

**SOUTH SAN FRANCISCO
UNIFIED SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2003

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
OF SAN MATEO COUNTY
SOUTH SAN FRANCISCO, CALIFORNIA
JUNE 30, 2003

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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, 2003, 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, 2003, 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.

As discussed in Note 2 to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 34 for the year ended June 30, 2003. This results in a change to the format and content of the basic financial statements.

As discussed in Note 18 to the basic financial statements, in the accompanying financial statements, the District recognized certain deferred state apportionments as revenue in the current fiscal year.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 30, 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. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on page 3 through 13 and budgetary comparison information on page 49, 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 an opinion 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 is 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.

Vavrinek, Trine, Day & Co, LLP

Pleasanton, California
January 30, 2004



Board of Trustees

Romolo J. Braschi

Emanuele N. Damonte

Shirlee Hoch

Raymond Latham

Philip Weise

Superintendent

Barbara Olds

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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, 2003. 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.

Since 2002-2003 is the first year that the South San Francisco Unified School District is required to comply with the GASB 34 reporting standard, comparisons to prior year data are not possible. Comparative analysis will be presented in future years.

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 school year, the District served an average of 9,563 K-12 students and 136 concurrently enrolled adult students.

FINANCIAL HIGHLIGHTS OF FISCAL YEAR 2002-03:

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 2002-03, this base funding came mainly (approximately 96.5%) from local property taxes and partly (3.5%) as state aid.

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SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

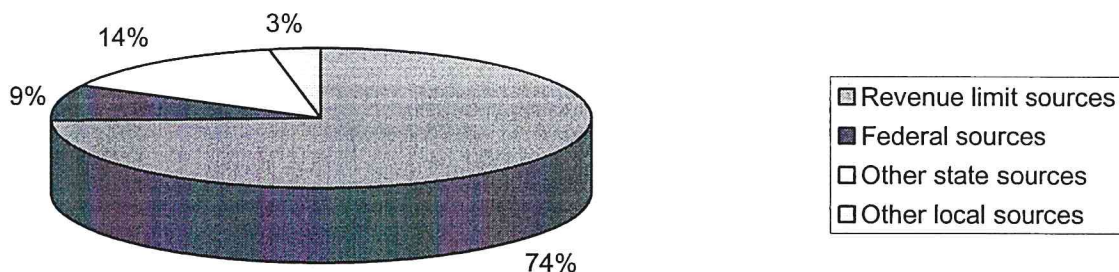
MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 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 year's unit rate. 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. 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.

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.

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



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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2003

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

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, 2003

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, 2003

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 \$ 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 9 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, 2003

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

	Governmental Activities
Current and other assets	\$ 39
Capital assets	97.4
Total Assets	136.0
Current liabilities	19.5
Long-term debt	43.4
Total Liabilities	62.9
Net assets	
Invested in capital assets, net of related debt	56.0
Restricted	16.2
Unrelated	0.9
Total Net Assets	\$ 73

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2003

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the Statement of Activities on page 5. 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)

	<u>Governmental Activities</u>
Revenues	
Program revenues	
Charges for services	\$1.7
Operating grants and contributions	12.5
General revenues:	
State sources	5.8
Property taxes	47.1
Other general revenues	6.2
Total Revenues	<u><u>73.3</u></u>
Expenses	
Instruction related	49.7
Student support services	6.0
Administration	5.6
Maintenance and operations	8.6
Other	4.6
Total Expenses	<u><u>74.4</u></u>
Change in Net Assets	<u><u>\$ (1.1)</u></u>

Governmental Activities

As reported in the Statement of Activities on page 15, 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). The remainder was funded through State sources (\$5.8 million), other general revenues (\$6.2 million), and carryovers from prior years (\$1.1 million).

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2003

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)

	Total Cost of Services	Revenue from Charges for Services and Sales	Revenue from Operating Grants & Contributions	Net Cost
Instruction related	\$ 49.7	\$ 0.6	\$ 7.8	\$ (41.3)
Student support services	6.0	1.0	2.0	(3.0)
Administration	5.6	0.0	0.0	(5.6)
Maintenance and operations	8.6	0.0	0.5	(8.1)
Other	4.6	0.1	2.2	(2.3)
Totals	\$ 74.4	\$ 1.7	\$ 12.5	\$ (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 \$21.0 million.

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 May 29, 2003. (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 49).

Significant revisions made to the 2002-2003 Adopted Budget included the pertinent provisions of the FY 2002-03 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. These revisions recognized the estimated savings from the Board-approved early retirement incentive programs. Earlier revisions during the year included actual funds carried over from FY 2001-02 ending fund balances, reserves, designated amounts, and undesignated/unrestricted portions. These revisions also updated the actual staffing used, salary placements, and longevity of all regular employees; SELPA "excess costs" for Special Education; utility costs, and other expenditure items.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2003

The Revenue Plan revisions reflected the estimates of the Base Revenue Limit income in view of the October 2, 2002 actual CBEDS enrollment count as well as the actual grants and entitlements provided by the respective federal, state, and local agencies. Other financing sources reflected the transfers of 2001-2002 restricted state program ending balances as allowed by SBX1 18 provisions. These provisions of the amended Budget Act enabled the District to backfill its mid-year cuts.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2003, the District had \$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)

	Governmental Activities
Land	\$ 4.3
Construction in progress	33.9
Buildings and improvements	78.8
Equipment	3.5
Total capital assets	120.5
Accumulated depreciation	-23.1
Net capital assets	\$ 97.4

Several capital projects are planned for the 2003-2004 year. We anticipate capital additions to be approximately \$9 million for the 2003-2004 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, 2003

Long-Term Debt

At the end of this year, the District had \$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)**

	Governmental Activities
General obligation bonds	\$ 39.2
Certificates of participation	2.6
Accumulated vacation - net	0.8
Capital leases	0.0
ERIP Liability (PARS)	2.2
Environmental Protection Agency Loan	0.3
Totals	\$ 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 \$39.2 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

The nationwide economy crunch and the stock market bust of the past few years had an impact on the District's financial health during 2002-2003 and will continue to impact the District's finances in the coming years. Coupled with increases in energy costs, step and column movement on the certificated and classified salary schedules, medical and liability insurance premiums and State budget cuts, the District faces continued budget challenges in 2003-2004. Also, the District has been experiencing a steady dose of enrollment decline. The District adjusted 2003-2004 expenditures with reductions in administrative and support staff and operating expenses and will continue to make adjustments as needed. Strategies being considered for reducing the anticipated 2003-2004 deficits include further reductions in these areas.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2003

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, 2003

	Governmental Activities
Assets	
Deposits and investments	\$ 29,780,215
Receivables	7,738,097
Prepaid expenses	812,871
Stores inventories	302,033
Capital assets	120,501,974
Less: Accumulated depreciation	(23,128,992)
Total assets	<u>136,006,198</u>
Liabilities	
Accounts payable	6,826,119
Deferred revenue	1,105,728
Current loans	9,895,000
Current portion of long-term obligations	1,669,003
Noncurrent portion of long-term obligations	43,424,123
Total liabilities	<u>62,919,973</u>
Net Assets	
Invested in capital assets, net of related debt	55,995,845
Restricted for:	
Legally restricted	2,688,436
Debt service	1,328,310
Special revenue	1,101,553
Capital projects	11,083,933
Unrestricted	888,148
Total net assets	<u><u>\$ 73,086,225</u></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, 2003

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	\$ 41,268,578	\$ 390,298	\$ 5,792,129	\$ (35,086,151)
Instruction related activities:				
Supervision of instruction	2,560,314	177,739	1,330,670	(1,051,905)
Instructional library and technology	1,099,215	-	84,944	(1,014,271)
School site administration	4,734,253	11,992	598,839	(4,123,422)
Pupil services:				
Home-to-school transportation	490,860	-	257,868	(232,992)
Food services	2,579,323	949,315	1,508,968	(121,040)
All other pupil services	2,880,459	9,368	261,516	(2,609,575)
General administration:				
Data processing	186,920	-	-	(186,920)
All other general administration	5,436,503	725	44,713	(5,391,065)
Plant services	8,536,269	961	480,710	(8,054,598)
Facility acquisition and construction	948	-	-	(948)
Community services	22,967	-	-	(22,967)
Interest on long-term debt	2,317,838	-	-	(2,317,838)
Other (outgo)	2,268,234	175,977	2,167,450	75,193
Total governmental-type activities	\$ 74,382,681	\$ 1,716,375	\$ 12,527,807	(60,138,499)
General revenues and subventions:				
Property taxes, levied for general purposes				45,048,495
Property taxes, levied for debt service				2,068,107
Federal and State aid not restricted to specific purposes				5,807,646
Interest and investment earnings				1,445,415
Miscellaneous				4,699,884
Subtotal, general revenues				59,069,547
Change in net assets				(1,068,952)
Net assets - beginning				74,155,177
Net assets - ending				<u>\$ 73,086,225</u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2003

	General Fund	Building Fund	Special Reserve Capital Outlay Fund
ASSETS			
Deposits and investments	\$ 15,186,483	\$ 456,097	\$ 8,344,885
Receivables	6,538,786	-	108,009
Due from other funds	3,929,040	611,708	4,425,542
Prepaid expenses	742,871	-	-
Stores inventories	205,964	-	-
Total assets	<u>\$ 26,603,144</u>	<u>\$ 1,067,805</u>	<u>\$ 12,878,436</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 4,773,944	\$ 605,899	\$ 264,600
Due to other funds	4,514,829	14,768	3,620,761
Other current liabilities	9,895,000	-	-
Deferred revenue	1,072,156	-	-
Total liabilities	<u>20,255,929</u>	<u>620,667</u>	<u>3,885,361</u>
Fund Balances:			
Reserved for:			
Stores inventories	205,964	-	-
Other reservations	2,316,318	-	-
Unreserved:			
Designated	1,996,630	-	5,367,540
Undesignated, reported in:			
General fund	1,828,303	-	-
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	447,138	3,625,535
Total fund balance	<u>6,347,215</u>	<u>447,138</u>	<u>8,993,075</u>
Total Liabilities and Fund Balances	<u>\$ 26,603,144</u>	<u>\$ 1,067,805</u>	<u>\$ 12,878,436</u>

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

Non Major Governmental Funds	Total Governmental Funds
\$ 5,792,750	\$ 29,780,215
745,783	7,392,578
126,530	9,092,820
70,000	812,871
96,069	302,033
<u>\$ 6,831,132</u>	<u>\$ 47,380,517</u>

\$ 683,508	\$ 6,327,951
942,462	9,092,820
-	9,895,000
33,572	1,105,728
<u>1,659,542</u>	<u>26,421,499</u>

96,069	302,033
70,085	2,386,403
-	
130,396	7,494,566
-	
-	1,828,303
957,704	957,704
1,826,478	1,826,478
2,090,858	6,163,531
<u>5,171,590</u>	<u>20,959,018</u>
<u>\$ 6,831,132</u>	<u>\$ 47,380,517</u>

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SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2003

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

Total Fund Balance - Governmental Funds		\$ 20,959,018
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	\$ 120,501,974	
Accumulated depreciation is	<u>(23,128,992)</u>	
		97,372,982
Expenditures relating to issuance of debt were recognized on the modified accrual basis, but should not be recognized on accrual basis.		(498,168)
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.		345,519
Long-term liabilities at year end consist of:		
Bonds payable	39,193,026	
Certificates of participation	2,610,000	
Capital leases payable	21,249	
Compensated absences (vacations)	774,673	
ERIP liability (PARS)	<u>2,494,178</u>	
		(45,093,126)
Total Net Assets - Governmental Activities		<u>\$ 73,086,225</u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2003

	General Fund	Building Fund	Special Reserve Capital Fund
REVENUES			
Revenue limit sources	\$ 47,274,576	\$ -	\$ -
Federal sources	5,411,189	-	-
Other state sources	8,978,068	-	-
Other local sources	2,206,648	-	511,367
Total Revenues	<u>63,870,481</u>	<u>-</u>	<u>511,367</u>
EXPENDITURES			
Current			
Instruction	38,573,094	-	-
Instruction related activities:			
Supervision of instruction	2,463,228	-	-
Instructional library, media and technology	1,008,490	-	-
School site administration	3,982,752	-	-
Pupil Services:			
Home-to school transportation	484,338	-	-
Food services	-	-	-
All other pupil services	2,832,794	-	-
General administration:			
Data processing	180,432	-	-
All other general administration	3,590,129	-	-
Plant services	7,017,973	27,300	451,745
Facility acquisition and construction	31,560	9,179,758	10,473,990
Community services	20,423	-	-
Other outgo	2,268,234	-	-
Debt service			
Principal	320,112	-	33,531
Interest and other	-	-	-
Total Expenditures	<u>62,773,559</u>	<u>9,207,058</u>	<u>10,959,266</u>
Excess (deficiency) of revenues over expenditures	<u>1,096,922</u>	<u>(9,207,058)</u>	<u>(10,447,899)</u>
Other Financing Sources (Uses):			
Transfers in	318,357	-	1,753,539
Transfers out	(1,753,539)	-	(304,057)
Net Financing Sources (Uses)	<u>(1,435,182)</u>	<u>-</u>	<u>1,449,482</u>
NET CHANGE IN FUND BALANCES	<u>(338,260)</u>	<u>(9,207,058)</u>	<u>(8,998,417)</u>
Fund Balance - Beginning	6,685,475	9,654,196	17,991,492
Fund Balance - Ending	<u>\$ 6,347,215</u>	<u>\$ 447,138</u>	<u>\$ 8,993,075</u>

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

Nonmajor Governmental Funds	Total Governmental Funds
\$ 1,558,431	\$ 48,833,007
1,166,661	6,577,850
982,820	9,960,888
5,266,944	7,984,959
<u>8,974,856</u>	<u>73,356,704</u>
2,263,256	40,836,350
78,216	2,541,444
-	1,008,490
735,071	4,717,823
-	484,338
2,531,455	2,531,455
3,746	2,836,540
-	180,432
75,000	3,665,129
1,125,492	8,622,510
417,251	20,102,559
-	20,423
-	2,268,234
1,070,771	1,424,414
1,256,468	1,256,468
<u>9,556,726</u>	<u>92,496,609</u>
<u>(581,870)</u>	<u>(19,139,905)</u>
-	2,071,896
<u>(14,300)</u>	<u>(2,071,896)</u>
<u>(14,300)</u>	<u>-</u>
<u>(596,170)</u>	<u>(19,139,905)</u>
5,767,760	40,098,923
<u>\$ 5,171,590</u>	<u>\$ 20,959,018</u>

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, 2003

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

Total Net Change in Fund Balances - Governmental Funds **\$ (19,139,905)**

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	\$ (812,208)	
Capital outlays	<u>20,389,735</u>	
		19,577,527

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 liability for unmatured interest on long-term debt is reported in the statement of activities, but is not recorded in the governmental funds. (117,174)

The increase in liability for compensated absences is not recorded in the governmental funds, but is reported in the government-wide statements. (75,570)

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. (944,196)

Expenditures related to PARS retirement liability is reported in the governmental funds, but is a reduction in the long-term liability on the statement of net assets. (1,430,961)

Repayments of capital lease 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. 40,771

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. 105,000

Repayments of Environment Protection Agency Loan 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. 33,531

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.

925,000

Change in Net Assets of Governmental Activities

\$ (1,068,952)

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, 2003

	Foundation Trust	Agency Funds
ASSETS		
Deposits and investments	\$ 403,414	\$ 579,508
Receivables	3,315	-
Total assets	<u>\$ 406,729</u>	<u>\$ 579,508</u>
LIABILITIES		
Due to student groups	\$ -	\$ 579,508
Total liabilities	<u>-</u>	<u>\$ 579,508</u>
NET ASSETS		
Unreserved	406,729	
Total Net Assets	<u>\$ 406,729</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, 2003

	Foundation Trust
ADDITIONS	
Private donations	\$ 3,827
Interest	14,092
Total Additions	<u>17,919</u>
DEDUCTIONS	
Other expenditures	10,800
Total Deductions	<u>10,800</u>
Change in Net Assets	7,119
Net Assets - Beginning	399,610
Net Assets - Ending	<u><u>\$ 406,729</u></u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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, 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.

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

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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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:

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/Account The Cafeteria Fund/Account 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).

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).

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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).

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 reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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.

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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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 for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2003, 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.

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 when incurred.

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. General 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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded 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/infrastructure, 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 employee 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, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported.

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.

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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. The District has no proprietary fund.

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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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.

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 – CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2003, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments," GASB Statement No. 36, "Receipt Reporting for Certain Shared Nonexchange Revenues", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", and GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Statement No. 41, "Budgetary Comparison Schedules - Perspective Difference". As a result, the financial statements for the first time include 1) a Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations, 2) financial statements prepared using full accrual accounting for all of the District's activities, and 3) a change in the fund financial statements to focus on the major funds. These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

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.

Deposits

Deposits at June 30, 2003, is presented below and categorized separately to give an indication of the level of risk assessment with each deposit:

	Bank Balance - Category *		
	1	3	Total
Cash on hand and in banks	\$ 320,574	\$ 377,172	\$ 697,746
Cash in revolving fund	22,136	-	22,136
Cash with fiscal agent	-	186,133	186,133
Total	<u>\$ 342,710</u>	<u>\$ 563,305</u>	<u>\$ 906,015</u>

	Governmental Carrying Amount	Fiduciary Carrying Amount	Total
Cash on hand and in banks	\$ 77,389	\$ 579,508	\$ 656,897
Cash in revolving fund	25,085	-	25,085
Cash with fiscal agent	186,858	-	186,858
	<u>\$ 289,332</u>	<u>\$ 579,508</u>	<u>\$ 868,840</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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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.

The investments at June 30, 2003 had reported and fair values and were categorized as follows:

	Fair Value	Reported Amount	
		Governmental Funds	Fiduciary Funds
Category 2			
Micron Tech	\$ 2,326	\$ 2,326	\$ -
GE Stock	17,550	17,555	-
Veritas Stock	1,210	1,210	-
	21,086	21,091	-
Uncategorized:			
Investment in state treasurer's pool	5,336	5,336	-
Deposits with county treasurer	30,652,113	29,464,456	403,414
	<u>\$ 30,678,535</u>	<u>\$ 29,490,883</u>	<u>\$ 403,414</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General	Special Reserve Capital	Nonmajor Funds	Total
Federal Government				
Categorical aid	\$ 942,304	\$ -	\$ 293,694	\$ 1,235,998
State Government				
Apportionment	283,910	-	112,966	396,876
Categorical aid	271,913	-	103,117	375,030
Lottery	434,629	-	-	434,629
Local Government				
Interest	152,589	84,341	40,935	277,865
Other Local Sources	4,453,441	23,668	195,071	4,672,180
Total	<u>\$ 6,538,786</u>	<u>\$ 108,009</u>	<u>\$ 745,783</u>	<u>\$ 7,392,578</u>

Long-term receivables of \$345,519 consists of the special education mandated settlement, which will be received over the next eight years.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$ 4,305,189	\$ -	\$ -	\$ 4,305,189
Construction in Progress	63,673,384	20,063,887	49,828,945	33,908,326
Total Non-depreciable Capital Assets	67,978,573	20,063,887	49,828,945	38,213,515
Capital Assets being depreciated:				
Land Improvements	2,011,476	235,593	-	2,247,069
Buildings and Improvements	26,675,180	49,828,945	-	76,504,125
Furniture and Equipment	3,447,010	90,255	-	3,537,265
Total Depreciable Capital Assets	32,133,666	50,154,793	-	82,288,459
Total Capital Assets	100,112,239	70,218,680	49,828,945	120,501,974
Less Accumulated Depreciation:				
Land Improvements	362,817	99,012	-	461,829
Buildings and Improvements	19,492,844	514,309	-	20,007,153
Furniture and Equipment	2,461,123	198,887	-	2,660,010
Total Accumulated Depreciation	22,316,784	812,208	-	23,128,992
Governmental Activities Capital Assets, Net	\$ 77,795,455	\$ 69,406,472	\$ 49,828,945	\$ 97,372,982

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

Depreciation expense was charged to governmental functions as follows:

Governmental Activities

Instruction	\$ 501,298
Supervision of Instruction	19,440
Instructional Library Media and Technology	83,140
School Administration	9,523
Pupil Transportation	6,522
Food Services	34,625
Other Pupil Services	38,144
Community Services	275
Other General Administration	40,883
Plant Maintenance and Operations	78,358
Total Depreciation Expenses Governmental Activities	<u>\$ 812,208</u>

NOTE 6 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2003, between major and nonmajor governmental funds are as follows:

		Due From				
		General	Building	Special Reserve Capital	Nonmajor Governmental	Total
Due To	General	\$ -	\$ 130	\$ 4,425,542	\$ 89,157	\$ 4,514,829
	Building	14,768			-	14,768
	Special Reserve-Capital	2,976,060	611,578		33,123	3,620,761
	Nonmajor governmental	938,212	-	-	4,250	942,462
	Total	\$ 3,929,040	\$ 611,708	\$ 4,425,542	\$ 126,530	\$ 9,092,820

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, 2003

Operating Transfers

Interfund transfers for the year ended June 30, 2003, consisted of the following:

Transfer To	Transfer from		
	General	Special Reserve-Capital	Total
General	\$ -	\$ 1,753,539	\$ 1,753,539
Special Reserve - Capital	304,057	-	304,057
Nonmajor governmental	14,300	-	14,300
Total	<u>\$ 318,357</u>	<u>\$ 1,753,539</u>	<u>\$ 2,071,896</u>

The Special Reserve-Capital Fund transferred to General Fund for deferred maintenance match.	\$ 304,057
The Child Development Fund transferred to General Fund for rental expenditures.	14,300
The General Fund transferred to Special Reserve-Capital Fund for expenditures related to the FAA Noise Abatement Program.	1,753,539
Total	<u>\$ 2,071,896</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, 2003, consisted of the following:

	General	Building	Special Reserve Capital	Nonmajor Governmental	Total
Vendor payables	\$ 1,519,107	\$ 604,714	\$ 264,600	\$ 569,607	\$ 2,958,028
Salaries and benefits	3,227,960	1,185	-	113,901	3,343,046
Other	26,877	-	-	-	26,877
Total	<u>\$ 4,773,944</u>	<u>\$ 605,899</u>	<u>\$ 264,600</u>	<u>\$ 683,508</u>	<u>\$ 6,327,951</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 8 – DEFERRED REVENUE

Deferred revenue at June 30, 2003, consists of the following:

	General	Nonmajor Governmental	Total
Federal financial assistance	\$ 830,458	\$ -	\$ 830,458
State categorical aid	167,873	33,572	201,445
Other local	73,825	-	73,825
Total	<u>\$ 1,072,156</u>	<u>\$ 33,572</u>	<u>\$ 1,105,728</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, 2002	Additions	Deductions	Balance June 30, 2003	Due in One Year
General obligation bonds	\$ 39,173,830	\$ 944,196	\$ 925,000	\$ 39,193,026	\$ 833,896
Certificates of participation	2,715,000	-	105,000	2,610,000	110,000
Accumulated vacation - net	699,103	75,570	-	774,673	-
Capital leases	62,020	-	40,771	21,249	21,249
ERIP Liability (PARS)	811,746	1,751,073	320,112	2,242,707	670,327
Environmental Protection Agency Loan	285,002	-	33,531	251,471	33,531
	<u>\$ 43,746,701</u>	<u>\$ 2,770,839</u>	<u>\$ 1,424,414</u>	<u>\$ 45,093,126</u>	<u>\$ 1,669,003</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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2003
				Outstanding July 1, 2002	Issued	Redeemed	
07/23/97	09/01/21	4.10-6.70%	\$10,000,000	\$ 7,850,000	\$ -	\$ 85,000	\$ 7,765,000
04/27/99	09/01/23	4.20-7.20%	16,000,000	15,175,000	-	100,000	15,075,000
11/18/99	09/01/24	4.95-7.00%	13,999,954	16,148,830	944,196	740,000	16,353,026
				<u>\$ 39,173,830</u>	<u>\$ 944,196</u>	<u>\$ 925,000</u>	<u>\$ 39,193,026</u>

Debt Service Requirements to Maturity

The bonds mature through 2025 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2004	\$ 833,896	\$ 1,307,910	\$ 2,141,806
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
2009-2013	7,392,820	6,557,664	13,950,484
2014-2018	9,285,395	7,597,223	16,882,618
2019-2023	11,288,273	9,082,529	20,370,802
2024-2025	3,504,254	5,343,246	8,847,500
Sub Total	<u>36,094,059</u>	<u>\$ 35,524,532</u>	<u>\$ 71,618,591</u>
Accretion To Date	3,098,967		
Total	<u>\$ 39,193,026</u>		

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

Certificates of Participation

The certificates mature through 2013 as follows:

Year Ending June 30,	Principal	Interest	Total
2004	\$ 110,000	\$ 94,978	\$ 204,978
2005	115,000	91,282	206,282
2006	125,000	87,307	212,307
2007	125,000	83,146	208,146
2008	135,000	78,720	213,720
2009-2013	785,000	317,193	1,102,193
2014-2018	1,010,000	158,649	1,168,649
2019-2020	205,000	13,695	218,695
Total	<u>\$ 2,610,000</u>	<u>\$ 924,970</u>	<u>\$ 3,534,970</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2003, amounted to \$774,673.

Capital Leases

The District has entered into various capital lease arrangements and has recorded capital assets in the amount of \$250,000 with corresponding accumulated depreciation of \$80,000 at June 30, 2003. The District's liability on lease agreements with options to purchase are summarized below:

	Lease Payment
Balance, July 1, 2002	\$ 65,538
Payments	43,692
Balance, June 30, 2003	<u>\$ 21,846</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2004	\$ 21,846
Less: Amount Representing Interest	597
Present Value of Minimum Lease Payments	<u>\$ 21,249</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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 flowing 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, 2003, there were a total of 31 participants in the PARS Plan 1 program. There are 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 \$320,112 were recognized for retirees' health care benefits.

PARS Plan 1

Year Ending June 30,	Retirement Payment Principal
2004	\$ 320,112
2005	171,525
Total	<u>\$ 491,637</u>

PARS Plan 2

Year Ending June 30,	Retirement Payment Principal
2004	\$ 350,215
2005	350,215
2006	350,215
2007	350,214
2008	350,211
Total	<u>\$ 1,751,070</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, 2003

NOTE 10 – FUND BALANCES

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

	General	Building	Special Reserve Capital	Nonmajor Governmental	Total
Reserved					
Revolving cash	\$ 25,000	\$ -	\$ -	\$ 85	\$ 25,085
Stores inventory	205,964	-	-	96,069	302,033
Prepaid expenditures	742,871	-	-	70,000	812,871
All others	20,710	-	-	-	20,710
Restricted programs	1,527,737	-	-	-	1,527,737
Total Reserved	2,522,282	-	-	166,154	2,688,436
Unreserved					
Designated					
Economic uncertainties	1,842,896	-	-	58,678	1,901,574
Other designation	153,734	-	5,367,540	71,718	5,592,992
Total Designated	1,996,630	-	5,367,540	130,396	7,494,566
Undesignated	1,828,303	447,138	3,625,535	4,875,040	10,776,016
Total Unreserved	3,824,933	447,138	8,993,075	5,005,436	18,270,582
Total	\$6,347,215	\$447,138	\$ 8,993,075	\$ 5,171,590	\$20,959,018

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, 2003, expenditures of \$133,952 were recognized for retiree health care benefits.

The approximate accumulated future liability for the District at June 30, 2003, amounts to \$573,669. 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, 2003, multiplied by the number of years of payments remaining until the employee reaches age 65.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

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, 2003, 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.

Workers' Compensation

For fiscal year 2003, 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).

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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.

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 2002-2003 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, 2003, 2002, and 2001, were \$2,573,900, \$2,443,768, and \$2,341,946, 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 2002-2003 was 2.894 percent of annual payroll (decreasing to 2.771 percent of pay under a special funding situation effective with the February 2003 payroll period due to the State's direct reimbursement to CalPERS of the cost for certain legislated benefit increases in the plan). The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal year ended June 30, 2003, was \$299,035 and equaled 100 percent of the required contributions for the year. The District was not required to make contributions during the years ended June 30, 2002 and 2001.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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 \$1,396,146 (4.475 percent of salaries subject to STRS) and \$10,172 (.092 percent of salaries subject to PERS). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have been recorded in these financial statements.

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, 2003.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

Construction Commitments

As of June 30, 2003, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Modernization and FAA projects at various sites:		
Adult Ed	\$ 237,670	10/15/03
Baden High School	213,743	10/15/03
Subtotal	<u>451,413</u>	
Roofing projects at various sites:		
Baden High School	47,270	08/15/03
Adult Ed-Brentwood	75,591	08/15/03
South San Francisco High School Gymnasium	339,258	08/15/03
South San Francisco High School Auditorium	24,080	08/15/03
Subtotal	<u>486,199</u>	
Modernization projects at various sites:		
El Camino High School	34,146	09/15/03
El Camino High School Parking Lot	320,000	09/05/03
South San Francisco High School	2,427,635	10/15/03
Westborough Middle School	337,293	10/15/03
Subtotal	<u>3,119,074</u>	
Grand Total	<u>\$ 4,056,686</u>	

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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.

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

E. Condensed Audited Financial Information Follows

		June 30, 2003
Assets		\$ 9,687,160
Liabilities		6,010,254
	Fund Equity	<u>\$ 3,676,906</u>
Revenues		\$ 25,039,391
Expenses		26,392,099
	Net Increase in Fund Equity	<u>\$ (1,352,708)</u>
F. Payments for the Current Year		<u>\$ 2,569,092</u>

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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 16 - TAX AND REVENUE ANTICIPATION NOTES

At July 1, 2002, the District had outstanding Tax and Revenue Anticipation Notes in the amount of \$5,940,000, which matured on July 3, 2002. On July 3, 2002, the District issued \$9,895,000 Tax and Revenue Anticipation Notes bearing interest at 1.67 percent and mature July 3, 2003. The notes are reflected in the financial statements as current loans with deposits on hand included in deposits and investments. The notes were issued to supplement cash flows. The District was required to have deposits on hand to repay the notes along with related interest.

NOTE 17 - SUBSEQUENT EVENTS

The District issued \$14,870,000 of Tax And Revenue Anticipation Notes dated July 3, 2003. The notes mature on July 6, 2004, and yield 0.9 percent interest. The notes were sold to supplement cash flow.

NOTE 18 – DEFERRED STATE APPORTIONMENTS

As part of the plan to address the budget crisis facing the State of California, Senate Bill (SB)X1 18 (the Bill) was signed into law during the year ended June 30, 2003. The provisions of the Bill significantly altered funding for California local educational agencies (LEAs). The Bill, among other things, shifted the appropriation for and the payment of the June 2003 principal apportionment for the general and adult funds into the 2003-04 fiscal year. The Bill allowed LEAs to recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current-year costs as a receivable in the current year. In addition, Assembly Bill 2781 deferred the 2002-03 appropriations for the Home-to-School Transportation, School Improvement, Targeted Instructional Improvement, and the Supplemental Grant programs into the 2003-04 fiscal year. Exclusion of the apportionments would have resulted in a decrease in receivables, revenue and available reserves of \$845,635.

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REQUIRED SUPPLEMENTARY INFORMATION

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SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2003

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Positive (Negative) Final to Actual
	Original	Final		
REVENUES				
Revenue limit sources	\$ 45,365,788	\$45,446,151	\$ 47,274,576	\$ 1,828,425
Federal sources	3,155,304	7,272,759	5,411,189	(1,861,570)
Other state sources	12,011,354	10,936,465	8,978,068	(1,958,397)
Other local sources	2,013,441	2,215,315	2,206,648	(8,667)
Total Revenues	62,545,887	65,870,690	63,870,481	(2,000,209)
EXPENDITURES				
Current				
Instruction	38,429,553	41,434,635	38,573,094	2,861,541
Instruction related activities:				
Supervision of instruction	2,727,405	2,405,608	2,463,228	(57,620)
Instructional library, media, and technology	1,152,576	1,069,116	1,008,490	60,626
School site administration	3,912,617	3,995,537	3,982,752	12,785
Pupil services:				
Home-to-school transportation	363,374	456,341	484,338	(27,997)
All other pupil services	2,738,721	2,777,615	2,832,794	(55,179)
General administration:				
Data processing	102,815	210,129	180,432	29,697
All other general administration	3,108,271	3,417,940	3,590,129	(172,189)
Plant services	7,056,534	6,908,932	7,017,973	(109,041)
Facility acquisition and construction	200	56,897	31,560	25,337
Community services	38,852	34,806	20,423	14,383
Other outgo	2,875,775	2,779,787	2,268,234	511,553
Debt service				
Principal	320,112	320,112	320,112	-
Total Expenditures	62,826,805	65,867,455	62,773,559	3,093,896
Excess of Revenues Over Expenditures	(280,918)	3,235	1,096,922	1,093,687
Other Financing Sources (Uses):				
Transfers in	318,357	318,357	318,357	-
Transfers out	(915,178)	(2,813,451)	(1,753,539)	1,059,912
Net Financing Sources (Uses)	(596,821)	(2,495,094)	(1,435,182)	1,059,912
NET CHANGE IN FUND BALANCES	(877,739)	(2,491,859)	(338,260)	2,153,599
Fund Balance - Beginning	6,685,475	6,685,475	6,685,475	-
Fund Balance - Ending	\$ 5,807,736	\$ 4,193,616	\$ 6,347,215	\$ 2,153,599

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SUPPLEMENTARY INFORMATION

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SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2003

<u>Federal Grantor/Pass-Through Grantor/Program</u>	<u>Federal CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
IASA Chapter 1	84.010	03628	\$ 874,344
Vocational Education C.D. Perkins	84.048	03577	108,080
Vocational Education Act Part 2C	84.174	03573	70,116
Adult Basic Education	84.002	03303	137,202
Drug Free Schools	84.184	03452	57,719
AE Priority 5, GED	84.002A	13978	28,941
Migrant Education	84.011	03239	53,937
Title II Part A-Teacher Quality	84.367	10085	150,623
Transition Partnership	84.365	10084	26,738
Title III LEP Student Funding	84.298	03340	24,431
ECIA - Title VI	84.158	03340	25,329
Math Instructional Materials	84.276	13894	35,932
Education for Economic Security	84.165	N/A	67,046
Reading Excellence	84.338A	14155	223,640
Subtotal			<u>1,884,078</u>
Special Education ^[1]			
Local Assistance	84.027	03379	1,025,584
Preschool	84.173	03431	118,279
Project Workability	84.027	03705	108,414
Discretionary Grants - In Service	84.029	03612	2,952
Subtotal			<u>1,255,229</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, 2003

U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES

Medi-Cal Billing Option	93.778	N/A	\$ 31,349
Federal Start Up	93.575	10113	<u>761,217</u>
Subtotal			<u>792,566</u>

U.S. DEPARTMENT OF TRANSPORTATION

FAA Noise Mitigation ^[1]	20.106	N/A	1,753,539
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U.S. DEPARTMENT OF AGRICULTURE

Passed through CDE:

National School Lunch Program ^[1]	10.555	03755	773,790
National School Breakfast ^[1]	10.553	03157	84,957
Child and Adult Food Program ^[1]	10.558	03529	33,691
Fair Market Value of Commodity ^{[1][2]}	10.550	03389	<u>13,696</u>
Total U.S. Department of Agriculture			<u>906,134</u>
Total Expenditures of Federal Awards			<u>\$ 6,591,546</u>

^[1] Tested as a major program

^[2] Not included in the financial statements

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2003

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	648	648
First through third	1,965	1,964
Fourth through sixth	2,062	2,066
Seventh and eighth	1,422	1,417
Extended Year Program	5	5
Home and hospital	1	1
Special education	186	192
Total Elementary	6,289	6,293
SECONDARY		
Regular classes	2,646	2,621
Continuation education	54	53
Community Day School	6	8
Home and hospital	3	3
Special education	98	99
Extended Year Program	6	6
Total Secondary	2,813	2,790
Total K-12	9,102	9,084
CLASSES FOR ADULTS		
Concurrently enrolled	9	9
Not concurrently enrolled	616	624
Total Classes for Adults	625	633
Grand Total	9,727	9,717
SUMMER SCHOOL		Hours of Attendance
Elementary		172,192
High school		88,698
Total Hours		260,890

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2003

Grade Level	1982-83	1986-87	2002-03	Number of Days	Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	
Kindergarten	35,920	36,000	43,200	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	65,131	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, 2003

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

	<u>General</u>	<u>Adult Education</u>	<u>Capital Facilities</u>
FUND BALANCE			
Balance, June 30, 2003, Unaudited Actuals	\$ 6,575,245	\$ 294,515	\$ 1,275,261
Decrease in:			
Accounts receivable	(294,926)	(86,060)	-
Accounts payable	66,896	63,414	-
Increase in:			
Prepaid expenditures	-	-	70,000
Balance, June 30, 2003, Audited Financial Statement	<u>\$ 6,347,215</u>	<u>\$ 271,869</u>	<u>\$ 1,345,261</u>

See accompanying note to supplementary information.

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SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2003

	(Budget) 2004 ¹	2003	2002	2001
GENERAL FUND				
Revenues ⁴	\$ 58,849,438	\$ 63,870,481	\$ 70,490,752	\$ 61,194,140
Other sources and transfer in	480,962	318,357	610,354	589,777
Total Revenues and Other Sources	59,330,400	64,188,838	71,101,106	61,783,917
Expenditures ⁴	61,042,856	62,773,559	62,008,645	59,126,379
Other uses and transfers out	106,602	1,753,539	9,262,619	575,477
Total Expenditures and Other Uses	61,149,458	64,527,098	71,271,264	59,701,856
INCREASE (DECREASE) IN FUND BALANCE	\$ (1,819,058)	\$ (338,260)	\$ (170,158)	\$ 2,082,061
ENDING FUND BALANCE	\$ 4,528,157	\$ 6,347,215	\$ 6,685,475	\$ 6,855,633
AVAILABLE RESERVES ²	\$ 1,842,896	\$ 3,671,199	\$ 3,200,777	\$ 2,482,614
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	3.0%	5.8%	4.5%	4.2%
LONG-TERM DEBT	\$ 43,946,877	\$ 45,093,126	\$ 41,994,712	\$ 43,226,999
AVERAGE DAILY ATTENDANCE AT P-2 ³	9,110	9,102	9,256	9,312

The General Fund balance has decreased by \$508,418 over the past two years. The fiscal year 2003-04 budget projects a further decrease of \$1,819,058 (28 percent). 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 two of the past three years and anticipates incurring an operating deficit during the 2003-04 fiscal year. Total long-term debt has increased by \$1,866,127 over the past two years.

Average daily attendance has decreased by 210 over the past two years. Growth of 8 ADA is anticipated during fiscal year 2003-04.

¹ Budget 2004 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.

⁴ On behalf payments of \$1,343,837 have been included as revenue and expenditure for 2003.

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2003

	Adult Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS				
Deposits and investments	\$ 251,887	\$ 349,038	\$ 447,695	\$ 506,730
Receivables	288,756	244,169	171,879	4,241
Due from other funds	62,232	3,413	27,762	-
Prepaid expenses	-	-	-	-
Stores inventories	-	-	96,069	-
Total assets	<u>\$ 602,875</u>	<u>\$ 596,620</u>	<u>\$ 743,405</u>	<u>\$ 510,971</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 140,812	\$ 41,414	\$ 80,428	\$ 30,929
Due to other funds	188,488	233,312	520,662	-
Deferred revenue	1,706	31,866	-	-
Total liabilities	<u>331,006</u>	<u>306,592</u>	<u>601,090</u>	<u>30,929</u>
Fund Balances:				
Reserved for:				
Stores inventories	-	-	96,069	-
Other reservations	-	-	85	-
Unreserved:				
Designated	58,678	71,718	-	-
Undesignated, reported in:				
Special revenue funds	213,191	218,310	46,161	480,042
Debt service funds	-	-	-	-
Capital projects funds	-	-	-	-
Total fund balance	<u>271,869</u>	<u>290,028</u>	<u>142,315</u>	<u>480,042</u>
Total Liabilities and Fund Balances	<u>\$ 602,875</u>	<u>\$ 596,620</u>	<u>\$ 743,405</u>	<u>\$ 510,971</u>

See accompanying note to supplementary information.

Capital Facilities Fund	State School Building Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Non Major Governmental Funds
\$ 1,641,746	\$ 5,419	\$ 776,704	\$ 1,813,531	\$ 5,792,750
16,867	44	6,880	12,947	745,783
-	-	33,123	-	126,530
70,000	-	-	-	70,000
-	-	-	-	96,069
<u>\$ 1,728,613</u>	<u>\$ 5,463</u>	<u>\$ 816,707</u>	<u>\$ 1,826,478</u>	<u>\$ 6,831,132</u>
\$ 383,352	\$ -	\$ 6,573	\$ -	\$ 683,508
-	-	-	-	942,462
-	-	-	-	33,572
<u>383,352</u>	<u>-</u>	<u>6,573</u>	<u>-</u>	<u>1,659,542</u>
-	-	-	-	96,069
70,000	-	-	-	70,085
-	-	-	-	130,396
-	-	-	-	957,704
-	-	-	1,826,478	1,826,478
1,275,261	5,463	810,134	-	2,090,858
<u>1,345,261</u>	<u>5,463</u>	<u>810,134</u>	<u>1,826,478</u>	<u>5,171,590</u>
<u>\$ 1,728,613</u>	<u>\$ 5,463</u>	<u>\$ 816,707</u>	<u>\$ 1,826,478</u>	<u>\$ 6,831,132</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2003

	Adult Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES				
Revenue limit sources	\$ 1,392,132	\$ -	\$ 166,299	\$ -
Federal sources	274,222	-	892,439	-
Other state sources	138,185	722,833	56,876	53,111
Other local sources	202,903	595,818	1,508,968	19,491
Total Revenues	<u>2,007,442</u>	<u>1,318,651</u>	<u>2,624,582</u>	<u>72,602</u>
EXPENDITURES				
Current				
Instruction	1,336,759	926,497	-	-
Instruction related activities:				
Supervision of instruction	3,340	74,876	-	-
School site administration	536,546	198,525	-	-
Pupil Services:				
Food services	-	32,972	2,498,483	-
All other pupil services	3,746	-	-	-
General administration:				
All other general administration	-	-	75,000	-
Plant services	114,802	53,355	-	725,125
Facility acquisition and construction	-	18,023	-	-
Debt service				
Principal	-	-	35,000	-
Interest and other	-	-	72,985	-
Total Expenditures	<u>1,995,193</u>	<u>1,304,248</u>	<u>2,681,468</u>	<u>725,125</u>
Excess (deficiency) of revenues over expenditures	<u>12,249</u>	<u>14,403</u>	<u>(56,886)</u>	<u>(652,523)</u>
Other Financing Sources (Uses):				
Transfers out	-	(14,300)	-	-
Net Financing Sources (Uses)	<u>-</u>	<u>(14,300)</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>12,249</u>	<u>103</u>	<u>(56,886)</u>	<u>(652,523)</u>
Fund Balance - Beginning	<u>259,620</u>	<u>289,925</u>	<u>199,201</u>	<u>1,132,565</u>
Fund Balance - Ending	<u>\$ 271,869</u>	<u>\$ 290,028</u>	<u>\$ 142,315</u>	<u>\$ 480,042</u>

See accompanying note to supplementary information.

Capital Facilities Fund	State School Building Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 1,558,431
-	-	-	-	1,166,661
-	-	(7,840)	19,655	982,820
732,056	4,462	111,834	2,091,412	5,266,944
732,056	4,462	103,994	2,111,067	8,974,856
-	-	-	-	2,263,256
-	-	-	-	78,216
-	-	-	-	735,071
-	-	-	-	2,531,455
-	-	-	-	3,746
-	-	-	-	75,000
232,210	-	-	-	1,125,492
48,422	-	350,806	-	417,251
110,771	-	-	925,000	1,070,771
45,845	-	-	1,137,638	1,256,468
437,248	-	350,806	2,062,638	9,556,726
294,808	4,462	(246,812)	48,429	(581,870)
-	-	-	-	(14,300)
-	-	-	-	(14,300)
294,808	4,462	(246,812)	48,429	(596,170)
1,050,453	1,001	1,056,946	1,778,049	5,767,760
\$ 1,345,261	\$ 5,463	\$ 810,134	\$ 1,826,478	\$ 5,171,590

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2003

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*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements.

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

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 COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING 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, 2003, and have issued our report thereon dated January 30, 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.

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 noncompliance that are required to be reported under *Government Auditing Standards*.

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 assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended 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.

Varrinck, Trine, Day & Co., LLP

Pleasanton, California
January 30, 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, 2003. 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, 2003. 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.

Uwrinek Trine, Day & Co., LLP

Pleasanton, California
January 30, 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, 2003, and have issued our report thereon dated January 30, 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 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 South San Francisco Unified School District is responsible for 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 laws and regulations of the following items:

	Procedures in Controller's Audit Guide	Procedures Performed
Attendance accounting		
Attendance reporting	4	Yes
Kindergarten continuation	3	Yes
Independent study	13	No
Continuation education	11	Yes
Adult education	8	Yes
Regional occupational centers/programs	4	Not Applicable
Staff development days	3	Yes
Incentives for longer instructional day:		
School districts	4	Yes
County offices of education	4	Not Applicable
GANN limit calculation	1	Yes
Early retirement incentive program	5	Not Applicable

	Procedures in Controller's Audit Guide	Procedures Performed
Community day schools	8	Not Applicable
Class size reduction program:		
Option one classes	10	Yes
Option two classes	9	Not Applicable
Option one and two classes	14	Not Applicable
Program to reduce class size in two courses in grade 9	8	Yes
State Instructional Materials Fund:		
Instructional Materials Funding Realignment program	9	Yes
Schiff-Bustamante standards-based instructional materials	9	Yes
Digital High School Education Technology Grant Program	5	Yes
California Public School Library Act of 1998	4	Yes
Office of Criminal Justice Planning	-	Not Applicable
Ratios of Administrative Employees to Teachers	3	Yes

We did not perform testing for Independent Study because the reported ADA was below the minimum testing threshold.

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 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.

Laurine, Trine, Day & Co., LLP

Pleasanton, California
January 30, 2004

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2003

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>None reported</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)	
Identification of major programs:	<u>No</u>

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>10.555, 10.553, 10.558, 10.550</u>	<u>Child Nutrition Cluster</u>
<u>84.027, 84.173, 84.029</u>	<u>Special Education Cluster</u>
<u>20.106</u>	<u>FAA Noise Mitigation</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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2003

FINANCIAL STATEMENT FINDINGS

There were no findings that represent reportable conditions, material weaknesses, and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with generally accepted government audit standards.

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.