

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT  
2003 MEASURE A GENERAL OBLIGATION BOND FUND**

**JUNE 30, 2010**

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## 2003 MEASURE A GENERAL OBLIGATION BOND FUND

### TABLE OF CONTENTS

JUNE 30, 2010

---

Independent Auditor's Report	1
FINANCIAL STATEMENTS	
Measure A Bond Fund	
Balance Sheet	2
Statement of Revenues, Expenditures and Changes in Fund Balance	3
Notes to Financial Statements	4



## INDEPENDENT AUDITOR'S REPORT

Board of Education and  
Citizens' Bond Oversight Committee  
San Francisco Unified School District  
San Francisco, California

We have audited the accompanying Balance Sheet of the 2003 Measure A General Obligation Bond Fund (the Fund), of the San Francisco Unified School District, as of June 30, 2010, and the related Statement of Revenues, Expenditures and Changes in Fund Balance for the year then ended. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

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

As discussed in Note 1, the financial statements present the financial activity of the Fund only, and do not purport to, and do not, present the financial position and results of operations of the San Francisco Unified School District as a whole, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Fund, as of June 30, 2010, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated April 11, 2011, on our consideration of the 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

*VAVRINEK, TRINE, DAY & CO., LLP*

Palo Alto, California  
April 11, 2011

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**2003 MEASURE A GENERAL OBLIGATION BOND FUND  
BALANCE SHEET  
JUNE 30, 2010**

---

ASSETS				
Cash and investments				\$ 23,300,630
Accounts receivable - interest				14,305
Due from 2006 Measure A bond fund				81,692
Total Assets				<u>\$ 23,396,627</u>
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts payable				\$ 5,017,252
Due to 2006 Measure A bond fund				442,956
Total Liabilities				<u>5,460,208</u>
FUND BALANCE				
Fund balance				
Undesignated				17,936,419
Total Liabilities and Fund Equity				<u>\$ 23,396,627</u>

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

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**2003 MEASURE A GENERAL OBLIGATION BOND FUND  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES  
IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2010**

REVENUES AND OTHER SOURCES					
Interest					\$ 344,323
Other financing sources					77,154
Total Revenues					<u>421,477</u>
EXPENDITURES					
Current Expenditures					
Classified salaries					279,963
Employee benefits					126,441
Supplies and equipment					286,672
Services and operating expenditures					465,334
Capital Outlay					21,155,093
Total Expenditures					<u>22,313,503</u>
EXCESS OF REVENUE OVER (UNDER) EXPENDITURES					(21,892,026)
FUND BALANCE, BEGINNING OF YEAR					39,828,445
FUND BALANCE, END OF YEAR					<u>\$ 17,936,419</u>

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

# SAN FRANCISCO UNIFIED SCHOOL DISTRICT

## 2003 MEASURE A GENERAL OBLIGATION BOND FUND

### NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

---

#### NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the 2003 Measure A General Obligation Bond fund (the Fund) of the San Francisco Unified School District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants. The Fund accounts for financial transactions in accordance with the policies and procedures of the California School Accounting Manual.

A. Financial Reporting Entity

The financial statements include the financial activity of the 2003 Measure A General Obligation Bond Fund only. The Fund was established to account for the expenditures of general obligation bonds issued under the Measure A Bond Election of 2003. These financial statements are not intended to present the financial position and results of operations of the San Francisco Unified School District as a whole, in conformity with accounting principles generally accepted in the United States of America. The authorized issuance amount of the bonds is \$295,000,000. The first series of bonds in the amount of \$58,000,000 were sold on October 19, 2004. The second series of bonds in the amount of \$130,000,000 were sold on October 12, 2005. The third series of bonds in the amount of \$92,000,000 were sold on October 12, 2006.

B. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

The financial statements of the Fund are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. Using this measurement focus, only current assets and current liabilities are included in the balance sheet. Expenditures are not capitalized or depreciated in individual funds and accordingly have not been capitalized or depreciated in these financial statements. All expenditures are capitalized and depreciated on the District's Entity-wide financial statements. Long-term debt is not included as a liability of the Fund, but is disclosed separately in the notes to financial statements. Under the modified accrual basis of accounting, revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the current fiscal period. Expenditures are recognized in the accounting period in which the liability is incurred.

C. Allocation of Salaries

The salaries and benefits of personnel working on both the 2003 Measure A Bond and 2006 Measure A Bond are allocated based on the ratio of the bond's non-salary expenditures.

D. Use of Estimates

The preparation of 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 reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures and expenses during the reporting period. Actual results could differ from those estimates.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**2003 MEASURE A GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010**

**NOTE 2 – INVESTMENTS**

Investments at June 30, 2010 held on behalf of the 2003 Measure A Bond Fund of the San Francisco Unified School District consist of deposits in the County of San Francisco Treasury:

	Reported Amount	Fair Value
Deposits with county treasurer	\$ 23,300,630	\$ 23,404,564

**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 balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis. The District’s investment in the pool is reported in the financial statements at the District’s pro-rata share of amortized cost which approximates fair value. Amortized cost and Fair Value is provided by the County Treasurer for the entire portfolio.

**Interest Rate Risk** – Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool. The county pool investments have an average maturity of 1.88 years.

**NOTE 3 – GENERAL LONG-TERM DEBT**

Under the modified accrual basis of accounting, liabilities for long-term debt are not reported in the individual funds. However, they are reported as liabilities on the Statement of Net Assets in the Entity Wide financial statements of the San Francisco Unified School District. Long term liabilities associated with the 2003 Measure A Bond Fund are General Obligation Bond outstanding principal and Arbitrage rebate liabilities.

General Obligation Bonds

General obligation bonds have been issued and are outstanding as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Outstanding June 30, 2009	Issued	Redeemed	Outstanding June 30, 2010
11/20/03	6/15/24	3.9%	\$ 58,000,000	\$ 47,300,000	\$ -	\$ 2,360,000	\$ 44,940,000
10/12/05	6/10/25	3-5%	130,000,000	112,765,000	-	4,885,000	107,880,000
10/12/06	6/15/26	4-5%	92,000,000	83,155,000	-	3,410,000	79,745,000
			<u>\$ 280,000,000</u>	<u>\$ 243,220,000</u>	<u>\$ -</u>	<u>\$ 10,655,000</u>	<u>\$ 232,565,000</u>

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**2003 MEASURE A GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010**

**Debt Service Requirements**

The general obligation bonds mature through 2026 as follows:

Fiscal Year	Principal	Interest to	
		Maturity	Total
2011	\$ 11,100,000	\$ 10,689,150	\$ 21,789,150
2012	11,565,000	10,220,400	21,785,400
2013	12,060,000	9,727,750	21,787,750
2014	12,585,000	9,210,000	21,795,000
2015	13,125,000	8,662,200	21,787,200
2016-2020	75,175,000	33,772,080	108,947,080
2021-2025	90,105,000	14,499,252	104,604,252
2026	6,850,000	308,250	7,158,250
	<u>\$ 232,565,000</u>	<u>\$ 97,089,082</u>	<u>\$ 329,654,082</u>

Repayment of the Bonds will be funded by a separate property tax override levied on property residing within the District boundaries. Property tax revenues will be collected and disbursed out of a separate Bond Interest and Redemption Fund under the control of the San Francisco County Controller’s Office. This fund is not included as part of these financial statements. General school district revenues will not be required to fund the debt service on the bond.

Arbitrage Rebate Liability

Arbitrage rebate liability represents the excess interest income earned by the District from the proceeds of its general obligation bond issues over those currently allowed by IRS regulations. At June 30, 2010 the amount recorded as a long term liability in the District’s entity-wide financial statements was \$1,783,207 based on calculations as of October 2009. Additional calculations will be required in subsequent years to update the actual amount of the liability due for each series issued. See Note 6 for final calculations and payments of the liability.

**NOTE 4 – RECONCILIATION TO DISTRICT INTERNAL REPORT OF EXPENDITURES**

Salaries and Benefits

An adjustment of \$63,015 was made to salaries and benefits to adjust charges to equal the percentage ratio of the 2003 and 2006 Bond Fund’s non-salary expenditures in accordance with District policy.

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT**

**2003 MEASURE A GENERAL OBLIGATION BOND FUND**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2010**

**NOTE 5 – CONTINGENCIES AND COMMITMENTS**

**Litigation** The District had no pending litigation related to the 2003 Measure A Bond Fund at June 30, 2010.

**Arbitrage Rebate** As indicated in Note 3, the District is subject to repayment of interest earned in excess of the amount allowed by IRS regulations.

**Construction Commitments** As of June 30, 2010, the 2003 Measure A Bond had the following commitments with respect to the unfinished capital projects:

	Remaining	Expected
	Construction	Date of
CAPITAL PROJECT SITE	Commitment	Completion
Abraham Lincoln High School	\$ 2,805,077	9/9/2010
Balboa High School	1,208,298	9/2/2010
George Washington High School	843,780	11/15/2010
Clarendon Elementary School	411,100	2/21/2011
A.P. Giannini Middle School	260,215	9/3/2010
Bryant Elementary School	207,700	11/1/2010
Malcolm X Elementary School - Greening	60,610	9/6/2010
Dr. Charles Drew Elementary School	43,345	10/14/2010
Rosa Parks Elementary School - Greening	38,450	8/23/2010
<b>TOTAL</b>	<b>\$ 5,878,575</b>	

**NOTE 6 – SUBSEQUENT EVENTS**

Final calculations determined the arbitrage rebate liability of \$1,784,895 at October 2010. Required forms were filed with the IRS and the payment was disbursed in December 2010 and recognized as an expense in the 2003 Measure A Bond Fund for fiscal year 2010-11.



**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***

Board of Education and  
Citizens' Bond Oversight Committee  
San Francisco Unified School District  
San Francisco, California

We have audited the financial statements of the 2003 Measure A General Obligation Bond Fund (the Fund), of the San Francisco Unified School District as of and for the year ended June 30, 2010 and have issued our report thereon dated April 11, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control Over Financial Reporting**

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

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect 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 entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

**Compliance and Other Matters**

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

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

*VAVRNEK, TRINE, DAY & CO., LLP.*  
Palo Alto, California  
April 11, 2011