

**SOUTH SAN FRANCISCO
UNIFIED SCHOOL DISTRICT**

AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2010**

(This page intentionally left blank)

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended June 30, 2010
Table of Contents

FINANCIAL SECTION

	<u>Page</u>
Independent Auditor's Report	1
Management's Discussion and Analysis.....	3
Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets	14
Statement of Activities	15
Governmental Fund Financial Statements:	
Balance Sheet	16
Reconciliation of the Governmental Funds Balance Sheet to the	
Statement of Net Assets	17
Statement of Revenues, Expenditures, and Changes in Fund Balances	18
Reconciliation of the Governmental Funds Statement of Revenues,	
Expenditures, and Changes in Fund Balances to the Statement of Activities	19
Fiduciary Fund Financial Statements:	
Statement of Fiduciary Net Assets.....	20
Statement of Changes in Fiduciary Net Assets	21
Notes to Financial Statements.....	22

REQUIRED SUPPLEMENTARY INFORMATION

Budgetary Comparison Schedule – General Fund.....	50
Schedule of Funding Progress.....	51

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
AUDIT REPORT
For the Fiscal Year Ended June 30, 2010
Table of Contents

SUPPLEMENTARY INFORMATION

	<u>Page</u>
Local Educational Agency Organization Structure	52
Schedule of Average Daily Attendance	53
Schedule of Instructional Time.....	54
Schedule of Financial Trends and Analysis.....	55
Schedule of Expenditures of Federal Awards.....	56
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements.....	57
Note to the Supplementary Information.....	58

OTHER INDEPENDENT AUDITOR'S REPORTS

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	59
Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	61
Independent Auditor's Report on State Compliance.....	63

FINDINGS AND QUESTIONED COSTS SECTION

Schedule of Audit Findings and Questioned Costs.....	65
Summary Schedule of Prior Audit Findings	71

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

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South San Francisco Unified School District, as of and for the fiscal year ended June 30, 2010, 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, 2010, 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 December 1, 2010 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 13, the budgetary comparison schedule on page 50, and the schedule of funding progress on page 51 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise South San Francisco Unified School District's basic financial statements. The combining and individual non-major fund financial statements, the schedule of financial trends and analysis, and 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*, are presented for purposes of additional analysis and are 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 basic financial statements taken as a whole.

Christine White Accountancy Corporation

San Diego, California
December 1, 2010

Management's Discussion and Analysis

(This page intentionally left blank)

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

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, 2010. Please read it in conjunction with the District's financial statements, which immediately follow this section.

FINANCIAL HIGHLIGHTS

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

- In 2009-10, the District's Revenue Limit funding status continued as a Community Funded District (Basic Aid).
- Total government-wide net assets decreased 8% over the course of the year.
- Overall revenues were \$80.1 million, \$6.5 million less than expenses.
- The total cost of basic programs was 87.9 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was \$73.4 million.
- Average Daily Attendance (ADA) in grades K-12 increased by 333, or about 3.7%

OVERVIEW OF THE FINANCIAL STATEMENTS

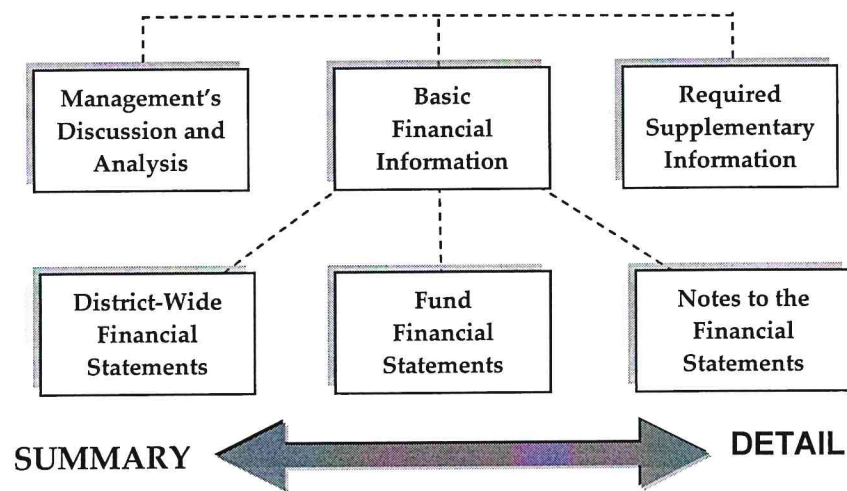
This annual report consists of three parts – management discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District:

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

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

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



SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

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

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

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

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 – are one way to measure the District's financial health or position.

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

Fund Financial Statements

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

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

The District has two kinds of funds:

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

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets. The District's combined net assets were less on June 30, 2010, than they were the year before – decreasing 10% to \$69.4 million (See Table A-1).

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

	Governmental Activities		Total Percentage Change
	2009	2010	2009-10
Current assets and other assets	\$ 43,375,434	\$ 29,395,957	-32%
Capital assets	87,106,353	84,983,912	-2%
Total assets	130,481,787	114,379,869	-12%
Current liabilities	38,291,366	6,462,371	-83%
Noncurrent liabilities	14,895,168	38,456,353	158%
Total liabilities	53,186,534	44,918,724	-16%
Total net assets	\$ 77,295,253	\$ 69,461,145	-10%

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

Changes in net assets, governmental activities. The District's total revenues were \$80.1 million (See Table A-2). This is a decrease of 6% over the prior year. Overall, expenditures exceeded revenues government-wide by \$6.3 million.

The total cost of all programs and services was \$87.9 million. The District's expenses are predominantly related to educating and caring for students, 71.2%. The purely administrative activities of the District accounted for just 5.1% of total costs.

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

	Governmental Activities		Total Percentage Change
	2009	2010	2009-10
Revenues:			
<i>Program revenues</i>			
Charges for services	\$ 1,984,292	\$ 1,759,101	-11%
Federal & state categorical programs	14,022,660	11,397,838	-19%
<i>General revenues</i>			
Property taxes	64,855,990	59,221,898	-9%
Other revenues	4,753,496	7,758,127	63%
Total revenues	<u>85,616,438</u>	<u>80,136,964</u>	-6%
Expenses:			
Instruction-related	53,263,348	53,364,406	0%
Student support services	6,955,678	9,317,949	34%
Maintenance and operations	8,144,648	7,920,070	-3%
Administration	4,625,911	4,492,560	-3%
Other expenses	10,637,484	12,875,996	21%
Total expenses	<u>83,627,069</u>	<u>87,970,981</u>	5%
Change in net assets	<u>\$ 1,989,369</u>	<u>\$ (7,834,017)</u>	-494%

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued)

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

- The cost of all *governmental* activities this year was \$87.9 million.
- Some of the cost was paid by the users of the District's programs (\$1.8 million).
- The federal and state governments subsidized programs with grants and contributions (\$11.3 million).
- Most of the District's costs (\$74.8 million), however, were paid for by District taxpayers and the taxpayers of California. This portion of governmental activities was paid for with property taxes, unrestricted state aid based on the statewide education aid formula, and with investment earnings.

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

	Total Cost of Services	Net Cost of Services
Instructional services	\$ 53,364,406	\$ 44,927,425
Pupil support services	9,317,949	5,531,917
Maintenance and operations	7,920,070	7,756,871
Administration	4,492,560	4,043,912
Other expenses	12,875,996	12,553,917
Total expenses	\$ 87,970,981	\$ 74,814,042

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 \$25.1 million, which is below last year's ending fund balance of \$30.3 million. The District's General Fund had \$2 million in revenues under expenditures and other financing uses in 2010, due primarily to the deferral of federal revenues.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights

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

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

The District's final budget for the general fund anticipated expenditures would exceed revenues by about \$7 million, the actual results for the year show that expenditures exceeded revenues by roughly \$2 million. Actual revenues were \$.2 more than anticipated, and expenditures were \$5 million less than budgeted.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

By the end of 2009-10 the District had invested over \$137.5 million in capital assets, as shown in Table A-4. (More detailed information about the District's long-term liabilities is presented in Note 7 to the financial statements.)

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

	Governmental Activities		Total Percentage Change
	2009	2010	2009-10
Land	\$ 4,305,189	\$ 4,305,189	0%
Site improvements	3,051,571	3,264,180	7%
Buildings	121,696,990	124,043,278	2%
Furniture and equipment	3,701,572	5,788,641	56%
Construction in progress	2,215,266	52,642	-98%
Total capital assets	\$ 134,970,588	\$ 137,453,930	2%

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At year-end the District had \$40 million in long-term debt, less than a one percent increase from prior year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in Note 9 to the financial statements.)

Table A-5
South San Francisco Unified School District's Long-Term Debt

	Governmental Activities		Total
	2009	2010	Percentage Change 2009-10
Compensated absences	\$ 690,636	\$ 693,136	0%
Certificates of participation	1,755,911	1,522,975	-13%
General obligation bonds	35,777,393	36,550,000	2%
Other postemployment benefits	251,883	518,546	106%
Early retirement incentive	1,370,571	759,108	-45%
Environmental protection agency loan	50,284	16,753	-67%
Total long-term debt	\$ 39,896,678	\$ 40,060,518	0%

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
For the Fiscal Year Ended June 30, 2010

FACTORS BEARING ON THE DISTRICT'S FUTURE

The state's budget situation continues to reflect challenging economic conditions. The 2010 State Budget was balanced on optimistic state and federal revenue projections, the sale of state properties, additional borrowings, and the suspension of the Proposition 98 minimum guarantee. While the state's economy continues to gradually recover along with the nation's, a relatively slow pace of job growth in California presents a headwind for a more rapid rate of economic recovery.

The state's budget challenges have adversely impacted the K-12 education budget. As a result, the average unified school district in the state of California in 2009-10 and 2010-11 is expected to lose approximately \$1,400 per unit of average daily attendance per year in revenue limit state funding, to an average funded revenue limit of approximately \$5,000 per unit of average daily attendance. These reductions in revenue limit funding are due to funding deficits as well as one-time funding cuts.

Federal funding for categorical programs remains relatively flat as compared to the previous year. American Recovery and Reinvestment Act (ARRA) funding has been received by California school districts in 2009-10 as a partial offset to reductions in state revenue limit and categorical program funding. ARRA funds are distributed to local education agencies primarily under the State Fiscal Stabilization Fund (SFSF), Title I – ARRA, and IDEA Special Education – ARRA programs. Current estimates are that school districts spent approximately 20% of ARRA funds in 2008-09, are planning to spend 60% of ARRA funds in 2009-10, leaving the remaining 20% of ARRA funds to be spent prior to the September 30, 2011 spending deadline.

State categorical program flexibility continues for 2009-10 and 2010-11 with no anticipated changes. School districts continue to be authorized to use funding from 42 Tier III categorical programs for any purpose. K-3 class size reduction penalties have been relaxed for two more years and school agencies maintain the flexibility to shorten the school year until 2012-13. Reserve requirements for economic uncertainties, if reduced by school agencies, must be fully restored by 2011-12.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2010

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Other Factors

Enrollment

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.

All of these factors were considered in preparing the South San Francisco Unified School District budget for the 2010-11 fiscal year.

Property Taxes

Property tax revenues can fluctuate due to factors such as market values, population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. By way of example, in 2009-10, District's property taxes decreased primarily due to county-wide reassessments.

All of these factors were considered in preparing the South San Francisco Unified School District budget for the 2010-11 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the District's Business Office at (650) 877-8707.

District Address

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

(This page intentionally left blank)

Financial Section

(This page intentionally left blank)

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2010

	<u>Total</u>
	<u>Governmental</u>
	<u>Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 23,742,394
Investments	437,606
Accounts receivable	4,655,740
Inventories	119,050
Prepaid expenses	441,167
Total current assets	<u>29,395,957</u>
Capital assets:	
Land	4,305,189
Site improvements	3,264,180
Buildings	124,043,278
Furniture and equipment	5,788,641
Construction in progress	52,642
Less accumulated depreciation	<u>(52,470,018)</u>
Total capital assets, net of depreciation	<u>84,983,912</u>
Total assets	<u>114,379,869</u>
LIABILITIES	
Current liabilities:	
Accounts payable	4,613,852
Deferred revenue	244,354
Certificates of participation payable, current	176,737
General obligation bonds payable, current	1,150,000
Postemployment benefits, current	260,675
Other general long-term debt, current	16,753
Total current liabilities	<u>6,462,371</u>
Noncurrent liabilities:	
Compensated absences payable, noncurrent	693,136
Certificates of participation payable, noncurrent	1,346,238
General obligation bonds payable, noncurrent	35,400,000
Other postemployment benefits	518,546
Postemployment benefits, noncurrent	498,433
Total noncurrent liabilities	<u>38,456,353</u>
Total liabilities	<u>44,918,724</u>
NET ASSETS	
Invested in capital assets, net of related debt	46,910,937
Restricted for:	
Capital projects	2,119,919
Debt service	2,508,305
Educational programs	2,654,163
Unrestricted	<u>15,267,821</u>
Total net assets	<u>\$ 69,461,145</u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues		Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	
Governmental activities:				
Instructional services:				
Instruction	\$ 45,183,346	\$ 483,970	\$ 6,830,066	\$ (37,869,310)
Instruction-related services:				
Supervision of instruction	1,125,719	10,104	192,028	(923,587)
Instructional library, media and technology	1,367,196	-	6,219	(1,360,977)
School site administration	5,688,145	70,993	843,601	(4,773,551)
Pupil support services:				
Home-to-school transportation	898,166	-	299,884	(598,282)
Food services	2,200,781	852,018	1,606,784	258,021
All other pupil services	6,219,002	92,671	934,675	(5,191,656)
General administration services:				
Data processing services	213,847	-	9,228	(204,619)
Other general administration	4,278,713	71,659	367,761	(3,839,293)
Plant services	7,920,070	31,719	131,480	(7,756,871)
Community services	41,954	-	-	(41,954)
Interest on long-term debt	2,479,690	-	-	(2,479,690)
Other outgo	5,743,172	145,967	176,112	(5,421,093)
Depreciation (unallocated)	4,611,180	-	-	(4,611,180)
Total governmental activities	<u>\$ 87,970,981</u>	<u>\$ 1,759,101</u>	<u>\$ 11,397,838</u>	<u>(74,814,042)</u>
General revenues:				
Taxes:				
Property taxes, levied for general purposes				55,548,026
Property taxes, levied for debt service				3,054,973
Property taxes, levied for other specific purposes				618,899
Federal and state aid not restricted to specific purpose				6,452,570
Interest and investment earnings				245,149
Miscellaneous				1,047,233
Special and extraordinary items				13,175
				<u>66,980,025</u>
				Change in net assets (7,834,017)
Net assets - July 1, 2009				<u>77,295,162</u>
Net assets - June 30, 2010				<u>\$ 69,461,145</u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2010

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 14,038,357	\$ 9,704,037	\$ 23,742,394
Investments	165,133	272,473	437,606
Accounts receivable	4,225,557	430,183	4,655,740
Due from other funds	750,655	571,694	1,322,349
Inventories	75,726	43,324	119,050
Prepaid expenditures	272,616	143,242	415,858
Total assets	<u>\$ 19,528,044</u>	<u>\$ 11,164,953</u>	<u>\$ 30,692,997</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 3,723,467	\$ 210,618	\$ 3,934,085
Due to other funds	536,346	786,003	1,322,349
Deferred revenue	229,354	15,000	244,354
Total liabilities	<u>4,489,167</u>	<u>1,011,621</u>	<u>5,500,788</u>
FUND BALANCES			
Reserved for:			
Inventories	75,726	43,324	119,050
Revolving cash	25,000	314	25,314
Prepaid expenditures	272,616	143,242	415,858
Debt service	-	2,508,305	2,508,305
Categorical programs	2,412,200	241,963	2,654,163
Other purposes (expendable)	2,000	-	2,000
Unreserved; reported in:			
General fund	12,251,335	-	12,251,335
Special revenue funds	-	5,096,265	5,096,265
Capital project funds	-	2,119,919	2,119,919
Total fund balances	<u>15,038,877</u>	<u>10,153,332</u>	<u>25,192,209</u>
Total liabilities and fund balances	<u>\$ 19,528,044</u>	<u>\$ 11,164,953</u>	<u>\$ 30,692,997</u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2010

Total fund balances - governmental funds \$ 25,192,209

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 capital assets is \$137,453,930 and the accumulated depreciation is (\$52,470,018).

84,983,912

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

(679,767)

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

25,309

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

Compensated absences payable	\$	693,136	
Certificates of participation payable		1,522,975	
General obligation bonds payable		36,550,000	
Other postemployment benefits		518,546	
Postemployment benefits		759,108	
Other general long-term debt		16,753	(40,060,518)

Total net assets - governmental activities

\$ 69,461,145

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Year Ended June 30, 2010

	General Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES			
General revenues:			
Property taxes	\$ 56,166,925	\$ 3,054,973	\$ 59,221,898
Federal and state aid not restricted to specific purpose	6,393,268	59,302	6,452,570
Interest and investment earnings	150,536	94,612	245,148
Miscellaneous	635,586	411,646	1,047,232
Program revenues:			
Charges for services	305,045	1,454,056	1,759,101
Operating grants and contributions	7,908,323	3,489,515	11,397,838
Total revenues	<u>71,559,683</u>	<u>8,564,104</u>	<u>80,123,787</u>
EXPENDITURES			
Instructional services:			
Instruction	43,290,184	2,295,909	45,586,093
Instruction-related services:			
Supervision of instruction	1,125,719	-	1,125,719
Instructional library, media and technology	1,388,463	-	1,388,463
School site administration	5,005,274	682,874	5,688,148
Pupil support services:			
Home-to-school transportation	898,166	-	898,166
Food services	-	2,238,336	2,238,336
All other pupil services	6,180,465	47,036	6,227,501
General administration services:			
Data processing services	213,847	-	213,847
Other general administration	4,055,887	220,558	4,276,445
Plant services	7,277,038	899,868	8,176,906
Facility acquisition and construction	17,783	2,355,086	2,372,869
Community services	41,954	-	41,954
Other outgo:			
Transfers between agencies	3,976,811	-	3,976,811
Debt service - principal	-	993,755	993,755
Debt service - interest	-	2,054,832	2,054,832
Debt service - issuance costs and discounts	-	25,308	25,308
Total expenditures	<u>73,471,591</u>	<u>11,813,562</u>	<u>85,285,153</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,911,908)</u>	<u>(3,249,458)</u>	<u>(5,161,366)</u>
OTHER FINANCING SOURCES (USES)			
Interfund transfers in	900,404	1,843,579	2,743,983
Interfund transfers out	(1,843,579)	(900,404)	(2,743,983)
All other financing sources	-	13,175	13,175
Total other financing sources and uses	<u>(943,175)</u>	<u>956,350</u>	<u>13,175</u>
Net change in fund balances	(2,855,083)	(2,293,108)	(5,148,191)
Fund balances, July 1, 2009	<u>17,893,960</u>	<u>12,446,440</u>	<u>30,340,400</u>
Fund balances, June 30, 2010	<u>\$ 15,038,877</u>	<u>\$ 10,153,332</u>	<u>\$ 25,192,209</u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2010

Total net change in fund balances - governmental funds \$ (5,148,191)

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. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	\$ 2,488,741	
Depreciation expense	(4,611,180)	(2,122,439)

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 a reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: (348,266)

In governmental funds, postretirement benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postretirement benefits costs are recognized in the period that they are incurred. This year, the difference between OPEB costs and actual employer contributions was: (266,663)

Debt issue costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period was: (166,098)

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: (424,854)

Other expenditures related to prior periods: Certain expenditures recognized in governmental funds relate to prior periods. Typical examples, in addition to compensated absences and interest on long-term debt, are payments on structured legal settlements or retirement incentives paid over time. These expenditures are recognized in the government-wide statement of activities in the period in which the obligations are first incurred, so they must not be recognized again in the current period. Expenditures relating to prior periods (described below) were: (2,500)

Other liabilities not normally liquidated with current financial resources: In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources, in addition to compensated absences and long-term debt. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were: 644,994

Change in net assets of governmental activities \$ (7,834,017)

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets – Fiduciary Funds
June 30, 2010

	Trust Fund	Agency Funds	
	Retiree Benefits Fund	Student Body Funds	Total Fiduciary Funds
ASSETS			
Cash	\$ 457,704	\$ 834,675	\$ 1,292,379
Investments	-	120,719	120,719
Accounts receivable	1,204	-	1,204
Total assets	458,908	955,394	1,414,302
LIABILITIES			
Accounts payable	500	-	500
Due to student groups	-	955,394	955,394
Total liabilities	500	955,394	955,894
NET ASSETS			
Unreserved	458,408	-	458,408
Total net assets	\$ 458,408	\$ -	\$ 458,408

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Statement of Changes in Fiduciary Net Assets – Fiduciary Funds
For the Fiscal Year Ended June 30, 2010

	Trust Fund
	Retiree Benefits Fund
ADDITIONS	
Interest	\$ 4,034
Other local revenue	58,501
Total additions	<u>62,535</u>
DEDUCTIONS	
Services and other operating expenses	<u>2,500</u>
Total deductions	<u>2,500</u>
Change in net assets	60,035
Net assets held in trust - July 1, 2009	<u>398,373</u>
Net assets held in trust - June 30, 2010	<u><u>\$ 458,408</u></u>

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

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

B. Reporting Entity

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

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. In addition, component units are other legally separate organizations for which the District is not financially accountable, but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The San Francisco Unified School District Financing Corporation is a component unit of the District.

South San Francisco Unified School District Financing Corporation

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

Financial Presentation:

For financial presentation purposes, the component units' financial activity will be blended, or combined, with the financial data of the District. The financial statements will present the component units' financial activity within the Capital Projects Fund. Certificates of Participation and Bonded Debt issued by the component units will be included in the long-term liabilities on the Statement of Net Assets. Separate financial statements for the individual component units are not prepared.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting Entity (continued)

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

Manifestations of Oversight

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

Accountability of Fiscal Matters

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

Scope of Public Service

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

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. Internal Service Fund activity is eliminated to avoid doubling revenues and expenses.

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

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

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

The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

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

D. Basis of Accounting

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year and are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means collected within the current period or within 60 days after year-end.

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

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue

Expenses/expenditures:

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

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting

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

Major Governmental Funds:

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

Non-major Governmental Funds:

- *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains five 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.
 5. Special Reserve for Other Than Capital Outlay Fund is used to provide for the accumulation of general fund moneys for general operating purposes other than capital outlay.
- *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, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Non-major Governmental Funds (continued)

- ***Capital Projects Funds*** are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains five non-major capital project funds:
 1. The Special Reserve Fund for Capital Outlay Projects exists primarily to provide for the accumulation of general fund money for capital outlay purposes.
 2. The Building Fund exists primarily to account separately for proceeds from the sale of bonds.
 3. The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
 4. The State School Building Lease-Purchase Fund is used primarily to account separately for state apportionments for the reconstruction, remodeling, or replacing of existing school buildings or the acquisition of new school sites and buildings.
 5. The County School Facilities Fund is established to receive state apportionments for new school facility construction, modernization projects, and facility hardship grants.

Fiduciary Funds:

- ***Agency Funds*** are used to account for assets of others for which the District acts as an agent. The District maintains sixteen agency funds, one for each school or program that operates a student body fund. The amounts reported for student body funds represent the combined totals of all schools and programs within the District.
- ***Private Purpose Trust Funds*** are used to report all trust arrangements under which principal and income benefit individual private organizations or other governments. The District maintains one Foundation – Private Purpose Trust Fund for the purpose of granting scholarships to eligible high school graduating students.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

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 supplementary information.

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

G. Encumbrances

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

H. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value.

2. Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical 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 not a component of net current assets.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

3. Capital Assets

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

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

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

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

4. Deferred Revenue

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

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

5. Compensated Absences

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

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

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds. 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 and any premiums or discounts is reported as other financing sources and uses.

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriate for expenditure or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

8. Net Assets

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

I. Revenue Limit/Property Tax

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

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 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 (January 1), and become delinquent if unpaid by August 31. Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

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

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. Because the District's local property tax revenue exceeds its total base revenue limit, the District receives from the state General Fund only an amount known as "basic aid." The basic aid entitlement is equal to amounts for various other supplemental instructional programs.

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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

K. New GASB Pronouncement

GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions* was issued in February 2009. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement is required to be implemented in the 2010-11 fiscal year.

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

	Governmental Funds	Fiduciary Funds
Cash in county treasury	\$ 22,876,916	\$ 457,704
Cash on hand and in banks	226,106	834,675
Cash with fiscal agent	148,958	-
Cash in revolving fund	25,314	-
Collections awaiting deposit	465,100	-
Total cash and cash equivalents	<u>\$ 23,742,394</u>	<u>\$ 1,292,379</u>
Total investments	<u>\$ 437,606</u>	<u>\$ 120,719</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 2 – CASH AND INVESTMENTS (continued)

Policies and Practices

Governmental agencies in the state of California are authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies; certificates of participation; obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of the applicable agreements rather than the general provisions of the California Government Code.

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

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

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 2 – CASH AND INVESTMENTS (continued)

General Authorizations

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

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury, First American Treasury Obligation Bonds, and other various money market accounts. The District maintains an investment with the San Mateo County Investment Pool with a fair value of approximately \$23,418,624 and an amortized book value of \$23,334,619. The average weighted maturity for this pool is not available.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 2 – CASH AND INVESTMENTS (continued)

Credit Risk

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

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2010, the District's bank balance of \$226,106 was not exposed to custodial credit risk because it is under the \$250,000 deposited per bank covered under the FDIC insurance limit.

Concentration of Credit Risk

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 3 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

For the fiscal year ended June 30, 2010, expenditures exceeded appropriations in the General Fund as follows:

<u>General Fund</u>	<u>Amount</u>
Certificated salaries	\$ 86,976
Capital outlay	23,422
Other outgo	530,417

NOTE 4 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2010 consist of the following:

	<u>Governmental Funds</u>	<u>Fiduciary Funds</u>
Federal	\$ 1,124,250	\$ -
State categorical	1,639,536	-
Other	1,891,954	1,204
Total accounts receivable	<u>\$ 4,655,740</u>	<u>\$ 1,204</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 occur 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, 2010

NOTE 5 - INTERFUND TRANSACTIONS (continued)

A. Due From/Due To Other Funds

Individual interfund receivable and payable balances as of June 30, 2010 are as follows:

	Due To Other Funds		
	General Fund	Other Governmental Funds	Total
General Fund	\$ -	\$ 750,655	\$ 750,655
Other Governmental Funds	536,346	35,348	571,694
Total	<u>\$ 536,346</u>	<u>\$ 786,003</u>	<u>\$ 1,322,349</u>
General Fund Due to Adult Education Fund for expenses and rental share			\$ 3,508
General Fund Due to Child Development Fund for Pool III interest allocation			8,936
General Fund Due to Cafeteria Fund for payment of services and indirect costs			10,647
General Fund Due to County School Facilities Fund for payment of services			141
General Fund due to Special Reserve Fund for Capital Outlay for RDA transfers			513,114
Adult Education Fund due to General Fund for benefits, apportionment and payment of services			223,522
Child Development Fund due to General Fund for benefits, apportionment, payment of services and rental income			244,578
Cafeteria Fund due to General Fund for benefits, apportionment, payment of services			274,758
Special Reserve Fund for Other then Capital Outlay due to General Fund for benefits, apportionment, payment of services			3,325
Capital Facilities Fund due to Genral Fund for administrative fees			3,627
County School Facilities Fund due General Fund for payment of services			845
Child Development Fund due to Cafeteria Fund for payment of services			11,985
Special Reserve for Other then Capital Outlay Fund due to Capital facilities for payment of services			23,363
Total			<u>\$ 1,322,349</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

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 2009-10 fiscal year are as follows:

	Interfund Transfers Out		Total
	General Fund	Other Governmental Funds	
General Fund	\$ -	\$ 900,404	\$ 900,404
Other Governmental Funds	1,843,579	-	1,843,579
Total	<u>\$ 1,843,579</u>	<u>\$ 900,404</u>	<u>\$ 2,743,983</u>
Transfer from General Fund to Adult Education for apportionment			\$ 1,235,223
Transfer from General Fund to Special Reserve Fund for Other than Capital Outlay Projects for Hillside rental			104,573
Transfer from General Fund to the Special Reserve Fund for Capital Outlay Projects for RDA pass-through			503,783
Transfer from Child Development Fund to the General Fund for rental expense			12,600
Transfer from Special Reserve fund for Capital Outlay Projects due to the General Fund			881,689
Transfer of State School Buidling Lease Fund to General Funds to close out fund			6,115
Total			<u>\$ 2,743,983</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 6 – FUND BALANCES

Of the \$15 million ending fund balance in the General Fund, the following amounts have been designated by the governing board for the following purposes:

The following fund balance amounts were designated by the District's governing board as of June 30, 2010, as follows:

	General Fund
Economic uncertainties	\$ 2,204,148
Other designations	3,405,219
Total designations	<u>\$ 5,609,367</u>

NOTE 7 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2010 is shown below:

	Beginning Balance July 1, 2009	Additions	Deletions	Ending Balance June 30, 2010
Land	\$ 4,305,189	\$ -	\$ -	\$ 4,305,189
Site improvements	3,051,571	212,609	-	3,264,180
Buildings	121,696,990	2,346,288	-	124,043,278
Furniture and equipment	3,701,572	2,092,468	5,399	5,788,641
Construction in progress	2,215,266	2,176,179	4,338,803	52,642
Total at historical cost	<u>\$ 134,970,588</u>	<u>\$ 6,827,544</u>	<u>\$ 4,344,202</u>	<u>\$ 137,453,930</u>
Less accumulated depreciation:				
Site improvements	1,181,212	149,095	-	1,330,307
Buildings	43,609,083	4,294,337	-	47,903,420
Furniture and equipment	3,073,940	167,750	5,399	3,236,291
Total accumulated depreciation	<u>47,864,235</u>	<u>4,611,182</u>	<u>5,399</u>	<u>52,470,018</u>
Total capital assets, net	<u>\$ 87,106,353</u>	<u>\$ 2,216,362</u>	<u>\$ 4,338,803</u>	<u>\$ 84,983,912</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 8 – TAX REVENUE ANTICIPATION NOTES (TRANS)

Subsequent Event

On July 7, 2010, the District issued \$8,500,000 in TRANS through Keygent. The notes mature on July 1, 2011 and yielded 0.56% 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.

NOTE 9 – GENERAL LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2010 is shown below:

	Balance July 1, 2009	Additions	Deductions	Balance June 30, 2010	Amounts Due Within One Year
General obligation bonds payable	\$ 35,777,393	\$ 772,607	\$ -	\$ 36,550,000	\$ 1,150,000
Certificates of participation payable	1,755,911	965,000	1,197,936	1,522,975	176,737
Early retirement incentive	1,370,571	-	611,463	759,108	260,675
EPA loan	50,284	-	33,531	16,753	16,753
Net OPEB obligation	251,883	266,663	-	518,546	-
Compensated absences payable	690,636	2,500	-	693,136	-
Total long-term debt	<u>\$ 39,896,678</u>	<u>\$ 2,006,770</u>	<u>\$ 1,842,930</u>	<u>\$ 40,060,518</u>	<u>\$ 1,604,165</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 9 – GENERAL LONG-TERM DEBT (continued)

A. General Obligation Bonds

On January 1, 2006, the South San Francisco Unified School District's School Financing Authority (the "Financing Authority") purchased the District's 2006 Refunding Bonds, which was issued the same year to refund the Series 1997 and Series 1999 and 1999 B bond issuances. The bonds were issued at a premium and yielded net proceeds of \$2,992,183 to be spent on the District's capital facilities improvement program. The proceeds were deposited into the District's Building Fund in 2005-06. The remaining funds were transferred into an escrow fund, an in-substance defeasance, for the purpose of paying off all previously issued bonded indebtedness. The bonds mature on September 1, 2023, and carry an interest rate of 3.07% to 4.20%. The principal balance outstanding on the General Obligation Bonds held by the Financing Authority as of June 30, 2010 was \$34,975,043. The principal balance outstanding on the refunding bonds of the Financing Authority is \$36,550,000.

The annual requirements to amortize general obligation bonds payable of the Financing Authority, outstanding as of June 30, 2010, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2010-11	\$ 1,150,000	\$ 1,773,587	\$ 2,923,587
2011-12	1,315,000	1,721,412	3,036,412
2012-13	1,490,000	1,665,312	3,155,312
2013-14	1,675,000	1,593,637	3,268,637
2014-15	1,885,000	1,504,637	3,389,637
2015-20	13,100,000	5,911,902	19,011,902
2020-24	15,935,000	1,751,532	17,686,532
Total	<u>\$ 36,550,000</u>	<u>\$ 15,922,019</u>	<u>\$ 52,472,019</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 9 – GENERAL LONG-TERM DEBT (continued)

B. Certificates of Participation

The District has three outstanding certificates of participation as of June 30, 2010:

Issue Date	Maturity Date	Interest Rate	Original Issue	Beginning Balance	Issued	Redeemed	Ending Balance
2/1/2004	12/1/2018	4.88%	\$ 1,037,000	\$ 740,911	\$ -	\$ 62,936	\$ 677,975
2/5/1997	7/1/2023	variable	1,815,000	1,015,000	-	1,015,000	-
12/1/2009	7/9/2005	1.25 - 4.75%	965,000	-	965,000	120,000	845,000
		Total	<u>\$ 3,817,000</u>	<u>\$ 1,755,911</u>	<u>\$ 965,000</u>	<u>\$ 1,197,936</u>	<u>\$ 1,522,975</u>

The annual requirements to amortize all certificates of participation, outstanding as of June 30, 2010 are as follows:

C. Early Retirement Incentives

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

Fiscal year	Amount due
2010-11	\$ 260,675
2011-12	260,675
2012-13	237,758
Total	<u>\$ 759,108</u>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 9 – GENERAL LONG-TERM DEBT (continued)

D. EPA Loan

The District has a non-interest bearing loan with the Environmental Protection Agency. The final payment of \$16,754 is due in 2011.

NOTE 10 – JOINT VENTURES

The District participates in one joint venture under a joint powers agreement (JPA) with the San Mateo County Schools Insurance Group (SMCSIG). The relationship between the 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 provides property and liability insurance for its member school districts. The JPA is governed by a board consisting of a representative from each member district. The governing board controls the operations of the JPA independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPA.

Condensed audited financial information for the fiscal year ended June 30, 2010 is as follows:

	San Mateo County Schools Insurance Group June 30, 2010	
Assets	\$	13,549,892
Liabilities	\$	6,972,599
Net assets	\$	6,577,293
Revenues	\$	31,574,349
Expenses		32,465,162
Operating income		(890,813)
Change in net assets	\$	(890,813)

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 10 – JOINT VENTURES (continued)

South San Francisco Unified School District Financing Corporation

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

NOTE 11 – COMMITMENTS AND CONTINGENCIES

State and Federal Allowances, Awards, and Grants

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

Construction Commitments

As of June 30, 2010, the District had construction commitments outstanding of \$225,518.

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.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

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 California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS).

Plan Description and Provisions

California Public Employees' Retirement System (CalPERS)

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 2009-10 was 9.709%. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2009-10	\$ 1,897,189	100%
2008-09	\$ 1,810,271	100%
2007-08	\$ 1,032,567	100%

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

Notes to Financial Statements

June 30, 2010

NOTE 13 - EMPLOYEE RETIREMENT PLANS (continued)

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. 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. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 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 2009-10 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalSTRS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2009-10	\$ 2,908,571	100%
2008-09	\$ 2,845,403	100%
2007-08	\$ 2,694,542	100%

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$1,703,109 to CalSTRS (4.267% of salaries subject to CalSTRS in 2009-10).

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS

Annual OPEB Cost and Net OPEB Obligation

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

	<u>Amount</u>
Annual required contribution (ARC)	\$ 853,000
Interest on net OPEB obligation	12,594
Adjustment to ARC	<u>(14,914)</u>
Annual OPEB cost	<u>850,680</u>
Contributions made:	<u>584,017</u>
Increase in net OPEB obligation	<u>266,663</u>
Net OPEB obligation - July 1, 2009	<u>251,883</u>
Net OPEB obligation - June 30, 2010	<u><u>\$ 518,546</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009-10 are as follows:

Year Ended June 30,	Annual OPEB Cost	Percentage Contributed
2009	\$ 882,000	71%
2010	850,680	68%

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 14 – OTHER POSTEMPLOYMENT BENEFITS (continued)

Funded Status and Funding Progress – OPEB Plans

As of January 1, 2009, the most recent actuarial valuation date, the District did not have a funded plan. The actuarial accrues liability (AAL) for benefits was \$11.7 million and the unfunded actuarial accrued liability (UAAL) was \$11.7 million.

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

Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation as follows:

Valuation Date	1/1/2009
Actuarial Cost Method	Projected Unit Credit
Amortization Method	Level Dollar Method
Amortization Period	30 Years
Asset Valuation	Market Value Method
Actuarial Assumptions:	
Discount rate	5.0%
Long-term healthcare cost trend rates:	5.0%
Healthcare cost trend rate	
Medical	5.0%

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 15 – SUBSEQUENT EVENTS

General Obligation Bond

On November 2, 2010, the Measure J bond was passed by District voters, authorizing an aggregate principal amount of \$162,000,000 in bonds at legal interest rates, with citizen oversight, annual audits, no money for administrators' salaries, and all funds benefitting local schools. The bonds issued under Measure J will have an interest rate not exceeding the legal maximum and will mature in a maximum of 40 years from the date of issuance of the bonds.

Required Supplementary Information

(This page intentionally left blank)

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual	Variance with
	Original	Final	(Budgetary Basis)	Final Budget - Pos (Neg)
REVENUES				
Revenue limit sources	\$ 57,387,348	\$ 52,038,748	\$ 55,524,527	\$ 3,485,779
Federal	4,729,405	6,389,060	5,955,492	(433,568)
Other state	10,948,129	10,702,050	7,902,594	(2,799,456)
Other local	2,116,656	2,256,658	2,177,070	(79,588)
Total revenues	75,181,538	71,386,516	71,559,683	173,167
EXPENDITURES				
Certificated salaries	35,798,419	35,440,096	35,527,072	(86,976)
Classified salaries	10,891,802	11,020,682	10,742,118	278,564
Employee benefits	13,468,102	13,301,076	12,868,306	432,770
Books and supplies	2,726,550	7,645,343	3,121,956	4,523,387
Services and other operating expenditures	7,315,678	7,635,524	7,325,300	310,224
Capital outlay	31,081	103,537	126,959	(23,422)
Transfers of indirect costs	(177,511)	(245,571)	(216,931)	(28,640)
Other outgo	4,091,436	3,446,394	3,976,811	(530,417)
Total expenditures	74,145,557	78,347,081	73,471,591	4,875,490
Excess (deficiency) of revenues over (under) expenditures	1,035,981	(6,960,565)	(1,911,908)	5,048,657
OTHER FINANCING SOURCES AND USES				
Interfund transfers in	12,600	862,079	900,404	38,325
Interfund transfers out	(2,170,436)	(1,933,158)	(1,843,579)	89,579
Total other financing sources and uses	(2,157,836)	(1,071,079)	(943,175)	127,904
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(1,121,855)	(8,031,644)	(2,855,083)	5,176,561
Fund balances, July 1, 2009	17,893,960	17,893,960	17,893,960	-
Fund balances, June 30, 2010	\$ 16,772,105	\$ 9,862,316	\$ 15,038,877	\$ 5,176,561

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2010

Schedule of Funding Progress

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	UAAL as a Percentage of Covered Payroll
1/1/2009	\$ -	\$ 11,718,000	\$ 11,718,000	0%	\$ 45,002,000	26%

Supplementary Information Section

(This page intentionally left blank)

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2010

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 Unified, a portion of Daly City, a small area of San Bruno, and some small "islands" of unincorporated areas of San Mateo County. There were no changes in the boundaries of the District during the current year.

GOVERNING BOARD		
Member	Office	Term Expires
Liza Normandy	President	November 2010
Shirlee Hoch	Vice President	November 2010
Maurice Goodman	Member	November 2012
Philip Weise	Member	November 2010
Judith Bush	Member	November 2012

DISTRICT ADMINISTRATORS	
Name	Title
Howard Cohen, Ed. D.	<i>Superintendent</i>
Robert Thompson, Ed. D.	<i>Assistant Superintendent, Personnel</i>
Jonathan Barth	<i>Assistant Superintendent, Business Services</i>
Adolfo Melara	<i>Associate Superintendent, ELL Programs & Student Learning Support</i>

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2010

	Second Period Report	Annual Report
Elementary:		
Kindergarten	655	655
Grades 1 through 3, regular classes	1,889	1,893
Grades 4 through 6, regular classes	1,875	1,883
Grades 7 and 8, regular classes	1,284	1,292
Home and hospital	2	2
Special education	255	256
Total Elementary	5,960	5,981
Secondary:		
Grades 9 through 12, regular classes	2,745	2,726
Continuation education	68	65
Home and hospital	4	5
Special education	170	173
Total Secondary	2,987	2,969
Total Average Daily Attendance	8,947	8,950

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal Year Ended June 30, 2010

Grade Level	1982-83 Actual Minutes	1982-83 Reduced Minutes	1986-87 Minutes Requirement	1986-87 Reduced Minutes	2009-10 Actual Minutes	Number of Days Traditional Calendar	Status
Kindergarten	35,920	34,922	36,000	35,000	46,620	180	Complied
Grade 1	48,312	46,970	50,400	49,000	52,260	180	Complied
Grade 2	48,312	46,970	50,400	49,000	52,260	180	Complied
Grade 3	48,312	46,970	50,400	49,000	52,260	180	Complied
Grade 4	48,312	46,970	54,000	52,500	52,260	180	Complied
Grade 5	48,312	46,970	54,000	52,500	52,260	180	Complied
Grade 6	49,860	48,475	54,000	52,500	61,019	180	Complied
Grade 7	49,860	48,475	54,000	52,500	61,019	180	Complied
Grade 8	49,860	48,475	54,000	52,500	61,019	180	Complied
Grade 9	63,440	61,678	64,800	63,000	65,342	180	Complied
Grade 10	63,440	61,678	64,800	63,000	65,342	180	Complied
Grade 11	63,440	61,678	64,800	63,000	65,342	180	Complied
Grade 12	63,440	61,678	64,800	63,000	65,342	180	Complied

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2010

General Fund	(Budget) 2011***	2010	2009	2008
Revenues and other financing sources	\$ 64,392,062	\$ 72,460,087	\$ 76,688,695	\$ 73,278,031
Expenditures	68,065,265	73,471,591	71,855,051	70,592,748
Other uses and transfers out	1,643,248	1,843,579	2,131,096	143,161
Total outgo	69,708,513	75,315,170	73,986,147	70,735,909
Change in fund balance (deficit)	(5,316,451)	(2,855,083)	2,702,548	2,542,122
Ending fund balance	\$ 9,722,426	\$ 15,038,877	\$ 17,893,960	\$ 15,191,412
Available reserves*	\$ 11,692,873	\$ 10,769,962	\$ 10,047,769	\$ 7,219,266
Available reserves as a percentage of total outgo	17%	14%	14%	10%
Total long-term debt	\$ 38,456,353	\$ 40,060,518	\$ 39,896,678	\$ 41,024,555
Average daily attendance at P-2**	9,368	9,368	9,035	8,989

The General Fund balance has decreased by \$152,353 over the past two years. The fiscal year 2010-11 adopted budget projects a decrease of \$5,316,451. 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). ABX4 2 reduced the 3% reserve requirement by one-third for the 2009-10 year. Long-term debt has decreased \$2,306,058 over the past two years.

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

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

*** Revised Final Budget, September 2010.

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	2009-10 Actual Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
National School Lunch	10.555	13391	\$ 1,364,738
National School Breakfast	10.553	13390	142,874
Fair Market Value of Commodities	10.558	13389	134,550
Child and Adult Care Food	10.558	13393	62,921
Total U.S. Department of Agriculture			<u>1,705,083</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	624,483
ARRA Title I, Part A Basic Grants	84.389	15005	339,492
Title I, Part C, Migrant Education	84.011	13174	78,485
Title II, Part A, Teacher Quality	84.367	14341	329,370
Title II, Part D, Enhancing Education Technology	84.318	14334	6,412
Title III, Limited English Proficiency	84.365	10084	176,413
Title IV, Part A, Drug-Free Schools	84.186	14347	25,093
Title V, Part A, Innovative Education Strategies	84.298A	14354	6,731
Subtotal NCLB			<u>1,586,479</u>
Special Education Cluster (IDEA):			
IDEA, Basic Local Assistance Entitlement, Part B	84.027	13379	1,675,387
IDEA, Preschool Grants, Part B	84.173	13430	38,826
IDEA, Preschool Local Entitlement, Part B	84.027A	13682	70,204
IDEA, Preschool Staff Development, Part B	84.173A	13431	472
IDEA, Workability II, Transition Partnership	84.158	10006	45,450
ARRA - Basic Local Assistance Entitlement, Part B	84.391	15003	1,257,980
ARRA - Preschool Local Entitlement, Part B	84.392	15000	30,694
Subtotal IDEA Cluster			<u>3,119,013</u>
Carl Perkins Act:			
Vocational & Applied Technology Secondary	84.048	13924	44,212
Adult Education and Family Literacy Act:			
Adult Basic Education	84.002A	14508	87,470
English Literacy and Civics Education	84.002A	14109	24,561
Adult Secondary Education	84.002	13978	22,125
ARRA - SFSF	84.394	24997	937,622
Total U.S. Department of Education			<u>4,883,860</u>
U.S. Department of Health and Human Services:			
Passed through California Dept. of Education (CDE):			
Facilities Renovation & Repair	93.575	24861	1,967
Medi-Cal Administrative Activities	93.778	10060	668,831
Medi-Cal Billing Option	93.778	10013	21,588
Total Expenditures of Federal Awards			<u>\$ 7,281,329</u>

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2010

There were no adjustments between the Annual Financial and Budget Report and the Audited Financial Statements in 2009-10.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Notes to the Schedule of Expenditures of Federal Awards
June 30, 2010

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code section 46201. For 2009-10 through 2012-13, the instructional day and minute requirements have been reduced pursuant to Education Code Section 46201.2.

Schedule of Financial Trends and Analysis

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

Schedule of Expenditures of Federal Awards

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

Subrecipients

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

(This page intentionally left blank)

Other Independent Auditor's Reports

(This page intentionally left blank)

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

Independent Auditor's Report

We have audited the basic financial statements of South San Francisco Unified School District as of and for the year ended June 30, 2010, and have issued our report thereon dated December 1, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting which we consider to be a material weakness, as defined above. However, as discussed above, we identified certain deficiencies in internal control over financial reporting which we consider to be significant deficiencies. We consider the deficiency described in the accompanying schedule of findings and questioned costs as item #2010-1 to be a significant deficiency in internal control over financial reporting. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

South San Francisco Unified School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit the District's responses and, accordingly, we express no opinion on them.

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

Christine White Accountancy Corporation

San Diego, California
December 1, 2010

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

**REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND
MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Independent Auditor's Report

Compliance

We have audited South San Francisco Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of South San Francisco Unified School District's major federal programs for the year ended June 30, 2010. South San Francisco Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of South San Francisco Unified School District's management. Our responsibility is to express an opinion on South San Francisco Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133. 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010.

Internal Control Over Compliance

Management of South San Francisco Unified School District is responsible for establishing and maintaining effective internal control over compliance with the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the South San Francisco Unified School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

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

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

Chintal Patel Accountancy Corporation

San Diego, California
December 1, 2010

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

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the South San Francisco Unified School District (the District), as of and for the year ended June 30, 2010, and have issued our report thereon dated December 1, 2010. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies, 2009-2010*, 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 opinions.

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 state laws and regulations applicable to the following items:

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	No (see below)
Continuation Education	10	Not applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable

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

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

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

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

Christy White Accountancy Corporation

San Diego, California
December 1, 2010

Findings and Questioned Costs Section

(This page intentionally left blank)

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

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

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010, 84.389	Title I Cluster
84.394	ARRA SFSF
84.027, 84.391,	
84.173, 84.392	Special Education Cluster (IDEA)
84.367	Title II Principal Training
84.365	Title III LEP

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

State Awards

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section II – Financial Statement Findings

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

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

Finding #2010-1: ASB Funds Internal Control (30000)

General ASB Findings

- The collection of the vending machine monies is not centralized. The school board should create a policy to provide direction and parameters regarding how vending machines maybe used in the District.
- The ASB Bookkeeper is the signor on the account. For the Middle and High Schools the ASB Bookkeeper should not be the signor on the account.

Alta Loma Middle School

Through inquiry and testing of student funds at Alta Loma Middle School, we found that 2 out of 5 cash disbursements tested did not have adequate supporting documents (ie. Evidence of receipts, invoices, logs etc). We also found that 5 out of 5 cash receipts support was not readily available to the auditors except for deposit slip (i.e. Cash count forms, ticket logs, pre-numbered tickets etc.). Upon further inquiry it was also determined budgets and club minutes are not being prepared and bank deposits are not being reconciled to cash receipts. In our observation of the student store we noticed that there did not appear to be an organized system for the distribution of goods or receipt of funds disorganized and daily cash counts appear to be inaccurate and messy allowing for the opportunity for theft.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section II – Financial Statement Findings (continued)

Finding #2010-1: ASB Funds Internal Control (30000) (continued)

Alta Loma Middle School (continued)

Recommendation: We recommend that the ASB bookkeeper centralize all of the supporting documentation for cash receipts, cash disbursements, club minutes and charters. We recommend that the District re-train the sites on internal controls over the ASB and other areas noted above. Also we recommend that the District discontinue the operation of the student store due to the inadequacy of proper procedures and difficulty of running the student store adequately.

District Response: The ASB bookkeeper will be re-trained in accordance with an established set of District standards and procedures for accountability. The District will work with the site to evaluate the potential for improving the operations of the student store. Should there be future audit findings that the store operations are improper or inadequate, the store will need to be discontinued.

Ponderosa Elementary School

Through inquiry and testing of student funds at Ponderosa Elementary School, we found that 1 out of 7 cash disbursements tested did not have adequate supporting documents (i.e. Evidence of receipts, invoices, logs etc) for checks written with student funds. We also found that 5 out of 5 cash receipts support was not readily available to the auditors except for deposit slip (i.e. Cash count forms, ticket logs, pre-numbered tickets etc.). We also observed that checks on hand have been pre-signed.

Recommendation: We recommend that the ASB bookkeeper centralize all of the supporting documentation for cash receipts, cash disbursements. We recommend that the District re-train the sites on internal controls over the ASB and other areas noted above for Ponderosa Elementary School. We also recommend that the checks are only signed when paying for goods.

District Response: The ASB bookkeeper will be re-trained on proper documentation for receipts and disbursements. There will be standards established across the District establishing expectations of levels of accountability for all ASBs.

Skyline Elementary School

Through inquiry and testing of student funds at Skyline Elementary School, we found that 5 out of 5 cash receipts support was not readily available to the auditors except for deposit slip (i.e. Cash count forms, ticket logs, pre-numbered tickets etc.).

Recommendation: We recommend that the ASB bookkeeper centralize all of the supporting documentation for cash receipts.

District Response: The District will establish unified standards for the management of and documentation of student funds. All District sites will be re-trained on the expectations, procedures and standards.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section II – Financial Statement Findings (continued)

Finding #2010-1: ASB Funds Internal Control (30000) (continued)

South San Francisco High School

Through inquiry and testing of student funds at South San Francisco High School, we found that 1 out of 15 cash disbursements tested did not have proper approvals. We also found that 4 out of 15 cash receipts support was not readily available to the auditors except for deposit slip (i.e. Cash count forms, ticket logs, pre-numbered tickets etc.). Upon further inquiry it was also determined equipment is not being inventoried, budgets and club minutes are not being prepared and bank deposits are not being reconciled to cash receipts. In our observation of the student store we noticed that there did not appear to be an organized system for the distribution of goods or receipt of funds disorganized and daily cash counts appear to be inaccurate and messy allowing for the opportunity for theft.

Recommendation: We recommend that the ASB bookkeeper obtain all of the supporting documentation for cash receipts, cash disbursements. We recommend that the District re-train the sites on internal controls over the ASB and other areas noted above for South San Francisco High School.

District Response: The District will re-train all sites on internal controls and supporting documentation. Procedures and expectations will be established in writing.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

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

There were no federal awards findings or questioned costs in 2009-10.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

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 audit findings and questioned costs related to state awards during 2009-10

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

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

(This page intentionally left blank)