

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**ANNUAL FINANCIAL REPORT
2006 MEASURE A
GENERAL OBLIGATION BOND FUND**

**FOR THE YEAR ENDED
JUNE 30, 2016**

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
San Francisco, California

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, 2016, 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, 2016, 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 January 26, 2017 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.

Varrinek Trine Day + Co. LLP

Palo Alto, California
January 26, 2017

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

2006 MEASURE A GENERAL OBLIGATION BOND FUND

BALANCE SHEET

JUNE 30, 2016

ASSETS

Cash and investments	\$ 18,813,323
Interest receivable	<u>24,112</u>
Total assets	<u>\$ 18,837,435</u>

LIABILITIES AND FUND EQUITY

LIABILITIES

Accounts payable	\$ 1,919,221
Total liabilities	<u>1,919,221</u>

FUND BALANCE

Unassigned	<u>16,918,214</u>
Total liabilities and fund equity	<u>\$ 18,837,435</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, 2016**

REVENUES AND OTHER SOURCES	
Proceeds from issuance of bonds	\$ 15,000,000
Interest income	125,237
Total revenues	<u>15,125,237</u>
EXPENDITURES	
Current expenditures	
Classified salaries	363,127
Employee benefits	153,092
Supplies and equipment	385
Services and operating expenditures	581,878
Capital outlay	13,391,628
Total expenditures	<u>14,490,110</u>
EXCESS OF REVENUES OVER EXPENDITURES	<u>635,127</u>
FUND BALANCE, BEGINNING OF YEAR	16,283,087
FUND BALANCE, END OF YEAR	<u><u>\$ 16,918,214</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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

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 \$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. The sixth series of bonds in the amount of \$15,000,000 were sold on October 8, 2015.

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, 2016**

NOTE 2 – INVESTMENTS

Investments at June 30, 2016 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>\$ 18,813,323</u>	<u>\$ 18,815,987</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 1.02 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, 2015	Issued	Redeemed / Defeased	Outstanding June 30, 2016
2/28/07	6/15/27	3-5%	\$ 100,000,000	\$ 71,120,000	\$ -	\$ 38,530,000	\$ 32,590,000
1/22/09	6/15/27	1.5% -5.25%	150,000,000	95,440,000	-	9,035,000	86,405,000
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	69,395,000	-	7,325,000	62,070,000
10/8/15	6/15/35	3.0%-5.0%	15,000,000	-	15,000,000	350,000	14,650,000
10/8/15	6/15/26	2.0%-5.0%	*63,655,000	-	63,655,000	2,275,000	61,380,000
			<u>\$ 513,655,000</u>	<u>\$ 321,280,000</u>	<u>\$ 78,655,000</u>	<u>\$ 57,515,000</u>	<u>\$ 342,420,000</u>

* The \$63,655,000 of 2015 general obligation refunding bonds was used to partially refund the election of 2003 series C (2006) and partly refund the election of 2006 series A (2007).

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

**2006 MEASURE A GENERAL OBLIGATION BOND FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Debt Service Requirements

The general obligation bonds mature through 2035 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2017	\$ 24,545,000	\$ 18,480,412	\$ 43,025,412
2018	25,720,000	14,834,612	40,554,612
2019	26,940,000	13,620,312	40,560,312
2020	27,740,000	12,299,812	40,039,812
2021	29,110,000	10,893,262	40,003,262
2022-2026	141,150,000	34,461,262	175,611,262
2027-2031	63,130,000	8,879,095	72,009,095
2032-2035	4,085,000	387,362	4,472,362
	<u>\$ 342,420,000</u>	<u>\$ 113,856,129</u>	<u>\$ 456,276,129</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.

Debt Refunding

During October 2015, the District issued \$63.7 million in general obligation bonds with an interest rate range of 2.0 percent to 5.0 percent to advance refund \$56.2 million of outstanding (Measure A Election of 2003), Series C 2006, with interest rates 4.0 percent to 5.0 percent, and \$34.0 million of outstanding and (Measure A Election of 2006), Series A 2007 bonds with interest rates between 3.0 percent and 5.0 percent. The net proceeds of \$95.6 million (including premiums and other sources of \$32.2 million and costs of issuance and other fees of \$0.3 million) were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the refunded bonds. As a result, (Measure A Election of 2003), Series C 2006 and (Measure A Election of 2006), Series A 2007 bonds are considered to be defeased and are no longer considered debt of their respective funds.

The advance refunding resulted in a difference between the reacquisition price and the net carrying amount of the old debt of \$3.5 million. The District completed the advance refunding to reduce its total debt service payments over the next 11 years by \$36.5 million and to obtain an economic gain (difference between the present values of the old and new debt service payments) of \$27.7 million.

SAN FRANCISCO UNIFIED SCHOOL DISTRICT

2006 MEASURE A GENERAL OBLIGATION BOND FUND

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016

NOTE 4 – CONTINGENCIES AND COMMITMENTS

Litigation The District is not currently involved in any litigation arising from 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, 2016.

Construction Commitments

As of June 30, 2016, 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
Sutro Elementary School	\$ 447,614	August-16
Cleveland Elementary School	83,100	August-16
Lakeshore Elementary School	267,313	October-16
Leadership High School	2,425,535	November-16
Total outstanding construction commitments	<u>\$ 3,223,562</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 financial statements of the San Francisco Unified School District 2006 Measure A General Obligation Bond Fund (the Fund), as of and for the year ended June 30, 2016, and the related notes to the financial statements, which collectively comprise Fund's basic financial statements, and have issued our report thereon dated January 26, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Fund's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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 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. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

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 material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fund's financial statements are free from 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 over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity'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 entity'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, Citizens' Bond Oversight Committee, the California Department of Education, and the State Controller's Office, and it 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 Trime Day + Co. LLP

Palo Alto, California
January 26, 2017