

**SOUTH SAN FRANCISCO UNIFIED
SCHOOL DISTRICT**

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

AUDIT REPORT

June 30, 2005

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
AUDIT REPORT
June 30, 2005

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A PROFESSIONAL ACCOUNTANCY CORPORATION

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We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South San Francisco Unified School District, as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the South San Francisco Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the South San Francisco Unified School District, as of June 30, 2005, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 14, 2005 on our consideration of the South San Francisco Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 12 and budgetary comparison information on page 45 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise South San Francisco Unified School District's basic financial statements. The other supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

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

San Diego, California
October 14, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2005

This discussion and analysis of South San Francisco Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2005. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

- Total net assets decreased 7 percent over the course of the year.
- Overall revenues were \$71.7 million, \$4.9 million less than expenses.
- The total cost of basic programs was \$48.2 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was \$40.0 million.
- The District increased its outstanding long-term debt \$1.8 million or 4 percent. This was primarily due to the \$2.1 million net increase in the District's Early Retirement Incentive Program Liability during the year.
- Average daily attendance (ADA) increased by 29, or <1%.

OVERVIEW OF THE FINANCIAL STATEMENTS

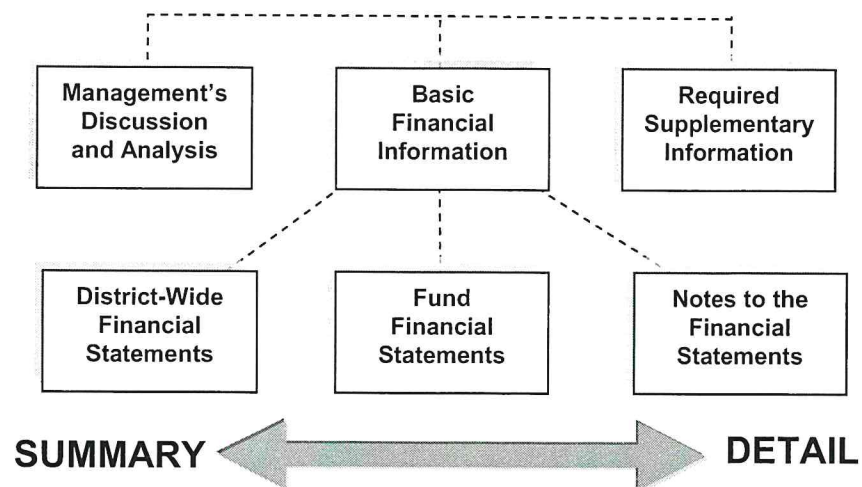
This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2005

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

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



SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2005

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

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

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2005

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

District-wide Statements

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

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

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

Fund Financial Statements

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

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2005

The District has two kinds of funds:

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2005

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were lower on June 30, 2005, than they were the year before – decreasing 7% to \$63,059,375 (See Table A-1).

Table A-1
South San Francisco Unified School District's Net Assets
(In dollars)

	Governmental Activities		Total
	2004	2005	Percentage Change 2004-2005
Current and other assets	\$ 36,826,688	\$ 38,482,444	4%
Capital assets	97,767,434	95,642,944	-2%
Total assets	<u>\$ 134,594,122</u>	<u>\$ 134,125,388</u>	<u>0%</u>
Long-term debt outstanding	43,784,112	45,544,813	4%
Other liabilities	22,855,987	25,521,200	12%
Total liabilities	<u>66,640,099</u>	<u>71,066,013</u>	<u>7%</u>
Total net assets	<u>\$ 67,954,023</u>	<u>\$ 63,059,375</u>	<u>-7%</u>

The District's lower combined net assets at June 30, 2005 compared to the prior year is mainly the result of a \$2.7 million increase in long-term liabilities. Although capital assets increased by \$2.2 million, accumulated depreciation increased by \$4.3 million causing a \$2.1 million decline, or 2%, in the net book value of the District's capital assets.

Changes in net assets, governmental activities. The District's total revenues were \$71.7 million (See Table A-2). The increase is due primarily to an increase in categorical funding of about \$4.2 million.

The total cost of all programs and services was \$76.6 million. The District's expenses are predominantly related to educating and caring for students, 63.8%. The purely administrative activities of the District accounted for just 4.3% of total costs, a decrease of 4% over prior-year. The total costs increased by 4%, primarily due to a \$2.7 million increase in instruction-related expenses, a \$.2 million increase in pupil services costs and a \$.9 million increase in maintenance and operations.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2005

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

	Governmental Activities		Total Percentage
	2004	2005	Change
			2004-2005
Revenues:			
Program revenues			
Charges for services	\$ 647,020	\$ 687,862	6%
Federal & state categorical programs	10,804,619	14,996,571	39%
General revenues			
Property taxes	47,110,734	39,835,213	-15%
State formula aid	5,717,151	14,810,311	159%
Other revenues	4,237,150	1,403,052	-67%
Total revenues	68,516,674	71,733,009	5%
Expenses:			
Instruction-related	46,125,259	48,850,828	6%
Student support services	5,861,954	6,106,217	4%
Maintenance & operations	8,732,794	9,674,247	11%
Administration	3,444,590	3,314,423	-4%
Other expenses	9,526,941	8,639,280	-9%
Total expenses	73,691,538	76,584,995	4%
Increase (decrease in net assets)	\$ (5,174,864)	\$ (4,851,986)	6%

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

- The cost of all *governmental* activities this year was \$76,584,995.
- Some of the cost was paid by the users of the District's programs (\$687,862).
- The federal and state governments subsidized programs with grants and contributions (\$14,996,571).
- Most of the District's costs (\$60,900,562), however, were paid for by District taxpayers and the taxpayers of California. This portion of governmental activities was paid for with property taxes, unrestricted state aid based on the statewide education aid formula, and with investment earnings.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2005

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

	Total Cost of Services	Net Cost of Services
Instructional services	\$ 48,850,828	\$ 40,574,519
Pupil support services	6,106,217	4,487,837
Maintenance & operations	9,674,247	8,207,197
Administration	3,314,423	3,016,026
Other expenses	8,639,280	4,614,983
Total expenses	<u>\$ 76,584,995</u>	<u>\$ 60,900,562</u>

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$13.5 million, which is below last year's ending fund balance of \$14.2 million. The District's General Fund had more revenues than expenditures in 2005, due to additional state revenues and realignment of budgeted expenditures.

General Fund Budgetary Highlights

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

- Revenues – increased by \$4.8 million primarily to reflect federal and state budget actions
- Services and other operating expenses – increased \$1.3 million to Phase II of FAA-sponsored noise abatement program.

While the District's final budget for the general fund anticipated expenditures would exceed revenues by about \$2.4 million, the actual results for the year show that revenues exceeded expenditures by roughly \$1.5 million. Actual revenues were \$3.7 million less than anticipated, but expenditures were \$5.0 million less than budgeted. That amount consists primarily of a favorable \$3.5 million expenditure variance for books and supplies, as actual expenditures for books and supplies were less than anticipated in the fiscal 2004-05 fund budget.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2005

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2004-05 the District had invested over \$125.6 million in capital assets, as shown in Table A-4.

Table A-4
South San Francisco Unified School District's Capital Assets
(In dollars)

	Governmental Activities		Total Percentage
	2004	2005	Change
			2004-2005
Land	\$ 4,305,189	\$ 4,305,189	0%
Site Improvements	2,247,069	2,360,551	5%
Buildings	113,528,265	113,539,418	0%
Equipment and furniture	3,050,590	3,117,948	2%
Work in progress	339,258	2,322,177	584%
Total	<u>\$ 123,470,371</u>	<u>\$ 125,645,283</u>	<u>2%</u>

Long-Term Debt

At year-end the District had \$45.5 million in general obligation bonds, capital leases and employment benefits – an increase of 4% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 9 to the financial statements.)

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

	2004	2005	Total Percentage Change
			2004-2005
General obligation bonds	\$ 39,123,670	\$ 38,955,474	0%
Certificates of participation	2,438,153	2,313,699	-5%
Accumulated vacation - net	603,493	613,292	2%
Early retirement incentives	1,400,856	3,477,939	148%
Environmental Protection Agency loan	217,940	184,409	-15%
Total	<u>\$ 43,784,112</u>	<u>\$ 45,544,813</u>	<u>4%</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2005

FACTORS BEARING ON THE DISTRICT'S FUTURE

The 2005-2006 State budget reflects an improving state fiscal picture brought about by better-than-expected growth in General Fund revenues. The new spending plan funds the Proposition 42 transfer to transportation, and includes significant increases in both K-12 and higher education. The new budget does not use any of the remaining \$3.7 billion in deficit-financing bonds authorized by Proposition 57 in March 2004, and it prepays a \$1.2 billion loan due to local governments in 2006-07. The spending plan includes roughly \$6 billion in savings and related budget solutions in order to maintain budgetary balance. The savings included in the 2005-06 budget will address part of the state's ongoing structural budget shortfalls. However, even if all of the savings in the plan are fully achieved, the Legislative Analyst's Office (LAO) believes that current-law expenditures will exceed projected revenues by around \$6.1 billion in 2006-07.

The K-12 portion of the Proposition 98 budget package provides \$7,402 per pupil, which represents an increase of \$379 per pupil, or 5.4% above revised 2004-05 per pupil spending. Major funding changes in the budget include a 4.23% COLA for revenue limits and most categorical programs, growth of 0.7%, revenue limit deficit factor reduction at a cost of more than \$400 million, and other augmentation to ongoing programs

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

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

District Address

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

FINANCIAL SECTION

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2005

	Total Governmental Activities
ASSETS	
Cash	\$ 14,910,093
Investments	16,096,334
Receivables	6,886,885
Stores	232,469
Prepaid expenses	356,663
Capital assets:	
Land	4,305,189
Improvement of sites	2,360,551
Buildings	113,539,418
Furniture and equipment	3,117,948
Work in progress	2,322,177
Less accumulated depreciation	(30,002,339)
Total capital assets, net of depreciation	95,642,944
Total assets	<u>\$ 134,125,388</u>
LIABILITIES	
Accounts payable and current liabilities	\$ 9,417,761
Deferred revenues	818,239
Tax and revenue anticipation notes	15,285,200
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds payable	890,274
Certificates of participation payable	131,897
Compensated absences	613,292
Environmental Protection Agency loan	33,531
Early retirement incentives	1,149,907
Portion due or payable after one year:	
General obligation bonds payable	38,065,200
Certificates of participation payable	2,181,802
Environmental Protection Agency loan	150,878
Early retirement incentives	2,328,032
Total liabilities	<u>71,066,013</u>
NET ASSETS	
Invested in capital assets, net of related debt	54,189,362
Restricted for:	
Capital projects	4,210,243
Debt service	2,118,751
Educational programs	2,422,479
Unrestricted	<u>118,540</u>
Total Net Assets	<u><u>\$ 63,059,375</u></u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2005

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Instructional Services:				
Instruction	\$ 40,007,756	\$ 170,612	\$ 7,188,719	\$ (32,648,425)
Instruction-Related Services:				
Supervision of instruction	3,057,333	31,941	355,533	(2,669,859)
Instructional library, media and technology	870,163	9,604	14,672	(845,887)
School site administration	4,915,576	18,872	486,356	(4,410,348)
Pupil Support Services:				
Home-to-school transportation	586,416	-	223,982	(362,434)
Food services	2,483,128	260	1,127,134	(1,355,734)
All other pupil services	3,036,673	698	266,306	(2,769,669)
General Administration Services:				
Data processing services	250,445	-	-	(250,445)
Other general administration	3,063,978	14,565	283,832	(2,765,581)
Plant services	9,674,247	413,439	1,053,611	(8,207,197)
Community services	21,505	-	-	(21,505)
Interest on long-term debt	2,208,949	-	-	(2,208,949)
Other outgo	2,109,424	27,871	3,996,426	1,914,873
Depreciation (unallocated)	4,299,402	-	-	(4,299,402)
Total Governmental Activities	<u>\$ 76,584,995</u>	<u>\$ 687,862</u>	<u>\$ 14,996,571</u>	<u>\$ (60,900,562)</u>
General Revenues:				
Taxes:				
Property taxes, levied for general purposes				37,405,363
Property taxes, for debt services				2,429,850
Federal and state aid not restricted to specific purpose				14,810,311
Interest and investment earnings				904,196
Special and extraordinary items				451,859
Miscellaneous				46,997
Total general revenues				<u>56,048,576</u>
Change in net assets				(4,851,986)
Net assets - July 1, 2004				<u>67,911,361</u>
Net assets - June 30, 2005				<u>\$ 63,059,375</u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2005

	General Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash	\$ 5,633,615	\$ 4,241,125	\$ 5,035,353	\$ 14,910,093
Investments	15,813,845	143,412	139,077	16,096,334
Accounts receivable	883,566	33,282	531,360	1,448,208
Due from grantor governments	5,082,676	-	356,001	5,438,677
Due from other funds	1,141,512	260,516	589,485	1,991,513
Stores	169,142	-	63,327	232,469
Prepaid expenditures	350,215	-	6,448	356,663
Total Assets	<u>\$ 29,074,571</u>	<u>\$ 4,678,335</u>	<u>\$ 6,721,051</u>	<u>\$ 40,473,957</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable and accrued liabilities	\$ 6,691,711	\$ 1,732,382	\$ 348,141	\$ 8,772,234
Tax and revenue anticipation note	15,285,200	-	-	15,285,200
Due to grantor governments	62,325	-	-	62,325
Due to other funds	345,889	483,337	1,162,287	1,991,513
Deferred revenue	791,906	-	26,333	818,239
Total Liabilities	<u>23,177,031</u>	<u>2,215,719</u>	<u>1,536,761</u>	<u>26,929,511</u>
Fund Balances				
Reserved for:				
Revolving cash	25,000	-	145	25,145
Stores	169,142	-	63,327	232,469
Prepaid expenditures	350,215	-	6,448	356,663
Categorical programs	2,283,118	-	139,361	2,422,479
Debt service	-	-	2,118,751	2,118,751
Other purposes	2,000	-	-	2,000
Unreserved, reported in:				
General fund	3,068,065	-	-	3,068,065
Capital projects funds	-	2,462,616	1,747,627	4,210,243
Special revenue funds	-	-	1,108,631	1,108,631
Total Fund Balances	<u>5,897,540</u>	<u>2,462,616</u>	<u>5,184,290</u>	<u>13,544,446</u>
Total Liabilities and Fund Balances	<u>\$ 29,074,571</u>	<u>\$ 4,678,335</u>	<u>\$ 6,721,051</u>	<u>\$ 40,473,957</u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2005

Total fund balances - governmental funds \$ 13,544,446

Amounts reported for governmental *activities* in the statement of net assets are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$125,645,283 and the accumulated depreciation is \$30,002,339.

95,642,944

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

(583,202)

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

General obligations payable	38,955,474
Early retirement incentives	3,477,939
Compensated absences payable	613,292
Certificates of participation payable	2,280,168
Other general long-term debt	217,940

(45,544,813)

Total net assets - governmental activities

\$ 63,059,375

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds For the Year Ended June 30, 2005

	General Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	Total Governmental Funds
REVENUES				
General Revenues:				
Property taxes	\$ 37,405,363	\$ -	\$ -	\$ 37,405,363
Taxes levied for debt service	-	-	2,429,849	2,429,849
Federal and state aid not restricted to specific purpose	15,113,354	-	(493)	15,112,861
Earnings on investments	664,218	133,386	106,592	904,196
Miscellaneous	511,519	-	2,164,818	2,676,337
Program Revenues:				
Charges for services	116,977	-	570,885	687,862
Operating grants and contributions	7,680,924	-	4,643,641	12,324,565
Total revenues	61,492,355	133,386	9,915,292	71,541,033
EXPENDITURES				
Instructional Services:				
Instruction	35,074,742	-	2,404,592	37,479,334
Instruction-Related Services:				
Supervision of instruction	3,053,833	-	3,500	3,057,333
Instructional library, media and tech.	870,163	-	-	870,163
School site administration	4,159,605	-	612,323	4,771,928
Pupil Support Services:				
Home-to-school transportation	586,416	-	-	586,416
Food services	1,500	-	2,481,628	2,483,128
All other pupil services	2,536,281	-	73,136	2,609,417
General Administration Services:				
Data processing services	264,445	-	-	264,445
Other general administration	3,854,867	-	267,334	4,122,201
Plant services	7,096,710	119,501	689,340	7,905,551
Facility acquisition and construction	1,529	3,659,576	222,726	3,883,831
Community services	21,505	-	-	21,505
Other outgo:				
Transfers between agencies	2,098,510	-	-	2,098,510
Debt service - principal	-	33,531	1,067,727	1,101,258
Debt service - interest	-	-	1,388,930	1,388,930
Debt service - issuance costs	-	-	10,914	10,914
Total Expenditures	59,620,106	3,812,608	9,222,150	72,654,864
Excess (Deficiency) of Revenues Over (Under) Expenditures	1,872,249	(3,679,222)	693,142	(1,113,831)
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	777,475	1,192,328	481,786	2,451,589
Interfund transfers out	(1,572,328)	(864,961)	(14,300)	(2,451,589)
Other financing sources	435,667	-	16,191	451,858
Total Other Financing Sources and Uses	(359,186)	327,367	483,677	451,858
Net Change in Fund Balances	1,513,063	(3,351,855)	1,176,819	(661,973)
Fund Balances, July 1, 2004	4,384,477	5,814,471	4,007,471	14,206,419
Fund Balances, June 30, 2005	\$ 5,897,540	\$ 2,462,616	\$ 5,184,290	\$ 13,544,446

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2005

Total net change in fund balances - governmental funds \$ (619,308)

Amounts reported for governmental *activities* in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$2,174,912) exceed depreciation expense (\$4,299,402) in the period. (2,124,490)

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 1,101,258

In governmental funds, revenues are recognized only to the extent they are "available," meaning they will be collected soon enough after the end of the period to finance expenditures of that period. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less revenues that became available in the current period but related to a prior period, is: (302,550)

Unmatured interest on long-term debt: in governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: (820,011)

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: (9,799)

In governmental funds, costs related to postemployment benefits other than pensions are recognized when employer contributions are made. In the statement of activities, costs are measured and recognized in relation to the annual required contribution. This year, the difference between the annual required contribution and amounts actually funded was: (2,077,083)

Change in net assets of governmental activities \$ (4,851,986)

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets – Fiduciary Funds
June 30, 2005

	Other Private- Purpose Trust	Student Body Funds	Total Fiduciary Funds
Assets			
Cash	\$ 392,723	\$ 799,943	\$ 1,192,666
Accounts receivable	3,048	-	3,048
Total Assets	<u>395,771</u>	<u>799,943</u>	<u>1,195,714</u>
Liabilities			
Accounts payable	2,500	-	2,500
Due to student groups	-	799,943	799,943
Total Liabilities	<u>2,500</u>	<u>799,943</u>	<u>802,443</u>
Net Assets			
Unreserved	<u>393,271</u>	<u>-</u>	<u>393,271</u>
Total Net Assets	<u>\$ 393,271</u>	<u>\$ -</u>	<u>\$ 393,271</u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds
For the Year Ended June 30, 2005

	<u>Other Private- Purpose Trust</u>
Revenues	
Interest	<u>\$ 11,354</u>
Expenses	
Services and other operating expenses	<u>22,700</u>
Change in Net Assets	(11,346)
Net Assets - July 1, 2004	<u>404,617</u>
Net Assets - June 30, 2005	<u><u>\$ 393,271</u></u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

The District includes all funds, account groups, and other entities that are controlled by or dependent on the District's governing board for financial reporting purposes. The District has considered all potential component units in determining how to define the reporting entity using criteria set forth in generally accepted accounting principles. Based upon those criteria, the District has determined that there are no potential component units that should be included in the District's financial reporting entity.

C. Basis of Presentation

Government-wide Financial Statements:

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

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

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

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities.

Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program,

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

as well as grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

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

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

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

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

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

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

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

Deferred revenue:

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

E. Fund Accounting

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Major Governmental Funds:

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

The *Special Reserve Fund for Capital Outlay Projects* exists primarily to provide for the accumulation of general fund money for capital outlay purposes.

Non-major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains four non-major special revenue funds:

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

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

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

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

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

Fiduciary Funds:

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

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Budgets and Budgetary Accounting

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

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

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

G. Encumbrances

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

H. Assets, Liabilities, and Equity

1. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Depository Insurance Corporation (FDIC). All cash held by the financial institutions is fully insured or collateralized.

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

2. Stores Inventories

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

3. Capital Assets

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

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset’s life are not capitalized.

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

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

4. Deferred Revenue

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

5. Accumulated Vacation

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

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

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

7. Fund Balance Reserves and Designations

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

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

8. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors, or laws or regulations of other governments.

I. Revenue Limit/Property Tax

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

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Revenue Limit/Property Tax (continued)

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

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

J. Use of Estimates

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

NOTE 2 – CASH AND INVESTMENTS

Cash in County Treasury

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the County Treasury as part of the common investment pool (\$14,809,014 as of June 30, 2005). The District is an involuntary participant in the pool. The fair market value of this pool as of June 30, 2005, as provided by the pool sponsor, was \$14,775,463. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 2 – CASH AND INVESTMENTS (continued)

Cash on Hand, in Banks, and in Revolving Fund

Cash balances on hand, in banks, and in the revolving fund are insured up to \$100,000 by the Federal Depository Insurance Corporation (FDIC). These accounts are held within various financial institutions. As of June 30, 2005, the carrying amount of the District's accounts was \$16,102,759.

A summary of deposits as of June 30, 2005 is as follows:

Deposits:	Bank Balance	Carrying Amount
Cash in county treasury	\$ 14,775,463	\$ 14,809,014
Cash on hand and in banks	865,611	865,611
Cash in revolving funds	25,145	25,145
Cash with fiscal agent	124,091	124,091
Collections awaiting deposit	278,898	278,898
Total	<u>\$ 16,069,208</u>	<u>\$ 16,102,759</u>

Investments

Investments held at June 30, 2005 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market price at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

The District directs the County Treasurer to invest Tax and Revenue Anticipation Note proceeds in a separate common investment pool and to invest certain other excess funds in the Local Agency Investment Fund (LAIF). LAIF is an investment pool managed by the California State Treasurer. The fair value of the LAIF account was obtained from the State Treasurer. The LAIF account is not subject to categorization. At June 30, 2005, the amount invested in LAIF was \$5,524.

The District has custodial credit risk for the stock investments amounting to \$24,989 as of June 30, 2005. The stock investments are uninsured and unregistered.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 2 – CASH AND INVESTMENTS (continued)

Investments (continued)

A summary of investments as of June 30, 2005 is as follows:

	Market Value	Carrying Amount
County treasurer's pool	\$ 16,029,422	\$ 16,065,821
Stock investments	24,989	24,989
LAIF	5,512	5,524
Total	<u>\$ 16,059,923</u>	<u>\$ 16,096,334</u>

NOTE 3 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2005, expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
General Fund	
Capital outlay	\$ 3,477
Direct support/indirect costs	12,076
Adult Education Fund	
Certificated salaries	53,812
Direct support/indirect costs	11,388
Child Development Fund	
Certified salaries	3,490
Classified salaries	49,155
Employee benefits	24,157
Capital outlay	13,365
Cafeteria Fund	
Books and supplies	575
Deferred Maintenance Fund	
Books and supplies	6,986
Building Fund	
Classified salaries	11
Services and other expenses	868
Capital Facilities Fund	
Classified Salaries	1,327
Employee benefits	148
County School Facilities Fund	
Books and services	104,852
Special Reserve Fund for other expenses	
Services and other expenses	60,647

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2005 consist of the following:

	General Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	Totals
Federal Government:				
Categorical aid programs	\$ 552,776	\$ -	\$ 362,803	\$ 915,579
State Government:				
Lottery	225,632	-	-	225,632
Categorical aid programs	223,742	-	21,116	244,858
Local:				
Other	170,894	-	367,492	538,386
Interest	62,601	33,282	37,064	132,947
Miscellaneous	4,730,597	-	98,886	4,829,483
Totals	<u>\$ 5,966,242</u>	<u>\$ 33,282</u>	<u>\$ 887,361</u>	<u>\$ 6,886,885</u>

NOTE 5 - INTERFUND TRANSACTIONS

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 5 - INTERFUND TRANSACTIONS (continued)

A. Due From/Due To Other Funds

Individual interfund receivable and payable balances as of June 30, 2005 are as follows:

	Due to Other Funds			Total
	General Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	
General Fund	\$ -	\$ 1,551	\$ 1,139,961	\$ 1,141,512
Special Reserve Fund for Capital Outlay Projects	260,516	-	-	260,516
Other Governmental Funds	85,373	481,786	22,326	589,485
Total	<u>\$ 345,889</u>	<u>\$ 483,337</u>	<u>\$ 1,162,287</u>	<u>\$ 1,991,513</u>

Building Fund due to the General Fund \$3,100 for interfund goods and services
Capital Facilities Fund due to the General Fund \$10 for SUI payment
Special Reserve Fund for Capital Outlay due to the General Fund \$1,551 for operating expenditures
Special Reserve Fund for Capital Outlay due to the Deferred Maintenance Fund \$380,000 for state match
Special Reserve Fund for Capital Outlay due to the County School Facilities Fund \$101,786 for payment of goods
Cafeteria Fund due to General Fund \$737,100 for payment of statutory benefits
Child Development Fund due to the General Fund \$215,256 for payment of statutory benefits and services
Child Development Fund due to the Cafeteria Fund \$5,255 for payment of goods and services
Adult Education Fund due to the General Fund \$201,565 for payment of goods and services
General Fund due to the Adult Education Fund \$60,698 for cash transfer
General Fund due to the Cafeteria Fund \$24,320 for services
General Fund due to the Building Fund \$355 for payment of goods
General Fund due to the Special Reserve Fund for Capital Outlay \$260,516 for FAA project

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 5 - INTERFUND TRANSACTIONS (continued)

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund transfers for the 2004-05 fiscal year are as follows:

	Transfer From Other Funds			Total
	General Fund	Special Reserve Fund for Capital Outlay Projects	Other Governmental Funds	
General Fund	\$ -	\$ 1,192,328	\$ 380,000	\$ 1,572,328
Special Reserve Fund for Capital Outlay Projects	777,475	-	87,486	864,961
Other Governmental Funds	-	-	14,300	14,300
Total	<u>\$ 777,475</u>	<u>\$ 1,192,328</u>	<u>\$ 481,786</u>	<u>\$ 2,451,589</u>

The Special Reserve for Capital Outlay Fund transferred to the General Fund \$777,475 for operating expenditures

The General Fund transferred to the Deferred Maintenance Fund \$380,000 for matching funds

The Child Development Fund transferred to the County School Facilities Fund \$14,300 for rental expenditures

The Special Reserve for Capital Outlay Fund transferred to the County School Facilities Fund \$87,486 for operating expenditures

The General Fund transferred to the Special Reserve for Capital Outlay Fund \$1,192,328 for expenditures related to the FAA noise abatement program.

NOTE 6 – FUND BALANCES

Of the \$5,897,540 ending fund balance in the General Fund, the following amounts have been designated by the governing board for the following purposes:

Economic uncertainties	\$ 1,918,633
Other operating purposes	<u>979,770</u>
Total	<u>\$ 2,898,403</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2005 is shown below:

Governmental Activities	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2005
Capital Assets:				
Land	\$ 4,305,189	\$ -	\$ -	\$ 4,305,189 ✓
Improvement of sites	2,247,069	113,482	-	2,360,551 ✓
Buildings	113,528,265	11,153	-	113,539,418
Furniture and equipment	3,050,590	67,358	-	3,117,948 ✓
Work in progress	339,258	1,982,919	-	2,322,177
Total Capital Assets	<u>123,470,371</u>	<u>2,174,912</u>	<u>-</u>	<u>125,645,283</u>
Less Accumulated Depreciation:				
Improvement of sites	559,504	99,428	-	658,932
Buildings	22,834,114	4,000,633	-	26,834,747
Furniture and equipment	2,309,319	199,341	-	2,508,660
Total Accumulated Depreciation	<u>25,702,937</u>	<u>4,299,402</u>	<u>-</u>	<u>30,002,339</u>
Governmental Activities				
Capital Assets, Net	<u>\$ 97,767,434</u>	<u>\$ (2,124,490)</u>	<u>\$ -</u>	<u>\$ 95,642,944</u>

NOTE 8 - TAX REVENUE ANTICIPATION NOTES (TRANS)

The District issued \$14,840,000 in TRANS on July 6, 2004 through the California Cash Reserve Program, sponsored by the California School Boards Association Finance Corporation. The notes matured on July 6, 2005 and yielded 1.6% interest. The notes were sold by the District to supplement its cash flow.

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

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 9 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2005 is shown below:

	Balance June 30, 2004	Additions	Deletions	Balance June 30, 2005
General obligation bonds	\$ 39,123,670	\$ 941,804	\$ 1,110,000	\$ 38,955,474 X
Certificates of participation	2,438,153	-	124,454	2,313,699 X
Compensated absences	603,493 X	9,799	-	613,292 X
Early retirement incentives	1,400,856 X	2,770,650 X	693,567 X	3,477,939
EPA loan	217,940 X	-	33,531 X	184,409
Totals	<u>\$ 43,784,112</u>	<u>\$ 3,722,253</u>	<u>\$ 1,961,552</u>	<u>\$ 45,544,813</u>

A. General Obligation Bonds

The outstanding bonded indebtedness June 30, 2005 is:

			3477,939.0000	÷			
			184,409.0000	÷			
			3662,348.0000	*		School District at	
			0.0000	*			
Issue Date	Maturity Date	Interest Rate			15*	Ending	
			0.0000	÷		Balance	
07/23/97	09/01/21	4.10-6.70%	3662,348.0000	÷		\$ 95,000	\$ 7,580,000
04/27/99	09/01/23	4.20-7.20%	3662,351.0000	-		100,000	14,875,000
11/18/99	09/01/24	4.95-7.00%			04	915,000	16,500,474
	Totals		0.0000		04	\$ 1,110,000	\$ 38,955,474

*Additions to general obligation bonds are to recognize current period accreted interest on the capital appreciation bonds.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 9 – GENERAL LONG-TERM DEBT (continued)

A. General Obligations Bonds (continued)

The annual requirements to amortize all general obligation bonds payable, outstanding as of June 30, 2005, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 890,274	\$ 1,424,018	\$ 2,314,292
2007	923,305	1,479,164	2,402,469
2008	1,112,572	1,370,314	2,482,886
2009	1,291,901	1,286,535	2,578,436
2010	1,412,869	1,268,663	2,681,532
2011-2015	8,178,910	6,881,623	15,060,533
2016-2020	10,061,045	8,163,977	18,225,022
2020-2025	10,526,017	10,979,864	21,505,881
Subtotal	<u>\$ 34,396,893</u>	<u>\$ 32,854,158</u>	<u>\$ 67,251,051</u>
Accreted Interest	4,558,581		
Total	<u>\$ 38,955,474</u>		

B. Certificates of Participation

The District has two outstanding certificates of participation as of June 30, 2005:

<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
2/1/2004	12/1/18	4.88%	\$ 1,037,000	\$ 1,013,153	\$ -	\$ 49,454	\$ 963,699
02/05/97	7/1/2023	4.50%	1,815,000	1,425,000	-	75,000	1,350,000
			<u>\$ 2,852,000</u>	<u>\$ 2,438,153</u>	<u>\$ -</u>	<u>\$ 124,454</u>	<u>\$ 2,313,699</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 9 – GENERAL LONG-TERM DEBT (continued)

B. Certificates of Participation (continued)

The annual requirements to amortize all certificates of participation, outstanding as of June 30, 2005 are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 131,897	\$ 67,993	\$ 199,890
2007	134,460	64,070	198,530
2008	142,151	59,934	202,085
2009	149,973	55,582	205,555
2010	157,936	51,004	208,940
2011-2015	899,496	178,514	1,078,010
2016-2020	697,786	38,064	735,850
Total	<u>\$ 2,313,699</u>	<u>\$ 515,161</u>	<u>\$ 2,828,860</u>

C. Early Retirement Incentives

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

<u>Fiscal Year</u>	<u>Amount Due</u>
2006	\$ 1,149,907
2007	925,454
2008	701,002
2009	350,788
2010	350,788
Total	<u>\$ 3,477,939</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 9 – GENERAL LONG-TERM DEBT (continued)

D. EPA Loan

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

<u>Fiscal Year</u>	<u>Amount Due</u>
2006	\$ 33,532
2007	33,532
2008	33,532
2009	33,532
2010	33,531
2011	16,750
Total	<u>\$ 184,409</u>

NOTE 10 – JOINT VENTURES

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

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 10 – JOINT VENTURES (continued)

Condensed audited financial information for the year ended June 30, 2005 is as follows:

	<u>SMCSIG</u>
Total Assets	<u>\$ 8,589,730</u>
Total Liabilities	<u>\$ 7,003,518</u>
Fund Balance	<u>\$ 1,586,212</u>
Total Revenue	\$ 31,552,314
Total Expenditure	31,693,113
Net Increase/Decrease in Fund Balance	<u>\$ (140,799)</u>

NOTE 11 - COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

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

Construction Commitments

As of June 30, 2005, the District had no commitments with respect to unfinished capital projects.

NOTE 12 – RISK MANAGEMENT

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 13 - EMPLOYEE RETIREMENT PLANS

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

Plan Description and Provisions

Public Employees' Retirement System (PERS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2004-05 was 9.952%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$1,624,135, \$737,780, and \$299,035, respectively, which represents 100% of the required contributions for each fiscal year.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 13 - EMPLOYEE RETIREMENT PLANS (continued)

State Teachers' Retirement System (STRS)

Plan Description

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

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2004-05 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$2,511,003, \$2,490,539, and \$2,573,900, respectively, and equal 100% of the required contributions for each year.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state general fund contributions of \$1,374,812 to STRS (4.517% of salaries subject to STRS).

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2005

NOTE 15 – POSTEMPLOYMENT BENEFITS

The District also provides other postemployment care benefits besides PARS, in accordance with District employment contracts, to all employees who retire from the district on or after attaining age 55 with at least 10 years of service. Currently 86 certificated employees and 29 classified employees meet those eligibility requirements. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as premiums are paid. During the year ended June 30, 2005, expenditures of \$68,080 were recognized for retiree health care benefits.

The approximate accumulated future liability for the District at June 30, 2005, amounts to \$466,260. This amount was calculated based upon the number of retirees receiving benefits multiplied by the yearly district payment per employee in effect at June 30, 2005, multiplied by the number of years of payment remaining until the employee reaches age 65.

NOTE 16 – NEW GASB PRONOUNCEMENT

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

NOTE 17 – SUBSEQUENT EVENT- SCHOOL CLOSURE

Subsequent to June 30, 2005, the District closed Hillside Elementary as part of a budgeted expenditure realignment plan. Intradistrict attendance boundaries were realigned to accommodate the pupils who would have attended the school absent the closure.

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2005

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Revenue Limit Sources	\$ 46,747,454	\$ 47,269,989	\$ 47,295,804	\$ 25,815
Federal	4,370,090	8,103,988	4,602,785	(3,501,203)
Other State	7,281,360	7,916,067	7,633,673	(282,394)
Other Local	2,004,286	1,925,173	1,960,093	34,920
Total Revenues	60,403,190	65,215,217	61,492,355	(3,722,862)
Expenditures				
Certificated Salaries	30,814,513	30,575,736	30,315,107	260,629
Classified Salaries	9,378,381	9,098,007	8,930,433	167,574
Employee Benefits	9,790,588	10,152,963	9,916,897	236,066
Books and Supplies	2,789,426	5,614,052	2,074,587	3,539,465
Services and Other Operating Expenditures	5,768,182	7,106,380	6,492,129	614,251
Capital Outlay	94,446	56,300	59,777	(3,477)
Other Outgo	2,348,160	2,287,778	2,098,510	189,268
Direct Support/Indirect Costs	(242,561)	(279,410)	(267,334)	(12,076)
Total Expenditures	60,741,135	64,611,806	59,620,106	4,991,700
Excess (Deficiency) of Revenues Over (Under) Expenditures	(337,945)	603,411	1,872,249	1,268,838
Other Financing Sources and Uses				
Interfund transfers in	14,300	777,475	777,475	-
Interfund transfers out	(562,407)	(4,244,332)	(1,572,328)	2,672,004
Other sources	370,861	435,667	435,667	-
Total Other Financing Sources and Uses	(177,246)	(3,031,190)	(359,186)	2,672,004
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(515,191)	(2,427,779)	1,513,063	3,940,842
Fund Balances, July 1, 2004	4,384,477	4,384,477	4,384,477	-
Fund Balances, June 30, 2005	\$ 3,869,286	\$ 1,956,698	\$ 5,897,540	\$ 3,940,842

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

SUPPLEMENTARY INFORMATION SECTION

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
History and Organization
June 30, 2005

The South San Francisco Unified School District originated from the unification in 1936 of an elementary district (founded in 1866) and a high school district (founded in 1913). The District currently operates ten elementary schools, three middle schools, two comprehensive high schools, one continuation school, four day-care schools, one adult education school, and one centrally located children center. The District boundaries encompass the city of South San Francisco, a portion of Daly City, a small area of San Bruno, and some small "islands" of unincorporated areas of San Mateo County. There were no changes in the boundaries of the District during the current year.

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

DISTRICT ADMINISTRATORS

Barbara Olds

Superintendent

Frances Krug, Ed. D

Assistant Superintendent, Personnel

Cheryl Milner, Ed. D.

Assistant Superintendent, Educational Services

Ron McEntire, CMA

Assistant Superintendent, Business Services

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2005

	Second Period Report	Annual Report
Elementary:		
Kindergarten	661	662
Grades One through Three	1,871	1,870
Grades Four through Six	1,947	1,941
Grades Seven and Eight	1,374	1,370
Home and Hospital	1	2
Special Education	104	106
Total Elementary	5,958	5,951
Secondary:		
Grades 9 Through 12, regular classes	2,804	2,776
Continuation Education	48	22
Home and Hospital	1	3
Community Day Schools	10	13
Special Education	202	206
Total Secondary	3,065	3,020
Classes for Adults:		
Concurrently Enrolled	11	12
Not Concurrently Enrolled	657	652
Total Adult Classes	668	664
Total Average Daily Attendance	9,691	9,635
<u>Supplemental Instruction Hours</u>	<u>Hours of Attendance</u>	
Elementary	71,158	
Secondary	128,360	
Total	199,518	

Average daily attendance 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
Schedule of Instructional Time
June 30, 2005

Grade Level	1982-83	1986-87	2004-2005	Number of Days	Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	
Kindergarten	35,920	36,000	46,080	180	Complied
Grades 1 through 3	48,312	50,400	52,260	180	Complied
Grades 4 through 5	48,312	50,400	52,260	180	Complied
Grades 6 through 8	49,860	54,000	60,828	180	Complied
Grades 9 through 12	63,440	64,800	65,217	180	Complied

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code Section 46201.

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
Year Ended June 30, 2005

General Fund	(Budget) 2006***	2005	2004	2003
Revenues and other financing sources	\$ 65,351,870	\$ 62,705,497	\$ 59,601,024	\$ 64,188,838
Expenditures	64,784,795	59,620,106	60,397,248	62,773,559
Other uses and transfers out	380,000	1,572,328	1,166,514	1,753,539
Total outgo	65,164,795	61,192,434	61,563,762	64,527,098
Change in fund balance (deficit)	187,075	1,513,063	(1,962,738)	(338,260)
Ending fund balance	\$ 6,084,615	\$ 5,897,540	\$ 4,384,477	\$ 6,347,215
Available reserves*	\$ 3,711,496	\$ 1,998,295	\$ 1,973,587	\$ 3,671,199
Available reserves as a percentage of total outgo	5.7%	3.3%	3.2%	5.7%
Total long-term debt	\$ 42,725,912	\$ 45,544,813	\$ 43,784,112	\$ 45,093,126
Average daily attendance at P-2**	9,023	9,023	8,952	9,102

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.

The General Fund balance has decreased by \$449,675 over the past two years. The fiscal year 2005-06 adopted budget projects an increase of \$187,075. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

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

** Excludes Adult Education ADA.

*** Adopted September 2005.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
June 30, 2005

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
National School Lunch	10.555	13391	\$ 911,960
National School Breakfast	10.553	13390	101,557
Fair Market Value of Commodity	10.558	13389	10,844
Child and Adult Care Food	10.558	13393	32,681
Total U.S. Department of Agriculture			<u>1,057,042</u>
U.S. Department of Education:			
Passed through California Dept. of Education (CDE):			
No Child Left Behind Act:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	844,912
Title I, Part C, Migrant Education	84.011	13174	79,456
Title II, Part A, Teacher Quality	84.367	14341	276,984
Title II, Part D, Enhancing Education Technology	84.318	14334	39,382
Title III, Limited English Proficiency	84.365	10084	124,854
Title IV, Part A, Drug-Free Schools	84.186	14347	30,967
Title V, Part A, Innovative Education Strategies	84.298A	14354	42,327
Individuals with Disabilities Act:			
IDEA, Basic Local Assistance Entitlement, Part B	84.027	13379	1,413,941
IDEA, Preschool Grants, Part B	84.173	13430	44,038
IDEA, Preschool Local Entitlement, Part B	84.027A	13682	67,714
IDEA, Local Staff Development, Part B	84.027A	13613	3,032
IDEA, Preschool Staff Development, Part B	84.173A	13431	446
IDEA, Low Incidence	84.027A	13459	400
IDEA, Emergency Response	N/A	14188	35,818
IDEA, Workability I	84.027	13705	74,680
IDEA, Workability II, Transition Partnership	84.158	10006	35,874
Carl Perkins Act:			
Vocational & Applied Technology Secondary	84.048	13924	39,097
Vocational Postsecondary and Adult II	84.048	13923	108,378
Adult Education and Family Literacy Act:			
Adult Basic Education	84.002A	14508	102,722
English Literacy and Civics Education	84.002A	14109	25,000
Adult Secondary Education	84.002	13978	20,172
Total U.S. Department of Education			<u>3,415,123</u>
U.S. Department of Transportation:			
FAA Noise Mitigation	20.016	N/A	<u>3,864,332</u>
U.S. Department of Health and Human Services:			
Passed through California Dept. of Education (CDE):			
Medi-Cal Billing Option	93.778	10013	31,444
Child Development: Quality Improvement Activities	93.575	24486	<u>4,929</u>
Total Expenditures of Federal Awards			<u>\$ 8,367,941</u>

The accompanying notes are an integral part of this schedule.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2005

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of South San Francisco School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

NOTE 2 – SUBRECIPIENTS

Of the federal awards presented in the schedule, South San Francisco Unified School District provided no federal awards to subrecipients.

Financial Transactions

District 40 -- South San Francisco Unified School District
Fund 40 -- SPECIAL RESERVE FUND CAP

From 1/31/2006 to 1/31/2006

Post On	Fund	Rsrc	Yr	Goal	Func	Objt	Schl	Mgmt	Rev/Exp. Amount	Debit Amount	Credit Amount	Tran Type	Ref Type	Ref Number	Description/Vendor
Object 9135 -- CASH WITH A FISCAL AGENT															
1/31/2006	40	0000	0	0000	0000	9135	000	0000	46,561.00	46,561.00		G	BT	000487	BUDGET TRANSFERS
Total CASH WITH A FISCAL AGENT									46,561.00	46,561.00	0.00				
Object 9310 -- DUE FROM OTHER FUNDS															
1/31/2006	40	9010	0	0000	0000	9310	000	0000	-2,672,003.60		2,672,003.60	G	BT	000479	BUDGET TRANSFERS
Total DUE FROM OTHER FUNDS									-2,672,003.60	0.00	2,672,003.60				
Object 9790 -- UNDESIGNATE/UNAPPROPRIATE															
1/31/2006	40	0000	0	0000	0000	9790	000	0000	-46,561.00		46,561.00	G	BT	000487	BUDGET TRANSFERS
1/31/2006	40	9010	0	0000	0000	9790	000	0000	2,672,003.60	2,672,003.60		G	BT	000479	BUDGET TRANSFERS
Total UNDESIGNATE/UNAPPROPRIATE									2,625,442.60	2,672,003.60	46,561.00				
Object 9793 -- AUDIT ADJUSTMENTS															
1/31/2006	40	0000	0	0000	0000	9793	000	0000	-46,561.00		46,561.00	G	BT	000487	BUDGET TRANSFERS
1/31/2006	40	9010	0	0000	0000	9793	000	0000	2,672,003.60	2,672,003.60		G	BT	000479	BUDGET TRANSFERS
Total AUDIT ADJUSTMENTS									2,625,442.60	2,672,003.60	46,561.00				
Object 9798 -- ENDING FUND BALANCE															
1/31/2006	40	0000	0	0000	0000	9798	000	0000	46,561.00	46,561.00		G	BT	000487	BUDGET TRANSFERS
1/31/2006	40	9010	0	0000	0000	9798	000	0000	-2,672,003.60		2,672,003.60	G	BT	000479	BUDGET TRANSFERS
Total ENDING FUND BALANCE									-2,625,442.60	46,561.00	2,672,003.60				
Total SPECIAL RESERVE FUND CAP									0.00	5,437,129.20	5,437,129.20				

Selection Criteria: District = 40; Fund = 40; Reference Type = BT; Restricted & Unrestricted Filtered By: 40.cgong.External 1; 40.cgong.External 2

Contractors Required to File This Report: Child Care and Development contractors operating a California State Preschool Program(s).

Report Deadlines: Reports must be submitted in accordance with the Child Care and Development contract Funding Terms and Conditions (FT&C) and Program Requirements. Monthly reporting is required by contractors who are on Conditional or Provisional status. All other contractors shall submit reports according to the timelines listed below:

Period Ending	DUE to be RECEIVED in CDFS (NOT POSTMARKED)
September 30	October 20
December 31	January 20
March 31	April 20
June 30	July 20

To be valid, a report must be complete and signed. (Please note that only original signatures are acceptable.) Invalid reports or reports not received in the Child Development Fiscal Services Unit by the 20th of the month following the end of the reporting period will be deemed delinquent and all subsequent apportionments will be withheld until reporting requirements have been met.

How this report is filed: The submission of the report is the responsibility of the contractor. The principal administrative officer may delegate responsibility for completion of the report to staff members, but the agency's Board is responsible for the accurate and timely completion of the report. The agency designee **must sign** the report, and it must be **received** by the Child Development Fiscal Services Unit on or before the due date.

INSTRUCTIONS

Use only Columns B and C for the first report of the fiscal year. Column A remains blank. Beginning with the second report, Column C of the previous report is entered in Column A. Adjustments should be made in Column A and reasons for the adjustments stated in the Comments Section or on a separate sheet of paper. **DO NOT USE NEGATIVE FIGURES IN ANY OF THE COLUMNS.** Column B must show the total for the current reporting period only. Column C is the total of Columns A and B.

SECTION I – CERTIFIED CHILDREN: Report only information about children who have been certified as eligible for California Department of Education subsidized services. A family is considered to be enrolled in the program when the application and certification forms have been completed, information has been verified, and forms have been signed. Noncertified children in the program will be reported in Section II.

DAYS OF ENROLLMENT – The enrollment data from the contractor's enrollment and attendance register, totaled for all children in the program for the days the contractor is open to provide services. Enter for each category the number of children enrolled for that category. A child enrolled under 4 hours is considered half-time. A child enrolled 4 hours to under 6.5 hours is considered three-quarters-time. A child enrolled 6.5 hours to under 10.5 hours is considered full-time. A child enrolled 10.5 hours and over is considered full-time-plus. **NOTE:** the category "Limited and Non-English Proficient" is **only** for children 2 years of age through kindergarten age.

DAYS OF OPERATION – A day of operation is a day the contractor provided California State Preschool Program classes for one or more of the enrolled subsidized children.

DAYS OF ATTENDANCE – A child is in attendance when he or she is present in the program for any part of a day **OR** when he or she is absent because of illness or quarantine, illness or quarantine of the parent, family emergency, court-ordered visitation, or a reason which is clearly in the best interest of the child. This number must be equal to or less than the Days of Enrollment.

SECTION II – NONCERTIFIED CHILDREN: Report all children who are supported by other than California Department of Education contract payments, but are served at the same site(s) as certified children. This category includes children exclusively supported by Head Start funds, Title I funds, family fees, or other funding sources.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements
Year Ended June 30, 2005

	General Fund	Special Reserve Fund for Capital Outlay Projects	Schedule of Long-term Debt
June 30, 2005, annual financial and budget report (SACS) fund balances	\$ 5,807,540	\$ 5,088,059	\$ 46,056,712
Adjustments and reclassifications:			
Increasing (decreasing) the fund balance:			
Overstatement of revenues related to FAA Noise Abatement Program	(2,672,004)	-	-
Overstatement of interfund transfers out related to FAA Noise Abatement Program	2,672,004	-	-
Understatement of interfund transfers in related to FAA Noise Abatement Program	-	(2,672,004)	-
Understatement of cash with fiscal agent	-	46,561	-
Overstatement of expenditures related to ESL Program	90,000	-	-
Overstatement of general obligation bonds payable	-	-	(667,328)
Understatement of certificates of participation payable	-	-	155,431
Overstatement of ERIP Liability (PARS)	-	-	(2)
Net adjustments and reclassifications	90,000	(2,625,443)	(511,899)
June 30, 2005, audited financial statement fund balances	<u>\$ 5,897,540</u>	<u>\$ 2,462,616</u>	<u>\$ 45,544,813</u>

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance as reported on the Unaudited Actuals to the audited financial statements.

OTHER INDEPENDENT AUDITORS' REPORTS

NIGRO NIGRO & WHITE, PC

A PROFESSIONAL ACCOUNTANCY CORPORATION

Jeff Nigro, CPA
Elizabeth Nigro, CPA
Christy White, CPA

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

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

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CPAs

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Community
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Licensed by
the California
State Board of
Accountancy

We have audited the financial statements of South San Francisco Unified School District as of and for the year ended June 30, 2005, and have issued our report thereon dated October 14, 2005. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South San Francisco Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance and other matters that are required to be reported under *Government Auditing Standards*.

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

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

San Diego, California
October 14, 2005

NIGRO NIGRO & WHITE, PC

A PROFESSIONAL ACCOUNTANCY CORPORATION

Jeff Nigro, CPA
Elizabeth Nigro, CPA
Christy White, CPA

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

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

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Compliance

We have audited the compliance of South San Francisco Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. South San Francisco Unified School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of South San Francisco Unified School District's management. Our responsibility is to express an opinion on South San Francisco Unified School District's compliance based on our audit.

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

In our opinion, South San Francisco Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of South San Francisco Unified School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered South San Francisco Unified School District's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

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

San Diego, California
October 14, 2005

NIGRO NIGRO & WHITE, PC

A PROFESSIONAL ACCOUNTANCY CORPORATION

Jeff Nigro, CPA

Elizabeth Nigro, CPA

Christy White, CPA

Board of Trustees

South San Francisco Unified School District

South San Francisco, California

AUDITORS' REPORT ON STATE COMPLIANCE

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Fax: 619.260.9085

We have audited the basic financial statements of the South San Francisco Unified School District, as of and for the year ended June 30, 2005, and have issued our report thereon dated October 14, 2005. Our audit was made in accordance with auditing standards generally accepted; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2004-05*, published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

Members of:

American
Institute
of CPAs

California
Society of
CPAs

California
Association
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Business
Officials

Community
Associations
Institute

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the California
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Accountancy

Description	Procedures in the Audit Guide	Procedures Performed
Attendance Reporting	8	Yes
Kindergarten Continuation	3	Yes
Independent Study	22	No (see below)
Continuation Education	10	Yes
Adult Education	9	Yes
Regional Occupation Center/Programs	6	Not applicable
Instructional Time and Staff Development Reform Program	7	Yes

Description	Procedures in the Audit Guide	Procedures Performed
Instructional Time:		
School Districts	4	Yes
County Offices of Education	3	Not applicable
Community Day Schools	9	Not applicable
Class Size Reduction:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts with only one school serving K-3	4	Not applicable
Instructional Materials:		
General Requirements	9	Yes
K-8 only	1	Yes
Grades 9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Not applicable
State School Facilities Funds	1	Not applicable
Alternative Pension Plans	2	Not applicable
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-Safe) Program	3	Yes
School Accountability Report Card	3	No (see below)

We were unable to test the School Accountability Report Cards because the School Accountability Report Cards had been prepared prior to the required implementation date of the Williams Act. We did not test Independent Study attendance as the ADA reported was immaterial.

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

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

Rigto Rigto & White, PC

San Diego, California
October 14, 2005

FINDINGS AND QUESTIONED COSTS

SECTION

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2005

Section I - Summary of Auditor's Results

Financial Statements

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

Federal Awards

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

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.367</u>	<u>Improving Teacher Quality State Grants</u>
<u>84.010</u>	<u>Title 1 - Part A, Basic Grants</u>
<u>20.106</u>	<u>Airport Improvement Program</u>

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

State Awards

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2005

Section II – Financial Statement Findings

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

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
50000	Federal Compliance
60000	Miscellaneous

Finding #2005-1 - Cash Clearing Account and Accounts Receivable (30000)

One clerk opens the mail, prepares the deposit, posts the deposits, bills accounts receivable and reconciles the bank account. This lack of segregation of duties could lead to fraud. The incoming cash receipts are logged by someone independent, but the logging is done after the clerk handles the cash (checks).

Recommendation: Someone independent of cash receipts should bill accounts receivable. The person logging the checks should log the checks before giving the checks to clerk to receipt.

District Response: The District has had several recent changes in personnel in the Business Department. As a result, the department will be reorganized, once all positions are filled in January 2006, in order to implement this recommendation.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2005

Section II – Financial Statement Findings, Continued

Finding #2005-2 – Associated Student Body (ASB) Fund Accounting (30000)

We audited a sampling of ASBs with the following results:

All ASB Groups Audited

- Independent contractor information is not obtained (e.g. W-9) for 1099 reporting. Form 1099 reporting should be consolidated district-wide. The 1099 must be filed whenever, districtwide, an independent contractor is paid \$600 or more in a calendar year.

District Response: District and Site personnel will research all payments to independent contractors and be able to file 1099's for the calendar year 2005. In addition, the principals have put into place the following procedures to be used in future years:

1. Maintain a database (either photocopy or NCR form) each time there is a request for payment to an independent contractor.
 2. The information will be submitted to the District Office for 1099 reporting.
- The ASB bookkeepers are signers on the bank accounts. They also handle cash, post to the records and reconcile the bank account. This lack of segregation of duties could lead to fraud.

District Response: All checks require at least two signatures. At El Camino High School, the principal's secretary and the principal sign the checks. At South San Francisco High School, the principal and comptroller sign the checks. At both schools, no checks are written without a receipt or invoice. The signature of the principal, advisor and class/club treasurer is necessary on all check request forms in order for a check to be written. Copies of the bank reconciliation are sent monthly to the District Office and reviewed by Business personnel.

61, 62, 63
264
w/ [unclear]
SSTHS
ECHS

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2005

Section II – Financial Statement Findings, Continued

Finding #2005-2 – Associated Student Body (ASB) Fund Accounting (30000), Continued

South San Francisco High

In our audit we noted:

- Student store inventories are not reconciled to a book balance, and staff training is needed in this area.

District Response: The school will perform an inventory in June 2006 and reconcile the book balance with the amount of the inventory. This process will be used at both schools at the end of each school year.

- Cash register in student store is not used to reconcile the cash tapes to the cash in drawer.

District Response: The student store advisor has begun to reconcile the tapes to the cash drawer on a daily basis. That information is available for the principal to monitor. The comptroller has trained the ASB advisor as to the best method to use to reconcile the tapes to the drawer.

- In our cash disbursements sample, we found no evidence the goods were received (e.g. packing slips or initials that goods were received).

District Response: Packing slips and/or invoices are and continue to be attached to the check request. Invoices and/or packing slips will be initialed with the date goods were received by the receiving person and confirmed by the class/club advisor.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2005

Section II – Financial Statement Findings, Continued

Finding #2005-2 – Associated Student Body (ASB) Fund Accounting (30000), Continued

El Camino High

In our audit we noted:

- The records are not kept centrally, which makes it difficult to audit. For example, invoices are kept by the clubs, back-up cash receipts from fundraising activities are kept by the clubs, ticket sales reports are kept by the athletic or drama departments. As a result, we are unable to fully audit the cash receipts and disbursements.

District Response: El Camino High School will maintain records for athletic ticket sales, ASB dances, and drama activities. The principal will verify that the ticket sales correspond to the cash collected and will maintain those records with the comptroller.

- School departments and the principal have accounts set up within the ASB for non-ASB activities.

District Response: The ASB umbrella account has identified some school department and principal accounts other than club and class accounts. All the accounts are part of the same checking account; however, the accounting is completely separate and identifiable for school department and principal accounts. All cash receipts and cash disbursements follow the same accounting standards as other accounts under the ASB umbrella.

- The deposit tickets (used as a receipt) could not be reconciled to the bank deposits because the tickets are not numbered. Recommend the tickets are logged by the secretaries with a number assigned. The tickets should then be batched into a deposit with the number range indicated.

District Response: The comptroller at El Camino High School has scheduled a meeting with the comptroller at South San Francisco High School to review the procedures that are used at South San Francisco High School to reconcile cash receipts with deposits. The receipts issued by the comptroller that are issued to each individual club will be pre-numbered and each deposit made to the bank will have those pre-numbered receipts batched so that there is a clear audit trail.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2005

Section II – Financial Statement Findings, Continued

Finding #2005-2 – Associated Student Body (ASB) Fund Accounting (30000), Continued

Westborough Middle

- The bank statements were not reconciled, and appear to be off by approximately \$600.

District Response: The District collects the bank reconciliation from each school each month as mentioned previously. Westborough's bank reconciliation was not completed. However, we have since met with the principal and the comptroller at Westborough and have determined what the issue was and that issue has been corrected.

Auditor's Recommendation: We recommend that standardized procedures are put into practice districtwide to address the internal control deficiencies noted above.

District Responses: Specific actions will be taken by the District to correct the internal control deficiencies noted and are reported below each item listed above.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2005

Section III – Federal Award Findings and Questioned Costs

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

There were no federal awards findings or questioned costs in 2004-05.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
June 30, 2005

Section IV – State Award Findings and Questioned Costs

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

There were no state awards findings or questioned costs in 2004-05.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2005

Original Finding No.	Finding	Code	Recommendation	Current Status
2004-1	The District's available reserves continue to decline and the budget projects the ending reserve will drop below 3%.	60000	The District needs to take steps to balance the operating budget and restore reserve levels.	Implemented.

