

SAN FRANCISCO UNIFIED SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
2006 MEASURE A GENERAL OBLIGATION BOND FUND
JUNE 30, 2010

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

2006 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

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, 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. 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

**2006 MEASURE A GENERAL OBLIGATION BOND FUND
BALANCE SHEET
JUNE 30, 2010**

ASSETS				
Cash and investments				\$ 247,322,903
Due from 2003 Measure A bond fund				442,956
Accounts receivable - interest				102,002
Accounts receivable - other				15,268
Total Assets				<u>\$ 247,883,129</u>
LIABILITIES AND FUND EQUITY				
LIABILITIES				
Accounts payable				\$ 16,136,019
Due to 2003 Measure A bond funds				81,692
Total Liabilities				<u>16,217,711</u>
FUND BALANCE				
Fund balance				
Undesignated				231,665,418
Total Liabilities and Fund Equity				<u>\$ 247,883,129</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, 2010**

REVENUES AND OTHER SOURCES				
Proceeds from issuance of bonds				\$ 185,000,000
OPSC Reimbursement				6,644,829
Interest				1,733,589
Total Revenues				<u>\$ 193,378,418</u>
EXPENDITURES				
Current Expenditures				
Classified salaries				\$ 1,516,770
Employee benefits				685,025
Supplies and equipment				508,260
Services and operating expenditures				3,895,923
Bond issuance costs				385,032
Capital Outlay				113,897,825
Total Expenditures				<u>120,888,835</u>
EXCESS OF REVENUE OVER EXPENDITURES				72,489,583
FUND BALANCE, BEGINNING OF YEAR				<u>159,175,835</u>
FUND BALANCE, END OF YEAR				<u>\$ 231,665,418</u>

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, 2010

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. The third, fourth, and fifth series of bonds totaled \$185,000,000 and were sold on May 19, 2010.

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 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

2006 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 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	\$ 247,322,903	\$ 248,426,100

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.

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
2/28/07	6/15/27	3-5%	\$ 100,000,000	\$ 94,445,000	\$ -	\$ 3,520,000	\$ 90,925,000
1/22/09	6/15/27	1.5%-5.25%	150,000,000	142,000,000	-	7,000,000	135,000,000
5/19/10	5/15/27	5.74%	12,955,000	-	12,955,000	-	12,955,000
5/19/10	6/15/30	5.74%	72,370,000	-	72,370,000	-	72,370,000
5/19/10	6/15/23	.5%-5%	99,675,000	-	99,675,000	-	99,675,000
			\$ 435,000,000	\$ 236,445,000	\$ 185,000,000	\$ 10,520,000	\$ 410,925,000

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

2006 MEASURE A GENERAL OBLIGATION BOND FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

The bonds issued in 2010 were sold at a premium of \$11,887,238. Underwriters discount of \$858,515 were offset against the premium and the net amount of \$11,028,723, was deposited into the District's Debt Service Fund. Issuance costs of \$385,032 are reflected as an expenditure in the accompanying financial statements.

Debt Service Requirements

The general obligation bonds mature through 2030 as follows:

Fiscal Year	Interest to		Total
	Principal	Maturity	
2011	\$ 14,600,000	\$ 19,996,117	\$ 34,596,117
2012	17,800,000	18,950,061	36,750,061
2013	18,245,000	18,517,051	36,762,051
2014	19,055,000	17,753,201	36,808,201
2015	19,945,000	16,911,701	36,856,701
2016-2020	114,340,000	69,386,604	183,726,604
2021-2025	129,335,000	38,644,913	167,979,913
2026-2030	77,605,000	11,626,370	89,231,370
	<u>\$ 410,925,000</u>	<u>\$ 211,786,018</u>	<u>\$ 622,711,018</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

Salaries and Benefits

An adjustment of \$63,015 was made to decrease 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.

NOTE 5 – CONTINGENCIES AND COMMITMENTS

Litigation

The District had no pending litigation related to the 2006 Measure A Bond Fund at June 30, 2010.

Arbitrage Rebate

The District is subject to paying an arbitrage rebate representing any excess interest income earned by the District from the investment proceeds of its general obligation bond issues over those currently allowed by IRS regulations. The calculations are made five years after each series issued. Additional calculations will be required in subsequent years to determine any liability due for each series issued.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**2006 MEASURE A GENERAL OBLIGATION BOND FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010**

Construction Commitments

As of June 30, 2010, the 2006 Measure A Bond had the following commitments with respect to the unfinished capital projects:

	Remaining Construction Commitment	Expected Date of Completion
CAPITAL PROJECT SITE		
Herbert Hoover Middle School	\$ 10,338,200	1/30/2012
Raoul Wallenberg High School	7,083,039	8/28/2011
Downtown High School/International Studies Adademy	5,227,792	8/31/2011
Grattan Elementary School	2,934,068	8/28/2011
Buena Vista Elementary School	2,331,525	7/17/2011
Aptos Middle School	2,156,254	12/1/2010
Lakeshore Elementary School	1,679,520	9/6/2010
John Muir Elementary School	1,067,662	8/2/2010
Cleveland Elementary School	973,709	11/14/2010
Alamo Elementary School	786,512	12/7/2010
Sanchez Elementary School	475,137	9/1/2010
Dr. Martin Luther King Middle School	373,312	7/16/2010
Spring Valley Elementary School	345,086	5/11/2010
Luther Burbank Middle School	302,603	8/29/2010
Alice Fong Yu Elementary School	265,220	9/8/2010
Lakeshore Elementary School	258,791	3/13/2010
Fairmount Elementary School	194,413	8/28/2010
New Traditions Elementary School	186,000	8/17/2010
Glen Park Elementary School	122,750	8/2/2010
School Health Program Administrative Building	98,142	7/31/2010
Ulloa Elementary School - Greening	74,880	8/23/2010
Sanchez Elementary School	46,101	8/31/2010
Rooftop Elementary School - Greening	45,414	8/23/2010
Junipero Serra Annex Child Development Center	39,684	7/30/2010
New Traditions Elementary School - Greening	38,450	8/23/2010
John McLaren Child Development Center	37,769	1/25/2010
Luther Burbank Middle School	5,508	7/7/2010
TOTAL	\$ 37,487,541	



**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 2006 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