

MEASURE J BOND BUILDING FUND OF
SOUTH SAN FRANCISCO UNIFIED
SCHOOL DISTRICT

AUDIT REPORT

FOR THE YEAR ENDED
JUNE 30, 2013

MEASURE J BOND BUILDING FUND
SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
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June 30, 2013

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**MEASURE J BOND BUILDING FUND
SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Introduction and Citizens' Oversight Committee Member Listing
June 30, 2013**

The South San Francisco Unified School District (the "District") was founded in 1851, under the laws of the State of California. This District operates under a locally elected five-member Board form of government and provides educational services to grades K – 12 as mandated by the state and federal agencies. The District is located in Northern San Mateo County, California, one of the nine counties which comprise the metropolitan San Francisco Bay Area. The District encompasses territory in the entire City of South San Francisco, a portion of Daly City, a small area of San Bruno and small "islands" of unincorporated areas of San Mateo County. The District extends from San Francisco Bay in the east to Skyline Boulevard in the western hills. The District currently operates ten elementary schools, three middle schools, two comprehensive high schools, one continuation school, four day-care schools, one adult education school and one centrally located children center.

In November 2010, the voters of San Mateo County approved by more than the required 55% favorable vote the Measure J, authorizing the issuance and sale of general obligation bonds, not to exceed \$162,000,000. Measure J is a Proposition 39 bond. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed in the full text of the Measure J ballot measure as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for bond-designated facilities projects.

On May 8, 2012 the District issued General Obligation Bonds, Series A (Bonds) in the amount of \$7,000,000. The Bonds were issued at a premium of \$533,746 and the net proceeds are to be applied to provide repayment to the 2011 General Obligation Bond Anticipation Notes, Series A and Taxable Series B, and to pay the cost of issuance of the Bonds. Also on May 8, 2012, the District issued General Obligation Bond Anticipation Notes, Series C and Series D (BANs) in the amounts of \$25,999,340 and \$30,002,417, respectively. On June 6, 2013, The District issued General Obligation Bond Anticipation Notes, Series E and Series F (BANs) in the amounts of \$29,170,000 and \$831,870, respectively. These BANs will be used on to pay for certain costs of the Measure J bond project and also as repayment to the 2011 General Obligation Bond Anticipation Notes.

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond measure pursuant to the 55% majority authorized in Measure J including formation, composition and purpose of the Citizens' Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues. In compliance with Education Code section 15278(a), the Measure J COC was formed within 60 days after the date that the Governing Board entered the results of the bond election in its minutes.

The Citizens' Oversight Committee was comprised of the following members as of June 30, 2013:

<u>Name</u>	<u>Title</u>	<u>Representation</u>
Rick Ochsenhirt	Chair	Business Organization
John Sanna	Vice Chair	Parent & PTA Organization
Rich Blank	Member	At-Large Member
America Gutierrez	Member	Parent
Richard Holt	Member	Senior Citizens' Organization
Julia Lopez	Member	Parent
Martin Romero	Member	Taxpayers' Organization
Dana Abarca	Member	Parent
Patricia Turpo Ames	Member	Parent

INDEPENDENT AUDITORS' REPORT

Christy White, CPA

John Dominguez, CPA, CFE

Tanya M. Rogers, CPA, CFE

Michael Ash, CPA

Heather Daud

SAN DIEGO

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*Licensed by the California
State Board of Accountancy*

Governing Board Members and
Measure J Citizens' Bond Oversight Committee
South San Francisco Unified School District
South San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure J Bond Building Fund of South San Francisco Unified School District (the "District") as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Measure J basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

Auditor's Responsibility (continued)

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

As discussed in Note 1A, the financial statements present only the individual Proposition 39 Bond Building Fund, consisting of the net construction proceeds of the Measure J general obligation bonds and bond anticipation notes as issued by the District, through the County of San Mateo, and are not intended to present fairly the financial position of the District in conformity with generally accepted accounting principles.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the Measure J Bond Building Fund of South San Francisco Unified School District as of June 30, 2013 and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 6, 2014 on our consideration of the South San Francisco Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Measure J Bond Building Fund's internal control over financial reporting and compliance.

Report on Other Legal and Regulatory Requirements

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have also issued our performance audit report dated January 6, 2014 on our consideration of the South San Francisco Unified School District's compliance with the requirements of Proposition 39. That report is an integral part of our audit of the Measure J Bond Building Fund of South San Francisco Unified School District for the fiscal year ended June 30, 2013 should be considered in assessing the results of our financial audit.



San Diego, California
January 6, 2014

FINANCIAL SECTION

MEASURE J BOND BUILDING FUND
SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2013

ASSETS	
Cash in county treasury	\$ 54,670,005
Accounts receivable	50,939
Prepaid Expenditures	7,707
Total Assets	<u>\$ 54,728,651</u>
 LIABILITIES AND FUND BALANCE	
Liabilities	
Accounts payable	\$ 853,998
Due to other funds	3,953
Total Liabilities	<u>857,951</u>
 Fund Balance	
Nonspendable for prepaid expenditures	7,707
Restricted for capital projects	53,862,993
Total Fund Balance	<u>53,870,700</u>
 Total Liabilities and Fund Balance	 <u>\$ 54,728,651</u>

The accompanying notes to financial statements are an integral part of this statement.

MEASURE J BOND BUILDING FUND
 SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
 Statement of Revenues, Expenditures and Changes in Fund Balance
 For the Year Ended June 30, 2013

REVENUES	
Interest income	\$ 262,365
Total Revenues	<u>262,365</u>
 EXPENDITURES	
Facilities acquisition and construction	<u>20,169,721</u>
Total Expenditures	<u>20,169,721</u>
 Excess (Deficiency) of Revenues	
Over (Under) Expenditures	<u>(19,907,356)</u>
 OTHER FINANCING SOURCES (USES)	
Proceeds from long-term debt	<u>30,001,870</u>
Total Other Financing Sources	<u>30,001,870</u>
 Net Change in Fund Balance	 10,094,514
 Fund Balance, July 1, 2012 (as originally stated)	 <u>43,776,186</u>
Fund Balance, June 30, 2013	<u>\$ 53,870,700</u>

The accompanying notes to financial statements are an integral part of this statement.

MEASURE J BOND BUILDING FUND
SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The South San Francisco Unified School District (the "District") was founded in 1851, under the laws of the State of California. This District operates under a locally elected five-member Board form of government and provides educational services to grades K – 12 as mandated by the state and federal agencies. The District is located in Northern San Mateo County, California, one of the nine counties which comprise the metropolitan San Francisco Bay Area. The District encompasses territory in the entire City of South San Francisco, a portion of Daly City, a small area of San Bruno and small "islands" of unincorporated areas of San Mateo County. The District extends from San Francisco Bay in the east to Skyline Boulevard in the western hills. The District currently operates ten elementary schools, three middle schools, two comprehensive high schools, one continuation school, four day-care schools, one adult education school and one centrally located children center

In November 2010, the voters of San Mateo County approved by more than the required 55% favorable vote the Measure J, authorizing the issuance and sale of general obligation bonds, not to exceed \$162,000,000. Measure J is a Proposition 39 bond. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed in the full text of the Measure J ballot measure as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for bond-designated facilities projects.

An advisory committee to the District's Governing Board and Superintendent, called the Measure J Citizens' Bond Oversight Committee ("CBOC") was established pursuant to the requirements of state law and the provisions of Measure J. The purpose of the CBOC is to inform the public concerning the expenditure of bond revenues. The CBOC is required by state law to actively review and report on the proper expenditure of taxpayers' money for school construction. The CBOC provides oversight and advises the public whether the District is spending the Measure J funds for school capital improvements within the scope of projects outlined in the Measure J Project List. In fulfilling its duties, the CBOC reviews, among other things, the District's annual performance and financial audits of Measure J activity.

The statements presented are for the individual Measure J of the District, consisting of the net construction proceeds of Measure J General Obligation Bond Anticipation Note issued by the District, through the County of San Mateo and are not intended to be a complete presentation of the District's financial position or results of operations.

MEASURE J BOND BUILDING FUND
SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Accounting Policies

The District accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board ("GASB") and the American Institute of Certified Public Accountants ("AICPA").

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 1 year after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

D. Fund Balance

Fund Balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The five classifications are *Nonspendable, Restricted, Committed, Assigned and Unassigned*. The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

E. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid.

MEASURE J BOND BUILDING FUND
SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2013

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Deposits and Investments

In accordance with Education Code Sections 15357 and 41001, the District maintains a portion of its cash in the San Mateo County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

G. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

H. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

MEASURE J BOND BUILDING FUND
SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2013

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2013 are classified in the accompanying financial statements as cash in county treasury of \$54,670,005.

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. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

Cash 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 the 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.

MEASURE J BOND BUILDING FUND
 SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
 Notes to Financial Statements, continued
 June 30, 2013

NOTE 2 – CASH AND INVESTMENTS (continued)

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. The table below identifies examples of the investment types permitted in the investment policy:

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

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below.

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 Treasury. The District maintains an investment with the San Mateo County Investment Pool with a fair value of approximately \$54,474,833 and an amortized book value of \$54,670,005. The weighted average maturity for this pool as of June 30, 2013 is 701 days.

MEASURE J BOND BUILDING FUND
SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2013

NOTE 2 – CASH AND INVESTMENTS (continued)

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. Per County investment policy, the investments within the San Mateo County Investment Pool were not rated.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2013 consist of \$50,939 of interest earned on the District's investment in the County Treasury.

NOTE 4 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due From/Due To)

The individual interfund payable consisted of \$3,953 due to the General Fund for payments of bond goods and services and health & welfare payments.

NOTE 5 – CONSTRUCTION COMMITMENTS

The Measure J Bond had construction commitments for the contract with DSA and HKIT Architects in the amount of \$5,915 as of June 30, 2013.

MEASURE J BOND BUILDING FUND
SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2013

NOTE 6 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2013 consisted of the following:

	Balance				Balance June 30, 2013	Due Within One Year
	July 1, 2012	Reclassification	Additions	Deductions		
GO Bonds, 2012 Series A	\$ 7,000,000	\$ -	\$ -	\$ -	\$ 7,000,000	\$ 1,490,000
Premium	533,746	(301,432)	-	46,463	185,851	46,463
Total GO Bonds	7,533,746	(301,432)	-	46,463	7,185,851	1,536,463
2012 Bond Anticipation Notes, Series C & D	56,001,757	-	-	-	56,001,757	-
Premium	-	301,432	-	60,286	241,146	60,286
Accreted Interest	-	-	1,077,160	-	1,077,160	-
Total BAN, Series C & D	56,001,757	301,432	1,077,160	60,286	57,320,633	60,286
2012 Bond Anticipation Notes, Series E & F	-	-	30,002,870	-	30,002,870	-
Premium	-	-	3,417,857	-	3,417,857	683,571
Total BAN, Series E & F	-	-	33,420,727	-	33,420,727	683,571
Total	\$ 63,535,503	\$ -	\$ 34,497,887	\$ 106,749	\$ 97,926,641	\$ 2,280,320

A. General Obligation Bonds

On May 8, 2012 the District issued General Obligation Bonds, Series A in the amount of \$7,000,000. The bonds were issued at a premium of \$232,314 and the net proceeds are to be applied to provide repayment to the 2011 General Obligation Bond Anticipation Notes, Series A and Taxable Series B, and to pay the cost of issuance of the Bonds. Interest rates of the bond range from .32% - 2%. The annual requirements to amortize the 2012 Series A general obligation bonds outstanding as of June 30, 2013 are as follows:

Year Ending June 30,	2012 Series A		
	Principal	Interest	Total
2014	\$ 1,490,000	105,020	\$ 1,595,020
2015	1,695,000	98,568	1,793,568
2016	1,820,000	67,200	1,887,200
2017	1,995,000	19,950	2,014,950
Total	\$ 7,000,000	\$ 290,738	\$ 7,290,738

MEASURE J BOND BUILDING FUND
 SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
 Notes to Financial Statements, continued
 June 30, 2013

NOTE 6 – LONG-TERM DEBT (continued)

B. Bond Anticipation Notes

On May 8, 2012, the District issued General Obligation Bond Anticipation Notes, Series C and Series D (BANs) in the amounts of \$25,999,340 and \$30,002,417, respectively. These BANs will be used to pay for certain costs of the Measure J bond project and also as repayment to the 2011 General Obligation Bond Anticipation Notes. The BANs are issued as capital appreciation notes whereas the BANs will not bear current interest, but will increase in value by the accumulation of earned interest from the principal amounts on the date of delivery to the respective maturity dates. The annual requirements to amortize the BANs as of June 30, 2013 are as follows:

Year Ended June 30,	Series C		Series D	
	Principal	Interest	Principal	Interest
2014	\$ -	\$ -	\$ -	\$ -
2015	-	-	-	-
2016	25,999,340	1,965,660	-	-
2017	-	-	30,002,417	3,132,583
Total	\$ 25,999,340	\$ 1,965,660	\$ 30,002,417	\$ 3,132,583

On June 6, 2013, the District issued General Obligation Bond Anticipation Notes, Series E and Series F (BANs) in the amounts of \$29,170,000 and \$831,870, respectively. These BANs will be used to pay for certain costs of the Measure J bond project and also as repayment to the 2011 General Obligation Bond Anticipation Notes. Interest rates of the Series E bond range from 2% - 4%. The annual requirements to amortize the BANs as of June 30, 2013 are as follows:

Year Ending June 30,	Series E & F		
	Principal	Interest	Total
2014	\$ -	\$ 1,051,983	\$ 1,051,983
2015	-	1,066,800	1,066,800
2016	-	1,066,800	1,066,800
2017	-	1,066,800	1,066,800
2018	30,001,870	1,584,930	31,586,800
Total	\$ 30,001,870	\$ 5,837,313	\$ 35,839,183

**OTHER INDEPENDENT
AUDITORS' REPORTS**

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

Independent Auditors' Report

Governing Board Members and
Measure J Citizens' Bond Oversight Committee
South San Francisco Unified School District
South San Francisco, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the Measure J Bond Building Fund of South San Francisco Unified School District, as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Measure J Bond Building Fund of South San Francisco Unified School District's basic financial statements, and have issued our report thereon dated January 6, 2014.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Measure J Bond Building Fund of South San Francisco Unified School 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*.

Purpose of this Report

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

Christy White Associates

San Diego, California
January 6, 2014

REPORT ON PERFORMANCE

Independent Auditors' Report

Christy White, CPA

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Governing Board Members and
Measure J Citizens' Bond Oversight Committee
South San Francisco Unified School District
South San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of the Measure J Bond Building Fund of South San Francisco Unified School District, as of and for the year ended June 30, 2013 and the related notes to the financial statements, which collectively comprise the Measure J Bond Building Fund's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

In connection with our audit, we also performed an audit for compliance as required in the performance requirements for the Measure J for the fiscal year ended June 30, 2013. The objective of the examination of compliance applicable to the District is to determine with reasonable assurance that:

- The proceeds of the sale of the Measure J Bonds were only used for the purposes set forth in the Measure J ballot language and not for any other purpose, such as teacher and administrative salaries.
- The Governing Board of the District, in establishing the approved projects set forth in the ballot measure, evaluated the remodeling, new construction and renovations of items which will improve learning and to accommodate growth in the District, with no funds expended on administrator salaries.

In performing our audit of compliance, we performed procedures including but not limited to those listed as follows:

Internal Control Evaluation

Procedures Performed:

Inquiries were made of management regarding internal controls to:

- Prevent fraud or waste regarding Measure J projects, including budgetary controls
- Ensure adequate separation of duties exists in the fiscal services department for Measure J funds
- Prevent material misstatements in the financial statements
- Ensure expenditures are allocated to the proper fund(s)
- To follow applicable regulations, including regulations related to bidding and contract management

We then performed substantive tests of financial statement balances to determine whether the controls designed by management were operating effectively, and to provide reasonable assurance that the fiscal year 2012-13 financial statement balances for the Measure J Bond are not materially misstated.

Results of Procedures Performed:

The result of our audit tests show that internal control procedures appear to be working to meet the financial and compliance objectives required by generally accepted accounting standards and applicable laws and regulations. An unmodified opinion was expressed on the financial statements.

Facilities Site Walk

Procedures Performed:

We performed site walks to verify that Measure J Bond funds expended for the year ended June 30, 2013 were for valid facilities acquisition and construction purposes. We toured Alta Loma Middle School and Monte Verde Elementary School construction sites, as well as District Solar Projects where 2012-13 construction work occurred.

Facilities Site Walk (continued)

Results of Procedures Performed:

On October 17, 2013, CWA visited the two sites of Alta Loma Middle School and Monte Verde Elementary School as well as District Solar Projects to visit and view the work performed over the year ended 2012-13.

- Alta Loma Middle School: The auditor toured the new classroom buildings that were built (computer lab, art lab, 3 classroom buildings, and PE building). When on a detailed tour of the new science classroom, the auditor observed the energy efficient roofing (soundproof). The new classrooms feature LED lighting that adjust their brightness based on the amount of natural light that enters into the classroom. New classrooms are equipped with wireless internet connection, additional classroom storage and a 70 inch TV that serves as TV/Projector and is compatible for usage with an iPad. The auditor also observed the new restrooms, asphalt work, and ADA travel paths.
- Monte Verde Middle School: While touring Monte Verde, the auditor viewed modular projects, playground, solar, path of travel, a new library and a new classroom. The library opened the week following our site visit and features LED lighting, energy efficient roofing, white boards, and computers. The new classroom that was viewed contains energy efficient roofing, LED lights, white boards, 70 inch TV for instruction. The auditor also viewed 2 of the 3 new playgrounds as well as the front of the school hand rail and ADA walkway.
- District Solar: All school sites have solar paneling. The paneling is done in the form of carports, hillside or roofing. Each site has a TV near the front office that displays the solar power in use and the savings that are being generated. The auditor viewed the solar at Alta Loma and Monte Verde. The solar at Alta Loma is on carports. The solar at Monte Verde is located on the roof.

Tests of Expenditures

Procedures Performed:

The following performance tests of expenditures were performed:

1. We tested expenditures to determine whether Measure J funds were spent solely on voter and Board approved school facilities projects (as set forth in the District's Facilities Master Plan and the Measure J ballot measure language). The expenditure test included a sample totaling \$7.0 million, or approximately 35% of total expenditures for 2012-13.
2. We also tested payments made to Swinerton Management Company, the Measure J program management firm. We obtained the contract for this firm and ensured that payments per the contract were accurately billed to the District.

Results of Procedures Performed:

We found all expenditures tested to be in compliance with the terms of the Measure J ballot measure and applicable State laws and regulations, without exception. Also, our analysis indicated that the District is receiving program management services that are reasonable as compared to other school districts, with regard to billing rates, hours charged, and the ratio of consultants to District employees.

Test of Contracts and Bid Procedures

Procedures Performed:

For the fiscal year ended June 30, 2013, we performed testing contracts to determine compliance with District policy and Public Contract Code provisions related to contracting and bidding:

Formal Bids

- Project: Sposeto Engineering, Inc.
Original Contract Award Amount: \$1,356,000

Results of Procedures Performed:

We found that the contract tested above for bidding procedures followed proper bidding procedures and was awarded to the lowest responsible bidder.

In addition, we tested change orders and determined the change orders were executed in accordance with District internal controls and were in compliance with applicable provisions of the Public Contract Code. Contracts tested with change orders included the following project: Junipero Serra and Sunshine Gardens Playground. Moreover, we noted that the District has been providing the Governing Board with a listing of change orders to contracts that relate to Measure J projects in fiscal year 2012-13 and that no Measure J projects have a cumulative change order rate in excess of 10% of contract value.

Citizens' Oversight Committee

Procedures Performed:

In accordance with AB 1908 (Assembly Bill) and Ed Code Section 15278, the District is required to establish a bond oversight committee for Prop 39 bonds including one active member from each of the following sectors: a business organization, senior citizens organization, bona fide taxpayers association, and one parent/guardian of a child enrolled in the District and one parent/guardian of a child enrolled in the District who is also a member of a parent teacher association. The COC is to meet pursuant to Education Code Section 15280.

Results of Procedures Performed:

In our review of the minutes of the Citizens' Bond Oversight Committee for Measure J, we found that there was adequate documentation of meetings held during fiscal year 2012-13. In addition, the District has submitted annual audit reports during the life of the Measure J.

In our review of the composition of the committee, we noted that the District has the proper members in the CBOC that come from each of the sectors noted above.

Our audit of compliance was made for the purposes set forth in the second and third paragraphs of this report and would not necessarily disclose all instances of noncompliance.

The District's responses to the findings identified in our audit are described in the accompanying schedule of findings and responses. We did not audit the District's responses and, accordingly, we express no opinion on them.

Opinion

In our opinion, based on the fieldwork described above as well as the other tests that we conducted, the District complied with the compliance requirements for the Measure J as listed and tested above.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on accountability requirements pursuant to the passage of Proposition 39 and the enactment of AB 1908 (Chapter 44, Statutes of 2000). Accordingly, this report is not suitable for any other purpose.

Christy White Associates

San Diego, California
January 6, 2014

FINDINGS AND RESPONSES SECTION

MEASURE J BOND BUILDING FUND
SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Findings and Responses
For the Year Ended June 30, 2013

This section identifies the deficiencies, significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*.

We found South San Francisco Unified School District's accounting systems to be functioning efficiently and effectively to account for the Measure J. In addition, our tests resulted in no findings and recommendations related to the financial and performance audit of the Measure J for the year ended June 30, 2013.

MEASURE J BOND BUILDING FUND
SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Prior Year Findings and Responses
For the Year Ended June 30, 2013

There were no findings for the year ended June 30, 2012.