.00%	370,787,776	149%
June 1, 2007	-	686,633,364	686,633,364	0.00%	352,008,018	195%

SUPPLEMENTARY INFORMATION

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

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

See accompanying note to supplementary information.

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

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

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

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

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

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

[1] CFDA number not available.
[2] Direct funded programs; pass-through identifying number not applicable.
[3] Amount not included in financial statements.

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2012

ORGANIZATION

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

GOVERNING BOARD

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

ADMINISTRATION

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

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

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

* District amended report on July 2012.

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

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

See accompanying note to supplementary information.

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

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

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

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

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

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

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

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

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

[2] ADA amounts include District and County programs.

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

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

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

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2012

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

See accompanying note to supplementary information.

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

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SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

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

See accompanying note to supplementary information.

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

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

See accompanying note to supplementary information.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

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

See accompanying note to supplementary information.

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

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

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

Subrecipients

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

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

Local Education Agency Organization Structure

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2012

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Schedule of Charter Schools

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

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

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

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

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

INDEPENDENT AUDITOR'S REPORTS

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

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

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Francisco Unified School District (the District) as of and for the year ended June 30, 2012, which collectively comprise the District's basic financial statements and have issued our report thereon dated December 13, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined previously.

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Compliance and Other Matters

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

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

Vavrinek Trine Day + Co. LLP

Palo Alto, California
December 13, 2012

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

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

Compliance

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

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2012.

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Internal Control Over Compliance

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

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

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

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

Vavrinek Trine Day + Co. LLP

Palo Alto, California
December 13, 2012

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

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

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

In our opinion, the District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2012.

260 Sheridan Avenue, Suite 440, Palo Alto, CA 94306 Tel: 650.462.0400 Fax: 650.462.0500 www.vtdcpa.com

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

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

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

Vavrinek Trine Day + Co. LLP

Palo Alto, California
December 13, 2012

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

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

Identification of major programs:

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

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

STATE AWARDS

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2012

None reported.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

None reported.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

None reported.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

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

Financial Statement Findings
None reported.

Federal Awards Findings

2011-1 Code 50000

Time and Effort Documentation

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

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

Current Status
Implemented

State Awards Findings

2011-2 Code 40000

After School Education and Safety Program

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

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

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

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

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

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

Verification of Semi-Annual Attendance Reporting (Step 2)
We selected ten ASES sites for verification of semi-annual attendance reporting to the State. This test involves comparing the amount of attendance compiled at the site from their monthly attendance summaries (which were generated from the daily attendance sheets tested above), to the amount of attendance actually reported to the State. The following table provides a summary of the sites and the discrepancies noted in reporting attendance to the State:

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

ASES Site	First Semi-Annual Report	Per Monthly Summaries	(Over)/Under Reported
Aptos Middle	15,885	15,885	0
Cesar Chavez Elementary	6,958	6,958	0
Martin Luther King Jr. Academic Middle	11,368	11,366	(2)
Malcolm X Academy	5,725	5,725	0
Roosevelt Middle	13,663	13,663	0
Sanchez Elementary	20,707	20,707	0
Sheridan Elementary	8,329	8,329	0
Spring Valley Elementary	7,150	7,152	2
Tenderloin Community	4,251	4,606	355
Ulloa Elementary	12,556	12,556	0
	106,592	106,947	355

ASES Site	Second Semi-Annual Report	Per Monthly Summaries	(Over)/Under Reported
Aptos Middle	16,540	16,535	(5)
Cesar Chavez Elementary	8,267	8,515	248
Martin Luther King Jr. Academic Middle	13,744	13,755	11
Malcolm X Academy	6,150	5,462	(688)
Roosevelt Middle	13,590	13,250	(340)
Sanchez Elementary	18,487	18,474	(13)
Sheridan Elementary	9,023	9,064	41
Spring Valley Elementary	8,740	8,740	0
Tenderloin Community	4,837	4,647	(190)
Ulloa Elementary	13,969	13,966	(3)
	113,347	112,408	(939)

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

Current Status
Implemented

APPENDIX C

FORM OF OPINION OF NOTE COUNSEL

[Closing Date]

Members of the Board of Education
of San Francisco Unified School District

$______________
San Francisco Unified School District
(City and County of San Francisco, California)
2013 Tax and Revenue Anticipation Notes, Series A

Members of the Board of Education:

We have acted as note counsel to San Francisco Unified School District (the "District") and in such capacity have examined a record of proceedings related to the issuance of $______________ principal amount of the San Francisco Unified School District (City and County of San Francisco, California) 2013 Tax and Revenue Anticipation Notes, Series A (the "Series A Notes"). The Series A Notes are issued under and pursuant to Article 7.6, Chapter 4, Part 1, Division 2, Title 5 (Sections 53850-53858, inclusive) of the State of California Government Code and a resolution adopted by the Board of Education of the District on April 23, 2013 (the "Resolution").

In our capacity as note counsel, we have reviewed originals or copies certified or otherwise identified to our satisfaction of such documents, certificates, opinions and other matters as we deemed necessary or appropriate to render the opinions set forth herein. As to questions of fact material to our opinion, we have relied upon the certified proceedings and other certifications of public officials furnished to us without undertaking to verify the same, and we have assumed that the signatures on all documents, certificates and opinions that we reviewed are genuine.

Certain requirements and procedures contained or referred to in the Resolution or other documents pertaining to the Series A Notes may be changed, and certain actions may be taken or not taken, under the circumstances and subject to the terms and conditions set forth in such documents, upon the advice or with the approving opinion of counsel nationally recognized in the area of tax-exempt obligations. We express no opinion as to the effect of any change to any document pertaining to the Series A Notes or of any action taken or not taken with respect to the exclusion from gross income of the interest on the Series A Notes for federal income tax purposes where such change is made or action is taken or not taken without our approval or in reliance upon the advice of counsel other than ourselves.

Based on the foregoing, and subject to the limitations and qualifications herein specified, as of the date hereof, under existing law, we are of the opinion that:

1. The Series A Notes constitute valid and binding obligations of the District, enforceable in accordance with their terms.

2. The Series A Notes are payable solely from certain taxes, income, revenue, cash receipts and other moneys of the District for the Fiscal Year ending June 30, 2014 and lawfully

available for the payment of the Series A Notes and the interest thereon. Pursuant to the terms of the Resolution, the District has pledged certain amounts to such payment.

3. Assuming continuing compliance by the District with the covenants contained in the Resolution and in the Tax Certificate relating to the Series A Notes and the requirements of the Internal Revenue Code of 1986, as amended, regarding the use, expenditure and investment of Note proceeds and the timely payment of certain investment earnings to the United States, interest on the Series A Notes is not includable in the gross income of the owners of the Series A Notes for federal income tax purposes. Failure of the District to comply with such covenants and requirements may cause interest on the Series A Notes to become included in the gross income of such owners for federal income tax purposes retroactive to the date of issuance of the Series A Notes.

4. Interest on the Series A Notes is not treated as an item of tax preference in calculating the federal alternative minimum taxable income of individuals and corporations. Interest on the Series A Notes, however, is included as an adjustment in calculating of federal corporate alternative minimum taxable income and may, therefore, affect a corporation's alternative minimum tax liability.

5. Interest on the Series A Notes is exempt from personal income taxes imposed by the State of California.

We express no opinion regarding other federal or State of California income tax consequences caused by the ownership of or the receipt of interest on the Series A Notes.

With respect to the opinions expressed herein, the enforceability of the rights of the owners of the Series A Notes is subject to bankruptcy, insolvency, reorganization, arrangement, moratorium and other laws affecting the enforcement of creditors' rights generally, to the application of equitable principles (regardless of whether such enforceability is considered in a proceeding in equity or at law), to the exercise of judicial discretion in appropriate cases, and to the limitations on legal remedies against school districts in the State of California.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions. Such opinions may be adversely affected by actions taken or events occurring, including a change in law, regulation or ruling (or in the application of official interpretation of any law, regulation or ruling) after the date hereof. We have not undertaken to determine, or to inform any person, whether such actions are taken or such events occur, and we have no obligation to update this opinion in light of such actions or events.

Respectfully submitted,

APPENDIX D

EXCERPTS FROM THE CITY AND COUNTY OF SAN FRANCISCO INVESTMENT PORTFOLIO REPORT

The following information has been provided by the City and County of San Francisco (the "City") for use herein. The District takes no responsibility for the accuracy or completeness of such information.

Investment Policy

The management of the City's surplus cash is governed by an Investment Policy administered by the Treasurer and Tax Collector of the City. In order of priority, the objectives of this Investment Policy are safety, liquidity and return on investments. Safety of principal is the foremost objective of the investment program. The investment portfolio maintains sufficient liquidity to enable the Treasurer's Office to meet all cash flow needs which might be reasonably anticipated. The Treasurer and Tax Collector of the City then attempts to generate a market rate of return, without undue compromise of the first two objectives. A report detailing the investment portfolio and investment activity, including the market value of the portfolio, is submitted to the Mayor and the Board of Supervisors monthly.

As of June 30, 2013, the City's pooled investment fund consisted of the investments classified below.

CITY AND COUNTY OF SAN FRANCISCO
Investment Portfolio
As of June 30, 2013(1)
($ in millions)

Type of Investment	Par Value	Book Value	Market Value
U.S. Treasuries	$ 860	$ 859	$ 858
Federal Agencies	3,997	4,010	4,009
State and Local Obligations	137	142	140
Public Time Deposits	1	1	1
Negotiable Certificates of Deposit	375	375	375
Medium Term Notes	403	408	405
Money Market Funds	360	360	360
TOTAL(2)	$ 6,134	$ 6,155	$6,148

(1) June 2013 Earnings Yield: 0.82%.
(2) Totals may not add due to rounding.

Source: Office of the Treasurer & Tax Collector, City and County of San Francisco

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APPENDIX E

BOOK-ENTRY ONLY SYSTEM

The information in this Appendix concerning The Depository Trust Company ("DTC"), New York, New York, and DTC's book-entry system has been obtained from DTC and the District takes no responsibility for the completeness or accuracy thereof. The District cannot and does not give any assurances that DTC, DTC Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest and principal, with respect to the Series A Notes, (b) certificates representing ownership interest in or other confirmation or ownership interest in the Series A Notes, or (c) redemption or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Series A Notes, or that they will so do on a timely basis, or that DTC, DTC Participants or DTC Indirect Participants will act in the manner described in this Appendix. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedures" of DTC to be followed in dealing with DTC Participants are on file with DTC.

The DTC will act as securities depository for the Series A Notes. The Series A Notes will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered security certificate will be issued for the Series A Notes and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has been rated AA+ by Standard & Poor's. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com and www.dtc.org. Information on these websites is not incorporated herein.

Purchases of the Series A Notes under the DTC system must be made by or through Direct Participants, which will receive a credit for the Series A Notes on DTC's records. The ownership interest of each actual purchaser of each Note ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the

Series A Notes are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Series A Notes, except in the event that use of the book-entry system for the Series A Notes is discontinued.

To facilitate subsequent transfers, all Series A Notes deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of the Series A Notes with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Series A Notes; DTC's records reflect only the identity of the Direct Participants to whose accounts such Series A Notes are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of the Series A Notes may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Series A Notes, such as redemptions, tenders, defaults, and proposed amendments to the Security documents. For example, Beneficial Owners of the Series A Notes may wish to ascertain that the nominee holding the Series A Notes for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Series A Notes unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Series A Notes are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Payments of principal of and interest on the Series A Notes will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC (nor its nominee), the Paying Agent, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal of and interest on the Series A Notes to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as depository with respect to the Series A Notes at any time by giving reasonable notice to the District or the Paying Agent. Under such circumstances, in the event that a successor depository is not obtained, security certificates are required to be printed and delivered.

The District may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, security certificates will be printed and delivered.

In the event that the book-entry system is discontinued as described above, the requirements of the Resolution will apply. The foregoing information concerning DTC concerning and DTC's book-entry system has been provided by DTC, and neither the District nor the Paying Agent take any responsibility for the accuracy thereof.

THE DISTRICT AND THE ORIGINAL PURCHASER DO NOT GIVE ANY ASSURANCES THAT DTC, THE PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS OF PRINCIPAL OR INTEREST ON THE SERIES A NOTES PAID TO DTC OR ITS NOMINEE AS THE REGISTERED OWNER, OR WILL DISTRIBUTE ANY REDEMPTION NOTICES OR OTHER NOTICES, TO THE BENEFICIAL OWNERS, OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL SERVE AND ACT IN THE MANNER DESCRIBED IN THIS OFFICIAL STATEMENT. NEITHER THE DISTRICT NOR THE ORIGINAL PURCHASER ARE RESPONSIBLE OR LIABLE FOR THE FAILURE OF DTC OR ANY PARTICIPANT TO MAKE ANY PAYMENT OR GIVE ANY NOTICE TO A BENEFICIAL OWNER WITH RESPECT TO THE SERIES A NOTES OR AN ERROR OR DELAY RELATING THERETO.

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APPENDIX F

FORM OF CONTINUING DISCLOSURE CERTIFICATE

This Continuing Disclosure Certificate (the "Disclosure Certificate") is executed and delivered by the San Francisco Unified School District (the "District") in connection with the issuance of $______________ of its 2013 Tax and Revenue Anticipation Notes, Series A (the "Series A Notes"). The Series A Notes are being issued pursuant to a resolution of the District adopted on April 23, 2013 (the "Resolution"). The District covenants and agrees as follows:

Section 1. Purpose of the Disclosure Certificate. This Disclosure Certificate is being executed and delivered by the District for the benefit of the Noteholders and in order to assist the Participating Underwriter in complying with Rule 15c2-12(b)(5) of the Securities and Exchange Commission (the "SEC").

Section 2. Definitions. In addition to the definitions set forth in the Resolution, which apply to any capitalized term used in this Disclosure Certificate unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

"Dissemination Agent" shall mean the District or any successor Dissemination Agent designated in writing by the District and which has filed with the District a written acceptance of such designation.

"Holders" shall mean, while the Series A Notes are registered in the name of The Depository Trust Company, any applicable participant in its depository system, or any person that (a) has the power, directly or indirectly, to vote or consent with respect to, or to dispose of ownership of, any Series A Notes (including persons holding Series A Notes through nominees, depositories or other intermediaries), or (b) is treated as the owner of any Series A Notes for federal income tax purposes.

"Listed Events" shall mean any of the events listed in Section 3(a) of this Disclosure Certificate.

"MSRB" means the Municipal Securities Rulemaking Board, or any other entity designated or authorized by the Securities and Exchange Commission to receive reports pursuant to the Rule. Until otherwise designated by the MSRB or the Securities and Exchange Commission, filings with the MSRB are to be made through the Electronic Municipal Market Access (EMMA) website of the MSRB, currently located at http://emma.msrb.org.

"Participating Underwriter" shall mean the Original Purchaser of the Series A Notes required to comply with the Rule in connection with offering of the Series A Notes.

"Rule" shall mean Rule 15c2-12(b)(5) adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

Section 3. Reporting of Listed Events.

This Section 3 shall govern the giving of notices of the occurrence of any of the following events if applicable to the Series A Notes:

1. Principal and interest payment delinquencies.

2. Non-payment related defaults.

3. Unscheduled draws on debt service reserves reflecting financial difficulties.

4. Unscheduled draws on credit enhancements reflecting financial difficulties.

5. Substitution of credit or liquidity providers, or their failure to perform.

6. Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Series A Notes, or other material events affecting the tax status of the Series A Notes.

7. Modifications to rights of Holders.

8. Bond calls and tender offers.

9. Defeasances.

10. Release, substitution, or sale of property securing repayment of the Series A Notes.

11. Rating changes.

12. Bankruptcy, insolvency, receivership or similar event of the District.[1]

13. The consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms.

14. Appointment of a successor or additional trustee or the change of name of a trustee.

Whenever the District obtains knowledge of the occurrence of a Listed Event, but, in the case of a Listed Event described in (2), (7), (8) (if the event is a bond call), (10), (13) or (14) of this Section 3, only in the event the District determines that knowledge of the occurrence of a Listed Event would be material under applicable federal securities laws, the District shall or shall cause to be filed a notice of such occurrence with the MSRB through its EMMA System, in an electronic format as prescribed by the MSRB, in a timely manner but not in excess of 10 business days after the occurrence of such Listed Event.

[1] For the purposes of the event identified in paragraph 12, the event is considered to occur when any of the following occur: The appointment of a receiver, fiscal agent or similar officer for the District in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the District.

Section 4. Termination of Reporting Obligation. The District's obligations under this Disclosure Certificate shall terminate upon the defeasance, prior redemption or payment in full of all of the Series A Notes.

Section 5. Dissemination Agent. The District may, from time to time, appoint or engage a Dissemination Agent to assist it in carrying out its obligations under this Disclosure Certificate, and may discharge any such Agent, with or without appointing a successor Dissemination Agent.

Section 6. Amendment. Notwithstanding any other provision of this Disclosure Certificate, the District may amend this Disclosure Certificate, only if:

(A) the amendment is made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature, or status of the District, or type of business conducted;

(B) this Disclosure Certificate, as amended, would have complied with the requirements of the Rule at the time of award of the Series A Notes, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(C) the amendment does not materially impair the interests of the Holders, as determined by parties unaffiliated with the District (such as, but without limitation, the District's Note Counsel).

Section 7. Additional Information. Nothing in this Disclosure Certificate shall be deemed to prevent the District from disseminating any other information, using the means of dissemination set forth in this Disclosure Certificate or any other means of communication, or including any other information in any notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Certificate. If the District chooses to include any information in any notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Certificate, the District shall have no obligation under this Agreement to update such information or include it in any future notice of occurrence of a Listed Event.

Section 8. Default. In the event of a failure of the District to comply with any provision of this Disclosure Certificate, any Holder may take such actions as may be necessary and appropriate, including seeking mandate or specific performance by court order, to cause the District to comply with its obligations under this Disclosure Certificate. A default under this Disclosure Certificate shall not be deemed an event of default under the Resolution, and the sole remedy under this Disclosure Certificate in the event of any failure of the District to comply with this Disclosure Certificate shall be an action to compel performance.

Section 9. Duties, Immunities and Liabilities of Dissemination Agent. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Certificate, and the District agrees to indemnify and save the Dissemination Agent, its officers, directors, employees and agents, harmless against any loss, expense and liabilities that it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the District under this Section shall survive resignation or removal of the Dissemination Agent and payment of the Series A Notes.

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Section 10. Beneficiaries. This Disclosure Certificate shall inure solely to the benefit of the District, the Dissemination Agent, the Participating Underwriter and the Holders from time to time of the Series A Notes, and shall create no rights in any other person or entity.

Date: _______, 2013

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

By: ____

Joseph C. Grazioli
Chief Financial Officer

APPENDIX G

OFFICIAL NOTICE OF SALE AND OFFICIAL BID FORM

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OFFICIAL NOTICE OF SALE
and
OFFICIAL BID FORM

$90,000,000*
San Francisco Unified School District
(City and County of San Francisco, California)
2013 Tax and Revenue Anticipation Notes, Series A

The San Francisco Unified School District will receive sealed bids and electronic bids for the above-referenced Notes at the place and up to the time specified below:

SALE DATE:	August 8, 2013 (Subject to postponement, cancellation, modification or amendment in accordance with this Official Notice of Sale)
TIME:	9:00 a.m., California Time
PLACE:	Tamalpais Advisors Inc. 3030 Bridgeway, Suite 340 Sausalito, California 94965
DELIVERY DATE:	August 15, 2013

* Preliminary, subject to change.

OFFICIAL NOTICE OF SALE

**$90,000,000*
SAN FRANCISCO UNIFIED SCHOOL DISTRICT
(CITY AND COUNTY OF SAN FRANCISCO)
2013 TAX AND REVENUE ANTICIPATION NOTES, SERIES A**

NOTICE IS HEREBY GIVEN that sealed bids and electronic unconditional bids will be received by the San Francisco Unified School District (the "District") to and including the hour of 9:00 a.m., Pacific Time, on August 8, 2013, for the purchase of all, but not less than all, of $90,000,000* principal amount of San Francisco Unified School District (City and County of San Francisco, California), 2013 Tax and Revenue Anticipation Notes, Series A (the "Notes"). In the case of electronic bids, bids may only be submitted electronically through the Ipreo LLC's BiDCOMP™/PARITY® System ("Parity") in the manner described below. Hand-delivered bids must be delivered to Tamalpais Advisors, Inc., 3030 Bridgeway, Suite 340, Sausalito, CA 94965. Within 26 hours, the Chief Financial Officer of the District, or the designee of such officer, will consider the bids received and, if an acceptable bid is received, award the sale of the Notes on the basis of the lowest true interest cost. Notice of the award will be given promptly to the successful bidder. In the event that no bid is awarded by the designated time, the District will reschedule the sale to another date or time by providing notification through Parity and/or Thomson Financial (the "News Services").

THE RECEIPT OF BIDS ON AUGUST 8, 2013, MAY BE POSTPONED OR CANCELLED AT OR PRIOR TO THE TIME BIDS ARE TO BE RECEIVED. NOTICE OF SUCH POSTPONEMENT OR CANCELLATION WILL BE COMMUNICATED BY THE DISTRICT THROUGH THE NEWS SERVICES AS SOON AS PRACTICABLE FOLLOWING SUCH POSTPONEMENT OR CANCELLATION. Notice of the new date and time for receipt of bids shall be given through the News Services as soon as practicable following a postponement and no later than 10:00 a.m. California time on the business day preceding the new date for receiving bids.

The District reserves the right, prior to the date of the sale, to modify this Official Notice of Sale (this "Official Notice of Sale"), including changing the principal amount of Notes offered for sale, the time or date of the sale and such other changes as may be required. Any such modifications will be announced through the News Services not later than 10:00 a.m. California time on the business day preceding the date on which bids may be submitted.

This Official Notice of Sale will be submitted to Ipreo LLC for posting at its website address (www.i-dealprospectus.com) and in the Parity bid delivery system. In the event the summary of the terms of sale of the Notes posted by Ipreo LLC conflicts with this Official Notice of Sale in any respect, the terms of this Official Notice of Sale shall control, unless a notice of an amendment is given as described herein.

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* Preliminary, subject to change

TERMS RELATED TO THE NOTES

THE AUTHORITY FOR ISSUANCE, PURPOSES, PAYMENT OF DEBT SERVICE, THE FORM OF LEGAL OPINION OF NOTE COUNSEL AND OTHER INFORMATION REGARDING THE NOTES ARE PRESENTED IN THE PRELIMINARY OFFICIAL STATEMENT. THIS OFFICIAL NOTICE OF SALE GOVERNS ONLY THE TERMS OF SALE, AWARD OF BIDDING AND CLOSING PROCEDURES FOR THE NOTES. BIDDERS MUST REVIEW THE PRELIMINARY OFFICIAL STATEMENT FOR A DEFINITIVE DESCRIPTION OF THE NOTES.

Issue

The Notes will be dated the date of delivery (on or about August 15, 2013) and will be in denominations of $5,000 each, or integral multiples thereof.

Authority and Purpose

The Notes will be issued pursuant to the provisions of Article 7.6 (commencing with Section 53850) of Chapter 4 of Part 1 of Division 2 of Title 5 of the California Government Code and the provision of a resolution of the Board of Education of the District, dated April 23, 2013 (the "District Resolution").

The Notes are being issued for the purpose of providing operating cash for any purpose for which the District is authorized to use and expend moneys, including, but not limited to current expenses, capital expenditures, investment and reinvestment, and the discharge of any obligation or indebtedness of the District.

Preliminary Official Statement

The terms of issuance, principal and interest repayment, redemption, security, tax exemption and all other information regarding the Notes and the District are provided in the Preliminary Official Statement for the Notes, dated July 30, 2013 (the "Preliminary Official Statement"). Such Preliminary Official Statement, together with any supplements thereto, is in form "deemed final" by the District for purposes of SEC Rule 15c2-12(b)(1), but is subject to revision, amendment and completion in a final official statement (the "Official Statement"). The District will make available the Preliminary Official Statement, an electronic copy of which, along with related documents, will be furnished upon request made by telephone to the Financial Advisor, at (415) 331-4473. Each bidder must have obtained and reviewed the Preliminary Official Statement prior to bidding for the Notes. Bidders must read the entire Preliminary Official Statement to obtain information essential to the making of an informed decision to bid. This Official Notice of Sale contains certain information for quick reference only, is not a summary of the issue and governs only the terms of the sale of, bidding for and closing procedures with respect to the Notes.

Interest Rate and Interest and Principal Payment Date

The interest rate to be borne by the Notes will be specified by the bidder in its bid and shall not exceed twelve percent (12.00%). Interest will be payable at maturity (expected to be

August 14, 2014) calculated on the basis of a 360 day year of twelve 30 day months. Principal of the Notes will be payable at maturity (expected to be August 14, 2014).

Date of the Notes

The Notes will be dated the dated of issuance thereof, which is expected to be August 14, 2013.

Minimum Bid for the Notes

Each bid for the Notes shall be for not less than 100.0% of the principal amount.

No Redemption

The Notes are not subject to redemption prior to maturity.

Payment

The principal of and interest on the Notes is payable on August 14, 2014. Principal of and interest on the Notes are payable in lawful money of the United States of America upon the surrender thereof at the offices of the paying agent, The Bank of New York Mellon Trust Company, N.A. (the "Paying Agent"), in San Francisco, California.

Registration

The Notes will be issued only in fully registered book-entry form, registered in the name of "Cede & Co.," as nominee of The Depository Trust Company, New York, New York ("DTC"). See the discussion of "Book-Entry System" in the Preliminary Official Statement.

Security

The principal amount of the Notes and any Additional Notes (as defined the District Resolution and described under "Additional Notes" herein), together with the interest thereon, is payable from taxes, income, revenue, cash receipts, and other moneys of the District which are generally available for the payment of current expenses and other obligations of the District received by the District for the General Fund of the District during Fiscal Year 2013-2014 or accrued during Fiscal Year 2013-2014 (collectively, the "General Fund Revenues"), as provided in Section 53856 of the Act. Additional Notes may be issued only if (1)(i) such Notes are payable subsequent to the payment of the Series A Notes and each other Series of Notes theretofore issued and outstanding and (ii) there is on deposit in the Repayment Fund with respect to each Series of Notes then outstanding an amount equal to or greater than the sum of (A) the then unpaid principal amount of each such Series of Notes, and (B) any then unpaid interest due or to become due on each such Series of Notes or (2) no Notes previously issued under the Resolution are then outstanding.

The principal amount of the Notes, together with the interest thereon, is payable from the General Fund Revenues. As security for the payment of the principal of and interest on the Notes, the District has agreed to set aside and deposit into the Repayment Fund: (i) by

January 31, 2014, an amount equal to 50% of the principal amount of the Notes from General Fund Revenues received by the District on or before such date; and (ii) by April 30, 2014, an amount equal to 50% of the principal amount plus any deficiency in the amount that was required to be set aside and deposited in the Repayment Fund by April 30, 2014, and 100% of the interest to be due on the Notes on the Maturity Date from General Fund Revenues received by the District on or before such date (collectively, the "Pledged Revenues"). Pursuant to the District Resolution, the District has pledged such amounts, all of which constitute Pledged Revenues. The District shall deposit the Pledged Revenues on or before January 31, 2014, and April 30, 2014 (each a "Pledge Date") with the Treasurer-Tax Collector of the City and County of San Francisco (the "Treasurer") for deposit into the Repayment Fund (defined herein) established under the District Resolution.

The Pledged Revenues will be deposited by the District at the times and in the amounts set forth above in a special fund held by the Treasurer designated as the "San Francisco Unified School District, City and County of San Francisco 2013 Tax and Revenue Anticipation Notes Repayment Fund (the "Repayment Fund"). The Treasurer shall transfer the amounts in the Repayment Fund to the Paying Agent no later than two days prior to the maturity date of the Notes.

The principal of the Notes and the interest thereon shall be a first lien and charge against and shall be payable from the first moneys received by the District from such Pledged Revenues, as provided by law.

In the event that there are insufficient General Fund Revenues received by the District to permit the deposit of the full amount of Pledged Revenues to be deposited with respect to such Pledge Date, then the amount of any deficiency shall be satisfied and made up from any other moneys of the District lawfully available for the repayment of the Notes and the interest thereon, but only to the extent permitted by law. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES" in the Preliminary Official Statement.

Additional Notes

The District Resolution authorizes the issuance of tax and revenue anticipation notes, including the Notes, in an amount not to exceed $100,000,000. The Notes are the initial series of notes to be issued pursuant to the District Resolution. Additional Notes may be issued only if (1)(i) such Notes are payable subsequent to the payment of the Series A Notes and each other Series of Notes theretofore issued and outstanding and (ii) there is on deposit in the Repayment Fund with respect to each Series of Notes then outstanding an amount equal to or greater than the sum of (A) the then unpaid principal amount of each such Series of Notes, and (B) any then unpaid interest due or to become due on each such Series of Notes or (2) no Notes previously issued under the Resolution are then outstanding. See "SECURITY AND SOURCES OF PAYMENT FOR THE SERIES A NOTES—Additional Notes" in the Preliminary Official Statement.

Legal Opinions

The Notes are sold with the understanding that the purchaser will be furnished with the approving opinion of Sidley Austin LLP ("Note Counsel"), the form of which is included in the Preliminary Official Statement and will be included in the final Official Statement. Note Counsel has been retained by the District and in such capacity Note Counsel is to render its opinion to the District upon the legality of the Notes under California law, and on the exclusion from gross income of the interest on the Notes for purposes of federal and State of California income taxes. The fees and expenses of Note Counsel will be paid from the proceeds of the Notes.

Tax Status

In the opinion of Note Counsel to the District, under current law and assuming compliance with certain covenants in the documents pertaining to the Notes and requirements of the Internal Revenue Code of 1986, as amended, as described herein, interest on the Notes is not includable in the gross income of the owners of such Notes for federal income tax purposes. In the opinion of Note Counsel, under current law, interest on the Notes is exempt from personal income taxes imposed by the State of California. See "TAX MATTERS" in the Preliminary Official Statement.

Paying Agent

The Bank of New York Mellon Trust Company, N.A. has been appointed the paying agent (the "Paying Agent") for the payment of principal of and interest on the Notes and for the registration of the Notes.

TERMS OF THE SALE

Form and Submission of Bids

Each bid for the Notes must be: (1) for not less than all of the Notes; (2) for not less than $90,000,000; (3) unconditional; (4) submitted with a Good Faith Deposit (see "Good Faith Deposit"); and (5) submitted (i) on the Official Bid Form attached as Exhibit A hereto (the "Official Bid Form") or (ii) electronically via Parity, in each case not later than 9:00 a.m., Pacific Time, on the date of sale. For purposes of submitting all bids, the time as maintained on Parity shall constitute the official time.

Each bid, other than bids submitted electronically, must be enclosed in a separate sealed envelope addressed to the District, endorsed "Proposal for 2013 Tax and Revenue Anticipation Notes" and timely delivered to the District c/o Jean Buckley at the address on the cover of this Official Notice of Sale.

No other provider of internet bidding services and no other means of delivery (i.e. telephone, e-mail or facsimile delivery) will be accepted. The sale of the Notes will end at 9:00 a.m., Pacific Time, on August 8, 2013. For purposes of submitting all bids, the time as maintained on Parity shall constitute the official time.

In submitting an electronic bid for the Notes through Parity, each bidder agrees to the following terms and conditions: (1) if any provision in this Official Notice of Sale with respect to the Notes conflicts with information or terms provided or required by Parity, this Official Notice of Sale, including any amendments or modifications issued through the News Services, will control; (2) each bidder will be solely responsible for making necessary arrangements to access Parity for purposes of submitting its bid in a timely manner and in compliance with the requirements of this Official Notice of Sale; (3) the District will not have any duty or obligation to provide or assure access to Parity to any bidder, nor will the District be responsible for proper operation of, or have any liability for, any delays, interruptions or damages caused by the use of Parity or any incomplete, inaccurate or untimely bid submitted by any bidder through Parity; (4) the District is permitting use of Parity as a communication mechanism, and not as an agent of the District, to facilitate the submission of electronic bids for the Notes; Parity is acting as an independent contractor, and is not acting for or on behalf of the District; (5) the District is not responsible for ensuring or verifying bidder compliance with any procedures established by Parity; (6) information that is transmitted electronically through Parity will form a contract, and the bidder will be bound by the terms of such contract; and (7) information provided by Parity to bidders will form no part of any bid or of any contract between the Purchaser and the District unless that information is included in this Official Notice of Sale. All costs and expenses incurred by prospective bidders in connection with their submission of bids through Parity are the sole responsibility of the bidders, and the District is not responsible for any of such costs or expenses. See "Information Regarding Bids; Minimum Bid of Par" herein.

This Official Notice of Sale will be submitted to Ipreo LLC for posting at its website address (www.i-dealprospectus.com) and in the Parity bid delivery system. In the event the summary of the terms of sale of the Notes posted by Ipreo LLC conflicts with this Official Notice of Sale in any respect, the terms of this Official Notice of Sale shall control, unless a notice of an amendment is given as described herein.

For purposes of the Internet bidding process, the time as displayed on Parity's website (www.i-dealprospectus.com) and in the Parity bid delivery system shall constitute the official time. All bids shall be deemed to incorporate the provisions of this Official Notice of Sale.

For further information about Parity, potential bidders may contact the Financial Advisor at (415) 331-4473 or Parity at (212) 849 5021.

NEITHER THE DISTRICT, THE FINANCIAL ADVISOR, NOR NOTE COUNSEL SHALL BE RESPONSIBLE FOR, AND THE BIDDER EXPRESSLY ASSUMES THE RISK FOR ANY INCOMPLETE, INACCURATE OR UNTIMELY BID SUBMITTED VIA PARITY BY SUCH BIDDER, INCLUDING, WITHOUT LIMITATION, BY REASON OF GARBLED TRANSMISSION, MECHANICAL FAILURE, ENGAGED TELEPHONE OR TELECOMMUNICATIONS LINES, OR ANY OTHER CAUSE ARISING FROM DELIVERY VIA PARITY.

Information Regarding Bids; Minimum Bid of Par

Bidders are required to submit unconditional bids specifying the rate of interest and premium, if any, at which the bidder will purchase all of the Notes. Each interest rate must be a multiple of 1/20th of one percent or 1/8th of one percent. The interest rate to be borne by the Notes shall not exceed twelve percent (12.00%). Bidders shall specify (i) the interest rate to be borne by the Notes, (ii) the amount of premium, if any, that they will pay, in addition to the principal amount, to purchase the Notes, and (iii) the total purchase price, which price shall not be less than the principal amount of the Notes for which they have bid. No bid to purchase the Notes at a price less than 100% of the par amount will be accepted. All bids must be made in accordance with the requirements prescribed herein. Each bid submitted through Parity shall be deemed an irrevocable offer to purchase all of the Notes on the terms provided in this Official Notice of Sale, and shall be binding upon the bidder.

Estimate of True Interest Cost

Each bidder is requested, but not required, to state in its Official Bid Form the true interest cost of its bid to the District, which shall be considered as informative only and neither conclusive nor binding on either the bidder or the District.

Award and Delivery; Initial Public Offering Price

Unless all bids are rejected, the District will award the Notes to the qualified bidder offering the lowest true interest cost ("TIC") to the District considering the interest rate specified, and the premium, if any. The TIC will be the nominal annual discount rate which, when compounded semi-annually and used to discount the debt service on the Notes to the maturity date, calculated using the interest rate specified in the bid, results in an amount equal to the principal amount of the Notes and the premium, if any, specified in the bid. The District will not award any bid with a TIC in excess of 4.00% for the Notes. If two or more bids offer the same lowest TIC, the first bid submitted, as determined by reference to the time displayed on Parity, shall be deemed to be the winning bid. Delivery of the Notes will be made to the purchaser through DTC on or about August 15, 2013 (the "Closing"), upon payment in immediately available funds to the District.

The winning bidder shall advise the Financial Advisor of the initial public offering price within on hour of having been notified of the award of the Notes.

Good Faith Deposit

A good faith deposit equal to $900,000 is required to be submitted by wire and by no later than noon, Pacific Time, on August 10, 2013 to the District. The Financial Advisor will provide wiring instructions to the successful bidder by 5 p.m., Pacific Time, on August 8, 2013.

Verification

All bids are subject to verification and approval by the District. The District shall have the right to deem each final bid reported on Parity immediately after the deadline for receipt of bids to be accurate and binding on the bidder. Information or calculations provided by Parity other than the information required to be provided by the bidder in accordance with this Official Notice of Sale is for informational purposes only and shall not be binding on either the bidder or the District.

Right of Rejection; Cancellation; Withdrawal of Notes for Sale

The Chief Financial Officer of the District (the "CFO") reserves the right to reject any and all bids received and to waive any irregularity or informality in the bids, except that the time for receiving bids shall be of the essence. The successful bidder shall have the right at its option to cancel the contract of purchase if the District shall fail to tender the Notes for delivery within 60 days from the date of sale thereof. The District may, with prior notice given as required herein, withdraw the Notes for sale.

Prompt Award

The CFO, or the designee of such officer, will take action awarding Notes or rejecting all bids not later than 26 hours after the expiration of the time herein prescribed for the receipt of bids, unless such time of award is waived by the respective successful bidders.

OTHER TERMS AND CLOSING PROCEDURES

CUSIP, CDIAC and Other Expenses of the Successful Bidder

A CUSIP number will be applied for by the successful bidder and will be printed on the executed Notes, but the District will assume no obligation for the assignment or printing of such number on said Notes or for the correctness of such number, and neither the failure to print such number on said Notes nor any error with respect thereto shall constitute cause for a failure or refusal by the purchaser thereof to accept delivery of and make payment for said Notes. The cost for the assignment of a CUSIP number to the Notes will be the responsibility of the successful bidder.

In addition, the successful bidder will be required, pursuant to State law, to pay all fees due to the California Debt and Investment Advisory Commission ("CDIAC"). CDIAC will separately invoice the successful bidder for the CDIAC fees. The successful bidder will also be responsible for payment other fees incurred in connection with the issuance of the Notes, including fees of DTC, the Municipal Securities Rulemaking Board and other appropriate underwriting fees and charges, if any.

Certificate Regarding Issue Price of the Notes

As soon as practicable, but not later than one day prior to delivery of the Notes, the successful bidder for the Notes must submit to the District a certificate regarding the issue price of the Note in the form attached hereto as Attachment 1 to Exhibit A, which certificate shall be in form and substance satisfactory to Note Counsel and shall include such additional information as may be requested by Note Counsel.

Closing Certificates

At Closing the District will deliver certificates stating that (i) an Authorized Officer has reviewed the Official Statement and on such basis certifies that it does not contain any untrue statement of a material fact and does not omit to state any material fact necessary to make the statements in the Official Statement, in light of the circumstances under which they were made, not misleading, and (ii) to the best knowledge of such official, no litigation is pending (with service of process having been accomplished) or threatened (either in State of California or federal courts) against the District: (a) seeking to restrain or enjoin the execution, sale or delivery of any of the Notes, (b) in any way contesting or affecting the authority for the execution, sale or delivery of the Notes, or (c) in any way contesting the existence or powers of the District.

Continuing Disclosure

In order to assist bidders in complying with Securities and Exchange Commission Rule 15c2 12(b)(5), the District will undertake, pursuant to a Continuing Disclosure Certificate, to provide notices of the occurrence of Listed Events (as defined in the Continuing Disclosure Certificate). A form of the Continuing Disclosure Certificate is included in the Preliminary Official Statement and will also be included in the final Official Statement.

Right to Modify or Amend

The District reserves the right to modify or amend this Official Notice of Sale in any respect; provided, however, that any such modification or amendment shall be communicated to potential bidders through Parity as described herein.

Withdrawal of Notes for Sale

The District may, with prior notice, withdraw the Notes for sale; provided, however, that any such withdrawal shall be communicated to potential bidders through Parity.

Official Statement

Within seven business days after the date of award of the Notes, and in any event no later than one business day prior to Closing, up to 25 copies of the final Official Statement will be supplied to the winning bidder at the expense of the District.

GIVEN pursuant to a resolution of the Board of Education of the San Francisco Unified School District.

Dated: July 30, 2013

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

By: /s/ Joseph C. Grazioli
Joseph C. Grazioli
Chief Financial Officer

EXHIBIT A

OFFICIAL BID FORM

$______________
SAN FRANCISCO UNIFIED SCHOOL DISTRICT
(CITY AND COUNTY OF SAN FRANCISCO, CALIFORNIA),
2013 TAX AND REVENUE ANTICIPATION NOTES, SERIES A
(Book-Entry Only)

_______, 2013

San Francisco Unified School District
c/o Tamalpais Advisors Inc.
3030 Bridgeway Suite 340
Sausalito, CA 94965
Attn: Ms. Jean Buckley

Ladies and Gentlemen:

We, the undersigned, ____, are hereby submitting a bid on behalf of ourselves [and others] for the San Francisco Unified School District (City and County of San Francisco, California) 2013 Tax and Revenue Anticipation Notes, Series A (the "Notes"). We have received and reviewed the Official Notice of Sale dated July 30, 2013 for the Notes (the "Official Notice of Sale") and the Official Bid Form related thereto. We acknowledge that we have received and reviewed the Preliminary Official Statement, which describes the Notes and provides certain information on the San Francisco Unified School District (the "District"). We offer to purchase all of the above-captioned Notes, more particularly described in your Official Notice of Sale, which is incorporated herein by reference, and made a part hereof, including the submission of the Good Faith Deposit in the amount of $__________ in the form of wire transfer due by noon California Time on ________, 2013 if we are the successful bidder, at a purchase price of ___________ (which purchase price is not less than [$______________]).

This offer is for the Notes bearing interest at the rate of ______.

This bid is subject to acceptance not later than 26 hours after the expiration of the time established for the final receipt of bids.

Our calculation of the true interest cost, which is considered to be informative only and not a part of the bid, is ___________%.

We have noted that payment of the purchase price is to be made in immediately available federal funds at the time of delivery of the Notes. If we are the successful bidder, we will (1) advise the District of the initial public offering price of the Notes within one hour after being notified of the award of the Notes and (2) furnish a certificate, acceptable to the District, as to the "issue price" of the Notes within the meaning of Section 1273 of the Internal Revenue Code of 1986, as amended, by the delivery date of the Notes.

We represent that we have full and complete authority to submit this bid on behalf of our bidding syndicate, if any, and that the undersigned will serve as the lead manager for the group if the Notes are awarded pursuant to this bid. I certify (or declare) under penalty of perjury under the laws of the State of California that this proposal is genuine, and not a sham or collusion, nor made in the interest of or on behalf of any person not herein named, and that the bidder has not directly or indirectly induced or solicited any other bidder to put in a sham bid or any other person, firm or corporation to refrain from bidding, and that the bidder has not in any manner sought by collusion to secure for himself an advantage over any other bidder.

Respectfully submitted,

Account Manager

By: ________________________________
Address: ____________________________
City: _______________________________
State: ______________________________
Telephone: __________________________

Listed below are the members of our account on whose behalf this bid is made.*

____

____

____

____

ATTACHMENT 1

Form of Certificate as to Issue Price of the Notes

$____________________

SAN FRANCISCO UNIFIED SCHOOL DISTRICT
(CITY AND COUNTY OF SAN FRANCISCO)
2013 TAX AND REVENUE ANTICIPATION NOTES, SERIES A

CERTIFICATE AS TO ISSUE PRICE OF NOTES

This Certificate is furnished by ______________, as Original Purchaser (the "Original Purchaser") of the $_____________ principal amount of San Francisco Unified School District (City and County of San Francisco) 2013 Tax and Revenue Anticipation Notes, Series __ (the "Notes"), to establish the initial offering price of the Notes for purposes of determining the "issue price" of the Notes within the meaning of Section 1273 of the Internal Revenue Code of 1986, as amended (the "Code").

The Original Purchaser does hereby certify as follows:

1. The Original Purchaser reasonably expected on August 15, 2013, which is the date on which the Original Purchaser agreed to purchase such Notes (the "Sale Date"), that all of the Notes purchased by the Original Purchaser would be sold to the general public (excluding bond houses, brokers and similar persons or organizations acting in the capacity of underwriters or wholesalers) at an initial offering price of _______% of the principal amount thereof (the "Initial Public Offering Price").

2. The Original Purchaser has made a bona fide offering of all of the Notes purchased by the Original Purchaser to the general public (excluding bond houses, brokers and similar persons or organizations acting in the capacity of underwriters or wholesalers) at prices not in excess of the Initial Public Offering Price. The Initial Public Offering Price is equal to $_____________ (representing $_____________ aggregate principal amount of the Notes, plus original issue premium of $_____________).

3. The Original Purchaser first sold for cash as of the Sale Date at least ten percent of the aggregate principal amount of the Notes purchased by the Original Purchaser to the general public (excluding bond houses, brokers and similar persons or organizations acting in the capacity of underwriters or wholesalers) at prices not in excess of the Initial Public Offering Price.

4. The Initial Public Offering Price does not exceed the fair market value of the Notes as of the Sale Date.

Dated: ________, 2013

_________________, as Original Purchaser

By:____
Name:
Title:

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