SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

JUNE 30, 2016

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the South San Francisco Unified School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting,* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

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Opinion

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, 2016, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter - Correction of Error

As discussed in Note 16 to the financial statements, there were certain items that occurred in the prior year net position and fund balances that have been restated as of June 30, 2015, to more accurately reflect the substance of the underlying transactions. Our opinion is not modified with respect to this matter.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 17 to the financial statements, the District began receiving a dedicated revenue source for its Adult Education Fund. As a result, the Adult Education Fund meets the definition of a special revenue fund under GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definition* and is reported accordingly. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 5 through 13, the budgetary comparison schedule, schedule of other postemployment benefits funding progress, schedule of the District's proportionate share of net pension liability, and the schedule of District contributions on pages 69 through 73, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

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

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

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated December 15, 2016, on our consideration of the South San Francisco Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering South San Francisco Unified School District's internal control over financial reporting and compliance.

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2016

South San Francisco Unified School District

This section of South San Francisco Unified School District's (the District) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2016. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

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

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

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

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

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

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

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

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Position and the Statement of Activities

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

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

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

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

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

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

THE DISTRICT AS A TRUSTEE

Reporting the Districts Fiduciary Responsibilities

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

FINANCIAL HIGHLIGHTS

Total Net Position increased 19.6 percent over the course of the year. Overall revenues were $116.1 million, $12.2 million more than expenses. The total cost of basic programs was $103.9 million. Because a portion of these costs was paid for with charges, fees, and intergovernmental aid, the net cost that required taxpayer funding was just $88.5 million. Average daily attendance (ADA) in grades K-12 decreased by 75, or 0.9 percent.

THE DISTRICT AS A WHOLE

Net Position

The District's Net Position was $73.8 million for the fiscal year ended June 30, 2016. Of this amount, $51.0 million was unrestricted. Restricted Net Position is reported separately to show legal constraints from debt covenants and enabling legislation that limit the governing board's ability to use that Net Position for day-to-day operations. Our analysis below, in summary form, focuses on the Net Position (Table 1) and change in Net Position (Table 2) of the District's governmental activities.

Table 1

	Governmental Activities	
	2016	2015 as Restated
Assets		
Current and other assets	$ 113,516,555	$ 126,722,962
Long-term receivable	33,140,980	36,663,293
Capital assets	196,660,234	186,411,681
Total Assets	**343,317,769**	**349,797,936**
Deferred Outflows of Resources	**17,765,092**	**6,560,249**
Liabilities		
Current liabilities	2,786,655	14,182,676
Long-term obligations	199,241,958	204,913,235
Aggregate net pension liability	70,373,558	59,068,959
Total Liabilities	**272,402,171**	**278,164,870**
Deferred Inflows of Resources	**14,875,066**	**16,504,886**
Net Position		
Net investment of capital assets	5,785,075	(10,387,664)
Restricted	17,049,211	22,376,725
Unrestricted	50,971,338	49,699,368
Total Net Position	**$ 73,805,624**	**$ 61,688,429**

The $51.0 million in unrestricted net position of governmental activities represents the accumulated results of all past years' operations. Unrestricted net position - the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation, or other legal requirements – increased by 2.6 percent ($51.0 million compared to $49.7 million).

Changes in Net Position

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 15. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

	Governmental Activities	
	2016	2015
Revenues		
Program revenues:		
Charges for services	$ 1,328,777	$ 1,245,119
Operating grants and contributions	14,085,315	14,430,847
General revenues:		
Federal and State aid not restricted	11,466,541	9,452,493
Property taxes	85,698,581	82,141,068
Other general revenues	3,482,177	(4,196,827)
Total Revenues	**116,061,391**	**103,072,700**
Expenses		
Instruction	61,402,394	48,751,427
Instruction-related	10,733,601	9,292,565
Pupil services	11,843,218	10,720,601
Administration	4,639,408	4,430,448
Plant services	7,638,092	56,266,769
Other	7,687,483	7,595,571
Total Expenses	**103,944,196**	**137,057,381**
Change in Net Position	**$ 12,117,195**	**$ (33,984,681)**

Governmental Activities

As reported in the *Statement of Activities* on page 15, the cost of all of our governmental activities this year was $103.9 million. The amount that our taxpayers ultimately financed for these activities through local taxes was only $85.7 million. The District also collected $1.3 million in charges for services from these that benefited from the programs. Other governmental agencies and organizations subsidized certain programs with grants and contributions of $14.1 million. We paid for the remaining "public benefit" portion of our governmental activities with $14.9 million in unrestricted State and Federal funds, and with other revenues and other entitlements.

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

Table 3

	Total Cost of Services		Net Cost of Services	
	2016	2015	2016	2015
Instruction	$ 61,402,394	$ 48,751,427	$ 54,126,003	$ 42,193,677
Instruction-related	10,733,601	9,292,565	9,527,359	8,877,855
Pupil services	11,843,218	10,720,601	9,229,018	8,449,099
Administration	4,639,408	4,430,448	4,250,954	4,146,847
Plant services	7,638,092	56,266,769	7,574,344	55,568,225
Other	7,687,483	7,595,571	3,822,426	(4,284,326)
Total	**$ 103,944,196**	**$ 137,057,381**	**$ 88,530,104**	**$ 114,951,377**

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of $111.2 million, which is a decrease of $3.1 million from last year (Table 4).

Table 4

	Balances and Activity			
	as Restated July 1, 2015	Revenues	Expenditures	June 30, 2016
General Fund	$ 53,064,947	$ 101,598,874	$ 95,304,555	$ 59,359,266
Child Development Fund	555,191	2,472,033	2,285,368	741,856
Building Fund	40,882,756	1,290,848	16,652,224	25,521,380
Special Reserve Fund for Capital Outlay Projects	1,329,440	10,763,713	163,853	11,929,300
Adult Education Fund	1,444,232	1,381,614	1,230,120	1,595,726
Cafeteria Fund	1,290,562	2,614,029	2,623,799	1,280,792
Capital Facilities Fund	815,618	561,473	430,542	946,549
Bond Interest and Redemption Fund	14,926,449	144,741,457	149,978,393	9,689,513
Debt Service Fund for Blended Component Units	-	3,637,583	3,526,425	111,158
Total	**$ 114,309,195**	**$ 269,061,624**	**$ 272,195,279**	**$ 111,175,540**

The primary reasons for these increases/decreases are:

- The General Fund balance increase of $6,294,319 was due to receiving one-time mandated discretionary funds from the State and an increase in property taxes and RDA funding.
- Child Development Fund balance increased $186,665 due to receiving new local grants.
- Building Fund balance decreased $15,361,376 due to the District's engagement in multiple site repair and modernization projects in accordance with the specifications of the bond funds.
- Special Reserve Fund for Capital Outlay Projects Fund balance increase of $10,599,860 due to $10 million transfer from the General Fund to the Reserve Fund for Martin Elementary School renovations.
- Adult Education Fund balance increased $151,494 due to receiving additional State grant.
- Cafeteria Fund decreased $9,770 because the District was required to reduce the fund balance and made materials and capital expenditures to accomplish this.
- Capital Facilities Fund increase of $130,931 due to increased fees collected from local building projects.
- Bond Interest and Redemption Fund balance decreased $5,236,936. This fund is relatively stable as it serves as a holding fund.
- Debt Service Fund for Blended Component Units Fund increased $111,158. This fund is relatively stable as it serves as a holding fund.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 30, 2016. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 69).

- The Board of Education authorized $10 million transfer from the General Fund (Fund 01) to the Special Reserve Fund for Capital Outlay Project Fund (Fund 40) for the repair and modernization of Martin Elementary School.
- Budgeted expenditures increased by $12.1 million as carry over funds became available, negotiated salary increases were implemented and position additions were made.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2016, the District had $197.0 million in a broad range of capital assets (net of depreciation), including land, buildings, furniture, and equipment. This amount represents a net increase (including additions, deductions, and depreciation) of approximately $10.5 million, or 5.6 percent, from last year (Table 5).

Table 5

	Governmental Activities	
	2016	as Restated 2015
Land and construction in progress	$ 85,457,498	$ 88,780,665
Buildings and improvements	106,567,916	93,744,048
Furniture and equipment	4,957,596	3,886,968
Total	**$ 196,983,010**	**$ 186,411,681**

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

Long-Term Obligations

At June 30, 2016, the District had $199.2 million in long-term obligations outstanding versus $204.9 million last year, a decrease of 2.8 percent. Those obligations consisted of:

Table 6

	Governmental Activities	
	2016	2015 as Restated
General obligation bonds (net of premium)	$ 165,593,528	$ 32,018,701
Bond anticipation note (net of premium)	-	137,829,099
Revenue bonds (net premium)	28,184,280	30,509,993
Certificate of participation	363,946	702,995
Compensated absences	601,714	465,345
Net OPEB obligation	4,498,490	3,387,102
Total	**$ 199,241,958**	**$ 204,913,235**

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

Net Pension Liability (NPL)

At year-end, the District had an aggregate net pension liability of $70,373,558 as a result of the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions.* Detailed information regarding the plans is disclosed in Note 13 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2016 year, the governing board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. One-time State Mandate Discretionary funds for 2015-2016 are budgeted.
2. Carryover of unspent categorical funds from prior year is budgeted.
3. Federal and State income will remain relatively flat.
4. Other revenue categories were also adjusted as grants became available from the Federal, State, and local agencies.

Expenditures are based on the following forecasts:

1. Increase in staff salaries per agreement with employee groups.
2. Increase in employee benefits for State Teacher Retirement System (CalSTRS) from 8.88 percent to 10.73 percent; and Public Employee Retirement System (CalPERS) from 11.771 percent to 11.847 percent of the employees' gross payroll.
3. Budgeted expenditures were adjusted in accordance to the increase in categorical program revenues.
4. Budget for unspent categorical programs (entitlements) with fund balance from the prior year were increased.
5. Other expenditure categories were adjusted to cover any unexpected changes during the year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATEMENT OF NET POSITION
JUNE 30, 2016

	Governmental Activities
ASSETS	
Deposits and investments	$ 108,224,183
Receivables	4,624,912
Long-term receivable	33,140,980
Prepaid expenses	231,621
Stores inventories	113,063
Capital assets	
Land and construction in process	85,457,498
Other capital assets	196,660,234
Less: Accumulated depreciation	(85,134,722)
Total Capital Assets	196,983,010
Total Assets	343,317,769
DEFERRED OUTFLOWS OF RESOURCES	
Deferred charge on refunding	2,602,055
Deferred outflows of resources related to pensions	15,163,037
Total Deferred Outflows of Resources	17,765,092
LIABILITIES	
Accounts payable	1,494,344
Accrued interest payable	768,416
Unearned revenue	523,895
Long-term obligations	
Current portion of long-term obligations other than pensions	5,698,201
Noncurrent portion of long-term obligations other than pensions	193,543,757
Total Long-Term Obligations	199,241,958
Aggregate net pension liability	70,373,558
Total Liabilities	272,402,171
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	14,875,066
NET POSITION	
Net investment of capital assets	5,785,075
Restricted for:	
Debt service	9,032,255
Capital projects	946,549
Educational programs	5,638,120
Other activities	1,432,287
Unrestricted	50,971,338
Total Net Position	$ 73,805,624

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

Functions/Programs	Expenses	Program Revenues: Charges for Services and Sales	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Position: Governmental Activities
Governmental Activities:				
Instruction	$ 61,402,394	$ 74,678	$ 7,201,713	$ (54,126,003)
Instruction-related activities:				
Supervision of instruction	1,038,657	12	72,109	(966,536)
Instructional library, media, and technology	2,718,497	27,519	156,041	(2,534,937)
School site administration	6,976,447	17,408	933,153	(6,025,886)
Pupil services:				
Home-to-school transportation	1,849,289	-	-	(1,849,289)
Food services	2,460,657	559,447	1,557,228	(343,982)
All other pupil services	7,533,272	341	497,184	(7,035,747)
Administration:				
Data processing	92,375	-	-	(92,375)
All other administration	4,547,033	22,915	365,539	(4,158,579)
Plant services	7,638,092	3,455	60,293	(7,574,344)
Interest on long-term obligations	3,781,442	-	-	(3,781,442)
Other outgo	3,906,041	623,002	3,242,055	(40,984)
Total Governmental Activities	$ 103,944,196	$ 1,328,777	$ 14,085,315	(88,530,104)

General revenues and subventions:	
Property taxes, levied for general purposes	80,354,229
Property taxes, levied for debt service	4,632,775
Taxes levied for other specific purposes	711,577
Federal and State aid not restricted to specific purposes	11,466,541
Interest and investment earnings	746,373
Miscellaneous	2,735,804
Subtotal, General Revenues	100,647,299
Change in Net Position	12,117,195
Net Position - Beginning, as Restated	61,688,429
Net Position - Ending	$ 73,805,624

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2016

	General Fund	Child Development Fund	Building Fund
ASSETS			
Deposits and investments	$ 56,988,195	$ 1,035,571	$ 25,582,225
Receivables	3,759,880	319,624	56,841
Due from other funds	1,089,208	169	-
Prepaid expenditures	199,739	1,200	7,996
Stores inventories	71,403	-	-
Total Assets	$ 62,108,425	$ 1,356,564	$ 25,647,062
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	$ 1,327,619	40,002	$ 97,911
Due to other funds	908,730	571,121	27,771
Unearned revenue	512,810	3,585	-
Total Liabilities	2,749,159	614,708	125,682
Fund Balances:			
Nonspendable	304,242	1,200	7,996
Restricted	5,638,120	740,656	25,513,384
Assigned	32,065,221	-	-
Unassigned	21,351,683	-	-
Total Fund Balances	59,359,266	741,856	25,521,380
Total Liabilities and Fund Balances	$ 62,108,425	$ 1,356,564	$ 25,647,062

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

Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
$ 11,223,496	$ 13,394,696	$ 108,224,183
24,885	463,682	4,624,912
711,577	267,611	2,068,565
-	22,686	231,621
-	41,660	113,063
$ 11,959,958	$ 14,190,335	$ 115,262,344
23,158	$ 5,654	$ 1,494,344
-	560,943	2,068,565
7,500	-	523,895
30,658	566,597	4,086,804
-	65,064	378,502
-	12,114,443	44,006,603
11,929,300	1,444,231	45,438,752
-	-	21,351,683
11,929,300	13,623,738	111,175,540
$ 11,959,958	$ 14,190,335	$ 115,262,344

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION
JUNE 30, 2016

Total Fund Balance - Governmental Funds		**$ 111,175,540**
Amounts Reported for Governmental Activities in the Statement of Net Position are Different Because:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	$ 282,117,732	
Accumulated depreciation is	(85,134,722)	
Net Capital Assets		196,983,010
The District refunded its bond anticipation note. The difference between the amounts that were sent to escrow agents for the payment of the old debts and the actual remaining debt obligations will be amortized as an adjustment to interest expense over the remaining life of the refunded debt. This balance represents the unamortized deferred charges on refunding remaining as of June 30, 2016.		2,602,055
Receivables related to South San Francisco Unified School District Schools Facilities Financing Authority are not received in the near term (within a year) and therefore, are not reported as receivable in the governmental funds.		33,140,980
Expenditures relating to contributions made to pension plans were recognized on the modified accrual basis, but are not recognized on the accrual basis.		6,360,882
In governmental funds, unmatured interest on long-term obligations is recognized in the period when it is due. On the government-wide financial statements, unmatured interest on long-term obligations is recognized when it is incurred.		(768,416)
The net change in proportionate share of net pension liability as of the measurement date is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected expected average remaining service life of members receiving pension benefits		(216,554)
The difference between projected and actual pension plan investment earnings are not recognized on the modified accrual basis, but are recognized on the accrual basis as an adjustment to pension expense.		(4,900,130)
The differences between expected and actual experience in the measurement of the total pension liability are not recognized on the modified accrual basis, but are recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.		130,900

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION (CONTINUED)
JUNE 30, 2016

The changes of assumptions is not recognized as an expenditure under the modified accrual basis, but is recognized on the accrual basis over the expected average remaining service life of members receiving pension benefits.		$ (1,087,127)
Net pension liability is not due and payable in the current period, and is not reported as a liability in the funds.		(70,373,558)
Long-term obligations, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term obligations at year-end consist of:		
General obligation bonds	$ 154,789,061	
Revenue bonds	26,920,000	
Certificates of participation	363,946	
Unamortized premium on issuance	11,726,983	
Compensated absences (vacation)	601,714	
Other postemployment benefits (OPEB)	4,498,490	
In addition, in 2011 and 2013 the District issued "capital appreciation" general obligation bonds. The accretion of interest on the general obligation bonds to date is:	341,764	
Total Long-Term Obligations		(199,241,958)
Total Net Position - Governmental Activities		**$ 73,805,624**

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

GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	General Fund	Child Development Fund	Building Fund
REVENUES			
Local Control Funding Formula	$ 85,402,065	$ -	$ -
Federal sources	2,887,753	408,501	-
Other State sources	10,433,155	792,318	-
Other local sources	2,862,600	1,271,214	246,074
Total Revenues	101,585,573	2,472,033	246,074
EXPENDITURES			
Current			
Instruction	50,712,490	1,569,924	-
Instruction-related activities:			
Supervision of instruction	1,013,889	146	-
Instructional library, media, and technology	2,679,149	-	-
School site administration	5,840,065	512,465	-
Pupil services:			
Home-to-school transportation	1,634,345	-	-
Food services	765	-	-
All other pupil services	6,947,762	-	-
Administration:			
Data processing	92,375	-	-
All other administration	4,287,962	81,761	-
Plant services	7,829,583	91,731	-
Facility acquisition and construction	84,298	16,040	16,652,224
Other outgo	3,470,295	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	84,592,978	2,272,067	16,652,224
Excess (Deficiency) of Revenues Over Expenditures	16,992,595	199,966	(16,406,150)
Other Financing Sources (Uses)			
Transfers in	13,301	-	-
Other sources - Proceeds from issuance of general obligation bonds	-	-	1,044,774
Other sources - premium on issuance of general obligation bonds	-		-
Transfers out	(10,711,577)	(13,301)	-
Other uses - payment to refunded bond anticipation notes escrow agent	-	-	-
Net Financing Sources (Uses)	(10,698,276)	(13,301)	1,044,774
NET CHANGE IN FUND BALANCES	6,294,319	186,665	(15,361,376)
Fund Balance - Beginning	54,644,668	710,000	40,882,756
Prior Period Adjustment	(1,579,721)	(154,809)	-
Fund Balance - Ending	$ 59,359,266	$ 741,856	$ 25,521,380

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

Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Funds
$ -	$ 69,516	$ 85,471,581
-	1,962,546	5,258,800
-	1,194,829	12,420,302
52,136	9,842,769	14,274,793
52,136	13,069,660	117,425,476
-	640,327	52,922,741
-	-	1,014,035
-	-	2,679,149
-	393,821	6,746,351
-	-	1,634,345
-	2,445,209	2,445,974
-	46,535	6,994,297
-	-	92,375
-	122,708	4,492,431
-	237,312	8,158,626
163,853	24,200	16,940,615
-	435,746	3,906,041
-	6,479,049	6,479,049
-	5,876,733	5,876,733
163,853	16,701,640	120,382,762
(111,717)	(3,631,980)	(2,957,286)
10,711,577	3,522,313	14,247,191
-	127,954,287	128,999,061
	8,389,896	8,389,896
-	(3,522,313)	(14,247,191)
-	(137,565,326)	(137,565,326)
10,711,577	(1,221,143)	(176,369)
10,599,860	(4,853,123)	(3,133,655)
1,486,572	17,032,629	114,756,625
(157,132)	1,444,232	(447,430)
$ 11,929,300	$ 13,623,738	$ 111,175,540

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2016

Total Net Change in Fund Balances - Governmental Funds		**$ (3,133,655)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures; however, for governmental activities, those costs are shown in the Statement of Net Position and allocated over their estimated useful lives as annual depreciation expenses in the Statement of Activities.		
This is the amount by which capital outlays exceeds depreciation expense in the period.		
Capital outlays	$ 17,736,119	
Depreciation expense	(7,164,790)	
Net expense adjustment		10,571,329
In the governmental funds, pension costs are based on employer contributions made to pension plans during the year. However, in the Statement of Activities, pension expense is the net effect of all changes in the deferred outflows, deferred inflows and net pension liability during the year.		698,882
In the Statement of Activities, certain operating expenses - compensated absences (vacations) - are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than amounts used by $136,369.		(136,369)
Contributions for postemployment benefits are recorded as an expenditure in the governmental funds when paid. However, the difference between the annual OPEB cost and the actual contribution made, if less, is recorded in the government wide statements as an expense. The actual amount of the contribution was less than the annual OPEB cost by $1,111,388.		(1,111,388)
Proceeds received from sale of general obligations bonds is a revenue in the governmental funds, but it increases long-term obligations in the Statement of Net Position and does not affect the Statement of Activities. The District issued General Obligation Bonds in the amount of $128,999,061.		(128,999,061)
Governmental funds report the effects of premiums, discount, and deferred amount on a refunding when debt is first issued, whereas the amounts are deferred and amortized in the Statement of Activities. The following is the net effect of these related items:		
Deferred amount on refunding		1,421,473
Premium on issuance		(8,389,896)

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

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, Continued
FOR THE YEAR ENDED JUNE 30, 2016

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term obligations in the Statement of Net Position and does not affect the Statement of Activities:	
General obligation bonds	$ 4,025,000
Bond anticipation notes	131,211,981
Revenue bonds	2,115,000
Certificates of participation	339,049
Under the modified basis of accounting used in the governmental funds, expenditure are not recognized for transactions that are normally paid with expendable available financial resources. In the Statement of Activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. This adjustment combines the net change for the following balance:	
Amortization of debt premium	7,725,849
Amortization of deferred amount on refunding	(590,291)
The collection of tax assessments are revenues in the governmental funds, but it reduces the long-term receivable in the Statement of Net Position and does not affect the Statement of Activities.	(3,522,313)
Interest on long-term obligations in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditures in the funds when it is due, and thus requires the use of current financial resources. In the Statement of Activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The interest on the general obligation bonds decreased by $1,000,493. Additionally, $1,108,888 of accumulated interest was accreted on the District's "capital appreciation" general obligation bonds and bond anticipation notes.	(108,395)
Change in Net Position of Governmental Activities	**$ 12,117,195**

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF NET POSITION
JUNE 30, 2016

	Scholarship Trust	Agency Funds
ASSETS		
Deposits and investments	$ 468,406	$ 658,984
Receivables	1,038	-
Total Assets	469,444	$ 658,984
LIABILITIES		
Due to student groups	-	$ 658,984
NET POSITION		
Restricted	$ 469,444	

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

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

FIDUCIARY FUNDS
STATEMENT OF CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2016

	Scholarship Trust
ADDITIONS	
Interest	$ 3,751
DEDUCTIONS	
Other expenditures	1,875
Change in Net Position	1,876
Net Position - Beginning	467,568
Net Position - Ending	$ 469,444

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

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

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

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

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District, in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units may be other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component units described below have a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, *The Financial Reporting Entity,* and thus are included in the financial statements of the District. The component units, although legally separate entities, are reported in the financial statements using the blended presentation method as if they were part of the District's operations because the governing board of the component units is essentially the same as the governing board of the District.

The South San Francisco Unified School District Schools Financing Authority's (the Authority) financial activity is presented in the financial statements as the Debt Service Fund for Blended Component Units. Revenue Bonds issued by the Authority are included as long-term obligations in the government-wide financial statements. Individually-prepared financial statements are not available for the Authority.

Basis of Presentation - Fund Accounting

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

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

Major Governmental Funds

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

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

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

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

As a result, the General Fund reflects an increase in fund balance of $8,164,634.

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

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

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

Non-Major Governmental Funds

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

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

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

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

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

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

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

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

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

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

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

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

Basis of Accounting - Measurement Focus

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

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

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

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

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

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

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

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

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

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

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

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2016, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in the County investment pool are determined by the program sponsor.

Prepaid Expenditures (Expenses)

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

Stores Inventories

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

Capital Assets and Depreciation

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

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

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

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

Interfund Balances

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

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

Debt Issuance Costs, Premiums, and Discounts

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

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

Deferred Outflows/Inflows of Resources

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

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

Pensions

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

Fund Balances - Governmental Funds

As of June 30, 2016, fund balances of the governmental funds are classified as follows:

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

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

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

Unassigned - all other spendable amounts.

Spending Order Policy

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

Minimum Fund Balance Policy

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

Net Position

Net Position represents the difference between assets and liabilities. Net Position net of investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction, or improvement of those assets. Net Position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted Net Position is available. The government-wide financial statements report $17,049,211 of restricted Net Position restricted by enabling legislation.

Operating Revenues and Expenses

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

Interfund Activity

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

Estimates

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

Budgetary Data

The budgetary process is prescribed by provisions of the California *Education Code* and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1st of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

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

Change in Accounting Principles

In February 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This Statement addresses accounting and financial reporting issues related to fair value measurements. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

The District has implemented the provisions of this Statement as of June 30, 2016.
In June 2015, the GASB issued Statement No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. The objective of this Statement is to improve the usefulness of information about pensions included in the general purpose external financial reports of state and local governments for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement establishes requirements for defined benefit pensions that are not within the scope of Statement No. 68, *Accounting and Financial Reporting for Pensions*, as well as for the assets accumulated for purposes of providing those pensions. In addition, it establishes requirements for defined contribution pensions that are not within the scope of Statement No. 68. It also amends certain provisions of Statement No. 67, *Financial Reporting for Pension Plans*, and Statement No. 68 for pension plans and pensions that are within their respective scopes.

The provisions in this Statement effective as of June 30, 2016, include the provisions for assets accumulated for purposes of providing pensions through defined benefit plans and the amended provisions of Statements No. 67 and No. 68. The District has implemented these provisions as of June 30, 2016. The provisions in this Statement related to defined benefit pensions that are not within the scope of Statement No. 68 are effective for periods beginning after June 15, 2016.

In June 2015, the GASB issued Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*. The objective of this Statement is to identify—in the context of the current governmental financial reporting environment—the hierarchy of generally accepted accounting principles (GAAP). The "GAAP hierarchy" consists of the sources of accounting principles used to prepare financial statements of state and local governmental entities in conformity with GAAP and the framework for selecting those principles. This Statement reduces the GAAP hierarchy to two categories of authoritative GAAP and addresses the use of authoritative and non-authoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

This Statement supersedes Statement No. 55, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*.

The District has implemented the provisions of this Statement as of June 30, 2016.

In December 2015, the GASB issued Statement No. 79, *Certain External Investment Pools and Pool Participants*. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. Specifically, it establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets all of the applicable criteria established in this Statement. The specific criteria address (1) how the external investment pool transacts with participants; (2) requirements for portfolio maturity, quality, diversification, and liquidity; and (3) calculation and requirements of a shadow price. Significant noncompliance prevents the external investment pool from measuring all of its investments at amortized cost for financial reporting purposes. Professional judgment is required to determine if instances of noncompliance with the criteria established by this Statement during the reporting period, individually or in the aggregate, were significant.

If an external investment pool does not meet the criteria established by this Statement, that pool should apply the provisions in paragraph 16 of Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*, as amended. If an external investment pool meets the criteria in this Statement and measures all of its investments at amortized cost, the pool's participants also should measure their investments in that external investment pool at amortized cost for financial reporting purposes. If an external investment pool does not meet the criteria in this Statement, the pool's participants should measure their investments in that pool at fair value, as provided in paragraph 11 of Statement No. 31, as amended.

This Statement establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investments at amortized cost for financial reporting purposes and for governments that participate in those pools. Those disclosures for both the qualifying external investment pools and their participants include information about any limitations or restrictions on participant withdrawals.

The District has implemented the provisions of this Statement as of June 30, 2016.

New Accounting Pronouncements

In June 2015, the GASB issued Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement results from a comprehensive review of the effectiveness of existing standards of accounting and financial reporting for all postemployment benefits (pensions and OPEB) with regard to providing decision-useful information, supporting assessments of accountability and inter-period equity, and creating additional transparency.

This Statement replaces Statements No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*, as amended, and No. 57, *OPEB Measurements by Agent Employers and Agent Multiple-Employer Plans*. It also includes requirements for defined contribution OPEB plans that replace the requirements for those OPEB plans in Statement No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, as amended, Statement No. 43, and Statement No. 50, *Pension Disclosures*.

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2016. Early implementation is encouraged.

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

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

The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2017. Early implementation is encouraged.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. This Statement requires governments that enter into tax abatement agreements to disclose the following information about the agreements:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients
- The gross dollar amount of taxes abated during the period
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2015. Early implementation is encouraged.

In December 2015, the GASB issued Statement No. 78, *Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans*. The objective of this Statement is to address a practice issue regarding the scope and applicability of Statement No. 68, *Accounting and Financial Reporting for Pensions*. This issue is associated with pensions provided through certain multiple-employer defined benefit pension plans and to state or local governmental employers whose employees are provided with such pensions.

Prior to the issuance of this Statement, the requirements of Statement No. 68 applied to the financial statements of all state and local governmental employers whose employees are provided with pensions through pension plans that are administered through trusts that meet the criteria in paragraph 4 of that Statement.

This Statement amends the scope and applicability of Statement No. 68 to exclude pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit pension plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

The requirements of this Statement are effective for reporting periods beginning after December 15, 2015. Early implementation is encouraged.

In January 2016, the GASB issued Statement No. 80, B*lending Requirements for Certain Component Units - amendment of GASB Statement No. 14*. The objective of this Statement is to improve financial reporting by clarifying the financial statement presentation requirements for certain component units. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *The Financial Reporting Entity, as amended*. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *Determining Whether Certain Organizations Are Component Units*.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 81, *Irrevocable Split-Interest Agreements*. The objective of this Statement is to improve accounting and financial reporting for irrevocable split-interest agreements by providing recognition and measurement guidance for situations in which a government is a beneficiary of the agreement.

This Statement requires that a government that receives resources pursuant to an irrevocable split-interest agreement recognize assets, liabilities, and deferred inflows of resources at the inception of the agreement. Furthermore, this Statement requires that a government recognize assets representing its beneficial interests in irrevocable split-interest agreements that are administered by a third party, if the government controls the present service capacity of the beneficial interests. This Statement requires that a government recognize revenue when the resources become applicable to the reporting period.

The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2016, and should be applied retroactively. Early implementation is encouraged.

In March 2016, the GASB issued Statement No. 82, *Pension Issues - An Amendment of GASB Statements No. 67, No. 68, and No. 73*. The objective of this Statement is to address certain issues that have been raised with respect to Statements No. 67, *Financial Reporting for Pension Plans*, No. 68, *Accounting and Financial Reporting for Pensions*, and No. 73, *Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement No. 68, and Amendments to Certain Provisions of GASB Statements No. 67 and No. 68*. Specifically, this Statement addresses issues regarding (1) the presentation of payroll-related measures in required supplementary information, (2) the selection of assumptions and the treatment of deviations from the guidance in an Actuarial Standard of Practice for financial reporting purposes, and (3) the classification of payments made by employers to satisfy employee (plan member) contribution requirements.

The requirements of this Statement are effective for reporting periods beginning after June 15, 2016, except for the requirements of this Statement for the selection of assumptions in a circumstance in which an employer's pension liability is measured as of a date other than the employer's most recent fiscal year-end. In that circumstance, the requirements for the selection of assumptions are effective for that employer in the first reporting period in which the measurement date of the pension liability is on or after June 15, 2017. Early implementation is encouraged.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2016, are classified in the accompanying financial statements as follows:

Governmental activities	$ 108,224,183
Fiduciary funds	1,127,390
Total Deposits and Investments	$ 109,351,573

Deposits and investments as of June 30, 2016, consist of the following:

Cash on hand and in banks	$ 1,230,060
Cash in revolving	33,818
Investments	108,087,695
Total Deposits and Investments	$ 109,351,573

Policies and Practices

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

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

General Authorizations

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

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

Interest Rate Risk

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

Specific Identification

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

Investment Type	Reported Amount	Average Maturity in Days
San Mateo County Investment Pool	$ 107,975,538	387
Local Agency Investment Fund	999	608
First American Treasury Obligations, Class D	111,158	26
Total	$ 108,087,695	

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The District's investment in the San Mateo County Investment Pool is rated AA by Standard & Poor's. In addition, the First American Treasury Obligation Money Market Funds is rated Aaa by Moody's Investor Service. The investment with Local Agency Investment Fund is not required to be rated, nor have been rated as of June 30, 2016.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California *Government Code* requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2016, the District's bank balance of $447,224 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - FAIR VALUE MEASUREMENTS

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

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

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

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

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

The District's fair value measurements are as follows at June 30, 2016:

Investment Type	Reported Amount	Fair Value Measurements Using Level 2 Inputs	Uncategorized
San Mateo County Investment Pool	$ 107,975,538	$ -	$ 107,975,538
Local Agency Investment Fund	999	-	999
First American Treasury Obligations, Class D	111,158	111,158	-
Total	$ 108,087,695	$ 111,158	$ 107,976,537

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

NOTE 4 - RECEIVABLES

Receivables at June 30, 2016, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Child Development Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects
Federal Government				
Categorical aid	$ 1,910,008	$ 1,219	$ -	$ -
State Government				
Categorical aid	397,953	-	-	-
Lottery	1,008,521	-	-	-
Special education	31,690	-	-	-
Local Government				
Interest	129,889	1,938	56,841	24,885
Other Local Sources	281,819	316,467	-	-
Total	$ 3,759,880	$ 319,624	$ 56,841	$ 24,885

	Non-Major Governmental Funds	Total Governmental Activities	Fiduciary Funds
Federal Government			
Categorical aid	$ 407,696	$ 2,318,923	$ -
State Government			
Categorical aid	-	397,953	-
Lottery	15,678	1,024,199	-
Special education	-	31,690	-
Local Government			
Interest	31,688	245,241	1,038
Other Local Sources	8,620	606,906	-
Total	$ 463,682	$ 4,624,912	$ 1,038

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2016, was as follows:

	July 1, 2015 as Restated	Additions	Deductions	Balance June 30, 2016
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	$ 4,305,189	$ -	$ -	$ 4,305,189
Construction in progress	84,475,476	11,185,650	14,508,817	81,152,309
Total Capital Assets Not Being Depreciated	88,780,665	11,185,650	14,508,817	85,457,498
Capital Assets Being Depreciated:				
Land improvements	32,602,424	12,505,097	-	45,107,521
Buildings and improvements	133,641,475	6,767,007	-	140,408,482
Furniture and equipment	9,418,660	1,787,182	61,611	11,144,231
Total Capital Assets Being Depreciated	175,662,559	21,059,286	61,611	196,660,234
Total Capital Assets	264,443,224	32,244,936	14,570,428	282,117,732
Less Accumulated Depreciation:				
Land improvements	4,528,801	1,714,385	-	6,243,186
Buildings and improvements	67,971,050	4,733,851	-	72,704,901
Furniture and equipment	5,531,692	716,554	61,611	6,186,635
Total Accumulated Depreciation	78,031,543	7,164,790	61,611	85,134,722
Governmental Activities Capital Assets, Net	$ 186,411,681	$ 25,080,146	$ 14,508,817	$ 196,983,010

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

Governmental Activities	
Instruction	$ 6,448,310
Home-to-school transportation	214,944
All other pupil services	286,592
Plant services	214,944
Total Depreciation Expenses Governmental Activities	$ 7,164,790

NOTE 6 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2016, between major and non-major governmental funds, and internal service funds are as follows:

	Due From				
Due To	General Fund	Child Development Fund	Building Fund	Non-Major Governmental Funds	Total
General Fund	$ -	$ 545,653	$ 27,771	$ 515,784	$ 1,089,208
Child Development Fund	-	-	-	169	169
Special Reserve Fund for Capital Outlay Projects	711,577	-	-	-	711,577
Non-Major Governmental Funds	197,153	25,468	-	44,990	267,611
Total	$ 908,730	$ 571,121	$ 27,771	$ 560,943	$ 2,068,565

A balance of $291,414 due to the General Fund from the Child Development Fund resulted from transfer of Health and Welfare benefits liabilities.

A balance of $234,459 due to the General Fund from the Cafeteria Non-Major Governmental Fund resulted resulted from transfer of Health and Welfare benefits liabilities.

The balance of $254,239 due to the General Fund from the Child Development Fund resulted from payment of indirect costs and reimbursement of other operating costs.

A balance of $711,577 due to the Special Reserve Fund for Capital Outlay Projects from the General Fund resulted from transfer of funds reserved for future capital outlay projects.

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

Operating Transfers

Interfund transfers for the year ended June 30, 2016, consisted of the following:

	Transfer From			
Transfer To	General Fund	Child Development Fund	Non-Major Governmental Funds	Total
General Fund	$ -	$ 13,301	$ -	$ 13,301
Special Reserve Fund for Capital Outlay Projects	10,711,577	-	-	10,711,577
Non-Major Governmental Funds	-	-	3,522,313	3,522,313
Total	$ 10,711,577	$ 13,301	$ 3,522,313	$ 14,247,191

The General Fund transferred to the Special Reserve Fund for Capital Outlay Projects to set aside a reserve for future capital outlay projects.	$ 10,711,577
The Bond Interest and Redemption Non-Major Governmental Fund transferred to the Debt Service Non-Major Governmental Fund for debt service payments for the revenue bonds.	3,522,313
The Child Development Fund transferred to the General Fund for reimbursement of operating costs.	13,301
Total	$ 14,247,191

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2016, consisted of the following:

	General Fund	Child Development Fund	Building Fund	Special Reserve Fund for Capital Outlay Projects	Non-Major Governmental Funds	Total Governmental Activities
Salaries and benefits	$ 132,846	$ 2,837	$ -	$ -	$ 56	$ 135,739
Supplies	439,168	22,704	-	-	1,152	463,024
Services	705,163	2,475	814	-	2,434	710,886
Construction	-	-	97,097	23,158	1,730	121,985
Other payables	50,442	11,986	-	-	282	62,710
Total	$ 1,327,619	$ 40,002	$ 97,911	$ 23,158	$ 5,654	$ 1,494,344

NOTE 8 - UNEARNED REVENUE

Unearned revenue at June 30, 2016, consists of the following:

	General Fund	Child Development Fund	Special Reserve Fund for Capital Outlay Projects	Total Governmental Activities
Federal financial assistance	$ 436,367	$ -	$ -	$ 436,367
State categorical aid	68,943	3,585	-	72,528
Other local	7,500	-	7,500	15,000
Total	$ 512,810	$ 3,585	$ 7,500	$ 523,895

NOTE 9 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2015 as Restated	Additions	Deductions	Balance June 30, 2016	Due in One Year
General Obligation Bonds	$ 29,815,000	$ 129,340,825	$ 4,025,000	$ 155,130,825	$ 3,125,000
Premium on issuance of debt	2,203,701	8,389,896	130,894	10,462,703	-
Bonds Anticipation Notes	130,444,857	767,124	131,211,981	-	-
Premium on issuance of debt	7,384,242	-	7,384,242	-	-
Revenue Bonds	29,035,000	-	2,115,000	26,920,000	2,350,000
Premium on issuance of debt	1,474,993	-	210,713	1,264,280	
Certificate of participation	702,995	-	339,049	363,946	223,201
Compensated absences (vacation)	465,345	136,369	-	601,714	-
Other postemployment benefits (OPEB)	3,387,102	1,789,962	678,574	4,498,490	-
	$ 204,913,235	$ 140,424,176	$ 146,095,453	$ 199,241,958	$ 5,698,201

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

General Obligation Bonds

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Outstanding July 1, 2015 as Restated	Issued	Accreted	Redeemed	Bonds Outstanding June 30, 2016
5/23/2012	9/1/2016	0.32-3.00%	$ 7,000,000	$ 3,815,000	$ -	$ -	$ 1,820,000	$ 1,995,000
6/24/2015	9/1/2040	2.00-5.00%	26,000,000	26,000,000	-	269,324	2,205,000	24,064,324
6/21/2016	9/1/2041	2.00-5.00%	128,999,061	-	128,999,061	72,440	-	129,071,501
				$ 29,815,000	$ 128,999,061	$ 341,764	$ 4,025,000	$ 155,130,825

2012 General Obligation Bond, Series A

On May 23, 2012, South San Francisco Unified School District issued the 2012 General Obligation Bonds, Series A in the amount of $7,000,000. The Series A represents the first series of the authorized bonds not to exceed $162,000,000 to be issued under the measure as approved by the voters. The Series A bonds were issued as current interest bonds. The bonds were issued at an aggregate price of $7,066,564 (representing the principal amount of $7,000,000 plus an original issue premium of $232,314 less cost of issuance of $165,750). The bonds have a final maturity to occur on September 1, 2016 and interest rates of 0.32 to 3.00 percent. Proceeds from the sale of bonds will be used to finance the renovation, acquisition, and construction of District buildings and facilities. At June 30, 2016, the principal outstanding was $1,950,000.

2015 General Obligation Bonds, Series B

On June 24, 2015, South San Francisco Unified School District issued the 2015 General Obligation Bonds, Series B in the amount of $26,000,000. The Series B represents the second series of the authorized bonds not to exceed $162,000,000 to be issued under the measure as approved by the voters. The Series B bonds were issued as both current interest and capital appreciation bonds, with the value of the capital appreciation bonds accreting to $4,165,000. The bonds have an aggregate principal debt service balance of $30,165,000. The bonds were issued at an aggregate price of $27,879,487 (representing the principal amount of $26,000,000 plus an original issue premium of $2,110,776 less cost of issuance and underwriter's discount of $168,369 and $62,920, respectively). The bonds have a final maturity to occur on September 1, 2040 and interest rates of 2.00 to 5.00 percent. Proceeds from the sale of bonds were used to defease the remaining balance on the District's 2012 General Obligation Bonds Anticipation Notes, Series C. At June 30, 2016, the principal outstanding, including accreted interest, was $24,064,324. Unamortized premium received on issuance and deferred amount on refunding amounted to $2,026,345 and $1,180,583, respectively.

2016 General Obligation Bonds, Series C

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

The bonds have a final maturity which occurs on September 1, 2041 and interest rates of 2.00 to 5.00 percent. A portion of the proceeds from the sale of Series C bonds will be used to pay and defease the District's outstanding General Obligation Bond Anticipation Notes Series D, Series E, Series F, and Series G. The remaining proceeds will be used to finance the renovation, acquisition, and construction of District buildings and facilities. At June 30, 2016, the principal outstanding was $129,071,501. Unamortized premium received and issuance and deferred amount on refunding amounted to $8,389,896 and $1,421,473, respectively.

The bonds mature through September 1, 2041 as follows:

Fiscal Year	Principal	Accreted Interest	Interest to Maturity	Total
2017	$ 3,125,000	$ -	$ 3,819,554	$ 6,944,554
2018	200,000	-	5,069,238	5,269,238
2019	-	-	5,069,238	5,069,238
2020	100,000	-	5,068,238	5,168,238
2021	225,000	-	5,063,863	5,288,863
2022-2026	9,149,693	1,580,307	25,064,438	35,794,438
2027-2031	22,282,543	5,302,457	24,493,238	52,078,238
2032-2036	40,718,589	1,381,411	19,235,162	61,335,162
2037-2041	63,925,000	-	8,741,288	72,666,288
2042	15,405,000	-	250,331	15,655,331
Total	$ 155,130,825	$ 8,264,175	$ 101,874,588	$ 265,269,588

2012 General Obligation Bond Anticipation Notes, Series D

On May 23, 2012, South San Francisco Unified School District issued the 2012 General Obligation Bond Anticipation Notes, Series D in the amount of $30,002,417. The Series D notes were issued as capital appreciation notes, with the value of capital appreciation notes accreting to $3,132,583. The notes have an aggregate principal debt service balance of $33,135,000. The notes were issued at an aggregate price of $30,002,417 (representing the principal amount of $30,002,417 plus an original issue premium of $155,734 less cost of issuance of $155,734). The notes have a final maturity to occur on May 15, 2017. Proceeds from the sale of notes were used to provide interim financing for authorized construction covered under the scope of Measure J projects and to pay for costs associated with issuance of the notes. During the 2015-2016 fiscal year, the District issued 2016 General Obligation Bonds, Series C and a portion of the bond proceeds was used to fully defease outstanding notes associated with the District 2012 General Obligation Bond Anticipation Notes, Series D.

2013 General Obligation Bond Anticipation Notes, Series E and Series F

On June 15, 2013, South San Francisco Unified School District issued the 2013 General Obligation Bond Anticipation Notes, Series E and F in the aggregate amount of $30,001,870. The Series E and F notes were issued as both current interest and capital appreciation notes, with the value of the capital appreciation notes accreting to $518,130. The notes have an aggregate principal debt service balance of $30,520,000. The notes were issued at an aggregate price of $33,187,453 (representing the principal amount of $30,001,870 plus an original issue premium of $3,417,857 less cost of issuance of $232,274). The notes have a final maturity to occur on June 15, 2018 and interest rates of 2.00 to 4.00 percent. Proceeds from the sale of notes were used to provide interim financing for authorized construction covered under the scope of Measure J projects and to pay for costs associated with issuance of the notes. During the 2015-2016 fiscal year, the District issued 2016 General Obligation Bonds, Series C and a portion of the bond proceeds were used to fully defease outstanding notes associated with the District 2013 General Obligation Bond Anticipation Notes, Series E and F.

2014 General Obligation Bond Anticipation Notes, Series G

On September 4, 2014, South San Francisco Unified School District issued the 2014 General Obligation Bond Anticipation Notes, Series G in the amount of $67,950,000. The Series G notes were issued as current interest notes. The notes were issued at an aggregate price of $74,507,576 (representing the principal amount of $67,950,000 plus an original issue premium of $6,950,606 less cost of issuance and underwriter's discount of $162,000 and $231,030, respectively). The notes have a final maturity to occur on July 1, 2018 and an interest rate of 3.50 percent. Proceeds from the sale of notes were used to provide interim financing for authorized construction covered under the scope of Measure J projects and to pay for costs associated with issuance of the notes. During the 2015-2016 fiscal year, the District issued 2016 General Obligation Bonds, Series C and a portion of the bond proceeds was used to fully defease outstanding notes associated with the District 2014 General Obligation Bond Anticipation Notes, Series G.

2006 Revenue Bonds

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

The 2006 Revenue Bonds were issued simultaneously with 2006 General Obligation Refunding Bonds. Under the financing agreement, tax receipts from the General Obligation Bonds will be pledged to pay the debt service on the revenue bonds until the bonds are fully defeased. At June 30, 2016, the principal outstanding was $26,920,000. Unamortized premium received on issuance amounted to $1,264,280.

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

Fiscal Year	Principal	Interest to Maturity	Total
2017	$ 2,350,000	$ 1,315,338	$ 3,665,338
2018	2,590,000	1,203,558	3,793,558
2019	2,870,000	1,067,088	3,937,088
2020	3,175,000	915,963	4,090,963
2021	3,495,000	744,844	4,239,844
2022-2024	12,440,000	1,006,688	13,446,688
Total	$ 26,920,000	$ 6,253,479	$ 33,173,479

2004 Refunding Certificates of Participation

In January 29, 2004, the South San Francisco Unified School District, pursuant to a lease/purchase agreement with the California School Boards Association Finance Corporation, issued $1,037,000 in Certificates of Participation. The certificates were issued to defease the remaining balance of 1994 Certificates of Participation and pay for the costs of issuance incurred in connection with the execution and delivery of the certificates. The certificates were issued at a fixed interest rate of 4.88 percent and the certificates have a final maturity to occur on December 1, 2018. At June 30, 2016, the principal balance outstanding was $228,737.

2009 Refunding Certificates of Participation

In December 1, 2008, the South San Francisco Unified School District, pursuant to a lease/purchase agreement with the South San Francisco Unified School District Financing Corporation, issued $965,000 in Certificates of Participation. The certificates were issued to defease the remaining balance of 1997 Certificates of Participation and pay for the costs of issuance incurred in connection with the execution and delivery of the certificates. The certificates were issued with interest rates ranging from 1.25 to 4.75 percent and the certificates have a final maturity to occur on July 1, 2017. At June 30, 2016, the principal balance outstanding was $135,000.

The certificates mature through December 1, 2018 as follows:

Year Ending June 30,	Principal	Interest	Total
2017	$ 88,201	$ 13,306	$ 101,507
2018	227,557	8,949	236,506
2019	48,188	1,171	49,359
Total	$ 363,946	$ 23,426	$ 387,372

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2016, amounted to $601,714.

Other Postemployment Benefits (OPEB) Obligation

The District's annual required contribution for the year ended June 30, 2016, was $1,817,420, and contributions made by the District during the year were $678,574. Interest on the net OPEB obligation and adjustments to the annual required contribution were $152,421 and $(179,879), respectively, which resulted in an increase to the net OPEB obligation of $1,111,388. As of June 30, 2016, the net OPEB obligation was $4,498,490. See Note 11 for additional information regarding the OPEB obligation and the postemployment benefits plan.

NOTE 10 - FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Child Development Fund	Building Fund
Nonspendable			
Revolving cash	$ 33,100	$ -	$ -
Stores inventories	71,403	-	-
Prepaid expenditures	199,739	1,200	7,996
Total Nonspendable	304,242	1,200	7,996
Restricted			
Educational programs	5,638,120	-	-
Adult education program	-	-	-
Child development program	-	740,656	-
Child nutrition program	-	-	-
Capital projects	-	-	25,513,384
Debt services	-	-	-
Total Restricted	5,638,120	740,656	25,513,384
Assigned			
Skyline middle college	1,623,000	-	-
Textbook adoption 2016-2017	1,000,000	-	-
STRS/PERS increase	3,106,400	-	-
Payroll reserve	12,319,001	-	-
Vehicle replacement	360,000	-	-
CCSS Budget carryover	241,998	-	-
Ad hoc safety budget carryover	293,250	-	-
2015-2016 LCAP funds carryover	1,432,843	-	-
Security camera budget carryover	1,000,000	-	-
Various program funds carryover	311,008	-	-
Deferred maintenance	6,155,134	-	-
Insurance reserve	2,009,500	-	-
Site donations	2,213,087	-	-
Adult education	-	-	-
Future projects	-	-	-
Total Assigned	32,065,221	-	-
Unassigned			
Reserve for economic uncertainties	4,745,982	-	-
Remaining unassigned	16,605,701	-	-
Total Unassigned	21,351,683	-	-
Total	$ 59,359,266	$ 741,856	$ 25,521,380

Special Reserve Fund for Capital Outlay Fund	Non-Major Governmental Funds	Total
$ -	$ 718	$ 33,818
-	41,660	113,063
-	22,686	231,621
-	65,064	378,502
-	-	5,638,120
-	151,495	151,495
-	-	740,656
-	1,215,728	1,215,728
-	946,549	26,459,933
-	9,800,671	9,800,671
-	12,114,443	44,006,603
-	-	1,623,000
-	-	1,000,000
-	-	3,106,400
-	-	12,319,001
-	-	360,000
-	-	241,998
-	-	293,250
-	-	1,432,843
-	-	1,000,000
-	-	311,008
-	-	6,155,134
-	-	2,009,500
-	-	2,213,087
-	1,444,231	1,444,231
11,929,300	-	11,929,300
11,929,300	1,444,231	45,438,752
-	-	4,745,982
-	-	16,605,701
-	-	21,351,683
$ 11,929,300	$ 13,623,738	$ 111,175,540

NOTE 11 - POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Plan is a single-employer defined benefit healthcare plan administered by the South San Francisco Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 422 retirees and beneficiaries currently receiving benefits and 846 active employees eligible for these benefits in a future period.

Contribution Information

The contribution requirements for Plan members and the District are established and may be amended by the District and the South San Francisco Teachers Associations and CSEA. The required contribution is based on projected pay-as-you-go financing requirements. For fiscal year 2015-2016, the District contributed $678,574 to the Plan, all of which was used for current premiums.

Annual OPEB Cost and Net OPEB Obligation

The District's annual OPEB cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 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 accrued liabilities (UAAL) (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 to the Plan:

Annual required contribution	$ 1,817,420
Interest on net OPEB obligation	152,421
Adjustment to annual required contribution	(179,879)
Annual OPEB cost (expense)	1,789,962
Contributions made	(678,574)
Increase in net OPEB obligation	1,111,388
Net OPEB obligation, beginning of year	3,387,102
Net OPEB obligation, end of year	$ 4,498,490

Trend Information

Trend information for annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB obligation is as follows:

Year Ended June 30,	Annual OPEB Cost	Actual Contribution	Percentage Contributed	Net OPEB Obligation
2014	$ 1,624,511	$ 601,511	37.03%	$ 2,470,629
2015	1,601,563	685,090	42.78%	3,387,102
2016	1,789,962	678,574	37.91%	4,498,490

Funded Status and Funding Progress

A schedule of funding progress as of the most recent actuarial valuation is as follow:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
January 1, 2015	$ -	$ 25,184,876	$ 25,184,876	0.00%	$ 53,849,264	46.77%

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, investment returns, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the Plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is 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 the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the January 1, 2015, actuarial valuation, the unprojected unit credit method was used. The actuarial assumptions included a five percent investment rate of return (net of administrative expenses), based on the plan being funded in an irrevocable employee benefit trust invested in a combined equity and fixed income portfolio. Healthcare cost trend rates reflected an ultimate rate of five percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at June 30, 2016, was 23 years. The actuarial value of assets was not determined in this actuarial valuation as there were none.

NOTE 12 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2016, the District contracted with San Mateo County Schools Insurance Group risk pool for property and liability insurance coverage.

Workers' Compensation

For the fiscal year of 2015-2016, the District participated in San Mateo County Schools Insurance Group (SMCSIG) entity risk pool. The intent of SMCSIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SMCSIG. The workers' compensation experience of the participating district is calculated as one experience and a common premium rate is applied to all districts in the SMCSIG. Each participant pays its workers' compensation premium based on its individual rate.

Employee Medical Benefits

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

NOTE 13 - EMPLOYEE RETIREMENT SYSTEMS

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

For the fiscal year ended June 30, 2016, the District reported net pension liabilities, deferred outflows of resources, deferred inflows of resources, and pension expense for each of the above plans as follows:

Pension Plan	Collective Net Pension Liability	Collective Deferred Outflows of Resources	Collective Deferred Inflows of Resources	Collective Pension Expense
CalSTRS	$ 52,680,238	$ 8,265,411	$ 9,806,788	$ 3,979,410
CalPERS	17,693,320	6,897,626	5,068,278	1,039,450
Total	$ 70,373,558	$ 15,163,037	$ 14,875,066	$ 5,018,860

The details of each plan are as follows:

<u>California State Teachers' Retirement System (CalSTRS)</u>

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014, annual actuarial valuation report, Defined Benefit Program Actuarial Valuation. This report and CalSTRS audited financial information are publically available reports that can be found on the CalSTRS website under Publications at: http://www.calstrs.com/member-publications.

Benefits Provided

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

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

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

The STRP provisions and benefits in effect at June 30, 2016, are summarized as follows:

	STRP Defined Benefit Program	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 60	2% at 62
Benefit vesting schedule	5 years of service	5 years of service
Benefit payments	Monthly for life	Monthly for life
Retirement age	60	62
Monthly benefits as a percentage of eligible compensation	2.0% - 2.4%	2.0% - 2.4%
Required employee contribution rate	9.20%	8.56%
Required employer contribution rate	10.73%	10.73%
Required State contribution rate	7.12589%	7.12589%

Contributions

Required member District and State of California contributions rates are set by the California Legislature and Governor and detailed in Teachers' Retirement Law. The contributions rates are expressed as a level percentage of payroll using the entry age normal actuarial method. In accordance with AB 1469, employer contributions into the CalSTRS will be increasing to a total of 19.1 percent of applicable member earnings phased over a seven year period. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the District's total contributions were $4,114,703.

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

At June 30, 2016, the District reported a liability for its proportionate share of the net pension liability that reflected a reduction for State pension support provided to the District. The amount recognized by the District as its proportionate share of the net pension liability, the related state support and the total portion of the net pension liability that was associated with the District were as follows:

Total Net Pension Liability, Including State Share:		
District's proportionate share of net pension liability	$	52,680,238
State's proportionate share of the net pension liability associated with the District		27,862,039
Total	$	80,542,277

The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts and the State, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.0782 percent and 0.0790 percent, resulting in a net decrease in the proportionate share of 0.0008 percent.

For the year ended June 30, 2016, the District recognized pension expense of $3,979,410. In addition, the District recognized pension expense and revenue of $2,158,228 for support provided by the State. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 4,114,703	$ -
Net change in proportionate share of net pension liability	-	481,484
Difference between projected and actual earnings on pension plan investments	4,150,708	8,445,005
Difference between expected and actual experiences in the measurement of the total pension liability	-	880,299
Total	$ 8,265,411	$ 9,806,788

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2017	$ (1,777,325)
2018	(1,777,324)
2019	(1,777,325)
2020	1,037,677
Total	$ (4,294,297)

The deferred inflows of resources related to the net change in proportionate share of net pension liability and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 7 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Inflows of Resources
2017	$ (226,964)
2018	(226,964)
2019	(226,964)
2020	(226,964)
2021	(226,964)
Thereafter	(226,963)
Total	$ (1,361,783)

Actuarial Methods and Assumptions

Total pension liability for STRP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 2006 through June 30, 2010
Actuarial cost method	Entry age normal
Discount rate	7.60%
Investment rate of return	7.60%
Consumer price inflation	3.00%
Wage growth	3.75%

CalSTRS uses custom mortality tables to best fit the patterns of mortality among its members. These custom tables are based on RP2000 series tables adjusted to fit CalSTRS experience.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. The best estimate ranges were developed using capital market assumptions from CalSTRS general investment consultant. Based on the model for CalSTRS consulting actuary's investment practice, a best estimate range was determined by assuming the portfolio is re-balanced annually and that the annual returns are log normally distributed and independent from year to year to develop expected percentiles for the long-term distribution of annualized returns. The assumed asset allocation is based on Teachers' Retirement Board of the California State Teachers' Retirement System (board) policy for target asset allocation in effect on February 2, 2012, the date the current experience study was approved by the board. Best estimates of 10-year geometric real rates of return and the assumed asset allocation for each major asset class used as input to develop the actuarial investment rate of return are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	47%	4.50%
Private equity	12%	6.20%
Real estate	15%	4.35%
Inflation sensitive	5%	3.20%
Fixed income	20%	0.20%
Cash/liquidity	1%	0.00%

Discount Rate

The discount rate used to measure the total pension liability was 7.60 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Projected inflows from investment earnings were calculated using the long-term assumed investment rate of return (7.60 percent) and assuming that contributions, benefit payments and administrative expense occurred midyear. Based on these assumptions, the STRP's fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount rate	Net Pension Liability
1% decrease (6.60%)	$ 79,543,060
Current discount rate (7.60%)	52,680,238
1% increase (8.60%)	30,355,067

California Public Employees Retirement System (CalPERS)

Plan Description

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

A full description of the pension plan regarding benefit provisions, assumptions (for funding, but not accounting purposes), and membership information is listed in the June 30, 2014 annual actuarial valuation report, Schools Pool Actuarial Valuation, 2014. This report and CalPERS audited financial information are publically available reports that can be found on the CalPERS website under Forms and Publications at: https://www.calpers.ca.gov/page/forms-publications.

Benefits Provided

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

The CalPERS provisions and benefits in effect at June 30, 2016, are summarized as follows:

	School Employer Pool (CalPERS)	
	On or before	On or after
Hire date	December 31, 2012	January 1, 2013
Benefit formula	2% at 55	2% at 62
Benefit vesting schedule	5 Years of Service	5 Years of Service
Benefit payments	Monthly for Life	Monthly for Life
Retirement age	55	62
Monthly benefits as a percentage of eligible compensation	1.1% - 2.5%	1.0% - 2.5%
Required employee contribution rate	7.000%	6.000%
Required employer contribution rate	11.847%	11.847%

Contributions

Section 20814(c) of the California Public Employees' Retirement Law requires that the employer contribution rates for all public employers are determined on an annual basis by the actuary and shall be effective on the July 1 following notice of a change in the rate. Total plan contributions are calculated through the CalPERS annual actuarial valuation process. The actuarially determined rate is the estimated amount necessary to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. The District is required to contribute the difference between the actuarially determined rate and the contribution rate of employees. The contributions rates are expressed as percentage of annual payroll. The contribution rates for each plan for the year ended June 30, 2016, are presented above and the total District contributions were $2,246,179.

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

As of June 30, 2016, the District reported net pension liabilities for its proportionate share of the CalPERS net pension liability totaling $17,693,320. The net pension liability was measured as of June 30, 2015. The District's proportion of the net pension liability was based on a projection of the District's long-term share of contributions to the pension plan relative to the projected contributions of all participating school districts, actuarially determined. The District's proportionate share for the measurement period June 30, 2015 and June 30, 2014, respectively was 0.1200 percent and 0.1136 percent, resulting in a net increase in the proportionate share of 0.0064 percent.

For the year ended June 30, 2016, the District recognized pension expense of $1,039,450. At June 30, 2016, the District reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Pension contributions subsequent to measurement date	$ 2,246,179	$ -
Net change in proportionate share of net pension liability	734,308	469,378
Difference between projected and actual earnings on pension plan investments	2,905,940	3,511,773
Difference between expected and actual experiences in the measurement of the total pension liability	1,011,199	-
Changes of assumptions	-	1,087,127
Total	$ 6,897,626	$ 5,068,278

The deferred outflows of resources related to pensions resulting from District contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the subsequent fiscal year. The deferred outflows/(inflows) of resources related to the difference between projected and actual earnings on pension plan investments will be amortized over a closed five-year period and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2017	$ (444,106)
2018	(444,106)
2019	(444,106)
2020	726,485
Total	$ (605,833)

The deferred outflows/(inflows) of resources related to the net change in proportionate share of net pension liability, changes of assumptions, and differences between expected and actual experience in the measurement of the total pension liability will be amortized over the Expected Average Remaining Service Life (EARSL) of all members that are provided benefits (active, inactive, and retirees) as of the beginning of the measurement period. The EARSL for the 2014-2015 measurement period is 3.9 years and will be recognized in pension expense as follows:

Year Ended June 30,	Deferred Outflows (Inflows) of Resources
2017	$ (7,661)
2018	(7,661)
2019	204,324
Total	$ 189,002

Actuarial Methods and Assumptions

Total pension liability for the SEP was determined by applying update procedures to a financial reporting actuarial valuation as of June 30, 2014, and rolling forward the total pension liability to June 30, 2015. The financial reporting actuarial valuation as of June 30, 2014, used the following methods and assumptions, applied to all prior periods included in the measurement:

Valuation date	June 30, 2014
Measurement date	June 30, 2015
Experience study	July 1, 1997 through June 30, 2011
Actuarial cost method	Entry age normal
Discount rate	7. 65%
Investment rate of return	7. 65%
Consumer price inflation	2.75%
Wage growth	Varies by entry age and service

Mortality assumptions are based on mortality rates resulting from the most recent CalPERS experience study adopted by the CalPERS Board. For purposes of the post-retirement mortality rates, those revised rates include five years of projected ongoing mortality improvement using Scale AA published by the Society of Actuaries.

In determining the long-term expected rate of return, CalPERS took into account both short-term and long-term market return expectations as well as the expected pension fund cash flows. Using historical returns of all the funds' asset classes, expected compound returns were calculated over the short-term (first ten years) and the long-term (11-60 years) using a building-block approach. Using the expected nominal returns for both short-term and long-term, the present value of benefits was calculated for each fund. The expected rate of return was set by calculating the single equivalent expected return that arrived at the same present value of benefits for cash flows as the one calculated using both short-term and long-term returns. The expected rate of return was then set equivalent to the single equivalent rate calculated above and rounded down to the nearest one quarter of one percent. The target asset allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Assumed Asset Allocation	Long-Term Expected Real Rate of Return
Global equity	51%	5.25%
Global fixed income	19%	0.99%
Private equity	10%	6.83%
Real estate	10%	4.50%
Inflation sensitive	6%	0.45%
Infrastructure and Forestland	2%	4.50%
Liquidity	2%	-0.55%

Discount Rate

The discount rate used to measure the total pension liability was 7.65 percent. The projection of cash flows used to determine the discount rate assumed the contributions from plan members and employers will be made at statutory contribution rates. Based on these assumptions, the School Employer Pool fiduciary net position was projected to be available to make all projected future benefit payments to current plan members. Therefore, the long-term assumed investment rate of return was applied to all periods of projected benefit payments to determine total pension liability.

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

Discount rate	Net Pension Liability
1% decrease (6.65%)	$ 28,797,352
Current discount rate (7.65%)	17,693,320
1% increase (8.65%)	8,459,575

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of $2,506,997 (7.12589 percent of annual payroll). Contributions are no longer appropriated in the annual *Budget Act* for the legislatively mandated benefits to CalPERS. Therefore, there is no on behalf contribution rate for CalPERS. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budgeted amounts reported in the *General Fund - Budgetary Comparison Schedule*.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2016.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2016.

Construction Commitments

As of June 30, 2016, the district had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Buri Buri Elementary School	$ 9,061,100	June 1, 2018
Parkway Middle School	3,784,036	December 1, 2017
	$ 12,845,136	

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWERS AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

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

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

During the year ended June 30, 2016, the District made payments of $3,882,480 and $6,766,640 to SMCSIG and CalPERS, respectively.

NOTE 16 - CORRECTION OF AN ERROR OF PRIOR YEAR NET POSITION AND FUND BALANCES

Certain items that occurred in the prior year net position and fund balance have been restated as of June 30, 2015 to more accurately reflect the substance of the underlying transactions. The following table lists the reasons for the restatement:

Statement of Net Position	
Net Position - Beginning	$ (14,758,568)
Overstatement of general obligation bonds, net of premiums	216,811
Exclusion of deferred amount on refunding	1,770,873
Overstatement of bond anticipation notes, net of premiums	25,999,340
Overstatement of capital appreciation on bond anticipation notes	986,138
Exclusion of revenue bonds, net of premiums	(30,509,993)
Exclusion long-term receivable	36,663,293
Overstatement of deferred outflows related to pensions	(660,086)
Understatement of deferred inflows related to pensions	43,287
Understatement of capital assets, net of accumulated depreciation	42,384,764
Overstatement of prepaid expenditures	(447,430)
Net Position - Beginning as Restated	$ 61,688,429
General Fund	
Fund Balance - Beginning	$ 54,644,668
Overstatement of investments	(135,489)
Fund Balance - Beginning as Restated (before change in accounting principles)	$ 54,509,179

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWERS AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

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

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

During the year ended June 30, 2016, the District made payments of $3,882,480 and $6,766,640 to SMCSIG and CalPERS, respectively.

NOTE 16 - CORRECTION OF AN ERROR OF PRIOR YEAR NET POSITION AND FUND BALANCES

Certain items that occurred in the prior year net position and fund balance have been restated as of June 30, 2015 to more accurately reflect the substance of the underlying transactions. The following table lists the reasons for the restatement:

Statement of Net Position	
Net Position - Beginning	$ (14,758,568)
Overstatement of general obligation bonds, net of premiums	216,811
Exclusion of deferred amount on refunding	1,770,873
Overstatement of bond anticipation notes, net of premiums	25,999,340
Overstatement of capital appreciation on bond anticipation notes	986,138
Exclusion of revenue bonds, net of premiums	(30,509,993)
Exclusion long-term receivable	36,663,293
Overstatement of deferred outflows related to pensions	(660,086)
Understatement of deferred inflows related to pensions	43,287
Understatement of capital assets, net of accumulated depreciation	42,384,764
Overstatement of investments	(447,430)
Net Position - Beginning as Restated	$ 61,688,429
General Fund	
Fund Balance - Beginning	$ 54,644,668
Overstatement of investments	(135,489)
Fund Balance - Beginning as Restated (before change in accounting principles)	$ 54,509,179

REQUIRED SUPPLEMENTARY INFORMATION

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variances - Positive (Negative) Final
	Original	Final	(GAAP Basis)	to Actual
REVENUES				
Local Control Funding Formula	$ 74,428,861	$ 80,336,923	$ 85,402,065	$ 5,065,142
Federal sources	3,216,821	4,053,243	2,887,753	(1,165,490)
Other State sources	7,378,884	8,022,587	10,433,155	2,410,568
Other local sources	2,040,863	3,250,334	2,862,600	(387,734)
Total Revenues [1]	87,065,429	95,663,087	101,585,573	5,922,486
EXPENDITURES				
Current				
Certificated salaries	39,728,044	38,975,224	38,043,009	932,215
Classified salaries	12,883,554	13,398,339	12,405,752	992,587
Employee benefits	16,088,807	15,320,439	17,373,296	(2,052,857)
Books and supplies	3,717,685	11,475,918	4,394,417	7,081,501
Services and operating expenditures	7,503,166	10,655,479	8,213,342	2,442,137
Capital outlay	-	2,446,639	897,336	1,549,303
Other outgo	3,993,152	3,707,512	3,265,826	441,686
Total Expenditures [1]	83,914,408	95,979,550	84,592,978	11,386,572
Excess (Deficiency) of Revenues Over Expenditures	3,151,021	(316,463)	16,992,595	17,309,058
Other Financing Sources (Uses)				
Transfers in	13,301	13,301	13,301	-
Transfers out	(787,949)	(10,664,000)	(10,711,577)	(47,577)
Net Financing Sources (Uses)	(774,648)	(10,650,699)	(10,698,276)	(47,577)
NET CHANGE IN FUND BALANCES	2,376,373	(10,967,162)	6,294,319	17,261,481
Fund Balance - Beginning	53,064,947	53,064,947	53,064,947	-
Fund Balance - Ending	$ 55,441,320	$ 42,097,785	$ 59,359,266	$ 17,261,481

[1] On behalf payments of $2,506,997 are included in the actual revenues and expenditures, but have not been included in the budgeted amounts. In addition, due to the consolidation of Fund 14, Deferred Maintenance Fund/Fund 17 Special Reserve Fund for Other than Capital Outlay, for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures however are not included in the original and final General Fund budgets.

See accompanying note to required supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

CHILD DEVELOPMENT FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2016

	Budgeted Amounts		Actual	Variances - Positive (Negative)
	Original	Final	(GAAP Basis)	Final to Actual
REVENUES				
Federal sources	$ 260,711	$ 126,623	$ 408,501	$ 281,878
Other State sources	623,222	780,712	792,318	11,606
Other local sources	1,122,789	2,148,057	1,271,214	(876,843)
Total Revenues	2,006,722	3,055,392	2,472,033	(583,359)
EXPENDITURES				
Current				
Certificated salaries	500,874	750,555	575,232	175,323
Classified salaries	715,875	902,661	766,773	135,888
Employee benefits	442,092	640,244	456,339	183,905
Books and supplies	50,523	349,105	228,676	120,429
Services and operating expenditures	197,516	216,281	163,285	52,996
Other outgo	94,794	141,817	81,762	60,055
Total Expenditures	2,001,674	3,000,663	2,272,067	728,596
Excess (Deficiency) of Revenues Over Expenditures	5,048	54,729	199,966	145,237
Other Financing Sources (Uses)				
Transfers out	(13,301)	(13,301)	(13,301)	-
NET CHANGE IN FUND BALANCES	(8,253)	41,428	186,665	145,237
Fund Balance - Beginning	555,191	555,191	555,191	-
Fund Balance - Ending	$ 546,938	$ 596,619	$ 741,856	$ 145,237

See accompanying note to required supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING PROGRESS
FOR THE YEAR ENDED JUNE 30, 2016

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Coverage Payroll ([b - a] / c)
January 1, 2011	$ -	$ 12,289,900	$ 12,289,900	0.00%	$ 46,046,200	26.69%
January 1, 2013	-	12,163,443	12,163,443	0.00%	48,926,222	24.86%
January 1, 2015	-	25,184,876	25,184,876	0.00%	53,849,264	46.77%

See accompanying note to required supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF THE DISTRICT'S PROPORTIONATE SHARE OF THE NET PENSION LIABILITY
FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CalSTRS		
District's proportion of the net pension liability	0.0782%	0.0790%
District's proportionate share of the net pension liability	$ 52,680,238	$ 46,177,004
State's proportionate share of the net pension liability associated with the District	27,862,039	27,883,669
Total	$ 80,542,277	$ 74,060,673
District's covered - employee payroll	$ 36,515,800	$ 36,404,423
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	144.27%	126.84%
Plan fiduciary net position as a percentage of the total pension liability	74%	77%
CalPERS		
District's proportion of the net pension liability	0.1200%	0.1136%
District's proportionate share of the net pension liability	$ 17,693,320	$ 12,891,955
District's covered - employee payroll	$ 18,749,864	$ 13,270,962
District's proportionate share of the net pension liability as a percentage of its covered - employee payroll	94.37%	97.14%
Plan fiduciary net position as a percentage of the total pension liability	79%	83%

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

See accompanying note to required supplementary information.

SCHEDULE OF THE DISTRICT CONTRIBUTIONS
FOR THE YEAR ENDED JUNE 30, 2016

	2016	2015
CalSTRS		
Contractually required contribution	$ 4,114,703	$ 3,242,603
Contributions in relation to the contractually required contribution	(4,114,703)	(3,242,603)
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 38,347,651	$ 36,515,800
Contributions as a percentage of covered - employee payroll	10.73%	8.88%
CalPERS		
Contractually required contribution	$ 2,246,179	$ 2,206,859
Contributions in relation to the contractually required contribution	(2,246,179)	(2,206,859)
Contribution deficiency (excess)	$ -	$ -
District's covered - employee payroll	$ 18,955,097	$ 18,749,864
Contributions as a percentage of covered - employee payroll	11.85%	11.77%

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

See accompanying note to required supplementary information.

NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Budgetary Comparison Schedule

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

Schedule of Other Postemployment Benefits (OPEB) Funding Progress

This schedule is intended to show trends about the funding progress of the District's actuarially determined liability for postemployment benefits other than pensions.

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

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

Schedule of District Contributions

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

Changes in Benefit Terms

There were no changes in benefit terms since the previous valuation for either CalSTRS or CalPERS.

Changes in Assumptions

The CalSTRS plan rate of investment return assumption was not changed from the previous valuation. The CalPERS plan rate of investment return assumption was changed from 7.50 percent to 7.65 percent since the previous valuation.

SUPPLEMENTARY INFORMATION

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE)			
Adult Education and Family Literacy Act			
Adult Education - Basic Grants to States			
Adult Basic Education and ESL	84.002A	14508	$ 125,861
Adult Secondary Education	84.002	13978	57,377
English Literacy and Civics Education	84.002A	14109	16,350
Subtotal Adult Education - Basic Grants to States			199,588
Carl D. Perkins Vocational and Technical Education Act of 2006			
Career and Technical Education - Secondary Education	84.048	14894	49,264
No Child Left Behind Act (NCLB)			
Title I, Part A - Basic Grants, Low Income and Neglected	84.010	14329	517,741
Migrant Education State Grant Program			
Title I, Part C - Migrant Education Regular	84.011	14326	89,776
Title I, Part C - Migrant Education Summer	84.011	10005	25,288
Subtotal Migrant Education State Grant Program			115,064
Title II, Part A - Improving Teacher Quality	84.367	14341	212,643
English Language Acquisition Grants			
Title III, Part A - Limited English Proficiency	84.365	14346	150,613
Title III - Immigrant Education Program	84.365	15146	3,945
Subtotal English Language Acquisition Grants			154,558
Passed through San Mateo County Office of Education			
Individuals with Disabilities Education Act			
Special Education (IDEA) Cluster			
Preschool Grants	84.173	13430	42,166
Local Assistance	84.027	13379	1,527,585
Preschool Local Entitlement	84.027A	13682	85,234
Preschool Staff Development	84.173A	13431	498
Subtotal Special Education (IDEA) Cluster			1,655,483
Passed through California Department of Rehabilitation			
Workability II - Transition Partnership	84.126	10006	97,435
Total U.S. Department of Education			3,001,776

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2016 (CONTINUED)

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE			
Child Care and Development Fund Cluster			
Federal Child Care, Center Based	93.575	15136	$ 55,573
Federal Child Care, Matching Funds	93.596	13609	86,163
Subtotal Child Care and Development Fund Cluster			141,736
Passed through California Department of Health Services			
Medi-Cal Assistance Program			
Medi-Cal Billing Option	93.778	10013	53,272
Medi-Cal Administrative Activities	93.778	10060	35,808
Subtotal Medi-Cal Assistance Program			89,080
Total U.S. Department of Health and Human Services			230,816
CORPORATION FOR NATIONAL AND COMMUNITY SERVICE			
Passed through Silicon Valley Community Foundation			
Social Innovation Fund - The Big Lift	94.019	[1]	266,765
Total Corporation for National and Community Service			266,765
U.S. DEPARTMENT OF INTERIOR			
Payments in Lieu of Taxes	15.226	[1]	505
Total U.S. Department of Interior			505
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster			
Especially Needy Breakfast Program	10.553	13526	200,651
National School Lunch Program	10.555	13396	1,245,960
Commodities	10.555	[1]	200,845
Summer Food Service Program Operations	10.559	13004	36,288
Subtotal Child Nutrition Cluster			1,683,744
Child and Adult Care Food Program	10.558	13393	78,709
Total U.S. Department of Agriculture			1,762,453
Total Federal Programs			$ 5,262,315

[1] PCA number not available.

See accompanying note to supplementary information.

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE
JUNE 30, 2016

ORGANIZATION

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

GOVERNING BOARD

MEMBER	OFFICE	TERM EXPIRES
Patrick A. Lucy	President	2018
Rosa G. Acosta	Vice President	2018
Judith M. Bush	Clerk	2016
John C. Baker	Member	2016
Daina R. Lujan	Member	2016

ADMINISTRATION

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

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2016

	Final Report	
	Second Period Report 4DCC0C31	Annual Report 443B62B5
Regular ADA		
Transitional kindergarten through third	2,599.92	2,601.54
Fourth through sixth	1,952.89	1,952.75
Seventh and eighth	1,272.45	1,270.56
Ninth through twelfth	2,774.49	2,761.44
Total Regular ADA	8,599.75	8,586.29
Extended Year Special Education		
Transitional kindergarten through third	0.07	0.07
Ninth through twelfth	54.58	54.58
Total Extended Year Special Education	54.65	54.65
Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.98	0.98
Fourth through sixth	0.88	0.86
Seventh and eighth	-	0.97
Ninth through twelfth	14.23	12.15
Total Special Education, Nonpublic, Nonsectarian Schools	16.09	14.96
Extended Year Special Education, Nonpublic, Nonsectarian Schools		
Transitional kindergarten through third	0.95	0.95
Ninth through twelfth	11.54	11.54
Total Extended Year Special Education, Nonpublic, Nonsectarian Schools	12.49	12.49
Community Day School		
Ninth through twelfth	4.59	4.59
Total ADA	8,687.57	8,672.98

See accompanying note to supplementary information.

SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2016

Grade Level	1986-87 Minutes Requirement	2015-16 Actual Minutes	Number of Days Traditional Calendar	Number of Days Multitrack Calendar	Status
Kindergarten	36,000	46,555	180	-	Complied
Grades 1 - 3	50,400				
Grade 1		53,265	180	-	Complied
Grade 2		53,265	180	-	Complied
Grade 3		53,265	180	-	Complied
Grades 4 - 6	54,000				
Grade 4		54,005	180	-	Complied
Grade 5		54,005	180	-	Complied
Grade 6		54,005	180	-	Complied
Grades 7 - 8	54,000				
Grade 7		61,180	180	-	Complied
Grade 8		61,180	180	-	Complied
Grades 9 - 12	64,800				
Grade 9		64,842	180	-	Complied
Grade 10		64,842	180	-	Complied
Grade 11		64,842	180	-	Complied
Grade 12		64,842	180	-	Complied

See accompanying note to supplementary information.

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

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

	Capital Facilities Fund
FUND BALANCE	
Balance, June 30, 2016, Unaudited Actuals	$ 1,080,337
Decrease in:	
Prepaid expenditures	(133,788)
Balance, June 30, 2016, Audited Financial Statements	$ 946,549

	Debt Service Fund for Blended Component Units
FUND BALANCE	
Balance, June 30, 2016, Unaudited Actuals	$ -
Increase in:	
Investments	111,158
Balance, June 30, 2016, Audited Financial Statements	$ 111,158

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2016

	(Budget) 2017[1]	2016	2015	2014
GENERAL FUND[4]				
Revenues	$ 88,768,413	$ 99,194,361	$ 83,315,488	$ 78,599,040
Other sources and transfers in	13,301	13,301	13,301	13,301
Total Revenues and Other Sources	88,781,714	99,207,662	83,328,789	78,612,341
Expenditures	95,621,339	84,208,067	78,249,794	72,603,275
Other uses and transfers out	664,000	10,711,577	675,725	-
Total Expenditures and Other Uses	96,285,339	94,919,644	78,925,519	72,603,275
INCREASE (DECREASE) IN FUND BALANCE	$ (7,503,625)	$ 4,288,018	$ 4,403,270	$ 6,009,066
ENDING FUND BALANCE	$ 43,691,007	$ 51,194,632	$ 46,906,614	$ 42,503,344
AVAILABLE RESERVES[2]	$ 16,305,216	$ 21,351,683	$ 3,939,502	$ 23,882,653
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO[3]	16.93%	22.49%	4.99%	32.89%
LONG-TERM OBLIGATIONS[5]	NA	$ 199,241,958	$ 204,913,235	$ 130,799,823
K-12 AVERAGE DAILY ATTENDANCE AT P-2	8,515	8,688	8,763	8,929

The General Fund balance has increased by $8,691,288 over the past two years. However, the fiscal year 2016-2017 budget projects a decrease of $7,503,625 (14.7 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in all of the past three years but anticipates incurring an operating deficit during the 2016-2017 fiscal year. Total long-term obligations have increased by $68,442,135 over the past two years.

Average daily attendance has decreased by 241 over the past two years. Additional decline of 173 ADA is anticipated during fiscal year 2016-2017.

[1] Budget 2017 is included for analytical purposes only and has not been subjected to audit.
[2] Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund.
[3] On behalf payments of $2,506,997 and $1,978,194 have been excluded from the calculation of available reserves for the fiscal years ending June 30, 2016 and 2015.
[4] General Fund amounts do not include activities related to the consolidation of Fund 14, Deferred Maintenance Fund for fiscal years ending June 30, 2016, 2015, and 2014. Additionally, General Fund amounts do not include Fund 11, Adult Education Fund for fiscal years ending June 30, 2015 and 2014.
[5] Amounts shown as long-term obligation was restated for fiscal year ending June 30, 2015.

See accompanying note to supplementary information.

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2016

	Adult Education Fund	Cafeteria Fund	Capital Facilities Fund	State School Building Fund
ASSETS				
Deposits and investments	$ 1,487,748	$ 1,185,802	$ 944,586	$ 10
Receivables	206,713	230,563	2,190	-
Due from other funds	69,516	197,991	104	-
Prepaid expenditures	-	22,686	-	-
Stores inventories	-	41,660	-	-
Total Assets	$ 1,763,977	$ 1,678,702	$ 946,880	$ 10
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	$ 3,343	$ 1,980	$ 331	$ -
Due to other funds	164,908	395,930	-	10
Total Liabilities	168,251	397,910	331	10
Fund Balances:				
Nonspendable	-	65,064	-	-
Restricted	151,495	1,215,728	946,549	-
Assigned	1,444,231	-	-	-
Total Fund Balances	1,595,726	1,280,792	946,549	-
Total Liabilities and Fund Balances	$ 1,763,977	$ 1,678,702	$ 946,880	$ 10

See accompanying note to supplementary information.

County School Facilities Fund	Bond Interest and Redemption Fund	Debt Service Fund for Blended Component Units	Total Non Major Governmental Funds
$ 95	$ 9,665,297	$ 111,158	$ 13,394,696
-	24,216	-	463,682
-	-	-	267,611
-	-	-	22,686
-	-	-	41,660
$ 95	$ 9,689,513	$ 111,158	$ 14,190,335
$ -	$ -	$ -	$ 5,654
95	-	-	560,943
95	-	-	566,597
-	-	-	65,064
-	9,689,513	111,158	12,114,443
-	-	-	1,444,231
-	9,689,513	111,158	13,623,738
$ 95	$ 9,689,513	$ 111,158	$ 14,190,335

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2016

	Adult Education Fund	Cafeteria Fund	Capital Facilities Fund	State School Building Fund
REVENUES				
Local Control Funding Formula	$ 69,516	$ -	$ -	$ -
Federal sources	199,588	1,762,453	-	-
Other State sources	1,036,805	116,171	-	-
Other local sources	75,705	735,405	561,473	-
Total Revenues	1,381,614	2,614,029	561,473	-
EXPENDITURES				
Current				
Instruction	640,327	-	-	-
Instruction-related activities:				
School site administration	393,821	-	-	-
Pupil services:				
Food services	-	2,445,209	-	-
All other pupil services	46,535	-	-	-
Administration:				
All other administration	42,417	80,291	-	-
Plant services	107,020	-	130,292	-
Facility acquisition and construction	-	-	24,200	-
Other outgo	-	-	-	-
Debt service				
Principal	-	84,049	255,000	-
Interest and other	-	14,250	21,050	-
Total Expenditures	1,230,120	2,623,799	430,542	-
Excess (Deficiency) of Revenues Over Expenditures	151,494	(9,770)	130,931	-
Other Financing Sources (Uses)				
Transfers in	-	-	-	-
Other sources - proceeds from issuance of general obligation bonds	-	-	-	-
Other sources - premium on issuance of general obligation bonds	-	-	-	
Transfers out	-	-	-	-
Other uses - transfer to refunded bond anticipation note escrow fund	-	-	-	-
Net Financing Sources (Uses)	-	-	-	-
NET CHANGE IN FUND BALANCES	151,494	(9,770)	130,931	-
Fund Balance - Beginning	-	1,290,562	815,618	-
Prior Period Adjustment	1,444,232	-	-	-
Fund Balance - Ending	$ 1,595,726	$ 1,280,792	$ 946,549	$ -

See accompanying note to supplementary information.

County School Facilities Fund	Bond Interest and Redemption Fund	Debt Service Fund for Blended Component Units	Total Non Major Governmental Funds
$ -	$ -	$ -	$ 69,516
-	505	-	1,962,546
-	41,853	-	1,194,829
-	8,354,916	115,270	9,842,769
-	8,397,274	115,270	13,069,660
-	-	-	640,327
-	-	-	393,821
-	-	-	2,445,209
-	-	-	46,535
-	-	-	122,708
-	-	-	237,312
-	-	-	24,200
-	434,246	1,500	435,746
-	4,025,000	2,115,000	6,479,049
-	4,431,508	1,409,925	5,876,733
-	8,890,754	3,526,425	16,701,640
-	(493,480)	(3,411,155)	(3,631,980)
-	-	3,522,313	3,522,313
-	127,954,367	-	127,954,367
	8,389,816	-	8,389,816
-	(3,522,313)	-	(3,522,313)
-	(137,565,326)	-	(137,565,326)
-	(4,743,456)	3,522,313	(1,221,143)
-	(5,236,936)	111,158	(4,853,123)
-	14,926,449	-	17,032,629
-	-	-	1,444,232
$ -	$ 9,689,513	$ 111,158	$ 13,623,738

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the financial statements. The District has not elected to use the ten percent de minimis cost rate as covered in Section 200.414 Indirect (F&A) costs of the Uniform Guidance.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures, and Changes in Fund Balances, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amount consists primarily of Medi-Cal Billing Option funds that have been recorded as restricted ending balances in the previous period and have been expended as of June 30, 2016.

Description	CFDA Number	Amount
Total Federal Revenues From the Statement of Revenues, Expenditures and Changes in Fund Balances:		$ 5,258,800
Medi-Cal Billing Option	93.778	3,515
Total Schedule of Expenditures of Federal Awards		$ 5,262,315

Local Education Agency Organization Structure

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

Schedule of Average Daily Attendance (ADA)

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

NOTE TO SUPPLEMENTARY INFORMATION
JUNE 30, 2016

Schedule of Instructional Time

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

Districts must maintain their instructional minutes at 1986-1987 requirements, as required by *Education Code* Section 46201.

Reconciliation of Annual Financial and Budget Report With Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

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

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

INDEPENDENT AUDITOR'S REPORTS

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of South San Francisco Unified School District (the District) as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise South San Francisco Unified School District's basic financial statements, and have issued our report thereon dated December 15, 2016.

Emphasis of Matter - Correction of Error

As discussed in Note 16 to the financial statements, there were certain items that occurred in the prior year net position and fund balances that have been restated as of June 30, 2015, to more accurately reflect the substance of the underlying transactions. Our opinion is not modified with respect to this matter.

Emphasis of Matter - Change in Accounting Principles

As discussed in Note 17 to the financial statements, the District began receiving a dedicated revenue source for its Adult Education Fund. As a result, the Adult Education Fund meets the definition of a special revenue fund under GASB Statement No. 54 *Fund Balance Reporting and Governmental Fund Type Definition* and is reported accordingly. Our opinion is not modified with respect to this matter.

Internal Control Over Financial Reporting

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

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying Schedule of Findings and Questioned Costs as items 2016-001, 2016-002, and 2016-003 that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether South San Francisco Unified School District's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Findings and Questioned Costs as item 2016-001.

We noted certain matters that we reported to management of South San Francisco Unified School District in a separate letter dated December 15, 2016.

South San Francisco Unified School District's Response to Findings

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

Purpose of This Report

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2016

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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

Report on Compliance for Each Major Federal Program

We have audited South San Francisco Unified School District's compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of South San Francisco Unified School District's (the District) major Federal programs for the year ended June 30, 2016. South San Francisco Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of South San Francisco Unified School District's major Federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about South San Francisco Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major Federal program. However, our audit does not provide a legal determination of South San Francisco Unified School District's compliance.

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Basis for Qualified Opinion on Child Nutrition Cluster (CFDA 10.553, 10.555, and 10.559)

As described in the accompanying schedule of findings and questioned costs, South San Francisco Unified School District did not comply with requirements regarding the Child Nutrition Cluster as described in items 2016-004 for *Allowable Costs/Cost Principles* and 2016-005 for *Equipment and Real Property Management*. Compliance with such requirements is necessary, in our opinion, for South San Francisco Unified School District to comply with the requirements applicable to that program.

Qualified Opinion on Child Nutrition Cluster (CFDA 10.553, 10.555, and 10.559)

In our opinion, except for the noncompliance described in the Basis for Qualified Opinion paragraph, South San Francisco Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on Child Nutrition Cluster for the year ended June 30, 2016.

Unmodified Opinion on Each of the Other Major Federal Programs

In our opinion, South San Francisco Unified School District complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its other major Federal programs identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs for the year ended June 30, 2016.

Other Matters

The result of our auditing procedures disclosed other instances of noncompliance, which are required to be reported in accordance with the Uniform Guidance and which are described in the accompanying Schedule of Findings and Questioned Costs as items 2016-004 and 2016-005. Our opinion on each major federal program is not modified with respect to these matters.

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

Report on Internal Control Over Compliance

Management of South San Francisco Unified School District is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered South San Francisco Unified School District's internal control over compliance with the types of requirements that could have a direct and material effect on each major Federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major Federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of South San Francisco Unified School District's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and significant deficiencies.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is 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. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-004 to be a material weakness.

A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a Federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying schedule of findings and questioned costs as item 2016-005 to be a significant deficiency.

South San Francisco Unified School District's response to the internal control over compliance findings identified in the audit is described in the accompanying Schedule of Findings and Questioned Costs. South San Francisco Unified School District's response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2016

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

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

Report on State Compliance

We have audited South San Francisco Unified School District's compliance with the types of compliance requirements as identified in the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting* that could have a direct and material effect on each of the South San Francisco Unified School District's State government programs as noted below for the year ended June 30, 2016.

Management's Responsibility

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

Auditor's Responsibility

Our responsibility is to express an opinion on compliance of each of the South San Francisco Unified School District's State programs based on our audit of the types of compliance requirements referred to above. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *2015-2016 Guide for Annual Audits of K-12 Local Education Agencies and State Compliance Reporting*. These standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about South San Francisco Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinions. Our audit does not provide a legal determination of South San Francisco Unified School District's compliance with those requirements.

Unmodified Opinion

In our opinion, South San Francisco Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2016.

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

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

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

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

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

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

The District did not have expenditures for the California Clean Energy Jobs Act program; therefore, we did not perform procedures related to the California Clean Energy Jobs Act.

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

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

The District did not have any schools listed on the immunization assessment report; therefore, we did not perform any related procedures.

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2016

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

SUMMARY OF AUDITOR'S RESULTS
FOR THE YEAR ENDED JUNE 30, 2016

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major Federal programs:	
Material weakness identified?	Yes
Significant deficiency identified?	Yes
Type of auditor's report issued on compliance for major Federal programs:	Unmodified

Unmodified for all major programs except for the following Federal program which was qualified:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555 and 10.559	Child Nutrition Cluster

Any audit findings disclosed that are required to be reported in accordance with Section 200.516(a) of the Uniform Guidance?	Yes

Identification of major Federal programs:

CFDA Numbers	Name of Federal Program or Cluster
10.553, 10.555 and 10.559	Child Nutrition Cluster
84.027, 84.027A, 84.173 and 84.173A	Special Education (IDEA) Cluster

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

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	Unmodified

FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2016

The following finding represents significant deficiencies and/or instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

Five Digit Code	AB 3627 Finding Type
30000	Internal Control
60000	Miscellaneous

Purchasing Deficiency - Bidding Procedures

2016-001 30000/60000

Criteria or Specific Requirement

In accordance to Public Contract Code (PCC) Section 20111, the District is required to competitively bid and award any contracts involving an expenditure of more than $50,000, adjusted for inflation (2016 - $87,800) to the lowest responsible bidder. Contracts subject to competitive bidding include:

1) Purchase of equipment, materials, or supplies to be furnished, sold, or leased to the school District.
2) Services that are not construction services and professional services or advice.
3) Repairs including maintenance projects, as defined in PCC Section 20115.
4) Public works projects, as defined in PCC Section 22002(c).

Additionally, in accordance to PCC Section 20112, the District is required to solicit competitive bids through newspapers in general circulation at least once a week for duration of two weeks.

Condition

The District was unable to substantiate that the following purchase orders were in compliance with PCC 20111 and 20112:

1) American Logistics - Purchase Order No.: PO-160044, Purchase Order Amount: $1,006,771.52
2) Sonitrol - Purchase Order No.: PO-160007, Purchase Order Amount: $90,036.53

All purchase orders identified appear to have met the requisite competitive bidding thresholds, as identified by PCC 20111, adjusted for inflation. Additionally, the District's purchasing procedures appear to be inadequate to properly identify transactions that may be subject to PCC 20111. Consequently, there appears to be a high likelihood that there can be other contracts/agreements that may also be in potential violation of the bidding requirements.

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

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

Effect

As a result of the District unable to provide substantive evidence, the District appears to be non-compliant with regulations governing contracts awarded by Districts. Specifically, PCC Section 20111 pertaining to bidding requirements/threshold and PCC Section 20112 pertaining to the solicitation of competitive bids appear to be in question.

Cause

The District has experienced a considerable turn-over in the most recent years, including personnel with adequate knowledge over purchasing regulations procedures. Subsequently, sites/departments have taken up decentralized purchasing responsibilities. The District currently has a staff performing some purchasing functions part of the day. However, it appears that the purchasing staff hired by the District lacks the necessary experience and knowledge as well as the time to perform the advanced purchasing responsibilities. As a result, it appears that the lack of centralized purchasing procedures combined with the potential lack of knowledge have aggregately created the condition identified above.

Recommendation

The District should strongly consider centralizing all purchasing related activities and all purchasing related activities and responsibilities should be directly delegated to the District's Purchasing Department. More importantly, the District should consider recruiting an employee that has a comprehensive knowledge of regulations and procedures pertaining to purchasing and any additional employees to have an effective purchasing function at the District. In addition, the District should consider implementing a review/approval procedure to ensure the proper identification of transactions that are potentially subject to the bidding requirements. At a minimum, the District should ensure that all purchase orders and/or requisitions are reviewed/approved by an employee with sufficient knowledge of PCC 20111 and 20112. In an effort to amend the District's purchasing policies and procedures, the District may consider the need to train all site/department level personnel to ensure a problem-free transition.

Corrective Action

The District agrees with the recommendation on the need for additional staff in Purchasing, specifically someone with comprehensive knowledge of regulations and procedures pertaining to purchasing and the Public Contract Codes (PCC) in order to have an effective purchasing functions in the District. In addition, the District will be sending staff to workshops to be trained, who will then share the information with site and department staff.

Purchasing Deficiency - Direct Payments and Purchase Requisitions/Orders

2016-002 30000

Criteria or Requirement

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

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

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

Condition

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

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

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

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

Effect

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

Cause

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

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

Recommendation

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

Corrective Action

The District is aware of this practice. This is due to the recent high turnovers in the District. The District will be providing training to staff, so everyone has knowledge of the proper purchasing procedures. All sites and departments will be required to enforce the purchasing procedures with their staff.

Purchasing and Accounts Payable Deficiency - Segregation of Duty

2016-003 30000

Criteria or Specific Requirement

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

Condition

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

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

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

Effect

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

Cause

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

Recommendation

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

Corrective Action

The District will be assessing its staffing in Business Services to address the increased volume of work due to numerous grants and budgets added during the past four years. Management has removed access to add vendors for those staff that currently has access to Accounts Payable.

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

The following findings represent significant deficiencies, material weakness, and/or material instances of noncompliance including questioned costs that are required to be reported by Uniform Guidance. The findings have been coded as follows:

Five Digit Code	AB 3627 Finding Type
50000	Federal Compliance

2016-004 50000

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

Criteria or Specific Requirements

Title 7 of the Code of Federal Regulations, Part 210, Subpart C, Section 210.14(a) requires SFA to maintain a non-profit school food service. Revenues received by the non-profit school food service are to be used only for the operation and improvement of such food service, except that, such revenues shall not be used to purchase land or building, unless otherwise approved by the United States Department of Agriculture's Food and Nutrition Services Division, or for construction of buildings.

Condition

It appears that the District charged an accumulated total of $1,081,297.80 in unauthorized and unsupported debt service and financing costs from fiscal years 2005-2006 through 2015-2016. The District did not have pre-approval from the U.S. Department of Agriculture or the California Department of Education to use Cafeteria funds for the construction of its central food-processing facility. Consequently, without the required pre-approval, the District was not allowed to use Cafeteria funds for the construction of the central food-processing facility.

Questioned Costs

A total of $1,081,279.80 in accumulated questioned costs was identified, covering the fiscal years 2005-2006 through 2015-2016. It appears that the original financing took place during the 2003-2004 fiscal year, and there may be additional questioned costs. However, due to the limitations on available and reliable accounting records, we were unable to substantiate any additional question costs.

Context

The condition was identified as a result of our review of the District's debt service payment activities related to its outstanding certificates of participation. Past years' questioned costs was identified using available information on the District's accounting system and debt service schedules published in official statements.

Effect

The District has charged unsupported direct cost to the Cafeteria Fund for the fiscal year beginning 2005-2006 through 2015-2016. As a result, it appears that the District is not in compliance with Title 7 of the Code of Federal Regulations, Part 210, Subpart C, Section 210.14(a). The identified questioned cost of $1,081,279.80 must be transferred back to the Cafeteria Fund using unrestricted funds held in the General Fund.

Cause

The condition identified appears to have materialized due to the District's lack of understanding of regulations stated in Title 7 CFR, Part 210, Subpart C, Section 210.14(a) which stipulates the requirements for non-profit school food service.

Recommendation

The District should transfer the identified questioned costs from the General Fund to the Cafeteria Fund. Additionally, the District should ensure that its program managers attain a high level of familiarity with regulations to ensure that future non-compliance is prevented.

Corrective Action Plan

The District will be transferring $1,081,279.80 from the Unrestricted General Fund to the Cafeteria Fund to repay the Cafeteria Fund for the funds used that were not in compliance with Title 7 of the Code of Federal Regulations, Part 210, Subpart C, Section 210.14(a).

2016-005 50000

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

Criteria or Specific Requirement

Title 7 of the Code of Federal Regulations, Part 3016, Subpart C, Section 3016.32(d) state that procedures for managing equipment (including replacement equipment), whether acquired in whole or in part with grant funds, until disposition takes place will, as a minimum, meet the following requirements:

1) Property records must be maintained that include a description of the property, a serial number or other identification number, the source of property, who holds title, the acquisition date, and cost of the property, percentage of Federal participation in the cost of the property, the location, use and condition of the property, and any ultimate disposition data including the date of disposal and sale price of the property.
2) A physical inventory of the property must be taken and the results reconciled with the property records at least once every two years.
3) A control system must be developed to ensure adequate safeguards to prevent loss, damage, or theft of the property. Any loss, damage, or theft shall be investigated.

4) Adequate maintenance procedures must be developed to keep the property in good condition.
5) If the grantee or subgrantee is authorized or required to sell the property, proper sales procedures must be established to ensure the highest possible return".

Condition

The District has not established an effective internal control procedures relating to Equipment and Real Property Management requirements. It was noted during review that implemented internal controls relating to the inventorying (tagging) of equipment purchases have not been enforced. In addition, the District did not maintain a complete listing of all equipment purchased by the Nutrition Department.

Questioned Costs

There were no questioned costs associated with the condition identified.

Context

The condition was identified as a result of our inquiry with District's Nutrition Department and Business Services personnel and through review of supporting documents.

Effect

Based on the condition identified, it appears that the District is not in compliance with requirements statement in Title 7 Code of Federal Regulation, Section 3016.32(d).

Cause

The condition identified appears to have materialized due to the District's lack of awareness of requirements.

Recommendation

We recommended that the District management establish controls, including the proper inventorying (tagging) of all equipment purchases, the preparation and maintenance of detailed records. Additionally, the District should perform physical inventory of equipment acquired at least once every two years and reconciled to the detailed records. Any significant differences should be investigated and the appropriate adjustments should be made to the records. Also, any equipment acquired with federal funds must be designated as such so that they are not disposed of improperly.

Corrective Action Plan

This audit finding is also related to the first three audit findings, which is deficiency in the area of purchasing responsibilities, and this is due to the level of staffing in the purchasing area. The District will be assessing it staffing levels. In addition, it will be providing trainings to staff on the requirements of Title 7 Code of Federal Regulation, Section 3016.32(d).

SOUTH SAN FRANCISCO UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2016

None reported.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2016

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Financial Statement Findings

Associated Student Body (ASB)

2015-001 30000

Criteria or Specific Requirements

Maintaining sound internal control procedures over cash receipts, cash disbursements, bank reconciliations, and minutes of council meeting reduce the opportunity for irregularities to go undetected. The Fiscal Crisis & Management Assistance Team (FCMAT) Associated Student Body Accounting Manual and Desk Reference outlines proper internal control procedures for associated student body accounts to follow.

Condition

Through our testing of the school site ASB accounts, we noted the following internal control deficiencies:

Parkway Middle School:

1. Two of 10 cash receipts did not show adequate documentation to reconcile the amount of collections or sales to the amount of the deposit.
2. Constitutions are not completed or on file for the various clubs.

Westborough Middle:

1) One out of 10 cash receipts did not show adequate documentation to reconcile the amount of collections or sales to the amount of the deposit for Westborough Middle.
2) Two out of 10 cash disbursements did not have proper approval on the check request/withdrawal form. Three signatures of approval are required on the form. There were only two signatures, the ASB student, and the ASB advisor. The principal did not sign the check request/withdrawal form.
3) Constitutions are not completed or available for review for the school clubs.

South San Francisco High School:

1. Ten out of the ten cash receipts did not have adequate documentation to reconcile the sales or collections to the amount deposited.

El Camino High School:

1. Six out of 10 cash receipts did not have adequate documentation to reconcile the sales or collections to the amount deposited.

Effect

The effect, or potential effect, on the ASBs is there is an increased likelihood of misappropriation of assets and potential fraud.

Cause

Insufficient controls over student body activities.

Recommendation

The District should provide each student body account clerk with the latest FCMAT Associated Student Body Accounting Manual and Desk Reference and reinforce the importance for sound internal control procedures to be implemented.

Current Status

Partially implemented. See management letter.

Capital Assets - Material Weakness

2015-002 30000

Criteria or Specific Requirements

The District should maintain a complete capital asset listing. These assets should be depreciated in conformity with generally accepted accounting principles, tracked, accounted for, and properly valued. Good internal controls and prudent accounting practices require the establishment and adherence to sound policies and procedures for capital assets.

Condition

The District has not adequately updated their capital asset listing and depreciation schedule. In addition, the District was unable to provide the amount of construction in progress from prior year that was put into service in 2014-2015. Auditor was unable to receive adequate documentation to support the capital asset listing presented in the financial statements rendering capital assets unauditable.

Context

All District capital assets.

Effect

Balance of capital asset listing may be materially misstated without an accurate listing and support for the amount the District presents as capital assets. The auditor's opinion was qualified because it can't be determined whether the capital assets and related accumulated depreciation are fairly stated.

Cause

The District experienced significant turnover in key management positions who were charged with the updating of the capital asset and depreciation schedules. A secondary cause is a lack of policies and procedures over capital assets in 2014-2015.

Recommendation

The District should obtain a complete valuation for its capital assets and confirm that a valuation is complete, accurate, and adequately supports the amount they state in their financial statements. The District should also establish and implement written policies and procedures surrounding recording and tracking of capital assets and calculation of depreciation expense. In addition, the District should be tracking construction in progress and be able to provide a listing of assets that have been put into service.

Current Status

Implemented.

State Awards Findings

2015-003 Code 40000

Instructional Minutes

Criteria or Specific Requirements

The lowest reported instructional minutes per grade level from each school site should meet the minimum required minutes for the fiscal year according to *Education Code* Section 46201.

Condition

After reviewing total calculated instructional minutes, auditor noted that grades level 4 and 5 were below the required minutes for the fiscal year 2014-2015 by 300 minutes annually.

Questioned Costs

The LCFF Funding before Minimum State Aid is less than the property taxes received by the District, thus the fiscal impact is zero ($0), due to the new funding model. The District cannot receive any less state aid to meet than the minimum requirements.

Context

Through our testing of the school site calculated minutes, we noted the following grade level deficiencies in grade levels 4 and 5.

Effect

The District is not compliance with *Education Code* Section 46201.

Cause

The District was still using the average method which is no longer allowable under the new Education Code.

Recommendation

The District should immediately eliminate the use of average method calculations and update their instructional minutes for each grade level for all school sites to meet the minimum required minutes per *Education Code* Section 46201.

Current Status

Implemented.

Vavrinek, Trine, Day & Co., LLP
Certified Public Accountants

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

In planning and performing our audit of the financial statements of South San Francisco Unified School District, for the year ended June 30, 2016, we considered its internal control structure in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control structure.

However, during our audit we noted matters that are opportunities for strengthening internal controls and operating efficiency. The following items represent conditions noted by our audit that we consider important enough to bring to your attention. This letter does not affect our report dated December 15, 2016, on the government-wide financial statements of the District.

INTERNAL CONTROLS

Revolving Account Reconciliation

Observation

Based on testing performed, it appeared that the District was not adhering to the established procedure to reconcile its revolving cash account back to the impress amount of $25,000 on a regular basis. In addition, the bank reconciliation was not being reviewed by an independent party to verify the accuracy and appropriateness of the reconciliation.

Recommendation

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

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Credit Card Purchases

Observation

Based on our review of the credit card purchases procedure, the purchases were not being approved by an administrator-level employee; the executive assistant was the only person reviewing the credit card charges. The lack of review increases the chance of errors and misappropriations to take place without detection. Auditor also noted that there were multiple transactions from the District's Educational Services Department that should have gone through the District's regular purchasing channels.

Recommendation

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

Payroll and Human Resources- Time and Leave reporting

Observation

During our audit of the District's Payroll and Human Resources internal control, it was noted that all hourly payroll charges for the certificated employees were inputted by a single individual in the Payroll department. In addition, the District was relying on a manual process in which the payroll supervisor would input the vacation hours taken into the "Employee Leave Transaction" module in the Financial 2000. After conducting walkthrough and inquiry, there appears to be a lack of independent reviews for both of processes noted above. Due to numerous frequencies of manual inputs, a lack of independent review could lead to a potential error or unapproved payroll expenditures.

Recommendation

The District should implement procedures to ensure an independent review is conducted over the input of the hourly payroll charges and the input of the vacation hours taken. The review should ensure that only approved and valid payroll expenditures are inputted to the payroll system. By doing so, the District would mitigate the risk that unauthorized payroll expenditures are disbursed. This will also ensure that all time worked for hourly-paid employees and all leave earned and taken for all employees is recorded accurately.

Receipt Testing - Internal Control

Observation

Currently the nutrition services department relies on site personnel to perform daily close outs and investigate variances between there deposit and cash expected by the point of sales system. This was deemed to be an insufficient control to ensure cash is being deposited intact and in a timely manner. Due to the fact that an individual independent from the close out is not investigating variances between the point of sales system and sites deposits.

Recommendation

The child nutrition department should strongly consider developing procedures regarding overseeing overages and shortages between child nutrition's point of sale system and site deposits. Such review will allow the district to identify fraudulent activity or identify if money is lost/misplaced. In addition this will also assist in the nutrition services department ensuring monies are being deposited in a timely manner.

County Transmittals

Observation

During our view of the District's Child Nutrition Services Department's revenue recording procedures, we noted that the revenues deposited in the Cafeteria checking account are not being transmitted to the County Treasurer in a timely manner. We observed an average delay of three months from the time when the revenues were received to when the revenues were transmitted to the County. (This practice has been due to the CNS program needing a reserve to make the debt service payments)

Recommendation

As a general business practice, we recommend the District to transmit its Child Nutrition Department revenues at least once a month. The frequency of transmission should also be adjusted based on the volume of revenues being collected. Cash held in the District clearing account are considered unrecorded until the District transmits the money to the County Treasurer. As a result, timely transmission of revenues will allow the District to more accurately represent its financial position at a given time.

Safe Guarding of CNS Change Funds

Observation

It was noted that school sites operating nutrition services do not properly safeguard their change fund or daily sales. During inquiry with management it was brought to the auditors attention that cash is maintained in a locked drawer, cabinet or portable point of sales stations. In addition it was noted that the school sites nutrition services operations are not closed off, other district personnel have access to the area where the monies are stored.

Recommendation

To ensure safe keeping of money it is recommended that nutrition services provide safes to properly store the change funds and sales revenues. In addition, access to the safe, password, or key should be limited to certain individuals to decrease the risk of monies being stolen.

ASSOCIATED STUDENT BODY (ASB)

Alta Loma Middle School

Revenue Deficiencies

Observation

1) During testing of the student's council's internal controls over cash receipts, it was noted that advisors do not perform a dual count when reconciling daily sales to cash on hand. In addition, it was noted that a dual count does not take place when the accounting tech retrieves the money from the safe to prepare the deposit. It was noted that the accounting tech is only present at the school site one day a week, which makes it difficult to perform a dual count with the advisors.
2) During testing of the student council's internal controls over cash receipts, it was noted that advisor are not consistently providing supporting documentation to ensure that their deposit is intact and accurate. Instead it was noted that advisors will only turn in a deposit slip in which they indicate the quantity of cash being deposited.
3) During testing of cash receipts, we noted that physical education department sells water to students but they do not deposit the cash from these sales until the end of the month.
4) During review of the ASB's financials and inquiry of the attendance technician, it was noted that the ASB does not have a change fund and advisors do not check out cash boxes from her when holding a fundraising event. Therefore, it appears that advisors are using personnel money or revenue from sales to maintain a change fund while the fundraising event is in effect. In addition, due to the lack of checking out lock boxes, it appears that the safekeeping of money does not exist when advisors are holding fundraising events.

Recommendation

1) It is essential that a dual count take place when an advisor is performing a close out and reconciling cash on hand. A dual count and reconciliation between cash on hand and supporting documentation ensures that the advisors deposit is intact and accurate. It is just as important that the accounting technician perform a recount with another individual, to ensure that money ties back to its supporting documentation and that is it included in the bank deposit intact. Each time a dual count takes place, we recommend that both individuals initial and date the cash count form.
2) It is essential that advisors provide copies of supporting documentation with their cash deposits. This will allow the accounting technician to reconcile the deposit to its supporting documentation and ensure that the deposit is intact and accurate.
3) Timeliness of deposits plays a key factor in safekeeping of cash. At a minimum, the physical education department should be making weekly deposits and the frequency of deposits should be increased based on the volume of cash being collected by the physical education department.

4) It is highly discouraged that advisors use personal funds to start up a change fund or hold on to revenues to issue change while operating a fundraiser. If it is deemed necessary that student council should have a change fund, it is recommended that the ASB make the motion and it go through that required approvals. In addition, it is essential that advisors used the cash boxes while operating fundraising events. We observed that all cash boxes have an operating locking mechanism on them and their use will assist in the safe keeping of money.

Disbursement Deficiencies

Observation

1) During testing of controls over cash disbursements, it was noted that advisor are using check request forms which resulted in purchases being made prior to receiving the required approvals. This was evident in 11 out of 15 disbursements tested.
2) During testing it was noted that advisors are circumventing the established internal controls, by purchasing items with personal debit card, credit card and checks and latter seeking to be reimbursed by the student council.
3) During testing of ASB disbursements, it was noted that ASB funds were spent on questionable activities within the scope of ASB activities. Specifically, we noted that ASB funds were used to furnish staff spirit wear and to pay invoices related to the teachers' lounge vending machine.

Recommendation

1) In order to ensure proper internal controls over the ASB disbursements, the site should ensure that all disbursement transactions are pre-approved by authorized administrative personnel and the student council. This would allow the reviewing administrator and/or the student council to determine if the proposed activities/goods are appropriate and to determine if sufficient funding is available to finance the activities or the purchases.
2) In recommended that the District, school administration, and the student's council work in conjunction in reinforcing and making all advisors aware of the importance of following the established internal control procedures. Such practice can result in clubs being in the deficit as well as purchasing of items or services which are unallowable for an ASB.
3) In the future, the ASB should refer to the Fiscal Crisis and Management Assistance Team Associated Student Body Accounting Manual Chapter 14 - "Allowable and Questionable Expenses" for guidance regarding the appropriateness of expenditures. Cash awards are unallowable because it does not directly promote the general welfare, morale, or educational experience of the student body as a whole. In addition, cash payments can be constituted as gift of public funds which all public agencies should try to avoid.

Deficit Balances

Observation

During review of the students council's account analysis it was noted that currently 8th grade club in the deficit for $5,621.

Recommendation

If by year end the 8th grade club was unable to the recover from its deficit, it is recommended that the general ASB absorb the cost to get the club back to zero. In addition, it is recommended that during the approval process for disbursements, if a club is noted to be in a deficit, they not be allowed to expense money until they have sufficient funds.

Fundraising Deficiencies

Observation

It was noted that club advisors are not consistently using a fundraiser request form and in addition do not consistently use revenue potential forms.

Recommendation

It is recommended that the District, school administration, and accounting technician work in conjunction to ensure that advisors fill out and submit a fundraiser request form for approval from the administration, student council, and board of education. In addition, all revenue potentials must be completely filled out before and at the end of each fundraiser. The revenue potentials form is important because it demonstrates the profitability of a fundraising activity. The form is also used to document any variances between projected to actual sales. The form also requires an explanation of any overages/shortages between sales receipted to monies deposited. The site administrator should ensure that these forms are completed and turned into the bookkeeper at the conclusion of the fundraiser.

South San Francisco High School

Revenue Deficiencies

Observation

1) During testing of the student's councils internal controls over cash receipts, it was noted that 36 out of 56 receipts were not deposited in a timely manner. Deposits ranged from 10 to 78 days for initial receipt of money.
2) During testing procedures performed over cash receipts, it was noted that 39 out of 56 cash receipts lacked supporting documentation. This was noted to be a result of advisors only turning in a deposit slip, which dictates the total amount of cash and each check being deposited. Without supporting documentation for the cash, auditor is unable to ensure that the deposit in accurate and intact.
3) During testing over cash receipts, it was noted that the ASB accountant is using a dual copy receipt book. This resulted in auditor being unable to trace deposits back to her receipt book, to ensure that she issued receipts upon the collection of monies and that the receipts were issued in sequential order.
4) Through inquiry and review of cash deposit documentation, it was noted that a dual count is not performed every time money exchanges hands. In addition it was noted that the ASB accountant is only at the school site for three hours a day, therefore teachers will deposit money into the school safe. ASB accountant will retrieve the money from the safe and count it by herself, note there are no cameras set up within the ASB office.

<u>Recommendation</u>

1) Timeliness of deposits plays a key factor in safekeeping of cash. At a minimum, the physical education department should be making weekly deposits and the frequency of deposits should be increased based on the volume of cash being collected by the physical education department.
2) It is essential that advisors provide copies of supporting documentation with their cash deposits. This will allow the accounting technician to reconcile the deposit to its supporting documentation and ensure that the deposit is intact and accurate.
3) It is recommended that the ASB accountant use a triplicate receipt book, which will allow the accountant to issue a copy to the depositor or payee, attach a copy to the deposit, and keep the third copy in the receipt book in case it is needed.
4) It is essential that a dual count take place when an advisor is performing a closeout and reconciling cash on hand. A dual count and reconciliation between cash on hand and supporting documentation ensures that the advisors deposits are intact and accurate. It is just as important that the accounting technician perform a recount with another individual, to ensure that money ties back to the supporting documentation and is included in the bank deposit intact. Each time a dual count takes place we recommend that both individuals initial and date the cash count form.

Disbursement Deficiencies

<u>Observation</u>

1) During testing of the student council internal control over cash disbursements, it was noted that 20 out of 20 disbursements were approved by the administration and student council after the invoice date.
2) During testing of the student councils internal controls over cash disbursements, it was noted that four out of 20 disbursements did not have explicit receiving documentation.
3) During testing, it was noted that advisors are circumventing the established internal control by purchasing items with personal debit cards, credit cards, and checks then seek to be reimbursed by the student council. This was applicable for 8 out of 20 disbursements tested.
4) During testing of student store activity, it was noted that they are not submitting daily sales forms with their cash deposits.

<u>Recommendation</u>

1) All expenditures, prior to the items being purchased, should be approved by the student council to ensure that the proper funding is available. This procedure will not only ensure that deficit spending is not performed, and that items being purchased are student approved items. Additionally, approval of all ASB disbursements must be authorized by designated site personnel and student representative to ensure that ASB funds are being used appropriately.
2) Receiving documentation should be maintained for all disbursements to ensure that the student council is not paying for items which they have not received.
3) It is recommended that the District, school administration, and the student's council work in conjunction in reinforcing and making all advisors aware of the importance of following the established internal control procedures. Such practice can result in clubs being in the deficit as well as purchasing of items or services which are unallowable for an ASB.

4) It is essential that the student store provide copies of supporting documentation with their cash deposits. This will allow the accounting technician to reconcile the deposit to its supporting documentation and ensure that deposits are intact and accurate. In addition, this will assist in the reconciliation between a physical count of inventory and perpetual count to ensure items are not being misplaced, lost, or stolen.

Deficit Balances

Observation

During review of the student's council's account analysis, it was noted that multiple clubs are in the deficit as of the audit. The clubs in the negative are as follows: Class of 2011 (82.09), Class of 2014 (781.63), Class of 2016 (921.51), Class of 2017 (3,755.66), Band (2,810.28), Forensics (206.43), Hospitality (18), Students Helping Honduras (123.75), Badminton (1,082.03), Basketball II (464.73) and Athletics I (533.06).

Recommendation

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

Bank Reconciliation

Observation

During review of the student councils bank reconciliation, it was noted that they currently have nine stale dated checks, some issued during the 2013-2014 school year. It was noted that the checks accounted for $1,537 of the outstanding items.

Recommendation

It is essential that stale dated items be reversed from the book balance, to ensure that the clubs balances are accurately stated. This will allow clubs to use the funds which are committed to these outstanding items, to hold events or fundraise.

Cash Cans

Observation

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

<u>Recommendation</u>

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

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

Vavrinek, Trine, Day & Co., LLP

Rancho Cucamonga, California
December 15, 2016