

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

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

JUNE 30, 2012

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

2003 MEASURE A GENERAL OBLIGATION BOND FUND

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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 (the District), as of June 30, 2012, and the related Statement of Revenues, Expenditures and Changes in Fund Balance for the year 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 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, 2012, 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 December 26, 2012, on our consideration of the Fund'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
December 26, 2012

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

2003 MEASURE A GENERAL OBLIGATION BOND FUND

BALANCE SHEET

JUNE 30, 2012

ASSETS

Cash and investments	\$ 2,158,520
Accounts receivable - interest	1,224
Total assets	<u>\$ 2,159,744</u>

LIABILITIES AND FUND EQUITY

LIABILITIES

Accounts payable	\$ 964,929
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FUND BALANCE

Fund balance	
Undesignated	1,194,815
Total Liabilities and Fund Equity	<u>\$ 2,159,744</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 CHANGE
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2012**

REVENUES AND OTHER SOURCES

Interest \$ 32,092

EXPENDITURES

Current expenditures

Classified salaries 64,504

Employee benefits 14,309

Supplies and equipment 7,841

Services and operating expenditures 626,967

Capital outlay 2,825,732

Total Expenditures 3,539,353

(EXCESS) OF EXPENDITURES OVER REVENUES (3,507,261)

FUND BALANCE, BEGINNING OF YEAR 4,702,076

FUND BALANCE, END OF YEAR \$ 1,194,815

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, 2012

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 (the 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 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. In the current fiscal year, the District defeased the remaining balance of the 2004 and 2005 issuances by issuing \$116,140,000 in General Obligation Refunding Bonds on March 6, 2012.

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 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, 2012**

NOTE 2 – INVESTMENTS

Investments at June 30, 2012 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	<u>\$2,158,520</u>	<u>\$2,176,662</u>

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 the 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 Fund’s investment in the pool is reported in the financial statements at the Fund’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 2.65 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 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, 2011	Issued	Redeemed	Defeased	Outstanding June 30, 2012
10/19/04	6/15/24	3.9%	\$ 58,000,000	\$ 42,465,000	\$ -	\$ 2,600,000	\$ 39,865,000	\$ -
10/12/05	6/10/25	3-5%	130,000,000	102,800,000	-	5,280,000	97,520,000	-
10/12/06	6/15/26	4-5%	92,000,000	76,200,000	-	3,685,000	-	72,515,000
3/6/12	6/15/25	.3-5%	116,140,000	-	116,140,000	2,095,000	-	114,045,000
			<u>\$280,000,000</u>	<u>\$ 221,465,000</u>	<u>\$ 116,140,000</u>	<u>\$ 13,660,000</u>	<u>\$ 137,385,000</u>	<u>\$ 186,560,000</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

2003 MEASURE A GENERAL OBLIGATION BOND FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2012

Debt Service Requirements

The general obligation bonds mature through 2026 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2013	\$ 10,870,000	\$ 7,998,529	\$ 18,868,529
2014	11,385,000	7,493,379	18,878,379
2015	11,560,000	7,311,595	18,871,595
2016	12,130,000	6,733,595	18,863,595
2017	12,740,000	6,127,095	18,867,095
2018-22	72,980,000	21,360,287	94,340,287
2023-26	54,895,000	5,326,953	60,221,953
	<u>\$ 186,560,000</u>	<u>\$ 62,351,433</u>	<u>\$ 248,911,433</u>

Repayment of the Bonds is 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.

NOTE 4 – CONTINGENCIES AND COMMITMENTS

Litigation The District is involved in litigation on various matters arising in the normal course of business. In the opinion of management and legal counsel, the disposition of all pending litigation is not expected to have a material adverse effect on the overall financial position of the Fund at June 30, 2012.

Construction Commitments As of June 30, 2012, the 2003 Measure A Bond had commitments with respect to an unfinished capital project at Abraham Lincoln High School. The remaining amount is \$403,250 and the project is expected to complete in September 2012.



**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 (the District) as of and for the year ended June 30, 2012 and have issued our report thereon dated December 26, 2012. 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 the Fund'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 Fund's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund'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 the Fund'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 Citizen's Bond Oversight Committee, the California Department of Education, and the State Controller's Office, and is not intended to be and should not be used by anyone other than these specified parties.

Varrinek Trime Day + Co. LLP

Palo Alto, California
December 26, 2012