

**SOUTH SAN FRANCISCO
UNIFIED SCHOOL DISTRICT**

AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2009**

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SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended June 30, 2009
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SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
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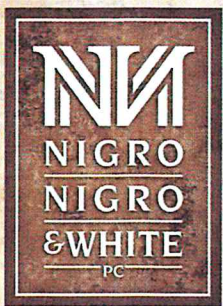
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INDEPENDENT AUDITORS' REPORT

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 fiscal year ended June 30, 2009, 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, 2009, 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 30, 2009 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 14 and the required supplementary information on pages 50 through 51 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. 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.



San Diego, California
November 30, 2009

Management's Discussion and Analysis

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SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

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, 2009. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

Some of the fiscal highlights for the South San Francisco Unified School District include:

- The District fell into basic aid status for the first time, thereby increasing available resources.
- Total government-wide net assets increased 3% over the course of the year.
- Overall revenues were \$85.6 million, \$2 million more than expenses.
- The total cost of basic programs was \$83.6 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was \$67.6 million.
- General Fund balance increased by 1.8%, primarily due to the receipt of federal stimulus funds near the end of fiscal year 2008-09 and the additional property tax revenues afforded as a basic aid district.

OVERVIEW OF THE FINANCIAL STATEMENTS

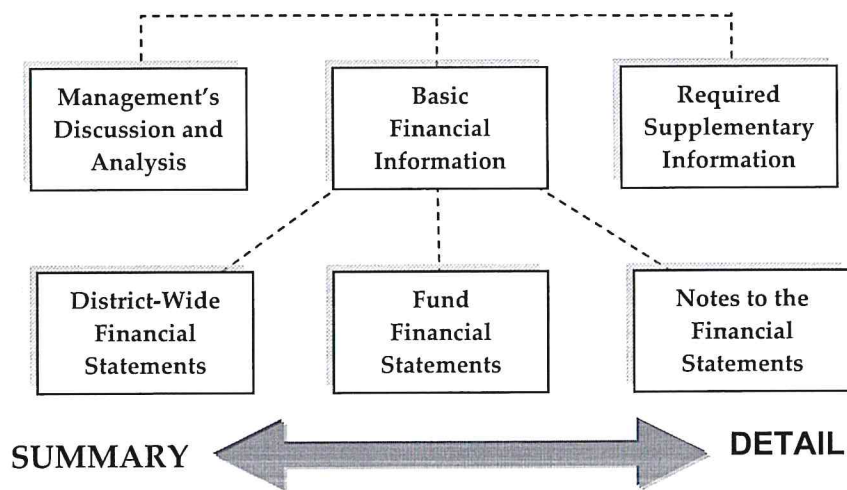
This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

- 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)
For the Fiscal Year Ended June 30, 2009

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)
For the Fiscal Year Ended June 30, 2009

Figure A-2 summarizes the major features of the District's financial 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)
For the Fiscal Year Ended June 30, 2009

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)
For the Fiscal Year Ended June 30, 2009

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.

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were greater on June 30, 2009, than they were the year before – increasing 3% to \$77.3 million (See Table A-1).

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

	Governmental Activities		Total Percentage Change
	2008	2009	2008-09
Current and other assets	\$35,705,368	\$43,375,343	21%
Capital assets	88,965,020	87,106,353	-2%
Total assets	124,670,388	130,481,696	5%
Long-term debt outstanding	41,024,555	38,291,366	-7%
Other liabilities	8,340,040	14,895,168	79%
Total liabilities	49,364,595	53,186,534	8%
Total net assets	\$75,305,793	\$77,295,162	3%

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in net assets, governmental activities. The District's total revenues were \$85.6 million (See Table A-2). The increase is due primarily to federal stimulus funds received in 2008-09 and additional revenue limit funding by virtue of property taxes.

The total cost of all programs and services was \$83.6 million. The District's expenses are predominantly related to educating and caring for students, 94%. The purely administrative activities of the District accounted for just 6% of total costs.

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

	Governmental Activities		Total Percentage Change
	2008	2009	2008-09
Revenues:			
<i>Program revenues</i>			
Charges for services	\$ 2,016,860	\$ 1,984,292	-2%
Federal & state categorical programs	14,658,709	14,022,660	-4%
<i>General revenues</i>			
Property taxes	44,676,260	64,855,990	45%
State formula aid	20,610,311	4,803,072	-77%
Other revenues	2,797,116	(49,576)	-102%
Total revenues	<u>84,759,256</u>	<u>85,616,438</u>	1%
Expenses:			
Instruction-related	47,870,876	53,263,348	11%
Student support services	6,845,372	6,955,678	2%
Maintenance & operations	7,983,985	8,144,648	2%
Administration	4,351,339	4,625,911	6%
Other expenses	14,711,888	10,637,484	-28%
Total expenses	<u>81,763,460</u>	<u>83,627,069</u>	2%
Increase in net assets	<u>\$ 2,995,796</u>	<u>\$ 1,989,369</u>	-34%

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

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 \$83.6 million.
- Some of the cost was paid by the users of the District's programs (\$2.0 million).
- The federal and state governments subsidized programs with grants and contributions (\$14.0 million).
- Most of the District's costs (\$67.6 million), 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.

Table A-3
Net Costs of South San Francisco Unified School District's
Governmental Activities

	Total Cost of Services	Net Cost of Services
Instructional services	\$ 53,263,348	\$ 42,523,942
Pupil support services	6,955,678	2,859,676
Maintenance & operations	8,144,648	7,827,064
Administration	4,625,911	4,012,999
Other expenses	10,637,484	10,396,436
Total expenses	<u>\$ 83,627,069</u>	<u>\$ 67,620,117</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 \$30.3 million, which is above last year's ending fund balance of \$27.9 million. The District's General Fund had \$2.7 million in revenues over expenditures and other financing uses in 2009, due primarily to the receipt of federal stimulus funds.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

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 to reflect federal and state budget actions
- Services and other operating expenses increased with cost-of-living
- Interfund transfers to reflect the most recent redevelopment proceeds receipts

While the District's final budget for the general fund anticipated expenditures would exceed revenues by about \$3.0 million, the actual results for the year show that revenues exceeded expenditures by roughly \$4.8 million. Actual revenues were \$326,800 more than anticipated, but expenditures were \$7.5 million less than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2008-09 the District had invested over \$134.4 million in capital assets, as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.)

Table A-4
South San Francisco Unified School District's Capital Assets

	Governmental Activities		Total Percentage
	2008	2009	Change
	2008-09		
Land	\$4,305,189	\$4,305,189	0%
Site improvements	3,028,927	3,051,571	1%
Buildings	119,941,459	121,696,990	1%
Equipment and furniture	3,402,776	3,701,572	9%
Work in progress	1,733,081	2,215,266	28%
Total	<u>\$132,411,432</u>	<u>\$134,970,588</u>	2%

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$39.9million in general obligation bonds, capital leases and employment benefits – 3% decrease 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

	Governmental Activities		Total
	2008	2009	Percentage Change 2008-09
General obligation bonds	\$36,435,170	\$35,777,393	-2%
Certificates of participation	1,905,884	1,755,911	-8%
Compensated absences	617,652	690,636	12%
Early retirement incentives	1,982,034	1,370,571	-31%
Environmental protection agency loan	83,815	50,284	-40%
Net OPEB obligation	-	251,883	100%
Total	\$41,024,555	\$39,896,678	-3%

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

FACTORS BEARING ON THE DISTRICT'S FUTURE

Unlike most years, California began the 2009-10 fiscal year with a budget already in place. On February 20, 2009, Governor Schwarzenegger signed a spending plan aimed at addressing the State's worsening budget crisis. However, after the signing of the budget, the fiscal outlook began to worsen. The Governor and Legislature began working to close the budget gap.

On July 28, Governor Schwarzenegger signed a package of bills aimed at closing the state's \$23.241 billion budget shortfall. The package of bills includes a total of \$24.159 billion in "solutions" - \$16.125 billion in spending cuts; \$3.492 billion in revenues and revenue accelerations; \$2.182 billion in borrowing, including \$1.935 billion from local government property tax revenues; \$1.005 billion in fund shifts; and \$1.355 billion in other "solutions", including one-time savings from deferring the payment of state employees' final paycheck for the 2009-10 fiscal year until July 1, 2010.

K-12 Education Budget Agreement:

- Reduces 2008-09 funding for categorical programs by \$1.6 billion compared to the funding level provided by the February budget agreement.
- Reduces 2009-10 revenue limit payments by \$4.0 billion compared to the 2009-10 Budget enacted in February and adjusts the revenue limit deficit factor to 18.4 percent for school districts and 18.6 percent for county offices of education.
- Defers \$1.7 billion of school districts' revenue limit payments from 2009-10 to 2010-11.
- Counts \$402 million in 2009-10 funding for the Quality Education Investment Act (QEIA) toward the Proposition 98 minimum funding guarantee to produce an equal amount of General Fund savings. Historically, QEIA dollars provided funds to school districts with the lowest academic achievement and did not count toward the Proposition 98 guarantee. The budget agreement extends the QEIA program by one year, to 2014-15.
- Provides \$496 million in 2009-10 Proposition 98 funding for home-to-school transportation – a reduction of approximately 20 percent from the \$618.7 million provided for the program in 2008-09.
- Reduces 2009-10 funding by \$80 million for Basic Aid school districts' categorical programs to provide a proportionate reduction to non-Basic Aid districts' revenue limit reductions.
- Allows school districts to reduce the school year by up to five instructional days through 2012-13 without losing incentive grants.
- Suspends the requirement that school districts purchase newly adopted instructional materials through 2012-13.
- Allows school districts to sell surplus property and use the proceeds for General Fund purposes through 2011.
- Suspends the High School Exit Exam graduation requirement for students with disabilities beginning in 2009-10. The suspension would last until the State Board of Education authorizes an alternative exam for disabled students.

The Governor's line item vetoes include a \$3.9 million cut to student transportation at State Special Schools, which the Governor states is duplicative because federal special education funds are available for this purpose.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2009

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Federal Funding (ARRA)

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA aims to boost the economy through a \$787 billion package of spending and tax measures. Nationally, more than \$100 billion is dedicated to education. California's schools, colleges, and universities can expect to receive approximately \$11.0 billion over three years that can be used to mitigate the impact of state budget reductions and address specified policy goals.

The largest share of the ARRA's education dollars comes from an allocation called the State Fiscal Stabilization Fund, which aims to help states balance their budgets and mitigate the impact of cuts. Other ARRA funds targeting education include support for special education, schools that serve disproportionate numbers of students from disadvantaged backgrounds, school technology, statewide data systems, and teacher improvement programs.

The new State Fiscal Stabilization Fund (SFSF), aimed at helping to stabilize state budgets and mitigate the impact of budget cuts, is the largest pot of ARRA funding focused on education.

The California Department of Education (CDE) recently reported that California's schools received preliminary payments totaling \$2.5 billion from the state's initial Education Stabilization Fund (ESF) allocation. These payments were based on the reductions made to each school district's 2008-09 general-purpose and categorical funds as part of the February budget agreement. K-12 school districts received \$1.6 billion to backfill reductions made to their 2008-09 general-purpose funds and \$887.5 million to backfill reductions made to their 2008-09 categorical funding.

While California cannot use ESF dollars to replace state spending required by the Proposition 98 guarantee, ESF dollars can be used to mitigate the impact of the significant state spending reductions enacted as part of current efforts to balance the budget. Local schools can use ESF dollars to help pay for any activity authorized under the Elementary and Secondary Education Act, the Individuals With Disabilities Education Act (IDEA), the Adult Education and Family Literacy Act, and/or the Carl D. Perkins Career and Technical Education Act.

The ARRA significantly increases funding for the primary federal program aimed at improving the education of disadvantaged students, including students from low-income families and English language learners. The federal Title I program aims to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education. California is slated to receive \$1.5 billion in additional Title I dollars under the ARRA, a significant boost in federal support.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2009

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Federal Funding (ARRA) (continued)

The ARRA also significantly increases federal support for the IDEA, also referred to as special education, with the goal of helping to ensure that students with disabilities receive an appropriate education. The CDE estimates that California's schools will receive \$1.3 billion in additional special education support from the ARRA - \$1.2 billion for K-12 education and \$41 million for pre-school programs. California received half of its ARRA IDEA dollars in April and will receive the second half by the end of September upon approval of a report the state must submit to the Department of Education (DOE).

The ARRA provides a significant level of funding to support California's schools, which will help mitigate the impact of state spending cuts. While the ARRA limits the extent to which ARRA's education dollars can be used to help close the state's budget shortfall, the Legislature may choose to use some ARRA dollars for this purpose. To receive additional ARRA dollars, however, California must submit reports to the DOE that include information regarding how the state and local schools use their ARRA allocations. These reports are designed to promote transparency and accountability at the local, state, and federal levels and will be reviewed by the DOE to determine whether California receives additional ARRA dollars.

Other Factors

Property Taxes

Property tax revenues can fluctuate due to factors such as market values, population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. By way of example, in 2008-09, District's property taxes increased by 13.7% due primarily to Genentech's reassessment being finalized. In 2009-10, District's property taxes are projected to decline by 6.5% due to country-wide reassessments.

All of these factors were considered in preparing the South San Francisco Unified School District budget for the 2009-10 fiscal year.

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) 877-8707.

District Address

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

Financial Section

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SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2009

	Total Governmental Activities
ASSETS	
Current assets	
Cash	\$ 35,119,167
Investments	431,900
Accounts receivable	7,264,495
Inventories	129,162
Prepaid expenses	430,619
Total current assets	<u>43,375,343</u>
Capital assets	
Land	4,305,189
Improvement of sites	3,051,571
Buildings	121,696,990
Furniture and equipment	3,701,572
Construction in progress	2,215,266
Less accumulated depreciation	<u>(47,864,235)</u>
Total capital assets, net of depreciation	<u>87,106,353</u>
Total assets	<u>130,481,696</u>
LIABILITIES	
Current liabilities	
Accounts payable	8,142,473
Current loans	4,170,000
Deferred revenue	977,383
Portion due or payable within one year	1,605,312
Total current liabilities	<u>14,895,168</u>
Long-term liabilities	
Long-term debt	<u>38,291,366</u>
Total liabilities	<u>53,186,534</u>
NET ASSETS	
Invested in capital assets, net of related debt	49,621,284
Restricted for:	
Capital projects	3,909,952
Debt service	2,256,491
Educational programs	2,582,824
Unrestricted	<u>18,924,611</u>
Total net assets	<u>\$ 77,295,162</u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2009

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Instructional Services:				
Instruction	\$ 42,830,004	\$ 624,216	\$ 8,807,165	\$ (33,398,623)
Instruction-Related Services:				
Supervision of instruction	3,612,032	75,869	378,931	(3,157,232)
Instructional library, media and technology	1,538,848	-	41,435	(1,497,413)
School site administration	5,282,464	85,062	726,728	(4,470,674)
Pupil Support Services:				
Home-to-school transportation	807,173	25	442,722	(364,426)
Food services	2,156,239	857,126	1,421,328	122,215
All other pupil services	3,992,266	71,349	1,303,452	(2,617,465)
General Administration Services:				
Data processing services	199,710	-	-	(199,710)
Other general administration	4,426,201	82,422	530,490	(3,813,289)
Plant services	8,144,648	40,860	276,724	(7,827,064)
Community services	40,150	-	-	(40,150)
Interest on long-term debt	2,377,024	-	-	(2,377,024)
Other outgo	3,802,490	147,363	93,685	(3,561,442)
Depreciation (unallocated)	4,417,820	-	-	(4,417,820)
Total Governmental Activities	<u>\$ 83,627,069</u>	<u>\$ 1,984,292</u>	<u>\$ 14,022,660</u>	<u>(67,620,117)</u>

General Revenues:

Taxes:	
Property taxes, levied for general purposes	61,360,548
Property taxes, levied for special purposes	-
Property taxes, levied for debt service	2,761,269
Property taxes, levied for other specific purposes	734,173
Federal and state aid not restricted to specific purpose	4,803,072
Interest and investment earnings	(830,164)
Special and extraordinary items	13,175
Miscellaneous	767,413
Total general revenues	<u>69,609,486</u>
Change in net assets	1,989,369
Net assets - July 1, 2008	<u>75,305,793</u>
Net assets - June 30, 2009	<u>\$ 77,295,162</u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
ASSETS			
Cash	\$ 24,312,124	\$ 10,807,043	\$ 35,119,167
Investments	160,113	271,787	431,900
Accounts receivable	6,501,220	763,275	7,264,495
Due from other funds	718,477	1,712,708	2,431,185
Inventories	85,838	43,324	129,162
Prepaid expenditures	331,480	99,139	430,619
Total Assets	<u>\$ 32,109,252</u>	<u>\$ 13,697,276</u>	<u>\$ 45,806,528</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 7,379,439	\$ 508,121	\$ 7,887,560
Due to other funds	1,703,470	727,715	2,431,185
Deferred revenue	962,383	15,000	977,383
Current loans	4,170,000	-	4,170,000
Total Liabilities	<u>14,215,292</u>	<u>1,250,836</u>	<u>15,466,128</u>
Fund Balances			
Reserved for:			
Inventories	85,838	43,324	129,162
Revolving cash	25,000	80	25,080
Debt service	-	2,256,491	2,256,491
Prepaid expenditures	331,480	99,138	430,618
Categorical programs	2,582,824	-	2,582,824
Unreserved; reported in:			
General fund	14,868,818	-	14,868,818
Capital project funds	-	4,008,471	4,008,471
Special revenue funds	-	6,038,936	6,038,936
Total Fund Balances	<u>17,893,960</u>	<u>12,446,440</u>	<u>30,340,400</u>
Total Liabilities and Fund Balances	<u>\$ 32,109,252</u>	<u>\$ 13,697,276</u>	<u>\$ 45,806,528</u>

The notes to 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, 2009

Total fund balances - governmental funds \$ 30,340,400

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 \$134,970,588 and the accumulated depreciation is (\$47,864,235). 87,106,353

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 unmatured interest owing at the end of the period was: (254,913)

In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

General obligation bonds payable	\$ 35,777,393	
Certificates of participation payable	1,755,911	
Compensated absences payable	690,636	
Net OPEB obligation	251,883	
Early retirement incentive	1,370,571	
EPA loan	50,284	
	(39,896,678)	(39,896,678)

Total net assets - governmental activities \$ 77,295,162

The notes to 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, 2009

	General Fund	Other Governmental Funds	Total Governmental Funds
REVENUES			
General Revenues:			
Property taxes	\$ 62,094,720	\$ 2,761,269	\$ 64,855,989
Federal and state aid not restricted to specific purpose	4,691,541	111,531	4,803,072
Earnings on investments	(581,915)	(248,250)	(830,165)
Miscellaneous	616,477	150,937	767,414
Program Revenues:			
Charges for services	329,063	1,655,233	1,984,296
Operating grants and contributions	9,538,809	4,483,853	14,022,662
Total Revenues	76,688,695	8,914,573	85,603,268
EXPENDITURES			
Instructional Services:			
Instruction	41,273,995	2,505,715	43,779,710
Instruction-Related Services:			
Supervision of instruction	3,612,032	-	3,612,032
Instructional library, media and technology	2,078,617	-	2,078,617
School site administration	4,532,608	676,871	5,209,479
Pupil Support Services:			
Home-to-school transportation	807,173	-	807,173
Food services	-	2,211,827	2,211,827
All other pupil services	3,920,170	72,096	3,992,266
General Administration Services:			
Data processing services	207,164	-	207,164
Other general administration	4,040,598	268,238	4,308,836
Plant services	7,486,965	703,600	8,190,565
Facility acquisition and construction	64,595	1,922,868	1,987,463
Community services	40,150	-	40,150
Other outgo:			
Transfers between agencies	3,790,984	-	3,790,984
Debt service - issuance costs	-	11,548	11,548
Debt service - principal	-	841,240	841,240
Debt service - interest	-	2,122,110	2,122,110
Total Expenditures	71,855,051	11,336,113	83,191,164
Excess (Deficiency) of Revenues Over (Under) Expenditures	4,833,644	(2,421,540)	2,412,104
OTHER FINANCING SOURCES (USES)			
Interfund transfers in	14,300	2,145,396	2,159,696
Interfund transfers out	(2,145,396)	(14,300)	(2,159,696)
All other financing sources	-	13,176	13,176
Total Other Financing Sources and Uses	(2,131,096)	2,144,272	13,176
Net Change in Fund Balances	2,702,548	(277,268)	2,425,280
Fund Balances, July 1, 2008	15,191,412	12,723,708	27,915,120
Fund Balances, June 30, 2009	\$ 17,893,960	\$ 12,446,440	\$ 30,340,400

The notes to 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 Fiscal Year Ended June 30, 2009

Total net change in fund balances - governmental funds	\$ 2,425,280
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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 (\$2,682,284) exceed depreciation expense (\$4,540,951) in the period.	(1,858,667)
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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 reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were:	841,281
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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:	294,879
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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	(72,984)
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In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on the accrual basis. This year, the difference between OPEB costs and actual employer contributions was:	(251,883)
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In the fund statements, payments on early retirement benefits are expenses when paid. In the government-wide statements, payments on early retirement benefits are a reduction of the liability accrued in the prior period.	611,463
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Change in net assets of governmental activities	<u>\$ 1,989,369</u>
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The notes to financial statements are an integral part of this statement.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets – Fiduciary Funds
June 30, 2009

	Trust Fund Other Private- Purpose Trust	Agency Funds Student Body Funds	Total Fudiciary Funds
Assets			
Cash	\$ 396,098	\$ 711,895	\$ 1,107,993
Accounts Receivable - Interest	2,275	-	2,275
Total Assets	<u>\$ 398,373</u>	<u>\$ 711,895</u>	<u>\$ 1,110,268</u>
Liabilities			
Due to Student Groups	-	711,895	711,895
Total Liabilities	<u>-</u>	<u>\$ 711,895</u>	<u>711,895</u>
Net Assets			
Unreserved	<u>398,373</u>		<u>398,373</u>
Total Net Assets	<u>\$ 398,373</u>		<u>\$ 398,373</u>

The notes to 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 Fiscal Year Ended June 30, 2009

	Trust Fund Other Private- Purpose Trust
Revenues	
Interest	\$ (13,588)
Expenses	
Services and other operating expenses	7,500
Changes in Net Assets	(21,088)
Net assets held in trust - July 1, 2008	419,461
Net assets held in trust - June 30, 2009	\$ 398,373

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

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 operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all fund, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

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. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. In addition, component units are other legally separate organizations for which the District is not financially accountable, but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no such component units.

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, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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, 2009

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. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

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, 2009

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 collected 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, 2009

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.

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:
 1. The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.
 2. The Child Development Fund is used to account for resources committed to child development programs maintained by the District.
 3. The Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's food service operations.
 4. 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, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Non-major Governmental Funds (continued)

- *Capital Projects Funds* are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains five 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 Building Fund exists primarily to account separately for proceeds from the sale of bonds.
 3. The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
 4. 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.
 5. 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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

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.

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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

5. Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability on the government-wide statement of net assets as the benefits are earned. For governmental funds, unpaid compensated absences are recognized as a fund liability only upon the occurrence of relevant events such as employee resignation and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are recorded as accounts payable in the fund from which the employees who have accumulated leave are paid.

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.

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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

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 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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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

During the 2008-09 fiscal year, the following GASB Pronouncements became effective for the District.

GASB Statement No. 45 – In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement requires employers providing postemployment benefits, commonly referred to as other postemployment benefits, or OPEB, to recognize and account for the costs of providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits.

GASB Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations* was issued in November, 2006. This statement addresses standards for obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is not expected to have any financial impact on the District.

GASB Statement No. 52 – *Land and Other Real Estate Held as Investments by Endowments* was issued in November, 2007. The statement establishes consistent standards for the reporting of land and other real estate held as investments by endowments and similar entities, such as pension and other postemployment benefit plans, external investment pools, and deferred compensation plans. It requires land and other real estate held to be reported at fair value. This statement is not expected to have any financial impact on the District.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

	Governmental Funds	Fiduciary Funds
Cash in county treasury	\$ 30,348,435	\$ 396,098
Cash on hand and in banks	167,631	711,895
Cash with fiscal agent	4,318,881	-
Cash in revolving fund	25,080	-
Collections awaiting deposit	259,140	-
Total cash	<u>\$ 35,119,167</u>	<u>\$ 1,107,993</u>
Investments	<u>\$ 431,900</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. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

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

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. Fair market value approximates cost.

Investments - The majority of investments are held in First American Funds Treasury Obligations Fund through the San Mateo County Treasurer's Office. Also included are investments in stocks held by the associated student body accounts. Fair market value approximates cost.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 2 – CASH AND INVESTMENTS (continued)

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its web site. The table below identifies some of the investment types permitted in the investment policy:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury, 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 \$30,649,225 and an amortized book value of \$30,744,533. The average weighted maturity for this pool is not available.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 2 – CASH AND INVESTMENTS (continued)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. 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, 2009, the District has a custodial risk for the \$194,880 cash on deposit of June 30, 2009.

Concentration of Credit Risk

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

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended June 30, 2009, expenditures exceeded appropriations in the General Fund as follows:

<u>General Fund</u>	<u>Amount</u>
Certificated Salaries	\$ 348,121
Classified Salaries	\$ 31,877
Direct Support/Indirect Costs	\$ 21,421

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2009 consist of the following:

	General Fund	All Non-Major Funds	Totals
Federal	\$ 1,807,474	\$ 294,816	\$ 2,102,290
State	1,684,028	348,725	2,032,753
Local	3,009,718	119,734	3,129,452
Total	<u>\$ 6,501,220</u>	<u>\$ 763,275</u>	<u>\$ 7,264,495</u>

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, 2009 are as follows:

	Due To Other Funds		
	General Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 718,477	\$ 718,477
Other Governmental Funds	1,703,470	9,238	1,712,708
Total	<u>\$ 1,703,470</u>	<u>\$ 727,715</u>	<u>\$ 2,431,185</u>

General fund due to Adult Education fund for payments of goods and services and contribution to investment loss	\$ 30,809
General fund due to Child Development fund for indirect costs and payments of goods and services	5,744
General fund due to Cafeteria fund for contribution and payment of services	65,195
General fund due to Deferred Maintenance fund for Deferred Maintenance state apportionment	323,473
General fund due to Special Reserve fund (other than capital outlay) for rental payment and prepaid prior year tax set aside	845,986
General fund due to Capital Facilities fund for payment of services	13,175
General fund due to County School Facilities fund for payment of services	5,764
General fund due to Special Reserve fund for capital outlay for RDA transfers and payment of services	413,323
Adult Education fund due to General fund for statutory benefits and services and for payment of goods and services	127,067
Child Development Fund due to General Fund for payments of statutory benefits and services	293,743
Cafeteria Fund due to the General Fund for payments of statutory benefits and services	173,229
Deferred Maintenance fund due to General fund for contribution for investment loss and deferred maintenance match	122,002
Capital Facilities fund due to General fund for payment of services	2,436
Child Development Fund due to the Cafeteria Special Revenue Fund for payments of goods and services	9,004
Special Reserve for capital outlay fund due to Building fund for payment of services	235
Total	<u>\$ 2,431,185</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

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 2008-09 fiscal year are as follows:

		<u>Transfers from Other Funds</u>		
	<u>General Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total</u>	
General Fund	\$ -	\$ 14,300	\$ 14,300	
Other Governmental Funds	2,145,396	-	2,145,396	
Total	<u>\$ 2,145,396</u>	<u>\$ 14,300</u>	<u>\$ 2,159,696</u>	
The General Fund transferred to the Cafeteria Fund for expenditures				\$ 115,588
The General Fund transferred to the Deferred Maintenance Fund for expenditures				323,473
The General Fund transferred to Deferred Maintenance for state apportionment				323,473
The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects for RDA pass through				410,700
The General Fund transferred to Adult Education to contribute to Lehman Brother loss				21,790
The General Fund transferred to the Special Reserve Fund for Other than Capital Outlay for expenditures				107,009
The General Fund transferred to the Special Reserve Fund for Other than Capital Outlay for prepaid prior year tax set aside				843,363
The Child Development Fund transferred to the General Fund for operating expenditures				14,300
Total			<u>\$ 2,159,696</u>	

NOTE 6 – FUND BALANCES

Of the \$17.9 million ending fund balance in the General Fund, the following amounts have been designated by the governing board for the following purposes:

	<u>General Fund</u>
Economic Uncertainties	\$ 2,220,013
Other Designations	7,500,968
Total	<u>\$ 9,720,981</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2009 is shown below:

	Beginning Balance July 1, 2008	Additions	Deletions	Ending Balance June 30, 2009
Land	\$ 4,305,189	\$ -	\$ -	\$ 4,305,189
Site improvements	3,028,927	22,644	-	3,051,571
Buildings and improvements	119,941,459	1,861,309	105,778	121,696,990
Furniture and equipment	3,402,776	316,146	17,350	3,701,572
Work in Progress	1,733,081	2,307,999	1,825,814	2,215,266
Total at historical costs	132,411,432	4,508,098	1,948,942	134,970,588
Less accumulated depreciation:				
Site improvements	1,040,725	140,487	-	1,181,212
Buildings and improvements	39,468,644	4,246,217	105,778	43,609,083
Furniture and equipment	2,937,043	154,247	17,350	3,073,940
Total accumulated depreciation	43,446,412	4,540,951	123,128	47,864,235
Governmental activities capital assets, net	\$ 88,965,020	\$ (32,853)	\$ 1,825,814	\$ 87,106,353

NOTE 8 - TAX REVENUE ANTICIPATION NOTES (TRANS)

Current Loans

The District issued \$4,170,000 in TRANS on July 6, 2008 through the California Cash Reserve Program, sponsored by the California School Boards Association Finance Corporation. The notes matured on July 6, 2009 and yielded 3.04% interest. The notes were sold by the District to supplement its cash flow.

Repayment requirements were that certain amounts be deposited in 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. The principal and interest due as of June 30, 2009 amounted to \$4,171,738.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 9 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2009 is shown below:

	Balance June 30, 2008	Additions	Deletions	Balance June 30, 2009	Due Within One Year
General Obligation Bonds Payable	\$ 36,435,170	\$ -	\$ 657,777	\$ 35,777,393	\$ 802,350
Certificates of Participation Payable	1,905,884	-	149,973	1,755,911	157,936
Early Retirement Incentive	1,982,034	-	611,463	1,370,571	611,465
EPA Loan	83,815	-	33,531	50,284	33,561
Net OPEB Obligation	-	251,883	-	251,883	-
Compensated Absences Payable	617,652	72,984	-	690,636	-
Total Long-Term Liabilities	<u>\$ 41,024,555</u>	<u>\$ 324,867</u>	<u>\$ 1,452,744</u>	<u>\$ 39,896,678</u>	<u>\$ 1,605,312</u>

A. General Obligation Bonds

On January 1, 2006, the South San Francisco Unified School District's School Financing Authority purchased the District's 2006 Refunding Bonds, which was issued the same year to refund the Series 1997 and Series 1999 and 1999 B bond issuances. The bonds were issued at a premium and yielded net proceeds of \$2,992,183 to be spent on the District's capital facilities improvement program. The proceeds were deposited into the District's Building Fund in 2005-06. The remaining funds were transferred into an escrow fund, an in-substance defeasance, for the purpose of paying off all previously issued bonded indebtedness. The District's resultant outstanding bonded indebtedness carried on the financial statements amounted to \$36,825,170, as of the date of the refunding. The bonds mature on September 1, 2023, carry an interest rate of 3.07% to 4.20%. The principal balance outstanding as of June 30, 2009 was \$36,825,170.

The annual requirements to amortize general obligation bonds payable, outstanding as of June 30, 2009, are as follows:

Fiscal Year	Principal	Interest	Total
2009-10	\$ 802,350	\$ 2,016,444	\$ 2,818,795
2010-11	959,361	2,925,597	3,884,958
2011-12	1,129,684	3,036,381	4,166,065
2012-13	1,314,248	3,151,293	4,465,541
2013-14	1,514,042	3,270,482	4,784,524
2014-19	11,177,797	7,123,254	18,301,051
2019-24	18,879,911	2,876,433	21,756,344
Total	<u>\$ 35,777,393</u>	<u>\$ 24,399,885</u>	<u>\$ 60,177,278</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 9 – GENERAL LONG-TERM DEBT (continued)

B. Certificates of Participation

The District has two outstanding certificates of participation as of June 30, 2009:

Issue Date	Matutity Date	Interest Rate	Original Issue	Beginning Balance	Issued	Redeemed	Ending Balance
2/1/2004	12/1/18	4.88%	\$ 1,037,000	\$ 800,884	\$ -	\$ 59,973	\$ 740,911
2/5/1997	7/1/2023	4.50%	1,815,000	1,105,000	-	90,000	1,015,000
			<u>\$ 2,852,000</u>	<u>\$ 1,905,884</u>	<u>\$ -</u>	<u>\$ 149,973</u>	<u>\$ 1,755,911</u>

The annual requirements to amortize all certificates of participation, outstanding as of June 30, 2009 are as follows:

Fiscal Year	Principal	Interest	Total
2009-10	\$ 157,936	\$ 51,004	\$ 208,940
2010-11	166,044	46,196	212,240
2011-12	174,307	41,148	215,455
2012-13	177,730	35,940	213,670
2013-14	186,322	30,478	216,800
2014-19	893,572	62,816	956,388
Total	<u>\$ 1,755,911</u>	<u>\$ 267,582</u>	<u>\$ 2,023,493</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:

Fiscal Year	Amount Due
2010	\$ 611,464
2011	260,675
2012	260,675
2013	237,757
Total	<u>\$ 1,370,571</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

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>
2010	\$ 33,531
2011	16,753
Total	<u>\$ 50,284</u>

NOTE 10 – JOINT VENTURES

Risk Management

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.

Condensed audited financial information for the fiscal year ended June 30, 2009 is as follows:

	<u>SMCSIG</u>
Total Assets	\$ 14,009,442
Total Liabilities	<u>6,541,335</u>
Fund Equity	<u>\$ 7,468,107</u>
Total Revenue	\$ 31,190,255
Total Expenditures	<u>31,054,835</u>
Net Increase in Fund Balance	<u>\$ 135,420</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 10 – JOINT VENTURES (continued)

South San Francisco Unified School District Financing Corporation

The District formed a Joint Powers Authority 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. 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 financial activity of the JPA is blended in the financial statements of the District as a component unit.

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, 2009, the District had construction commitments outstanding of \$253,277.

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, 2009

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 2008-09 was 9.428%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2008-09	\$ 1,810,271	100%
2007-08	\$ 1,032,567	100%
2006-07	\$ 1,508,306	100%

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

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 2008-09 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 last three fiscal years were as follows:

	Contribution	Percent of Required Contribution
2008-09	\$ 2,845,403	100%
2007-08	\$ 2,694,542	100%
2006-07	\$ 2,508,749	100%

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 approximately \$1,557,901 to STRS (4.517% of salaries subject to STRS in 2008-09).

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 14 – OTHER 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.

The approximate accumulated future liability for the District at June 30, 2009, amounts to \$251,883. 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, 2009, multiplied by the number of years of payment remaining until the employee reaches age 65.

Plan Descriptions and Contribution Information

Membership in the plan consisted of the following:

	Trust Fund
	Retiree Benefits
	Fund
Retirees and beneficiaries receiving benefits	399
Active plan members	643
Total	1,042

The District provides postemployment health care benefits, 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. The District provides medical benefits at the same level they are receiving at the time of retirement for a period of up to 5 years or to age 65, whichever occurs first.

The District's funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the governing board. For fiscal year 2008-09, the District contributed \$630,117.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB obligation:

	<u>Amount</u>
Annual required contribution (ARC)	\$ 882,000
Interest on net OPEB obligation	-
Adjustment to ARC	-
Annual OPEB cost	<u>882,000</u>
Contributions made	<u>(630,117)</u>
Increase in net OPEB asset	<u>251,883</u>
Net OPEB obligation - July 1, 2008	-
Net OPEB obligation - June 30, 2009	<u><u>\$ 251,883</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008-09 are as follows:

Year Ended	Annual	Percentage
June 30,	Required	Contributed
<u>2009</u>	<u>\$ 882,000</u>	<u>71%</u>

Funded Status and Funding Progress – OPEB Plans

As of January 1, 2007, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrued liability (AAL) for benefits was \$12 million and the unfunded actuarial accrued liability (UAAL) was \$12 million.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2009

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designated to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Valuation Date	1/1/2007
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar Method
Remaining Amortization Period	30 years
Asset Valuation	Market Value Method
Actuarial Assumptions:	
Investment rate of return	5.0%
Discount rate	5.0%
Healthcare cost trend rate	
Medical	5.0%

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2009

NOTE 15 –SUBSEQUENT EVENT

On July 28, 2009 Governor Schwarzenegger signed a package of bills amending the 2008-09 and 2009-10 California State budgets. The budget amendments were designed to address the State's budget gap of \$24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009. The July budget package reduced, on a state-wide basis, \$1.6 billion in 2008-09 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs and required the amount associated with these programs that were "unallocated, unexpended, or not liquidated as of June 30, 2009" to revert to the State's General Fund. The July budget package also provided an appropriation in 2009-10 to backfill \$1.5 billion of these cuts to repay the 2008-09 reversion of the undistributed categorical program balances.

The District recorded the revenue and related receivable associated with its portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package prior to notification by the State that the 2009-10 re-appropriation should not be accrued. No adjustment has been made to reduce revenue and the related receivable in the financial statements as of June 30, 2009 because the amount of the District's portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package is not deemed to be material to the District's financial statements.

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Required Supplementary Information

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SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2009

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Pos (Neg)
Revenues				
Revenue Limit Sources	\$ 56,678,323	\$ 60,976,231	\$ 60,614,522	\$ (361,709)
Federal	3,348,209	4,184,119	4,824,461	640,342
Other State	9,422,308	9,546,068	9,695,816	149,748
Other Local	1,652,802	1,655,477	1,553,896	(101,581)
Total Revenues	71,101,642	76,361,895	76,688,695	326,800
Expenditures				
Certificated Salaries	33,696,301	34,137,755	34,485,876	(348,121)
Classified Salaries	10,241,961	10,355,960	10,387,837	(31,877)
Employee Benefits	12,952,744	13,014,952	12,650,677	364,275
Books and Supplies	2,703,450	8,904,230	3,196,601	5,707,629
Services and Other Operating Expenditures	6,639,550	8,112,788	6,854,467	1,258,321
Capital Outlay	1,122,081	762,634	755,736	6,898
Direct Support/Indirect Costs	(326,993)	(288,549)	(267,128)	(21,421)
Other Outgo	4,976,820	4,325,114	3,790,985	534,129
Total Expenditures	72,005,914	79,324,884	71,855,051	7,469,833
Excess (Deficiency) of Revenues Over (Under) Expenditures	(904,272)	(2,962,989)	4,833,644	7,796,633
Other Financing Sources and Uses				
Interfund Transfers In	14,300	14,300	14,300	-
Interfund Transfers Out	(706,235)	(890,607)	(2,145,396)	(1,254,789)
Other Sources	520,000	-	-	-
Total Other Financing Sources and Uses	(171,935)	(876,307)	(2,131,096)	(1,254,789)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(1,076,207)	(3,839,296)	2,702,548	6,541,844
Fund Balances, July 1, 2008	15,191,412	15,191,412	15,191,412	-
Fund Balances, June 30, 2009	\$ 14,115,205	\$ 11,352,116	\$ 17,893,960	\$ 6,541,844

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2009

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2007	\$ -	\$ 12,036,000	\$ 12,036,000	0%	\$ 41,229,000	29%

Supplementary Information Section

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SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2009

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
Liza Normandy	President	November 2010
Philip Weise	Vice President	November 2010
Maurice Goodman	Member	November 2012
Shirlee Hoch	Member	November 2010
Judith Bush	Member	November 2012

DISTRICT ADMINISTRATORS	
Name	Title
Howard Cohen, Ed. D	<i>Superintendent</i>
John Thompson, Ed. D	<i>Assistant Superintendent, Personnel</i>
Cheryl Milner, Ed. D.	<i>Associate Superintendent, Educational Services</i>
Ron Little, MBA	<i>Associate Superintendent, Business Services</i>
Adolfo Melara	<i>Associate Superintendent, ELL Programs & Student Learning Support</i>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2009

	Second Period Report	Annual Report
Elementary:		
Kindergarten	665	662
Grades One through Three	1,914	1,908
Grades Four through Six	1,838	1,836
Grades Seven and Eight	1,324	1,317
Home and Hospital	2	3
Special Education	273	276
Total Elementary	6,016	6,002
Secondary:		
Grades 9 through 12, regular classes	2,807	2,775
Continuation Education	69	69
Home and Hospital	2	4
Community Day Schools	17	23
Special Education	124	122
Total Secondary	3,019	2,993
Classes for Adults:		
Concurrently Enrolled	10	10
Not Concurrently Enrolled	616	649
Total Adult Classes	626	659
Total Average Daily Attendance	9,661	9,653
<u>Supplemental Instruction Hours</u>		<u>Hours of Attendance</u>
Elementary		85,659
Secondary		75,000
Total		160,659

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2009

Grade Level	1982-83 Actual Minutes	1986-87 Minutes Requirement	2008-09 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	35,920	36,000	46,125	180	Complied
Grade 1	48,312	50,400	52,100	180	Complied
Grade 2	48,312	50,400	52,100	180	Complied
Grade 3	48,312	50,400	52,100	180	Complied
Grade 4	48,312	54,000	52,100	180	Complied
Grade 5	48,312	54,000	52,100	180	Complied
Grade 6	49,860	54,000	62,925	180	Complied
Grade 7	49,860	54,000	62,925	180	Complied
Grade 8	49,860	54,000	62,925	180	Complied
Grade 9	63,440	64,800	65,864	180	Complied
Grade 10	63,440	64,800	65,864	180	Complied
Grade 11	63,440	64,800	65,864	180	Complied
Grade 12	63,440	64,800	65,864	180	Complied

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2009

General Fund	(Budget) 2010***	2009	2008	2007
Revenues and other financing sources	\$ 75,181,538	\$ 76,688,695	\$ 73,278,031	\$ 72,617,922
Expenditures	74,145,558	71,855,051	70,592,748	66,595,544
Other uses and transfers out	2,157,836	2,131,096	143,161	2,528,983
Total outgo	76,303,394	73,986,147	70,735,909	69,124,527
Change in fund balance (deficit)	(1,121,856)	2,702,548	2,542,122	3,493,395
Ending fund balance	\$ 16,772,104	\$ 17,893,960	\$ 15,191,412	\$ 12,649,290
Available reserves*	\$ 2,289,480	\$ 10,047,769	\$ 7,219,266	\$ 6,002,606
Available reserves as a percentage of total outgo	3.0%	13.6%	10.2%	8.7%
Total long-term debt	\$ 38,291,366	\$ 39,896,678	\$ 41,024,555	\$ 41,030,500
Average daily attendance at P-2**	9,040	9,035	8,989	8,947

The General Fund balance has increased by \$5,224,670 over the past two years. The fiscal year 200-10 adopted budget projects an increase of \$1,121,856. 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 decreased \$1,133,822 over the past two years.

* 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, includes special needs students served by San Mateo County Office of Education.

*** Adopted June 2009.

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2009

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	2008-09 Actual Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
National School Lunch	10.555	13391	\$ 1,241,178
National School Breakfast	10.553	13390	134,181
Total U.S. Department of Agriculture			<u>1,375,359</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	621,668
Title I, Part C, Migrant Education	84.011	13174	91,794
Title II, Part A, Teacher Quality	84.367	14341	414,126
Title II, Part D, Enhancing Education Technology	84.318	14334	133,996
Title III, Limited English Proficiency	84.365	10084	105,454
Title IV, Part A, Drug-Free Schools	84.186	14347	33,592
Title V, Part A, Innovative Education Strategies	84.298A	14354	8,919
Subtotal NCLB			<u>1,409,549</u>
Special Education Cluster (IDEA):			
IDEA, Basic Local Assistance Entitlement, Part B	84.027	13379	1,609,031
IDEA, Preschool Grants, Part B	84.173	13430	35,096
IDEA, Preschool Local Entitlement, Part B	84.027A	13682	59,793
IDEA, Preschool Staff Development, Part B	84.173A	13431	422
IDEA, Workability II, Transition Partnership	84.158	10006	46,419
ARRA - Basic Local Assistance Entitlement, Part B	84.391	15003	30,753
ARRA - Preschool Local Entitlement, Part B	84.392	15000	9,773
Subtotal IDEA Cluster			<u>1,791,287</u>
Carl Perkins Act:			
Vocational & Applied Technology Secondary	84.048	13924	49,431
Vocational Postsecondary and Adult II	84.048	13923	27,534
Adult Education and Family Literacy Act:			
Adult Basic Education	84.002A	14508	87,473
English Literacy and Civics Education	84.002A	14109	30,703
Adult Secondary Education	84.002	13978	15,702
Total U.S. Department of Education			<u>3,411,679</u>
U.S. Department of Health and Human Services:			
Passed through California Dept. of Education (CDE):			
Facilities Renovation & Repair	93.575	24861	18,031
CCDF School Age Resource	93.575	unknown	2,047
Child Development: Instructional Materials	93.575	23224	3,134
Medi-Cal Administrative Activities	93.778	10060	542,759
Medi-Cal Billing Option	93.778	10013	21,491
			<u>\$ 5,374,500</u>

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2009

There were no adjustments between the Annual Financial and Budget Report and the Audited Financial Statements in 2008-09.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2009

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.

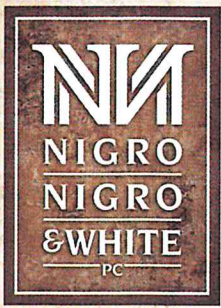
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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.

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Other Independent Auditors' Reports

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**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, 2009, and have issued our report thereon dated November 30, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered South San Francisco Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the South San Francisco Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the South San Francisco Unified School District's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

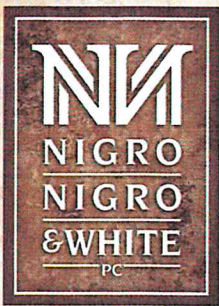
Compliance and Other Matters

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

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

Miguel Nigro & White, PC

San Diego, California
November 30, 2009



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**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, 2009. South San Francisco Unified School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of South San Francisco Unified School District's management. Our responsibility is to express an opinion on South San Francisco Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards; generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about South San Francisco Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on South San Francisco Unified School District's compliance with those requirements.

In our opinion, South San Francisco Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2009.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the South San Francisco Unified School District's internal control over compliance.

A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the Board, others within the entity, the California Department of Education, the State Controller's Office, 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.



San Diego, California
November 30, 2009



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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, 2009, and have issued our report thereon dated November 30, 2009. 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 2008-09*, 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	23	No (see below)
Continuation Education	10	Yes
Adult Education	9	Yes
Regional Occupational Centers and Programs	6	Not applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Community Day Schools	9	No (see below)
Morgan-Hart Class Size Reduction Program	7	Not applicable ¹

Description	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	12	1 ²
K-8 only	1	Not applicable ¹
Grades 9-12 only	1	Not applicable ¹
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not applicable ¹
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	4	Yes
Before School	5	Yes
Charter Schools:		
Contemporaneous Records of Attendance	1	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	3	Not applicable

¹ This program is not required to be audited per flexibility provisions in SBx3 4.

² The number of procedures to be performed was reduced per flexibility provisions in SBx3 4. Section 19828.3 procedures (b), (c), and (e) were not performed.

We did not perform testing for independent study or community day school because the ADA was under the level that requires testing.

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.

Nigro Nigro & White, PC

San Diego, California
November 30, 2009

Findings and Questioned Costs Section

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SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

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>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>No</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) 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>93.778</u>	<u>Medi-Cal Billing</u>
<u>84.027, 84.173, 84.158, 84.391, 84.392</u>	<u>Special Education Cluster (IDEA)</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>
Significant deficiency(ies) 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
For the Fiscal Year Ended June 30, 2009

Section II – Financial Statement Findings

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

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Assignments
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

There were no audit findings related to the financial statements in 2008-09.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

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., significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

There were no federal awards findings or questioned costs in 2008-09.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2009

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 2008-09

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2009

There were no findings or questioned costs in 2007-08.

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