

**SOUTH SAN FRANCISCO UNIFIED
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2004

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
OF SAN MATEO COUNTY
SOUTH SAN FRANCISCO, CALIFORNIA

JUNE 30, 2004

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SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
South San Francisco Unified School District
South 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 South San Francisco Unified School District (the District), as of and for the year ended June 30, 2004, 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 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, 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*, prescribed by the State Controller. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the South San Francisco Unified School District, as of June 30, 2004, and the respective changes in financial position 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 October 22, 2004, 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 grants 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.

The required supplementary information, such as management's discussion and analysis on page 3 through 14 and budgetary comparison information on page 42, are not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. The non major governmental funds combining balance sheet and combining statement of revenues, expenditures and changes in fund balance have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Vawrinek Trine Day & Co. LLP

San Jose, California
October 22, 2004

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2004

INTRODUCTION

Our discussion and analysis of the South San Francisco Unified School District financial performance provides an overview of the South San Francisco Unified School District's financial activities for the fiscal year ended June 30, 2004. It should be read in conjunction with the South San Francisco Unified School District's financial statements, which follow this section.

The Management's Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments, issued June 1999; and GASB Statement No. 37, Basic Financial Statement – and Management Discussion and Analysis – for State and Local Governments: Omnibus, an amendment to GASB Statement No. 21 and No. 34, issued in June 2001.

DISTRICT PROFILE

The South San Francisco Unified School District is located in Northern San Mateo County northwest of San Francisco International Airport. Its boundaries cover the entire City of South San Francisco, a portion of Daly City, a small area of San Bruno, and some small "islands" of unincorporated areas of San Mateo County. The District extends from the Bay to Skyline Boulevard in the western hills. There are currently no residential housing areas east of the Bayshore Freeway.

The District originated from the unification in 1936 of an elementary district (founded in 1866) and a high school district (founded in 1913). The organization plan at unification required, in addition to kindergarten, six years elementary and six years of high school education. The first reorganization in 1953 used the 6-2-4 version (six years in elementary, two years of middle school, and four years in high school), followed by a 6-3-3 plan in 1966, back to the initial 6-2-4 plan in 1981, and to a 5-3-4 plan in 1992 up to the present. 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 the 2002-2003 and 2003-2004 school years, the District served an average of 9,563 and 9,662 K-12 students respectively.

FINANCIAL HIGHLIGHTS OF FISCAL YEAR 2003-04:

South San Francisco Unified School District's primary income source for its general fund is the Base Revenue Limit funding. This is the basic funding established by the State Legislature in 1973 under Senate Bill 90 to provide basic principal apportionments to school districts in California. In FY 2003-04, this base funding came mainly (approximately 96.5%) from local property taxes and partly (3.5%) as state aid.

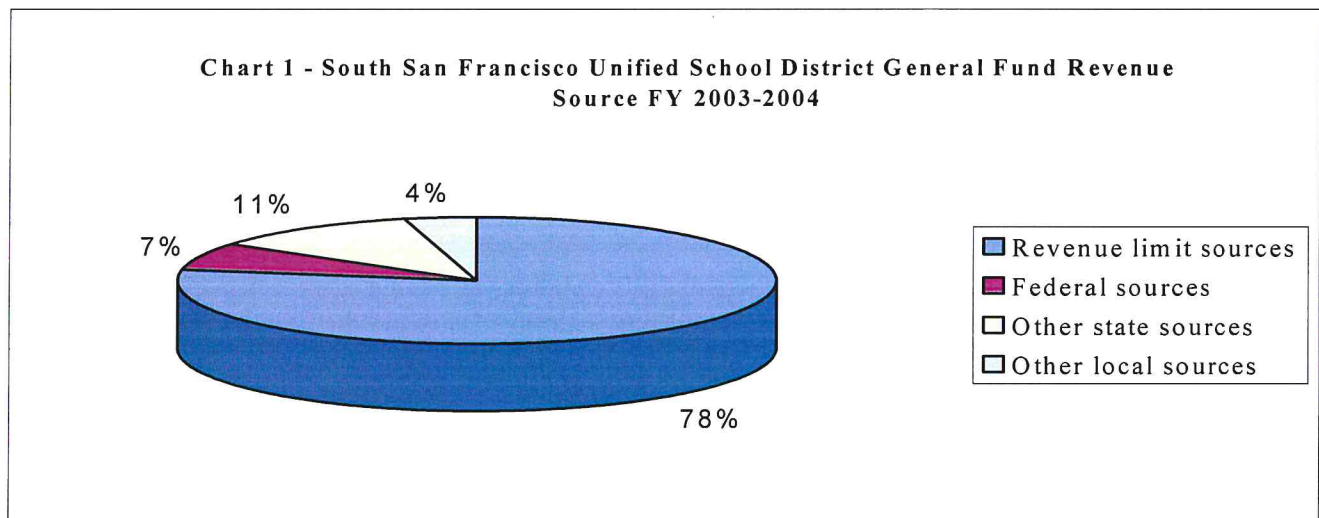
SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

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In 2004 the District received a Base Revenue Limit income of \$4,809 per unit of average daily attendance (ADA) including a cost of living adjustment (COLA) of 2.0%, or \$88 over last year's unit rate. In 2003 the District received a Base Revenue Limit income of \$4,721.32 per unit of average daily attendance (ADA) including a cost of living adjustment (COLA) of 2.0%, or \$93 over last the preceding year's unit rate. In 2004 the general fund revenues from Base Revenue Limit sources amounted to \$45.9 million or 77.6% of its total revenues of \$59.0 million. In 2003 the general fund revenues from Base Revenue Limit sources amounted to \$47.3 million or 74.0% of its total revenues of \$63.9 million. In 2004 the general fund also received almost \$6.7 million or 11.7% of total revenues from other state sources such as special education allowances, class-size reduction funds, lottery proceeds, grants, and entitlements. In 2003 the general fund also received almost \$9.0 million or 14.3% of total revenues from other state sources such as special education allowances, class-size reduction funds, lottery proceeds, grants, and entitlements.

In 2004 federal sources from PL 94-142 special education entitlements and discretionary grants, No Child Left Behind (NCLB), technology, safe and drug free programs, etc. accounted for \$4.1 million, or 7.0% of total. In 2003, federal sources from PL 94-142 special education entitlements and discretionary grants, No Child Left Behind (NCLB), technology, safe and drug free programs, etc. accounted for \$5.4 million, or 8.5% of total. Local sources other than property taxes such as rentals and leases, interest income, interagency services income, etc. accounted for \$2.2 million, or about 3.5% of total. Please refer to Chart 1 below.

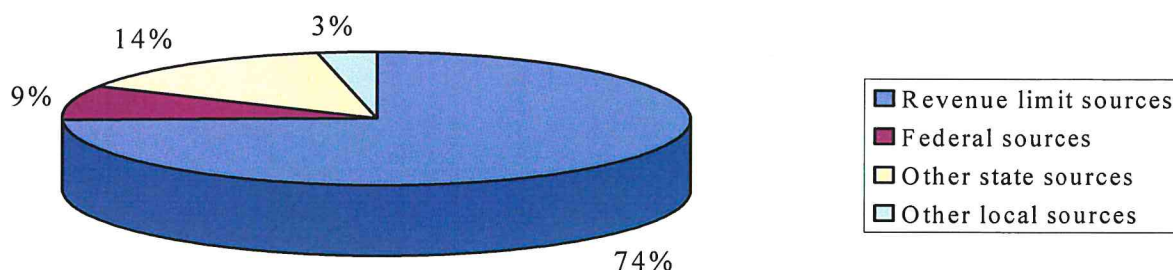


SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

**Chart 1 - South San Francisco Unified School District General Fund
Source FY 2002-2003**



In 2004, the general fund revenues were less than expenditures by more than \$1.4 million. Other financing uses net of transfers in amounted to -\$0.5 million thus resulting in a net decrease in general fund balance of \$2.0 million. With a beginning balance of \$6.3 million, the general fund ended FY 2003-04 with an ending balance of \$4.4 million. Of this amount, \$1.7 million were reserved balances for categorical programs, \$1.8 million was designated for economic uncertainties, and almost \$0.8 million was designated or reserved for other purposes. The District's designated portion of \$1.8 and the undesignated \$0.3 million are available at June 30, 2004 for FY 2004-05 operations.

In 2003, the general fund revenues exceeded expenditures by almost \$1.1 million. Other financing uses net of transfers in amounted to -\$1.4 million thus resulting in a net decrease in general fund balance of \$338,260. With a beginning balance of \$6.7 million, the general fund ended FY 2002-2003 with an ending balance of \$6.4 million. Of this amount, \$1.5 million were reserved balances for categorical programs, \$1.8 million was designated for economic uncertainties, and almost \$1.2 million was designated or reserved for other purposes. The District's undesignated portion of \$1.8 million is available at June 30, 2003 for FY 2003-04 operations.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the South San Francisco Unified School District (the District) using the consolidated approach as prescribed by GASB Statement Number 34.

The Government-Wide Financial Statements present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and fiduciary-type activities separately. These statements include all assets of the District (including capital assets) as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by the statement in regards to inter-fund activity, payables and receivables.

The Fund Financial Statements include statements for each of the District's two categories of activities: governmental and fiduciary.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

The following Governmental Activities are prepared using the current financial resources measurement focus and modified accrual basis of accounting:

General Fund (Fund 01) accounts for all financial resources applicable to the general operations of the District except those required to be accounted for in another fund.

Special Revenue Funds account for proceeds of specific revenue sources (other than major capital projects) that are legally restricted to expenditures for specific purposes. The District maintains four sources of Special Revenue Funds:

1. The Adult Education Fund (Fund 11) accounts for federal, state, and local resources committed to adult education programs maintained by the District under Education Code Sections 52616 (b) and 52501.
2. The Child Development Fund (Fund 12) accounts for resources committed to child development programs operated by the District.
3. The Cafeteria Fund (Fund 13) accounts for federal, state, and local resources committed to operate the District's food services program in compliance with Education Code Section 38093.
4. The Deferred Maintenance Fund (Fund 14) accounts for state apportionments and the District's local contributions and interest income for deferred maintenance purposes. These deferred maintenance purposes include expenditures for major repairs or replacements under a five-year plan approved by the Office of Public School Construction (formerly the State Allocation Board) in compliance with Education Code Sections 17582 – 17587.

Capital Projects Funds account for financial resources used for the acquisition or construction of major capital facilities represented by the following District funds:

1. The Building Fund (Fund 21) accounts for the proceeds and interest income as well as expenditures made from the sale of government obligation bonds passed by 75% of the District's voters on June 3, 1997 under Education Code Section 15146.
2. The Capital Facilities Fund (Fund 25) accounts for the local resources provided by fees (plus interest earnings) levied on developers as a condition for approving a development. The authority for the levies comes from city ordinance under Government Code Sections 65970-65981 and from a District resolution approved by the Board of Trustees in 1987 and revalidated in 2000.
3. The State School Building Fund (Fund 30) accounts for the state apportionments on lease-purchase projects sponsored by the State as provided by Education Code Sections 17000-17080.
4. The County School Facilities Fund (Fund 35) accounts for state apportionments from a State Bond Measure to upgrade school facilities under Education Code Sections 17009.5 and 17070.10-17076.10. This measure required a portion of the local bond proceeds to be used as matching funds. This measure provided the District with approximately \$15 million more in state apportionments for the District modernization program.
5. The Special Reserve Fund (Fund 40), also known as "Land Sale" Fund, accounts for the site sale proceeds and interest earnings thereon. Expenditures allowed in this fund include capital outlays necessary for the acquisition and safeguarding of fixed assets, major repairs of facilities and grounds, modernization, and new construction of buildings and portables.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

The Fiduciary-Type Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. The fiduciary activities are trust and agency funds, which only report a balance sheet and do not have a measurement focus. The District maintains the following Fiduciary-Type Funds:

1. The Agency Fund type accounts for student body funds of the District's schools. Agency funds are custodial in nature and do not involve measurement of results of operations.
2. The Nadeau Endowment Fund (Fund 73) accounts for principal contributions made by the estate of Dr. John H. Nadeau to the District. The District has invested these principal contributions and interest income is used to grant scholarships to eligible high school graduating students.

The financial statements provide reconciliation of the Fund Financial Statements to the Government-wide Financial Statements to explain the differences created by the consolidated approach. The financial statements also include notes that explain certain financial information and provide additional details to support significant data.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

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

These two statements report the District's net assets and changes in them. Net assets are the difference between assets and liabilities, one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's net assets indicate whether its financial health is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

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

In the Statement of Net Assets and the Statement of Activities, we present the District activities as follows:

Governmental activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and local grants, as well as general obligation bonds, finance these activities.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2004

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

Fiduciary funds – The District is the trustee, or fiduciary, for assets that belong to others, such as the student activities funds. The District is responsible for ensuring that those to whom the assets belong use them only as originally intended and those assets are reported in these funds. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities 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 net assets were \$ 67.9 million for the fiscal year ended June 30, 2004. Of this amount, \$0.4 million was unrestricted. The District's net assets were \$ 73.1 million for the fiscal year ended June 30, 2003. Of this amount, \$0.9 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Table 1 on page 8 focuses on the total assets, liabilities, and net assets of the District. Table 2 on page 10 highlights the change in net assets of the District's governmental activities.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2004

Table - 1
South San Francisco Unified School District
Net Assets
(in millions of dollars)

	2004	2003
	Governmental Activities	Governmental Activities
Current and other assets	\$ 36.8	\$ 38.6
Capital assets	97.8	97.4
Total Assets	134.6	136.0
Current liabilities	22.9	19.5
Long-term debt	43.8	43.4
Total Liabilities	66.7	62.9
Net assets		
Invested in capital assets, net of related debt	56.0	56.0
Restricted	11.5	16.2
Unrestricted	0.4	0.9
Total Net Assets	\$ 67.9	\$ 73.1

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

Changes in Net Assets

The results of this year's and previous year's operations for the District as a whole are reported in the Statement of Activities on page 16. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table - 2
South San Francisco Unified School District
Changes in Net Assets at Year-end
(In millions of dollars)

	2004	2003
	Governmental	Governmental
	Activities	Activities
Revenues		
Program revenues		
Charges for services	\$0.7	\$1.7
Operating grants and contributions	10.8	12.5
General revenues:		
State sources	5.7	5.8
Property taxes	47.1	47.1
Other general revenues	4.2	6.2
Total Revenues	68.5	73.3
Expenses		
Instruction related	46.1	49.7
Student support services	5.9	6.0
Administration	3.4	5.6
Maintenance and operations	10.2	8.6
Other	8.1	4.6
Total Expenses	73.7	74.4
Change in Net Assets	\$ (5.2)	\$ (1.1)

Governmental Activities

As reported in the Statement of Activities on page 16, the cost of all of our governmental activities this year was \$73.7 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$62.2 million. Other funding sources for our governmental activities included charges for services to those who benefited from certain programs (\$.7 million) and subsidies from other governments, both federal and state agencies, and other local organizations for certain programs with grants and contributions (\$10.8 million).

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2004

In 2003, the cost of all of our governmental activities this year was \$74.4 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$47.1 million. Other funding sources for our governmental activities included charges for services to those who benefited from certain programs (\$1.7 million) and subsidies from other governments, both federal and state agencies, and other local organizations for certain programs with grants and contributions (\$12.5 million).

In Table 3, we have presented the cost of each of the District's largest functions - regular program instruction, special instruction programs, other instructional programs, plant services, student transportation services, and school food services, as well as each program's *net* cost (total cost less revenues generated by the activities). As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table - 3
South San Francisco Unified School District
Net Cost of Governmental Activities
(In millions of dollars)

	2004	2003
	Net Cost	Net Cost
Instruction related	\$ (39.4)	\$ (41.3)
Student support services	(3.6)	(3.0)
Administration	(3.1)	(5.6)
Maintenance and operations	(9.3)	(8.1)
Other	(6.8)	(2.3)
Totals	\$ (62.2)	\$ (60.2)

FINANCIAL ANALYSIS OF THE SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT'S FUNDS

The positive financial performance of the South San Francisco Unified School District as a whole is reflected in its governmental funds as well. As the South San Francisco Unified School District completed the year, its governmental funds reported a combined fund balance of \$14.2 million for 2004 and \$21.0 million for 2003.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 17, 2004. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 42).

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

Significant revisions made to the 2003-2004 Adopted Budget included the pertinent provisions of the FY 2003-04 State Budget Act as these related to the level of Prop 98 guarantees. These revisions also reflected the annual costs of Board-approved salary increases granted to the District collective bargaining units and non-represented groups. Of particular significance is the fact that Revenue Limit Dollars saw a decrease of 1.2% over the 02/03 fiscal year. This reflected a decrease in funding of \$1,347,838 below the statutory COLA of 1.86% COLA for 03/04. However, the district was able to utilize the ADA of 2002-2003 for funding which was 163 higher than the actual ADA for 2003-2004. This provision of law afforded the district revenues of \$761,178 that would not have been realized if the actual 03/04 ADA had been used. However, this will affect on the 2004-2005 budget as the district will be using the greater of 2003-2004 and 2004-2005 ADA.

The district experienced a large increase in encroachment for special education costs. These costs exceeded estimates for the non-public school placements and county office operated programs. In addition, transportation costs for these students grew \$500,655 to \$1,123,475, which represented an 80% increase over the prior year. This encroachment is expected to continue in future years.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2004 and 2003, the District had \$97.8 and \$97.4 million in a broad range of capital assets, including land, buildings, and furniture and equipment.

Table 4 - Capital Assets
South San Francisco Unified School District
Capital Assets at Year-end
(Net of depreciation, in millions of dollars)

	2004	2003
	Governmental	Governmental
	Activities	Activities
Land	\$ 4.3	\$ 4.3
Construction in progress	0.3	33.9
Buildings and improvements	115.8	78.8
Equipment	3.1	3.5
Total capital assets	123.5	120.5
Accumulated depreciation	(25.7)	(23.1)
Net capital assets	\$ 97.8	\$ 97.4

Several capital projects are planned for the 2004-2005 year. We anticipate capital additions to be approximately \$5 million for the 2004-2005 year. Please refer to Note 5 to the financial statements for more detailed information on the District's capital assets.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2004

Long-Term Debt

At the end of 2004 and 2003 fiscal year, the District had \$43.8 and \$45.1 million in long-term debt. Table 5 summarizes the total:

**Table 5 - General Long-Term Debt
South San Francisco Unified School District
Outstanding Debt at Year-end
(In millions of dollars)**

	2004	2003
	Governmental Activities	Governmental Activities
General obligation bonds	\$ 39.1	\$ 39.2
Certificates of participation	2.4	2.6
Accumulated vacation - net	0.6	0.8
ERIP Liability (PARS)	1.4	2.2
Environmental Protection Agency Loan	0.3	0.3
Totals	\$ 43.8	\$ 45.1

The District's general obligation bond rating (by Moody) continued to be relatively high at "AAA." The District was authorized to issue up to \$45 million in general obligation bonds through a bond election held in 1996-1997. This was substantially less than the \$145 million that could have been issued based upon the State limit of 2.5 percent of the assessed value of all taxable property within the District's boundaries during 1996-1997. The District's current outstanding general obligation debt is \$39.1 million.

Other obligations include compensated absences payable, post employment benefits (not including health benefits) and other long-term debt. We present more detailed information regarding our long-term liabilities in Note 9 of the financial statements.

FACTORS BEARING ON THE DISTRICT'S FUTURE

Expectations for the 2004-2005 budget and subsequent years are high. The state has funded a 2.41% COLA and reduced the deficit for revenue limits netting an increase of 3.66% in this funding over the prior year. However, the district must overcome the loss of 163 ADA funding prior year because the 2003-2004 year was funded on 2002-3 ADA. Although the district is experiencing some growth this year, the ADA is expected to be 120 less than the 2003-2004 funded amount. This results in an increase of only \$800,559 over the prior year netting a total increase of only 1.93%. With ever increasing special education costs without offsetting income, this encroachment will continue to grow.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2004

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the Assistant Superintendent, Business Services, at South San Francisco Unified School District, South San Francisco, California.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2004

Assets	Governmental Activities
Deposits and investments	\$ 28,640,499
Receivables	7,448,782
Prepaid expenses	460,063
Stores inventories	234,682
Capital assets	123,470,371
Less: Accumulated depreciation	(25,702,937)
Total assets	<u>\$ 134,551,460</u>
Liabilities	
Accounts payable	\$ 7,127,905
Deferred revenue	858,082
Current loans	14,870,000
Current portion of long-term obligations	1,974,963
Noncurrent portion of long-term obligations	41,809,149
Total liabilities	<u>66,640,099</u>
Net Assets	
Invested in capital assets, net of related debt	55,987,671
Restricted for:	
Debt service	1,338,935
Capital projects	7,215,307
Legally Restricted	2,275,434
Special Revenue	686,776
Unrestricted	407,238
Total net assets	<u>\$ 67,911,361</u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

Functions/Programs	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Governmental Activities
Governmental activities:				
Instruction	\$ 37,988,161	\$ 172,365	\$ 5,785,332	\$ (32,030,464)
Instruction related activities:				
Supervision of instruction	2,555,525	35,730	174,358	(2,345,437)
Instructional library, media and technology	791,379	4,919	13,238	(773,222)
School site administration	4,790,194	12,951	534,708	(4,242,535)
Pupil services:				
Home-to-school transportation	793,862	-	233,765	(560,097)
Food services	2,477,870	351	1,633,647	(843,872)
All other pupil services	2,590,222	1,350	355,211	(2,233,661)
General administration:				
Data processing	170,037	-	-	(170,037)
All other general administration	3,274,553	18,047	355,060	(2,901,446)
Plant services	8,732,794	4,068	204,126	(8,524,600)
Facility acquisition and construction	1,483,856	347,420	357,133	(779,303)
Community services	7,799	-	-	(7,799)
Interest on long-term debt	2,267,321	-	-	(2,267,321)
Other (outgo)	2,679,991	49,819	1,158,041	(1,472,131)
Depreciation (unallocated)	3,087,974	-	-	(3,087,974)
Total governmental-type activities	\$ 73,691,538	\$ 647,020	\$ 10,804,619	(62,239,899)
General revenues and subventions:				
Property taxes, levied for general purposes				44,952,353
Property taxes, levied for debt service				2,158,381
Federal and State aid not restricted to specific purposes				5,717,151
Interest and investment earnings				940,346
Transfers				30,345
Miscellaneous				3,266,459
Subtotal, general revenues				57,065,035
Change in net assets				(5,174,864)
Net assets - beginning				73,086,225
Net assets - ending				\$ 67,911,361

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2004

	General Fund	Special Reserve Capital Outlay Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 18,712,871	\$ 4,534,219	\$ 5,393,409	\$ 28,640,499
Receivables	6,321,863	333,644	490,731	7,146,238
Due from other funds	1,431,186	1,443,043	224,078	3,098,307
Prepaid expenses	379,416	-	80,647	460,063
Stores inventories	161,345	-	73,337	234,682
Total assets	<u>\$ 27,006,681</u>	<u>\$ 6,310,906</u>	<u>\$ 6,262,202</u>	<u>\$ 39,579,789</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 5,806,095	\$ 212,357	\$ 571,194	\$ 6,589,646
Due to other funds	1,184,471	326,743	1,587,093	3,098,307
Other current Liabilities	14,870,000	-	-	14,870,000
Deferred revenue	761,638	-	96,444	858,082
Total liabilities	<u>22,622,204</u>	<u>539,100</u>	<u>2,254,731</u>	<u>25,416,035</u>
Fund Balances:				
Reserved for:				
Stores inventories	161,345	-	73,337	234,682
Other reservations	2,114,089	-	80,647	2,194,736
Unreserved:				
Designated	1,982,369	-	-	1,982,369
Undesignated, reported in:				
General fund	126,674	-	-	126,674
Special revenue funds	-	-	607,792	607,792
Debt service funds	-	-	1,877,194	1,877,194
Capital projects funds	-	5,771,806	1,368,501	7,140,307
Total fund balance	<u>4,384,477</u>	<u>5,771,806</u>	<u>4,007,471</u>	<u>14,163,754</u>
Total Liabilities and Fund Balances	<u>\$ 27,006,681</u>	<u>\$ 6,310,906</u>	<u>\$ 6,262,202</u>	<u>\$ 39,579,789</u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS

JUNE 30, 2004

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:

Total Fund Balance - Governmental Funds

\$ 14,163,754

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

\$123,470,371

Accumulated depreciation is

(25,702,937)

97,767,434

In the governmental funds, unmatured interest on long-term debt is
recognized in the period when it is paid. On the government-wide
statements, unmatured interest on long-term debt is recognized as it
accrues.

CE #8

(538,259)

In the governmental funds, the receipt of the special education mandate
settlement is reported as revenue in the year received. On the statement
of net assets, the settlement amount is recorded as a receivable and
payment received in the current year reduces the receivable amount.

CE #6

302,544

Long-term liabilities at year end consist of:

Bonds payable

39,123,670

Certificates of participation

2,438,153

Environmental Protection Agency Loan

217,940

Compensated absences (vacations)

603,493

ERIP liability (PARS)

1,400,856

(43,784,112)

Total Net Assets - Governmental Activities

\$ 67,911,361

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

DISTRICT: 040 SSF UNIFIED SCHOOL DISTRICT

FUND 01 GENERAL FUND
LEDGER - EXPENSE

SITE 021 ALTA LOMA

FOLIO 376 4-8 TOBAC USE PREVENTN ED

ACCOUNT NUMBER	ADOPTED BUDGET	BUDGET REVISIONS	CURRENT BUDGET	***** ACTUAL	FISCAL YEAR-TO-DATE ENCUMBRANCE	***** BALANCE
01/6660/0/1110/3110/021/1211/376	3,602.00	-1,125.62	2,476.38	1,820.40	0.00	655.98
01/6660/0/1110/3110/021/1241/376	0.00	0.00	0.00	130.00	0.00	-130.00
TOTAL CERT PERSONNEL SAL (1000-1999)	3,602.00	-1,125.62	2,476.38	1,950.40	0.00	525.98
01/6660/0/1110/3110/021/3101/376	297.00	-117.08	179.92	150.20	0.00	29.72
01/6660/0/1110/3110/021/3301/376	52.00	-21.48	30.52	22.52	0.00	8.00
01/6660/0/1110/3110/021/3401/376	257.00	30.00	287.00	189.63	0.00	97.37
01/6660/0/1110/3110/021/3501/376	13.00	0.29	13.29	10.12	0.00	3.17
01/6660/0/1110/3110/021/3601/376	94.00	-33.91	60.09	44.01	0.00	16.08
TOTAL EMPLOYEE BENEFITS (3000-3999)	713.00	-142.18	570.82	416.48	0.00	154.34
TOTAL SAL AND BENEFITS (1000-3999)	4,315.00	-1,267.80	3,047.20	2,366.88	0.00	680.32
TOTAL CURR YR EXPEND (1000-7399)	4,315.00	-1,267.80	3,047.20	2,366.88	0.00	680.32
TOTAL EXPENDITURES (1000-7599)	4,315.00	-1,267.80	3,047.20	2,366.88	0.00	680.32
TOTAL EXPEND/TRNSFRS/OTHR (1000-7999)	4,315.00	-1,267.80	3,047.20	2,366.88	0.00	680.32
TOTAL EXP/TRAN/OTHR/RES (1000-7RES/99)	4,315.00	-1,267.80	3,047.20	2,366.88	0.00	680.32
TOTAL FOLIO 376 4-8 TOBAC USE PREVENTN E	4,315.00	-1,267.80	3,047.20	2,366.88	0.00	680.32
TOTAL SITE 021 ALTA LOMA	41,986.00	15,640.20	57,626.20	36,924.57	0.00	20,701.63

Total change in fund balances, governmental funds:

1,916,139

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay: In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay: 125,645,282
Depreciation expense: (4,312,971)
Net: 121,332,311

*F/A
depos*

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

1,101,258

Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:

(1,362,464)

Debt issue costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:

Issue costs incurred during the period: -
Issue costs amortized for the period: -
Net: -

Donated capital assets: In governmental funds, donated capital assets are not reported because they do not affect current financial resources. In the government-wide statements, donated capital assets are reported as revenue and as increases to capital assets, at their fair market value on the date of donation. The fair market value of capital assets donated was:

-

Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:

-

Earned but unavailable revenues: In governmental funds, revenues are recognized only to the extent that they are "available," meaning they will be collected soon enough after the end of the period to finance expenditures of that period. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of earned but unavailable revenues relating to the current period, less revenues that became available in the current period but related to a prior period, is:

(43,070)

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:

538,259

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:

(9,799)

171,180

Other expenditures relating to prior periods: Certain expenditures recognized in governmental funds relate to prior periods. Typical examples, in addition to compensated absences and interest on long-term debt, are payments on structured legal settlements or retirement incentives paid over time. These expenditures are recognized in the government-wide statement of activities in the period in which the obligations are first incurred, so they must not be recognized again in the current period. Expenditures relating to prior periods (described below) were:

-

Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, costs are measured and recognized in relation to the annual required contribution. The annual required contribution is the normal cost related to the current period plus a calculated amount necessary to systematically amortize any unfunded liability in accordance with generally accepted accounting principles. This year, the difference between the annual required contribution and amounts actually funded was:

-

Other liabilities not normally liquidated with current financial resources: In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were:

-

Cost write-off for canceled capital projects: If a planned capital project is canceled and will not be completed, costs previously capitalized as Work in Progress must be written off to expense. Costs written off for canceled projects were:

-

Amortization of debt issue premium or discount: In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is:

-

Internal Service Funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was:

-

Change in net assets of governmental activities (minor differences may be due to rounding):

123,472,634

*B20 audit
ypt*

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES AND

CHANGES IN FUND BALANCE

FOR THE YEAR ENDED JUNE 30, 2004

	General Fund	Special Reserve Capital Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 45,900,548	\$ -	\$ 1,702,733	\$ 47,603,281
Federal sources	4,065,770	-	1,129,715	5,195,485
Other state sources	6,710,676	-	949,303	7,659,979
Other local sources	2,298,796	183,373	5,286,032	7,768,201
Total Revenues	58,975,790	183,373	9,067,783	68,226,946
EXPENDITURES				
Current				
Instruction	35,709,021	-	2,280,751	37,989,772
Instruction related activities:				
Supervision of instruction	2,531,421	-	4,440	2,535,861
Instructional library, media and technology	798,405	-	-	798,405
School site administration	4,130,485	-	658,835	4,789,320
Pupil Services:				
Home-to school transportation	793,862	-	-	793,862
Food services	-	-	2,479,140	2,479,140
All other pupil services	2,586,353	-	6,318	2,592,671
General administration:				
Data processing	174,389	-	-	174,389
All other general administration	3,104,262	-	259,140	3,363,402
Plant services	7,014,559	483,018	1,320,507	8,818,084
Facility acquisition and construction	24,737	3,648,370	1,293,933	4,967,040
Community services	7,912	-	-	7,912
Other outgo	2,679,991	-	-	2,679,991
Debt service				
Principal	841,851	33,531	988,993	1,864,375
Interest and other	-	-	1,500,689	1,500,689
Total Expenditures	60,397,248	4,164,919	10,792,746	75,354,913
Excess (deficiency) of				
revenues over expenditures	(1,421,458)	(3,981,546)	(1,724,963)	(7,127,967)
Other Financing Sources (Uses):				
Transfers in	313,935	1,059,912	106,602	1,480,449
Other sources	311,299	-	21,404	332,703
Transfers out	(1,166,514)	(299,635)	(14,300)	(1,480,449)
Net Financing Sources (Uses)	(541,280)	760,277	113,706	332,703
NET CHANGE IN FUND BALANCES	(1,962,738)	(3,221,269)	(1,611,257)	(6,795,264)
Fund Balance - Beginning	6,347,215	8,993,075	5,618,728	20,959,018
Fund Balance - Ending	\$ 4,384,477	\$ 5,771,806	\$ 4,007,471	\$ 14,163,754

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004

**Amounts Reported for Governmental Activities in the Statement of
Activities are Different Because:**

Total Net Change in Fund Balances - Governmental Funds **\$ (6,795,264)**

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statements of activities.

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

Depreciation expense	\$ (3,087,974)	
Capital outlays	<u>3,482,426</u>	
		394,452

Revenue related to the Special Education mandate settlement is reported in the governmental funds, but is a reduction in receivable on the statement of net assets. (42,975)

The increase in the liability for unmatured interest on long-term debt is reported in the statement of activities, but is not recorded in the governmental funds. (40,091)

The decrease in liability for compensated absences is not recorded in the governmental funds, but is reported in the government-wide statements. 171,180

Accreted interest is not an expenditure in the governmental funds, but it increases the long term liabilities in the statement of net assets and is reflected as additional interest expense in the statement of activities. (945,644)

Repayment of capital lease principal liabilities 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. 21,249

Repayments of certificates of participation principal liabilities are 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. 171,847

Repayments of the Environment Protection Agency Loan and ERIP liabilities are expenditures in the governmental funds, but they reduce long-term liabilities in the statement of net assets and do not affect the statement of activities. 875,382

Repayment of 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. 1,015,000

Change in Net Assets of Governmental Activities **\$ (5,174,864)**

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2004

	Other Private- Purpose Trust	Agency Funds
ASSETS		
Deposits and investments	\$ 405,043	\$ 654,200
Receivables	2,574	-
Total assets	<u>\$ 407,617</u>	<u>\$ 654,200</u>
LIABILITIES		
Accounts payable	\$ 3,000	\$ -
Due to student groups	-	654,200
Total liabilities	<u>3,000</u>	<u>\$ 654,200</u>
NET ASSETS		
Unreserved	404,617	
Total Net Assets	<u>\$ 404,617</u>	

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS

STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS FOR THE YEAR ENDED JUNE 30, 2004

	Other Private- Purpose Trust
ADDITIONS	
Interest	\$ 11,488
DEDUCTIONS	
Other expenditures	13,600
Change in Net Assets	(2,112)
Net Assets - Beginning	406,729
Net Assets - Ending	<u>\$ 404,617</u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The South San Francisco Unified School District was organized/unified on July 1, 1936 under the laws of the State of California. The 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/or Federal agencies. The District operates ten elementary, three middle, two high schools, four day-care schools, a central children's center, an adult, and continuation high school.

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. For South San Francisco Unified School District, this includes general operations, food service, and student related activities of the District.

Joint Powers Agencies and Public Entity Risk Pools The District is associated with San Mateo County Schools Insurance Group joint powers agency. This organization does not meet the criteria for inclusion as a component unit of the District. Summarized audited financial information is presented in Note 15 to the financial statements.

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, of which the District only has governmental and fiduciary.

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

Major Governmental Funds

General Fund The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

Special Reserve Fund Capital Outlay The Special Reserve Fund Capital Outlay is used to provide for the accumulation of General Fund monies for capital outlay purposes.

Other Non-Major Governmental Funds

Special Revenue Funds The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The district maintains the following special revenue funds:

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Adult Education Fund The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

Child Development Fund The Child Development Fund is used to account for resources committed to child development programs maintained by the District.

Cafeteria Fund The Cafeteria Fund is used to account for the financial transactions related to the food service operations of the District.

Deferred Maintenance Fund The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

Debt Service Funds The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains the following debt service funds:

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, district bonds, interest, and related costs.

Capital Projects Funds The Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains the following capital projects funds:

Capital Facilities Fund The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

Building Fund The Building exists primarily to account separately for proceeds from sale of bonds and acquisition of major governmental capital facilities and buildings.

State School Building Lease-Purchase Fund The State School Building Lease-Purchase Fund is used primarily to account for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17070-17080).

County School Facilities Fund The County School Facilities Fund is used primarily to account separately for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17010.10-17076.10).

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is split into two classifications: foundation trust fund and agency fund.

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. The District's trust fund is the foundation trust. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB).

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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 of the District and for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. 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 program is self-financing or draws from the general revenues of the District.

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. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental 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.

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 balance 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 differences between the government-wide statements and the governmental funds statements.

Fiduciary Funds Fiduciary funds are accounted for using the flow of 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 a 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. For the District, available means expected to be received within 90 days of fiscal year-end.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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 a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, 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.

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 within 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. Unused donated commodities are reported as part of stores inventory. Principal and interest on general long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

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.

Investments

Investments held at June 30, 2004, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Restricted Assets

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Prepaid Expenditures

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

Stores Inventory

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

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 \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. The valuation basis for general capital assets is 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 by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, compensated absences are reported as a component of general long-term debt.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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. Bonds, capital leases, and long-term loans are recognized as a liability on the fund financial statements when due.

Fund Balance Reserves and Designations

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for revolving cash accounts, stores inventories, prepaid expenditures (expenses), and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund equity designations have been established for economic uncertainties, unrealized gains of investments and cash in county treasury, and other purposes.

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. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/ expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. 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 of America 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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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 Tax

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 Mateo bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

NOTE 2 – NEW ACCOUNTING PRONOUNCEMENT

During the fiscal year ended June 30, 2004, the Governmental Accounting Standards Board (GASB) Statement No. 39, "Determining Whether Certain Organizations Are Component Units", an amendment of GASB Statement No. 14, became effective. This statement provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government. This new statement had no impact on the District's financial statements.

NOTE 3 – DEPOSITS AND INVESTMENTS

Policies and Practices

The District is considered to be an involuntary participant in an external investment pool since the District is required to deposit all receipts and collections of monies with their county treasurer (Education Code Section 41001). In addition, the District is authorized to maintain deposits with certain financial institutions that are federally insured up to \$100,000.

The District is also authorized 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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

Deposits

Deposits at June 30, 2004, is presented below and categorized separately to give an indication of the level of risk assessment with each deposit:

	Bank Balance - Category *		Total
	1	3	
Cash on hand and in banks	\$ 436,970	\$ 416,612	\$ 853,582
Cash in revolving fund	-	56,211	56,211
Cash with fiscal agent	-	77,384	77,384
Total	<u>\$ 436,970</u>	<u>\$ 550,207</u>	<u>\$ 987,177</u>

	Governmental Carrying Amount	Fiduciary Carrying Amount	Total
Cash on hand and in banks	\$ 35,048	\$ 654,200	\$ 689,248
Cash in revolving fund	25,155	-	25,155
Cash with fiscal agent	78,134	-	78,134
	<u>\$ 138,337</u>	<u>\$ 654,200</u>	<u>\$ 792,537</u>

*These categories are as follows:

Category 1: Insured or collateralized with securities held by the District or by its agent in the District's name.

Category 3: Uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the District's name.

Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the counterparty's trust department or agent in the District's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent but not in the district's name. Deposits with the County Treasury and investments in the State Treasurer's Investment Pool are not categorized because they do not represent securities, which exist in physical or book entry form. The Local Agency Investment Fund (LAIF) is an external investment pool sponsored by the State of California authorized under Section 16429.1, 2, and 3 of California Government Code. The fund is a voluntary program created by statute as an investment alternative for California local governments and special districts and is administered by California State Treasurer. The deposits with county treasury and State pool's investments are valued using the amortized cost method (which approximates fair value). The fair values were provided by the county and State treasurers for their respective pools.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

The investments at June 30, 2004 had reported and fair values and were categorized as follows:

	Fair Value	Reported Amount	
		Governmental Funds	Fiduciary Funds
Category 2			
Micron Tech	\$ 19,530	\$ 19,530	\$ -
GE Stock	3,062	3,062	-
Veritas Stock	1,210	1,210	-
	<u>23,802</u>	<u>23,802</u>	<u>-</u>
Uncategorized:			
Investment in state treasurer's pool	5,413	5,422	-
Deposits with county treasurer	28,740,233	28,472,938	405,043
	<u>\$ 28,769,448</u>	<u>\$ 28,502,162</u>	<u>\$ 405,043</u>

NOTE 4 - RECEIVABLES

Receivables at June 30, 2004, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General	Special Reserve Capital	Nonmajor Funds	Total	Fiduciary Funds
Federal Government					
Categorical aid	\$ 897,978	\$ -	\$ 216,321	\$ 1,114,299	\$ -
State Government					
Categorical aid	564,129	-	50,343	614,472	-
Lottery	628,675	-	-	628,675	-
Other state	3,199,908	-	-	3,199,908	-
Local Government					
Interest	138,134	333,644	28,119	499,897	2,574
Other Local Sources	893,039	-	195,948	1,088,987	-
Total	<u>\$ 6,321,863</u>	<u>\$ 333,644</u>	<u>\$ 490,731</u>	<u>\$ 7,146,238</u>	<u>\$ 2,574</u>

In the government-wide statement of net assets, an additional receivable of \$302,544 is recorded, representing the special education mandate settlement.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance June 30, 2003	CE#1 #4 #11 Additions	CE#5 CE#11 Deductions	Balance June 30, 2004
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$ 4,305,189	\$ -	\$ -	\$ 4,305,189
Construction in Progress	33,908,326	339,258	33,908,326	339,258
Total Capital Assets not being depreciated	38,213,515	339,258	33,908,326	4,644,447
Capital Assets being depreciated:				
Land Improvements	2,247,069	-	-	2,247,069
Buildings and Improvements	76,504,125	37,507,016	482,876	113,528,265
Furniture and Equipment	3,537,265	27,354	514,029	3,050,590
Total Capital Assets being depreciated	82,288,459	37,534,370	996,905	118,825,924
Total Capital Assets	120,501,974	37,873,628	34,905,231	123,470,371
Less Accumulated Depreciation:				
Land Improvements	461,829	97,675	-	559,504
Buildings and Improvements	20,007,153	2,826,961	-	22,834,114
Furniture and Equipment	2,660,010	163,338	514,029	2,309,319
Total Accumulated Depreciation	23,128,992	3,087,974	514,029	25,702,937
Governmental Activities Capital Assets, Net	\$ 97,372,982	\$ 34,785,654	\$ 34,391,202	\$ 97,767,434

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2004, between major and nonmajor governmental funds are as follows:

	Due From			Total
	General	Special Reserve-Capital	Nonmajor Governmental	
Due To General	\$ 14,581	\$ 305,938	\$ 1,110,667	\$ 1,431,186
Special Reserve-Capital	972,457	-	470,586	1,443,043
Nonmajor governmental	197,433	20,805	5,840	224,078
Total	\$ 1,184,471	\$ 326,743	\$ 1,587,093	\$ 3,098,307

All balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

Operating Transfers

Interfund transfers for the year ended June 30, 2004, consisted of the following:

Transfer To	Transfer from			Total
	General	Special Reserve Capital	Nonmajor Governmental	
General	\$ -	\$ 1,059,912	\$ 106,602	\$ 1,166,514
Special Reserve - Capital	299,635	-	-	299,635
Nonmajor governmental	14,300	-	-	14,300
Total	<u>\$ 313,935</u>	<u>\$ 1,059,912</u>	<u>\$ 106,602</u>	<u>\$ 1,480,449</u>

The General fund transferred to the Deferred Maintenance fund for state match.	\$ 106,602
The General fund transferred to the Special Reserve-Capital for expenditures related to the FAA Noise Abatement Program.	1,059,912
The Child Development fund transferred to the General fund for rental expenditures.	14,300
The Special Reserve - Capital transferred to the General fund for deferred maintenance match.	299,635
Total	<u>\$ 1,480,449</u>

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 service 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.

NOTE 7 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2004, consisted of the following:

	General	Special Reserve Capital	Nonmajor Governmental	Total	Fiduciary
Vendor payables	\$ 2,647,763	\$ 212,357	\$ 431,192	\$ 3,291,312	\$ 3,000
Salaries and benefits	3,158,332	-	140,002	3,298,334	-
Total	<u>\$ 5,806,095</u>	<u>\$ 212,357</u>	<u>\$ 571,194</u>	<u>\$ 6,589,646</u>	<u>\$ 3,000</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 8 – DEFERRED REVENUE

Deferred revenue at June 30, 2004, consists of the following:

	General	Nonmajor Governmental	Total
Federal financial assistance	\$ 384,226	\$ -	\$ 384,226
State categorical aid	328,999	73,328	402,327
Other local	48,413	23,116	71,529
Total	<u>\$ 761,638</u>	<u>\$ 96,444</u>	<u>\$ 858,082</u>

NOTE 9 – LONG-TERM OBLIGATIONS

Long-Term Obligations Summary

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

	Balance July 1, 2003	<i>#3 #19</i> Additions	<i>CE #2 #19</i> Deductions	Balance June 30, 2004	Due in One Year
General obligation bonds	\$ 39,193,026	\$ 945,644	\$ 1,015,000	\$ 39,123,670	\$ 863,270
Certificates of participation	2,610,000	1,037,000	1,208,847	2,438,153	124,454
Accumulated vacation - net	774,673	-	171,180	603,493	603,493
Capital leases	21,249	-	21,249	-	-
ERIP Liability (PARS)	2,242,707	-	841,851	1,400,856	350,215
Environmental Protection Agency Loan	251,471	-	33,531	217,940	33,531
	<u>\$ 45,093,126</u>	<u>\$ 1,982,644</u>	<u>\$ 3,291,658</u>	<u>\$ 43,784,112</u>	<u>\$ 1,974,963</u>

Payments on the general obligation bonds are made by the bond interest and redemption fund with local revenues. Payments for the Certificates of Participation are made by the Cafeteria Fund and Capital Facilities Fund. The accrued vacation will be paid by the fund for which the employee worked. The ERIP liability is paid out of the General fund.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2003	Accreted	Redeemed	Bonds Outstanding June 30, 2004
07/23/97	09/01/21	4.10-6.70%	\$10,000,000	\$ 7,765,000	\$ -	\$ 90,000	\$ 7,675,000
04/27/99	09/01/23	4.20-7.20%	16,000,000	15,075,000	-	100,000	14,975,000
11/18/99	09/01/24	4.95-7.00%	13,999,954	16,353,026	945,644	825,000	16,473,670
				<u>\$ 39,193,026</u>	<u>\$ 945,644</u>	<u>\$ 1,015,000</u>	<u>\$ 39,123,670</u>

Description	Resource Codes	Object Codes	2003/04 Unaudited Actuals	2004/05 Budget	Percent Difference
OTHER OUTGO (excluding Transfers of Indirect/Direct Support Costs)					
Debt Service					
Bond Redemptions		7433	833,896.00	2,648,285.00	217.6%
Bond Interest and Other Service Charges		7434	1,307,909.00	1,362,403.00	4.2%
Debt Service - Interest		7438	0.00	0.00	0.0%
Other Debt Service - Principal		7439	0.00	0.00	0.0%
TOTAL, OTHER OUTGO (excluding Transfers of Indirect/Direct Support Costs)			2,141,805.00	4,010,688.00	87.3%
TOTAL, EXPENDITURES			2,141,805.00	4,010,688.00	87.3%

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

11/12

Debt Service Requirements to Maturity

The bonds mature through 2025 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2005	\$ 863,270	\$ 1,362,464	\$ 2,225,734
2006	890,274	1,424,018	2,314,292
2007	923,305	1,479,164	2,402,469
2008	1,112,572	1,370,314	2,482,886
2009	1,291,901	1,286,535	2,578,436
2010-2014	7,808,403	6,686,972	14,495,375
2015-2019	9,670,297	7,871,052	17,541,349
2020-2024	11,688,567	9,297,677	20,986,244
2025	1,011,574	3,438,426	4,450,000
Sub Total	35,260,163	\$ 34,216,622	\$ 69,476,785
Accretion To Date	3,863,507		
Total	\$ 39,123,670		

2/10/05 11 months
04-05 1 month
05-06

Certificates of Participation

The certificates mature through 2019 as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 124,454	\$ 69,231	\$ 193,685
2006	131,897	65,580	197,477
2007	134,460	61,809	196,269
2008	142,150	57,835	199,985
2009	149,973	53,654	203,627
2010-2014	862,340	197,993	1,060,333
2015-2019	892,879	61,326	954,205
Total	\$ 2,438,153	\$ 567,428	\$ 3,005,581

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2004, amounted to \$603,493

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Early Retirement Incentive Program (ERIP), Public Agency Retirement Supplement (PARS) Liability

The District has in place an early retirement incentive program called the Public Agency Retirement Supplement ("PARS") whereby the District provides supplemental retirement benefits to employees participate in STRS and met the following criteria: (1) was a full-time permanent teacher bargaining unit member employed with the District as of January, (2) was at least fifty-five years of age (or at least fifty years of age if eligible to retire under STRS as of January 27, 1995, (3) completed five years of full-time employment as of January 27, 1995, (4) resigned from the District on or before January 27, 1995, (5) had applied for benefits under this program on or before December 16, 1994 and (6) had retired under STRS. This program is not the same as the early retirement incentive program pursuant to Education Code 22714 and 44929. As of June 30, 2004 there were 26 participants in the PARS Plan 2 program. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as premiums are paid. During the year, expenditures of \$841,851 were recognized for retirees' health care benefits.

PARS Plan	
Year Ending	Retirement Payment
June 30,	Principal
2005	\$ 350,215
2006	350,215
2007	350,214
2008	350,212
Total	<u>\$ 1,400,856</u>

Environmental Protection Agency

The EPA loan is non-interest bearing and is payable in semi-annual installments of \$16,765 through the year 2012.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

NOTE 10 – FUND BALANCES

Fund balances are with reservations/designations composed of the following elements:

	General	Special Reserve Capital	Nonmajor Governmental	Total	Fiduciary Funds
Reserved					
Revolving cash	\$ 25,000	\$ -	\$ -	\$ 25,000	\$ -
Stores inventory	161,345	-	73,337	234,682	-
Prepaid expenditures	379,416	-	80,647	460,063	-
Restricted programs	1,709,673	-	-	1,709,673	-
Total Reserved	2,275,434	-	153,984	2,429,418	-
Unreserved					
Designated					
Economic uncertainties	1,846,913	-	-	1,846,913	-
Other designation	135,456	-	-	135,456	-
Total Designated	1,982,369	-	-	1,982,369	-
Undesignated	126,674	5,771,806	3,853,487	9,751,967	404,617
Total Unreserved	2,109,043	5,771,806	3,853,487	11,734,336	404,617
Total	\$ 4,384,477	\$ 5,771,806	\$ 4,007,471	\$ 14,163,754	\$ 404,617

NOTE 11 – POSTEMPLOYMENT BENEFITS

The District also provides other postemployment care benefits besides PARS, in accordance with District employment contracts, to all employees who retire from the district on or after attaining age 55 with at least 10 years of service. Currently, 79 certificated employees and 20 classified employees meet those eligibility requirements. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as premiums are paid. During the year ended June 30, 2004, expenditures of \$140,814 were recognized for retiree health care benefits.

The approximate accumulated future liability for the District at June 30, 2004, amounts to \$432,855. This amount was calculated based upon the number of retirees receiving benefits multiplied by the yearly district payment per employee in effect at June 30, 2004, multiplied by the number of years of payments remaining until the employee reaches age 65.

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2004, the District contracted with the San Mateo County Schools Insurance Group for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

Workers' Compensation

For fiscal year 2004, the District participated in the San Mateo County School Insurance Group, an insurance purchasing pool. The intent of the San Mateo County School Insurance Group is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the San Mateo County School Insurance Group. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in San Mateo County School Insurance Group. Each participant pays its workers' compensation premium based on its individual rate. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the San Mateo County School Insurance Group. Participation in the San Mateo County School Insurance Group is limited to districts that can meet the San Mateo County School Insurance Group selection criteria.

Employee Medical Benefits

The District has contracted with the San Mateo County School Insurance Group to provide employee medical and surgical benefits. San Mateo County School Insurance Group is a shared risk pool comprised of the school district members in the San Mateo County School Insurance Group. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating Districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 13 – EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the Public Employees' Retirement System (PERS).

STRS

Plan Description

The District contributes to the California State Teachers' Retirement System (STRS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Blvd., Sacramento, CA 95826.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2003-2004 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2004, 2003, and 2002, were \$2,490,539, \$2,573,900, and \$2,443,768, respectively, and equal 100 percent of the required contributions for each year.

PERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0 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 the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2003-2004 was 10.42 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2004, 2003, and 2002, were \$737,780, \$299,035, and \$0, respectively, and equal 100 percent of the required contributions for each year.

Other Information

Under STRS law, certain early retirement incentives require the employer to pay the present value of the additional benefit which may be paid on either a current or deferred basis. The District has no obligations to STRS.

On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$688,294 (2.28 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2004. 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 also have not been recorded in these financial statements.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

NOTE 14 - 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, 2004.

Construction Commitments

As of June 30, 2004, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
SFO Airport Phase II	\$ 4,575,888	10/01/05
Roofing Project at South San Francisco High & Baden	219,000	08/01/04
District-wide Fencing	237,512	04/15/04
Grand Total	<u>\$ 5,032,400</u>	

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

The District is a member of the San Mateo County Schools Insurance Group (SMCSIG) joint powers authority. The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District, the pools, and the JPA's are 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 available from the respective entities.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

The SMCSIG has no long-term debt outstanding at June 30, 2003. The district's share of year-end assets, liabilities or fund equity has not been calculated.

Entity	San Mateo County Schools Insurance Group
Purpose	To Provide Workers' Compensation, Property, Casualty, and Health Insurance Programs
Participants	Various School Districts
Governing Board	One representative from each member District

Condensed Audited Financial Information Follows

		June 30, 2003
Assets		\$ 9,688,960
Liabilities		6,010,254
	Fund Equity	<u>\$ 3,678,706</u>
Revenues		\$ 25,015,244
Expenses		26,366,152
	Net Decrease in Fund Equity	<u>\$ (1,350,908)</u>
Payments for the Current Year		<u>\$ 369,300</u>

NOTE 16 - SUBSEQUENT EVENT

The District issued \$14,840,000 of Tax And Revenue Anticipation Notes dated July 6, 2004. The notes mature on July 6, 2005, and yield 1.6 percent interest. The notes were sold to supplement cash flow.

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REQUIRED SUPPLEMENTARY INFORMATION

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2004

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Favorable (Unfavorable)
	Original	Final		Final to Actual
REVENUES				
Revenue limit sources	\$44,085,137	\$ 46,134,634	\$ 45,900,548	\$ (234,086)
Federal sources	3,530,429	5,486,767	4,065,770	(1,420,997)
Other state sources	9,497,408	7,935,723	6,710,676	(1,225,047)
Other local sources	1,736,464	1,896,654	2,298,796	402,142
Total Revenues	58,849,438	61,453,778	58,975,790	(2,477,988)
EXPENDITURES				
Current				
Instruction	36,620,335	38,975,376	35,709,021	3,266,355
Instruction related activities:				
Supervision of instruction	2,445,491	653,549	2,531,421	(1,877,872)
Instructional library, media, and technology	887,805	2,423,944	798,405	1,625,539
School site administration	3,971,839	4,044,830	4,130,485	(85,655)
Pupil services:				
Home-to-school transportation	470,031	470,031	793,862	(323,831)
All other pupil services	2,599,536	2,611,387	2,586,353	25,034
General administration:				
Data processing	225,340	186,143	174,389	11,754
All other general administration	3,903,685	4,355,130	3,104,262	1,250,868
Plant services	7,125,452	7,339,623	7,014,559	325,064
Facility acquisition and construction	-	-	24,737	(24,737)
Community services	35,063	15,533	7,912	7,621
Other outgo	2,758,279	2,309,331	2,679,991	(370,660)
Interest	-	-	841,851	(841,851)
Total Expenditures	61,042,856	63,384,877	60,397,248	2,987,629
Excess (Deficiency) of Revenues	(2,193,418)	(1,931,099)	(1,421,458)	509,641
Other Financing Sources (Uses):				
Transfers in	120,902	120,902	313,935	193,033
Other sources	360,060	353,790	311,299	(42,491)
Transfers out	(106,602)	(1,166,514)	(1,166,514)	-
Net Financing Sources (Uses)	374,360	(691,822)	(541,280)	150,542
NET CHANGE IN FUND BALANCES	(1,819,058)	(2,622,921)	(1,962,738)	660,183
Fund Balance - Beginning	6,347,215	6,347,215	6,347,215	-
Fund Balance - Ending	\$ 4,528,157	\$ 3,724,294	\$ 4,384,477	\$ 660,183

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

SUPPLEMENTARY INFORMATION

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
No Child Left Behind Act:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	04329	\$ 905,158
Title I, Part C, Migrant Education	84.011	03174	64,873
Title I, Migrant Ed Summer Program	84.011	00005	7,187
Title II, Eisenhower	84.281A	03207	18,174
Title II, Part A, Teacher Quality	84.367	04341	189,783
Title II, Part D, Enhancing Education Technology	84.318	04335	23,789
Title III, Limited English Proficiency	84.365	00084	155,362
Title IV, Part A, Drug-Free Schools	84.186	04347	32,648
Title V, Part A, Innovative Education Strategies	84.298A	04354	34,524
Title VIII, Reading Improvement	84.338	04155	11,120
Individuals with Disabilities Act: ⁽¹⁾			
IDEA, Basic Local Assistance Entitlement, Part B	84.027	03379	1,247,066
IDEA, Preschool Grants, Part B	84.173	03430	34,388
IDEA, Preschool Local Entitlement, Part B	84.027A	03682	45,570
IDEA, Local Staff Development Grant, Part B	84.027A	03613	3,129
IDEA, Preschool Staff Development, Part B	84.173A	03431	484
IDEA, LCI Growth, Part B	84.173A	03431	33,333
IDEA, Workability I	84.027	03705	72,700
IDEA, Workability II, Transition Partnership	84.158	00006	31,979
Carl Perkins Act:			
Vocational & Applied Technology Secondary	84.048	03577	61,268
Vocational Postsecondary and Adult II	84.048	03578	81,029
Adult Education Act:			
Priority 1-3 Adult Basic Education	84.002A	03973	112,677
Child Development Act:			
Infant/Toddler Child Care Resource Contracts	93.575	03942	2,107
Total Department of Education			<u>3,168,348</u>

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2004

U.S. DEPARTMENT OF AGRICULTURE

Passed through California Department of Education (CDE):

Child Nutrition Act:

National School Lunch Program ^[1]	10.555	03755	780,876
National School Breakfast ^[1]	10.553	03157	19,933
Child and Adult Food Program ^[1]	10.558	03529	77,253
Fair Market Value of Commodity ^[1]	10.550	03389	26,381
Child and Adult Care Food ^[1]	10.558	03389	29,459
Total Department of Agriculture			<u>933,902</u>

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Passed through California Department of Education (CDE):

Medi-Cal Billing Option	93.778	00013	<u>33,322</u>
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U.S. DEPARTMENT OF TRANSPORTATION

Direct grant

FAA Noise Mitigation ^{[2][1]}	20.106	NA	<u>1,059,913</u>
Total Expenditures of Federal Awards			<u>\$ 5,195,485</u>

[1] Tested as a major program

[2] Pass-Through Entity Identifying Number not available

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2004

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	593	595
First through third	1,894	1,893
Fourth through sixth	2,017	2,019
Seventh and eighth	1,405	1,404
Home and hospital	1	1
Special education	194	194
Total Elementary	6,104	6,106
SECONDARY		
Regular classes	2,645	2,632
Continuation education	57	55
Home and hospital	2	2
Special education	144	143
Total Secondary	2,848	2,832
Total K-12	8,952	8,938
CLASSES FOR ADULTS		
Concurrently enrolled	13	13
Not concurrently enrolled	697	715
Total Classes for Adults	710	728
Grand Total	9,662	9,666
		Hours of Attendance
SUMMER SCHOOL		
Elementary		119,048
High school		90,352
Total Hours		209,400

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2004

Grade Level	1982-83 Actual Minutes	1986-87 Minutes Requirement	2003-04 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	35,920	36,000	45,690	180	In Compliance
Grades 1 - 3	48,312 *	51,840 *	52,200	180	In Compliance
Grades 4 - 5	48,312 *	51,840 *	52,200	180	In Compliance
Grades 6 - 8	49,860	54,000	60,828	180	In Compliance
Grades 9 - 12	63,440	64,800	65,217	180	In Compliance

* The minutes requirements for the 1986-87 for grades 1-3 and 4-5 has been calculated in accordance with the averaging method prescribed by the Program Advisory 86-06 and Ed. Code Sec. 46201

	1982-1983	1986-1987
Actual Minutes		
Grades 1-3	47,280	50,400
Grades 4-5	49,860	54,000
Minutes multiplied by number of grade level		
Grades 1-3	141,840	151,200
Grades 4-5	99,720	108,000
	241,560	259,200
Total number of grade level	5	5
	48,312	51,840

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2004

Summarized below are the fund balance reconciliations between Unaudited Actual Financial Report, and the audited financial statements.

	<u>General</u>	<u>Cafeteria</u>
FUND BALANCE		
Balance, June 30, 2004, Unaudited Actuals	\$ 4,274,857	\$ 142,318
Increase in:		
Accounts receivable	109,620	
Decrease in:		
Cash with fiscal agent		(108,622)
Balance, June 30, 2004, Audited Financial Statement	<u>\$ 4,384,477</u>	<u>\$ 33,696</u>

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2004

	(Budget) 2005 ¹	2004	2003	2002
GENERAL FUND				
Revenues	\$ 60,403,190	\$ 58,975,790	\$ 63,870,481	\$ 70,490,752
Other sources and transfer in	385,161	625,234	318,357	610,354
Total Revenues and Other Sources	60,788,351	59,601,024	64,188,838	71,101,106
Expenditures	60,741,135	60,397,248	62,773,559	62,008,645
Other uses and transfers out	562,407	1,166,514	1,753,539	9,262,619
Total Expenditures and Other Uses	61,303,542	61,563,762	64,527,098	71,271,264
INCREASE (DECREASE) IN FUND BALANCE	\$ (515,191)	\$ (1,962,738)	\$ (338,260)	\$ (170,158)
ENDING FUND BALANCE	\$ 3,869,286	\$ 4,384,477	\$ 6,347,215	\$ 6,685,475
AVAILABLE RESERVES ²	\$ 1,593,852	1,973,587	\$ 3,671,199	\$ 3,200,777
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	2.6%	3.3%	5.7%	4.5%
LONG-TERM DEBT	\$ 42,934,551	\$ 43,784,112	\$ 45,093,126	\$ 41,994,712
AVERAGE DAILY ATTENDANCE AT P-2 ³	9,104	8,952	9,102	9,256

The General Fund balance has decreased by \$2,300,998 over the past two years. The fiscal year 2004-05 budget projects a further decrease of \$515,191. For a district this size, the State recommends available reserves of at least 3 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in all of the past three years and anticipates incurring an operating deficit during the 2004-05 fiscal year. Total long-term debt has increased by \$1,789,400 over the past two years.

Average daily attendance has decreased by 304 over the past two years. Additional growth of 152 ADA is anticipated during fiscal year 2004-05.

¹ Budget 2005 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund.

³ Excludes Adult Education ADA.

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS BALANCE SHEET (UNAUDITED) JUNE 30, 2004

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS				
Deposits and investments	\$ 320,347	\$ 477,121	\$ 460,300	\$ 91,749
Receivables	165,421	118,467	184,263	653
Due from other funds	87,436	96	27,761	106,602
Prepaid expenses	-	-	5,647	-
Stores inventories	-	-	73,337	-
Total assets	<u>\$ 573,204</u>	<u>\$ 595,684</u>	<u>\$ 751,308</u>	<u>\$ 199,004</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 153,468	\$ 71,437	\$ 102,670	\$ -
Due to other funds	177,048	216,415	614,942	-
Deferred revenue	3,121	93,323	-	-
Total liabilities	<u>333,637</u>	<u>381,175</u>	<u>717,612</u>	<u>-</u>
Fund Balances:				
Reserved for:				
Stores inventories	-	-	73,337	-
Other reservations	-	-	5,647	-
Unreserved:				
Undesignated, reported in:				
Special revenue funds	239,567	214,509	(45,288)	199,004
Debt service funds	-	-	-	-
Capital projects funds	-	-	-	-
Total fund balance	<u>239,567</u>	<u>214,509</u>	<u>33,696</u>	<u>199,004</u>
Total Liabilities and Fund Balances	<u>\$ 573,204</u>	<u>\$ 595,684</u>	<u>\$ 751,308</u>	<u>\$ 199,004</u>

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	State School Building Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Total Nonmajor Governmental Funds
\$ 179,061	\$ 1,294,673	\$ 5,585	\$ 697,700	\$ 1,866,873	\$ 5,393,409
1,492	5,499	35	4,580	10,321	490,731
-	-	-	2,183	-	224,078
-	75,000	-	-	-	80,647
-	-	-	-	-	73,337
<u>\$ 180,553</u>	<u>\$ 1,375,172</u>	<u>\$ 5,620</u>	<u>\$ 704,463</u>	<u>\$ 1,877,194</u>	<u>\$ 6,262,202</u>
\$ 68,218	\$ 169,085	\$ -	\$ 6,316	\$ -	\$ 571,194
112,327	1,659	-	464,702	-	1,587,093
-	-	-	-	-	96,444
<u>180,545</u>	<u>170,744</u>	<u>-</u>	<u>471,018</u>	<u>-</u>	<u>2,254,731</u>
-	-	-	-	-	73,337
-	75,000	-	-	-	80,647
-	-	-	-	-	607,792
-	-	-	-	1,877,194	1,877,194
8	1,129,428	5,620	233,445	-	1,368,501
<u>8</u>	<u>1,204,428</u>	<u>5,620</u>	<u>233,445</u>	<u>1,877,194</u>	<u>4,007,471</u>
<u>\$ 180,553</u>	<u>\$ 1,375,172</u>	<u>\$ 5,620</u>	<u>\$ 704,463</u>	<u>\$ 1,877,194</u>	<u>\$ 6,262,202</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE (UNAUDITED) FOR THE YEAR ENDED JUNE 30, 2004

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES				
Revenue limit sources	\$ 1,371,168	\$ -	\$ 331,565	\$ -
Federal sources	193,706	2,107	933,902	-
Other state sources	54,596	696,355	58,109	120,120
Other local sources	229,057	664,991	1,346,326	5,381
Total Revenues	<u>1,848,527</u>	<u>1,363,453</u>	<u>2,669,902</u>	<u>125,501</u>
EXPENDITURES				
Current				
Instruction	1,264,297	1,016,454	-	-
Instruction related activities:				
Supervision of instruction	4,440	-	-	-
School site administration	419,241	239,594	-	-
Pupil Services:				
Food services	-	10,775	2,468,365	-
All other pupil services	6,318	-	-	-
General administration:				
All other general administration	90,286	93,854	75,000	-
Plant services	96,247	63,138	9,865	513,141
Facility acquisition and construction	-	4,694	-	-
Debt service				
Principal	-	-	63,847	-
Interest and other	-	-	161,444	-
Total Expenditures	<u>1,880,829</u>	<u>1,428,509</u>	<u>2,778,521</u>	<u>513,141</u>
Excess (deficiency) of revenues over expenditures	<u>(32,302)</u>	<u>(65,056)</u>	<u>(108,619)</u>	<u>(387,640)</u>
Other Financing Sources (Uses):				
Transfers in	-	-	-	106,602
Other sources	-	3,837	-	-
Transfers out	-	(14,300)	-	-
Net Financing Sources (Uses)	<u>-</u>	<u>(10,463)</u>	<u>-</u>	<u>106,602</u>
NET CHANGE IN FUND BALANCES	<u>(32,302)</u>	<u>(75,519)</u>	<u>(108,619)</u>	<u>(281,038)</u>
Fund Balance - Beginning	271,869	290,028	142,315	480,042
Fund Balance - Ending	<u>\$ 239,567</u>	<u>\$ 214,509</u>	<u>\$ 33,696</u>	<u>\$ 199,004</u>

See accompanying note to supplementary information.

Building Fund	Capital Facilities Fund	State School Building Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,702,733
-	-	-	-	-	1,129,715
-	-	-	-	20,123	949,303
-	845,979	157	21,742	2,172,399	5,286,032
-	845,979	157	21,742	2,192,522	9,067,783
-	-	-	-	-	2,280,751
-	-	-	-	-	4,440
-	-	-	-	-	658,835
-	-	-	-	-	2,479,140
-	-	-	-	-	6,318
-	-	-	-	-	259,140
-	638,116	-	-	-	1,320,507
447,130	243,678	-	598,431	-	1,293,933
-	91,249	-	-	833,897	988,993
-	31,336	-	-	1,307,909	1,500,689
447,130	1,004,379	-	598,431	2,141,806	10,792,746
(447,130)	(158,400)	157	(576,689)	50,716	(1,724,963)
-	-	-	-	-	106,602
-	17,567	-	-	-	21,404
-	-	-	-	-	(14,300)
-	17,567	-	-	-	113,706
(447,130)	(140,833)	157	(576,689)	50,716	(1,611,257)
447,138	1,345,261	5,463	810,134	1,826,478	5,618,728
\$ 8	\$ 1,204,428	\$ 5,620	\$ 233,445	\$ 1,877,194	\$ 4,007,471

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2004

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*.

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 apportionment's 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. This 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 requirement, 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 Annual Financial and Budget Report Unaudited Actuals 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.

Non-major Governmental Funds – Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance (Unaudited)

The Non-major Governmental Funds 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 Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance.

INDEPENDENT AUDITORS' REPORTS

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**INDEPENDENT AUDITORS' 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 Trustees
South San Francisco Unified School District
South San Francisco, California

We have audited the financial statements of South San Francisco Unified School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 22, 2004. 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

In planning and performing our audit, we considered South San Francisco Unified School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the South San Francisco Unified School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Financial Statement Findings as item 2004-1.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance

As part of obtaining reasonable assurance about whether 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 grants, 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 non-compliance that are required to be reported under *Government Auditing Standards*.

This report is intended for the information and use of the Board of Trustees, audit committee, 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.

Vawinek Trine Day & Co. LLP

San Jose, California
October 22, 2004



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Board of Trustees
South San Francisco Unified School District
South San Francisco, California

Compliance

We have audited the compliance of South San Francisco Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2004. South San Francisco Unified School District's major Federal programs are identified in the summary of auditors' 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 South San Francisco Unified School District's management. Our responsibility is to express an opinion on South San Francisco Unified School 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 South San Francisco Unified School District's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on South San Francisco Unified School District's compliance with those requirements.

In our opinion, South San Francisco Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2004. The results of our auditing procedures reported no instances of noncompliance with those requirements.

Internal Control Over Compliance

The management of South San Francisco Unified School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered South San Francisco Unified School District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our 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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Trustees, 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.

Vawrinek Trime Day & Co. LLP

San Jose, California
October 22, 2004



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
South San Francisco Unified School District
South San Francisco, California

We have audited the financial statements of the South San Francisco Unified School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 22, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. 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.

The management of the South San Francisco Unified School District is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the South San Francisco Unified School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Controller's Audit Guide	Procedures Performed
Attendance accounting		
Attendance reporting	6	Yes
Kindergarten continuance	3	Yes
Independent study	22	No
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational centers and programs	6	Not Applicable
Instructional time and staff development reform program	7	Yes
Instructional Time:		
School districts	4	Yes
County Offices of Education	3	Not Applicable
Community day schools	9	Not Applicable

	Procedures in Controller's Audit Guide	Procedures Performed
Class size reduction program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school servicing K-3	4	Not Applicable
Instructional Materials:		
General requirements	9	Yes
K-8 only	1	Yes
9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Early retirement incentive	4	Not Applicable
GANN limit calculation	1	Yes
Office of Criminal Justice Planning	-	Not Applicable

We did not perform testing for independent study as the reported ADA was below the materiality threshold as outlined in the Education Audit Appeals Panel guidelines.

Based on our audit, we found that for the items tested, the South San Francisco Unified School District complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the South San Francisco Unified School District had not complied with the laws and regulations.

This report is intended solely for the information and use of the Governing Board, audit committee, management, the California Department of Education, the State Controller's Office, 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.

Vawrinek Time Day & Co. LLP

San Jose, California
October 22, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2004

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
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Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027, 84.173, 84.029</u>	<u>Special Education Cluster</u>
<u>20.106</u>	<u>FAA Noise Mitigation</u>
<u>10.555</u>	<u>Child Nutrition Cluster</u>
<u> </u>	<u> </u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2004

FINANCIAL STATEMENT FINDINGS

The following finding represents a reportable condition related to the financial statements that is required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
60000	Miscellaneous

AVAILABLE RESERVES

2004-1 Code 60000

Finding:

The District's available reserves continue to decline and, at June 30, 2004 the District's available reserves were just slightly in excess of the 3% recommended guideline set by the State. Furthermore, the adopted budget projects the ending available reserves to drop below the 3% level.

Recommendation

The District needs to take the steps necessary to balance its operating budget and restore its reserve levels to at least the minimum recommended level set by the State.

District's Response

The District concurs with the auditor's recommendation.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

OTHER FINDINGS AND RECOMMENDATIONS FOR THE YEAR ENDED JUNE 30, 2004

FEDERAL FINDINGS AND QUESTIONED COSTS

There were no findings that represent reportable conditions, material weaknesses, and/or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133.

STATE AWARDS FINDINGS AND QUESTIONED COSTS

There were no findings that represent instances of noncompliance and questioned costs relating to state program laws and regulations.

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

There were no prior year audit findings.