

**SOUTH SAN FRANCISCO UNIFIED
SCHOOL DISTRICT**

**COUNTY OF SAN MATEO
SOUTH SAN FRANCISCO, CALIFORNIA**

AUDIT REPORT

June 30, 2006

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
AUDIT REPORT
June 30, 2006

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South San Francisco, California

INDEPENDENT AUDITORS' REPORT

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, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the South San Francisco Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the South San Francisco Unified School District, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 9, 2006 on our consideration of the South San Francisco Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 and budgetary comparison information on page 46 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, consisting 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 performed for the purpose of forming opinions on the financial statements that collectively comprise South San Francisco Unified School 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 States, Local Governments, and Non-Profit Organizations*, is 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, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Nigro Nigro & White, PC". The signature is written in a cursive, flowing style.

San Diego, California
November 9, 2006

Management's Discussion and Analysis

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2006

This discussion and analysis of South San Francisco Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2006. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Total net assets increased 5 percent over the course of the year.
- Overall revenues were \$76 million, \$3 million greater than expenses.
- The total cost of basic programs was \$73.1 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was \$59.3 million.
- The District increased its outstanding long-term debt \$40,795. This was primarily due to the refunding of the General Obligation Bond.
- Average daily attendance (ADA) decreased by 72.

OVERVIEW OF THE FINANCIAL STATEMENTS

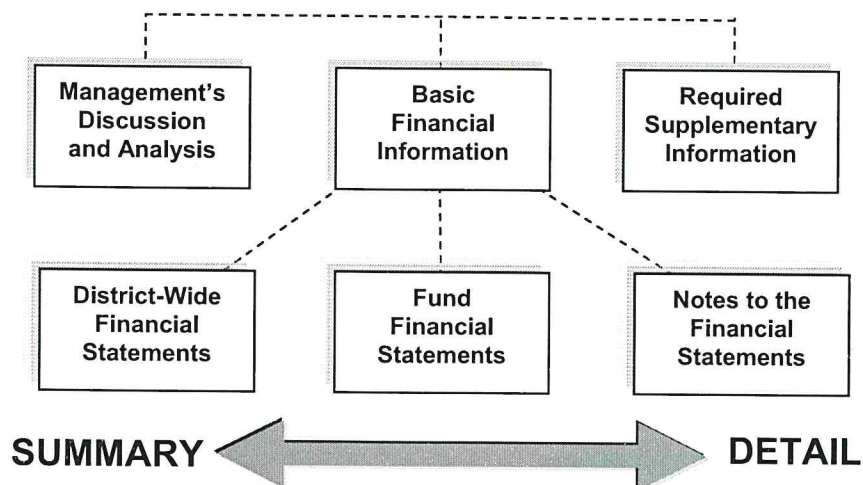
This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2006

The financial statements also include *notes* that explain some of the information in the statements and provide more detailed data. Figure A-1 shows how the various parts of this annual report are arranged and related to one another.

Figure A-1. Organization of South San Francisco Unified School District's Annual Financial Report



SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2006

Figure A-2 summarizes the major features of the District's financials statements, including the portion of the District's activities they cover and the types of information they contain.

Figure A-2. Major Features of the District-Wide and Fund Financial Statements

Type of Statements	District-Wide	Governmental Funds	Fiduciary Funds
<i>Scope</i>	Entire District, except fiduciary activities	The activities of the District that are not proprietary or fiduciary, such as special education and building maintenance	Instances in which the District administers resources on behalf of someone else, such as scholarship programs and student activities monies
<i>Required financial statements</i>	• Statement of Net Assets • Statement of Activities	• Balance Sheet • Statement of Revenues, Expenditures & Changes in Fund Balances	• Statement of Fiduciary Net Assets • Statement of Changes in Fiduciary Net Assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus
<i>Type of asset / liability information</i>	All assets and liabilities, both financial and capital, short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both short-term and long-term; The District's funds do not currently contain nonfinancial assets, though they can
<i>Type of inflow / outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2006

The remainder of this overview section of management's discussion and analysis highlights the structure and contents of each of the statements.

District-wide Statements

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

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

- Over time, increases and decreases in the District's net assets are an indicator of whether its financial position is improving or deteriorating.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's property tax base and the condition of school buildings and other facilities.
- In the district-wide financial statements, the District's activities are categorized as *Governmental Activities*. Most of the District's basic services are included here, such as regular and special education, transportation, and administration. Property taxes and state formula aid finance most of these activities.

Fund Financial Statements

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

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2006

The District has two kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements provide a detailed short-term view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information at the bottom of the governmental funds statements that explain the relationship (or differences) between them.
- *Fiduciary funds* – The District is the trustee, or fiduciary, for assets that belong to others, namely, the student activities funds. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2006

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were greater on June 30, 2006, than they were the year before – increasing 5% to \$65,986,125 (See Table A-1).

Table A-1
South San Francisco Unified School District's Net Assets

	Governmental Activities		Total Percentage Change
	2005	2006	2005-2006
Current and other assets	\$ 38,482,444	\$ 27,599,590	-28%
Capital assets	95,642,944	94,072,900	-2%
Total assets	<u>\$ 134,125,388</u>	<u>\$ 121,672,490</u>	-9%
Long-term debt outstanding	45,544,813	45,504,018	0%
Other liabilities	25,521,200	10,182,347	-60%
Total liabilities	<u>71,066,013</u>	<u>55,686,365</u>	-22%
Total net assets	<u>\$ 63,059,375</u>	<u>\$ 65,986,125</u>	5%

The District's higher combined net assets at June 30, 2006 compared to the prior year is mainly the result of a decrease in tax and revenue anticipation note liabilities.

Changes in net assets, governmental activities. The District's total revenues were \$76 million (See Table A-2). The increase is due primarily to one-time Special Education revenue from the new Special Education Funding Model.

The total cost of all programs and services was \$73.1 million. The District's expenses are predominantly related to educating and caring for students, 62%. The purely administrative activities of the District accounted for just 5.5% of total costs, a decrease of .5% over prior year.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2006

Table A-2
Changes in South San Francisco Unified School District's Net Assets

	Governmental Activities		Total Percentage
	2005	2006	Change 2005-2006
Revenues:			
Program revenues			
Charges for services	\$ 687,862	\$ 839,914	22%
Federal & state categorical programs	14,996,571	12,949,900	-14%
General revenues			
Property taxes	39,835,213	39,957,857	0%
State formula aid	14,810,311	19,445,396	31%
Other revenues	1,403,052	2,864,208	104%
Total revenues	71,733,009	76,057,275	6%
Expenses:			
Instruction-related	48,850,828	45,193,230	-7%
Student support services	6,106,217	5,960,378	-2%
Maintenance & operations	9,674,247	7,635,833	-21%
Administration	3,314,423	4,093,376	24%
Other expenses	8,639,280	10,247,708	19%
Total expenses	76,584,995	73,130,525	-5%
Increase (decrease in net assets)	\$ (4,851,986)	\$ 2,926,750	160%

Table A-3 presents the cost of five major District activities: instruction and instruction related; student support services; general administration; maintenance, operations and facility acquisition; and miscellaneous other. The table also shows each activity's *net cost* (total cost less fees generated by the activities and intergovernmental aid provided for specific programs). The net cost shows the financial burden that was placed on the District's taxpayers by each of these functions.

- The cost of all *governmental* activities this year was \$73,130,525.
- Some of the cost was paid by the users of the District's programs (\$839,914).
- The federal and state governments subsidized programs with grants and contributions (\$12,949,900).
- Most of the District's costs (\$59,340,711), however, were paid for by District taxpayers and the taxpayers of California. This portion of governmental activities was paid for with property taxes, unrestricted state aid based on the statewide education aid formula, and with investment earnings.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2006

	Governmental Activities	
	Total Cost of Services	Net Cost of Services
Instructional services	\$ 45,193,230	\$ 35,186,125
Pupil support services	5,960,378	3,619,253
Maintenance & operations	7,635,833	7,140,672
Administration	4,093,376	3,437,255
Other expenses	10,247,708	9,957,406
Total expenses	<u>\$ 73,130,525</u>	<u>\$ 59,340,711</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$18 million, which is above last year's ending fund balance of \$13.5 million. The District's General Fund had more revenues than expenditures in 2006, due to additional state revenues and realignment of budgeted expenditures.

General Fund Budgetary Highlights

Over the course of the year, the District revised the annual operating budget several times. The major budget amendments fall into these categories:

- Revenues – increased by \$4.3 million primarily to reflect federal and state budget actions
- Services and other operating expenses increased with cost-of-living

While the District's final budget for the general fund anticipated expenditures would exceed revenues by about \$984,824, the actual results for the year show that revenues exceeded expenditures by roughly \$3.7 million. Actual revenues were \$245,104 less than anticipated, but expenditures were \$5 million less than budgeted. That amount consists primarily of a favorable \$3.8 million expenditure variance for books and supplies, as actual expenditures for books and supplies were less than anticipated in the fiscal 2005-06 fund budget.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2005-06 the District had invested over \$128.5 million in capital assets, as shown in Table A-4.

	Governmental Activities		Total Percentage
	2005	2006	Change
			2005-2006
Land	\$ 4,305,189	\$ 4,305,189	0%
Site Improvements	2,360,551	2,360,551	0%
Buildings	113,539,418	118,687,721	5%
Equipment and furniture	3,117,948	3,125,000	0%
Work in progress	2,322,177	84,830	-96%
Total	<u>\$ 125,645,283</u>	<u>\$ 128,563,291</u>	<u>2%</u>

Long-Term Debt

At year-end the District had \$45.5 million in general obligation bonds, capital leases and employment benefits – 0% change from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 9 to the financial statements.)

Table A-5
South San Francisco Unified School District's Long-Term Debt
(In dollars)

	2005	2006	Total
			Percentage Change
			2005-2006
General obligation bonds	\$ 38,955,474	\$ 40,196,582	3%
Certificates of participation	2,313,699	2,181,802	-6%
Compensated absences	613,292	646,724	5%
Early retirement incentives	3,477,939	2,328,032	-33%
Environmental Protection Agency loan	184,409	150,878	-18%
Total	<u>\$ 45,544,813</u>	<u>\$ 45,504,018</u>	<u>0%</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2006

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2006-07 State budget reflects a sharply improving fiscal picture, brought about by continued stronger-than-expected growth in General Fund revenues. Spending under the plan increases by over 9 percent between 2005-06 and 2006-07, reflecting significant program augmentations, budgetary debt prepayments, and rising caseloads and costs in state programs. The budget includes substantial increases in education spending. It allocated \$8 billion in new funds for K-14 Proposition 98 education, resulting in an over 11 percent increase in K-12 per pupil funding relative to the level provided in the *2005-06 Budget Act*. The budget provides \$40 million in Proposition 98 General Fund support to backfill the foregone fee revenue. Based on Legislature Analysts Office (LAO) projections of revenues and expenditures under the 2006-07 *Budget Act* policies, the state would continue to face operating shortfalls in the range of \$4.5 billion to \$5 billion in 2007-08 and 2008-09. The carryover reserve from 2006-07 would be available to offset a portion of the shortfall in 2007-08.

The K-12 portion of the Proposition 98 budget package provides \$8,244 per pupil, which represents an increase of \$842 per pupil, or 11.4 percent, above enacted 2005-06 per pupil spending. Major funding changes include a 5.92 percent COLA for revenue limits and most categorical programs (including statutory and discretionary COLAs). The budget also reflects a net of roughly \$220 million in savings – mostly for revenue limits – due to estimates that statewide attendance will decline by 0.26 percent in 2006-07 compared to revised estimates for the preceding year. The budget package also includes \$426 million in new Proposition 98 spending for after school programs, as required by Proposition 49 (passed by voters in 2002), \$350 million to reduce historical inequities in revenue limit equalization, \$309 million in general purpose funds by eliminating the revenue limit deficit factor for school districts and county offices of education, and other program augmentations and one-time funds.

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at (650) 877-8700.

District Address

South San Francisco Unified School District
398 B Street
South San Francisco, CA 94080

Financial Section

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2006

	Total Governmental Activities
ASSETS	
Cash	\$ 20,552,826
Investments	835,761
Receivables	5,255,531
Stores	204,955
Prepaid expenses	750,517
Capital assets:	
Land	4,305,189
Improvement of sites	2,360,551
Buildings	118,687,721
Furniture and equipment	3,125,000
Work in progress	84,830
Less accumulated depreciation	(34,490,391)
Total capital assets, net of depreciation	94,072,900
Total assets	\$ 121,672,490
LIABILITIES	
Accounts payable and current liabilities	\$ 2,183,836
Current Loans	7,597,200
Deferred revenue	401,311
Long-term liabilities:	
Portion due or payable within one year	1,950,883
Portion due or payable after one year	43,553,135
Total liabilities	55,686,365
NET ASSETS	
Invested in capital assets, net of related debt	54,494,413
Restricted for:	
Capital projects	2,557,599
Debt service	1,628,656
Educational programs	2,855,417
Unrestricted	4,450,040
Total Net Assets	\$ 65,986,125

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues		Net (Expense)
		Charges for Services	Operating Grants and Contributions	Revenue and Changes in Net Assets
				Governmental Activities
Instructional Services:				
Instruction	\$ 36,716,031	\$ 504,107	\$ 8,411,165	\$ (27,800,759)
Instruction-Related Services:				
Supervision of instruction	2,480,436	40,443	387,878	(2,052,115)
Instructional library, media and technology	1,233,728	17,105	96,150	(1,120,473)
School site administration	4,763,035	49,941	500,316	(4,212,778)
Pupil Support Services:				
Home-to-school transportation	421,740	-	301,717	(120,023)
Food services	2,434,135	-	1,266,396	(1,167,739)
All other pupil services	3,104,503	48,954	724,058	(2,331,491)
General Administration Services:				
Data processing services	185,881	-	-	(185,881)
Other general administration	3,907,495	45,696	610,425	(3,251,374)
Plant services	7,635,833	23,505	471,656	(7,140,672)
Community services	17,744	-	-	(17,744)
Interest on long-term debt	1,228,028	-	-	(1,228,028)
Other outgo	4,513,884	110,163	180,139	(4,223,582)
Depreciation (unallocated)	4,488,052	-	-	(4,488,052)
Total Governmental Activities	\$ 73,130,525	\$ 839,914	\$ 12,949,900	\$ (59,340,711)
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				37,633,755
Property taxes, for debt services				2,324,102
Federal and state aid not restricted				
to specific purpose				19,445,396
Interest and investment earnings				845,172
Miscellaneous				2,019,036
Total general revenues				62,267,461
Change in net assets				2,926,750
Net assets - July 1, 2005				63,059,375
Net assets - June 30, 2006				\$ 65,986,125

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2006

	General Fund	Building Fund	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 12,187,433	\$ 3,035,596	\$ 5,329,797	\$ 20,552,826
Investments	552,995	-	282,766	835,761
Accounts receivable	4,581,620	8	673,903	5,255,531
Due from other funds	947,811	-	518,448	1,466,259
Stores	142,960	-	61,995	204,955
Prepaid expenditures	367,805	-	98,868	466,673
Total Assets	<u>\$ 18,780,624</u>	<u>\$ 3,035,604</u>	<u>\$ 6,965,777</u>	<u>\$ 28,782,005</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued liabilities	\$ 1,056,198	\$ -	\$ 139,089	\$ 1,195,287
Due to grantor governments	82,632	-	-	82,632
Due to other funds	489,746	84,829	891,684	1,466,259
Current Loans	7,597,200	-	-	7,597,200
Deferred revenue	398,953	-	2,358	401,311
Total Liabilities	<u>9,624,729</u>	<u>84,829</u>	<u>1,033,131</u>	<u>10,742,689</u>
Fund Balances				
Reserved for:				
Revolving cash	25,000	-	124	25,124
Stores	142,960	-	61,995	204,955
Prepaid expenditures	367,805	-	98,868	466,673
Debt service	-	-	1,628,656	1,628,656
Legally restricted balance	2,855,417	-	-	2,855,417
Unreserved, reported in:				
General fund	5,764,713	-	-	5,764,713
Capital projects funds	-	2,950,775	2,466,188	5,416,963
Special revenue funds	-	-	1,676,815	1,676,815
Total Fund Balances	<u>9,155,895</u>	<u>2,950,775</u>	<u>5,932,646</u>	<u>18,039,316</u>
Total Liabilities and Fund Balances	<u>\$ 18,780,624</u>	<u>\$ 3,035,604</u>	<u>\$ 6,965,777</u>	<u>\$ 28,782,005</u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2006

Total fund balances - governmental funds \$ 18,039,316

Amounts reported for governmental *activities* in the statement of net assets are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$128,563,291 and the accumulated depreciation is \$34,490,391. 94,072,900

Unamortized costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are: 283,844

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unmatrued interest owing at the end of the period was: (905,917)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

General obligations payable	40,196,582	
Early retirement incentives	2,328,032	
Compensated absences payable	646,724	
Certificates of participation payable	2,181,802	
Other general long-term debt	150,878	
		(45,504,018)

Total net assets - governmental activities \$ 65,986,125

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2006

	General Fund	Building Fund	Other Funds	Total Governmental Funds
REVENUES				
General Revenues:				
Property taxes	\$ 37,633,755	\$ -	\$ 2,324,102	\$ 39,957,857
Federal and state aid not restricted to specific purpose	19,351,088	-	94,308	19,445,396
Earnings on investments	643,104	42,321	159,747	845,172
Miscellaneous	548,746	1,101	1,469,189	2,019,036
Program Revenues:				
Charges for services	250,910	-	589,001	839,911
Operating grants and contributions	7,934,979	-	5,014,921	12,949,900
Total revenues	66,362,582	43,422	9,651,268	76,057,272
EXPENDITURES				
Instructional Services:				
Instruction	35,497,342	-	2,375,648	37,872,990
Instruction-Related Services:				
Supervision of instruction	2,480,436	-	-	2,480,436
Instructional library, media and tech.	1,233,728	-	-	1,233,728
School site administration	4,114,140	-	648,893	4,763,033
Pupil Support Services:				
Home-to-school transportation	421,740	-	-	421,740
Food services	-	-	2,434,135	2,434,135
All other pupil services	3,030,030	-	74,473	3,104,503
General Administration Services:				
Data processing services	185,881	-	-	185,881
Other general administration	3,536,692	-	337,371	3,874,063
Plant services	6,982,972	-	430,710	7,413,682
Facility acquisition and construction	33,729	84,830	3,014,548	3,133,107
Community services	17,744	-	-	17,744
Other outgo:				
Transfers between agencies	4,793,650	-	-	4,793,650
Debt service - principal	-	-	975,658	975,658
Debt service - interest	-	106,170	905,313	1,011,483
Debt service - issuance costs	274,072	563,298	1,098,772	1,936,142
Total Expenditures	62,602,156	754,298	12,295,521	75,651,975
Excess (Deficiency) of Revenues Over (Under) Expenditures	3,760,426	(710,876)	(2,644,253)	405,297
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	14,300	-	929,118	943,418
Interfund transfers out	(929,118)	-	(14,300)	(943,418)
Transfer to escrow agent for defeased debt	-	(38,955,474)	-	(38,955,474)
Proceeds from long term debt	-	42,617,125	-	42,617,125
Other financing sources	412,747	-	15,175	427,922
Total Other Financing Sources and Uses	(502,071)	3,661,651	929,993	4,089,573
Net Change in Fund Balances	3,258,355	2,950,775	(1,714,260)	4,494,870
Fund Balances, July 1, 2005	5,897,540	-	7,646,906	13,544,446
Fund Balances, June 30, 2006	\$ 9,155,895	\$ 2,950,775	\$ 5,932,646	\$ 18,039,316

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2006

Total net change in fund balances - governmental funds	\$ 4,494,870
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Amounts reported for governmental *activities* in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$2,918,008) exceed depreciation expense (\$4,488,052) in the period.	(1,570,045)
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Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:	39,331,617
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Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:	(40,407,295)
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Debt issue costs: in governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:	283,844
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Unmatured interest on long-term debt: in governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:	(322,617)
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In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was:	(33,531)
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In governmental funds, costs related to postemployment benefits other than pensions are recognized when employer contributions are made. In the statement of activities, costs are measured and recognized in relation to the annual required contribution. This year, the difference between the annual required contribution and amounts actually funded was:	1,149,907
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Change in net assets of governmental activities	\$ 2,926,750
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The notes to the financial statements are an integral part of this statement..

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets – Fiduciary Funds
June 30, 2006

	Other Private- Purpose Trust	Student Body Funds	Total Fiduciary Funds
Assets			
Cash	\$ 396,136	\$ 893,246	\$ 1,289,382
Accounts receivable	3,958	-	3,958
Total Assets	<u>\$ 400,094</u>	<u>\$ 893,246</u>	<u>\$ 1,293,340</u>
Liabilities			
Due to student groups	\$ -	\$ 893,246	\$ 893,246
Total Liabilities	<u>-</u>	<u>893,246</u>	<u>893,246</u>
Net Assets			
Unreserved	<u>400,094</u>	<u>-</u>	<u>400,094</u>
Total Net Assets	<u>\$ 400,094</u>	<u>\$ -</u>	<u>\$ 400,094</u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds
For the Year Ended June 30, 2006

	<u>Other Private- Purpose Trust</u>
Revenues	
Interest	<u>\$ 13,908</u>
Expenses	
Services and other operating expenses	<u> 7,085</u>
Change in Net Assets	6,823
Net Assets - July 1, 2005	<u> 393,271</u>
Net Assets - June 30, 2006	<u><u> \$ 400,094</u></u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Education.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. For financial reporting purposes, the component units discussed below are reported in the District's financial statements because of the significance of their relationship with the District. The component units, although a legally separate entity, are reported in the financial statements as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District and because their purpose is to finance the construction of facilities to be used for the benefit of the District.

South San Francisco Unified School District Financing Corporation

The corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State established November 1, 2005. The corporation was formed for the sole purpose of providing financial assistance to the District by acquiring, constructing and financing public school facilities for the use and benefit of the District. The Financing Corporation is used to issue bonds under the District's general obligation bond program.

Financial Presentation:

For financial presentation purposes, each component unit's financial activity has been blended, or combined, with the financial data of the District. The financial statements present the financial activity of the Corporation within the Capital Projects Funds. Certificates of Participation and General Obligation Bonds issued by the corporation are included in the long-term liabilities. Fixed assets acquired or constructed by the component units are included in the Capital Projects Funds.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

B. Reporting Entity (continued)

The following are those aspects of the relationship between the District and the component units which satisfy the criteria of GASB Statement No. 14, as amended by Statement No. 39, *Determining Whether Certain Organizations are Component Units*.

Manifestations of Oversight

- The component units and the District have common boards.
- The component units have no employees. The District's Superintendent functions as an agent of the component unit.
- The District exercises significant influence over operations of the component unit as all projects of the component unit involve the South San Francisco Unified School District.

Accountability of Fiscal Matters

- The District is responsible for preparation of the annual budgets for the component units.

Scope of Public Service

- The component units were created specifically to finance capital improvements for the South San Francisco Unified School District.

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the District.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets and Statement of Activities have been eliminated, including due to/from other funds and transfers in/out.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. 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 goods or services offered by a program, as well as grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. 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 under 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 the resources will be collected within the current fiscal year and are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses/expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the district’s policy to use restricted resources first, then unrestricted resources as they are needed.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, non-major, and fiduciary funds, as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Building Fund* exists primarily to account separately for proceeds from the sale of bonds.

Non-major Governmental Funds:

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 four non-major special revenue funds:

2. The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.
3. The Child Development Fund is used to account for resources committed to child development programs maintained by the District.
4. The Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's food service operations.
5. The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

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 one debt service fund:

1. 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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Capital Projects Funds are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains four non-major capital project funds:

1. The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of general fund money for capital outlay purposes.
2. The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
3. The State School Building Lease-Purchase Fund is used primarily to account separately for state apportionments for the reconstruction, remodeling, or replacing of existing school buildings or the acquisition of new school sites and buildings.
4. The County School Facilities Fund is established to receive state apportionments for new school facility construction, modernization projects, and facility hardship grants.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains sixteen agency funds, one for each school or program that operates a student body fund. The amounts reported for student body funds represent the combined totals of all schools and programs within the District.

Private Purpose Trust Funds are used to report all trust arrangements under which principal and income benefit individual private organizations or other governments. The District maintains one Foundation – Private Purpose Trust Fund for the purpose of granting scholarships to eligible high school graduating students.

F. Budgets and Budgetary Accounting

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

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and the final revised budgets are presented for the General Fund in the financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

H. Assets, Liabilities, and Equity

1. 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 held in the county treasury is recorded at cost, which approximates fair value, in accordance with GASB Statement No. 31.

2. Stores Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

3. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB No. 34. 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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

3. Capital Assets (continued)

All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	25-50 years
Furniture and Equipment	5-10 years
Vehicles	8 years

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

5. Compensated Absences

All vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Accumulated sick leave benefits are not recognized as liabilities. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt. In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriable for expenditure or amounts legally segregated for a specific future use.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

8. 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 improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors, or laws or regulations of other governments.

I. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Revenue Limit/Property Tax (continued)

roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment.

The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

J. Use of Estimates

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

K. New GASB Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statements which became effective in the 2005-06 fiscal year.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

K. New GASB Pronouncements (continued)

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes guidance for accounting and reporting for impairment of capital assets and for insurance recoveries, whether associated with an impaired capital asset or not.

In December 2004, GASB issued Statement No. 46, *Net Assets Restricted by Enabling Legislation*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government – such as citizens, public interest groups, or the judiciary – can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions.

This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if the legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. The Statement requires employers to recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted and the amount can be estimated. It also requires certain financial statement disclosures describing the termination benefit arrangement, the cost, and methods of assumptions used to determine the liabilities.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Governmental activities	\$21,388,587
Fiduciary funds	<u>1,289,382</u>
Total deposits and investments	<u><u>\$22,677,969</u></u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Deposits and investments as of June 30, 2006 consist of the following:

Cash in county treasury	\$10,051,550
Investments	\$835,761
Cash on hand and in banks	898,361
Cash in revolving fund	25,125
Cash with fiscal agent	10,769,895
Collections awaiting deposit	97,277
Total	<u>\$22,677,969</u>

Policies and Practices

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

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

Cash with Fiscal Agent – The South San Francisco Unified School District School Facilities Financing Authority deposits its funds with US Bank. The cash is invested in First American Funds Treasury Obligations Fund.

Investments - The investments are held in First American Funds Treasury Obligations Fund.

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

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury, First American Treasury Obligation Bonds, and other various money market accounts. The District maintains an investment with the San Mateo County Investment Pool with a fair value of approximately \$9,871,708 and an amortized book value of \$10,051,550. The average weighted maturity for this pool is not available.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the San Mateo County Investment Pool is rated AAA by Moody's Investor Service.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2006, the District has a custodial risk for the \$923,486 cash on deposit of June 30, 2006.

Concentration of Credit Risk

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2006, expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
General Fund	
Certificated Salaries	<u>\$ 4,568</u>

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2006 consist of the following:

	<u>General Fund</u>	<u>Building Fund</u>	<u>Other Governmental Funds</u>	<u>Totals</u>
Federal Government:				
Categorical aid programs	\$ 583,906	\$ -	\$ 291,620	\$ 875,526
State Government:				
Lottery	184,994	-	-	184,994
Categorical aid programs	575,694	-	146,744	722,438
Local:				
Other	217,980	-	69,855	287,835
Interest	126,925	-	45,050	171,975
Miscellaneous	<u>2,892,121</u>	<u>8</u>	<u>120,634</u>	<u>3,012,763</u>
Totals	<u>\$ 4,581,620</u>	<u>\$ 8</u>	<u>\$ 673,903</u>	<u>\$ 5,255,531</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 5 - INTERFUND TRANSACTIONS

Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

A. Due From/Due To Other Funds

Individual interfund receivable and payable balances as of June 30, 2006 are as follows:

	Due to Other Funds			Total
	General Fund	Building Fund	Other Governmental Funds	
General Fund	\$ -	\$ 84,829	\$ 862,982	\$ 947,811
Other Governmental Funds	489,746	-	28,702	518,448
Total	<u>\$ 489,746</u>	<u>\$ 84,829</u>	<u>\$ 891,684</u>	<u>\$ 1,466,259</u>

Adult Education Fund due to the General Fund for payments of goods and services	\$ 180,415
Child Development Fund due to General Fund for payment of statutory benefits and services	278,373
Cafeteria Fund due to the General Fund for payment of statutory benefits	394,398
Building Fund due to the General Fund for reimbursements of expenditures	84,829
Capital Facilities Fund due to the General Fund for SUI transfers and reimbursement of expenditures	34
County School Facilities Fund due to the General Fund for payment of goods	9,761
General Fund due to Adult Education Fund for cash transfer	217
General Fund due to Child Development Fund for payment of services	2,414
Cafeteria Fund due to the Child Development Fund for prior year over payment for child center	5,255
Capital Facilities Fund due to the Child Development Fund for Martin Playground	18,303
Child Development Fund due to the Cafeteria Fund for services	5,145
General Fund due to the Cafeteria Fund for services and supplemental grants	22,337
General Fund due to the Capital Facilities Fund for expenditures	14,690
General Fund due to the County School Facilities Fund for expenses	550
General Fund due to the Special Reserve Fund for noise abatement and developer fees	449,538
Total	<u>\$ 1,466,259</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 5 - INTERFUND TRANSACTIONS (continued)

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund transfers for the 2005-06 fiscal year are as follows:

	Transfer From Other Funds		
	General Fund	Other Governmental Funds	Total
General Fund	\$ -	\$ 929,118	\$ 929,118
Other Governmental Funds	14,300	-	14,300
Total	<u>\$ 14,300</u>	<u>\$ 929,118</u>	<u>\$ 943,418</u>

The General Fund transferred to the Special Reserve for Capital Outlay Fund for revenues related to the RDA pass-through	\$ 848,413
The General Fund transferred to the Cafeteria Fund for expenditures	80,705
Child Development Fund transferred to the General Fund for operating expenditures	14,300
Total	<u>\$ 943,418</u>

NOTE 6 – FUND BALANCES

Of the \$9,155,895 ending fund balance in the General Fund, the following amounts have been designated by the governing board for the following purposes:

Economic uncertainties	\$ 1,905,938
Other operating purposes	820,177
Total	<u>\$ 2,726,115</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2006 is shown below:

Governmental Activities	Balance June 30, 2005	Additions	Deductions	Balance June 30, 2006
Capital Assets:				
Land	\$ 4,305,189	\$ -	\$ -	\$ 4,305,189
Improvement of sites	2,360,551	-	-	2,360,551
Buildings	113,878,675	4,809,046	-	118,687,721
Furniture and equipment	3,117,948	7,052	-	3,125,000
Work in progress	1,982,919	84,830	1,982,919	84,830
Total Capital Assets	125,645,282	4,900,928	1,982,919	128,563,291
Less Accumulated Depreciation:				
Improvement of sites	658,932	99,428	-	758,360
Buildings	26,848,317	4,203,117	-	31,051,434
Furniture and equipment	2,508,660	171,937	-	2,680,597
Total Accumulated Depreciation	30,015,909	4,474,482	-	34,490,391
Governmental Activities				
Capital Assets, Net	\$ 95,629,373	\$ 426,446	\$ 1,982,919	\$ 94,072,900

NOTE 8 - TAX REVENUE ANTICIPATION NOTES (TRANS)

The District issued \$7,305,000 in TRANS on July 6, 2005 through the California Cash Reserve Program, sponsored by the California School Boards Association Finance Corporation. The notes matured on July 6, 2006 and yielded 2.6% interest. The notes were sold by the District to supplement its cash flow.

Repayment requirements were that certain amounts be deposited in a special fund. The monies were required to remain on deposit until the maturity date of the note, at which time they were applied to pay the principal and interest on the notes.

Subsequently on July 6, 2006, the District issued \$5,955,000 in TRANS through the California Cash Reserve Program, sponsored by the California School Boards Association Finance Corporation. The notes will mature on July 6, 2007 and yield 3.5% interest. The notes were sold by the District to supplement its cash flow.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 9 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2006 is shown below:

	Balance June 30, 2005	Additions	Deletions	Balance June 30, 2006	Due Within One Year
General obligation bonds	\$ 38,955,474	\$ 36,825,170	\$ 38,955,474	\$ 36,825,170	\$ -
Unamortized premium on bonds	-	3,582,125	210,713	3,371,412	210,713
Total general obligation bonds	38,955,474	40,407,295	39,166,187	40,196,582	210,713
Certificates of participation	2,313,699	-	131,897	2,181,802	134,460
Compensated absences	613,292	33,432	-	646,724	646,724
Early retirement incentives	3,477,939	-	1,149,907	2,328,032	925,454
EPA loan	184,409	-	33,531	150,878	33,532
Totals	\$ 45,544,813	\$ 40,440,727	\$ 40,481,522	\$ 45,504,018	\$ 1,950,883

A. General Obligation Bonds

The outstanding bonded indebtedness of South San Francisco Unified School District at June 30, 2006 is:

Issue Date	Maturity Date	Interest Rate	Original Issue	Beginning Balance	Additions	Redeemed	Ending Balance
07/23/97	09/01/21	4.10-6.70%	\$ 10,000,000	\$ 7,580,000	\$ -	\$ 7,580,000	\$ -
04/27/99	09/01/23	4.20-7.20%	16,000,000	14,875,000	-	14,875,000	-
11/18/99	09/01/24	4.95-7.00%	13,999,954	16,500,474	-	16,500,474	-
01/01/06	09/01/23	3.07-4.20%	36,825,170	-	36,825,170	-	36,825,170
	Totals		\$ 76,825,124	\$ 38,955,474	\$ 36,825,170	\$ 38,955,474	\$ 36,825,170

Refunding Bonds

On January 1, 2006, the District issued \$39,035,000 to Refunding Bonds. Of the net proceeds, \$39,061,644 was placed into an escrow fund for the purpose of paying off all previously issued bonded indebtedness.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 9 – GENERAL LONG-TERM DEBT (continued)

A. General Obligations Bonds (continued)

The annual requirements to amortize all general obligation bonds payable, outstanding as of June 30, 2006, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	\$ -	\$ 2,303,107	\$ 2,303,107
2007-2008	390,000	2,087,919	2,477,919
2008-2009	657,777	2,058,058	2,715,835
2009-2010	802,350	2,016,445	2,818,795
2010-2011	959,361	1,966,236	2,925,597
2011-2016	7,651,698	8,722,875	16,374,573
2016-2021	10,580,636	5,690,174	16,270,810
2020-2024	15,783,348	1,086,821	16,870,169
	<u>\$ 36,825,170</u>	<u>\$ 25,931,635</u>	<u>\$ 62,756,805</u>

B. Certificates of Participation

The District has two outstanding certificates of participation as of June 30, 2006:

<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
2/1/2004	12/1/18	4.88%	\$ 1,037,000	\$ 963,699	\$ -	\$ 51,897	\$ 911,802
02/05/97	7/1/2023	4.50%	1,815,000	1,350,000	-	80,000	1,270,000
			<u>\$ 2,852,000</u>	<u>\$ 2,313,699</u>	<u>\$ -</u>	<u>\$ 131,897</u>	<u>\$ 2,181,802</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 9 – GENERAL LONG-TERM DEBT (continued)

B. Certificates of Participation (continued)

The annual requirements to amortize all certificates of participation, outstanding as of June 30, 2006 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>
2006-2007	\$ 134,460	\$ 64,070
2007-2008	142,151	59,934
2008-2009	149,973	55,582
2009-2010	157,936	51,004
2010-2011	166,044	46,196
2011-2016	733,452	853,300
2016-2021	697,786	38,064
Totals	<u>\$ 2,181,802</u>	<u>\$ 1,168,150</u>

C. Early Retirement Incentives

The District has in place an early retirement incentive program through PARS Trust and Cal PERS, whereby the District provides supplemental retirement benefits to employees who meet age, years of service and retirement eligibility requirements. This program is not the same as the early retirement program pursuant to Education Code Sections 22714 and 44929. Future annual contributions are as follows and are included in long-term debt:

<u>Fiscal Year</u>	<u>Amount Due</u>
2007	\$ 925,454
2008	701,002
2009	350,788
2010	350,788
Total	<u>\$ 2,328,032</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 9 – GENERAL LONG-TERM DEBT (continued)

D. EPA Loan

The District has a non-interest bearing loan with the Environmental Protection Agency. The future annual payments are as follows and are included in long-term debt:

<u>Fiscal Year</u>	<u>Amount Due</u>
2007	\$ 33,532
2008	33,532
2009	33,532
2010	33,532
2011	16,750
Total	<u>\$ 150,878</u>

NOTE 10 – JOINT VENTURES

The South San Francisco Unified School District participates in a joint venture under a joint powers agreement (JPA) with the San Mateo County Schools Insurance Group (SMCSIG). The relationship between the South San Francisco Unified School District and the JPA is such that the JPA is not a component unit of the District for financial reporting purposes.

The JPA arranges for and provide workers' compensation, property and liability and health insurance for its member school districts. The JPA is governed by a board consisting of a representative from each member district. The governing board controls the operations of the JPA independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPA.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 10 – JOINT VENTURES (continued)

Condensed audited financial information for the year ended June 30, 2006 is as follows:

	SMCSIG
Total Assets	<u>\$ 9,299,784</u>
Total Liabilities	<u>6,967,736</u>
Fund Equity	<u>\$ 2,332,048</u>
Total Revenue	\$ 32,150,290
Total Expenditures	<u>31,404,454</u>
Net Increase in Fund Balance	<u>\$ 745,836</u>

NOTE 11 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

Construction Commitments

As of June 30, 2006, the District had no commitments with respect to unfinished capital projects.

NOTE 12 – RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts, damage to District assets, errors and omissions, employee injuries and natural disasters. The District participates in a public entity risk pool, as described in Note 10, for claims in excess of insured amounts for workers' compensation and liability protection. The District purchases commercial insurance coverage for other types of risk. There have been no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 13 - EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension 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).

Plan Description and Provisions

Public Employees' Retirement System (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 Law. 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, California 95814.

Funding Policy

Active plan members are required to contribute 7.0% 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 for fiscal year 2005-06 was 9.116%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2006, 2005, and 2004 were \$1,508,306, \$1,624,135, and \$737,780, respectively, which represents 100% of the required contributions for each fiscal year.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 13 - EMPLOYEE RETIREMENT PLANS (continued)

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the 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, disability 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 Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2005-06 was 8.25% 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, 2006, 2005, and 2004 were \$2,508,749, \$2,511,003, and \$2,490,539, respectively, and equal 100% of the required contributions for each year.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state general fund contributions of \$1,426,782 to STRS (4.517% of salaries subject to STRS).

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 14 – 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 76 certificated employees and 24 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, 2006, expenditures of \$68,080 were recognized for retiree health care benefits.

The approximate accumulated future liability for the District at June 30, 2006, amounts to \$442,479. 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, 2006, multiplied by the number of years of payment remaining until the employee reaches age 65.

NOTE 15 – NEW GASB PRONOUNCEMENT

The Governmental Accounting Standards Board (GASB) has issued GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement will require employers providing postemployment benefits, commonly referred to as other postemployment benefits, or OPEB, to recognize and account for the cost of providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. The implementation date for this pronouncement will be effective for the South San Francisco Unified School District beginning in the 2008-09 fiscal year. The effect of this pronouncement on the financial condition of the District has not been determined.

Required Supplementary Information

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2006

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Revenue Limit Sources	\$ 51,760,136	\$ 51,481,053	\$ 52,084,794	\$ 603,741
Federal	3,482,820	4,674,540	3,818,323	(856,217)
Other State	7,205,646	8,649,929	8,461,463	(188,466)
Other Local	1,735,042	1,802,164	1,998,002	195,838
Total Revenues	64,183,644	66,607,686	66,362,582	(245,104)
Expenditures				
Certificated Salaries	30,594,430	30,119,731	30,124,299	(4,568)
Classified Salaries	8,927,983	9,126,486	9,047,384	79,102
Employee Benefits	11,187,113	11,109,530	10,842,320	267,210
Books and Supplies	2,687,524	6,107,804	2,306,558	3,801,246
Services and Other Operating Expenditures	6,865,904	6,278,113	5,786,225	491,888
Capital Outlay	160,516	111,204	39,090	72,114
Other Outgo	4,643,467	5,029,824	4,793,650	236,174
Direct Support/Indirect Costs	(282,143)	(290,182)	(337,370)	47,188
Total Expenditures	64,784,794	67,592,510	62,602,156	4,990,354
Excess (Deficiency) of Revenues				
Over (Under) Expenditures	(601,150)	(984,824)	3,760,426	4,745,250
Other Financing Sources and Uses				
Interfund transfers in	394,300	14,300	14,300	-
Interfund transfers out	(380,000)	(1,065,304)	(929,117)	136,187
Other sources	413,923	413,923	412,746	(1,177)
Total Other Financing Sources and Uses	428,223	(637,081)	(502,071)	135,010
Excess (Deficiency) of Revenues and Other				
Financing Sources Over (Under)				
Expenditures and Other Financing Uses	(172,927)	(1,621,905)	3,258,355	4,880,260
Fund Balances, July 1, 2005	5,897,540	5,897,540	5,897,540	-
Fund Balances, June 30, 2006	\$ 5,724,613	\$ 4,275,635	\$ 9,155,895	\$ 4,880,260

Supplementary Information Section

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
History and Organization
June 30, 2006

The South San Francisco Unified School District originated from the unification in 1936 of an elementary district (founded in 1866) and a high school district (founded in 1913). 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. The District boundaries encompass the 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. There were no changes in the boundaries of the District during the current year.

GOVERNING BOARD		
Member	Office	Term Expires
Philip Weise	President	November 2006
Raymond Latham	Vice President	November 2008
Emanuele Damonte	Member	November 2008
Romolo Braschi	Member	November 2006
Shirlee Hoch	Member	November 2006

DISTRICT ADMINISTRATORS

Barbara Olds

Superintendent

John Thompson, Ed. D

Assistant Superintendent, Personnel

Cheryl Milner, Ed. D.

Assistant Superintendent, Educational Services

Ron McEntire and Krishna Kirpalani (Interim)

Assistant Superintendent, Business Services

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2006

	Second Period Report	Annual Report
Elementary:		
Kindergarten	667	664
Grades One through Three	1,832	1,825
Grades Four through Six	1,952	1,952
Grades Seven and Eight	1,328	1,323
Home and Hospital	1	2
Special Education	211	215
Total Elementary	5,991	5,981
Secondary:		
Grades 9 Through 12, regular classes	2,786	2,746
Continuation Education	43	43
Home and Hospital	4	4
Community Day Schools	13	18
Special Education	114	110
Total Secondary	2,960	2,921
Classes for Adults:		
Concurrently Enrolled	14	14
Not Concurrently Enrolled	642	640
Total Adult Classes	656	654
Total Average Daily Attendance	9,607	9,556
Supplemental Instruction Hours	Hours of Attendance	
Elementary	33,802	
Secondary	76,476	
Total	110,278	

The note to the supplementary information is an integral part of this statement.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
June 30, 2006

Grade Level	1982-83	1986-87	2005-2006	Number of Days	
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Status
Kindergarten	35,920	36,000	38,005	180	Complied
Grades 1 through 3	48,312	50,400	52,200	180	Complied
Grades 4 through 5	48,312	54,000	54,000	180	Complied
Grades 6 through 8	49,860	54,000	60,828	180	Complied
Grades 9 through 12	63,440	64,800	65,217	180	Complied

The note to the supplementary information is an integral part of this statement.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
Year Ended June 30, 2006

General Fund	(Budget) 2007***	2006	2005	2004
Revenues and other financing sources	\$ 67,676,989	\$ 66,789,629	\$ 62,705,497	\$ 59,601,024
Expenditures	65,880,726	62,602,156	59,620,106	60,397,248
Other uses and transfers out	671,239	929,118	1,572,328	1,166,514
Total outgo	66,551,965	63,531,274	61,192,434	61,563,762
Change in fund balance (deficit)	1,125,024	3,258,355	1,513,063	(1,962,738)
Ending fund balance	\$ 10,280,919	\$ 9,155,895	\$ 5,897,540	\$ 4,384,477
Available reserves*	\$ 4,942,537	\$ 4,942,537	\$ 1,998,295	\$ 1,973,587
Available reserves as a percentage of total outgo	7.4%	7.8%	3.3%	3.2%
Total long-term debt	\$ 43,553,135	\$ 45,504,018	\$ 45,544,813	\$ 43,784,112
Average daily attendance at P-2**	8,951	8,951	9,023	8,952

The General Fund balance has increased by \$4,771,418 over the past two years. The fiscal year 2006-07 adopted budget projects an increase of \$1,125,024. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

Long-term debt has increased by \$1,179,906 over the past two years and ADA has decreased by one since 2004.

* Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty in the General Fund or Special Reserve Fund (Other than Capital Outlay).

** Excludes Adult Education ADA.

*** Adopted September 2006.

The note to the supplementary information is an integral part of this statement.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
June 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
National School Lunch	10.555	13391	928,351
National School Breakfast	10.553	13390	102,043
Child and Adult Care Food	10.558	13393	25,856
Total U.S. Department of Agriculture			<u>1,056,250</u>
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
No Child Left Behind Act:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	657,054
Title I, Part C, Migrant Education	84.011	13174	79,967
Title II, Part A, Teacher Quality	84.367	14341	291,758
Title II, Part D, Enhancing Education Technology	84.318	14334	251,790
Title III, Limited English Proficiency	84.365	10084	122,999
Title IV, Part A, Drug-Free Schools	84.186	14347	31,804
Title V, Part A, Innovative Education Strategies	84.298A	14354	41,424
Advanced Placement Test Fee Program	84.330	14504	934
Individuals with Disabilities Act:			
IDEA, Basic Local Assistance Entitlement, Part B	84.027	13379	1,546,112
IDEA, Preschool Grants, Part B	84.173	13430	26,335
IDEA, Preschool Local Entitlement, Part B	84.027A	13682	43,467
IDEA, Preschool Staff Development, Part B	84.173A	13431	262
IDEA, Emergency Response	N/A	14188	87,890
IDEA, Workability I	84.027	13705	70,266
IDEA, Workability II, Transition Partnership	84.158	10006	35,113
Carl Perkins Act:			
Vocational & Applied Technology Secondary	84.048	13924	41,234
Vocational Postsecondary and Adult II	84.048	13923	42,599
Adult Education and Family Literacy Act:			
Adult Basic Education	84.002A	14508	101,299
English Literacy and Civics Education	84.002A	14109	28,350
Adult Secondary Education	84.002	13978	20,475
Total U.S. Department of Education			<u>\$ 3,521,132</u>
U.S. Department of Health and Human Services:			
Passed through California Dept. of Education (CDE):			
Medi-Cal Billing Option	93.778	10013	16,367
Medi-Cal Administrative Activities	N/A	10060	543,807
Child Development: Quality Improvement Activities	93.575	24486	8,194
Total Expenditures of Federal Awards			<u>\$ 5,145,750</u>

The note to the supplementary information is an integral part of this statement.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements
Year Ended June 30, 2006

	Other Funds	Form Debt
June 30, 2006, annual financial and budget report (SACS) balances	\$ 6,064,682	\$ 42,132,606
Adjustments and reclassifications:		
Increasing (decreasing) the fund balance:		
Understatement of general obligation bonds payable	-	2,209,830
Overstatement of child nutrition revenues	(132,036)	-
Net adjustments and reclassifications	<u>(132,036)</u>	<u>2,209,830</u>
June 30, 2006, audited financial statement balances	<u>\$ 5,932,646</u>	<u>\$ 44,342,436</u>

The note to the supplementary information is an integral part of this statement.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2006

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. 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.

Schedule of Financial Trends and Analysis

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

Schedule of 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.

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Other Independent Auditors' Reports

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South San Francisco Unified School District
South San Francisco, California

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

We have audited the financial statements of South San Francisco Unified School District as of and for the year ended June 30, 2006, and have issued our report thereon dated November 9, 2006. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable 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 caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. None of the reportable conditions are considered to be material weaknesses.

Compliance and Other Matters

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 grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance and other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.



San Diego, California
November 9, 2006

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South San Francisco Unified School District

South San Francisco, California

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

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, 2006. 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; 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, 2006.

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 the applicable requirements of laws, regulations, contracts and grants caused by error or fraud 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, management, and 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.

A handwritten signature in cursive script that reads "Nigro Nigro & White, PC".

San Diego, California
November 9, 2006

NIGRO NIGRO & WHITE, PC

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South San Francisco, California

AUDITORS' REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the South San Francisco Unified School District, as of and for the year ended June 30, 2006, and have issued our report thereon dated November 9, 2006. Our audit was made in accordance with auditing standards generally accepted; 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 2005-06*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	22	No (see below)
Continuation Education	10	No (see below)
Adult Education	9	Yes
Regional Occupational Centers and Programs	6	Not applicable
Instructional Time:		
School Districts	4	Yes
County Offices of Education	3	Not applicable
Community Day Schools	9	Not applicable
Morgan-Hart Class Size Reduction Program	7	Yes
Instructional Materials:		
General Requirements	12	Yes
K-8 only	1	Yes
Grades 9-12 only	1	Yes

Description	Procedures in the Audit Guide	Procedures Performed
Ratio of Administrative Employees to Teachers	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Alternative Pension Plans	2	Not applicable
Proposition 20 Lottery Funds	2	Yes
State Lottery Funds	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Yes
School Accountability Report Card	3	Yes
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Yes
Districts with only one school serving K-3	4	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Additional Nonclassroom-Based Instruction	1	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable

We did not test Independent Study and Continuation High School attendance as the ADA reported was immaterial.

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 examination, for items not tested, nothing came to our attention to indicate that the South San Francisco Unified School District had not complied with the state laws and regulations.

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

Rigto Rigto & White, PC

San Diego, California
November 9, 2006

Findings and Questioned Costs Section

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2006

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Reporting condition(s) identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Reporting condition(s) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>10.555</u>	<u>Child Nutrition Cluster</u>
<u>84.027</u>	<u>Special Education Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Reporting condition(s) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for state programs:	<u>Unqualified</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2006

Section II – Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

Five Digit Code	AB 3627 Finding Types
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
50000	Federal Compliance
60000	Miscellaneous
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Finding #2006-1 Associated Student Body (ASB) Accounts (30000)

We sampled and audited two of the District's ASBs with the following results:

El Camino High: Significant internal control deficiencies were found that included: financial statements and bank reconciliations not being prepared; inadequate cash controls; lack of proper approvals over cash disbursements; and, lack of segregation of duties.

Recommendation: NNW recommended in the Spring of 2006 that the District conduct a thorough investigation of the problems found at El Camino High ASB and take corrective actions. Since that time the District made personnel changes and has implemented standardized procedures for the 2006-07 school year. NNW will audit the ASB in the Spring of 2007 and report back on the progress made since our last audit.

Alta Loma Middle: At the middle school ASB we found a few areas where controls could be improved. The areas include: preparation of an ASB budget, ensuring independent contractor information is obtained when hiring DJs, and segregating duties of the bookkeeper who both writes and signs checks.

Recommendation: NNW recommends that all ASBs, including Alta Loma Middle, follow standard formats and procedures for budgeting, cash controls and expenditures. The Fiscal Crisis Management and Assistance Team (FCMAT) has an excellent ASB Accounting manual that contains useful forms and procedures that ASBs can follow. It can be downloaded for free from www.fcmat.org website.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2006

Section II – Financial Statement Findings (continued)

District Response: In Spring 2006, the El Camino High School Principal and the Superintendent took the recommendations from the auditor and addressed each issue. There was a review of how the school was adhering to the District's procedures for handling ASB accounts. In fact, the comptroller was terminated and new personnel were hired.

The recommendations from the auditor were reviewed with the new comptroller. The District Business Supervisor of Budgeting and Accounting has been working with the comptroller to be sure that the bank reconciliation is correct.

The Superintendent distributed a copy of the FCMAT Accounting Manual for ASB's to all secondary principals. The District policy governing ASB's was revised and reviewed with all of the principals.

In addition, the following information was discussed with the principals:

1. The signature card at the bank must have at least four signatures; Principal, one other site staff, Superintendent, and Associate Superintendent of Business.
2. Checks must be signed by at least two people. Normally the person signing the check should not be the person writing the check.
3. The bank reconciliation must be completed and a monthly copy sent to the District's Supervisor of Account and Budgeting.
4. Receipts given to classes and clubs must be numbered.
5. All checks written must have receipts. Check requests must have the signature of a student, class/club advisor and principal/designee.
6. In order to expend funds, there needs to be a budget approved by the organization and recorded/approved in the minutes.
7. Independent contractor information must be obtained when hiring DJ's. A W-9 form must be completed. Those forms may be obtained through Business Services. Please call the District's Supervisor of Accounting and Budgeting.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2006

Section II – Financial Statement Findings (continued)

Finding #2006-2: Adult Education Cash Handling (30000)

Cash is collected in adult education for fee-based class tuition and materials. One person collects the cash, issues receipts, prepares and makes the deposit. A summary of the cash collected is sent to the District Office to post to the accounting records. We found the process to be good and the records orderly. However, because no one is reviewing that all cash collected is deposited, there is an opportunity for misappropriation of funds to occur and it not being detected.

Recommendation: We recommend that duties be segregated or review procedures be put into place. For example, require a second count of cash and verification that the cash reconciles to the receipts issued.

District Response:

1. All receipts are pre-numbered. The ledger is also numbered manually to correspond with receipts.
2. The ledger indicates date and amount of all deposits.
3. Money collected and receipts issued for our evening program are always verified by the daytime Administrative Assistant and need to be consistent with a written report that is prepared by the evening Senior Office Assistant.
4. In the daytime, money is collected and receipts are issued by three person office staff and verified by the daytime Administrative Assistant, who also balances the cash collected with ledger entries.
5. All deposits to the bank are verified in writing by the Administrator with a signature on the ledger.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
June 30, 2006

Section II – Financial Statement Findings (continued)

Finding #2006-3: Inventory of Fixed Assets (20000)

The Education Code requires that fixed assets with a value of \$500 or more be inventoried. In past years the District hired a firm to take a physical count, but there is no system in place to capture in the accounting records and periodically inventory new fixed asset acquisitions and retirements.

Recommendation: We recommend that a fixed asset system be developed to track all purchases; for example, description, date of purchase, where the item is located, its costs and the date of retirement (e.g.; surplus sales and disposals). Every 1-2 years the District should take an inventory and identify any lost items, investigating any significant losses.

District Response: The Supervisor of Budgeting and Accounting is reviewing and updating our current system (Escape) to track all of our purchases. The District has had recent personnel changes in the Business Services Department. When the vacant Buyer/Senior Accountant position is filled, the department can do a new inventory and identify any lost items. In the meantime, all sites are sending the Purchasing Department any un-repaired or disposed assets to be removed from the Master Inventory List in Escape.

CECC does have a Fixed Asset module that is integrated with our PO module, but we won't be able to implement it until it is operational.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
June 30, 2006

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs).

There were no federal awards findings or questioned costs in 2005-06.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
June 30, 2006

Section IV – State Award Findings and Questioned Costs

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

There were no state awards findings or questioned costs in 2005-06.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2006

Original Finding No.	Finding	Code	Recommendation	Current Status
2005-1	<u>Cash Clearing Account and Accounts Receivable</u> One clerk opens the mail, prepares the deposit, posts the deposits, bills accounts receivable and reconciles the bank account. This lack of segregation of duties could lead to fraud. The incoming cash receipts are logged by someone independent, but the logging is done after the clerk handles the cash (checks).	30000	Someone independent of cash receipts should bill accounts receivable. The person logging the checks should log the checks before giving the checks to clerk to receipt.	Implemented.
2005-2	<u>Associated Student Body (ASB) Fund Accounting</u> ■ Independent contractor information is not obtained (e.g. W-9) for 1099 reporting. Form 1099 reporting should be consolidated district-wide. The 1099 must be filed whenever, districtwide, an independent contractor is paid \$600 or more in a calendar year. ■ The ASB bookkeepers are signers on the bank accounts. They also handle cash, post to the records and reconcile the bank account. This lack of segregation of duties could lead to fraud. ■ South San Francisco High ASB: inventory was not reconciled to the books, the cash register tape is not reconciled to the register, invoices are not stamped as received prior to payment ■ El Camino High ASB: records are not kept centrally, non-ASB accounts are in the ASB books, deposits could not be reconciled to the receipts ■ Westborough Middle ASB: bank reconciliation off \$600	30000	■ Maintain a database (either photocopy or NCR form) each time there is a request for payment to an independent contractor. The information will be submitted to the District Office for 1099 reporting. ■ Segregate the duties of the ASB bookkeepers ■ Implement standardized procedures to address the internal control deficiencies noted. ■ Implement standardized procedures to address the internal control deficiencies noted.	Implementation in process as of June 30, 2006, see current year finding #2006-1

