

**SAN FRANCISCO UNIFIED SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
2006 MEASURE A GENERAL OBLIGATION BOND FUND
JUNE 30, 2009**

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**2006 MEASURE A GENERAL OBLIGATION BOND FUND
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JUNE 30, 2009**

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees and
Citizen's Bond Oversight Committee
San Francisco Unified School District

We have audited the accompanying balance sheet of the 2006 Measure A General Obligation Bond Fund (the Fund), of the San Francisco Unified School District, as of June 30, 2009, 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. 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, 2009, and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

VAVRINEK, TRINE, DAY & CO., LLP

Palo Alto, California
March 23, 2010

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**2006 MEASURE A GENERAL OBLIGATION BOND FUND
BALANCE SHEET
JUNE 30, 2009**

ASSETS

Cash and investments	\$ 176,847,240
Accounts receivable - interest	714,558
Accounts receivable - Other	3,552
Due from 2003 Measure A bond fund	379,941
Total Assets	<u>\$ 177,945,291</u>

LIABILITIES AND FUND EQUITY

LIABILITIES

Accounts payable	\$ 18,687,764
Due to 2003 Measure A bond funds	81,692
Total Liabilities	<u>18,769,456</u>

FUND BALANCE

Fund balance	
Undesignated	159,175,835
Total Liabilities and Fund Equity	<u>\$ 177,945,291</u>

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**2006 MEASURE A GENERAL OBLIGATION BOND FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2009**

REVENUES AND OTHER SOURCES

Proceeds from issuance of bonds	\$ 150,000,000
Interest	2,559,228
Total Revenues	<u>\$ 152,559,228</u>

EXPENDITURES

Current Expenditures	
Classified salaries	\$ 928,303
Employee benefits	372,400
Supplies and equipment	207,764
Services and operating expenditures	4,459,448
Capital Outlay	68,964,698
Total Expenditures	<u>74,932,613</u>

EXCESS OF REVENUE OVER EXPENDITURES

77,626,615

FUND BALANCE, BEGINNING OF YEAR

81,549,220

FUND BALANCE, END OF YEAR

\$ 159,175,835

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

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

2006 MEASURE A GENERAL OBLIGATION BOND FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the 2006 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 2006 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 2006. 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 \$450,000,000. The first series of bonds in the amount of \$100,000,000 were sold on February 28, 2007. The second series of bonds in the amount of \$150,000,000 were sold on January 22, 2009.

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 2006 Measure A Bond and 2003 Measure A Bond are allocated based on the ratio of the bonds' 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/expenses during the reporting period. Actual results could differ from those estimates.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**2006 MEASURE A GENERAL OBLIGATION BOND FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

NOTE 2 – INVESTMENTS

Investments at June 30, 2009 held on behalf of the 2006 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>\$ 176,847,240</u>	<u>\$ 176,426,894</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 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 amortized cost which approximates 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.

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 576 days.

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.

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, 2008	Issued	Redeemed	Outstanding June 30, 2009
2/28/07	6/15/27	3-5%	\$ 100,000,000	\$ 97,800,000	\$ -	\$ 3,355,000	\$ 94,445,000
1/22/09	6/15/27	1.5% -5.25%	150,000,000	-	150,000,000	8,000,000	142,000,000
			<u>\$ 250,000,000</u>	<u>\$ 97,800,000</u>	<u>\$ 150,000,000</u>	<u>\$ 11,355,000</u>	<u>\$ 236,445,000</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

2006 MEASURE A GENERAL OBLIGATION BOND FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

The bonds issued on January 22, 2009 were sold at a premium of \$11,348,063. The premium was deposited into the District's Debt Service fund for payment to bond holders when due. Costs of issuance and underwriter discounts of \$960,639 were paid from the 2006 Measure A Bond fund from the proceeds of the sale. The expenditure is included in the Services and Operating expenditures in these financial statements.

Debt Service Requirements

The general obligation bonds mature through 2027 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2010	\$ 10,520,000	\$ 10,390,188	\$ 20,910,188
2011	10,880,000	10,039,388	20,919,388
2012	11,340,000	9,694,662	21,034,662
2013	11,840,000	9,316,562	21,156,562
2014	12,360,000	8,842,962	21,202,962
2015-2019	71,225,000	34,994,160	106,219,160
2020-2024	87,110,000	16,073,936	103,183,936
2025-2027	21,170,000	1,282,650	22,452,650
	<u>\$ 236,445,000</u>	<u>\$ 100,634,508</u>	<u>\$ 337,079,508</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.

NOTE 4 – RECONCILIATION TO DISTRICT INTERNAL REPORT OF EXPENDITURES

Election Expense

An adjustment to increase operating expenditures by \$81,692 was necessary to account for the cost of the 2006 election. The expense, paid in 2007, had previously been charged to the 2003 Bond.

Salaries and Benefits

An adjustment of \$379,941 was made to decrease salaries and benefits to adjust charges to equal the percentage ratio of the 2006 and 2003 Bond Funds' non-salary expenditures in accordance with District policy.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

2006 MEASURE A GENERAL OBLIGATION BOND FUND NOTES TO FINANCIAL STATEMENTS JUNE 30, 2009

NOTE 5 – CONTINGENCIES AND COMMITMENTS

Litigation

The District is involved in 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 2006 Bond Fund at June 30, 2009.

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. There was no arbitrage rebate liability at June 30, 2009. Additional calculations will be required in subsequent years to determine any future liability that may be incurred from investment earnings.

Construction Commitments

As of June 30, 2009, the 2006 Measure A Bond had the following commitments with respect to the unfinished capital projects:

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**2006 MEASURE A GENERAL OBLIGATION BOND FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009**

	Remaining Construction Commitment	Expected Date of Completion
CAPITAL PROJECT SITE		
Alice Fong Yu Elementary School	\$ 2,376,364	12/22/2009
Aptos Middle School	10,463,099	12/1/2010
Burnett Child Development Center	3,006,200	6/17/2010
Cabrillo Elementary School	1,283,258	12/22/2009
Cleveland Elementary School	1,645,071	8/12/2009
Commodore Stockton Child Development Center	2,479,789	1/16/2010
District Administrative Office	1,023	1/20/2009
Dr. George Washington Carver Elementary School	1,644,143	9/16/2009
Fairmount Elementary School	721,384	10/14/2009
Jefferson Elementary School	659,777	9/17/2009
John McLaren Child Development Center	4,482,355	4/25/2010
Lakeshore Elementary School	4,577,982	3/13/2010
Lawton Elementary School	1,847,721	11/29/2009
Luther Burbank Middle School	4,355,337	7/7/2010
Mission Child Development Center	686,489	9/20/2009
New Traditions Elementary School	1,725,076	10/7/2009
Rooftop Elementary School (Burnett Campus)	1,249,800	9/18/2009
San Miguel Child Development Center	2,515,299	12/2/2009
Sanchez Elementary School	3,737,754	8/27/2010
School Health programs Admin Office	382,290	10/13/2009
Spring Valley Elementary School	4,680,000	5/11/2010
Sunset Elementary School	1,136,743	11/20/2009
Sutro Elementary School/Child Development Center	1,801,052	9/12/2009
Ulloa Elementary School	1,287	8/20/2009
Modernization at various sites	<u>\$ 57,459,293</u>	