

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

AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2011**

MEASURE J BOND BUILDING FUND
SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
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June 30, 2011

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**MEASURE J BOND BUILDING FUND
SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Introduction and Citizens' Oversight Committee Member Listing
June 30, 2011**

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 June 2, 2011, the District issued a General Obligation Bond Anticipation Note (BAN) in the amount of \$33,000,000 to be used as bridge financing until the District issues its new Measure J General Obligation Bonds. The maturity of the BANs are no later than June 1, 2012, and interest due of \$620,650. The BANs are subject to a mandatory redemption in whole prior to their stated maturity date upon issuance by the District of Measure J bonds the proceeds of which, when combined with other lawfully available funds, are sufficient to redeem the BANs and the interest accrued thereon to the date of redemption.

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.

The Citizens' Oversight Committee was comprised of the following members as of June 30, 2011:

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

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying balance sheet of the Measure J of South San Francisco Unified School District (the "District") as of June 30, 2011, and the related statement of revenues, expenditures and changes in fund balance for the fiscal year ended June 30, 2011. These financial statements are the responsibility of the District's management. 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 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 opinion.

As discussed in Note 1A, the financial statements present only the individual Measure J consisting of the net construction proceeds of Measure J General Obligation Bond Anticipation Note 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Measure J of South San Francisco Unified School District as of June 30, 2011, and the results of its operations for the fiscal year ended June 30, 2011, 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 March 15, 2012, on our consideration of South San Francisco Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls 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.

Chintal Patel Accountancy Corporation

San Diego, California

March 15, 2012

FINANCIAL SECTION

MEASURE J BOND BUILDING FUND
SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2011

ASSETS	
Cash in county treasury	\$ 32,728,830
Accounts receivable	31,110
	<hr/>
Total Assets	\$ 32,759,940
	<hr/> <hr/>
LIABILITIES AND FUND BALANCE	
Liabilities	
Current loans	\$ 33,000,000
Due to other funds	4,612,647
	<hr/>
Total Liabilities	37,612,647
	<hr/>
Fund Balance	
Unassigned	(4,852,707)
Total Fund Balance	(4,852,707)
	<hr/>
Total Liabilities and Fund Balance	\$ 32,759,940
	<hr/> <hr/>

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 Fiscal Year Ended June 30, 2011

REVENUES	
Interest income	\$ 31,110
EXPENDITURES	
Facilities acquisition and construction	4,574,322
Bond issuance costs	271,170
Total Expenditures	4,845,492
Excess (Deficiency) of Revenues Over (Under) Expenditures	(4,814,382)
OTHER FINANCING SOURCES (USES)	
Interfund transfers out	(38,325)
Total Other Financing Sources	(38,325)
Net Change in Fund Balance	(4,852,707)
Fund Balance, July 1, 2010	-
Fund Balance, June 30, 2011	\$ (4,852,707)

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, 2011

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
June 30, 2011

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
June 30, 2011

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
June 30, 2011

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2011 are classified in the accompanying financial statements as cash in county treasury of \$32,728,830.

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
 June 30, 2011

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 \$32,800,833 and an amortized book value of \$32,728,830. The weighted average maturity for this pool as of June 30, 2011 is 1.5 years.

**MEASURE J BOND BUILDING FUND
SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011**

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 are rated A or higher by Moody's Investors Service.

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, 2011 consist of \$31,110 of interest earned on the District's investment in the County Treasury.

NOTE 4 – DUE TO OTHER FUNDS



As of June 30, 2012, the Measure J Bond Building Fund owed the General Fund \$4,612,647 for expenditures incurred on behalf of the bond program, which includes the solar energy project.

NOTE 5 – CONSTRUCTION COMMITMENTS

The Measure J Bond had construction commitments for the contract with Chevron in the amount of \$20,203,283 as of June 30, 2011.

MEASURE J BOND BUILDING FUND
SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2011

NOTE 6 – MEASURE J GENERAL OBLIGATION BONDS – CURRENT LOAN

On June 2, 2011, the District issued General Obligation Bond Anticipation Notes (BANs) in the amount of \$33,000,000 to be used as bridge financing until the District issues its new Measure J General Obligation Bonds. The maturity of the BANs is no later than June 1, 2012, with interest due of \$620,650. The BANs are subject to a mandatory redemption in whole prior to their stated maturity date upon issuance by the District of Measure J bond proceeds. The bond proceeds, when combined with other lawfully available funds, must be sufficient to redeem the BANs and the interest accrued thereon to the date of redemption.

The BANs are classified as a current loan on the balance sheet of the Measure J Bond Building Fund in accordance with generally accepted accounting principles found in Financial Accounting Standards Board (FASB) Statement No. 6, *Classification of Short-Term Obligations Expected to be Refinanced*. Since the refinancing plan will not have been executed as of the release date of the financial statements, FASB No.6 requires the BAN to be reported as a governmental fund current liability. Once refinanced, the liability will be repaid with the issuance of general obligation bond proceeds. The District is currently working with the financial advisor, Keygent, to determine the best solution that will provide the optimum cash flow available for project completion according to the Measure J implementation plan.

NOTE 7 – DEFICIT FUND BALANCE

As of June 30, 2011, the Measure J Bond Building Fund had a deficit fund balance of \$4,852,707 due to the recognition of the Bond Anticipation Notes (BANs) as a current loan in accordance with accounting standard FASB No. 6, described in Note 6 above. The deficit is temporary and results from the accounting treatment required for this interim financing plan. Management fully expects the fund balance to be restored to positive upon repayment of the BANs in fiscal year 2011-12.

**OTHER INDEPENDENT
AUDITORS' REPORTS**

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Measure J 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*.

This report is intended solely for the information and use of the District's Governing Board, the Measure J Citizens' Oversight Committee, management, others within the entity, and the taxpayers of South San Francisco Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

Chint White Accountancy Corporation

San Diego, California

March 15, 2012

INDEPENDENT AUDITORS' REPORT ON PERFORMANCE

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

We have audited the financial statements of the Measure J of the South San Francisco Unified School District (the "District") as of and for the fiscal year ended June 30, 2011 and have issued our report thereon dated March 15, 2012. Our audit was made in accordance with generally accepted auditing standards in the United States of America and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

In connection with our performance audit, we performed an audit for compliance as required in the performance requirements for the Measure J for the fiscal year ended June 30, 2011. The objective of the audit of compliance applicable to the District is to determine with reasonable assurance that:

- The proceeds from the sale of the Measure J s were only used for the purposes set forth in the ballot measure 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, waste, or abuse regarding Measure J resources
- Ensure adequate separation of duties exists in the accounting for Measure J funds
- Prevent material misstatements in the Measure J financial statements
- Ensure expenditures are allocated to the proper District fund

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 2010-11 financial statement balances for the Measure J are not materially misstated.

Results of Procedures Performed:

The results of our audits 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 unqualified opinion was expressed on the Measure J financial statements.

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 \$4.5 million, or approximately 97% of total expenditures for 2010-11, including payroll, inter-fund transfers, and the solar project.
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, 2011, the District did not enter any contracts that required the formal bid process.

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

In our opinion, the District complied, in all material respects, with the compliance requirements for the Measure J, for the fiscal year ended June 30, 2011, as listed and tested above.

This report is intended solely for the information and use of the District's Governing Board, the Measure J Citizens' Oversight Committee, management, others within the entity, and the taxpayers of South San Francisco Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Accountancy Corporation

San Diego, California

March 15, 2012

FINDINGS AND RESPONSES SECTION

**MEASURE J BOND BUILDING FUND
SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Findings and Responses
For the Fiscal Year Ended June 30, 2011**

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 fiscal year ended June 30, 2011.

