

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

ANNUAL FINANCIAL REPORT

2006 MEASURE A GENERAL OBLIGATION BOND FUND

FOR THE YEAR ENDED

JUNE 30, 2014

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

Report on the Financial Statements

We have audited the accompanying financial statements of the San Francisco Unified School District's (the District), 2006 Measure A General Obligation Bond Fund (the Fund), as of and for the year ended June 30, 2014, 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 statement 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 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 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 financial statements, whether due to error or fraud. In making those risk assessments, the auditor considers internal control relevant to the entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall financial statement presentation

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

Opinion

In our opinion, the financial statements referred to previously present fairly, in all material respects, the financial position of the 2006 Measure A Bond Fund of the San Francisco Unified School District at June 30, 2014, and the results of its operations for the period then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter

As discussed in Note 1, the financial statements present only the Fund specific to the 2006 Measure A Bond Fund, and are not intended to present fairly the financial position and results of operations of San Francisco Unified School District in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 13, 2015, 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 with the results of our audit.

Varrinck Trime Day + Co. LLP

Palo Alto, California
March 13, 2015

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**2006 MEASURE A GENERAL OBLIGATION BOND FUND
BALANCE SHEET
JUNE 30, 2014**

ASSETS

Cash and investments	\$ 28,446,508
Interest receivable	38,439
Accounts receivable	<u>300</u>
Total assets	<u><u>\$ 28,485,247</u></u>

LIABILITIES AND FUND EQUITY

LIABILITIES

Accounts payable	\$ 1,756,312
Total liabilities	<u>1,756,312</u>

FUND BALANCE

Fund balance	
Undesignated	<u>26,728,935</u>
Total liabilities and fund equity	<u><u>\$ 28,485,247</u></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, 2014**

REVENUES AND OTHER SOURCES

OPSC reimbursement	\$ 1,286,576
Interest income	228,648
Total revenues	<u>1,515,224</u>

EXPENDITURES

Current expenditures	
Classified salaries	335,770
Employee benefits	140,731
Supplies and equipment	149,661
Services and operating expenditures	378,716
Capital outlay	<u>11,422,303</u>
Total expenditures	<u>12,427,181</u>

(EXCESS) OF EXPENDITURES OVER REVENUE

(10,911,957)

OVER EXPENDITURES

FUND BALANCE, BEGINNING OF YEAR

37,640,892

FUND BALANCE, END OF YEAR

\$ 26,728,935

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, 2014

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 (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 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 District as a whole, in accordance with accounting principles generally accepted in the United States of America.

The authorized issuance amount of the bonds for modernization of existing school facilities is \$435,000,000. 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 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. Use of Estimates

The preparation of financial statements in accordance 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, 2014

NOTE 2 – INVESTMENTS

Investments at June 30, 2014 held on behalf of the 2006 Measure A Bond Fund consist of deposits in the County of San Francisco Treasury:

	Reported Amount	Fair Value
Deposits with county treasurer	<u>\$ 28,446,508</u>	<u>\$ 28,465,837</u>

Investment in County Treasury – The Fund is considered to be an involuntary participant in an external investment pool as the Fund 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 1.95 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 Position in the entity wide financial statements of the District. Long-term liabilities associated with the 2006 Measure A Bond Fund consist of the general obligation bonds outstanding as noted below:

Issue Date	Maturity Date	Interest Rate	Original Issue	Outstanding June 30, 2013	Redeemed	Outstanding June 30, 2014
2/28/07	6/15/27	3-5%	\$ 100,000,000	\$ 79,525,000	\$ 4,100,000	\$ 75,425,000
1/22/09	6/15/27	1.5% -5.25%	150,000,000	112,340,000	8,260,000	104,080,000
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	83,090,000	6,695,000	76,395,000
			<u>\$ 435,000,000</u>	<u>\$ 360,280,000</u>	<u>\$ 19,055,000</u>	<u>\$ 341,225,000</u>

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

2006 MEASURE A GENERAL OBLIGATION BOND FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Debt Service Requirements

The general obligation bonds mature through 2033 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2015	\$ 19,945,000	\$ 16,911,700	\$ 36,856,700
2016	20,880,000	15,980,850	36,860,850
2017	21,880,000	14,960,850	36,840,850
2018	22,925,000	13,922,500	36,847,500
2019	24,000,000	12,847,950	36,847,950
2020-2024	135,815,000	45,405,376	181,220,376
2025-2029	82,580,000	15,845,242	98,425,242
2030-2033	13,200,000	757,019	13,957,019
	<u>\$ 341,225,000</u>	<u>\$ 136,631,487</u>	<u>\$ 477,856,487</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 bonds.

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, 2014.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

2006 MEASURE A GENERAL OBLIGATION BOND FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

Construction Commitments

As of June 30, 2014, the 2006 Measure A Bond had the following commitments with respect to the unfinished capital projects:

Capital Project Site	Remaining Construction Commitment	Expected Date of Completion
300 Seneca - New Academic Campus	4,726,835	March-15
3531-22nd Street (Edison Charter)	50,876	November-11
Commodore Stockton Childhood Development Center	406,145	January-16
Door Lockset Replacement Project	13,125	May-14
Total construction commitments	<u>\$ 5,196,981</u>	



**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, 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 accompanying financial statements of the San Francisco Unified School District (the District) 2006 Measure A General Obligation Bond Fund (the Fund), as of and for the year ended June 30, 2014, and have issued our report thereon dated March 13, 2015.

Internal Control Over Financial Reporting

Management of the San Francisco Unified School District is responsible for establishing and maintaining effective 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 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 2006 Measure A General Obligation Bond 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*.

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 results 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.

This report is intended solely for the information and use of the governing board, management, the Citizens 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. This restriction is not intended to limit distribution of the report, which is a matter of public record.

Varrinek Time Day + Co. LLP

Palo Alto, California
March 13, 2015