

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2018

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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INDEPENDENT AUDITOR'S REPORT

Governing Board
South San Francisco Unified School District
South San Francisco, California

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South San Francisco Unified School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the District's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, 2018, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and Note 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 14, budgetary comparison schedules on pages 69 and 70, schedule of changes in the District's total OPEB liability and related ratios on page 71 schedule of the District's proportionate share of the net OPEB liability - MPP program on page 72, schedule of the District's proportionate share of the net pension liability on page 73, and the schedule of District contributions on page 74, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the South San Francisco Unified School District's basic financial statements. The accompanying supplementary information such as the combining and individual non-major fund financial statements and Schedule of Expenditures of Federal Awards, as required by *Title 2 U.S. Code of Federal Regulations (CFR) Part 200, Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards (Uniform Guidance)* and the other supplementary information as listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The accompanying supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 12, 2018, on our consideration of the South San Francisco Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely 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 effectiveness of South San Francisco Unified School District's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South San Francisco Unified School District's internal control over financial reporting and compliance.

Vavreck, Train, De & Co., LLP

Rancho Cucamonga, California
December 12, 2018



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This section of South San Francisco Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2018, with comparative information for the year ending June 30, 2017. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the District and its component units using the integrated approach as prescribed by Governmental Accounting Standards Board (GASB) Statement No. 34.

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

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, proprietary, and fiduciary.

The *Governmental Funds* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The *Fiduciary Funds* are prepared using the economic resources measurement focus and the accrual basis of accounting.

Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements is provided to explain the differences created by the integrated approach.

The Primary unit of the government is the South San Francisco Unified School District.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

These two statements report the District's Net Position and changes in them. Net Position is the difference between assets and deferred outflows of resources, and liabilities and deferred inflows of resources, which is one way to measure the District's financial health, or financial position. Over time, increases or decreases in the District's Net Position will serve as a useful indicator of whether the financial position of the District is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

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

In the *Statement of Net Position* and the *Statement of Activities*, the District reports all of its services in the following category:

Governmental Activities - This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities, and the on-going effort to improve and maintain buildings and sites. Property taxes, State income taxes, user fees, interest income, Federal, State, and local grants, as well as general obligation bonds, finance these activities.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

THE DISTRICT AS A TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities, scholarships, employee retiree benefits, and pensions. The District's fiduciary activities are reported in the *Statement of Fiduciary Net Position*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

FINANCIAL HIGHLIGHTS

Total Net Position decreased 31.7 percent over the course of the year. Overall revenues were \$117,451,849, \$16,711,264 less than expenses. The total cost of basic programs was \$134,163,113. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was just \$118,551,535. Average daily attendance (ADA) in grades K-12 decreased by 170, or 2.0 percent.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2018

THE DISTRICT AS A WHOLE

Net Position

The District's Net Position was \$36,054,873 for the fiscal year ended June 30, 2018. Of this amount, \$(11,521,223) was unrestricted. Restricted Net Position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use that Net Position for day-to-day operations. Our analysis below, in summary form, focuses on the Net Position (Table 1) and change in Net Position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2018	2017, as Restated
Assets		
Current and other assets	\$ 96,430,278	\$ 115,508,143
Long-term receivable	25,692,522	29,485,699
Capital assets	207,453,463	198,279,195
Total Assets	329,576,263	343,273,037
Deferred Outflows of Resources	33,158,257	19,494,671
Liabilities		
Current liabilities	6,838,187	7,213,010
Long-term obligations	211,779,879	213,564,318
Aggregate net pension liability	102,753,861	84,734,108
Total Liabilities	321,371,927	305,511,436
Deferred Inflows of Resources	5,307,720	4,490,135
Net Position		
Net investment of capital assets	30,173,053	26,666,352
Restricted	17,403,043	18,109,551
Unrestricted	(11,521,223)	7,990,234
Total Net Position	\$ 36,054,873	\$ 52,766,137

The \$(11,521,223) in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements - decreased by 244.2 percent (\$(11,521,233) compared to \$7,990,234 million).

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Changes in Net Position

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

Table 2

		Governmental Activities	
		2018	2017
Revenues			
Program revenues:			
Charges for services		\$ 1,391,404	\$ 1,645,859
Operating grants and contributions		14,220,174	15,217,440
General revenues:			
Federal and State aid not restricted		8,017,454	8,578,386
Property taxes		92,632,764	89,998,930
Other general revenues		1,190,053	2,680,416
Total Revenues		117,451,849	118,121,031
Expenses			
Instruction		74,161,750	69,969,122
Instruction-related		15,499,564	13,281,374
Pupil services		14,544,324	12,957,455
Administration		5,279,668	5,024,855
Plant services		13,763,162	11,756,479
Other		10,914,645	11,331,184
Total Expenses		134,163,113	124,320,469
Change in Net Position		\$ (16,711,264)	\$ (6,199,438)

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Governmental Activities

As reported in the *Statement of Activities* on page 16, the cost of all of our governmental activities this year was \$134,163,113. The amount that our taxpayers ultimately financed for these activities through local taxes was only \$92,632,764. The District also collected \$1,391,404 in charges for services from these that benefited from the programs. Other governmental agencies and organizations subsidized certain programs with grants and contributions of \$14,220,174. We paid for the remaining "public benefit" portion of our governmental activities with \$1,190,053 in unrestricted State and Federal funds, and with other revenues and other entitlements.

In Table 3, we have presented the cost and net cost of each of the District's largest functions: instruction-related, pupil services, administration, plant services, and all other functions. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

Table 3

	Total Cost of Services		Net Cost of Services	
	2018	2017	2018	2017
Instruction	\$ 74,161,750	\$ 69,969,122	\$ 65,875,465	\$ 61,483,469
Instruction-related	15,499,564	13,281,374	13,791,333	11,643,311
Pupil services	14,544,324	12,957,455	11,388,465	9,939,881
Administration	5,279,668	5,024,855	4,822,401	4,557,858
Plant services	13,763,162	11,756,479	13,657,348	11,126,673
Other	10,914,645	11,331,184	9,016,523	8,705,978
Total	\$ 134,163,113	\$ 124,320,469	\$ 118,551,535	\$ 107,457,170

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$91,690,449, which is a decrease of \$18,717,781 from last year (Table 4).

Table 4

	Balances and Activity			
	July 1, 2017	Revenues	Expenditures	June 30, 2018
General Fund	\$ 56,503,202	\$ 103,656,768	\$ 110,304,368	\$ 49,855,602
Child Development Fund	926,816	2,876,303	2,855,247	947,872
Building Fund	18,358,444	190,361	8,606,751	9,942,054
Special Reserve Fund for Capital Outlay Projects	21,251,763	4,161,496	7,655,656	17,757,603
Adult Education Fund	1,636,662	1,460,265	1,460,265	1,636,662
Cafeteria Fund	2,261,804	2,854,845	3,040,068	2,076,581
Capital Facilities Fund	1,499,547	1,409,898	72,095	2,837,350
State School Building Fund	-	-	-	-
County School Facilities Fund	1	1	-	2
Bond Interest and Redemption Fund	7,870,340	7,731,821	9,064,415	6,537,746
Debt Service Fund for Blended Component Units	99,651	3,794,414	3,795,088	98,977
Total	\$ 110,408,230	\$ 128,136,172	\$ 146,853,953	\$ 91,690,449

The primary reasons for these increases/decreases are:

- The General Fund balance decrease of \$6,647,600 is due to employee salary schedule increases, multiple large one-time projects (i.e. security cameras, roof replacement, pool renovation, solar panels, Educator Effectiveness Grant professional development, etc.) and transfers to other funds.
- Child Development Fund balance increased by \$21,056 due to receiving new local grants.
- Building Fund balance decrease of \$8,416,390 is due to the District's engagement in multiple site repair and modernization projects in accordance with the specifications of the bond funds.
- Special Reserve Fund for Capital Outlay Projects Fund balance decrease of \$3,494,160 is due to one-time projects (i.e. speakers/paging system, athletic fields, tennis courts, data center, etc.) and Pass-thru funds from Opterra Project.
- Adult Education Fund balance did not change in 2017-18.
- Cafeteria Fund decreased of \$185,223 is due to one-time large equipment purchases.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

- Capital Facilities Fund increase of \$1,337,803 due to increased developer fees collected from local building projects.
- Bond Interest and Redemption Fund balance decreased \$1,332,594. This fund is relatively stable as it serves as a holding fund.
- Debt Service Fund for Blended Component Units Fund decreased by \$674. This fund is relatively stable as it serves as a holding fund.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 30, 2018. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 69).

- The District received its share of the proceeds (\$3.1 million) from the City of South San Francisco for the sale of RDA property and transferred it to Fund 40 as required by law.
- Contributions to Deferred Maintenance of \$2.3 million is forgo in 2017-18.
- Budgeted expenditures increased by \$3 million as carry over funds became available and position additions were made.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2018, the District had \$207,453,463 in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of approximately \$9,174,268, or 4.6 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2018	2017
Land and construction in progress	\$ 64,367,803	\$ 93,741,316
Buildings and improvements	135,345,016	100,487,660
Furniture and equipment	7,740,644	4,050,219
Total	\$ 207,453,463	\$ 198,279,195

Additional information can be found in Note 5 to the financial statements.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Long-Term Obligations

At June 30, 2018, the District had \$211,779,879 in long-term obligations outstanding versus \$213,564,318 last year, a decrease of 0.8 percent. Those obligations consisted of:

Table 6

	Governmental Activities	
	2018	2017, as Restated
General obligation bonds (net of premium)	\$ 162,634,040	\$ 162,617,910
Revenue bonds (net premium)	22,822,853	25,623,566
Certificate of participation	48,188	140,745
Lease financing	3,785,000	4,085,000
Compensated absences	699,847	663,197
Net OPEB obligation	21,789,951	20,433,900
Total	\$ 211,779,879	\$ 213,564,318

Additional information can be found in Note 9 to the financial statements.

Net Pension Liability (NPL)

At year-end, the District had an aggregate net pension liability of \$102,753,861 as a result of the adoption of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*. Detailed information regarding the plans is disclosed in Note 12 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2018 year, the governing board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. One-time State Mandate Discretionary funds for 2017-2018 are budgeted.
2. Carryover of unspent categorical funds from prior year is budgeted.
3. Federal and State income will remain relatively flat.
4. Other revenue categories were also adjusted as grants became available from the Federal, State, and local agencies.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2018

Expenditures are based on the following forecasts:

1. Increase in employee benefits for State Teacher Retirement System (CalSTRS) from 12.58 percent to 14.43 percent; and Public Employee Retirement System (CalPERS) from 13.89 percent to 15.53 percent of the employees' gross payroll.
2. Budgeted expenditures were adjusted in accordance to the increase in categorical program revenues.
3. Budget for unspent categorical programs (entitlements) with fund balance from the prior year were increased.
4. Other expenditure categories were adjusted to cover any unexpected changes during the year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Ted O, Assistant Superintendent of Business Services, at South San Francisco Unified School District, 398 B Street, South San Francisco, California 94080.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION

JUNE 30, 2018

	Governmental Activities
ASSETS	
Deposits and investments	\$ 93,270,924
Receivables	2,730,102
Long-term receivable	25,692,522
Prepaid expenses	319,850
Stores inventories	109,402
Capital assets	
Land and construction in process	64,367,803
Other capital assets	243,257,089
Less: Accumulated depreciation	(100,171,429)
Total Capital Assets	<u>207,453,463</u>
Total Assets	<u><u>329,576,263</u></u>
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	473,825
Deferred outflows of resources related to pensions	32,684,432
Total Deferred Outflows of Resources	<u><u>33,158,257</u></u>
LIABILITIES	
Accounts payable	4,132,975
Accrued interest payable	2,098,358
Unearned revenue	606,854
Long-term obligations	
Current portion of long-term obligations other than pensions	3,118,188
Noncurrent portion of long-term obligations other than pensions	208,661,691
Total Long-Term Obligations	<u>211,779,879</u>
Aggregate net pension liability	<u>102,753,861</u>
Total Liabilities	<u><u>321,371,927</u></u>
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>5,307,720</u>
NET POSITION	
Net investment of capital assets	30,173,053
Restricted for:	
Debt service	4,538,365
Capital projects	2,837,352
Educational programs	5,419,034
Other activities	4,608,292
Unrestricted	<u>(11,521,223)</u>
Total Net Position	<u><u>\$ 36,054,873</u></u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Functions/Programs	Expenses	Program Revenues		Net (Expenses)
		Charges for Services and Sales	Operating Grants and Contributions	Revenues and Changes in Net Position
Governmental Activities:				Governmental Activities
Instruction	\$ 74,161,750	\$ 118,252	\$ 8,168,033	\$ (65,875,465)
Instruction-related activities:				
Supervision of instruction	3,914,164	3,659	508,593	(3,401,912)
Instructional library, media, and technology	2,801,740	7,093	52,160	(2,742,487)
School site administration	8,783,660	26,035	1,110,691	(7,646,934)
Pupil services:				
Home-to-school transportation	1,957,655	6	358	(1,957,291)
Food services	2,997,286	669,657	1,680,657	(646,972)
All other pupil services	9,589,383	16,149	789,032	(8,784,202)
Administration:				
Data processing	104,503	-	-	(104,503)
All other administration	5,175,165	35,637	421,630	(4,717,898)
Plant services	13,763,162	4,197	101,617	(13,657,348)
Community services	134,756	-	-	(134,756)
Interest on long-term obligations	7,447,142	-	-	(7,447,142)
Other outgo	3,332,747	510,719	1,387,403	(1,434,625)
Total Governmental Activities	\$ 134,163,113	\$ 1,391,404	\$ 14,220,174	(118,551,535)
General revenues and subventions:				
				81,038,408
Property taxes, levied for general purposes				7,661,738
Property taxes, levied for debt service				3,932,618
Taxes levied for other specific purposes				8,017,454
Federal and State aid not restricted to specific purposes				1,172,778
Interest and investment earnings				17,275
Miscellaneous				
Subtotal, General Revenues				101,840,271
Change in Net Position				(16,711,264)
Net Position - Beginning, as Restated				52,766,137
Net Position - Ending				\$ 36,054,873

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2018

	General Fund	Child Development Fund	Building Fund
ASSETS			
Deposits and investments	\$ 51,939,295	\$ 1,594,008	\$ 11,203,007
Receivables	1,429,482	655,025	50,065
Due from other funds	1,852,053	-	-
Prepaid expenditures	310,145	-	-
Stores inventories	67,742	-	-
Total Assets	\$ 55,598,717	\$ 2,249,033	\$ 11,253,072
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 2,052,749	\$ 110,808	\$ 1,252,866
Due to other funds	3,317,504	956,361	58,152
Unearned revenue	372,862	233,992	-
Total Liabilities	5,743,115	1,301,161	1,311,018
Fund Balances:			
Nonspendable	410,987	-	-
Restricted	5,419,034	947,872	9,942,054
Assigned	34,442,080	-	-
Unassigned	9,583,501	-	-
Total Fund Balances	49,855,602	947,872	9,942,054
Total Liabilities and Fund Balances	\$ 55,598,717	\$ 2,249,033	\$ 11,253,072

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

Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
\$ 14,987,036	\$ 13,547,578	\$ 93,270,924
64,131	531,399	2,730,102
3,143,130	247,901	5,243,084
-	9,705	319,850
-	41,660	109,402
<u>\$ 18,194,297</u>	<u>\$ 14,378,243</u>	<u>\$ 101,673,362</u>

\$ 436,694	\$ 279,858	\$ 4,132,975
-	911,067	5,243,084
-	-	606,854
<u>436,694</u>	<u>1,190,925</u>	<u>9,982,913</u>

-	52,823	463,810
-	13,134,495	29,443,455
17,757,603	-	52,199,683
-	-	9,583,501
<u>17,757,603</u>	<u>13,187,318</u>	<u>91,690,449</u>

<u>\$ 18,194,297</u>	<u>\$ 14,378,243</u>	<u>\$ 101,673,362</u>
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SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION JUNE 30, 2018

Total Fund Balance - Governmental Funds **\$ 91,690,449**

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

Capital assets used in governmental activities are not financial resources
and, therefore, are not reported as assets in governmental funds.

The cost of capital assets is	\$ 307,624,892	
Accumulated depreciation is	<u>(100,171,429)</u>	
Net Capital Assets		207,453,463

Deferred charges on refunding (the difference between the reacquisition
price and net carrying amount of refunded debt) are capitalized and
amortized over the remaining life of the new or old debt (whichever is
shorter) and are included with governmental activities. 473,825

Receivables related to South San Francisco Unified School District Schools
Facilities Financing Authority are not received in the near term (within a
year) and therefore, are not reported as receivable in the governmental
funds. 25,692,522

Deferred outflows of resources related to pensions represent a consumption
of net position in a future period and is not reported in the District's funds.

Deferred outflows of resources related to pensions at year-end consist of:

Pension contributions subsequent to measurement date	9,545,010	
Net change in proportionate share of net pension liability	2,941,950	
Difference between projected and actual earning on pension plan liability	981,711	
Difference between expected and actual experience in the measure of the total pension liability	1,291,740	
Changes of assumptions	<u>17,924,021</u>	
Total Deferred Outflows of Resources Related to Pensions		32,684,432

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION (CONTINUED) JUNE 30, 2018

Deferred Inflows of resources related to pensions represent an acquisition of net position that applies to a future period and is not reported in the District's funds. Deferred inflows of resources related to pensions at year-end consists of:

Net change in proportionate share of net pension liability	\$	(1,695,557)	
Difference between projected and actual earning on pension plan liability		(1,980,816)	
Difference between expected and actual experience in the measurement of the total pension liability		(1,297,222)	
Changes of assumptions		<u>(334,125)</u>	
Total Deferred Inflows of Resources Related to Pensions	\$		(5,307,720)

Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds. (102,753,861)

In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred. (2,098,358)

Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.

Long-term obligations at year-end consist of:

General obligation bonds	151,464,061
Revenue bonds	21,980,000
Certificates of participation	48,188
Unamortized premium on issuance	10,419,040
Lease financing	3,785,000
Compensated absences (vacation)	699,847
Net other postemployment benefits (OPEB) liability	21,789,951

In addition, the District has issued 'capital appreciation' general obligation bonds. The accretion of interest unmatured on the the general obligation bonds to date is:

	<u>1,593,792</u>	
Total Long-Term Obligations		<u>(211,779,879)</u>
Total Net Position - Governmental Activities		<u>\$ 36,054,873</u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2018

	General Fund	Child Development Fund	Building Fund
REVENUES			
Local Control Funding Formula	\$ 86,043,944	\$ -	\$ -
Federal sources	3,685,927	220,714	-
Other State sources	7,575,039	917,082	-
Other local sources	6,338,557	1,738,507	190,361
Total Revenues	<u>103,643,467</u>	<u>2,876,303</u>	<u>190,361</u>
EXPENDITURES			
Current			
Instruction	58,864,888	1,899,055	-
Instruction-related activities:			
Supervision of instruction	3,541,419	736	-
Instructional library, media, and technology	2,687,102	-	-
School site administration	6,979,406	745,615	-
Pupil services:			
Home-to-school transportation	1,670,366	-	-
Food services	-	-	-
All other pupil services	8,585,553	-	-
Administration:			
Data processing	104,503	-	-
All other administration	4,702,526	71,984	-
Plant services	10,439,546	124,556	620,465
Community services	130,550	-	-
Other outgo	3,331,247	-	-
Facility acquisition and construction	4,824,563	-	7,986,286
Debt service			
Principal	392,557	-	-
Interest and other	117,524	-	-
Total Expenditures	<u>106,371,750</u>	<u>2,841,946</u>	<u>8,606,751</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(2,728,283)</u>	<u>34,357</u>	<u>(8,416,390)</u>
Other Financing Sources (Uses)			
Transfers in	13,301	-	-
Transfers out	(3,932,618)	(13,301)	-
Net Financing Sources (Uses)	<u>(3,919,317)</u>	<u>(13,301)</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	(6,647,600)	21,056	(8,416,390)
Fund Balance - Beginning	56,503,202	926,816	18,358,444
Fund Balance - Ending	<u>\$ 49,855,602</u>	<u>\$ 947,872</u>	<u>\$ 9,942,054</u>

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

Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 50,695	\$ 86,094,639
-	2,024,616	5,931,257
-	1,264,674	9,756,795
228,878	10,118,082	18,614,385
228,878	13,458,067	120,397,076
-	699,192	61,463,135
-	114,893	3,657,048
-	-	2,687,102
-	445,290	8,170,311
-	-	1,670,366
-	2,914,664	2,914,664
-	29,334	8,614,887
-	-	104,503
-	216,171	4,990,681
6,500	133,978	11,325,045
-	-	130,550
-	1,500	3,332,747
7,649,156	18,906	20,478,911
-	2,790,000	3,182,557
-	6,274,826	6,392,350
7,655,656	13,638,754	139,114,857
(7,426,778)	(180,687)	(18,717,781)
3,932,618	3,793,177	7,739,096
-	(3,793,177)	(7,739,096)
3,932,618	-	-
(3,494,160)	(180,687)	(18,717,781)
21,251,763	13,368,005	110,408,230
\$ 17,757,603	\$ 13,187,318	\$ 91,690,449

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2018

Total Net Change in Fund Balances - Governmental Funds **\$ (18,717,781)**

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

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

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

Capital outlays	\$ 18,753,516	
Depreciation expense	<u>(9,576,315)</u>	
Net expense adjustment		9,177,201

Loss on disposal of capital assets is reported in the government-wide Statement of Net Assets, but is not recorded in the governmental funds. (2,933)

In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year. (4,109,638)

In the governmental funds, OPEB costs are based on employer contributions made to OPEB plans during the year. However, in the Statement of Activities, OPEB expense is the net effect of all changes in the deferred outflows, deferred inflows and net OPEB liability during the year. (1,356,051)

In the Statement of Activities, certain operating expenses - compensated absences (vacations) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than amounts used by \$36,650. (36,650)

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued FOR THE YEAR ENDED JUNE 30, 2018

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:

General obligation bonds	\$ 200,000
Revenue bonds	2,590,000
Certificates of participation	92,557
Lease financing	300,000

Under the modified basis of accounting used in the governmental funds, expenditure are not recognized for transactions that are normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net change for the following balance:

Amortization of debt premium	630,380
Amortization of deferred amount on refunding	(1,064,114)

The collection of tax assessments are revenues in the governmental funds, but it reduces the long-term receivable in the Statement of Net Position and does not affect the Statement of Activities.

(3,793,177)

Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditures in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The interest on the general obligation bonds decreased by \$14,739. Additionally, \$635,797 of accumulated interest was accreted on the District's "capital appreciation" general obligation bonds and bond anticipation notes.

(621,058)

Change in Net Position of Governmental Activities

\$ (16,711,264)

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF NET POSITION JUNE 30, 2018

	Scholarship Trust	Agency Funds
ASSETS		
Deposits and investments	\$ 473,175	\$ 769,645
Receivables	2,069	-
Stores inventories	-	20,687
Total Assets	<u>475,244</u>	<u>\$ 790,332</u>
LIABILITIES		
Due to student groups	-	\$ 790,332
NET POSITION		
Restricted	<u>\$ 475,244</u>	

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS STATEMENT OF CHANGES IN NET POSITION FOR THE YEAR ENDED JUNE 30, 2018

	Scholarship Trust
ADDITIONS	
Interest	<u>\$ 6,561</u>
DEDUCTIONS	
Other expenditures	<u>1,500</u>
Change in Net Position	5,061
Net Position - Beginning	<u>470,183</u>
Net Position - Ending	<u><u>\$ 475,244</u></u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The South San Francisco Unified School District was unified on July 1, 1960 under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates nine elementary schools, three middle schools, two comprehensive high schools, and one continuation school.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For South San Francisco Unified School District, this includes general operations, food service, and student related activities of the District.

Component Units

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 may be 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. For financial reporting purposes, the component units described below have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity*, and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District.

The South San Francisco Unified School District Schools Financing Authority's (the Authority) financial activity is presented in the financial statements as the Debt Service Fund for Blended Component Units. Revenue Bonds issued by the Authority are included as long-term obligations in the government-wide financial statements.

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all districts. It is used to account for the ordinary operations of the District. All transactions except those accounted for in another fund are accounted for in this fund.

Under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, Fund 14, Deferred Maintenance Fund does not currently meet the definition of special revenue funds as these funds are no longer primarily composed of restricted or committed revenue sources.

Two funds currently defined as special revenue funds in the California State Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects is not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

As the District has not taken formal action to commit the flexed revenues formerly restricted to these programs to the continued operation of the original programs, the revenues within this funds would be considered to be available for general educational purposes, resulting in Fund 14, Deferred Maintenance Fund, being combined with the General Fund for presentation in these audited financial statements.

As a result, the General Fund reflects an increase in fund balance of \$19,156,907.

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued.

Special Reserve Fund for Capital Outlay Projects The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of General Fund monies for capital outlay purposes (*Education Code* Section 42840).

Non-Major Governmental Funds

Special Revenue Funds The Special Revenue funds are used to account for the proceeds from specific revenue sources (other than trusts, major capital projects, or debt service) that are restricted or committed to the financing of particular activities, that compose a substantial portion of the inflows of the fund, and that are reasonably expected to continue. Additional resources that are restricted, committed, or assigned to the purpose of the fund may also be reported in the fund.

Adult Education Fund The Adult Education Fund is used to account separately for Federal, State, and local revenues that are restricted and committed for adult education programs and is to be expended for adult education purposes only.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

Capital Project Funds The Capital Project funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approval (*Education Code* Sections 17620-17626 and *Government Code* Section 65995 et seq.). Expenditures are restricted to the purposes specified in *Government Code* Sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

State School Building Lease-Purchase Fund The State School Building Lease Purchase Fund is used primarily to account separately for State apportionments for the reconstruction, remodeling, or replacement of existing school buildings or the acquisition of new school sites and buildings, as provided in the Leroy F. Greene State School Building Lease-Purchase Law of 1976 (*Education Code* Section 17000 et seq.).

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), the 2004 State School Facilities Fund (Proposition 55), the 2006 State Schools Facilities Fund (Proposition 1D), or the 2013 State School Facilities Fund (Proposition 51) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

Debt Service Funds The Debt Service funds are used to account for the accumulation of resources for, and the payment of, principal and interest on general long-term obligations.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a district (*Education Code* Sections 15125-15262).

Debt Service Fund for Blended Component Units The Debt Service Fund for Blended Component Units is used to account for the accumulation of resources for the payment of principal and interest on bonds issued by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

Fiduciary Funds Fiduciary funds are used to account for assets held in trustee or agent capacity for others that cannot be used to support the District's own programs. The fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District's trust fund accounts for scholarship activity. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide *Statement of Activities* presents a comparison between expenses, both direct and indirect, of the District and for each governmental function, and excludes fiduciary activity. 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*, except for depreciation. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net Position should be reported as restricted when constraints placed on Net Position are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The Net Position restricted for other activities result from special revenue funds, and the internal service fund and the restrictions on their use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column. The internal service fund is presented in a single column on the face of the proprietary fund statements.

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balances reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Unearned Revenue Unearned revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for unearned revenue is removed from the balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as unearned revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as unearned revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the entity-wide statements.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Investments

Investments held at June 30, 2018, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the County investment pool are determined by the program sponsor.

Prepaid Expenditures (Expenses)

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

Stores Inventories

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

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. Capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

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

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

Depreciation is computed using the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, five to 50 years; equipment, two to 15 years.

Interfund Balances

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide Statement of Net Position. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year-end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

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

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

Debt Issuance Costs, Premiums, and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities. Debt premiums and discounts, as well as issuance costs related to prepaid insurance costs are amortized over the life of the bonds using the straight-line method.

In governmental fund financial statements, bond premiums and discounts, as well as debt issuance costs are recognized in the current period. The face amount of the debt is reported as other financing sources. Premiums received on debt issuance are also reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds, are reported as debt service expenditures.

Deferred Outflows/Inflows of Resources

In addition to assets, the Statement of Net Position also reports deferred outflows of resources. This separate financial statement element represents a consumption of Net Position that applies to a future period and so will not be recognized as an expense or expenditure until then. The District reports deferred outflows of resources for the deferred charges on refunding debt and for pension related items.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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JUNE 30, 2018

In addition to liabilities, the statement of net position reports a separate section for deferred inflows of resources. This separate financial statement element represents an acquisition of net position that applies to a future period and so will not be recognized as revenue until then. The District reports deferred inflows of resources for pension related items.

Pensions

For purposes of measuring the net pension liability and deferred outflows/inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the California State Teachers Retirement System (CalSTRS) and the California Public Employees' Retirement System (CalPERS) plan for schools (Plans) and additions to/deductions from the Plans' Fiduciary Net Position have been determined on the same basis as they are reported by CalSTRS and CalPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Member contributions are recognized in the period in which they are earned. Investments are reported at fair value.

Postemployment Benefits Other Than Pensions (OPEB)

For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the District Plan and the CalSTRS Medicare Premium Payment (MPP) Program and additions to/deductions from the District Plan and the MPP's fiduciary net position have been determined on the same basis as they are reported by the District Plan and the MPP. For this purpose, the District Plan and the MPP recognizes benefit payments when due and payable in accordance with the benefit terms. Investments are reported at fair value, except for money market investments and participating interest-earning investment contracts that have a maturity at the time of purchase of one year or less, which are reported at cost.

Fund Balances - Governmental Funds

As of June 30, 2018, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

The governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than three percent of General Fund expenditures and other financing uses.

Net Position

Net Position represents the difference between assets and liabilities. Net Position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net Position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted Net Position is available. The government-wide financial statements report \$17,403,043 of restricted Net Position restricted by enabling legislation.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are food sales. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Riverside bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Change in Accounting Principles

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The primary objective of this Statement is to improve accounting and financial reporting by State and local governments for postemployment benefits other than pensions (other postemployment benefits or OPEB). It also improves information provided by State and local governmental employers about financial support for OPEB that is provided by other entities. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces the requirements of Statements No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*, for OPEB. Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, establishes new accounting and financial reporting requirements for OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In March 2017, the GASB issued Statement No. 85, *Omnibus 2017*. The objective of this Statement is to address practice issues that have been identified during implementation and application of certain GASB statements. This Statement addresses a variety of topics including issues related to blending component units, goodwill, fair value measurement and application, and postemployment benefits (pensions and other postemployment benefits [OPEB]). Specifically, this Statement addresses the following topics:

- Blending a component unit in circumstances in which the primary government is a business-type activity that reports in a single column for financial statement presentation;
- Reporting amounts previously reported as goodwill and "negative" goodwill;
- Classifying real estate held by insurance entities;
- Measuring certain money market investments and participating interest-earning investment contracts at amortized cost;
- Timing of the measurement of pension or OPEB liabilities and expenditures recognized in financial statements prepared using the current financial resources measurement focus;

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

- Recognizing on behalf payments for pensions or OPEB in employer financial statements;
- Presenting payroll-related measures in required supplementary information for purposes of reporting by OPEB plans and employers that provide OPEB;
- Classifying employer-paid member contributions for OPEB;
- Simplifying certain aspects of the alternative measurement method for OPEB; and
- Accounting and financial reporting for OPEB provided through certain multiple-employer defined benefit OPEB plans.

The District has implemented the provisions of this Statement as of June 30, 2018.

In May 2017, the GASB issued Statement No. 86, *Certain Debt Extinguishment Issues*. The primary objective of this Statement is to improve consistency in accounting and financial reporting for in-substance defeasance of debt by providing guidance for transactions in which cash and other monetary assets acquired with only existing resources—resources other than the proceeds of refunding debt—are placed in an irrevocable trust for the sole purpose of extinguishing debt. This Statement also improves accounting and financial reporting for prepaid insurance on debt that is extinguished and notes to financial statements for debt that is defeased in substance.

The District has implemented the provisions of this Statement as of June 30, 2018.

New Accounting Pronouncements

In November 2016, the GASB issued Statement No. 83, *Certain Asset Retirement Obligations*. This Statement addresses accounting and financial reporting for certain asset retirement obligations (AROs). An ARO is a legally enforceable liability associated with the retirement of a tangible capital asset. A government that has legal obligations to perform future asset retirement activities related to its tangible capital assets should recognize a liability based on the guidance in this Statement.

This Statement establishes criteria for determining the timing and pattern of recognition of a liability and a corresponding deferred outflow of resources for AROs. This Statement requires that recognition occur when the liability is both incurred and reasonably estimable. The determination of when the liability is incurred should be based on the occurrence of external laws, regulations, contracts, or court judgments, together with the occurrence of an internal event that obligates a government to perform asset retirement activities. Laws and regulations may require governments to take specific actions to retire certain tangible capital assets at the end of the useful lives of those capital assets, such as decommissioning nuclear reactors and dismantling and removing sewage treatment plants. Other obligations to retire tangible capital assets may arise from contracts or court judgments. Internal obligating events include the occurrence of contamination, placing into operation a tangible capital asset that is required to be retired, abandoning a tangible capital asset before it is placed into operation, or acquiring a tangible capital asset that has an existing ARO.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In January 2017, the GASB issued Statement No. 84, *Fiduciary Activities*. The objective of this Statement is to improve guidance regarding the identification of fiduciary activities for accounting and financial reporting purposes and how those activities should be reported.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

This Statement establishes criteria for identifying fiduciary activities of all State and local governments. The focus of the criteria generally is on (1) whether a government is controlling the assets of the fiduciary activity and (2) the beneficiaries with whom a fiduciary relationship exists. Separate criteria are included to identify fiduciary component units and postemployment benefit arrangements that are fiduciary activities.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2018. Early implementation is encouraged.

In June 2017, the GASB issued Statement No. 87, *Leases*. The objective of this Statement is to better meet the information needs of financial statement users by improving accounting and financial reporting for leases by governments. This Statement increases the usefulness of governments' financial statements by requiring recognition of certain lease assets and liabilities for leases that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. It establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under this Statement, a lessee is required to recognize a lease liability and an intangible right-to-use lease asset, and a lessor is required to recognize a lease receivable and a deferred inflow of resources, thereby enhancing the relevance and consistency of information about governments' leasing activities.

The requirements of this Statement are effective for the reporting periods beginning after December 15, 2019. Early implementation is encouraged.

In April 2018, the GASB issued Statement No. 88, *Certain Disclosures Related to Debt, including Direct Borrowings and Direct Placements*. The primary objective of this Statement is to improve the information that is disclosed in notes to government financial statements related to debt, including direct borrowings and direct placements. It also clarifies which liabilities governments should include when disclosing information related to debt.

This Statement defines debt for purposes of disclosure in notes to financial statements as a liability that arises from a contractual obligation to pay cash (or other assets that may be used in lieu of cash) in one or more payments to settle an amount that is fixed at the date the contractual obligation is established.

This Statement requires that additional essential information related to debt be disclosed in notes to financial statements, including unused lines of credit; assets pledged as collateral for the debt; and terms specified in debt agreements related to significant events of default with finance-related consequences, significant termination events with finance-related consequences, and significant subjective acceleration clauses.

For notes to financial statements related to debt, this Statement also requires that existing and additional information be provided for direct borrowings and direct placements of debt separately from other debt.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2018. Early implementation is encouraged.

In June 2018, the GASB issued Statement No. 89, *Accounting for Interest Cost Incurred Before the End of a Construction Period*. The objectives of this Statement are (1) to enhance the relevance and comparability of information about capital assets and the cost of borrowing for a reporting period and (2) to simplify accounting for interest cost incurred before the end of a construction period.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

This Statement establishes accounting requirements for interest cost incurred before the end of a construction period. Such interest cost includes all interest that previously was accounted for in accordance with the requirements of paragraphs 5–22 of Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which are superseded by this Statement. This Statement requires that interest cost incurred before the end of a construction period be recognized as an expense in the period in which the cost is incurred for financial statements prepared using the economic resources measurement focus. As a result, interest cost incurred before the end of a construction period will not be included in the historical cost of a capital asset reported in a business-type activity or enterprise fund.

This Statement also reiterates that in financial statements prepared using the current financial resources measurement focus, interest cost incurred before the end of a construction period should be recognized as an expenditure on a basis consistent with governmental fund accounting principles.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2019. Earlier application is encouraged. The requirements of this Statement should be applied prospectively.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2018, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 93,270,924
Fiduciary funds	1,242,820
Total Deposits and Investments	<u>\$ 94,513,744</u>

Deposits and investments as of June 30, 2018, consist of the following:

Cash on hand and in banks	\$ 2,596,001
Cash in revolving	34,558
Investments	91,883,185
Total Deposits and Investments	<u>\$ 94,513,744</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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Investment 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.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

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

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 does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The District manages its exposure to interest rate risk by investing in the San Mateo County Investment Pool and having the Pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Specific Identification

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

<u>Investment Type</u>	<u>Reported Amount</u>	<u>Average Maturity in Days</u>
San Mateo County Investment Pool	\$ 91,774,076	332
Local Agency Investment Fund	10,132	193
First American Treasury Obligations, Class D	98,977	20
Total	<u>\$ 91,883,185</u>	

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 District's investment in the San Mateo County Investment Pool is rated AAA by Standard & Poor's. In addition, the First American Treasury Obligation Money Market Funds is rated Aaa by Moody's Investor Service. The investment with Local Agency Investment Fund is not required to be rated, nor have been rated as of June 30, 2018.

Custodial Credit Risk - Deposits

This 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 agency. 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, 2018, the District's bank balance of \$2,020,499 was exposed to custodial credit risk because it was uninsured and uncollateralized.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 3 - FAIR VALUE MEASUREMENTS

The District categorizes the fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value. The following provides a summary of the hierarchy used to measure fair value:

Level 1 - Quoted prices in active markets for identical assets that the District has the ability to access at the measurement date. Level 1 assets may include debt and equity securities that are traded in an active exchange market and that are highly liquid and are actively traded in over-the-counter markets.

Level 2 - Observable inputs other than Level 1 prices such as quoted prices for similar assets in active markets, quoted prices for identical or similar assets in markets that are not active, or other inputs that are observable, such as interest rates and curves observable at commonly quoted intervals, implied volatilities, and credit spreads. For financial reporting purposes, if an asset has a specified term, a Level 2 input is required to be observable for substantially the full term of the asset.

Level 3 - Unobservable inputs should be developed using the best information available under the circumstances, which might include the District's own data. The District should adjust that data if reasonably available information indicates that other market participants would use different data or certain circumstances specific to the District are not available to other market participants.

Uncategorized - Investments in the San Mateo County Treasury Investment Pool and Local Agency Investment Funds/State Investment Pools are not measured using the input levels above because the District's transactions are based on a stable net asset value per share. All contributions and redemptions are transacted at \$1.00 net asset value per share.

The District's fair value measurements are as follows at June 30, 2018:

Investment Type	Reported Amount	Fair Value Measurements Using	
		Level 2 Inputs	Uncategorized
San Mateo County Investment Pool	\$ 91,774,076	\$ -	\$ 91,774,076
Local Agency Investment Fund	10,132	-	10,132
First American Treasury Obligations, Class D	98,977	98,977	-
Total	<u>\$ 91,883,185</u>	<u>\$ 98,977</u>	<u>\$ 91,784,208</u>

All assets have been valued using a market approach, with quoted market prices.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 4 - RECEIVABLES

Receivables at June 30, 2018, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Child Development Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects
Federal Government				
Categorical aid	\$ 456,892	\$ 1,067	\$ -	\$ -
State Government				
Categorical aid	69,169	-	-	-
Lottery	372,446	-	-	-
Local Government				
Interest	223,933	4,299	50,065	64,131
Other Local Sources	307,042	649,659	-	-
Total	<u>\$ 1,429,482</u>	<u>\$ 655,025</u>	<u>\$ 50,065</u>	<u>\$ 64,131</u>

	Non-Major Governmental Funds	Total Governmental Activities	Fiduciary Funds
Federal Government			
Categorical aid	\$ 448,909	\$ 906,868	\$ -
State Government			
Categorical aid	20,073	89,242	-
Lottery	-	372,446	-
Local Government			
Interest	45,244	387,672	2,069
Other Local Sources	17,173	973,874	-
Total	<u>\$ 531,399</u>	<u>\$ 2,730,102</u>	<u>\$ 2,069</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2018, was as follows:

	Balance July 1, 2017	Additions	Deductions	Balance June 30, 2018
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 4,305,188	\$ -	\$ -	\$ 4,305,188
Construction in progress	89,436,127	10,352,100	39,725,612	60,062,615
Total Capital Assets Not Being Depreciated	93,741,315	10,352,100	39,725,612	64,367,803
Capital Assets Being Depreciated:				
Land improvements	45,107,521	40,996,010	-	86,103,531
Buildings and improvements	140,408,483	2,818,177	-	143,226,660
Furniture and equipment	9,783,306	4,312,841	169,249	13,926,898
Total Capital Assets Being Depreciated	195,299,310	48,127,028	169,249	243,257,089
Total Capital Assets	289,040,625	58,479,128	39,894,861	307,624,892
Less Accumulated Depreciation:				
Land improvements	8,018,776	3,236,957	-	11,255,733
Buildings and improvements	77,690,955	5,038,487	-	82,729,442
Furniture and equipment	5,051,699	1,300,871	166,316	6,186,254
Total Accumulated Depreciation Governmental Activities	90,761,430	9,576,315	166,316	100,171,429
Capital Assets, Net	<u>\$ 198,279,195</u>	<u>\$ 48,902,813</u>	<u>\$ 39,728,545</u>	<u>\$ 207,453,463</u>

Depreciation expense was charged as a direct expense to governmental functions as follows:

Governmental Activities	
Instruction	\$ 8,618,684
Home-to-school transportation	287,289
All other pupil services	383,053
Plant services	287,289
Total Depreciation Expenses Governmental Activities	<u>\$ 9,576,315</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2018, between major and non-major governmental funds, and internal service funds are as follows:

Due To	Due From				Total
	General Fund	Child Development Fund	Building Fund	Non-Major Governmental Funds	
General Fund	\$ -	\$ 892,445	\$ 58,152	\$ 901,456	\$ 1,852,053
Special Reserve Fund for Capital Outlay Projects	3,143,130	-	-	-	3,143,130
Non-Major Governmental Funds	174,374	63,916	-	9,611	247,901
Total	<u>\$ 3,317,504</u>	<u>\$ 956,361</u>	<u>\$ 58,152</u>	<u>\$ 911,067</u>	<u>\$ 5,243,084</u>

A balance of \$3,143,130 due to the Special Reserve Fund for Capital Outlay Projects from the General Fund resulted from transfer of RDA funds received to be reserved for future capital outlay projects.

The balance of \$892,445 due to the General Fund from the Child Development Fund resulted from reimbursement of health and welfare benefits and other operating costs.

The balance of \$650,855 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted from reimbursement of health and welfare benefits.

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Operating Transfers

Interfund transfers for the year ended June 30, 2018, consisted of the following:

Transfer To	General Fund	Child Development Fund	Non-Major Governmental Funds	Total
General Fund	\$ -	\$ 13,301	\$ -	\$ 13,301
Special Reserve Fund for Capital Outlay Projects	3,932,618	-	-	3,932,618
Non-Major Governmental Funds	-	-	3,793,177	3,793,177
Total	<u>\$ 3,932,618</u>	<u>\$ 13,301</u>	<u>\$ 3,793,177</u>	<u>\$ 7,739,096</u>

The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects to set aside a reserve for future capital outlay projects.

\$ 3,932,618

The Bond Interest and Redemption Non-Major Governmental Fund transferred to the Debt Service Non-Major Governmental Fund for Blended Component Units for debt service payments for the revenue bonds.

3,793,177

The Child Development Fund transferred to the General Fund for reimbursement of operating costs.

13,301

Total

\$ 7,739,096

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2018, consisted of the following:

	General Fund	Child Development Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Activities
Salaries and benefits	\$ 910,882	\$ 94,565	\$ 15,619	\$ -	\$ 259,389	\$ 1,280,455
Supplies	124,731	1,601	48	-	16,024	142,404
Services	1,003,859	14,642	210,089	3,618	4,433	1,236,641
Construction	9,867	-	1,027,110	433,076	-	1,470,053
Other payables	3,410	-	-	-	12	3,422
Total	<u>\$ 2,052,749</u>	<u>\$ 110,808</u>	<u>\$ 1,252,866</u>	<u>\$ 436,694</u>	<u>\$ 279,858</u>	<u>\$ 4,132,975</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2018, consists of the following:

	General Fund	Child Development Fund	Total Governmental Activities
State categorical aid	\$ 372,862	233,992	606,854

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2017 as Restated	Additions	Deductions	Balance June 30, 2018	Due in One Year
General Obligation Bonds	\$ 152,622,056	\$ 635,797	\$ 200,000	\$ 153,057,853	\$ -
Premium on issuance of debt	9,995,854	-	419,667	9,576,187	-
Revenue Bonds	24,570,000	-	2,590,000	21,980,000	2,870,000
Premium on issuance of debt	1,053,566	-	210,713	842,853	-
Certificate of participation	140,745	-	92,557	48,188	48,188
Lease financing	4,085,000	-	300,000	3,785,000	200,000
Compensated absences (vacation)	663,197	36,650	-	699,847	-
Other postemployment benefits (OPEB)	20,433,900	1,380,793	24,742	21,789,951	-
	<u>\$ 213,564,318</u>	<u>\$ 2,053,240</u>	<u>\$ 3,837,679</u>	<u>\$ 211,779,879</u>	<u>\$ 3,118,188</u>

Payments on the General Obligation Bonds are made by the Bond Interest and Redemption Fund. Payments on the Revenue Bonds are made by the Debt Service Fund for Blended Component Units. Payments on the Certificates of Participation are made by the Capital Facilities Fund. Payments for lease financing are made by the Special Reserve Fund for Capital Outlay Projects. The accrued vacation was paid by the fund for which the employee worked. Other postemployment benefits are generally paid by the General Fund.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds				Bonds	
				Outstanding July 1, 2017	Issued	Accreted	Redeemed	Outstanding June 30, 2018	
6/24/2015	9/1/2040	2.00-5.00%	\$ 26,000,000	\$ 23,172,527	\$ -	\$ 248,254	\$ -	\$ 23,420,781	
6/21/2016	9/1/2041	2.00-5.00%	128,999,061	129,449,529	-	387,543	200,000	129,637,072	
				<u>\$ 152,622,056</u>	<u>\$ -</u>	<u>\$ 635,797</u>	<u>\$ 200,000</u>	<u>\$ 153,057,853</u>	

2015 General Obligation Bonds, Series B

On June 24, 2015, South San Francisco Unified School District issued the 2015 General Obligation Bonds, Series B in the amount of \$26,000,000. The Series B represents the second series of the authorized bonds not to exceed \$162,000,000 to be issued under the measure as approved by the voters. The Series B bonds were issued as both current interest and capital appreciation bonds, with the value of the capital appreciation bonds accreting to \$4,165,000. The bonds have an aggregate principal debt service balance of \$30,165,000. The bonds were issued at an aggregate price of \$27,879,487 (representing the principal amount of \$26,000,000 plus an original issue premium of \$2,110,776 less cost of issuance and underwriter's discount of \$168,369 and \$62,920, respectively). The bonds have a final maturity to occur on September 1, 2040 and interest rates of 2.00 to 5.00 percent. Proceeds from the sale of bonds were used to defease the remaining balance on the District's 2012 General Obligation Bonds Anticipation Notes, Series C. At June 30, 2018, the principal outstanding, including accreted interest, was \$23,420,781. Unamortized premium received on issuance amounted to \$1,857,483.

2016 General Obligation Bonds, Series C

On June 21, 2016, South San Francisco Unified School District issued the 2016 General Obligation Bonds, Series C in the amount of \$128,999,061. The Series C represents the third series of the authorized bonds not to exceed \$162,000,000 to be issued under the measure as approved by the voters. The Series C bonds were issued as current interest bonds and capital appreciation bonds with the value of the capital appreciation bonds accreting to \$4,440,939, and an aggregate principal debt service balance of \$133,440,000. The bonds were issued at an aggregate price of \$136,654,530 (representing the principal amount of \$128,999,061 plus an original issue premium of \$8,389,896 less cost of issuance of \$315,000 and underwriter's discount of \$419,247).

The bonds have a final maturity which occurs on September 1, 2041 and interest rates of 2.00 to 5.00 percent. A portion of the proceeds from the sale of Series C bonds will be used to pay and defease the District's outstanding General Obligation Bond Anticipation Notes Series D, Series E, Series F, and Series G. The remaining proceeds will be used to finance the renovation, acquisition, and construction of District buildings and facilities. At June 30, 2018, the principal outstanding was \$129,637,072. Unamortized premium received and issuance and deferred amount on refunding amounted to \$7,718,704 and \$473,825, respectively.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The bonds mature through September 1, 2041 as follows:

Fiscal Year	Principal	Accreted Interest	Interest to Maturity	Total
2019	\$ -	\$ -	\$ 5,069,238	\$ 5,069,238
2020	100,000	-	5,068,238	5,168,238
2021	225,000	-	5,063,863	5,288,863
2022	400,000	-	5,054,488	5,454,488
2023	600,000	-	5,036,488	5,636,488
2024-2028	16,235,467	3,364,533	24,942,438	44,542,438
2029-2033	28,757,386	3,647,614	23,173,437	55,578,437
2034-2038	50,030,000	-	15,524,213	65,554,213
2038-2042	56,710,000	-	4,053,394	60,763,394
Total	<u>\$ 153,057,853</u>	<u>\$ 7,012,147</u>	<u>\$ 92,985,797</u>	<u>\$ 253,055,797</u>

2006 Revenue Bonds

On January, 2006, South San Francisco Unified School District School Facilities Financing Authority issued the 2006 Revenue Bonds in the amount of \$39,035,000. The revenue bonds were issued as current interest bonds. The bonds were issued at an aggregate price of \$42,053,827 (representing the principal amount of \$39,035,000 plus an original issue premium of \$3,582,125 less cost of issuance of \$563,298). The bonds have a final maturity to occur on September 1, 2023 and interest rates of 4.00 to 5.25 percent. Proceeds from the revenue bonds were used to purchase the 2006 General Obligation Refunding Bonds, to finance the new construction and renovation of District's facilities, and to cover the cost arising from the issuance of the bonds.

The 2006 Revenue Bonds were issued simultaneously with 2006 General Obligation Refunding Bonds. Under the financing agreement, tax receipts from the General Obligation Bonds will be pledged to pay the debt service on the revenue bonds until the bonds are fully defeased. At June 30, 2018, the principal outstanding was \$21,980,000. Unamortized premium received on issuance amounted to \$842,853.

The revenue bonds mature through September 1, 2023 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	\$ 2,870,000	\$ 1,067,088	\$ 3,937,088
2020	3,175,000	915,963	4,090,963
2021	3,495,000	744,844	4,239,844
2022	3,850,000	552,038	4,402,038
2023	4,225,000	340,069	4,565,069
2024-2025	4,365,000	114,581	4,479,581
Total	<u>\$ 21,980,000</u>	<u>\$ 3,734,583</u>	<u>\$ 25,714,583</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

2004 Refunding Certificates of Participation

On January 29, 2004, the South San Francisco Unified School District, pursuant to a lease/purchase agreement with the California School Boards Association Finance Corporation, issued \$1,037,000 in Certificates of Participation. The certificates were issued to defease the remaining balance of 1994 Certificates of Participation and pay for the costs of issuance incurred in connection with the execution and delivery of the certificates. The certificates were issued at a fixed interest rate of 4.88 percent and the certificates have a final maturity to occur on December 1, 2018. At June 30, 2018, the principal balance outstanding was \$48,188.

The certificates mature through December 1, 2018 as follows:

Year Ending June 30,	Principal	Interest	Total
<u>2019</u>	<u>\$ 48,188</u>	<u>\$ 1,171</u>	<u>\$ 49,359</u>

Lease Financing

On November 1, 2016, the South San Francisco Unified School District entered into a lease/purchase agreement with the South San Francisco Unified School District School Facilities Financing Authority (the Authority). The terms of the agreement stipulates that the District would lease a property owned by the District to the Authority and the Authority would sublease the property back to the District, including the energy efficiency renovations performed on the property. Lease payment period commences on September 1, 2017 and the final lease payment is set to occur on September 1, 2034. At June 30, 2018, the principal balance outstanding was \$3,785,000.

The lease payments are due through September 1, 2034 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2019	\$ 200,000	\$ 83,291	\$ 283,291
2020	195,000	78,886	273,886
2021	205,000	74,482	279,482
2022	205,000	69,911	274,911
2023	210,000	65,283	275,283
2024-2028	1,110,000	254,276	1,364,276
2029-2033	1,260,000	123,319	1,383,319
2034-2035	400,000	8,976	408,976
Total	<u>\$ 3,785,000</u>	<u>\$ 758,424</u>	<u>\$ 4,543,424</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2018, amounted to \$699,847.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Net Other Post Employment Benefit (OPEB) Liability

For the fiscal year ended June 30, 2018, the District reported net OPEB liability and OPEB expense for the following plans:

OPEB Plan	Net OPEB Liability	OPEB Expense
District Plan	\$ 21,177,401	\$ 1,380,793
Medicare Premium Payment (MPP) Program	612,550	(24,742)
Total	<u>\$ 21,789,951</u>	<u>\$ 1,356,051</u>

The details of each plan are as follows:

District Plan

Plan Administration

The District's governing board administers the Postemployment Benefits Plan (the Plan). The Plan is a single-employer defined benefit plan that is used to provide postemployment benefits other than pensions (OPEB) for eligible retirees and their spouses. No assets are accumulated in a trust that meets the criteria in paragraph 4 of GASB Statement No. 75.

Plan Membership

At June 30, 2018, the Plan membership consisted of the following:

Inactive employees or beneficiaries currently receiving benefits payments	415
Active employees	964
	<u>1,379</u>

Benefits Provided

The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Benefits are provided through a third-party insurer, and the full cost of benefits is covered by the Plan. The District's governing board has the authority to establish and amend the benefit terms as contained within the negotiated labor agreements.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Contributions

The contribution requirements of Plan members and the District are established and may be amended by the District, the South San Francisco Classroom Teachers Association (SSFCTA), the local California Service Employees Association (CSEA), and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements with the District, SSFCTA, CSEA, and the unrepresented groups. For fiscal year 2017-2018, the District contributed \$681,474 to the Plan, of which all of the contributions were used for current premiums.

Total OPEB Liability of the District

The District's total OPEB liability of \$21,177,401 was measured as of June 30, 2018, and the total OPEB liability was determined by an actuarial valuation as of that date.

Actuarial Assumptions

The total OPEB liability in the June 30, 2018 actuarial valuation was determined using the following assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.75 percent
Salary increases	2.75 percent, average, including inflation
Discount rate	3.80 percent
Healthcare cost trend rates	4.00 percent for 2017

The discount rate was based on the Bond Buyer 20-bond General Obligation Index.

Mortality rates were based on the 2009 CalSTRS Mortality Table for certificated employees and the 2014 CalPERS Active Mortality for Miscellaneous Employees Table for classified employees. Mortality rates vary by age and sex. (Unisex mortality rates are not often used as individual OPEB benefits do not depend on the mortality table used.) If employees die prior to retirement, past contributions are available to fund benefits for employees who live to retirement. After retirement, death results in benefit termination or reduction. Although higher mortality rates reduce service costs, the mortality assumption is not likely to vary from employer to employer.

The actual assumptions used in the June 30, 2018 valuation were based on the results of an actual experience study for the period July 1, 2017 to June 30, 2018.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

Changes in the Total OPEB Liability

	Total OPEB Liability
Balance at June 30, 2017	\$ 19,796,608
Service cost	1,298,943
Interest	763,324
Benefit payments	(681,474)
Net change in total OPEB liability	1,380,793
Balance at June 30, 2018	\$ 21,177,401

Sensitivity of the Total OPEB Liability to Changes in the Discount Rate

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Total OPEB Liability
1% decrease (2.80%)	\$ 24,502,498
Current discount rate (3.80%)	21,177,401
1% increase (4.80%)	18,494,777

Sensitivity of the Total OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the total OPEB liability of the District, as well as what the District's total OPEB liability would be if it were calculated using healthcare cost trend rates that are one percent lower or higher than the current healthcare costs trend rates:

Healthcare Cost Trend Rates	Total OPEB Liability
1% decrease (3.00%)	\$ 18,564,004
Current healthcare cost trend rate (4.00%)	21,177,401
1% increase (5.00%)	24,421,512

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources related to OPEB

For the year ended June 30, 2018, the District recognized OPEB expense of \$1,380,793. At June 30, 2018, the District did not report deferred outflows and inflows of resources for OPEB.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Medicare Premium Payment (MPP) Program

Plan Description

The Medicare Premium Payment (MPP) Program is administered by the California State Teachers' Retirement System (CalSTRS). The MPP Program is a cost-sharing multiple-employer other postemployment benefit plan (OPEB) established pursuant to Chapter 1032, Statutes 2000 (SB 1435). CalSTRS administers the MPP Program through the Teachers' Health Benefits Fund (THBF).

A full description of the MPP Program regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Medicare Premium Payment Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The MPP Program pays Medicare Part A premiums and Medicare Parts A and B late enrollment surcharges for eligible members of the State Teachers Retirement Plan (STRP) Defined Benefit (DB) Program who were retired or began receiving a disability allowance prior to July 1, 2012 and were not eligible for premium free Medicare Part A. The payments are made directly to the Centers for Medicare and Medicaid Services (CMS) on a monthly basis.

The MPP Program is closed to new entrants as members who retire after July 1, 2012, are not eligible for coverage under the MPP Program.

The MPP Program is funded on a pay-as-you go basis from a portion of monthly District benefit payments. In accordance with California *Education Code* Section 25930, benefit payments that would otherwise be credited to the DB Program each month are instead credited to the MPP Program to fund monthly program and administrative costs. Total redirections to the MPP Program are monitored to ensure that total incurred costs do not exceed the amount initially identified as the cost of the program.

OPEB Liabilities, OPEB Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to the OPEB

At June 30, 2018, the District reported a liability of \$612,550 for its proportionate share of the net OPEB liability for the MPP Program. The net OPEB liability was measured as of June 30, 2016, and the total OPEB liability used to calculate the net OPEB liability was determined by an actuarial valuation as of that date. The District's proportion of the net OPEB liability was based on a projection of the District's long-term share of contributions to the OPEB Plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.1456 percent, and 0.1362 percent, resulting in a net increase in the proportionate share of 0.0094 percent.

For the year ended June 30, 2018, the District recognized OPEB expense of \$(24,742).

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Actuarial Methods and Assumptions

The total OPEB liability for the MPP Program as of June 30, 2016, was determined based on a financial reporting actuarial valuation that used the June 30, 2016 assumptions presented in the table below. The June 30, 2017 total OPEB liability was determined by applying update procedures to the financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total OPEB liability to June 30, 2017, using the assumptions listed in the following table:

Measurement Date	June 30, 2017	June 30, 2016
Valuation Date	June 30, 2016	June 30, 2016
Experience Study	July 1, 2010 through June 30, 2016	July 1, 2010 through June 30, 2015
Actuarial Cost Method	Entry age normal	Entry age normal
Investment Rate of Return	3.58%	2.85%
Medicare Part A Premium Cost Trend Rate	3.70%	3.70%
Medicare Part B Premium Cost Trend Rate	4.10%	4.10%

For the valuation as of June 30, 2016, CalSTRS used custom mortality tables based on RP2000 Series tables issued by the Society of Actuaries, adjusted to fit CalSTRS specific experience through June 30, 2015. For the valuation as of June 30, 2017, CalSTRS changed the mortality assumptions based on the July 1, 2010 through June 30, 2015, experience study adopted by the board in February 2017. CalSTRS now uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among the members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

Assumptions were made about future participation (enrollment) into the MPP Program because CalSTRS is unable to determine which members not currently participating meet all eligibility criteria for enrollment in the future. Assumed enrollment rates were derived based on past experience and are stratified by age with the probability of enrollment diminishing as the members' age increases. This estimated enrollment rate was then applied to the population of members who may meet criteria necessary for eligibility and are not currently enrolled in the MPP Program. Based on this, the estimated number of future enrollments used in the financial reporting valuation was 571 or an average of 0.32 percent of the potentially eligible population (177,763).

The MPP Program is funded on a pay-as-you-go basis with contributions generally being made at the same time and in the same amount as benefit payments and expenses coming due. Any funds within the MPP Program as of June 30, 2017 and 2016, were to manage differences between estimated and actual amounts to be paid and were invested in the Surplus Money Investment Fund, which is a pooled investment program administered by the State Treasurer.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS **JUNE 30, 2018**

Discount Rate

The discount rate used to measure the total OPEB liability as of June 30, 2017 and 2016 was 3.58 percent and 2.85 percent, respectively. The MPP Program is funded on a pay-as-you-go basis as described in Note 1, and under the pay-as-you-go method, the OPEB Plan's fiduciary net position was not projected to be sufficient to make projected future benefit payments. Therefore, a discount rate of 3.58 percent and 2.85 percent, which is the Bond Buyer 20-Bond GO Index from Bondbuyer.com as of June 30, 2017 and 2016, respectively, was applied to all periods of projected benefit payments to measure the total OPEB liability.

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Discount Rate

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount Rate	Net OPEB Liability
1% decrease (2.58%)	\$ 678,135
Current discount rate (3.58%)	612,550
1% increase (4.58%)	548,754

Sensitivity of the District's Proportionate Share of the Net OPEB Liability to Changes in the Medicare Costs Trend Rates

The following presents the District's proportionate share of the net OPEB liability calculated using the current discount rate, as well as what the net pension liability would be if it were calculated using Medicare costs trend rates that are one percent lower or higher than the current rates:

Medicare Costs Trend Rate	Net OPEB Liability
1% decrease (2.7% Part A and 3.1% Part B)	\$ 553,533
Current Medicare costs trend rate (3.7% Part A and 4.1% Part B)	612,550
1% increase (4.7% Part A and 5.1% Part B)	670,978

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Child Development Fund	Building Fund
Nonspendable			
Revolving cash	\$ 33,100	\$ -	\$ -
Stores inventories	67,742	-	-
Prepaid expenditures	310,145	-	-
Total Nonspendable	410,987	-	-
Restricted			
Educational programs	5,419,034	-	-
Adult education program	-	-	-
Child development program	-	947,872	-
Child nutrition program	-	-	-
Capital projects	-	-	9,942,054
Debt services	-	-	-
Total Restricted	5,419,034	947,872	9,942,054
Assigned			
Security cameras	89,500	-	-
Vehicle replacement	239,700	-	-
Needs assessment	125,150	-	-
Ad hoc safety	252,515	-	-
Increase in substitute teacher rates	275,000	-	-
Projected cost - District boundaries	100,000	-	-
Skyline middle college	1,336,000	-	-
18/19 science textbook adoption	2,000,000	-	-
STRS/PERS increases: 2021-22	757,210	-	-
STRS/PERS increases: 2022-23	1,060,098	-	-
Property tax repayment litigation	8,500,000	-	-
Dual immersion program	550,000	-	-
Deferred maintenance	3,908,040	-	-
Other assigned	15,248,867	-	-
Future projects	-	-	-
Total Assigned	34,442,080	-	-
Unassigned			
Reserve for economic uncertainties	5,356,371	-	-
Remaining unassigned	4,227,130	-	-
Total Unassigned	9,583,501	-	-
Total	\$ 49,855,602	\$ 947,872	\$ 9,942,054

Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total
\$ -	\$ 1,458	\$ 34,558
-	41,660	109,402
-	9,705	319,850
-	52,823	463,810
-	-	5,419,034
-	1,636,662	1,636,662
-	-	947,872
-	2,023,758	2,023,758
-	2,837,352	12,779,406
-	6,636,723	6,636,723
-	13,134,495	29,443,455
-	-	89,500
-	-	239,700
-	-	125,150
-	-	252,515
-	-	275,000
-	-	100,000
-	-	1,336,000
-	-	2,000,000
-	-	757,210
-	-	1,060,098
-	-	8,500,000
-	-	550,000
-	-	3,908,040
-	-	15,248,867
17,757,603	-	17,757,603
17,757,603	-	52,199,683
-	-	5,356,371
-	-	4,227,130
-	-	9,583,501
\$ 17,757,603	\$ 13,187,318	\$ 91,690,449

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2018, the District contracted with San Mateo County Schools Insurance Group risk pool for property and liability insurance coverage.

Workers' Compensation

For the fiscal year of 2017-2018, the District participated in San Mateo County Schools Insurance Group (SMCSIG) entity risk pool. The intent of SMCSIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SMCSIG. The workers' compensation experience of the participating district is calculated as one experience and a common premium rate is applied to all districts in the SMCSIG. Each participant pays its workers' compensation premium based on its individual rate.

Employee Medical Benefits

The District has contracted with the California Public Employees' Retirement System (CalPERS) to provide employee medical insurance and San Mateo County Schools Insurance Group (SMCSIG) for dental and vision benefits. CalPERS and SMCSIG are shared risk pools. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating districts.

NOTE 12 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Academic employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

For the fiscal year ended June 30, 2018, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

<u>Pension Plan</u>	<u>Collective Net Pension Liability</u>	<u>Collective Deferred Outflows of Resources</u>	<u>Collective Deferred Inflows of Resources</u>	<u>Collective Pension Expense</u>
CalSTRS	\$ 74,375,113	\$ 23,005,797	\$ 4,488,260	\$ 7,757,449
CalPERS	28,378,748	9,678,635	819,460	5,897,199
Total	<u>\$ 102,753,861</u>	<u>\$ 32,684,432</u>	<u>\$ 5,307,720</u>	<u>\$ 13,654,648</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The details of each plan are as follows:

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the State Teachers Retirement Plan (STRP) administered by the California State Teachers' Retirement System (CalSTRS). STRP is a cost-sharing multiple-employer public employee retirement system defined benefit pension plan. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publicly available reports that can be found on the CalSTRS website under Publications at: <http://www.calstrs.com/member-publications>.

Benefits Provided

The STRP provides retirement, disability and survivor benefits to beneficiaries. Benefits are based on members' final compensation, age, and years of service credit. Members hired on or before December 31, 2012, with five years of credited service are eligible for the normal retirement benefit at age 60. Members hired on or after January 1, 2013, with five years of credited service are eligible for the normal retirement benefit at age 62. The normal retirement benefit is equal to 2.0 percent of final compensation for each year of credited service.

The STRP is comprised of four programs: Defined Benefit Program, Defined Benefit Supplement Program, Cash Balance Benefit Program, and Replacement Benefits Program. The STRP holds assets for the exclusive purpose of providing benefits to members and beneficiaries of these programs. CalSTRS also uses plan assets to defray reasonable expenses of administering the STRP. Although CalSTRS is the administrator of the STRP, the state is the sponsor of the STRP and obligor of the trust. In addition, the state is both an employer and nonemployer contributing entity to the STRP.

The District contributes exclusively to the STRP Defined Benefit Program, thus disclosures are not included for the other plans.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2018

The STRP provisions and benefits in effect at June 30, 2018, are summarized as follows:

	STRP Defined Benefit Program	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	10.25%	9.205%
Required employer contribution rate	14.43%	14.43%
Required State contribution rate	9.328%	9.328%

Contributions

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the District's total contributions were \$6,424,684.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

At June 30, 2018, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:

District's proportionate share of net pension liability	\$ 74,375,113
State's proportionate share of the net pension liability associated with the District	43,999,689
Total	<u>\$ 118,374,802</u>

The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.0804 percent and 0.0766 percent, resulting in a net increase in the proportionate share of 0.0038 percent.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

For the year ended June 30, 2018, the District recognized pension expense of \$7,757,449. In addition, the District recognized pension expense and revenue of \$4,428,991 for support provided by the State. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 6,424,684	\$ -
Net change in proportionate share of net pension liability	2,527,209	1,210,222
Difference between projected and actual earnings on pension plan investments	-	1,980,816
Difference between expected and actual experiences in the measurement of the total pension liability	275,046	1,297,222
Changes of assumptions	13,778,858	
Total	<u>\$ 23,005,797</u>	<u>\$ 4,488,260</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2019	\$ (1,646,726)
2020	1,246,086
2021	179,677
2022	(1,759,853)
Total	<u>\$ (1,980,816)</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The deferred inflows of resources related to the net change in proportionate share of net pension liability, differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2016-2017 measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Inflows of Resources
2019	\$ 2,215,822
2020	2,215,822
2021	2,215,822
2022	2,215,820
2023	2,446,864
Thereafter	2,763,519
Total	<u>\$ 14,073,669</u>

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 2010 through June 30, 2015
Actuarial cost method	Entry age normal
Discount rate	7.10%
Investment rate of return	7.10%
Consumer price inflation	2.75%
Wage growth	3.50%

CalSTRS uses a generational mortality assumption, which involves the use of a base mortality table and projection scales to reflect expected annual reductions in mortality rates at each age, resulting in increases in life expectancies each year into the future. The base mortality tables are CalSTRS custom tables derived to best fit the patterns of mortality among its members. The projection scale was set equal to 110 percent of the ultimate improvement factor from the Mortality Improvement Scale (MP-2016) table, issued by the Society of Actuaries.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant (Pension Consulting Alliance-PCA) as an input to the process. The actuarial investment rate of return assumption was adopted by the board in February 2017 in conjunction with the most recent experience study. For each future valuation, CalSTRS consulting actuary (Milliman) reviews the return assumption for reasonableness based on the most current capital market assumptions. Best estimates of 20-year geometrically-linked real rates of return and the assumed asset allocation for each major asset class for the year ended June 30, 2017, are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	6.30%
Fixed income	12%	0.30%
Real estate	13%	5.20%
Private equity	13%	9.30%
Absolute Return/Risk Mitigating Strategies	9%	2.90%
Inflation sensitive	4%	3.80%
Cash/liquidity	2%	-1.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.10 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.10 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount rate	Net Pension Liability
1% decrease (6.10%)	\$ 109,206,278
Current discount rate (7.10%)	74,375,113
1% increase (8.10%)	46,107,262

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

California Public Employees Retirement System (CalPERS)

Plan Description

Qualified employees are eligible to participate in the School Employer Pool (SEP) under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Law.

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2016 annual actuarial valuation report, Schools Pool Actuarial Valuation. This report and CalPERS audited financial information are publicly available reports that can be found on the CalPERS website under Forms and Publications at:
<https://www.calpers.ca.gov/page/forms-publications>.

Benefits Provided

CalPERS provide service retirement and disability benefits, annual cost of living adjustments and death benefits to plan members, who must be public employees and beneficiaries. Benefits are based on years of service credit, a benefit factor, and the member's final compensation. Members hired on or before December 31, 2012, with five years of total service are eligible to retire at age 50 with statutorily reduced benefits. Members hired on or after January 1, 2013, with five years of total service are eligible to retire at age 52 with statutorily reduced benefits. All members are eligible for non-duty disability benefits after five years of service. The Basic Death Benefit is paid to any member's beneficiary if the member dies while actively employed. An employee's eligible survivor may receive the 1957 Survivor Benefit if the member dies while actively employed, is at least age 50 (or 52 for members hired on or after January 1, 2013), and has at least five years of credited service. The cost of living adjustments for each plan are applied as specified by the Public Employees' Retirement Law.

The CalPERS provisions and benefits in effect at June 30, 2018, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before December 31, 2012	On or after January 1, 2013
Hire date		
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.00%	6.50%
Required employer contribution rate	15.531%	15.531%

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2018, are presented above and the total District contributions were \$3,120,326.

Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

As of June 30, 2018, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling \$28,378,748. The net pension liability was measured as of June 30, 2017. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2017 and June 30, 2016, respectively, was 0.1189 percent and 0.1155 percent, resulting in a net increase in the proportionate share of 0.0034 percent.

For the year ended June 30, 2018, the District recognized pension expense of \$5,897,199. At June 30, 2018, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	\$ 3,120,326	\$ -
Net change in proportionate share of net pension liability	414,741	485,335
Difference between projected and actual earnings on pension plan investments	981,711	-
Difference between expected and actual experiences in the measurement of the total pension liability	1,016,694	-
Changes of assumptions	4,145,163	334,125
Total	<u>\$ 9,678,635</u>	<u>\$ 819,460</u>

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2019	\$ (26,601)
2020	1,132,680
2021	413,215
2022	(537,583)
Total	<u>\$ 981,711</u>

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, and differences between expected and actual experience in the measurement of the total pension liability, and changes of assumptions will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2016-2017 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2019	\$ 1,510,074
2020	1,684,760
2021	1,562,304
Total	<u>\$ 4,757,138</u>

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2016, and rolling forward the total pension liability to June 30, 2017. The financial reporting actuarial valuation as of June 30, 2016, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2016
Measurement date	June 30, 2017
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7.15%
Investment rate of return	7.15%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

The mortality table used was developed based on CalPERS-specific data. The table includes 20 years of mortality improvements using Society of Actuaries Scale BB.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11+ years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the rounded single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equal to the single equivalent rate calculated above and adjusted to account for assumed administrative expenses. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-term Expected Real Rate of Return
Global equity	47%	5.38%
Global debt securities	19%	2.27%
Inflation assets	6%	1.39%
Private equity	12%	6.63%
Real estate	11%	5.21%
Infrastructure and Forestland	3%	5.36%
Liquidity	2%	0.90%

Discount Rate

The discount rate used to measure the total pension liability was 7.15 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

The following presents the District's proportionate share of the net pension liability calculated using the current discount rate as well as what the net pension liability would be if it were calculated using a discount rate that is one percent lower or higher than the current rate:

Discount rate	Net Pension Liability
1% decrease (6.15%)	\$ 41,754,233
Current discount rate (7.15%)	28,378,748
1% increase (8.15%)	17,282,664

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$3,578,108 (9.328 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been included in the calculation of available reserves, but have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2018.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2018.

Construction Commitments

As of June 30, 2018, the district had the following commitments with respect to the unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Roof replacement - Los Cerritos Elementary and District Office	\$ 717,443	October 1, 2018
New flooring - Westborough Middle	161,872	August 1, 2018
Modular/Renovation - Martin Elementary	4,199,430	December 1, 2019
Modernization - Buri Buri Elementary	658,889	December 1, 2018
Modernization - Parkway Elementary	2,671,789	January 1, 2019
	<u>\$ 8,409,423</u>	

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2018

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWERS AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the San Mateo County Schools Insurance Group (SMCSIG) and California Public Employees' Retirement System (CalPERS) public entity risk pools. The District pays an annual premium to be applicable entity for its workers' compensation, property and liability, and health coverage. The relationship between the District and the JPA's are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the Districts are included in these statements. Audited financial statements are generally available from the respective entities.

During the year ended June 30, 2018, the District made payments of \$2,451,657 and \$7,320,323 to SMCSIG and CalPERS, respectively.

NOTE 15 - RESTATEMENT OF PRIOR YEAR NET POSITION

The District adopted GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, in the current year. As a result, the effect on the current fiscal year is as follows:

Government-Wide Financial Statements

Net Position - Beginning	\$ 67,606,186
Inclusion of net OPEB liability from the adoption of GASB Statement No. 75	(14,840,049)
Net Position - Beginning as Restated	<u><u>\$ 52,766,137</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variances -
	Original	Final	(GAAP Basis)	Positive (Negative) Final to Actual
REVENUES				
Local Control Funding Formula	\$ 84,981,201	\$ 85,898,977	\$ 86,043,944	\$ 144,967
Federal sources	3,020,934	3,962,894	3,685,927	(276,967)
Other State sources	2,622,989	4,426,996	7,575,039	3,148,043
Other local sources	2,066,419	6,089,695	6,338,557	248,862
Total Revenues ¹	92,691,543	100,378,562	103,643,467	3,264,905
EXPENDITURES				
Current				
Certificated salaries	44,270,526	43,669,562	43,957,002	(287,440)
Classified salaries	14,772,581	15,058,285	15,139,658	(81,373)
Employee benefits	18,342,969	19,128,013	23,042,088	(3,914,075)
Books and supplies	5,519,294	7,994,979	3,949,678	4,045,301
Services and operating expenditures	9,562,546	11,839,828	11,687,839	151,989
Capital outlay	-	3,013,239	5,000,859	(1,987,620)
Other outgo	3,701,779	3,858,858	3,594,626	264,232
Total Expenditures ¹	96,169,695	104,562,764	106,371,750	(1,808,986)
Excess (Deficiency) of Revenues Over Expenditures	(3,478,152)	(4,184,202)	(2,728,283)	1,455,919
Other Financing Sources (Uses)				
Transfers in	13,301	13,301	13,301	-
Transfers out	(700,000)	(3,932,618)	(3,932,618)	-
Net Financing Sources (Uses)	(686,699)	(3,919,317)	(3,919,317)	-
NET CHANGE IN FUND BALANCES	(4,164,851)	(8,103,519)	(6,647,600)	1,455,919
Fund Balance - Beginning	56,503,202	56,503,202	56,503,202	-
Fund Balance - Ending	\$ 52,338,351	\$ 48,399,683	\$ 49,855,602	\$ 1,455,919

¹ On behalf payments of \$3,578,108 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 14, Deferred Maintenance Fund/Fund 17 Special Reserve Fund for Other than Capital Outlay, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures however are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

CHILD DEVELOPMENT FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2018

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final to Actual
	Original	Final	(GAAP Basis)	
REVENUES				
Federal sources	\$ 941,700	\$ 220,715	\$ 220,714	\$ (1)
Other State sources	780,712	865,729	917,082	51,353
Other local sources	1,862,070	1,899,420	1,738,507	(160,913)
Total Revenues	3,584,482	2,985,864	2,876,303	(109,561)
EXPENDITURES				
Current				
Certificated salaries	1,208,581	800,540	795,182	5,358
Classified salaries	1,291,351	1,047,636	990,786	56,850
Employee benefits	887,039	660,432	678,689	(18,257)
Books and supplies	76,757	127,178	94,788	32,390
Services and operating expenditures	63,959	218,467	210,517	7,950
Other outgo	43,244	71,984	71,984	-
Total Expenditures	3,570,931	2,926,237	2,841,946	84,291
Excess of Revenues Over Expenditures	13,551	59,627	34,357	(25,270)
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Transfers out	(13,301)	(13,301)	(13,301)	-
Net Financing Sources (Uses)	(13,301)	(13,301)	(13,301)	-
NET CHANGE IN FUND BALANCES	250	46,326	21,056	(25,270)
Fund Balance - Beginning	926,816	926,816	926,816	-
Fund Balance - Ending	\$ 927,066	\$ 973,142	\$ 947,872	\$ (25,270)

See accompanying note to required supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHANGES IN THE DISTRICT'S TOTAL OPEB LIABILITY AND RELATED RATIOS FOR THE YEAR ENDED JUNE 30, 2018

	<u>2018</u>
Total OPEB Liability	
Service cost	\$ 1,298,943
Interest	763,324
Benefit payments	<u>(681,474)</u>
Net change in total OPEB liability	1,380,793
Total OPEB liability - beginning	<u>19,796,608</u>
Total OPEB liability - ending	<u><u>\$ 21,177,401</u></u>
 Covered payroll	 <u>N/A¹</u>
 District's total OPEB liability as a percentage of covered payroll	 <u>N/A¹</u>

¹ The District's OPEB Plan is not administered through a trust and contributions are not made based on a measure of pay. Therefore, no measure of payroll is presented.

Note: In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET OPEB LIABILITY - MPP PROGRAM FOR THE YEAR ENDED JUNE 30, 2018

Year ended June 30,	<u>2018</u>
District's proportion of the net OPEB liability	<u>0.1456%</u>
District's proportionate share of the net OPEB liability	<u>\$ 612,550</u>
District's covered-employee payroll	<u>N/A¹</u>
District's proportionate share of the net OPEB liability as a percentage of it's covered-employee payroll	<u>N/A¹</u>
Plan fiduciary net position as a percentage of the total OPEB liability	<u>0.01%</u>

¹ As of June 30, 2012, active members are no longer eligible for future enrollment in the MPP Program; therefore, the covered payroll disclosure is not applicable.

Note : In the future, as data becomes available, ten years of information will be presented.

See accompanying note to required supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CalSTRS		
District's proportion of the net pension liability	0.0804%	0.0766%
District's proportionate share of the net pension liability	\$ 74,375,113	\$ 61,926,585
State's proportionate share of the net pension liability associated with the District	43,999,689	35,253,700
Total	<u>\$ 118,374,802</u>	<u>\$ 97,180,285</u>
District's covered - employee payroll	<u>\$ 44,523,105</u>	<u>\$ 38,347,651</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	167.05%	161.49%
Plan fiduciary net position as a percentage of the total pension liability	69%	70%
CalPERS		
District's proportion of the net pension liability	0.1189%	0.1155%
District's proportionate share of the net pension liability	<u>\$ 28,378,748</u>	<u>\$ 22,807,523</u>
District's covered - employee payroll	<u>\$ 20,092,247</u>	<u>\$ 18,955,097</u>
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	141.24%	120.32%
Plan fiduciary net position as a percentage of the total pension liability	72%	74%

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
<u>0.0782%</u>	<u>0.0790%</u>
\$ 52,680,238	\$ 46,177,004
<u>27,862,039</u>	<u>27,883,669</u>
<u>\$ 80,542,277</u>	<u>\$ 74,060,673</u>
<u>\$ 36,515,800</u>	<u>\$ 36,404,423</u>
<u>144.27%</u>	<u>126.84%</u>
<u>74%</u>	<u>77%</u>
<u>0.1200%</u>	<u>0.1136%</u>
<u>\$ 17,693,320</u>	<u>\$ 12,891,955</u>
<u>\$ 18,749,864</u>	<u>\$ 13,270,962</u>
<u>94.37%</u>	<u>97.14%</u>
<u>79%</u>	<u>83%</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT CONTRIBUTIONS FOR THE YEAR ENDED JUNE 30, 2018

	2018	2017
CalSTRS		
Contractually required contribution	\$ 6,424,684	\$ 5,457,585
Contributions in relation to the contractually required contribution	(6,424,684)	(5,457,585)
Contribution deficiency (excess)	\$ -	\$ -
District's covered - employee payroll	\$ 44,523,105	\$ 43,383,029
Contributions as a percentage of covered - employee payroll	14.43%	12.58%
CalPERS		
Contractually required contribution	\$ 3,120,326	\$ 2,708,248
Contributions in relation to the contractually required contribution	(3,120,326)	(2,708,248)
Contribution deficiency (excess)	\$ -	\$ -
District's covered - employee payroll	\$ 20,092,247	\$ 19,497,826
Contributions as a percentage of covered - employee payroll	15.53%	13.89%

Note: In the future, as data become available, ten years of information will be presented.

See accompanying note to required supplementary information.

<u>2016</u>	<u>2015</u>
\$ 4,114,703	\$ 3,242,603
<u>(4,114,703)</u>	<u>(3,242,603)</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 38,347,651	\$ 36,515,800
<u>10.73%</u>	<u>8.88%</u>
\$ 2,246,179	\$ 2,206,859
<u>(2,246,179)</u>	<u>(2,206,859)</u>
<u>\$ -</u>	<u>\$ -</u>
\$ 18,955,097	\$ 18,749,864
<u>11.85%</u>	<u>11.77%</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

The District employs budget control by object codes and by individual appropriation accounts. Budgets are prepared on the modified accrual basis of accounting in accordance with accounting principles generally accepted in the United State of America as prescribed by the Governmental Accounting Standards Board and provisions of the California *Education Code*. The governing board is required to hold a public hearing and adopt an operating budget no later than July 1 of each year. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

This presents information for the original and final budgets and actual results of operations, as well as the variances from the final budget to actual results of operations.

At June 30, 2018, the District's General Fund exceeded the budgeted amount in total as follows:

	Expenditures and Other Uses		
	Budget	Actual	Excess
General Fund	\$ 108,495,382	\$ 110,304,368	\$ 1,808,986

Schedule of Changes in the District's Total OPEB Liability and Related Ratios

This schedule presents information on the District's changes in the total OPEB liability, including beginning and ending balances. In the future, as data becomes available, ten years of information will be presented.

Change in Benefit Terms – There were no changes to benefit terms.

Change of Assumptions – There were no changes economic assumptions used.

Schedule of the District's Proportionate Share of the Net OPEB Liability - MPP Program

This schedule presents information on the District's proportionate share of the net OPEB Liability – MPP Program and the plans' fiduciary net position. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms – There were no changes in the benefit terms since the previous valuation.

Changes of Assumptions – The plan rate of investment return assumption was changed from 2.85 percent to 3.58 percent since the previous valuation.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION JUNE 30, 2018

Schedule of the District's Proportionate Share of the Net Pension Liability

This schedule presents information on the District's proportionate share of the net pension liability (NPL), the plans' fiduciary net position and, when applicable, the State's proportionate share of the NPL associated with the District. In the future, as data becomes available, ten years of information will be presented.

Changes in Benefit Terms – There were no changes in benefit terms since the previous valuations for both CalSTRS and CalPERS.

Changes of Assumptions – The CalSTRS plan rate of investment return assumption was changed from 7.60 percent to 7.10 percent since the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.65 percent to 7.15 percent since the previous valuation.

Schedule of District Contributions

This schedule presents information on the District's required contribution, the amounts actually contributed, and any excess or deficiency related to the required contribution. In the future, as data becomes available, ten years of information will be presented.

SUPPLEMENTARY INFORMATION

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2018

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE)			
Adult Education - Basic Grants to States			
Adult Basic Education and ESL	84.002A	14508	\$ 115,268
Adult Secondary Education	84.002	13978	59,197
English Literacy and Civics Education	84.002A	14109	40,626
Subtotal Adult Education - Basic Grants to States			215,091
Career and Technical Education - Secondary Education	84.048	14894	51,702
Title I, Part A - Basic Grants, Low Income and Neglected	84.010	14329	933,233
Migrant Education State Grant Program			
Title I, Part C - Migrant Education Regular	84.011	14326	77,392
Title I, Part C - Migrant Education Summer	84.011	10005	17,346
Subtotal Migrant Education State Grant Program			94,738
Title II, Part A - Supporting Effective Instruction	84.367	14341	233,486
English Language Acquisition Grants			
Title III, Part A - English Learner Student Program	84.365	14346	147,930
Title III - Immigrant Education Program	84.365	15146	26,688
Subtotal English Language Acquisition Grants			174,618
Passed through San Mateo County Office of Education			
Special Education (IDEA) Cluster			
Preschool Grants	84.173	13430	48,957
Local Assistance	84.027	13379	1,697,666
Preschool Local Entitlement	84.027A	13682	152,488
Preschool Staff Development	84.173A	13431	562
Subtotal Special Education (IDEA) Cluster			1,899,673
Passed through California Department of Rehabilitation			
Workability II - Transition Partnership	84.126	10006	73,770
Total U.S. Department of Education			3,676,311

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2018 (CONTINUED)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE			
Child Care and Development Fund Cluster			
Federal Child Care, Center Based	93.575	15136	\$ 55,648
Federal Child Care, Matching Funds	93.596	13609	93,102
Subtotal Child Care and Development Fund Cluster			148,750
Passed through California Department of Health Services			
Medi-Cal Billing Option	93.778	10013	53,405
Total U.S. Department of Health and Human Services			202,155
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Passed through Silicon Valley Community Foundation			
Social Innovation Fund - The Big Lift	94.019	[1]	231,700
Total Corporation for National and Community Service			231,700
U.S. DEPARTMENT OF INTERIOR			
Payments in Lieu of Taxes	15.226	[1]	425
Total U.S. Department of Interior			425
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster			
Especially Needy Breakfast Program	10.553	13526	232,457
National School Lunch Program	10.555	13396	1,188,102
Commodities	10.555	[1]	245,597
Summer Food Service Program Operations	10.559	13004	63,437
Subtotal Child Nutrition Cluster			1,729,593
Child and Adult Care Food Program	10.558	13393	79,507
Total U.S. Department of Agriculture			1,809,100
Total Federal Programs			\$ 5,919,691

[1] PCA number not available.

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2018

ORGANIZATION

The South San Francisco Unified School District was unified on July 1, 1960, under the laws of the State of California. The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State and/or Federal agencies. The District operates nine elementary schools, three middle schools, two comprehensive high schools, and one continuation school.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Daina R. Lujan	President	2020
John C. Baker	Vice President	2018
Rosa G. Acosta	Clerk	2018
Patrick Lucy	Member	2018
Patricia A. Murray	Member	2020

ADMINISTRATION

<u>NAME</u>	<u>TITLE</u>
Shawnterra Moore	Superintendent
Michael Krause	Assistant Superintendent, Business Services
Dorothy Coito	Assistant Superintendent, Educational Services
Jay Spaulding	Assistant Superintendent, Human Resources

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2018

	Final Report	
	Second Period Report	Annual Report
Regular ADA		
Transitional kindergarten through third	2,532.82	2,531.02
Fourth through sixth	1,886.71	1,886.53
Seventh and eighth	1,230.11	1,229.05
Ninth through twelfth	2,582.88	2,568.58
Total Regular ADA	8,232.52	8,215.18
Extended Year Special Education		
Fourth through sixth	9.91	9.91
Seventh and eighth	17.39	17.39
Ninth through twelfth	59.45	59.45
Total Extended Year Special Education	86.75	86.75
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	1.91	1.90
Fourth through sixth	1.79	1.69
Seventh and eighth	2.17	3.93
Ninth through twelfth	10.00	9.93
Total Special Education, Nonpublic, Nonsectarian Schools	15.87	17.45
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Fourth through sixth	1.93	1.93
Ninth through twelfth	9.30	9.30
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	11.23	11.23
Community Day School		
Ninth through twelfth	2.41	2.46
Total ADA	8,348.78	8,333.07

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2018

Grade Level	1986-87 Minutes Requirement	2017-18 Actual Minutes	Number of Days		Status
			Traditional Calendar	Multitrack Calendar	
Kindergarten	36,000	45,943	180	-	Complied
Grades 1 - 3	50,400				
Grade 1		53,852	180	-	Complied
Grade 2		53,852	180	-	Complied
Grade 3		53,852	180	-	Complied
Grades 4 - 6	54,000				
Grade 4		54,005	180	-	Complied
Grade 5		54,005	180	-	Complied
Grade 6		54,005	180	-	Complied
Grades 7 - 8	54,000				
Grade 7		61,925	180	-	Complied
Grade 8		61,925	180	-	Complied
Grades 9 - 12	64,800				
Grade 9		64,902	180	-	Complied
Grade 10		64,902	180	-	Complied
Grade 11		64,902	180	-	Complied
Grade 12		64,902	180	-	Complied

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2018

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

	Child Development Fund
FUND BALANCE	
Balance, June 30, 2018, Unaudited Actuals	\$ 1,160,021
Decrease in:	
Accounts receivable	(212,149)
Balance, June 30, 2018, Audited Financial Statements	\$ 947,872
	Cafeteria Fund
FUND BALANCE	
Balance, June 30, 2018, Unaudited Actuals	\$ 2,152,137
Decrease in:	
Accounts receivable	(75,556)
Balance, June 30, 2018, Audited Financial Statements	\$ 2,076,581
	Debt Service Fund for Blended Component Units
FUND BALANCE	
Balance, June 30, 2018, Unaudited Actuals	\$ -
Increase in:	
Investments	98,977
Balance, June 30, 2018, Audited Financial Statements	\$ 98,977

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2018

	(Budget)			
	2019 ¹	2018	2017	2016
GENERAL FUND ³				
Revenues	\$ 94,938,576	\$ 103,359,424	\$ 102,220,692	\$ 99,194,361
Other sources and transfers in	13,301	13,301	13,301	13,301
Total Revenues and Other Sources	94,951,877	103,372,725	102,233,993	99,207,662
Expenditures	99,278,585	103,194,814	99,015,594	84,208,067
Other uses and transfers out	700,000	3,932,618	19,959,629	10,711,577
Total Expenditures and Other Uses	99,978,585	107,127,432	118,975,223	94,919,644
INCREASE (DECREASE) IN FUND BALANCE	\$ (5,026,708)	\$ (3,754,707)	\$ (16,741,230)	\$ 4,288,018
ENDING FUND BALANCE	\$ 25,671,987	\$ 30,698,695	\$ 34,453,402	\$ 51,194,632
AVAILABLE RESERVES ²	\$ 7,257,454	\$ 9,583,501	\$ 10,228,481	\$ 21,351,683
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	7.26%	8.95%	8.60%	22.49%
LONG-TERM OBLIGATIONS ⁴	N/A	\$ 211,779,879	\$ 213,564,318	\$ 199,241,958
K-12 AVERAGE DAILY ATTENDANCE AT P-2	8,182	8,349	8,472	8,688

The General Fund balance has decreased by \$20,495,937 over the past two years. The fiscal year 2018-2019 budget projects a further decrease of \$5,026,708 (16.4 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2018-2019 fiscal year. Total long-term obligations have increased by \$12,537,921 over the past two years.

Average daily attendance has decreased by 339 over the past two years. Additional decline of 167 ADA is anticipated during fiscal year 2018-2019.

¹ Budget 2019 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund and the Special Reserve Fund for Other Than Capital Outlay Projects.

³ General Fund amounts do not include activity related to the consolidation of the Fund 14, Deferred Maintenance Fund and Fund 17 Special Reserve Fund for Other than Capital Outlay Project for fiscal years ending June 30, 2018, 2017, and 2016.

⁴ Long-term obligations have been restated as of June 30, 2017, due to the implementation of GASB Statement No. 75.

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET JUNE 30, 2018

	Adult Education Fund	Cafeteria Fund	Capital Facilities Fund
ASSETS			
Deposits and investments	\$ 1,742,847	\$ 2,365,353	\$ 2,827,004
Receivables	239,998	256,704	10,241
Due from other funds	50,695	197,101	105
Prepaid expenditures	-	9,705	-
Stores inventories	-	41,660	-
Total Assets	\$ 2,033,540	\$ 2,870,523	\$ 2,837,350
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 136,771	\$ 143,087	\$ -
Due to other funds	260,107	650,855	-
Total Liabilities	396,878	793,942	-
Fund Balances:			
Nonspendable	-	52,823	-
Restricted	1,636,662	2,023,758	2,837,350
Total Fund Balances	1,636,662	2,076,581	2,837,350
Total Liabilities and Fund Balances	\$ 2,033,540	\$ 2,870,523	\$ 2,837,350

See accompanying note to supplementary information.

State School Building Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Debt Service Fund for Blended Component Units	Total Non Major Governmental Funds
\$ 10	\$ 97	\$ 6,513,290	\$ 98,977	\$ 13,547,578
-	-	24,456	-	531,399
-	-	-	-	247,901
-	-	-	-	9,705
-	-	-	-	41,660
<u>\$ 10</u>	<u>\$ 97</u>	<u>\$ 6,537,746</u>	<u>\$ 98,977</u>	<u>\$ 14,378,243</u>
\$ -	\$ -	\$ -	\$ -	\$ 279,858
10	95	-	-	911,067
<u>10</u>	<u>95</u>	<u>-</u>	<u>-</u>	<u>1,190,925</u>
-	-	-	-	52,823
-	2	6,537,746	98,977	13,134,495
<u>-</u>	<u>2</u>	<u>6,537,746</u>	<u>98,977</u>	<u>13,187,318</u>
<u>\$ 10</u>	<u>\$ 97</u>	<u>\$ 6,537,746</u>	<u>\$ 98,977</u>	<u>\$ 14,378,243</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES FOR THE YEAR ENDED JUNE 30, 2018

	Adult Education Fund	Cafeteria Fund	Capital Facilities Fund
REVENUES			
Local Control Funding Formula	\$ 50,695	\$ -	\$ -
Federal sources	215,091	1,809,100	-
Other State sources	1,099,580	132,658	-
Other local sources	94,899	913,087	1,409,898
Total Revenues	<u>1,460,265</u>	<u>2,854,845</u>	<u>1,409,898</u>
EXPENDITURES			
Current			
Instruction	699,192	-	-
Instruction-related activities:			
Supervision of instruction	114,893	-	-
School site administration	445,290	-	-
Pupil services:			
Food services	-	2,914,664	-
All other pupil services	29,334	-	-
Administration:			
All other administration	49,316	125,404	41,451
Plant services	122,240	-	11,738
Other outgo	-	-	-
Facility acquisition and construction	-	-	18,906
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	<u>1,460,265</u>	<u>3,040,068</u>	<u>72,095</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>(185,223)</u>	<u>1,337,803</u>
Other Financing Sources (Uses)			
Transfers in	-	-	-
Transfers out	-	-	-
Net Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	-	(185,223)	1,337,803
Fund Balance - Beginning	<u>1,636,662</u>	<u>2,261,804</u>	<u>1,499,547</u>
Fund Balance - Ending	<u>\$ 1,636,662</u>	<u>\$ 2,076,581</u>	<u>\$ 2,837,350</u>

See accompanying note to supplementary information.

State School Building Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Debt Service Fund for Blended Component Units	Total Non Major Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ 50,695
-	-	425	-	2,024,616
-	-	32,436	-	1,264,674
-	1	7,698,960	1,237	10,118,082
-	1	7,731,821	1,237	13,458,067
-	-	-	-	699,192
-	-	-	-	114,893
-	-	-	-	445,290
-	-	-	-	2,914,664
-	-	-	-	29,334
-	-	-	-	216,171
-	-	-	-	133,978
-	-	-	1,500	1,500
-	-	-	-	18,906
-	-	200,000	2,590,000	2,790,000
-	-	5,071,238	1,203,588	6,274,826
-	-	5,271,238	3,795,088	13,638,754
-	1	2,460,583	(3,793,851)	(180,687)
-	-	-	3,793,177	3,793,177
-	-	(3,793,177)	-	(3,793,177)
-	-	(3,793,177)	3,793,177	-
-	1	(1,332,594)	(674)	(180,687)
-	1	7,870,340	99,651	13,368,005
\$ -	\$ 2	\$ 6,537,746	\$ 98,977	\$ 13,187,318

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2018**

NOTE 1 - PURPOSE OF SCHEDULES

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amount consists primarily of Medi-Cal Billing Option funds that have been recorded in current period as revenues that have not been expended in the current period. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balances:		\$ 5,931,257
Medi-Cal Billing Option	93.778	(11,566)
Total Schedule of Expenditures of Federal Awards		<u>\$ 5,919,691</u>

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2018

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The District exceeded its target funding. 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 1986-1987 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balances is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balances.

INDEPENDENT AUDITOR'S REPORTS



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

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**INDEPENDENT AUDITOR'S 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**

Governing Board
South San Francisco Unified School District
South San Francisco, California

We have audited, in accordance with the 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, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South San Francisco Unified School District (the District) as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise South San Francisco Unified School District's basic financial statements, and have issued our report thereon dated December 12, 2018.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 1 and 15 to the financial statements, in 2018, the District adopted new accounting guidance, GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered South San Francisco Unified School District's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of South San Francisco Unified School District's internal control. Accordingly, we do not express an opinion on the effectiveness of South San Francisco Unified School District's internal control.

A *deficiency in internal control* 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 and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the District's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify a certain deficiency in internal control, described in the accompanying Schedule of Findings and Questioned Costs, as item 2018-001, that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South San Francisco Unified School District's financial statements are free from 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*.

We noted certain matters that we reported to management of South San Francisco Unified School District in a separate letter dated December 12, 2018.

South San Francisco Unified School District's Response to Findings

South San Francisco Unified School District's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. South San Francisco Unified School District's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of This Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of the District's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the District's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.



Rancho Cucamonga, California
December 12, 2018



VAVRINEK, TRINE, DAY & CO., LLP
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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR
EACH MAJOR PROGRAM AND REPORT ON INTERNAL CONTROL
OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE**

Governing Board
South San Francisco Unified School District
South San Francisco, California

Report on Compliance for Each Major Federal Program

We have audited South San Francisco Unified School District's (the District) compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of South San Francisco Unified School District's major Federal programs for the year ended June 30, 2018. South San Francisco Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the federal statutes, regulations, and the terms and conditions of its Federal awards applicable to its Federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of South San Francisco Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. 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 the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 on compliance for each major Federal program. However, our audit does not provide a legal determination of South San Francisco Unified School District's compliance.

Opinion on Each Major Federal Program

In our opinion, South San Francisco Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2018.

Report on Internal Control Over Compliance

Management of South San Francisco Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered South San Francisco Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, 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 South San Francisco Unified School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.



Rancho Cucamonga, California
December 12, 2018



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INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
South San Francisco Unified School District
South San Francisco, California

Report on State Compliance

We have audited South San Francisco Unified School District's (the District) compliance with the types of compliance requirements as identified in the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the South San Francisco Unified School District's State government programs as noted below for the year ended June 30, 2018.

Management's Responsibility

Management is responsible for compliance with the requirements of State laws, regulations, and the terms and conditions of its State awards applicable to its State programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the South San Francisco Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2017-2018 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. 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 opinions. Our audit does not provide a legal determination of South San Francisco Unified School District's compliance with those requirements.

Unmodified Opinion

In our opinion, South San Francisco Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2018.

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

	Procedures Performed
LOCAL EDUCATION AGENCIES OTHER THAN CHARTER SCHOOLS	
Attendance	Yes
Teacher Certification and Misassignments	Yes
Kindergarten Continuance	Yes
Independent Study	No, see below
Continuation Education	Yes, see below
Instructional Time	Yes
Instructional Materials	Yes
Ratios of Administrative Employees to Teachers	Yes
Classroom Teacher Salaries	Yes
Early Retirement Incentive	No, see below
Gann Limit Calculation	Yes
School Accountability Report Card	Yes
Juvenile Court Schools	No, see below
Middle or Early College High Schools	Yes
K-3 Grade Span Adjustment	Yes
Transportation Maintenance of Effort	Yes
Apprenticeship: Related and Supplemental Instruction	No, see below
SCHOOL DISTRICTS, COUNTY OFFICES OF EDUCATION, AND CHARTER SCHOOLS	
Educator Effectiveness	Yes
California Clean Energy Jobs Act	Yes
After/Before School Education and Safety Program:	
General Requirements	No, see below
After School	No, see below
Before School	No, see below
Proper Expenditure of Education Protection Account Funds	Yes
Unduplicated Local Control Funding Formula Pupil Counts	Yes
Local Control Accountability Plan	Yes
Independent Study - Course Based	No, see below
CHARTER SCHOOLS	
Attendance	No, see below
Mode of Instruction	No, see below
Non Classroom-Based Instruction/Independent Study for Charter Schools	No, see below
Determination of Funding for Non Classroom-Based Instruction	No, see below
Annual Instruction Minutes Classroom-Based	No, see below
Charter School Facility Grant Program	No, see below

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

The District does not offer a Work Experience Program; therefore, we did not perform procedures related to the Work Experience Program within the Continuation Education Attendance Program.

The District did not offer an Early Retirement Incentive Program during the current year; therefore, we did not perform procedures related to the Early Retirement Incentive Program.

The District does not have any Juvenile Court Schools; therefore, we did not perform any procedures related to Juvenile Court Schools.

The District does not offer an Apprenticeship Program; therefore, we did not perform any procedures for the Apprenticeship Program.

The District does not offer an After School Education and Safety Program; therefore, we did not perform any procedures related to the After School Education and Safety Program.

The District does not offer an Independent Study – Course Based Program; therefore, we did not perform any procedures related to the Independent Study – Course Based Program.

The District does not have any Charter Schools; therefore, we did not perform any procedures for Charter School Programs.

Vavrinich, Train, Day & Co., LLP

Rancho Cucamonga, California
December 12, 2018

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS FOR THE YEAR ENDED JUNE 30, 2018

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unmodified</u>
Internal control over financial reporting:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	<u>No</u>
Significant deficiency identified?	<u>None reported</u>
Type of auditor's report issued on compliance for major Federal programs:	<u>Unmodified</u>
Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	<u>No</u>

Identification of major Federal programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027, 84.027A, 84.173, & 84.173A</u>	<u>Special Education (IDEA) Cluster</u>
<u>10.553, 10.555, & 10.559</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 750,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	<u>Unmodified</u>
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SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

The following finding represents a significant deficiency related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

General Ledger Deficiency – Accrual Clearing and Health & Welfare Holding Accounts Reconciliation

2018-001 30000

Criteria or Specific Requirements

To ensure that revenues and expenditures have been properly recorded in the correct accounting period, accounting accruals are used to recognize these activities in the corresponding accounting period. Following the set-up of accrual entries, the District can elect to post reversing entries in accordance to California School Accounting Manual Procedure 205 (Reversing Entries) or manually reverse or clear the established accruals in the subsequent accounting period as activities triggering the reversals occur. Regardless of the method used to clear the accounting accruals, the District must properly clear prior year's accounting accruals to ensure that current year's revenues and/or expenditures are correctly stated on the District's financial statements.

Condition

The following observations were made during our review of the District's account balances (Object 9xxx), we noted the following:

- 1) While the observed amounts were not significant or material to the financial statement, we observed that the District reestablished numerous prior year accruals without properly examining if there were transactions that would have cleared these balances. These observations include balances for accounts receivables and accounts payables.
- 2) The District appears to be utilizing object codes 956x and 957x for all funds with payroll activities as holding accounts to record its insurance activities. Effectively, these object codes serve to accumulate the necessary cash to pay obligations arising from monthly insurance premiums. We noted that actual insurance premiums are paid strictly from the General Fund. However, the District appears not to be reconciling or reviewing the impact of these accounts in other funds (Funds 11, 12, 13 & 21) with payroll activities present.

Questioned costs

There were no questioned costs associated with the condition identified.

Context

The condition was identified through the course of review and assessment of the District's account balances and general ledger activities related to insurance holding accounts.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Effect

Due to the condition identified, the District's current year revenues and expenditures are likely to be overstated. Additionally, due to the lack of reconciliation taking place over the District's insurance holding accounts, the General Fund has subsidized all insurance obligations arising from other funds with payroll activities.

Cause

The District's financial operation has been experiencing a shortage of individuals with adequate accounting knowledge to address the District's operational needs. Given the limited resources and the time constraints, the District appears to have prioritized its accounting function to address only the essential tasks and placed all ancillary tasks on hold. Moreover, it appears that the District's problem with chronic changes in personnel does not facilitate the corrective actions necessary to remedy the condition identified.

Recommendation

If the District does not have adequate resources or cannot allocate adequate human resources to correct this condition, we recommend the District to consider hiring a 3rd party consultant to address the condition identified. Specifically, the District should take immediate corrective action on its insurance holding accounts (object codes 956x and 957x) since these balances appear to be growing year-over-year.

Corrective Action Plan

The District is finally fully staffed in the Accounting and Payroll Services Department. Management staff will be reconciling the holding accounts (Object Code 956x and 957x) for all funds in the fiscal year 2018-19 and make the correcting entries to clear them by the year-end close.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2018**

None reported.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

The following findings represent significant deficiencies related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

Purchasing Deficiency – Direct Payments and Purchase Requisitions/Orders

2017-001 30000

Criteria or Requirement

Purchase requisitions/orders are essential internal control tools that are used in the District's disbursement process that control multiple parameters. The following are primary uses of purchase requisitions/orders within the scope of school District accounting:

- 1) They provide budgetary controls, including the determination of adequate funds budgeted, and account code used to record the transactions.
- 2) They provide a trail and hierarch of authorization and approval.
- 3) They also serve to filter numerous compliance requirements and assist in the filtering of potential activities that may be in violation of rules of regulations stipulated by restricted funds.
- 4) They provide a clear confirmation to the District's accounts payable personnel to pay the vendor(s) subsequent to the purchase transaction taking place.

Moreover, effective use of purchase requisitions/orders clearly indicate that the District's disbursement procedures are designed and working effectively with a good business practice in mind.

Condition

The following conditions were identified based on our review and assessment of the District's purchasing procedures:

- 1) It appears that the District frequently circumvents or ignores its established purchasing procedures. Specifically, we observed an unusually high volume of direct payments being made by the District. Direct payments are an alternative method to pay vendors that do not following the prescribed purchasing procedures and are generally used only in urgent/emergency circumstances.
- 2) It appears that the District's sites/departments are regularly engaging vendors prior to the processing and approval of purchase requisitions/orders. Specifically, we observed purchase orders being created on dates subsequent to vendor invoice date which is indicative that the vendor was engaged prior to approval/authorization of the purchase request.

Questioned Costs

There were no questioned costs associated with the condition identified.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Context

The condition was identified through the course of review and assessment of the District's purchase orders, disbursement procedures, vendor invoices, and through inquiry with the District's accounts payable personnel.

Effect

While the District has established purchasing procedures, the District appears to regularly circumvent its own protocol. The foundation of internal control relies on following and adhering to established procedures. Given the condition identified, it appears that there is a significant deficiency with respect to the District's purchasing procedures.

Cause

It appears that the condition materialized due to the following two primary reasons:

- 1) Inadequate training, enforcement, and dissemination of the purchasing procedures to its site/department personnel.
- 2) Absence of a purchasing department or designated personnel with the ability to intervene and prevent/eliminate circumvention of established purchasing procedures.

Recommendation

The District should strongly consider centralizing all purchasing related activities and responsibilities should be directly delegated to the District's Purchasing Department. More importantly, the District should consider recruiting an employee that has a comprehensive knowledge of regulations and procedures pertaining to purchasing and any additional employees to have an effective purchasing function at the District. If additional personnel cannot be part of the remedy, we strongly encourage the District to provide an immediate training to all impacted personnel on the District's proper purchasing protocol, which includes the effective use of purchase requisitions/orders. Furthermore, we recommend the District's Business Services Department to make an effort to enforce its purchasing procedures in an effort to discourage sites/departments from continuing to engage in similar business practices.

Current Status

Implemented.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Purchasing and Accounts Payable Deficiency – Segregation of Duty

2017-002 30000

Criteria or Specific Requirement

Good business practice and sound internal controls require proper segregation of responsibilities in order to prevent or eliminate the risk of misstatements in the District's financial statement due to fraud or error. The District's disbursement cycle incorporates both purchasing and accounts payable functions. It becomes imperative to separate these two functions to prevent or to mitigate the potential for fraudulent activities from taking place.

Condition

During our review and assessment of the job functions assigned to the District's Business Services Department, we noted the District's employees responsible for processing accounts payable had access and ability to create new vendors in the District's purchasing system. Additionally, the District appears to lack any mitigating controls to identify any unauthorized vendors from being created.

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

The condition was identified through the course of review and assessment of the purchasing and accounts payable systems and through inquiry with the District's accounts payable personnel.

Effect

Due to the condition identified, the District does not have the ability to mitigate the risk associated with the creation of unauthorized and/or fictitious vendors from being entered into the District's accounting system. This raises the risk of fraudulent transactions from taking place.

Cause

The District appears to be experiencing a critical shortage of personnel in its Business Services Department. Specifically, the District appears to lack personnel involved with purchasing functions. While the District has a part-time purchasing staff, it appears that this single position cannot service the volume of transactions that the District experiences on a regular basis.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Recommendation

The District should strongly consider centralizing all purchasing related activities and responsibilities should be directly delegated to the District's Purchasing Department. More importantly, the District should consider recruiting an employee that has a comprehensive knowledge of regulations and procedures pertaining to purchasing and any additional employees to have an effective purchasing function at the District. If additional personnel cannot be part of the remedy, we encourage the District to reassign responsibilities to its Business Services Department. During the reassignment, the District must eliminate access to the purchasing module for all employees involved with accounts payable functions and vice versa.

Current Status

Implemented.

General Ledger Deficiency – Accrual Clearing and Health & Welfare Holding Accounts Reconciliation

2017-003 30000

Criteria or Specific Requirement

To ensure that revenues and expenditures have been properly recorded in the correct accounting period, accounting accruals are used to recognize these activities in the corresponding accounting period. Following the set-up of accrual entries, the District can elect to post reversing entries in accordance to California School Accounting Manual Procedure 205 (Reversing Entries) or manually reverse or clear the established accruals in the subsequent accounting period as activities triggering the reversals occur. Regardless of the method used to clear the accounting accruals, the District must properly clear prior year's accounting accruals to ensure that current year's revenues and/or expenditures are correctly stated on the District's financial statements.

Condition

The following observations were made during our review of the District's account balances (Object 9xxx), we noted the following:

- 1) While the observed amounts were not significant or material to the financial statement, we observed that the District reestablished numerous prior year accruals without properly examining if there were transactions that would have cleared these balances. These observations include balances for accounts receivables, prepaid expenses, and accounts payable.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

- 2) The District appears to be utilizing object codes 956x and 957x for all funds with payroll activities as holding accounts to record its insurance activities. Effectively, these object codes serve to accumulate the necessary cash to pay obligations arising from monthly insurance premiums. We noted that actual insurance premiums are paid strictly from the General Fund. However, the District appears not to be reconciling or reviewing the impact of these accounts in other funds (Funds 11, 12, 13 & 21) with payroll activities present.

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

The condition was identified through the course of review and assessment of the District's account balances and general ledger activities related to insurance holding accounts.

Effect

Due to the condition identified, the District's current year revenues and expenditures are likely to be overstated. Additionally, due to the lack of reconciliation taking place over the District's insurance holding accounts, the General Fund has subsidized all insurance obligations arising from other funds with payroll activities.

Cause

The District's financial operation has been experiencing a shortage of individuals with adequate accounting knowledge to address the District's operational needs. Given the limited resources and the time constraints, the District appears to have prioritized its accounting function to address only the essential tasks and placed all ancillary tasks on hold. Moreover, it appears that the District's problem with chronic changes in personnel does not facilitate the corrective actions necessary to remedy the condition identified.

Recommendation

If the District does not have adequate resources or cannot allocate adequate human resources to correct this condition, we recommend the District to consider hiring a 3rd party consultant to address the condition identified. Specifically, the District should take immediate corrective action on its insurance holding accounts (object codes 956x and 957x) since these balances appear to be growing year-over-year.

Current Status

Partially implemented. See current year finding 2018-001.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Five Digit Code

50000

AB 3627 Finding Type

Federal Compliance

2017-004 50000

Federal Program Affected

Program Name: Title I, Part A – Basic Grants, Low Income and Neglected and Child Nutrition Cluster
CFDA Number: 84.010, 10.553, 10.555, and 10.559

Pass-Through Entity: California Department of Education

Federal Agency: U.S. Department of Education and U.S. Department of Agriculture

Criteria or Specific Requirements

Title 34, Code of Federal Regulations, Part 80, Subpart C, Section 80.35 requires grantees and subgrantees not to make any award or permit any award (subgrant or contract) at any tier to any party which is debarred or suspended or is otherwise excluded from or ineligible for participation in Federal assistance program under Executive Order 12549, "Debarment and Suspension." Additionally, Title 2, Code of Federal Regulations, Part 180 provides guidelines to agencies on government-wide debarment and suspension requirements that must be followed.

Condition

During the 2016-2017 fiscal year, the District's food services operation did not have a policy to ensure compliance with Title 2, CFR, Part 180. Specifically, the District did not have a method of reviewing and identifying vendors that have been awarded contracts that may be debarred or suspended.

Questioned Costs

There were no questioned costs identified since the District did not expend any of its Federal awards on debarred and/or suspended parties.

Context

The condition was identified as a result of the auditor's inquiry with the District's food services department and through review of supporting documents.

Effect

The District has been engaging in procurement activities without verifying if the vendor is subject to debarment and/or suspension. The District currently assumes all the risk of non-compliance with requirements stated under 34 CFR, Part 80, Subpart C, Section 80.35 due to the lack of implemented review and monitoring procedures.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Cause

The condition identified appears to have materialized due to the District's chronic changes in personnel and contributed by the time constraints placed on key fiscal services personnel that cannot allocate the necessary resources and time to provide sufficient oversight for this compliance function.

Recommendation

The District should review the requirements stated in 34 CFR, Part 80, Subpart C, Section 80.35 and implement a procedure to address the deficiency currently identified with the District's procurement process. The District should draft its procedures to conform to requirements stated in 2 CFR Part 180 to ensure that the District's policy is consistent with the Office of Management and Budget's Debarment and Suspension guidelines. Additionally, the District should continue to make an effort to recruit and retain qualified individual(s) that can perform this compliance function as well assist in other key fiscal functions that the District has not prioritized.

Current Status

Implemented

2017-005 50000

Federal Program Affected

Program Name: Child Nutrition Cluster
CFDA Number: 10.553, 10.555, and 10.559
Pass-Through Entity: California Department of Education
Federal Agency: U.S. Department of Agriculture

Criteria or Specific Requirements

Per Title 7, Code of Federal Regulations, Part 210, Subpart C, Section 210.14(e)(3) requires a school food account to establish an average price for the current school year that is not less than the average price charged in the previous school year when the average price from the prior school year is lower than the difference in reimbursement rates as determined in Title 7, Code of Regulations, Part 210, Subpart C, Section 210.14 paragraph (e)(1)(iii).

Condition

During the 2015/2016 fiscal year, the District performed the required paid lunch equity calculation to determine the required pricing of paid lunches for the 2016/2017 fiscal year. However, the District's governing board elected not to increase the meal prices in accordance with the calculation performed.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Questioned Costs

There were no direct questioned costs identified. However, the District would have generated approximately \$30,973 in additional program income if the District chose to increase the meal prices by \$0.15 cents, in accordance with the calculation performed.

Context

The condition was identified as a result of the auditor's inquiry with the District's Child Nutrition Service personnel and through review of the District's accounting records related to the Child Nutrition program.

Effect

The District has not complied with the requirements identified in Title 7, Code of Federal Regulations, Part 210, Subpart C, Section 210.14(e).

Cause

While the compliance function was performed, the condition appears to have materialized due to the District's voluntary decision not to increase meal prices.

Recommendation

The District should review the requirements stated in Title 7, Code of Federal Regulations, Part 210, Subpart C, Section 210.14(e) and implement a procedure to address the deficiency currently identified with the required calculation of paid lunch pricing for the District. The District should draft and adopt necessary procedures to comply with the requirements.

Current Status

Implemented

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Five Digit Code

10000

40000

AB 3627 Finding Type

Attendance

State Compliance

Attendance

2017-006 10000

Criteria or Specific Requirements

Pursuant to California Education Code Section 42238.02, the Second Principal (P2) and Annual attendance reports submitted to the California Department of Education must reconcile back to supporting documents that the Local Educational Agency (LEA) has prepared in connection with the calculation of its Average Daily Attendance (ADA) reported on each of the reporting line items.

Condition

The District reported 7.00 ADA for its Extended Year Special Education for grade span of fourth through sixth grade on its P2 attendance report. However, supporting schedules from the District's attendance records did not reconcile back to the District's reported ADA. Specifically, supporting schedules indicated that the District should have reported 0.07 ADA instead of 7.00 ADA which resulted in a variance of 6.93 ADA.

Questioned Costs

There were no questioned costs associated with the condition identified. However, the District's P2 attendance report was overstated by 6.93 ADA for P2 attendance report. Additionally, the District is a basic aid District and as a result, there was no impact on current year's revenues.

Context

The condition was identified during our review of the District's P2 and Annual attendance reports. Cumulative attendance summary reports supporting each of the reported line items were generated from the District's attendance system and the reports were compared with spreadsheets used by the District to prepare its P2 and Annual attendance reports.

Effect

As a result of the condition identified, it appears that the District's ADA reported by the District for its Extended Year Special Education Program ADA was overstated 6.93 ADA on its P2 attendance report.

Cause

The cause appears to be triggered by the District's error in compiling records and reports that are necessary to complete the P2 and Annual attendance reports.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Recommendation

While the use of spreadsheets will facilitate the preparation of the District's P2 and Annual attendance reports, the District must ensure that information entered on the spreadsheets must coincide with information from the source document(s) being used. The District's P2 and Annual attendance report preparation process must include an element of independent review to prevent and eliminate any error associated with data entries.

Current Status

Implemented

Unduplicated Local Control Funding Formula Count

2017-007 40000

Criteria or Specific Requirements

Per California Education Code Section 42238.02(b)(4), Local Educational Agencies (LEAs) should revise their submitted data on English learners, foster youth, and free or reduced-price meal eligible pupil counts to ensure the accuracy of information reported on the California Longitudinal Pupil Achievement Data System (CALPADS).

Condition

It appears that the District erroneously classified a total of 327 students as having English learner designations.

Questioned Costs

The District overstated its total eligible pupils by 327, resulting in a decrease of approximately \$93,864 in Local Control Funding Formula (LCFF) Funding.

Context

The condition was identified as a result of selecting a sample of students from the "1.18 – FRPM/English Learner/Foster Youth – Student List" CALPADS report in accordance to the *Standards and Procedures for Audits of California K-12 Local Education Agencies 2016-2017* Section 19849(a)(1). The initial sample was selected from six school sites, which resulted in exceptions noted for four of these sites. Specifically based on the review of supporting documentation it was identified that ten students had already been pre-designated fluent English proficient. It appears the District did not upload the appropriate information to have CALPADS be updated. The auditor requested a full list of all students who were re-designated to English proficient but still having the English learner eligibility on the CALPADS report. The District's search criteria yielded a total of 327 students that were incorrectly designated as having "1.18 – English Learner – Student List" report.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2018

Effect

As a result of our testing, it appears that the District did not update the 1.18 – FRPM/English Learner/Foster Youth – Student List” CALPADS report for pupils that had been reclassified to being English proficient designation on the “1.18 – FRPM/English Learner/Foster Youth – Student List” CALPADS report. The schedule below summarizes the effect of the audit procedures performed:

	Enrollment Count	Certified Total Unduplicated Count	Adjustment Based on Eligibility for English Learner	Adjusted Total Enrollment Count	Adjusted Total Unduplicated Pupil Count
District-Wide	8,875	4,164	(327)	8,875	3,837

Cause

The cause is unknown.

Recommendation

The District should emphasize the importance of completing the Form 1.18 accurately, which would include ensuring that all changes are accurately and timely updated based on new eligibility documentation received. In addition, the District should identify and evaluate key CALPADS calendar dates to ensure that appropriate and necessary measures are taking place to ensure that CALPADS information is being updated.

Current Status

Implemented



VAVRINEK, TRINE, DAY & CO., LLP
Certified Public Accountants

VALUE THE *difference*

Governing Board
South San Francisco Unified School District
South San Francisco, California

In planning and performing our audit of the financial statements of South San Francisco Unified School District, for the year ended June 30, 2018, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 12, 2018, on the government-wide financial statements of the District.

INTERNAL CONTROLS

Revolving Account Reconciliation

Observation

Based on testing performed, it appears that the District was not adhering to the established procedure to reconcile its revolving cash account back to the imprest amount of \$33,000 on a regular basis. In addition, the bank reconciliation was not being reviewed by an independent party to verify the accuracy and appropriateness of the reconciliation.

Recommendation

District's revolving cash should be reconciled at two different levels. First the District should reconcile back to the balance reflected on the ledger using ending bank statement balances. Secondly, the District should reconcile back to imprest amount established by the District by taking into account those expenditure transactions that have yet to be reimbursed. Both level of reconciliations should be performed on a monthly basis and reviewed independently, preferably by an administrator with accounting knowledge, to ensure proper monitoring of the District's revolving cash transactions.

Credit Card Purchases

Observation

Based on our review of the credit card purchases procedure, the purchases made with credit cards were not always accompanied by supporting documents to substantiate the transactions being made. The lack of supporting documents increases the chance of unallowed activities and misappropriations to take place.

Recommendation

Regular transactions for District's day-to-day operations should be processed following established purchasing procedures. By substituting credit cards in place of following the District's purchasing procedures, the District is circumventing established controls that are intended to protect the District and its employees. Credit cards may be required and should be used for certain travel related expenditures. However, due to the high volume of credit card transactions, the statement should be closely reviewed by an independent administrator. This will ensure that the credit card will be utilized for District activities and not for personal reasons. Additionally, all credit card transactions must be accompanied by supporting documents to properly document that transactions are made in relation to the District's operation and not for personal reasons.

Direct Payments and Purchase Requisitions/Orders

Observation

The following conditions were identified based on our review and assessment of the District's purchasing procedures:

- 1) It appears that the District is not always following its established purchasing procedures. Specifically, we observed frequent direct payments being made by the District. Direct payments are an alternative method to pay vendors that do not following the prescribed purchasing procedures and are generally used only in urgent/emergency circumstances.
- 2) It appears that the District's sites/departments are regularly engaging vendors prior to the processing and approval of purchase requisitions/orders. Specifically, we observed purchase orders being created on dates subsequent to vendor invoice date which is indicative that the vendor was engaged prior to approval/authorization of the purchase request.

Recommendation

The District's should centralize all purchasing related activities and responsibilities should be directly delegated to the District's Purchasing Department. More importantly, the District should consider recruiting an employee that has a comprehensive knowledge of regulations and procedures pertaining to purchasing and any additional employees to have an effective purchasing function at the District. If additional personnel cannot be part of the remedy, we strongly encourage the District to provide an immediate training to all impacted personnel on the District's proper purchasing protocol, which includes the effective use of purchase requisitions/orders. Furthermore, we recommend the District's Business Services Department to make an effort to enforce its purchasing procedures in an effort to discourage sites/departments from continuing to engage in similar business practices.

Substitute Teacher Time Cards

Observation

Based on our review of the District's payroll procedures for substitute employees, we noted that timecards remitted to the District's Payroll Department are not signed by an authorizing and/or supervising employee to substantiate that the information remitted is accurate and consistent. As a result, the District has an increased risk of erroneously processing payroll for substitute teachers.

Recommendation

Similar to any of the District's procedures, review and approval process should take place prior to timecards being remitted to the District's Payroll Department. Without the presence of a review and approval process, the likelihood of error and/or fraud increases. We recommend the District to ensure that site administrators are review and documenting their review process on timecards prior to the timecards being remitted to the Payroll Department for processing.

ASSOCIATED STUDENT BODY (ASB)

Alta Loma Middle School

Revenue Deficiencies

Observation

- 1) During testing of the ASB internal controls over cash receipts, it was noted that advisors do not perform a dual count when reconciling daily sales to cash on hand. In addition, a dual count does not take place when the accounting tech retrieves the money from the safe to prepare the deposit.
- 2) Deposits are not being made timely by the club advisors to the bookkeeper. This results in large cash balances being maintained at the site which severely decreases the safeguarding of the asset. Untimely deposits ranged from 10-11 days from original receipt date.

Recommendation

- 1) It is essential that a dual count take place when an advisor is performing a close out and reconciling cash on hand. A dual count and reconciliation between cash on hand and supporting documentation ensures that the advisors deposit is intact and accurate. It is just as important that the accounting technician perform a recount with another individual, to ensure that money ties back to its supporting documentation and that is it included in the bank deposit intact. Each time a dual count takes place we recommend that both individuals initial and date the cash count form.
- 2) At a minimum, deposits should be made weekly to minimize the amount of cash held at the site. During weeks of high cash activity there may be a need to make more than one deposit. The District should establish guidelines for this procedure including the maximum cash on hand that should be maintained at the site.

Disbursement Deficiencies

Observation

- 1) Based on our review of the disbursement procedures, we noted that 10 of 15 sample disbursements tested were not approved prior to transactions taking place. This could potentially lead to spending in excess of available funds. Additionally, expenditures of a questionable nature could arise if disbursements are not pre-approved. In addition, 1 of 15 sample disbursement approval requests reviewed lacked a principal's approval.
- 2) ASB disbursements were being made without verification of receiving documentation for goods being ordered. As a result, 3 of 15 vendor invoices were paid without the direct knowledge of whether or not the goods being ordered have been received by the ASBs.

- 3) Based on our review of disbursement procedures, we noted that disbursements are exceeding amount approved on purchase request forms. This exception was noted in 2 of 15 sample disbursements tested.

Recommendation

- 1) In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by student body advisor, the student council, and the principal. This would allow the reviewing administrator and/or the student council to determine if the proposed activities are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
- 2) All goods being ordered should be documented with explicit receiving documentation. Documentation should indicate the date that the goods have been received and documentation regarding whether or not the goods have been received intact, undamaged, and in the correct quantities. Payments for vendor invoices should only be made once the receiving documentation is available.
- 3) It is recommended that the site should review reimbursement request to ensure that disbursement has not exceeded amount approved on the initial purchase request.

Fundraisers

Observation

Through inquiry and review of fundraiser documents, it was noted that revenue potential forms are not being completed. Actual revenues and expenses are not compared to expected revenue and expenses to determine success or failure of fundraiser.

Recommendation

As the revenue potential form is a vital internal control tool, it should be used to document revenues, expenditures, potential revenue and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due and so forth.

Inventory

Observation

Perpetual inventory is not calculated and reconciled to the periodic inventory count done at the end of the fiscal year.

Recommendation

The ASB should implement a perpetual inventory system. This will allow the ASB to compute and reconcile daily sales, cost of goods sold, and items on hand at end of each close out. The starting point will be from a physical inventory count and from there any items sold should be deducted from the count and any items purchased should be added to the count. This perpetual inventory counts should be reconciled to a quarterly/annual physical inventory count. A physical inventory should be taken at least quarterly under the supervision of an administrator. The inventory listing should contain a description, unit cost, quantity, and extended value. This information is necessary in order to analyze sales activity, profits, and to determine if merchandise has been lost or stolen. The June 30 inventory report would also be used in the preparation of the financial statements prepared for the Associates Student Body of the site. In addition, the inventory report should be compared to the corresponding time periods sales to ensure that the amount of inventory noted as being sold corresponds to the amount of sales generated.

Ticket Sales

Observation

A ticket sales recap form is not consistently prepared and submitted with the remaining ticket roll and cash collections to the bookkeeper. In addition, it was noted that on one ticket sales recap form, the ending ticket number did not agree to amount recorded on ticket control log.

Recommendation

A ticket sales recap form serves the purpose of calculating, based on the number of tickets sold out of the roll and the price per ticket, the amount of cash that should have been collected. The recap should be reconciled to the cash deposit forwarded to the bookkeeper. This procedure documents overages and shortages of cash and informs site personnel about potential problems in cash collections. The forms should be filed along with the deposit form and other pertinent documents.

South San Francisco High School

Revenue Deficiencies

Observation

- 1) During our review of procedures performed over cash receipts, we noted that 11 out of 56 sample cash receipts reviewed lacked supporting documentation. This was noted to be a result of advisors only turning in a deposit slip, which dictates the total amount of cash and each check being deposited. Without the presence of supporting documentation, we were unable to ensure that the deposits made are accurate and intact.
- 2) Through inquiry and review of cash deposit documentation, we noted that a dual count is not performed every time money exchanges hands. In addition, we noted that the ASB accountant is only at the school site for three hours a day, therefore teachers will deposit money into the school safe. The ASB accountant will retrieve the money from the safe and count it by herself.
- 3) During our review of the cash receipting procedures, we noted that proceeds from events are not being deposited in its entirety. From the 56 sample receipts tested, we noted that a single sampled receipt in connection with proceeds from sports event was used to pay for staffing fees without first depositing the amount in the bank.

Recommendation

- 1) It is essential that advisors provide copies of supporting documentation with their cash deposits. This will allow the accounting technician to reconcile the deposit to its supporting documentation and ensure that the deposit is intact and accurate.
- 2) It is essential that a dual count take place when an advisor is performing a close out and reconciling cash on hand. A dual count and reconciliation between cash on hand and supporting documentation ensures that the advisors deposit is intact and accurate. It is just as important that the accounting technician perform a recount with another individual, to ensure that money ties back to its supporting documentation and that it is included in the bank deposit intact. Each time a dual count takes place we recommend that both individuals initial and date the cash count.
- 3) Proceeds from all fundraisers should be deposited in its entirety into the bank immediately following the event. Any fees for event should be paid following normal disbursement procedures to ensure expenses are authorized by student body.

Disbursement Deficiencies

Observation

- 1) During our review of the ASB's cash disbursements procedures, we noted that 20 out of 25 sample disbursements reviewed lacked preapproval from the site administrator and the student council.
- 2) During our review of the ASB's cash disbursements procedures, we noted that 5 out of 25 sample disbursements reviewed did not have adequate receiving documentation.
- 3) Through review of cash disbursement procedures, it was noted that an expense was approved without appropriate supporting documentation such as an invoice.

Recommendation

- 1) All expenditures, prior to the items being purchased, should be approved by the student council to ensure that the proper funding is available. This procedure will not only ensure that deficit spending is not performed, and that items being purchased are student approved items. Additionally, approval of all ASB disbursements must be authorized by designated site personnel and student representative to ensure that ASB funds are being used appropriately.
- 2) Receiving documentation should be maintained for all disbursements to ensure that the student council is not paying for items which they have not received.
- 3) All invoices should be accompanied by a check request where applicable, and signed receiving documentation. This reduces the risk of unauthorized spending, and items being paid for and not received. Check requests provide clubs with documentation of items requested that can then be checked to the receiving documentation for accuracy and completeness, giving the clubs better control over their spending and inventory.

Fundraisers

Observation

Through inquiry and review of fundraiser documents, it was noted that revenue potential forms are not being completed. Actual revenues and expenses are not compared to expected revenue and expenses to determine success or failure of fundraiser.

Recommendation

As the revenue potential form is a vital internal control tool, it should be used to document revenues, expenditures, potential revenue and actual revenue. This allows an analysis of the fundraiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due and so forth.

Ticket Sales

Observation

1. A master ticket log is not being used by the sites to account for all tickets on hand and used during the year.
2. A ticket sales recap form is not prepared and submitted with the remaining ticket roll and cash collections to the bookkeeper.

Recommendation

1. A master ticket log should be maintained which notes the type of ticket, color, and current beginning ticket number in the roll. The tickets should be safeguarded as if they were cash because stolen tickets would equate to lost revenue for the site because these tickets could be presented for admission rather than an individual paying for admission. When ticket rolls are issued, they should be logged out noting the beginning ticket number in the roll and to whom the roll was issued. When the ticket sales recap form is returned, the form should be reconciled to the log.
2. A ticket sales recap form serves the purpose of calculating, based on the number of tickets sold out of the roll and the price per ticket, the amount of cash that should have been collected. The recap should be reconciled to the cash deposit forwarded to the bookkeeper. This procedure documents overages and shortages of cash and informs site personnel about potential problems in cash collections. The forms should be filed along with the deposit form and other pertinent documents.

Cash Cans

Observation

Auditor noted that while clubs fundraise or hold events, they keep cash in a "cash can" or lock box. Upon requesting to view the "cash cans" it was noted that they contain a lock and function as intended but the key is always attached to the can, which prevents the safe keeping of cash.

Recommendation

It is essential that the key not be attached to the cash can, to ensure the safe keeping of cash. Since the key is always attached to the cash can, anybody has access to open the can and take money.

Deficit Balances

Observation

During review of the student council's account analysis it was noted Boys Basketball club is in the deficit as of the audit. Boys Basketball had a negative account balance of \$1,057.45.

Recommendation

If by year end the clubs stated are unable to the recover from their deficit, it is recommended that the general ASB observe the cost to get the club back to zero. In addition, it is recommended that during the approval process for disbursements, if a club is noted to be in a deficit, they not be allowed to expense money until they have sufficient funds as the general ASB fund is not a lending agency and funds are intended to be used on the student population as a whole and not a single group.

We will review the status of the current year comments during our next audit engagement.

Vavrinch, Train, Dwyer & Co, LLP

Rancho Cucamonga, California
December 12, 2018