

**SAN DIEGO
UNIFIED SCHOOL DISTRICT**

AUDIT REPORT

**For the Fiscal Year Ended
June 30, 2010**

christy **WHITE** *A Professional Accountancy Corporation*

**SAN DIEGO UNIFIED SCHOOL DISTRICT
 AUDIT REPORT
 For the Fiscal Year Ended June 30, 2010
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Board of Trustees
San Diego Unified School District
San Diego, California

INDEPENDENT AUDITOR'S REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Diego Unified School District, as of and for the fiscal year ended June 30, 2010, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the San Diego Unified School District's management. Our responsibility is to express opinions 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the San Diego Unified School District, as of June 30, 2010, and the respective changes in financial position and cash flows, where applicable, thereof 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 November 14, 2010 on our consideration of the San Diego Unified School District's internal control over financial reporting and 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 assessing the results of our audit.

The management's discussion and analysis on pages 3 through 14, the budgetary comparison schedule on page 64, and the schedule of funding progress on page 65 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise San Diego Unified School District's basic financial statements. The combining and individual non-major fund financial statements, the schedule of financial trends and analysis, and the schedule of expenditures of federal awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Christ White Accountancy Corporation

San Diego, California

November 14, 2010

Management's Discussion and Analysis

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2010

This discussion and analysis of San Diego Unified School District's financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2010. The intent of the analysis is to look at the District's financial performance as a whole; readers should also review the notes to the basic financial statements and the basic government-wide financial statements to enhance their understanding of the District's financial performance.

OVERVIEW OF THE FINANCIAL STATEMENTS

THE FINANCIAL STATEMENTS

- The comprehensive annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the San Diego Unified School District as a whole, and then proceed to provide an increasingly detailed look at specific financial activities.
- The Statement of Net Assets and the Statement of Activities provide information about the activities of the whole school district, presenting both an aggregate view of the District's finances and a longer-term view of those finances. Fund Financial Statements provide the next level of detail. For governmental funds, these statements tell how services were financed in the short-term as well as what remains for future spending. The Fund Financial Statements also look at the District's major funds with all other non-major funds presented in total in one column.
- The major funds for the San Diego Unified School District are the General Fund, the Child Development Fund, the Building (Bond) Fund, the County School Facilities Fund and the Bond Interest and Redemption Fund.
- The Management's Discussion and Analysis is provided to assist our citizens, taxpayers and investors in reviewing the District's finances and to show the District's accountability for the money it receives.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

- Government-wide revenues decreased by 8% to a total of \$1.3 billion. Total expenses exceeded revenues by \$68.4 million.
- General revenues accounted for \$887.6 million or 69% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$404.2 million or 31% of total revenues of \$1.3 billion.
- Long-term outstanding debt has decreased by \$33.0 million or 2%.
- Capital assets increased by 7% to \$2,761.6 million.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2010

FINANCIAL HIGHLIGHTS OF THE PAST YEAR (continued)

- ADA in the District decreased by 620.
- The General Fund reported a positive fund balance of \$97.0 million; this is a decrease of \$63.6 million before other financing sources and uses. The decrease is primarily due to the expenditure of American Recovery and Reinvestment Act funding in 2009-10 and other General Fund expenditures in excess of revenues.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities and Change in Net Assets

The *Statement of Net Assets* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include *all* assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the District's net assets and changes in them. Net assets are the difference between assets and liabilities, one way to measure the District's financial health or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the Board's responsibility is to provide services to our students and not to generate profit as commercial entities do, one must consider other factors when evaluating the *overall health* of the District. The quality of the education and the safety of our schools will likely be an important component of this evaluation.

In the *Statement of Net Assets* and the *Statement of Activities*, we combine District activities as follows:

Governmental activities – All of the District's services are reported in this category. This includes the education of kindergarten through grade twelve students, adult education students, the operation of child development activities and the ongoing effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and local grants, as well as general obligation bonds, finance these activities.

Business-like activities – The District's self-insurance operations are reported in this category. Premium payments and operating transfers from the other District funds finance most of these activities.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2010

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds – not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

Governmental funds – Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term* view of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

Proprietary funds – When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Assets* and the *Statement of Revenues, Expenses, and Changes in Fund Net Assets*. These statements provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds to report activities that provide supplies and services for the District's other programs and activities – such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities and retiree health benefits held in trust. The District's fiduciary activities are reported in separate *Statement of Net Assets and Liabilities*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purpose.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2010

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$811.3 million for the fiscal year ended June 30, 2010. Of this amount, \$5.6 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table A-1) and changes in net assets (Table A-2) of the District's governmental activities.

Table A-1
San Diego Unified School District's Net Assets
(In Thousands)

	Governmental Activities		Total
	2009	2010	Percentage
			Change
			2009-10
Current assets	\$ 881.1	\$ 647.7	-26%
Noncurrent assets	1,987.6	2,093.8	5%
Total assets	2,868.7	2,741.5	-4%
Current liabilities	220.5	209.90	-5%
Noncurrent liabilities	1,768.4	1,720.30	-3%
Total liabilities	1,988.9	1,930.20	-3%
Total net assets	\$ 879.8	\$ 811.3	-8%

Current assets and current liabilities decreased primarily due to the expenditure of American Recovery and Reinvestment Act funding in 2009-10 and other General Fund expenditures in excess of revenues. Overall long-term liabilities decreased 3% due to payments made on long-term debt.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2010

THE DISTRICT AS A WHOLE (continued)

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the Statement of Activities on page 17. Table A-2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly, so you can see our total revenues for the year.

Table A-2
Changes in San Diego Unified School District's Net Assets
(In Thousands)

	Governmental Activities		Total
	2009	2010	Percentage
			Change
			2009-10
Revenues:			
<i>Program revenues</i>			
Charges for services	\$ 11.7	\$ 11.2	-4%
Operating grants and contributions	395.4	376.2	-5%
Capital grants and contributions	8.9	16.8	89%
<i>General revenues</i>			
Property taxes	611.8	600.4	-2%
Other revenues	370.4	287.2	-22%
Total revenues	1,398.2	1,291.8	-8%
Expenses:			
Instruction-related	974.4	878.6	-10%
Student support services	202.2	195.5	-3%
Maintenance and operations	86.8	82.0	-6%
Administration	54.8	42.7	-22%
Other expenses	154.0	161.4	5%
Total expenses	1,472.2	1,360.2	-8%
Change in net assets	\$ (74.0)	\$ (68.4)	-8%

Across all funds, revenues decreased 8% primarily due to state budget cuts. Expenditures decreased 8% primary due to an overall reduction in District spending.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2010

THE DISTRICT AS A WHOLE (continued)

Governmental Activities

As reported in the Statement of Activities on page 17, the cost of all our governmental activities this year was \$1.4 billion (refer to Table A-3). The amount that our taxpayers ultimately financed for these activities through taxes was only \$959.6 million because the cost was paid by those who benefited from the programs (\$11.2 million), by other governments and organizations who subsidized certain programs with grants and contributions (\$392.9 million).

Table A-3
Net Costs of San Diego Unified School District's
Governmental Activities (In Thousands)

	Total Cost of Services	Net Cost of Services
Instructional services	\$ 878.6	\$ 587.3
Pupil support services	195.5	95.2
Maintenance and operations	82.0	75.1
Administration	42.7	38.2
Other expenses	161.4	160.3
Total expenses	\$ 1,360.2	\$ 956.1

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times; see Budgetary Comparison Schedule on page 65. The following were the major changes between original and final budget:

- Revenues that were received during the year that were not included in the originally adopted budget – Federal grants and special projects of \$75.1 million and State grants and special projects of \$27.7 million.
- Revenues that were included in the original adopted budget which were not received – Revenue Limit Sources of \$28.2 million and Local grants and special projects of \$24.0 million.
- Expenditures that were appropriated during the year which were not included in the originally adopted budget – Salaries and Benefits of \$24.4 million, Books and Supplies of \$34.0 million, and Services and Other Operating Expenses of \$37.8 million.

Even with these adjustments, actual revenues available were \$81.8 million below the final budgeted amounts. The most significant variances resulted from:

- Revenue Limit Sources were \$6.7 million below final budget amounts.
- Federal revenues were \$48.8 million below final budget amounts. The most significant was the Special Education Entitlement which was \$8.1 million below appropriations and NCLB/IASA grants which were \$31.8 million below appropriations. Other Federal grants were \$7.8 million below appropriations which largely represents grant money that has been received but not spent by June 30, 2010.
- State and local revenues were \$26.2 million below final budget amounts. The most significant was the Special Ed Master Plan funding decrease of \$10.7 million below appropriations which was the result of funding being withdrawn for the Special Disabilities Adjustment (SDA) AB 184. Another significant decrease was in Class Size Reduction, \$4.4 million below appropriations due to a decrease in the total number of classes and eligible pupils in FY 09/10. Interest income declined \$4.6 million below appropriations and various other Local grants were \$6.2 million below appropriations.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2010

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights (continued)

Actual expenditures were \$87.9 million below the final budgeted amounts. The most significant positive variances resulted from:

- Salaries and benefits were \$17.9 million below final budget amounts. The variance is broken down as follows:
 - Unrestricted resources - \$6.2 million
 - Federal, state, and local restricted resources - \$11.7 million

- Books and supplies were \$48.9 million below final budget amounts. The variance is broken down as follows:
 - Unrestricted resources - \$8.9 million
 - Federal, state, and local restricted resources - \$40.0 million

- Services and other operating expenses were \$18.6 million below final budget amounts. The variance is broken down as follows:
 - Unrestricted resources - \$11.5 million
 - Federal, state, and local restricted resources - \$7.1 million

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2010, the District had \$2.8 billion invested in a broad range of capital assets, including land, buildings, and furniture and equipment (refer to Table A-4). This amount represents an increase of \$173.3 million or 7% from last year.

Table A-4
San Diego Unified School District's Capital Assets
(In Thousands)

	Governmental Activities		Total
	2009	2010	Percentage
			Change
			2009-10
Land	\$ 273.3	\$ 273.3	0%
Site improvements	203.6	213.7	5%
Buildings	1,283.4	1,299.1	1%
Furniture and equipment	216.9	228.1	5%
Construction in progress	611.2	747.4	22%
Total capital assets	\$ 2,588.4	\$ 2,761.6	7%

The District obtained principal sign-off for completion for capital improvements projects. These projects included work in the following:

- | <u>School</u> | <u>Project</u> |
|----------------------------------|--|
| - Mira Mesa High School | - Track and Field Replacement |
| - Morse High School | - Track and Field Replacement |
| - Mission Bay High School | - Café Student Store |
| - San Diego High School | - Track and Field Replacement |
| - All Comprehensive High Schools | - Food Cart Program |
| - ALBA @ North Park | - Phase 1 – Move ALBA to North Park |
| - All District Schools | - i21 Interactive Suite for Classrooms '09-'10 |

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2010

CAPITAL ASSET AND DEBT ADMINISTRATION (continued)

Long-Term Debt

At the end of this year, the District had \$1.8 billion in long-term debt, which is a decrease of 2% (refer to Table A-5). This is mainly due to payments of the early retirement incentive, and bond issuance in the prior year. Those long-term liabilities consisted of:

Table A-5
San Diego Unified School District's Long-Term Debt
(In Thousands)

	Governmental Activities		Total
	2009	2010	Percentage
			Change
	2009	2010	2009-10
Compensated absences	\$ 22.5	\$ 23.8	6%
General obligation bonds	1,631.8	1,609.0	-1%
Other postemployment benefits	-	3.7	100%
SERP	70.9	56.7	-20%
Arbitrage	1.2	1.0	-17%
Prem less Issuance	38.2	36.1	-5%
Claims Payable	53.7	51.5	-4%
Total long-term debt	\$ 1,818.3	\$ 1,781.8	-2%

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2010

FACTORS BEARING ON THE DISTRICT'S FUTURE

The state's budget situation continues to reflect challenging economic conditions. The 2010 State Budget was balanced on optimistic state and federal revenue projections, the sale of state properties, additional borrowings, and the suspension of the Proposition 98 minimum guarantee. While the state's economy continues to gradually recover along with the nation's, a relatively slow pace of job growth in California presents a headwind for a more rapid rate of economic recovery.

The state's budget challenges have adversely impacted the K-12 education budget. As a result, the average unified school district in the state of California in 2010-11 is expected to lose approximately \$25 per unit of average daily attendance over 2009-10 in revenue limit state funding, to an average funded revenue limit of approximately \$6,386 per unit of average daily attendance. However, a corresponding decrease in the deficit factor offsets the loss keeping funding levels in 2010-11 the same as 2009-10, and without the \$253 per ADA one-time funding reduction experienced in 2009-10.

Federal funding for categorical programs was given another one-time funding boost in 2010-11 with the Education Jobs Act funding. In addition, the final 10% of the State Fiscal Stabilization funds, part of the American Recovery and Reinvestment Act (ARRA), are to be paid in 2010-11. ARRA funds must be spent prior to the September 30, 2011.

State categorical program flexibility continues for 2009-10 and 2010-11 with no anticipated changes. School districts continue to be authorized to use funding from 42 Tier III categorical programs for any purpose. K-3 class size reduction penalties have been relaxed for two more years and school agencies maintain the flexibility to shorten the school year until 2012-13. Reserve requirements for economic uncertainties, if reduced by school agencies, must be fully restored by 2011-12.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Fiscal Year Ended June 30, 2010

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

Other Factors

Enrollment

Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the San Diego Unified School District budget for the 2010-11 fiscal year.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact the District's Finance Division.

Financial Section

SAN DIEGO UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2010

	<u>Primary Government</u>
	<u>Governmental</u>
	<u>Activities</u>
ASSETS	
Current assets:	
Cash and cash equivalents	\$ 515,749,025
Accounts receivable	128,322,216
Inventories	2,735,873
Prepaid expenses	885,526
Total current assets	<u>647,692,640</u>
Noncurrent assets:	
Capital assets:	
Land	273,284,132
Site improvements	213,696,082
Buildings	1,299,082,365
Furniture and equipment	228,178,810
Construction in progress	747,352,267
Less accumulated depreciation	<u>(667,738,564)</u>
Total capital assets, net of depreciation	<u>2,093,855,092</u>
Total noncurrent assets	<u>2,093,855,092</u>
Total assets	<u>2,741,547,732</u>
LIABILITIES	
Current liabilities:	
Accounts payable	139,415,884
Deferred revenue	8,953,604
Compensated absences, current	19,974,205
General obligation bonds payable, current	25,338,911
Early retirement incentive	14,178,679
Deferred bond premium and issue cost	2,053,397
Total current liabilities	<u>209,914,680</u>
Noncurrent liabilities:	
Compensated absences payable, noncurrent	3,804,610
General obligation bonds payable, noncurrent	1,583,692,926
Other postemployment benefits	3,690,505
Early retirement incentive	42,536,036
Arbitrage	1,038,799
Deferred bond premium and issue cost	34,049,231
Claims Payable	51,497,000
Total noncurrent liabilities	<u>1,720,309,107</u>
Total liabilities	<u>1,930,223,787</u>
NET ASSETS	
Invested in capital assets, net of related debt	492,835,683
Restricted for:	
Capital projects	245,171,394
Debt service	28,071,206
Educational programs	39,656,797
Unrestricted	5,588,865
Total net assets	<u>\$ 811,323,945</u>

The notes to financial statements are an integral part of this statement.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Fiscal Year Ended June 30, 2010

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Grants and Contributions	Grants and Contributions	Revenue and Changes in Net Assets
					Total
Primary government:					
Governmental activities:					
Instructional services:					
Instruction	\$ 704,151,856	\$ 3,042,636	\$ 203,120,371	\$ 16,762,815	\$ (481,226,034)
Instruction-related services:					
Supervision of instruction	77,593,346	5,185,675	54,290,827	-	(18,116,844)
Instructional library, media and technology	12,288,209	128,896	1,674,917	-	(10,484,396)
School site administration	84,601,686	461,712	6,715,927	-	(77,424,047)
Pupil support services:					
Home-to-school transportation	46,876,623	97,787	16,333,114	-	(30,445,722)
Food services	53,194,325	798	48,100,982	-	(5,092,545)
All other pupil services	95,385,833	1,648,808	34,063,141	-	(59,673,884)
General administration services:					
Data processing services	16,227,154	-	11,120	-	(16,216,034)
Other general administration	26,500,518	156,173	4,315,300	-	(22,029,045)
Plant services	82,035,397	428,200	6,553,542	-	(75,053,655)
Ancillary services	2,901,981	265	1,163	-	(2,900,553)
Community services	342,193	-	-	-	(342,193)
Enterprise activities	4,080,158	-	6,807	-	(4,073,351)
Interest on long-term debt	78,213,626	-	-	-	(78,213,626)
Other outgo	6,965,475	16,497	967,156	-	(5,981,822)
Depreciation (unallocated)	68,815,013	-	-	-	(68,815,013)
Total governmental activities	<u>\$ 1,360,173,393</u>	<u>\$ 11,167,447</u>	<u>\$ 376,154,367</u>	<u>\$ 16,762,815</u>	<u>(956,088,764)</u>
General revenues:					
Taxes:					
Property taxes, levied for general purposes					495,930,235
Property taxes, levied for debt service					95,796,358
Property taxes, levied for other specific purposes					8,698,549
Federal and state aid not restricted to specific purpose					235,226,210
Interest and investment earnings					8,333,400
Interagency revenues					8,907,455
Miscellaneous					33,652,453
Special and extraordinary items					1,046,589
Total general revenues					<u>887,591,249</u>
Change in net assets					(68,497,515)
Net assets - July 1, 2009					<u>879,821,460</u>
Net assets - June 30, 2010					<u>\$ 811,323,945</u>

The notes to financial statements are an integral part of this statement.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2010

	General Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash and cash equivalents	\$ 45,994,770	\$ 188,698,553	\$ 96,954,980	\$ 150,175,858	\$ 481,824,161
Accounts receivable	112,611,509	418,543	181,119	15,021,956	128,233,127
Due from other funds	79,184,404	36,627,219	-	26,833,472	142,645,095
Inventories	1,888,972	-	-	846,901	2,735,873
Prepaid expenditures	865,521	-	-	20,005	885,526
Total assets	<u>\$ 240,545,176</u>	<u>\$ 225,744,315</u>	<u>\$ 97,136,099</u>	<u>\$ 192,898,192</u>	<u>\$ 756,323,782</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable	\$ 57,796,687	\$ 2,368,851	\$ 69,064,893	\$ 10,178,928	\$ 139,409,359
Due to other funds	76,890,076	21,572,681	-	68,183,474	166,646,231
Deferred revenue	8,844,224	-	-	109,380	8,953,604
Total liabilities	<u>143,530,987</u>	<u>23,941,532</u>	<u>69,064,893</u>	<u>78,471,782</u>	<u>315,009,194</u>
FUND BALANCES					
Reserved for:					
Inventories	1,888,972	-	-	846,901	2,735,873
Revolving cash	54,800	-	-	-	54,800
Prepaid expenditures	865,521	-	-	20,005	885,526
Debt service	-	-	28,071,206	-	28,071,206
Categorical programs	39,656,797	-	-	-	39,656,797
Unreserved; reported in:					
General fund	54,548,099	-	-	-	54,548,099
Special revenue funds	-	-	-	9,525,301	9,525,301
Capital project funds	-	201,802,783	-	104,034,203	305,836,986
Total fund balances	<u>97,014,189</u>	<u>201,802,783</u>	<u>28,071,206</u>	<u>114,426,410</u>	<u>441,314,588</u>
Total liabilities and fund balances	<u>\$ 240,545,176</u>	<u>\$ 225,744,315</u>	<u>\$ 97,136,099</u>	<u>\$ 192,898,192</u>	<u>\$ 756,323,782</u>

The notes to financial statements are an integral part of this statement.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2010

Total fund balances - governmental funds \$ 441,314,588

Amounts reported for governmental *activities* in the statement of net assets are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the capital assets is \$2,761,593,656 and the accumulated depreciation is (\$667,738,564). 2,093,855,092

In governmental funds, postretirement benefits costs are recognized as expenditures in the period they are paid. In the government-wide statements, postretirement benefits costs are recognized in the period that they are incurred. The net OPEB liability at the end of the period was: (3,690,505)

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in assets on the government-wide statement of net assets are: (36,102,628)

In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consist of:

Compensated absences	\$ 23,778,815	
General obligation bonds	1,570,191,837	
Qualified School Construction Bonds	38,840,000	
Early retirement incentive	56,714,715	
Arbitrage liability	1,038,799	
	(1,690,564,166)	(1,690,564,166)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are: 6,511,564

Total net assets - governmental activities **\$ 811,323,945**

The notes to financial statements are an integral part of this statement.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Balances – Governmental Funds
For the Fiscal Year Ended June 30, 2010

	General Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
REVENUES					
General revenues:					
Property taxes	\$ 496,043,615	\$ -	\$ 95,796,358	\$ 8,585,169	\$ 600,425,142
Federal and state aid not restricted to specific purpose	235,121,378	-	-	(104,598)	235,016,780
Interest and investment earnings	5,643,852	-	601,489	2,088,059	8,333,400
Interagency revenues	6,854,861	-	-	-	6,854,861
Miscellaneous	14,891,810	-	-	18,970,071	33,861,881
Program revenues:					
Charges for services	12,269,253	-	-	810,551	13,079,804
Operating grants and contributions	292,981,784	3,606,050	-	79,566,533	376,154,367
Capital grants and contributions	-	16,762,815	-	-	16,762,815
Total revenues	<u>1,063,806,553</u>	<u>20,368,865</u>	<u>96,397,847</u>	<u>109,915,785</u>	<u>1,290,489,050</u>
EXPENDITURES					
Instructional services:					
Instruction	686,216,967	-	-	23,401,981	709,618,948
Instruction-related services:					
Supervision of instruction	75,830,538	-	-	4,769,273	80,599,811
Instructional library, media and technology	12,588,663	-	-	-	12,588,663
School site administration	85,962,157	-	-	1,333,478	87,295,635
Pupil support services:					
Home-to-school transportation	47,222,056	-	-	4,380,523	51,602,579
Food services	162,555	-	-	53,915,458	54,078,013
All other pupil services	94,674,460	-	-	802,366	95,476,826
General administration services:					
Data processing services	16,227,154	-	-	-	16,227,154
Other general administration	26,843,806	-	-	2,158,899	29,002,705
Plant services	69,272,174	946,859	-	12,644,354	82,863,387
Facility acquisition and construction	1,987,501	53,577,628	-	113,714,493	169,279,622
Ancillary services	2,901,981	-	-	-	2,901,981
Community services	342,193	-	-	-	342,193
Enterprise activities	38,225	-	-	4,447	42,672
Other outgo:					
Transfers between agencies	1,625,775	-	-	-	1,625,775
Debt service - principal	-	-	23,962,335	-	23,962,335
Debt service - interest	-	-	75,535,949	-	75,535,949
Debt service - issuance costs and discounts	3,749,765	-	-	1,589,936	5,339,701
Total expenditures	<u>1,125,645,970</u>	<u>54,524,487</u>	<u>99,498,284</u>	<u>218,715,208</u>	<u>1,498,383,949</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(61,839,417)</u>	<u>(34,155,622)</u>	<u>(3,100,437)</u>	<u>(108,799,423)</u>	<u>(207,894,899)</u>
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	12,340,008	2,296,440	-	20,714,317	35,350,765
Interfund transfers out	(15,142,279)	(1,167,073)	-	(14,755,593)	(31,064,945)
All other financing sources	1,046,589	-	-	-	1,046,589
Total other financing sources and uses	<u>(1,755,682)</u>	<u>1,129,367</u>	<u>-</u>	<u>5,958,724</u>	<u>5,332,409</u>
Net change in fund balances	(63,595,099)	(33,026,255)	(3,100,437)	(102,840,699)	(202,562,490)
Fund balances, July 1, 2009	<u>160,609,288</u>	<u>234,829,038</u>	<u>31,171,643</u>	<u>217,267,109</u>	<u>643,877,078</u>
Fund balances, June 30, 2010	<u>\$ 97,014,189</u>	<u>\$ 201,802,783</u>	<u>\$ 28,071,206</u>	<u>\$ 114,426,410</u>	<u>\$ 441,314,588</u>

The notes to financial statements are an integral part of this statement.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
For the Fiscal Year Ended June 30, 2010

Total net change in fund balances - governmental funds \$ (202,562,490)

Amounts reported for governmental *activities* in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays (\$128,023,560) exceed depreciation expense (\$66,246,834) in the period. 106,525,405

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reduction of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 38,644,998

Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is: (265,323)

In the fund statements, the rate subsidy for retiree health benefits is included in the payments made to health care providers. In the government-wide statements, the rate subsidy is a reduction to the other post-employment liability. (3,690,505)

Arbitrage liability is classified as a long-term liability in the government-wide statements and increased in the current period by: 159,530

Accreted interest on capital appreciation bonds is recognized as an addition to general obligation bonds until repaid. Additions to accreted interest owing in the current period was: (15,910,594)

In the statement of activities, compensated absences are measured by the amounts *earned* during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually *paid*.) (1,319,871)

In governmental funds, Early Retirement Incentive costs are recognized when employer contributions are made. In the statement of activities, ERIP costs are recognized on an accrual basis. Additions to Early Retirement Incentive owing in the current period was: 14,178,679

In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an Other Financing Source or an Other Financing Use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is: 2,052,749

The internal service fund is used by management to charge the cost of self-insurance activities. The net revenue (expense) of the internal service fund is reported with governmental activities. (6,310,093)

Change in net assets of governmental activities \$ (68,497,515)

The notes to financial statements are an integral part of this statement.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Statement of Fund Net Assets – Proprietary Funds
June 30, 2010

	Liability Insurance	Property Insurance	Workers' Compensation Fund	Vision Fund	Total
<u>Assets</u>					
Cash in county treasury	\$ 861,481	\$ 1,799,138	\$ 30,261,746	\$ 502,499	\$ 33,424,864
Cash on hand and in bank	100,000	-	400,000	-	500,000
Accounts receivable	5,381	3,766	78,246	1,696	89,089
Due from other funds	-	-	22,732,641	1,416,499	24,149,140
Total Assets	966,862	1,802,904	53,472,633	1,920,694	58,163,093
<u>Liabilities</u>					
Accounts payable	\$ 6,501	\$ -	\$ 24	\$ -	\$ 6,525
Claims payable	2,648,000	-	48,849,000	-	51,497,000
Due to other funds	22,005	18,724	107,275	-	148,004
Total Liabilities	2,676,506	18,724	48,956,299	-	51,651,529
<u>Net Assets</u>					
Unrestricted	(1,709,644)	1,784,180	4,516,334	1,920,694	6,511,564
Total Net Assets	\$ (1,709,644)	\$ 1,784,180	\$ 4,516,334	\$ 1,920,694	\$ 6,511,564

The notes to financial statements are an integral part of this statement.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes in Fund Net Assets – Proprietary Funds
For the Fiscal Year Ended June 30, 2010

	Liability Insurance	Property Insurance	Workers' Compensation Fund	Vision Fund	Total
Operating Revenues					
Transfers in from other funds	\$ 2,138,000	\$ 1,535,000	\$ 1,700,000	\$ -	\$ 5,373,000
Self-insurance premiums	2,464,370	178,410	19,403,720	1,791,145	23,837,645
Total Operating Revenues	4,602,370	1,713,410	21,103,720	1,791,145	29,210,645
Operating Expenditures					
Classified salaries	205,194	116,819	220,350	-	542,363
Employee benefits	65,601	42,383	84,260	-	192,244
Books and supplies	268	-	6,259	-	6,527
Transfers out to other funds	-	-	9,658,820	-	9,658,820
Payments for claims	6,281,052	2,092,828	15,950,032	1,317,285	25,641,197
Total Operating Expenditures	6,552,115	2,252,030	25,919,721	1,317,285	36,041,151
Operating income (loss)	(1,949,745)	(538,620)	(4,816,001)	473,860	(6,830,506)
Operating Revenues					
Interest income	33,876	15,412	465,571	5,554	520,413
Net income (loss)	(1,915,869)	(523,208)	(4,350,430)	479,414	(6,310,093)
Net Assets at the Beginning of Year	206,225	2,307,388	8,866,764	1,441,280	12,821,657
Net Assets at End of Year	\$ (1,709,644)	\$ 1,784,180	\$ 4,516,334	\$ 1,920,694	\$ 6,511,564

The notes to financial statements are an integral part of this statement.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Statement of Cash Flows – Proprietary Funds
For the Fiscal Year Ended June 30, 2010

	Governmental Activities: Self-Insurance Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from premiums and other revenues	\$ 14,905,983
Cash paid for claims and operating expenses	(38,592,121)
	<hr/>
Net cash used by operating activities	(23,686,138)
	<hr/>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	520,413
	<hr/>
Net cash provided by investing activities	520,413
	<hr/>
Net decrease in cash	(23,165,725)
Cash, July 1, 2009	57,090,589
	<hr/>
Cash, June 30, 2010	\$ 33,924,864
	<hr/> <hr/>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating loss	\$ (6,830,506)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Decrease in accounts receivable	114,128
Increase in due from other funds	(14,430,933)
Decrease in prepaid expense	12,143
Decrease in accounts payable	(386,989)
Decrease in due to other funds	(8,981)
Decrease in claims payable	(2,155,000)
	<hr/>
Net cash used by operating activities	\$ (23,686,138)
	<hr/> <hr/>

The notes to financial statements are an integral part of this statement.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2010

	Agency Funds
	<u>Student Body Funds</u>
ASSETS	
Cash on hand and in banks:	
Checking	\$ 6,124,253
Savings	1,543,436
Accounts receivable:	
Miscellaneous	58,230
Prepaid expense	10,108
Stores inventory	316,744
Total assets	<u>\$ 8,052,771</u>
LIABILITIES	
Funds held in trust	8,052,771
Total liabilities	<u>\$ 8,052,771</u>

The notes to financial statements are an integral part of this statement.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Policies

San Diego Unified School District (the District) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

B. Reporting Entity

The District operates under a locally elected five-member Board form of government and provides educational services to grades K-12 as mandated by the State. A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments and agencies that are not legally separate from the District. For the District, this includes general operations, food service, and student related activities.

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete.

The following are those aspects of the relationship between the District and the component units that satisfy GASB Statement No. 14 criteria.

Accountability:

1. The District's Board of Trustees appointed the component units' board of directors.
2. The District is able to impose its will upon the component units, based on the following:
 - a. All major financing arrangements, contracts, and other transactions of the component units must have the consent of the District.
 - b. The District exercises significant influence over operations of the component units, as the District is the sole lessee of all facilities owned by the component units. Likewise, the District's lease payments are the major revenue source of the component units.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

B. Reporting Entity (continued)

Accountability (continued):

3. The component units provide specific financial benefits or impose specific financial burdens on the District, based on the following:
 - a. Any deficits incurred by the component units will be reflected in the lease payments of the District.
 - b. Any surpluses of the component units revert to the District at the end of the lease period.
 - c. The District has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the component units.

Based upon the application of the criteria listed above, the following potential component units have been excluded from the District's reporting entity:

Charter Schools – There are 37 charter schools which operate within the District's boundaries. These charter schools receive their funding directly from other government agencies, and have separate governing boards. Each charter school has an independent audit performed annually. The financial information has been grouped by business type, i.e., not-for-profit or governmental. The condensed unaudited financial information for June 30, 2010 is presented below:

Unaudited 2009-10 Condensed Financial Information

	Total Not-for- Profit	Total Governmental	Total Charter Schools
Total assets	\$ 44,078,940	\$ 12,631,847	\$ 56,710,787
Total liabilities	9,451,167	3,349,928	12,801,095
Total net assets	\$ 34,627,773	\$ 9,281,919	\$ 43,909,692
Total revenues	\$ 87,705,425	\$ 20,897,311	\$ 108,602,736
Total expenses	88,624,955	21,942,083	110,567,038
Change in net assets	\$ (919,530)	\$ (1,044,772)	\$ (1,964,302)

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the District. Internal Service Fund activity is eliminated to avoid doubling revenues and expenses.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include a reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meet the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the District. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All governmental funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Fund Net Assets. The Statement of Revenues, Expenses, and Changes in Fund Net Assets for proprietary funds presents increases (i.e., revenues) and decreases (i.e., expenditures) in net total assets. The Statement of Cash Flows provides information about how the district finances and meets the cash flow needs of its proprietary activities.

Proprietary funds distinguish operating revenues and expenses from non operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other funds for self insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Fiduciary funds are reported using the economic resources measurement focus. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues – exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. “Available” means the resources will be collected within the current fiscal year and are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, “available” means collectible within the current period or within 60 days after year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from the grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the District must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the District on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into major, non-major, proprietary and fiduciary funds, as follows:

Major Governmental Funds:

- The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.
- The *County School Facilities Fund* is used to receive apportionments from the 1998 State School Facilities Fund, the 2002 State School Facilities Fund, or the 2005 State School Facilities Fund for new school facility construction.
- The *Bond Interest and Redemption Fund* is used to account for bond interest and redemption of bond principal.

Non-major Governmental Funds:

- *Special Revenue Funds* are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains seven non-major special revenue funds:
 1. The *Adult Education Fund* is used to account for resources committed to adult education programs maintained by the District.
 2. The *Child Development Fund* is used to account for resources committed to child development programs maintained by the District.
 3. The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's food service operations.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

4. The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of District property.
 5. The *Pupil Transportation Equipment Fund* is used to account for resources committed for the acquisition, rehabilitation or replacement of pupil transportation equipment.
 6. The *Special Reserve Fund (Other than Capital Outlay)* is used to set aside funds for general operating purposes.
 7. The *Special Reserve Fund for Postemployment Benefits* is used to account for funds set aside for the funding of postemployment benefits.
- **Capital Projects Funds** are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains three non-major capital project funds:
 1. The *Building Fund* is used to account for repairs, construction and/or acquisition of major capital facilities; acquisition, retro-fitting, and operation of real property and the proceeds of Proposition MM and S general obligation bonds. The Building Fund is a consolidation of sub-funds.
 2. The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
 3. The *Special Reserve Fund* for Capital Outlay Projects provides for the accumulation of General Fund moneys for capital outlay purposes.

Proprietary Funds:

- **Internal Service Funds** are used to account for services rendered on a cost-reimbursement basis within the District. The District maintains one internal service fund, the Self-Insurance Internal Service Fund, which is more fully discussed in Note 10.

Fiduciary Funds:

- **Agency Funds** are used to account for assets of others for which the District acts as an agent. The District maintains student body funds, which are used to account for the raising and expending of money to promote the general welfare, morale, and educational experience of the student body. The amounts reported for student body funds represent the combined totals of all schools within the District.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

F. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. The original and the final revised budgets are presented for the General Fund in the supplementary information.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

G. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

H. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value.

2. Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at historical cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure."

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

3. Prepaid Expenses

Payments made to vendors for goods or services that will benefit periods beyond the fiscal year ended, are recorded as prepaid items using the consumption method. A current asset for the prepaid amount is recorded at the time of the purchase and an expenditure/expense is reported in the year in which goods or services are consumed.

4. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000 for equipment purchased and \$100,000 for improvement of land, modernization of buildings and construction of new buildings. The District does not own any infrastructure as defined in GASB No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized. All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following estimated useful lives:

Description	Estimated Lives
Buildings and Improvements	20-50 years
Furniture and Equipment	5-15 years
Vehicles	6 years

5. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

6. Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability on the government-wide statement of net assets as the benefits are earned. For governmental funds, unpaid compensated absences are recognized as a fund liability only upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are recorded as accounts payable in the fund from which the employees who have accumulated leave are paid.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because such benefits do not vest, nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

7. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt.

In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued and any premiums or discounts are reported as other financing sources and uses.

8. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

9. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors, or laws or regulations of other governments.

I. Revenue Limit/Property Tax

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding January 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (January 1), and become delinquent if unpaid by August 31. Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District. The California Department of Education reduces the District's entitlement by the District's local property tax revenue. The balance is paid from the state General Fund, and is known as the State Apportionment. The District's Base Revenue Limit is the amount of general purpose tax revenue, per average daily attendance (ADA), that the District is entitled to by law. This amount is multiplied by the second period ADA to derive the District's total entitlement.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

J. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 during the reporting period. Actual results could differ from those estimates.

K. Budgets

By state law, the District's Governing Board must approve a budget no later than July 1 using the Single Adoption Budget process. A public hearing must be conducted to receive comments prior to adoption. The District's Governing Board satisfied these requirements. Budgets for all governmental funds were adopted on a basis consistent with GAAP.

These budgets are revised by the District's Governing Board during the year to give consideration to unanticipated income and expenditures. The original and final revised General Fund budget is presented in a budgetary comparison schedule in the supplementary section.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. Expenditures cannot legally exceed appropriations by major object code account.

L. New GASB Pronouncement

GASB Statement No. 54 – *Fund Balance Reporting and Governmental Fund Type Definitions* was issued in February 2009. This statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. This statement is required to be implemented in the 2010-11 fiscal year.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2010 are classified in the accompanying financial statements as follows:

	Governmental Funds	Proprietary Funds	Total Governmental	Fiduciary Funds
Cash in county treasury	\$ 474,218,206	\$ 33,424,864	\$ 507,643,070	\$ -
Cash on hand and in banks	7,551,155	-	7,551,155	7,667,689
Cash with fiscal agent	-	500,000	500,000	-
Cash in revolving fund	54,800	-	54,800	-
Total cash and cash equivalents	<u>\$ 481,824,161</u>	<u>\$ 33,924,864</u>	<u>\$ 515,749,025</u>	<u>\$ 7,667,689</u>

Policies and Practices

Governmental agencies in the state of California are authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the state; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies; certificates of participation; obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of the applicable agreements rather than the general provisions of the California Government Code.

Cash 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 its County Treasurer (Education Code Section 41001). The fair value of the District’s investment in the pool is disclosed in the notes to the financial statements at amounts based upon the District’s pro-rata share of the 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 recorded on the amortized cost basis and is based on the accounting records maintained by the County Treasurer.

General Authorizations

Except for investments by trustees of debt proceeds, the authority to invest District funds deposited with the county treasury is delegated to the County Treasurer and Tax Collector. Additional information about the investment policy of the County Treasurer and Tax Collector may be obtained from its website.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 2 – CASH AND INVESTMENTS (continued)

General Authorizations (continued)

The table below identifies examples of the investment types permitted in the investment policy:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Corporate Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

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 Treasury and in Money Market Mutual Fund U.S. Treasury Fund obligations. The District maintains an investment with the San Diego County Investment Pool with a fair value of approximately \$510,618,765 and an amortized book value of \$507,643,070. The average weighted maturity for this pool is 425 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the San Diego County Investment Pool is AAAf/S1 by Standard and Poor's.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 2 – CASH AND INVESTMENTS (continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District’s deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2010, the District’s bank balance was not exposed to custodial credit risk because the first \$250,000 deposited per bank was covered under the FDIC insurance limit, and the remaining amount was collateralized with securities held by the pledging financial institution’s trust department or agency.

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2010 consist of the following:

	Governmental Funds	Proprietary Funds	Fiduciary Funds
Federal	\$ 37,348,569	\$ -	\$ -
State categorical	18,655,354	-	-
Other	72,229,204	89,089	58,230
Total	<u>\$ 128,233,127</u>	<u>\$ 89,089</u>	<u>\$ 58,230</u>

NOTE 4 - INTERFUND TRANSACTIONS

Interfund activity is reported as loans, services provided, reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 4 - INTERFUND TRANSACTIONS (continued)

A. Due From/Due To Other Funds

Individual interfund receivable and payable balances as of June 30, 2010 are as follows:

Due to	Due From Other Funds				Total
	General Fund	County School Facilities Fund	Other Governmental Funds	Self Insurance Funds	
General Fund	\$ 3,607,118	\$ 34,897,025	\$ 14,344,068	\$ 24,041,865	\$ 76,890,076
County School Facilities Fund	20,091,886	-	1,480,795	-	21,572,681
Other Governmental Funds	55,444,671	1,730,194	11,008,609	-	68,183,474
Self Insurance Fund	40,729	-	-	107,275	148,004
	<u>\$ 79,184,404</u>	<u>\$ 36,627,219</u>	<u>\$ 26,833,472</u>	<u>\$ 24,149,140</u>	<u>\$ 166,794,235</u>
General Fund due to Stores Revolving and Sim Revolving Fund for reimbursement of expenses.					\$ 2,897,090
General Fund due to General Fund					710,028
General Fund due to County School Facilities Fund for loan and interest expense and PPO inventory expense.					34,896,641
Property Management Fund due to County School Facilities Fund for reimbursement of salary expenses.					384
General Fund due to Adult Education Fund for prior year adj to state apportionment and Tier III Flexibility transfers.					3,882,796
General Fund due to State Preschool Fund for First 5 Commission and expenditure transfers.					713,371
General Fund due to Cafeteria Fund for PERS recap credit, PPO inventory, and Fleet Maintenance.					197,649
General Fund due to Deferred Maintenance for expenditure transfers.					6,726,441
General Fund due to Building Fund-Prop MM for reimbursement of expenses.					78
General Fund due to Prop S Building Bond for reimbursement of expenses.					677,528
General Fund due to Capital Facilities Redevelopment Agency Fund for reimbursement of expenses.					445,325
General Fund due to Child Development Fund for expenditure transfers.					90,207
General Fund due to Developer Fees Capital Facilities Fund for reimbursement of expenses.					1,609,136
Property Management Fund due to Prop S Building Bond Fund for reimbursement of salary expenses.					1,537
General Fund due to Workers Compensation Fund for monthly premiums.					22,625,366
General Fund due to Self Insured Vision Care Fund for monthly premiums.					1,416,499
County School Facilities Fund due to General Fund for reimbursement of job cost and expense.					16,357,466
County School Facilities Fund due to Property Management Fund for reimbursement of expenses.					1,048,100
County School Facilities due to General Fund					2,686,320
County School Facilities Fund due to Deferred Maintenance Fund for reimbursement of capital expenses.					1,028,996
County School Facilities Fund due to Prop S Building Bond for reimbursement of expenses.					114,471
County School Facilities Fund due to Developer Fees Capital Facilities Fund for job cost expenses.					337,328
Adult Education Fund due to General Fund for indirect cost, reimbursement of job cost, expenses, and for salary and employee benefits.					4,724,335
State Preschool Fund due to General Fund for indirect cost, reimbursement of job cost, expenses, and for salary and employee benefits.					6,971,031
Child Development Fund due to General Fund for indirect cost, reimbursement of job cost, expenses, and for salary and employee benefits.					11,022,855
Cafeteria Fund due to General Fund for reimbursement of job cost, expenses, and for salary and employee benefits.					13,398,503
Deferred Maintenance Fund due to General Fund for reimbursement of job cost expenses.					9,107,410
Prop S Building Fund due to General Fund for reimbursement of job cost, expenses, and for salary and employee benefits.					2,008,300
Capital Facilities Redevelopment Agency Fund due to General Fund for reimbursement of job cost, expenses, and for salary and employee benefits.					5,346,793
Developer Fees Capital Facilities Fund due to General Fund for reimbursement of job cost, expenses, and for salary and employee benefits.					2,776,865
Other Funds due to General Fund					88,579
Building Fund Prop M due to County School Facilities Fund for expenditure transfers.					144,405
Prop S Building Bond due to County School Facilities Fund for expenditure transfers.					1,124,378
Developer Fees Capital Facilities Fund due to County School Facilities Fund for job cost expenses.					461,411
Prop S Building Bond Fund due to Cafeteria Fund for incorrect posting of expenses from the Communications Department.					273
Prop S Building Bond Fund due to Developer Fees Capital Facilities Fund for reimbursement of expenses.					4,230
Developer Fees Capital Facilities Fund due to Prop S Building Bond Fund for reimbursement of expenses.					44
Child Development Fund due to Deferred Maintenance Fund for capital expenses.					2,700
State Preschool Fund due to Child Development Fund for expenditure transfers.					4,255,662
Prop S Matching Fund due to Prop S Building Bond Fund for job cost expenses.					2,686,320
Child Development Fund due to State Preschool for expenditure transfers.					2,616,840
Other Governmental Funds to Other Governmental Funds					1,442,540
Liability Insurance Fund due to General Fund for reimbursement of salary and employee benefits.					22,005
Property Insurance fund due to General Fund for reimbursement of job cost and for salary and employee benefits.					18,724
Self Insurance Fund due to the Self Insurance Fund					107,275
					<u>\$ 166,794,235</u>
				Total	

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 4 - INTERFUND TRANSACTIONS (continued)

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund transfers for the 2009-10 fiscal year are as follows:

<u>Transfers From Other Funds</u>	<u>Transfers to Other Funds</u>				<u>Total</u>
	<u>General Fund</u>	<u>County School Facilities Fund</u>	<u>Other Governmental Funds</u>	<u>Self Insurance Funds</u>	
General Fund	\$ -	\$ 984,962	\$ 8,784,317	\$ 5,373,000	\$ 15,142,279
County School Facilities Fund	-	1,167,073	-	-	1,167,073
Other Governmental Funds	2,681,188	144,405	11,930,000	-	14,755,593
Self Insurance Fund	9,658,820	-	-	-	9,658,820
	<u>\$ 12,340,008</u>	<u>\$ 2,296,440</u>	<u>\$ 20,714,317</u>	<u>\$ 5,373,000</u>	<u>\$ 40,723,765</u>

Transfer from the General Fund to the County School Facilities Fund for Standley Fire.	\$	984,962
Transfer from the General Fund to the Adult Education Fund per the rules established for the Tier III Flexibility for Categorical Programs.		2,112,338
Transfer from the General Fund to the State Preschool Fund to cover required expenses.		444,186
Transfer from the General fund to the Postemployment Benefits Fund for annual contribution for retirees' medical benefits per union contract.		471,806
Transfer from the General Fund to the Postemployment Benefits Fund per Administrator's Association agreement.		203,096
Transfer from the General Fund to the Developer Fees Capital Facilities Fund for interest sweep that was disallowed per legal.		5,552,891
Transfer from the General Fund to the Liability Insurance Fund for premiums and insurance costs.		3,838,000
Transfer from the General Fund to the Property Insurance Fund for premiums and insurance costs.		1,535,000
Transfer from the County School Facilities Fund to Prop S. St. Facility Matching Fund for Kearny HS CTE Grant Monies.		1,167,073
Transfer from the Postemployment Benefits Fund to the General Fund for reimbursement of premiums paid for retirees' medical benefits per union contract.		742,881
Transfer from the Property Management Fund to the General Fund for ADA 504 expenses.		148,508
Transfer from the Adult Education Fund to the General Fund beginning fund balance due to Tier III Flexibility.		1,789,799
Transfer from the Prop MM Building Fund to the County School Facilities Fund for Surplus Fund Balance for the Prop MM Fund		144,405
Transfer from the Facilities Master Plan Fund to the Pupil Transportation Fund for Bus Purchases.		7,530,000
Transfer from the Facilities Master Plan Fund to the Deferred Maintenance Fund as part of the original budget adoption.		4,400,000
Transfer from the Self Insurance Liability Fund to the General Fund per Board approval.		1,700,000
Transfer from the Workers Compensation Fund to the General Fund because the fund was over funded based on an actuarial study.		7,958,820
	Total	<u>\$ 40,723,765</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 5 – FUND BALANCES

The following fund balance amounts were designated by the District’s governing board as of June 30, 2010, as follows:

	<u>General Fund</u>
Economic uncertainties	\$ 22,836,000
Other designations	71,368,896
Total designations	<u>\$ 94,204,896</u>

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2010 is shown below:

	Beginning Balance July 1, 2009	Additions	Deletions	Ending Balance June 30, 2010
Land	\$ 273,284,132	\$ -	\$ -	\$ 273,284,132
Site improvements	203,642,875	10,053,207	-	213,696,082
Buildings	1,283,432,944	16,526,629	877,208	1,299,082,365
Furniture and equipment	216,907,377	12,576,487	1,305,054	228,178,810
Construction in progress	611,168,172	175,340,418	39,156,323	747,352,267
Total at historical cost	<u>\$ 2,588,435,500</u>	<u>\$ 214,496,741</u>	<u>\$ 41,338,585</u>	<u>\$2,761,593,656</u>
Less accumulated depreciation:				
Site improvements	87,443,512	8,717,190		96,160,702
Buildings	339,994,989	52,116,575	472,293	391,639,271
Furniture and equipment	173,401,989	7,981,248	1,444,646	179,938,591
Total accumulated depreciation	<u>600,840,490</u>	<u>68,815,013</u>	<u>1,916,939</u>	<u>667,738,564</u>
Total capital assets, net	<u>\$ 1,987,595,010</u>	<u>\$ 145,681,728</u>	<u>\$ 39,421,646</u>	<u>\$2,093,855,092</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 7 - TAX REVENUE ANTICIPATION NOTES

The District issued \$180,000,000 of Tax Revenue Anticipation Notes dated July 9, 2009. The notes mature on July 8, 2010 and yield .520% interest. The notes were sold by the District to supplement its cash flow.

The funds will be held with the trustee, Trinity Funding Company, unless and until the District needs to draw funds out. Repayment requirements are that approximately \$180,000,000 principal plus \$3,590,000 interest to be paid July 8, 2010.

The monies were required to remain on deposit until maturity, at which time they were applied to pay the principal and interest on the notes. All deposits were made to the Trustee on a timely basis. Therefore, the liability is in-substance defeased and is not reported on the financial statements.

NOTE 8 – LONG-TERM DEBT

A schedule of changes in long-term debt, excluding claims payable on self-insurance activities described in Note 9, for the fiscal year ended June 30, 2010 is as follows:

	Balance			Balance	Amounts Due
	July 1, 2009	Additions	Deductions	June 30, 2010	Within One Year
Compensated absences payable	\$ 22,458,944	\$ 1,319,871	\$ -	\$ 23,778,815	\$ 19,974,205
Arbitrage liability	1,198,329	-	159,530	1,038,799	-
Deferred bond premium and issue cost	38,155,376	-	2,052,749	36,102,627	2,053,397
Other postemployment benefits	-	3,690,505	-	3,690,505	-
General obligation bonds	1,592,926,242	15,910,594	38,644,998	1,570,191,838	25,338,911
Qualified school construction bonds	38,840,000	-	-	38,840,000	-
Early retirement incentive	70,893,394	-	14,178,679	56,714,715	14,178,679
Totals - Governmental Activities	<u>\$ 1,764,472,285</u>	<u>\$ 20,920,970</u>	<u>\$ 55,035,956</u>	<u>\$ 1,730,357,299</u>	<u>\$ 61,545,192</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 8 – LONG-TERM DEBT (continued)

General Obligation Bonds

Proposition MM General Obligation Bond Authorization

In November 1998, voters approved the issuance of general obligation bond, not to exceed \$1.51 billion (Proposition MM), for the purpose of repairing deteriorating roofs, drainage, heating, plumbing and electrical systems; upgrading fire security, disabled access, science laboratories, wiring for computers; removing hazardous lead paints; building needed libraries; enabling additional class size reduction, building schools and classrooms; and financing the acquisition and improvement of real property in order to address District needs. The District has issued the entire authorization through Series A through G totaling \$1.51 billion.

Proposition S General Obligation Bond Authorization

On November 4, 2008, San Diego voters in San Diego passed the \$2.1 billion general obligation bond measure, Proposition S. This bond program will provide resources for the San Diego Unified School District to repair renovate and revitalize 181 neighborhood schools. Proposition S extends the previously voter approved Proposition MM tax rate from 2029, to 2044. The District issued Series A in the amount of \$131,157,581 on May 7, 2009 and Series B in the amount of \$38,840,000 on May 7, 2009.

The outstanding general obligation bonded debt of San Diego Unified School District at June 30, 2010 is summarized in the following:

<u>Series</u>	<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2009</u>	<u>Current Year Additions</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2010</u>
1998, Series A	5/27/1999	4.20 - 5.34	2023	\$ 139,995,085	\$ 94,571,395	\$ -	\$ 7,665,704	\$ 86,905,691
A - Accreted Interest					63,005,710	8,182,629	5,169,296	66,019,043
1998, Series B	12/14/2000	4.40 - 5.35	2025	149,999,084	133,891,998	-	1,357,490	132,534,508
B - Accreted Interest					18,491,763	1,340,893	2,772,510	17,060,146
1998, Series C	11/21/2001	2.95 - 5.00	2026	199,995,712	181,205,527	-	1,459,270	179,746,257
C - Accreted Interest					6,813,919	462,611	2,150,730	5,125,800
1998, Series D	9/12/2002	2.10 - 5.25	2027	274,995,346	252,775,000	-	3,385,000	249,390,000
1998, Series E	8/19/2003	1.90 - 5.25	2028	349,993,599	327,131,355	-	2,859,629	324,271,726
E - Accreted Interest					12,794,765	1,073,211	3,090,370	10,777,606
1998, Series F	9/2/2004	1.95 - 5.00	2029	199,996,373	42,355,364	-	2,160,242	40,195,122
F - Accreted Interest					3,201,865	856,252	1,499,758	2,558,359
1998, Series G	9/8/2005	3.00 - 5.00	2030	195,024,802	62,865,000	-	5,075,000	57,790,000
Refunding (F-1, G-1)	11/30/2006	4.00 - 5.25	2030	266,820,000	262,665,000	-	-	262,665,000
2009, Series A	5/7/2009	2.50 - 6.19	2033	131,157,581	131,157,581	-	-	131,157,581
A - Accreted Interest					-	3,994,999	-	3,994,999
				<u>\$ 1,907,977,582</u>	<u>\$ 1,592,926,242</u>	<u>\$ 15,910,595</u>	<u>\$ 38,644,999</u>	<u>\$ 1,570,191,838</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 8 – LONG-TERM DEBT (continued)

1998 Series A

Year Ended	Principal	Accreted Interest	Total
2011	\$ 7,504,302	\$ 5,845,698	\$ 13,350,000
2012	7,344,741	6,535,259	13,880,000
2013	7,226,161	7,208,839	14,435,000
2014	7,051,795	7,963,205	15,015,000
2015	6,921,036	8,693,964	15,615,000
2016-2020	32,589,657	55,375,343	87,965,000
2021-2023	18,267,999	43,412,001	61,680,000
	\$ 86,905,691	\$ 135,034,309	\$ 221,940,000

Capital appreciation bonds were issued as part of the Series A issuance with maturity dates from July 1, 2004 through 2023. Prior to their applicable maturity dates, each capital appreciation bond will accrete interest on the principal component, with all interest accreting through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$66,019,043 has been reflected in the long-term debt balance.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 8 – LONG-TERM DEBT (continued)

1998 Series B

Year Ended	Principal	Accreted Interest	Current Interest	
			Component	Total
2011	\$ 1,332,520	\$ 6,549,296	\$ 3,222,480	\$ 11,104,296
2012	1,301,800	6,549,296	3,698,200	11,549,296
2013	1,266,295	6,549,296	4,198,705	12,014,296
2014	1,225,978	6,549,297	4,719,022	12,494,297
2015	1,182,915	6,549,297	5,262,085	12,994,297
2016-2020	44,670,000	28,515,077	-	73,185,077
2021-2025	81,555,000	13,459,713	-	95,014,713
	<u>\$ 132,534,508</u>	<u>\$ 74,721,272</u>	<u>\$ 21,100,492</u>	<u>\$ 228,356,272</u>

Capital appreciation bonds were issued as part of the Series B issuance with maturity dates from July 1, 2004 through 2015. Prior to their applicable maturity dates, each capital appreciation bond will accrete interest on the principal component, with all interest accreting through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$17,060,146 has been reflected in the long-term debt balance.

During fiscal year 2004-05, the District issued its Series B-1 and B-2 General Obligation Refunding Bonds (the Series B Refunding Bonds), the proceeds of which were used to redeem certain maturities of the Series B General Obligation Bonds, on a crossover refunding basis. The Series B Bonds to be redeemed will remain outstanding until July 1, 2010 (the Series B Crossover date), upon which time proceeds of the Series B Refunding Bonds will be issued to redeem the principal and premium, if any, of the specific maturities to be redeemed. Principal of \$126,225,000 of the Series B Bonds was redeemed on July 1, 2010 for the bond scheduled to mature on July 1, 2016 through July 1, 2025.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 8 – LONG-TERM DEBT (continued)

1998 Series C

Year Ended	Principal	Accreted Interest Component	Current Interest Component	Total
2011	\$ 1,480,950	\$ 2,589,049	\$ 8,681,763	\$ 12,751,762
2012	1,490,307	3,059,693	8,681,763	13,231,763
2013	5,045,000	-	8,681,763	13,726,763
2014	5,760,000	-	8,479,963	14,239,963
2015	6,525,000	-	8,249,563	14,774,563
2016-2020	46,895,000	-	35,696,000	82,591,000
2021-2025	85,075,000	-	20,888,000	105,963,000
2026	27,475,000	-	1,373,750	28,848,750
	<u>\$ 179,746,257</u>	<u>\$ 5,648,742</u>	<u>\$ 100,732,565</u>	<u>\$ 286,127,564</u>

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series C bonds included a premium of \$15,332,829. This amount is amortized using a straight-line method. Amortization of \$623,286 was recognized during of 2009-10 year.

In addition, the associated issuance costs are netted against the premium on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$1,671,006 are amortized using the straight-line method. Amortization of \$67,927 was recognized during the 2009-10 year.

Capital appreciation bonds were issued as part of the Series C issuance with maturity dates from July 1, 2004 through 2012, each capital appreciation bond will accrete interest on the principal component, with all interest accreting through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$5,125,800 has been reflected in the long-term debt balance.

During fiscal year 2004-05, the District issued its Series C-1 and C-2 General Obligation Refunding Bonds (the Series C Refunding Bonds), the proceeds of which are to be used to redeem certain maturities of the Series C General Obligation Bonds, on a crossover refunding basis. The Series C Bonds to be redeemed will remain outstanding until July 1, 2011 (the Series C Crossover Date), upon which time proceeds of the Series C Refunding Bonds will be used to redeem the principal and premium, if any, of the specific maturities to be redeemed. Principal of \$176,775,000 of the Series C Bonds is expected to be redeemed on July 1, 2011.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 8 – LONG-TERM DEBT (continued)

1998 Series D

Year Ended	Principal	Current Interest Component	Total
2011	\$ 4,040,000	\$ 12,485,350	\$ 16,525,350
2012	4,740,000	12,323,750	17,063,750
2013	5,485,000	12,134,150	17,619,150
2014	6,275,000	11,914,750	18,189,750
2015	7,120,000	11,663,750	18,783,750
2016-2020	51,055,000	52,413,176	103,468,176
2021-2025	94,465,000	35,491,824	129,956,824
2026-2027	76,210,000	5,985,500	82,195,500
	<u>\$ 249,390,000</u>	<u>\$ 154,412,250</u>	<u>\$ 403,802,250</u>

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series D bonds included a premium of \$12,104,117. This amount is amortized using a straight-line method. Amortization of \$488,069 was recognized during of 2009-10 year.

In addition, the associated issuance costs are netted against the premium on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$2,073,510 are amortized using the straight-line method. Amortization of \$83,609 was recognized during the 2009-10 year.

Capital appreciation bonds were issued as part of the Series D issuance with maturity dates from July 1, 2004 through 2010, each capital appreciation bond will accrete interest on the principal component, with all interest accreting through the applicable maturity date and payable only upon maturity or prior payment of the principal component. The accreted interest accrued has been redeemed in the current year, there is no accreted interest reflected in the long-term debt balance.

During fiscal year 2004-05, the District issued its Series D-1 and D-2 and D-3 General Obligation Refunding Bonds (the Series D Refunding Bonds), the proceeds of which were used to redeem certain maturities of the Series D General Obligation Bonds, on a crossover refunding basis. The Series D Bonds to be redeemed will remain outstanding until July 1, 2012 (the Series D Crossover Date), upon which time proceeds of the Series D Refunding Bonds will be used to redeem the principal and premium, if any, of the specific maturities to be redeemed. Principal of \$240,610,000 of the Series D Bonds is expected to be redeemed on July 1, 2012.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 8 – LONG-TERM DEBT (continued)

1998 Series E

Year Ended	Principal	Accreted Interest Component	Current Interest Component	Total
2011	\$ 2,766,768	\$ 3,638,232	\$ 16,016,930	\$ 22,421,930
2012	2,665,336	4,199,664	16,016,930	22,881,930
2013	2,559,622	4,775,378	16,016,930	23,351,930
2014	7,805,000	-	16,016,930	23,821,930
2015	8,625,000	-	15,681,315	24,306,315
2016-2020	58,130,000	-	70,825,622	128,955,622
2021-2025	101,325,000	-	52,287,413	153,612,413
2026-2028	140,395,000	-	14,922,750	155,317,750
	<u>\$ 324,271,726</u>	<u>\$ 12,613,274</u>	<u>\$ 217,784,820</u>	<u>\$ 554,669,820</u>

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series E bonds included a premium of \$13,791,022. This amount is amortized using a straight-line method. Amortization of \$553,856 was recognized during of 2009-10 year.

In addition, the associated issuance costs are netted against the premium on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$2,909,922 are amortized using the straight-line method. Amortization of \$116,864 was recognized during the 2009-10 year.

Capital appreciation bonds were issued as part of the Series E issuance with maturity dates from July 1, 2005 through 2013, each capital appreciation bond will accrete interest on the principal component, with all interest accreting through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$10,777,606 has been reflected in the long-term debt balance.

During fiscal year 2004-05, the District issued its Series E-1 and E-2 General Obligation Refunding Bonds (the Series E Refunding Bonds), the proceeds of which were used to redeem certain maturities of the Series E General Obligation Bonds, on a crossover refunding basis. The Series E Bonds to be redeemed will remain outstanding until July 1, 2013 (the Series E Crossover Date), upon which time proceeds of the Series E Refunding Bonds will be used to redeem the principal and premium, if any, of the specific maturities to be redeemed. Principal of \$300,700,000 of the Series E Bonds is expected to be redeemed on July 1, 2013.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 8 – LONG-TERM DEBT (continued)

1998 Series F

Year Ended	Principal	Accreted Interest Component	Current Interest Component	Total
2011	\$ 1,943,816	\$ 1,661,184	\$ 8,934,773	\$ 12,539,773
2012	1,741,306	1,793,694	8,934,773	12,469,773
2013	3,450,000	-	8,934,773	12,384,773
2014	3,475,000	-	8,814,023	12,289,023
2015	3,485,000	-	8,688,054	12,173,054
2016-2020	17,565,000	-	41,048,337	58,613,337
2021-2025	5,705,000	-	36,860,575	42,565,575
2026-2029	2,830,000	-	21,628,950	24,458,950
	<u>\$ 40,195,122</u>	<u>\$ 3,454,878</u>	<u>\$ 143,844,258</u>	<u>\$ 187,494,258</u>

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The amount of the premium remaining after the 2006 refunding is \$2,153,823. This amount is amortized using a straight-line method. Amortization of \$94,882 was recognized during of 2009-10 year.

In addition, the remaining discount issuance costs are netted against the premium on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$442,063 are amortized using the straight-line method. Amortization of \$19,474 was recognized during the 2009-10 year.

Capital appreciation bonds were issued as part of the Series F issuance with maturity dates from July 1, 2006 through 2012, each capital appreciation bond will accrete interest on the principal component, with all interest accruing through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$2,558,359 has been reflected in the long-term debt balance.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 8 – LONG-TERM DEBT (continued)

1998 Series G

Year Ended	Principal	Current Interest Component	Total
2011	\$ 5,120,000	\$ 2,487,731	\$ 7,607,731
2012	5,080,000	2,282,931	7,362,931
2013	4,975,000	2,082,931	7,057,931
2014	4,900,000	7,861,711	12,761,711
2015	4,800,000	7,685,311	12,485,311
2016-2020	21,250,000	35,615,855	56,865,855
2021-2025	9,920,000	3,763,996	13,683,996
2026-2028	1,745,000	717,572	2,462,572
	\$ 57,790,000	\$ 62,498,038	\$ 120,288,038

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The amount of the premium remaining after the 2006 refunding is \$3,911,207. This amount is amortized using a straight-line method. Amortization of \$172,300 was recognized during of 2009-10 year.

In addition, the remaining discount issuance costs are netted against the premium on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$712,658 are amortized using the straight-line method. Amortization of \$31,391 was recognized during the 2009-10 year.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 8 – LONG-TERM DEBT (continued)

Refunding Bonds

On November 14, 2006 the District issued \$266,820,000 in current interest bonds, Series F-1 and Series G-1. Interest rates range from 4.0% to 5.25% payable semiannually on January 1 and July 1. The proceeds were issued to pay off portions of the 1998 Election, Series F and Series G general obligation bonds. The proceeds were placed into an irrevocable trust escrow account and will be used to fund future required principal and interest payments of the refunded bonds. The refunded portions of the bonds are considered in-substance defeased and are not recorded on the financial statements.

The debt service requirements for the Refunding Bonds outstanding as of June 30, 2010 are as follows:

Year Ended	Principal	Current Interest Component	Total
2011	\$ -	\$ 12,617,542	\$ 12,617,542
2012	-	12,617,542	12,617,542
2013	-	12,617,542	12,617,542
2014	-	12,617,542	12,617,542
2015	-	12,617,542	12,617,542
2016-2020	-	63,087,712	63,087,712
2021-2025	25,870,000	61,995,923	87,865,923
2026-2029	236,795,000	36,132,525	272,927,525
	<u>\$ 262,665,000</u>	<u>\$ 224,303,870</u>	<u>\$ 486,968,870</u>

The bonds include a premium of \$19,072,853 and a deferred charge on refunding of \$7,210,585. These amounts were amortized using the straight-line method. Premium amortization of \$840,214 and deferred charge amortization of \$317,647 for a net amortization of \$522,567 was recognized during the 2009-10 year. Associated issuance costs are netted against the premium on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$1,868,157 were amortized using the straight-line method. Amortization of \$399,945 was recognized during the 2009-10 year.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 8 – LONG-TERM DEBT (continued)

2008 Series A

Year Ended	Principal	Current Interest Component	Total
2011	\$ -	\$ -	\$ -
2012	1,150,555	94,445	1,245,000
2013	1,336,515	163,485	1,500,000
2014	1,305,735	234,265	1,540,000
2015	1,085,319	264,681	1,350,000
2016-2020	7,600,493	12,094,307	19,694,800
2021-2025	10,908,134	55,665,866	66,574,000
2026-2030	32,384,879	122,149,121	154,534,000
2031-2033	75,385,951	83,328,749	158,714,700
	<u>\$ 131,157,581</u>	<u>\$ 273,994,919</u>	<u>\$ 405,152,500</u>

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series A bonds included a premium of \$3,503,141 that was used to pay for bond issuance costs in the same amount. These amounts were amortized using the straight-line method. Premium amortization of \$144,758 and deferred charge amortization of \$144,758 for a net amortization of \$0 was recognized during the 2009-10 year.

Capital appreciation bonds were issued as part of the Series A issuance with a maturity date of July 1, 2033, each capital appreciation bond will accrete interest on the principal component, with all interest accruing through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$3,994,999 has been reflected in the long-term debt balance.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 8 – LONG-TERM DEBT (continued)

2008 Series A - Qualified School Construction Bonds

The District issued \$38,840,000 of Qualified School Construction Bonds (QSCBs) on April 21, 2009, pursuant to an authorization granted by voters of the District on November 4, 2008. The QSCBs were issued simultaneously with the District's 2010 General Obligation Bonds in order to fund projects authorized under Proposition S. The QSCBs are payable from ad valorem taxes upon all property subject to taxation by the District. The QSCBs are tax credit bonds within the meaning of Section 54F of the Internal Revenue Code (the Code), and accordingly the QSCBs do not bear interest to be paid by the District. The owners of the QSCBs will be allowed a credit under the Code against their Federal income tax liability. Proceeds from the sale of QSCBs are restricted to the uses prescribed for bonds designated as QSCBs under Section 54F of the Code.

Year Ended June 30	Principal Amount	Tax Credit Amount	Total
2011	\$ -	\$ 3,056,708	\$ 3,056,708
2012	-	3,056,708	3,056,708
2013	-	3,056,708	3,056,708
2014	-	3,056,708	3,056,708
2015	-	3,056,708	3,056,708
2016-2020	14,340,000	15,283,540	29,623,540
2021-2023	24,500,000	8,405,947	32,905,947
Total	<u>\$ 38,840,000</u>	<u>\$ 38,973,027</u>	<u>\$ 77,813,027</u>

Early Retirement Incentive

In 2008-09, the District offered an early retirement incentive, through the Public Agency Retirement Services, which was accepted by 1,062 certificated and classified employees, who were eligible to retire under STRS or PERS and who had at least 5 years of district service. A benefit of 100% of the employee's contract salary was paid to each employee in exchange for their early retirement. The District projects a net cost savings for the non-replacement employees over the next five years to be \$31.9 million. The total liability for the incentive paid amounts to \$70,893,394, the payment outstanding as of June 30, 2010 are as follows:

	Payments
July 10, 2010	\$ 14,178,679
July 10, 2011	14,178,679
July 10, 2012	14,178,679
July 10, 2013	14,178,678
Total	<u>\$ 56,714,715</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 9 – INTERNAL SERVICE FUNDS

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has established Internal Service Funds to account for and finance its uninsured risks of loss. Under this program, the Internal Service Funds provide coverage for a maximum of \$500,000 for each worker’s compensation claim, \$150,000 for each general liability claim and \$150,000 for each property damage claim. The District purchases commercial insurance for claims in excess of coverage provided by the funds and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

Funding of the Internal Service Funds is based on estimates of the amounts needed to pay prior and current year claims. Worker’s Compensation claims are charged to the respective funds which generate the liability and the Property and Liability claims are paid by the General Fund.

At June 30, 2010, the District accrued the claims liability in accordance with GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims liability is estimated at \$51,497,000. Changes in the reported liability are shown below:

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimated	Claims Payments	Ending Fiscal Year Liability
Liability	\$ 3,067,000	\$ 4,388,842	\$ 4,807,842	\$ 2,648,000
Workers' Compensation	50,585,000	10,719,064	12,455,064	48,849,000
Totals	<u>\$53,652,000</u>	<u>\$ 15,107,906</u>	<u>\$ 17,262,906</u>	<u>\$ 51,497,000</u>

NOTE 10 – NEGATIVE NET ASSET BALANCE

As of June 30, 2010 there was a deficit in the Liability Insurance sub-fund of the Self Insurance Fund amounting to \$1.7 million. The deficit is a result of the District’s accrual of the claims liability.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 11 - EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS).

Plan Description and Provisions

California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street; Sacramento, California 95814.

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution for fiscal year 2009-10 was 9.709%. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2009-10	\$ 22,150,014	100%
2008-09	\$ 21,945,467	100%
2007-08	\$ 22,765,551	100%

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 11 - EMPLOYEE RETIREMENT PLANS (continued)

California State Teachers' Retirement System (CalSTRS)

Plan Description

The District contributes to the California State Teachers' Retirement System (CalSTRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7667 Folsom Boulevard; Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2009-10 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalSTRS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2009-10	\$ 44,524,756	100%
2008-09	\$ 47,149,467	100%
2007-08	\$ 47,767,897	100%

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$23,028,743 to CalSTRS (4.267% of salaries subject to CalSTRS in 2009-10).

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 12 – OTHER POSTEMPLOYMENT BENEFITS

San Diego Unified School District administers two types of postemployment benefits plans: (1) a defined contribution plan that provides a monthly stipend for eligible employees, who are under age 67 and with 17 years of service or more; and, (2) an implicit rate subsidy for all retirees that elect to purchase benefits at the District’s negotiated insurance premium rates. Each plan is described as follows:

Defined Contribution Monthly Stipend Plan

San Diego Unified School District administers a defined contribution postemployment health care benefit plan, whereby a contribution is made by the District each year, pursuant to collective bargaining agreements, for the payment of monthly benefits to the plan members. The contribution is calculated using a base amount plus cost-of-living percentage increases equal to negotiated increases in salary schedules.

According to bargaining agreements with the various bargaining units the District is obligated to contribute specified annual amounts to each of the bargaining units. District contributions end if they are not re-negotiated and included in subsequent bargaining agreements. The bargaining units are responsible for establishing the amount of the monthly stipend distributed to eligible retirees. The monthly distributions are based on periodic projections of the available funds and number of participating retirees.

The stipend arrangement does not result in a GASB No. 45 obligation and the actuary has not included this benefit in the valuation. As of July 1, 2009, 1,303 retirees received a monthly stipend.

Defined Benefit Implicit Rate Subsidy Plan

The District provides retirees and their spouses with an election to purchase benefits at the health insurance premium rates negotiated for District employees. When utilized, this results in an implicit rate subsidy that is subject to GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The District manages the implicit rate obligation by designating funds in the Special Reserve for Postemployment Benefits Fund. For this purpose, the District implemented GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, in 2007-08.

Membership in the plan consisted of the following:

Retirees receiving implicit rate subsidy*	<u><u>1,303</u></u>
* As of July 1, 2009 actuarial valuation	
Number of participating employers	<u><u>1</u></u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 12– OTHER POSTEMPLOYMENT BENEFITS (continued)

The District’s funding policy is based on the projected pay-as-you-go financing requirements, with additional amounts to prefund benefits as determined annually by the District’s Governing Board.

The District’s annual OPEB cost is calculated based on the Annual Required Contribution (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District’s annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District’s net OPEB obligation:

Annual required contribution	\$ 3,593,029
Interest on net OPEB obligation	113,134
Adjustment to annual required contribution	<u>(109,863)</u>
Annual OPEB cost	3,596,300
Contributions made	<u>(2,419,894)</u>
Adjustment to correct to actuarial report	<u>2,514,099</u>
Increase in net OPEB obligation	3,690,505
Net OPEB obligation - July 1, 2009	<u>-</u>
Net OPEB obligation - June 30, 2010	<u><u>\$ 3,690,505</u></u>

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2009-10 are as follows:

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
7/1/2007	-	\$ 40,320,317	\$ 40,320,317	0%
7/1/2009	-	\$ 43,593,885	\$ 43,593,885	0%

Funded Status and Funding Progress – OPEB Plans

As of July 1, 2009, the most recent actuarial valuation date, the implicit rate subsidy plan was unfunded. The actuarial accrued liability (AAL) for benefits was \$43.5 million and the unfunded actuarial accrued liability (UAAL) was \$43.5 million.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 12– OTHER POSTEMPLOYMENT BENEFITS (continued)

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedules of funding progress, presented as required supplementary information following the notes to the financial statements, present multiyear trend information about whether the actuarial values of plan assets are increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designated to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Additional information as of the latest actuarial valuation follows:

Valuation Date	7/1/2009
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level-Dollar Basis
Remaining amortization period	28 years
Actuarial assumptions:	
Discount rate	4.5%

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 13 – JOINT POWERS AUTHORITY (JPA) – QUALIFIED ZONE ACADEMY BOND (QZAB)

In November 2003, the Board approved the establishment of San Diego City Schools Financing Authority, a JPA between the San Diego Board of Education and the San Diego Unified School District. The purpose of this JPA is to provide assistance to the District in connection with the financing and refinancing of public capital improvements within the criteria of QZAB. In order to accomplish this, the Board approved a lease agreement between the JPA and the District whereby the District would lease certain parcels of real property including improvements to the Authority and a sublease whereby the District would rent these properties. The rental payments would be used to finance the repayment of bonds.

In November 2003, the JPA issued \$5 million of Lease Revenue Bonds to be used for construction improvements. These bonds will be repaid over a period of 15 years. At the same time, the District deposited \$2,823,818 into an escrow account for the repayment of Lease Revenue Bonds. The fair market value of investment at June 30, 2010 is \$3,546,508. This deposit is considered full payment over the term of the \$5 million debt. There is no liability in these financial statements because the debt is considered in-substance defeased.

NOTE 14 – EXPENDITURES OVER APPROPRIATIONS

In the General Fund classified salaries expenditures exceeded appropriations in the General Fund as follows:

<u>General Fund</u>	<u>Amount</u>
Employee benefits	\$ 24,491
Other outgo	822,144
Total	<u>\$ 846,635</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 15 - COMMITMENTS AND CONTINGENCIES

A. Litigation

The District is a defendant in various pending liability lawsuits. The outcome of any litigation is unknown at the present time. Any estimated possible judgment(s) against the District are either immaterial or unknown and are not reflected in these financial statements.

B. State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

C. Construction Commitments

As of June 30, 2010, the District had commitments with respect to unfinished capital projects of approximately \$157,564,009.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2010

NOTE 16 – SUBSEQUENT EVENTS

General Obligation Bonds

On August 5, a Series C tax exempt bond and Series D-1 and D2 Qualified School Construction Bonds (QSCB) were issued for an aggregate principal amount of \$199,999,783. The Series C bond was issued as a capital appreciation bond. The bond has stated interest rates of 6.10% to 6.80% and maturing through July 1, 2050.

Tax Revenue Anticipation Notes

The District issued \$235,000,000 of Tax Revenue Anticipation Notes dated July 14, 2010. The notes mature on June 30, 2011 and yield .570% interest. The notes were sold by the District to supplement its cash flow.

The funds will be held with the trustee until the District needs to draw funds out. Repayment requirements are that approximately \$235,000,000 principal plus \$4,517,222 interest to be paid June 30, 2010.

Required Supplementary Information

SAN DIEGO UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
For the Fiscal Year Ended June 30, 2010

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with
	Original	Final		Final Budget - Pos (Neg)
REVENUES				
Revenue limit sources	\$ 592,605,778	\$ 564,425,689	\$ 557,688,559	\$ (6,737,130)
Federal	128,651,157	203,741,747	154,891,445	(48,850,302)
Other state	281,233,490	308,914,854	295,720,813	(13,194,041)
Other local	89,203,342	65,176,668	55,505,736	(9,670,932)
Total revenues	<u>1,091,693,767</u>	<u>1,142,258,958</u>	<u>1,063,806,553</u>	<u>(78,452,405)</u>
EXPENDITURES				
Certificated salaries	529,794,784	559,571,571	542,514,634	17,056,937
Classified salaries	201,987,743	194,985,563	194,105,387	880,176
Employee benefits	262,295,260	263,896,180	263,920,671	(24,491)
Books and supplies	58,795,347	92,804,560	43,874,766	48,929,794
Services and other operating expenditures	58,363,595	96,141,889	77,493,803	18,648,086
Capital outlay	10,016,738	6,820,763	4,175,976	2,644,787
Transfers of indirect costs	(2,080,817)	(1,516,066)	(2,065,042)	548,976
Other outgo	750,000	803,631	1,625,775	(822,144)
Total expenditures	<u>1,119,922,650</u>	<u>1,213,508,091</u>	<u>1,125,645,970</u>	<u>87,862,121</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(28,228,883)</u>	<u>(71,249,133)</u>	<u>(61,839,417)</u>	<u>9,409,716</u>
OTHER FINANCING SOURCES AND USES				
Interfund transfers in	1,093,915	2,883,713	12,340,008	9,456,295
Interfund transfers out	(4,535,302)	(13,546,352)	(15,142,279)	(1,595,927)
Other sources	-	-	1,046,589	1,046,589
Total other financing sources and uses	<u>(3,441,387)</u>	<u>(10,662,639)</u>	<u>(1,755,682)</u>	<u>8,906,957</u>
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	<u>(31,670,270)</u>	<u>(81,911,772)</u>	<u>(63,595,099)</u>	<u>18,316,673</u>
Fund balances, July 1, 2009	<u>160,609,288</u>	<u>160,609,288</u>	<u>160,609,288</u>	<u>-</u>
Fund balances, June 30, 2010	<u>\$ 128,939,018</u>	<u>\$ 78,697,516</u>	<u>\$ 97,014,189</u>	<u>\$ 18,316,673</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Funding Progress
For the Fiscal Year Ended June 30, 2010

Actuarial Valuation Date	Value of Assets	Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
7/1/2007	\$ -	\$ 40,320,317	\$ 40,320,317	0%	\$ 765,499,371	5%
7/1/2009	\$ -	\$ 43,593,885	\$ 43,593,885	0%	\$ 787,605,484	6%

Supplementary Information Section

SAN DIEGO UNIFIED SCHOOL DISTRICT
Combining Balance Sheet – Non-Major Special Revenue Funds
June 30, 2010

	Adult Education Fund	Child Development Fund	Cafeteria Special Revenue Fund	Deferred Maintenance Fund	Pupil Transportation Equipment Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve Fund for Postemployment Benefits	Total
ASSETS								
Cash and cash equivalents	\$ 1,913,377	\$ 8,591,224	\$ 12,570,647	\$ 1,423,445	\$ 3,175,967	\$ 124,671	\$ 1,274,290	\$ 29,073,621
Accounts receivable	3,973	9,488,838	5,063,391	2,909	14,891	255	2,769	14,577,026
Due from other funds	3,882,796	7,676,080	197,922	7,758,137	-	-	-	19,514,935
Inventories	-	-	846,901	-	-	-	-	846,901
Prepaid expenditures	-	11,671	84	-	-	-	-	11,755
Total assets	<u>\$ 5,800,146</u>	<u>\$ 25,767,813</u>	<u>\$ 18,678,945</u>	<u>\$ 9,184,491</u>	<u>\$ 3,190,858</u>	<u>\$ 124,926</u>	<u>\$ 1,277,059</u>	<u>\$ 64,024,238</u>
LIABILITIES AND FUND BALANCES								
LIABILITIES								
Accounts payable	\$ 63,750	\$ 110,725	\$ 1,258,100	\$ -	\$ -	\$ -	\$ -	\$ 1,432,575
Due to other funds	4,724,591	24,871,205	13,428,607	9,107,410	-	-	-	52,131,813
Deferred revenue	-	68,874	7,019	-	-	-	-	75,893
Total liabilities	<u>4,788,341</u>	<u>25,050,804</u>	<u>14,693,726</u>	<u>9,107,410</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>53,640,281</u>
FUND BALANCES								
Reserved for:								
Inventories	-	-	846,901	-	-	-	-	846,901
Prepaid expenditures	-	11,671	84	-	-	-	-	11,755
Special revenue funds	<u>1,011,805</u>	<u>705,338</u>	<u>3,138,234</u>	<u>77,081</u>	<u>3,190,858</u>	<u>124,926</u>	<u>1,277,059</u>	<u>9,525,301</u>
Total fund balances	<u>1,011,805</u>	<u>717,009</u>	<u>3,985,219</u>	<u>77,081</u>	<u>3,190,858</u>	<u>124,926</u>	<u>1,277,059</u>	<u>10,383,957</u>
Total liabilities and fund balances	<u>\$ 5,800,146</u>	<u>\$ 25,767,813</u>	<u>\$ 18,678,945</u>	<u>\$ 9,184,491</u>	<u>\$ 3,190,858</u>	<u>\$ 124,926</u>	<u>\$ 1,277,059</u>	<u>\$ 64,024,238</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Combining Statement of Revenues, Expenses, and Changes in Fund Balances – Non-Major Special Revenue Funds
For the Fiscal Year Ended June 30, 2010

	Adult Education Fund	Child Development Fund	Cafeteria Special Revenue Fund	Deferred Maintenance Fund	Pupil Transportation Equipment Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve Fund for Postemployment Benefits	Total
REVENUES								
Federal and state aid not restricted to specific purpose	\$ (104,598)	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ (104,598)
Interest and investment earnings	32,584	-	100,677	16,400	38,169	1,297	15,613	204,740
Miscellaneous	-	-	9,939,421	-	-	-	-	9,939,421
Program revenues:								
Charges for services	-	810,551	-	-	-	-	-	810,551
Operating grants and contributions	-	31,738,068	47,828,465	-	-	-	-	79,566,533
Total revenues	<u>(72,014)</u>	<u>32,548,619</u>	<u>57,868,563</u>	<u>16,400</u>	<u>38,169</u>	<u>1,297</u>	<u>15,613</u>	<u>90,416,647</u>
EXPENDITURES								
Instructional services:								
Instruction	1,006,513	22,395,468	-	-	-	-	-	23,401,981
Instruction-related services:								
Supervision of instruction	319,325	4,449,948	-	-	-	-	-	4,769,273
School site administration	254,571	1,078,907	-	-	-	-	-	1,333,478
Pupil support services:								
Home-to-school transportation	-	-	-	-	4,380,523	-	-	4,380,523
Food services	-	249,789	53,665,669	-	-	-	-	53,915,458
All other pupil services	17,562	784,804	-	-	-	-	-	802,366
General administration services:								
Other general administration	34,468	953,415	1,077,160	-	-	-	-	2,065,043
Plant services	22,167	1,433,709	1,001,258	104,353	-	-	-	2,561,487
Facility acquisition and construction	-	895,158	611,827	4,487,064	-	-	-	5,994,049
Enterprise activities	-	-	4,447	-	-	-	-	4,447
Debt service - issuance costs and discounts	-	255,544	-	-	-	-	-	255,544
Total expenditures	<u>1,654,606</u>	<u>32,496,742</u>	<u>56,360,361</u>	<u>4,591,417</u>	<u>4,380,523</u>	<u>-</u>	<u>-</u>	<u>99,483,649</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(1,726,620)</u>	<u>51,877</u>	<u>1,508,202</u>	<u>(4,575,017)</u>	<u>(4,342,354)</u>	<u>1,297</u>	<u>15,613</u>	<u>(9,067,002)</u>
OTHER FINANCING SOURCES (USES)								
Interfund transfers in	2,112,338	444,186	-	4,400,000	7,530,000	-	674,902	15,161,426
Interfund transfers out	(1,789,798)	-	-	-	-	-	(742,882)	(2,532,680)
Total other financing sources and uses	<u>322,540</u>	<u>444,186</u>	<u>-</u>	<u>4,400,000</u>	<u>7,530,000</u>	<u>-</u>	<u>(67,980)</u>	<u>12,628,746</u>
Net change in fund balances	(1,404,080)	496,063	1,508,202	(175,017)	3,187,646	1,297	(52,367)	3,561,744
Fund balances, July 1, 2009	2,415,885	220,946	2,477,017	252,098	3,212	123,629	1,329,426	6,822,213
Fund balances, June 30, 2010	<u>\$ 1,011,805</u>	<u>\$ 717,009</u>	<u>\$ 3,985,219</u>	<u>\$ 77,081</u>	<u>\$ 3,190,858</u>	<u>\$ 124,926</u>	<u>\$ 1,277,059</u>	<u>\$ 10,383,957</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Combining Balance Sheet – Non-Major Capital Project Funds
June 30, 2010

	Building Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total
ASSETS				
Cash and cash equivalents	\$ 68,350,998	\$ 25,935,217	\$ 26,816,022	\$ 121,102,237
Accounts receivable	161,997	54,131	228,802	444,930
Due from other funds	3,480,658	2,396,020	1,441,859	7,318,537
Prepaid expenditures	1,030	520	6,700	8,250
Total assets	<u>\$ 71,994,683</u>	<u>\$ 28,385,888</u>	<u>\$ 28,493,383</u>	<u>\$ 128,873,954</u>
LIABILITIES AND FUND BALANCES				
LIABILITIES				
Accounts payable	\$ 8,046,473	\$ 379,613	\$ 320,267	\$ 8,746,353
Due to other funds	3,281,588	8,585,793	4,184,280	16,051,661
Deferred revenue	-	-	33,487	33,487
Total liabilities	<u>11,328,061</u>	<u>8,965,406</u>	<u>4,538,034</u>	<u>24,831,501</u>
FUND BALANCES				
Reserved for:				
Prepaid expenditures	1,030	520	6,700	8,250
Capital project funds	60,665,592	19,419,962	23,948,649	104,034,203
Total fund balances	<u>60,666,622</u>	<u>19,420,482</u>	<u>23,955,349</u>	<u>104,042,453</u>
Total liabilities and fund balances	<u>\$ 71,994,683</u>	<u>\$ 28,385,888</u>	<u>\$ 28,493,383</u>	<u>\$ 128,873,954</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –
Non-Major Capital Project Funds
For the Fiscal Year Ended June 30, 2010

	Building Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total
REVENUES				
General revenues:				
Property taxes	\$ -	\$ 8,585,169	\$ -	\$ 8,585,169
Interest and investment earnings	1,273,159	272,936	337,224	1,883,319
Miscellaneous	34,197	2,430,876	6,565,577	9,030,650
Total revenues	<u>1,307,356</u>	<u>11,288,981</u>	<u>6,902,801</u>	<u>19,499,138</u>
EXPENDITURES				
General administration services:				
Other general administration	-	93,856	-	93,856
Plant services	(134,979)	7,607,276	2,610,570	10,082,867
Facility acquisition and construction	92,783,610	10,975,797	3,961,037	107,720,444
Other outgo:				
Debt service - issuance costs and discounts	-	783,933	550,459	1,334,392
Total expenditures	<u>92,648,631</u>	<u>19,460,862</u>	<u>7,122,066</u>	<u>119,231,559</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(91,341,275)</u>	<u>(8,171,881)</u>	<u>(219,265)</u>	<u>(99,732,421)</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers in	-	5,552,891	-	5,552,891
Interfund transfers out	(144,405)	-	(12,078,508)	(12,222,913)
Total other financing sources and uses	<u>(144,405)</u>	<u>5,552,891</u>	<u>(12,078,508)</u>	<u>(6,670,022)</u>
Net change in fund balances	(91,485,680)	(2,618,990)	(12,297,773)	(106,402,443)
Fund balances, July 1, 2009	152,152,302	22,039,472	36,253,122	210,444,896
Fund balances, June 30, 2010	<u>\$ 60,666,622</u>	<u>\$ 19,420,482</u>	<u>\$ 23,955,349</u>	<u>\$ 104,042,453</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Local Educational Agency Organization Structure
June 30, 2010

The San Diego Unified School District was established in 1854 and is comprised of an area of approximately 210 square miles located in San Diego County. The District maintains 221 educational facilities with 14,555 full-time equivalent staff positions representing more than 15,800 employees. The District's educational facilities include 118 elementary schools, 24 middle schools, 29 high schools, 35 charter schools, and 15 alternative schools.

<u>GOVERNING BOARD</u>		
<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Richard Barrera	President	December 2012
John Lee Evans	Vice President	December 2012
Richard de Beck	Member	December 2010
Shelia Jackson	Member	December 2012
Katherine Nakamura	Member	December 2010

DISTRICT ADMINISTRATORS

Bill Kowba
Superintendent

Nellie Meyer, Ed.D.
Deputy Superintendent, Academics

Phil Stover
Deputy Superintendent, Business

Vacant
Chief Financial Officer

* Ron Little became the Chief Financial Officer effective October 2010

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
For the Fiscal Year Ended June 30, 2010

	<u>Second Period</u> <u>Report</u>	<u>Annual</u> <u>Report</u>
Elementary:		
Kindergarten	9,195	9,206
Grades 1 Through 3	26,839	26,843
Grades 4 Through 6	24,171	24,166
Grades 7 and 8	14,827	14,803
Opportunity Schools	1	1
Home and Hospital	41	41
Special Education	2,730	2,633
Community Day School	16	23
Extended Year Speical Education	163	163
Extended Year - Nonpublic, Nonsectarian	16	16
	<u>77,999</u>	<u>77,895</u>
Secondary:		
Grades 9 Through 12, regular classes	30,458	30,008
Continuation Education	572	586
Home and Hospital	24	24
Special Education	1,644	1,608
Community Day School	20	23
Extended Year Speical Education	88	118
Extended Year - Nonpublic, Nonsectarian	39	40
	<u>32,845</u>	<u>32,407</u>
Total Average Daily Attendance	<u><u>110,844</u></u>	<u><u>110,302</u></u>

The accompanying note is an integral part of this schedule.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
For the Fiscal June 30, 2010

Grade Level	1982-83	1982-83	1986-87	1986-87	2009-10	Number of Days	Status
	Actual Minutes	Reduced Minutes	Minutes Requirement	Reduced Minutes	Actual Minutes	Traditional Calendar	
Kindergarten	35,400	34,417	36,000	35,000	55,010	180	Complied
Grade 1	50,445	49,044	50,400	49,000	54,025	180	Complied
Grade 2	50,445	49,044	50,400	49,000	54,025	180	Complied
Grade 3	53,985	52,485	50,400	49,000	54,025	180	Complied
Grade 4	53,985	52,485	54,000	52,500	54,025	180	Complied
Grade 5	53,985	52,485	54,000	52,500	54,025	180	Complied
Grade 6	53,985	52,485	54,000	52,500	54,025	180	Complied
Grade 7	62,835	61,090	54,000	52,500	64,800	180	Complied
Grade 8	62,835	61,090	54,000	52,500	64,800	180	Complied
Grade 9	62,835	61,090	64,800	63,000	64,800	180	Complied
Grade 10	62,835	61,090	64,800	63,000	64,800	180	Complied
Grade 11	62,835	61,090	64,800	63,000	64,800	180	Complied
Grade 12	62,835	61,090	64,800	63,000	64,800	180	Complied

The accompanying note is an integral part of this schedule.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
For the Fiscal Year Ended June 30, 2010

General Fund	(Budget) 2011**	2010	2009	2008
Revenues and other financing sources	\$ 1,054,754,270	\$ 1,077,193,150	\$ 1,218,359,713	\$ 1,176,490,887
Expenditures	1,113,206,553	1,125,645,970	1,170,306,748	1,203,387,861
Other uses and transfers out	6,757,321	15,142,279	6,372,266	21,567,951
Total outgo	1,119,963,874	1,140,788,249	1,176,679,014	1,224,955,812
Change in fund balance (deficit)	(65,209,604)	(63,595,099)	41,680,699	(48,464,925)
Ending fund balance	\$ 31,804,585	\$ 97,014,189	\$ 160,609,288	\$ 118,928,589
Available reserves*	\$ 9,067,130	\$ 22,960,926	\$ 23,723,629	\$ 24,200,000
Available reserves as a percentage of total outgo	1%	2%	2%	2%
Total long-term debt	\$ 1,868,811,890	\$ 1,730,357,299	\$ 1,764,472,934	\$ 1,551,319,178
Average daily attendance at P-2	110,844	110,844	111,464	110,547

The General Fund balance has decreased by \$21.9 million over the past two years. The fiscal year 2010-11 adopted budget projects a decrease of \$65.2 million. For a district of this size, the state recommends available reserves of at least 2% of total general fund expenditures, transfers out, and other uses (total outgo). ABX4 2 reduced the 3% reserve requirement by one-third for the 2009-10 year. Long-term debt has increased \$182,541,914 over the past two years.

* Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty in the General Fund or Special Reserve Fund (Other than Capital Outlay).

** Revised Final Budget, September 2010.

The accompanying note is an integral part of this schedule.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Fiscal Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Education:			
Emergency Response School Safe	84.184E	(1)	\$ 24,474
Emergency Response to Crisis Management	84.184E	(1)	33,600
Emergency Response Secure Our School	84.184E	(1)	393,928
Striving Readers	84.371A	(1)	3,737,665
Advance Placement Incentive Program Grant	84.330C	14504	876,119
Magnet School Assistance Program	84.165	(1)	3,601,340
Unrestricted: Federal Impact-Aid	84.041	10015	10,882,615
Subtotal: Direct Programs			19,549,741
Passed through California Dept. of Education (CDE):			
No Child Left Behind Act (NCLB)			
Title I, Part A Cluster:			
Title I - Part A, Basic Grants Low-Income and Neglected	84.010	14329	44,518,603
ARRA-Title I, Part A, Basic Grants, Recovery Act	84.389	15005	14,131,097
Title I, Part D, Local Delinquent Programs	84.010	14796	2,152
Title I, Part B, Even Start Family Literacy Program	84.213	14331	26,169
ARRA Title I, School Improvement Grant	84.389	15004	549,105
Subtotal Title I, Part A Cluster			59,227,126
Title II - Improving Teacher Quality	84.367	14341	8,750,431
Title II - Part A, Principal Training	84.367	14344	48,174
Title II - Part D, Enhancing Education Through Technology	84.318	14334	291,948
Title II - Part D, Enhancing Education Through Technology Competitive	84.318	14368	506,836
Title III - Immigrant Education	84.365	14346	677,209
Title III - Limited English Proficiency	84.365	10084	3,389,778
Title IV - Safe and Drug Free Schools	84.186	14347	485,498
Title IV - Part B, 21st Century CLCP	84.287	14681	2,737,483
Title X McKinney-Vento Homeless Assistance Grants	84.196	14332	47,140
ARRA-Title X McKinney-Vento Homeless Assistance	84.387	15007	23,147
Subtotal NCLB			76,184,770
Special Education Cluster (IDEA):			
Preschool Grants, Part B	84.173	13430	852,839
ARRA-IDEA Part B, Preschool Grants	84.392	15000	481,777
Preschool Local Staff Development, Part B, Sec 619	84.173A	13431	4,844
Preschool Local Entitlement, Part B	84.027A	13682	1,274,559
Basic Local Assistance Entitlement, Part B	84.027	13379	23,225,656
ARRA-IDEA Part B, Preschool Local Entitlement	84.391	15002	742,179
Local Assistance, Part B, Private School ISPs	84.027	10115	173,889
State Improvement Grant, Improving Special Ed Systems	84.323	14577	3,014
Early Intervention Grants, Part C	84.181	23761	296,255
ARRA-IDEA Part B, Basic Local Assistance	84.391	15003	17,521,811
Subtotal IDEA Cluster			44,576,823
ARRA-State Fiscal Stabilization Fund	84.394	25008	36,154,534
Vocational and Applied Technology Education	84.048	13924	1,055,666
Indian Education	84.060	10011	85,454
Federal Impact Aid	84.041	10015	1,572,110
Federal Impact Aid/ SPED	84.041	14792	1,622,198
Technical Assistance for Student Assignment Plans	84.004F	(1)	32,028
Operation Student Success	12.030	(1)	441,217
Subtotal: Passed-Through California Department of Education			159,575,931

(1) Federal catalog number of pass-through entity identifying number not readily available.

The accompanying note is an integral part of this schedule.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards (continued)
For the Fiscal Year Ended June 30, 2010

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
Pass-Through Programs From the California Department of Rehabilitation			
Workability II, Transition Partnership	84.158	10006	541,498
Ext Situational	(1)	(1)	1,894
Total U.S. Department of Education			541,498
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
Needy School Breakfast	10.553	13526	10,856,458
National School Lunch	10.555	13523	30,267,202
Basic School Breakfast	10.553	13525	286,463
Federal Snack Program	10.558	23165	1,555,715
ARRA-Child Nutrition Equipment Assistance Grants	10.579	15006	653,197
Child Care Food Program	10.558	13394	3,067,995
USDA Reduced Price Commodities	10.565	13389	2,394,417
Total U.S. Department of Agriculture			49,081,447
U.S. Department of Health & Human Services:			
Direct Federal to Local Funding:			
AIDS Prevention Instruction	(1)	23044	258,668
Asthma Management Prevention	(1)	(1)	199,281
Youth Risky Behavior Survey	(1)	(1)	40,365
Child Development: Federal Child Care, Center-Based	93.596	13609	715,033
Child Development: Quality Improvement Activities	93.575	13979	5,343
Adolescent Family Life Program	93.995	(1)	310,058
Passed through California Dept of Health Services:			
Medi-Cal Billing Option	93.778	10013	942,879
Total U.S. Department of Health & Human Services			2,471,627
Total Expenditures of Federal Awards			\$ 231,220,244

(1) Federal catalog number of pass-through entity identifying number not readily available.

The accompanying note is an integral part of this schedule.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Charter Schools
For the Fiscal Year Ended June 30, 2010

Charter School	Inclusion in Financial Statements*
Albert Einstein Academy Charter School (K-5)	No
Albert Einstein Middle Charter School (6-8)	No
Arroyo Paseo Charter High School (9-12)	No
Audeo Charter School (6-12)	No
Charter School of San Diego (7-12)	No
Coleman Tech High (9-12) **	No
Darnall E-Charter School (K-6)	No
Evangeline Roberts Institute (K-5) **	No
Explorer Elementary Charter School (K-5)	No
Gompers Preparatory Academy (6-12)	No
Gompers Charter Middle School (6-9)	No
Harriett Tubman Village Charter School (K-8)	No
Health Sciences High School and Middle College (9-12)	No
High Tech High Charter School (9-12)	No
High Tech High International (9-12)	No
High Tech High Media Arts (9-12)	No
High Tech Middle (6-8)	No
High Tech Middle Media Arts (6-8)	No
Holly Drive Leadership Academy (K-8)	No
IFTIN Charter School (K-8)	No
IFTIN High ** (7-12)	No
Innovations Academy (K-8)	No
Keiller Middle (6-8)	No
King/Chavez Academy of Excellence (K-8)	No
King/Chavez Arts Academy (3-5)	No
King/Chavez Athletics Academy (K-5)	No
King/Chavez Community High	No
King/Chavez Preparatory Academy (6-8)	No
King/Chavez Primary Academy (K-3)	No
KIPP Adelante Preparatory Academy (5-8)	No
Learning Choice Academy (K-12)	No
Magnolia Science Academy (6-8)	No
Magnolia Science Academy 2 (6-12) **	No
McGill School of Success (K-2)	No
Museum School (K-6)	No
Nubia Leadership Academy (K-6)	No
O'Farrell Community School (6-8)	No
Pacific American Academy (K-5) **	No
Preuss School UCSD (6-12)	No
Promise Charter School (K-5)	No
San Diego Cooperative (K-8)	No
San Diego Global Vision Academy (K-6) **	No
Urban Discovery Academy Charter (K-6)	No

* Each charter is subject to a separate annual independent audit, for more information refer to Note 1 to the financial statements.

**School start date is after June 30, 2010

The accompanying note is an integral part of this schedule.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
For the Fiscal Year Ended June 30, 2010

There were no adjustments between the annual financial and budget report and the audited financial statements for the fiscal year ended June 30, 2010.

The accompanying note is an integral part of this schedule.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Note to the Supplementary Information
June 30, 2010

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code section 46201. For 2009-10 through 2012-13, the instructional day and minute requirements have been reduced pursuant to Education Code Section 46201.2.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the financial statements.

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

Schedule of Charter Schools

This schedule lists all charter schools chartered by the school district and displays information for each charter school on whether or not the charter school is included in the school district audit.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report to the audited financial statements.

Other Independent Auditor's Reports

Board of Trustees
San Diego Unified School District
San Diego, California

**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**

Independent Auditor's Report

We have audited the basic financial statements of San Diego Unified School District as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated November 14, 2010. 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 Diego Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of San Diego Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of San Diego 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 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. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Questioned Costs as #2010-1 thru #2010-6 that we consider to be significant deficiencies in internal control over financial reporting. *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.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Diego 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying Schedule of Audit Findings and Questioned Costs as items #2010-7.

San Diego Unified School District response to the findings identified in our audit is described in the accompanying Schedule of Audit Findings and Questioned Costs. We did not audit San Diego Unified School District response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of the Board, management, others within the entity, the California Department of Education, the California State Controller's Office, and 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.

Christie White Accountancy Corporation

San Diego, California
November 14, 2010

Board of Trustees
San Diego Unified School District
San Diego, California

REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Independent Auditor's Report

Compliance

We have audited San Diego Unified School District's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of San Diego Unified School District's major federal programs for the year ended June 30, 2010. San Diego Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of San Diego Unified School District's management. Our responsibility is to express an opinion on San Diego Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and OMB Circular A-133. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about San Diego Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on San Diego Unified School District's compliance with those requirements.

In our opinion, San Diego Unified School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2010. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items #2010-7.

Internal Control Over Compliance

Management of San Diego Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered San Diego Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the San Diego Unified School District's internal control over compliance.

A deficiency in internal control over compliance 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, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses*, as defined above. However, we identified certain deficiencies in internal control over compliance that we consider to be significant deficiencies as described in the accompanying schedule of findings and questioned costs as items #2010-5. A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

San Diego Unified School District's responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit San Diego Unified School District's responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of the Board, management, others within the entity, the California Department of Education, the California State Controller's Office, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than the specified parties.

Chint White *Accountancy Corporation*

San Diego, California
November 14, 2010

Board of Trustees
 San Diego Unified School District
 San Diego, California

INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the San Diego Unified School District (the District), as of and for the fiscal year ended June 30, 2010, and have issued our report thereon dated November 14, 2010. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies, 2009-10*, published by the Education Audit Appeals Panel. 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 opinions.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the state laws and regulations applicable to the following items:

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable

Description	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement – Receipt of Funds	1	Yes
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Yes
Districts with only one school serving K-3	4	Not applicable
After School Education and Safety Program:		
General Requirements	4	Yes
After School	4	Yes
Before School	5	Yes
Charter Schools:		
Contemporaneous Records of Attendance	1	Not applicable
Mode of Instruction	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	3	Not applicable

Testing for charter schools is performed by each charter’s respective auditor (refer to Note 1B on page 26). Community day school was not tested because the ADA was immaterial.

Based on our audit, we found that, for the items tested, the San Diego Unified School District complied with the state laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the San Diego Unified School District had not complied with the state laws and regulations.

This report is intended solely for the information and use of the Board, management, others within the entity, the California Department of Education, the California Department of Finance, the California State Controller’s Office, and 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.

Christ White Accountancy Corporation

San Diego, California
November 14, 2010

Findings and Questioned Costs Section

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>

Identification of major programs:

CFDA Numbers	Name of Federal Program or Cluster
84.01	Title I - Part A, Basic Grants Low -Income and Neglected
84.389	ARRA-Title I, Part A, Basic Grants, Recovery Act
84.01	Title I - Part A, PI School Assist and Intervention Teams
84.01	Title I - Part A, PISAIT, Corrective Action Plans
84.389	ARRA Title I, School Improvement Grant
84.027-84.181	Individuals with Disabilities Education Act (IDEA) Cluster
84.323	State Improvement Grant, Improving Special Ed Systems
84.392	ARRA-IDEA Part B, Preschool Grants
84.391	ARRA-IDEA Part B, Preschool Local Entitlement
84.391	ARRA-IDEA Part B, Basic Local Assistance
84.394	ARRA-State Fiscal Stabilization Fund
10.558	Child Care Food Program

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 6,936,607</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for state programs:	<u>Unqualified</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section II – Financial Statement Findings

This section identifies the deficiencies, significant deficiencies, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
50000	Federal Compliance
60000	Miscellaneous
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Finding #2010-1: Associated Student Body Internal Controls (30000)

We audited a sampling of twenty six student body funds at District school sites to test internal control procedures over: cash disbursements, cash receipts, inventory, and minutes of meetings. A detailed list of the findings by school site was provided to the District. We did not find any improprieties, but lack of sound internal controls provides an opportunity for irregularities that might go undetected. A summary of the most common internal control deficiencies we observed is listed below:

- Bank statements are not always reconciled timely or accurately.
- For clearing accounts the District does not verify that all accounts are cleared at year-end or run a total of the amounts.
- Lack of segregation of duties, e.g., bookkeeper is also the signer on the bank account at the secondary schools.
- Lack of adequate backup on cash receipts found, e.g., ticket reconciliations, receipts, evidence of timely deposit.
- Expenditures are lacking proper approval and/or invoice.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section II – Financial Statement Findings (continued)

Finding #2010-1: Associated Student Body Internal Controls (30000) (continued)

Recommendation: We recommend that staff handling student funds be reminded of the importance of good internal controls and documentation. To the extent possible, duties of the bookkeeper should be segregated and/or review procedures put into place. Training of staff is recommended to take place at least annually. The required use of standardized procedures is recommended. We also recommend that the District monitor to ensure bank reconciliations are completed in a timely basis and clearing accounts are cleared at the end of the school year.

District Response: The District concurs with the Auditor's recommendation. Presently, District Administrative Procedure No. 2247 designates the ASB bookkeepers (financial clerk and school secretary) as one of the authorized signers of the ASB bank account. Recognizing that a single signature is inadequate, the District also requires the Principal to be the second signature on all ASB checks as reflected in procedure 2247.

Internal Audit performs periodic audits of ASB accounts and issues audit reports to the site administrators for necessary corrective actions. Many audit exceptions are due to lack of training and knowledge on the District procedures regarding different ASB activities by site administrators, ASB bookkeepers, ASB advisors, and club/class advisors. Internal Audit is in the process of updating the current version of the ASB manual. Once this is complete, training sessions will be conducted with the principals and financial clerks. District procedures regarding ASB financial operations will also be available through the District's web site. In addition, the Financial Accounting Department will continue to offer support and training to the ASB bookkeepers on how to use the QuickBooks accounting system, monthly bank reconciliations, and year-end closing procedures.

Finding #2010-2: Cash Receipting at the Child Development Centers (30000)

We audited a sampling of four Child Development Centers at District school sites to test internal control procedures over cash receipts. The CDC Bookkeeper at each site issues a receipt generated from the system every week, which shows the parent payment and balance. The parents are given a payment summary that summarizes their account activity upon request. There appears to be a lack of segregation of duties. The CDC Bookkeeper processes the payment from start to finish and there is no review from an independent person. The CDC Bookkeeper collects, processes, enters the information into the system, and prepares the deposit. Also the receipts are not pre-numbered, the receipts are then given a number when the bookkeeper enters a receipt.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section II – Financial Statement Findings (continued)

Finding #2010-2: Cash Receipting at the Child Development Centers (30000) (continued)

Recommendation: We recommend a person independent of the collection, receipting, and billing reviews the transactions. We also recommend the CDC issue pre-numbered receipts to the parents when the fees are collected.

District Response: In response to the audit finding the Early Childhood Education Programs is implementing the following changes:

- Implement software accounting program.
- Pre-numbered NCR receipts are being created and ordered for all centers for recording receipt of parent fees. (Working with the Strategic Sourcing and Contracts department)
- All Child Development Centers will accept payments only in the locked drop box. The box is to remain locked at all times until funds are removed by the clerk and lead teacher to count to verify the funds received.
- The clerk will issue a pre-numbered receipt for each child's account.
- The lead teacher will review the receipt for accuracy and confirm by initialing the receipt prior to it being given to the parent.
- The clerk will record the funds received in the data system.
- The clerk will prepare the deposit slip for funds received. The lead teacher will review the deposit slip and count the funds in the deposit prior to placing them in the deposit bag and initial it to verify accuracy.
- The center administrator will review all records for monitoring purposes and sign the report on a monthly basis.

Expected timeline for implementation:

- Receiving deposits via the locked deposit box will begin effective immediately. An email with details will be sent to center administrators by November 29, 2010.
- Verification of funds received and deposits will begin effective immediately. An email with details will be issued to staff by November 29, 2010.
- Use of pre-numbered receipts will begin as soon as they are available. In the interim existing receipting process will be used but verification of receipts will be implemented immediately.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section II – Financial Statement Findings (continued)

Finding #2010-3: Use of Purchase Orders (30000)

Our audit of the internal controls over the cash disbursement process identified that not all financial operations are conducted in accordance with policies and procedures established by the District Governing Board. We did find considerable improvement over 2008-09 but during our inquiry and testing of 2009-10 expenditures, it was noted that a purchase order is not always obtained in order to process for payment. And, it appears school sites can bypass the normal purchase order process and buy items above the P-cards limits without prior authorization. In our testing we found 18 out of 140 transactions did not have proof of prior authorization before the purchase was made. If the normal purchasing and cash disbursements approval process is not always being followed there is a risk questionable expenditures could potentially be processed for payment.

Recommendation: We recommend the invoice package be accompanied by documentation that demonstrates prior approval such as a purchase order, contract or other district approved method. In addition, training of school site personnel on district purchasing requirements might be useful.

District Response: Of the one hundred forty transactions sampled, seventeen are associated with the Purchase Order process. Of those seventeen, there are three transactions where the requesting location entered a Requisition prior to the Invoice date. However, the Requisition was not processed into a Purchase Order in sufficient time for the Purchase Order to be dated prior to the Invoice date. There were ten transactions, including the three transactions described above, in which an invoice was submitted for services resulting from a contract that was approved by the School Board that may or may not have had associated Purchase Orders. The two largest transactions, by dollar amount, were associated with contracts that were approved by the School Board prior to the Invoice date.

There continues to be significant progress in the use of Purchase Orders to encumber budgeted funds for payment of district expenses. There also continues to be significant progress in the establishment of School Board-approved contracts for the acquisition of the goods and services required to support the business operations of the district and the release of Purchase Orders associated with these contracts. These transactions represent a cross-section of the activity that occurs in the daily course of district business. The Strategic Sourcing and Contract Department will continue to work closely with District auditors to improve the Purchase Order processes.

In addition, the Chief Financial Officer Team will educate District staff on Administrative Procedures in order to reiterate the criticality of the Purchase Order processes as to better implement accountability measures.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section II – Financial Statement Findings (continued)

Finding #2010-4: Site Administration of the Timekeeping Function (30000)

Absence Reporting and Substitute Time Reconciliation

District policy requires that school sites and departments manage time cards, authorizations, validation of employees reporting or not reporting for work, and the input of absences into the electronic timesheet in PeopleSoft Time and Labor. Although the Time and Labor Manual for site timekeepers indicates a SAMS report (substitute system) is to be run and used to reconcile absences for employees, we found that the report is not always run. Internal Audit's comprehensive review of this process verified that 7 out of the 10 sites tested did not reconcile the absences reported to the SAMS report.

Timekeeping

A designated timekeeper at every site is required to enter and submit all time records and per District policy the Principal/Manager should review the time report before it is electronically submitted by the timekeeper to payroll for payment. We found the District does not have a process in place to verify the Principal/Manager reviewed the report prior to submittal by the timekeeper, thus there is no control to prevent the timekeepers from entering unapproved overtime for themselves or other employees.

Recommendation: We recommend the Payroll Unit include an audit of the SAMS system against the time sheet entries prior to payment and follow up on discrepancies. Ideally, the time report should be routed in the system to the Principal/Manager for review and signoff. This might involve a computer programming change. Since the risk of fraudulent over-reporting overtime is the main concern, we suggest the district consider:

- Requiring overtime approval be made in advance and documented
- Presenting monthly overtime reports to management for review
- Requiring another form of time reporting for the timekeeper position that clearly shows Principal/Manager approval

District Response:

Timekeeping

The district acknowledges that at some locations/departments there may only be one timekeeper designated to input hours and absences in the PeopleSoft Time and Labor electronic timesheet. Small elementary schools for example, may only have one support person staffed and assigned these duties. The district also acknowledges this is not an ideal environment for time reporting. Until such time that an absence management module via the PeopleSoft environment can be implemented, the district will strengthen its training in time management and pursue a mechanism for further accountability of site managers in evaluating time reporting. An absence management module requires an extensive implementation and complete reconfiguration of time management, leave accruals and employee reporting in the current environment.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section II – Financial Statement Findings (continued)

Finding #2010-4: Site Administration of the Timekeeping Function (30000) (continued)

District Response (continued):

District Administrative Procedure 7426 requires the following in terms of overtime:

C.2. Management Responsibility

C.2.c. Approval to work overtime shall be obtained prior to performing overtime work.

C.2.d. Overtime records shall be maintained by the principal or department head and must be available for audit. Records should include date, time, and number of overtime hours worked and date and time of compensatory time off if granted.

C.2.f. Overtime shall be held to a minimum. Each principal and department head shall be responsible for reviewing employees' work schedules and, to the extent feasible, for adjusting schedules to eliminate regularly occurring overtime.

In July of 2009, the Payroll Department developed new time cards for extra time/overtime for classified employees and for other hours worked beyond contract day for certificated employees. These new time cards now include fields for time in and time out on each day worked, identification of whether the time worked is straight time, overtime and a half or double time, a field to describe why the time was worked and the timekeeper signature as well as the authorizing signature. This was done to provide further oversight by site managers of authorizations for overtime prior to overtime being worked.

In fiscal year 2010, the payroll director developed the Key Elements of Payroll for Managers. This document/guide provides further direction/guidance on payroll procedures, reconciling local payrolls, audit reporting, late reporting and financial accountability and SAMS reporting and reconciling attendance. This guide is published on the Payroll web page and noticed to managers each fall prior to a new school year getting under way.

In fiscal year 2010, the payroll director added these elements to the site administrator training provided by IT and presents this information to administrators in attendance 1-2 times monthly. This training is offered regularly throughout the course of each year.

In fiscal year 2011, the payroll director will submit a request to develop a reporting tool specific to extra time/overtime being reported for employees for site managers to use in evaluating this activity.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
For the Fiscal Year Ended June 30, 2010

Section II – Financial Statement Findings (continued)

Finding #2010-4: Site Administration of the Timekeeping Function (30000) (continued)

District Response (continued):

Absence Reporting

SAMS assignments and reporting absences on behalf of employees is managed at the site level. Immediate supervisors of employees and timekeepers must assure accurate and on time reporting of absences. The SAMS report referenced above is required to be run at all locations utilizing this substitute assignment system.

The Payroll department has limited resources to evaluate many things coming into any given payroll for a work force comprised of 21,000 employees and some 400 departments. As is the case in any environment such as this, bad data in the system results in bad data out of it. The payroll director along with the CFO will provide further direction to site managers about reconciling absence reporting to the SAMS assignment report and will provide a periodic review of where absences may not be getting posted to the timesheet in Time and Labor. Further accountability measures must be defined by immediate supervisors of site managers and timekeepers.

In the current environment, there are controls in place that require prior approval of overtime documented on a signed, authorized, time card prior to input into the PeopleSoft Time and Labor module as well as a Time Summary report that is to be run and reviewed by both timekeepers and managers prior to the payroll deadline each month. The Time Summary Report is to be run for a manager's location/group and can be run for the whole location or by individual employee. It can be sorted by employee, report date, account code, etc.

The Payroll Director will be submitting a request to build a new reporting tool that is specific to overtime/extra time to Information Technology staff for development to the extent that resources are available. This new tool will provide a mechanism for managers to review overtime on an ad hoc basis via the PeopleSoft Time and Labor module. A signature line will be included as documentation of review by managers.

Finally, this finding will be forwarded to area superintendents for follow-up with site administrators regarding accountability for reporting absences for all employees. The district will continue to work with site administration around implementing existing protocols and prepare specific accountability recommendations for implementation in FY 2011.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
June 30, 2010

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., deficiencies, significant deficiencies, material weaknesses, and instances of noncompliance, including questioned costs).

Finding #2010-5: Personnel Time Accounting for Federal Programs (50000)

Federal Program Information: IDEA Cluster (CFDAs 84.027, 84.027A, 84.173, 84.173A, 84.181) and Title I (CFDA 84.010)

Criteria: LEA's are required to document their salary and wage charges to all federal programs in accordance with the standards specified in OMB Circular A-87, Attachment B, Section 11(h).

Condition: In 2009-10, the District did not provide time certifications for all employees whose time was charged to IDEA Cluster and Title I (specifically 17 out of 145 employee charges sampled). However, based on other personnel file documentation, CWAC found the sampled employees whose salaries or wages were charged to the federal programs were, in fact, assigned to the program in which they were charged.

Questioned Costs: Likely questioned costs is more than \$10,000

Context: Time certifications were not prepared for 12% of sampled employees charged to IDEA Cluster and Title I in the 2009-10 year, therefore questioned costs represent the percentages of our sample multiplied by all salaries and wages for employees whose time was charged. The District was unable to locate adequate time documentation for 17 out of 145 employees charged to the IDEA Cluster and Title I. The lack of documentation for Title I appear to relate primarily to employees in which a substitute was charged, as discussed more below.

Cause: It appears that the lack of adequate documentation for Title I was mainly for substitute employees. The District was unable to provide documentation indicating that Substitute charged to Title I replaced a Title I employee. The District is unable to determine the cause for the lack of supporting documentation for IDEA.

Effect: The District is not in full compliance with the federal regulations as they pertain to the operation of IDEA Cluster and Title I programs. We also believe that other federal programs may be out of compliance given the district-wide practice observed.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
June 30, 2010

Section III – Federal Award Findings and Questioned Costs (continued)

Finding #2010-5: Personnel Time Accounting for Federal Programs (50000) (continued)

Recommendation: We recommend the District document time certifications for the employees charged to the federal programs in accordance with OMB Circular A-87, Attachment B, Section 11(h). The District needs to monitor substitutes and employees charged to Federal programs to ensure compliance with OMB Circular A-87.

District Response: Effective July 1, 2010, the Finance Division has been working closely with Internal Audit to review the timekeeping information at each site and department. The District is providing additional information to management and timekeepers by way of management training courses and newsletters to timekeepers.

The District will also implement a revised process for collecting Personnel Time Accounting data effective January 2011. All staff funded by two or more resources will be completing a monthly time report. All employees funded by one resource will continue to be reported semi-annually and reviewed and signed by the supervisor or manager with firsthand knowledge of the employees work and the appropriate funding. In addition to the semi-annual collection for monthly employees, the District has added to the process a report listing all hourly employees and the resource charged. This information will also be reviewed and signed by the supervisor or manager with firsthand knowledge of the employees work and the appropriate funding. Accompanying the rollout of the revised process will be training for the management team.

We understand the criticality of the Personnel Time Accounting process to the State and Federal Agencies. With this in mind, the District will implement training for all levels of the management starting with the Executive Cabinet Leadership.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
June 30, 2010

Section IV – State Award Findings and Questioned Costs

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

There were no audit findings and questioned costs related to state awards during 2009-10.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2009-1: Associated Student Body Internal Controls</i>	<p>We audited a sampling of twenty-one student body funds at District school sites to test internal control procedures over: cash disbursements, cash receipts, inventory, and minutes of meetings. A detailed list of the findings by school site was provided to the District. We did not find any improprieties, but lack of sound internal controls provides an opportunity for irregularities that might go undetected. A summary of the most common internal control deficiencies we observed is listed below:</p> <ul style="list-style-type: none"> • Lack of segregation of duties, e.g., bookkeeper is also the signer on the bank account. • Budgets and revenue potentials are not used. • Lack of adequate backup on cash receipts found, e.g., ticket reconciliations, receipts, evidence of timely deposit. • Expenditures are lacking proper approval and/or invoice. • Student council minutes are missing or inadequate. • At one school, the student funds appeared to have been used for school office expenses which are prohibited by Education Code. Corrective action to reimburse the student account with district/school funds is recommended. 	30000	<p>We recommend that staff handling student funds be reminded of the importance of good internal controls and documentation. To the extent possible, duties of the bookkeeper should be segregated and/or review procedures put into place. Training of staff is recommended to take place at least annually. The required use of standardized procedures is recommended.</p>	<p>Partially See Finding #2010-1</p>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2009-2: Use of Purchase Orders</i>	<p>Although the District has made significant improvement in the proper use of purchase orders, our test results found that a projected 10% of goods and services during fiscal year 2008-09 were purchased without going through the District’s purchase order protocol. Schools and/or sites will, for example, purchase goods or services and then send a requisition in to the Purchasing Department “after the fact.” Thus, there is a risk that goods ordered are not authorized, might be ordered twice, and may not be bundled for the “best price.” In addition, when purchase requisitions are not used and the budget is not being encumbered an unknowing budget overrun might occur. We also found that contracts (e.g., construction) do not have purchase orders in the system. In our testing, we found that 10% of the checks written were not supported by a pre-approved purchase order. According to staff, time is lost in investigating purchases that do not have a purchase order and it can result in untimely payments to vendors, which may lead to late fees.</p>	30000	<p>We recommend the District increase policy enforcement efforts to prohibit sites from ordering items before issuing a purchase order. We recommend that construction contracts be encumbered in the system with a purchase order and understand the process was put into place at the end of fiscal year 2008-09.</p>	See Finding #2010-3

SAN DIEGO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2009-3: Cash Receipting in Facilities</i>	In testing cash receipting for facilities use fees, we found that the person who is responsible for processing and billing for facilities use is also responsible for collecting the fees. For good internal controls, there should be a segregation of duties within the cash receipting process in the areas of custody of assets and recordkeeping. Without proper segregation of duties, there is a risk that all funds received are not being properly deposited and that errors or fraud might occur.	30000	We recommend that the checks are received and logged by someone other than the employee responsible for processing and posting payments. The log should be independently compared to the amounts posted and deposited.	Implemented
<i>Finding #2009-4: Cash Receipting at the Jefferson Child Development Center</i>	Cash receipts are reportedly issued to those paying fees but the receipts are not pre-numbered. The receipts are then given a number when the bookkeeper enters the receipt. We noted gaps in the numbering sequence and further inquiry found that there is no numbering system until it is entered into the system. Reportedly errors were made in manually assigning sequential numbers in the system. As a result, there is the risk that all payments are not entered into the system and fraud could occur. Pre-numbered cash receipts mitigate the risk that cash will be unaccounted for and are an important internal control for cash collection.	30000	We recommend that Jefferson CDC issue pre-numbered receipts to the parents when the fees are collected. In addition, someone independent of the bookkeeper should ensure that all receipts are accounted for and match the deposits made.	See Finding #2010-2

SAN DIEGO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Original Finding No.	Finding	Code	Recommendation	Current Status
<p><i>Finding #2009-5: Cold Storage Inventory</i></p>	<p>As part of our physical observation of the cold storage inventory, we observed open boxes of food items where one or two items were missing. We would assume that most boxes would be used or shipped in full and not in increments of one or two items. Given that the inventory is readily accessible to warehouse personnel, it appeared there is a high risk that food might be used for personal use.</p> <p>In addition we looked to see if inventory is done periodically throughout the year and that any discrepancies are promptly investigated. Through testing of cold storage inventory, we found 40% of items sampled and counted did not match the quantity on the provided inventory listing. For those items, a net shortage of 14% was computed. In addition, we were not provided with assurance that discrepancies that we found, or other discrepancies that could exist in the inventory, were promptly investigated.</p>	<p>20000</p>	<p>We recommend that clear policies, procedures and management follow-up is done to ensure that cold storage inventory is not being used for personal use. In addition, greater accuracy and follow up is needed when discrepancies are found. We also recommend that there is independent verification of warehouse counts by someone assigned outside of the daily warehouse operations. Finally, an internal audit might be useful to investigate and make control improvement recommendations.</p>	<p>Implemented</p>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2009-6: Fixed Assets</i>	We found discrepancies between the capital expenditures amounts posted to the general ledger and the capital additions in the fixed asset system, for Work in Progress (WIP) items. WIP items should be for all large capital improvements expenditures over 100K per project and equipment over 5k. During closing of the books, a large reconciliation process is done but still resulted in a \$4.6 million discrepancy. Overall, this discrepancy is not material to the financial statements but it is significant and might be reduced or eliminated with more frequent reconciliation of WIP items. The cause appears to be a combination of manual and automatic entries being made from the realignment of WIP items, incorrect classification of assets on purchase orders, and multiple employees in two departments with access into the Asset Management system.	30000	To ensure the constant changes to the fixed asset system and the general ledger files are accurate, we recommend that the amounts in the fixed asset system and general ledger are reconciled monthly. The District might also review staffing assignments to consolidate the number of employees who work on the system and/or provide more training to improve accuracy.	Implemented
<i>Finding #2009-7: Closing Procedures – Cafeteria</i>	We found that there were discrepancies between the amount reported on the state SACS report and the supporting documentation for the Cafeteria Fund. The District did not reconcile the detailed listing of accounts payable, upon further investigation it appears as though the District did not accrue \$353,043 in accounts payable for the Cafeteria Fund.	30000	The District should review established closing procedures to the Cafeteria Fund to ensure that all liabilities are booked and that the detail listing matches the SACS report.	Implemented
<i>Finding #2009-8: Human Resources Files</i>	Through testing of the personnel files for District employees, we found that certain personnel file were incomplete. In our sample of 20 files, we found missing 20% of the Form I-9 Employment Eligibility Verification, 20% did not have a copy of the Driver License or other photo identification, and 20% did not have a copy of the Social Security card on file.	30000	We recommend the District work to bring the personnel files up-to-date with the noted incomplete information.	Implemented

SAN DIEGO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2009-9: Personnel Time Accounting for Federal Programs</i>	<p>Federal Program Information: IDEA Cluster (CFDAs 84.027, 84.027A, 84.173, 84.173A, 84.181), Title I (CFDA 84.010), and Title II (CFDA 84.367)</p> <p>Criteria: LEA's are required to document their salary and wage charges to all federal programs in accordance with the standards specified in OMB Circular A-87, Attachment B.</p> <p>Condition: In 2008-09, for all hourly employees whose time was charged to the IDEA Cluster, Title I and Title II, we found that hourly, timesheets are signed and kept at site but the federal program charged is not identified on the time record. Also because the timesheets are kept at the sites, the District was not able to provide the information to the auditor in a timely fashion. However, based on other personnel file documentation examined, the auditor was able to determine the sampled employees whose salaries or wages were charged to the federal programs were, in fact, assigned to the program in which they were charged.</p> <p>Questioned Costs: None</p>	50000	<p>We recommend the timesheets indicate the program the employee is being charged to for the period worked. In addition, we recommend the timesheets be more accessible for audit by, for example, centralizing the records with the program office.</p>	See Finding #2010-5

SAN DIEGO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2010

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2009-9: Personnel Time Accounting for Federal Programs (continued)</i>	<p>Context: Time certifications for hourly employees are signed by the employee but the federal program the employee charged was not identified on the time sheet. According to District staff, the district had received approval of this practice, but confirmation of the approval was not provided to the auditor. We were able to identify the employee was correctly charged through other personnel file documentation examined, therefore there are no questioned costs. The District was also unable to provide the timesheets in a timely fashion (specifically, we requested the timesheets in June 2009 and received the request mid-November 2009).</p> <p>Cause: The District has relied on the internet timesheet as documentation of the employee's time for OMB-Circular 87 federal cost principles but the program charged is not identified on the timesheet. OMB Circular A-87 requires the personnel activity reports or equivalent documentation must reflect an after-the-fact distribution of the actual activity of each employee. Thus, for hourly employees the time sheet may serve as sufficient documentation but the program charged needs to be identified for each individual charged.</p> <p>Effect: The costs charged appear allowable even though the District may not be in strict compliance. We believe that the District needs to improve internal controls over the personnel activity reports to ensure they can be located timely and to ensure the program charged is readily identifiable by the employee who is certifying their work.</p>	50000		

Continuing Disclosure Information

SAN DIEGO UNIFIED SCHOOL DISTRICT
Continuing Disclosure Information (Unaudited)
June 30, 2010

The following information is provided by the District to comply with covenants of its General Obligation Bonds. As noted in the opinion letter of this report, this continuing disclosure information section has not been subjected to the auditing procedures applied in the audit of the general purpose financial statements.

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SAN DIEGO UNIFIED SCHOOL DISTRICT
Continuing Disclosure Information (Unaudited)
June 30, 2010

Assessed Valuations

The District uses the facilities and services of the County for the assessment and collection of taxes. District taxes are collected at the same time and on the same tax rolls as are the County, City and Special District taxes. Assessed valuations are the same for both District and county taxing purposes. The following tabulation is the latest ten-year summary of the District's net taxable assessed valuation (source: County of San Diego).

District's Fiscal Year	Assessed Value
1999-2000	\$ 63,590,856,897
2000-2001	\$ 68,914,092,936
2001-2002	\$ 74,558,996,509
2002-2003	\$ 80,806,653,526
2003-2004	\$ 87,856,623,236
2004-2005	\$ 95,685,708,742
2005-2006	\$ 108,123,995,636
2006-2007	\$ 120,172,905,029
2007-2008	\$ 131,390,290,644
2008-2009	\$ 131,895,647,665
2009-2010	\$ 137,384,713,473

Secured taxes collected in fiscal year 2009-10 amounted to \$514,966,015.

Tax Levy Under Teeter Plan

The ad valorem property tax to be levied to pay the principal of and interest on the general obligation bonds utilize the Teeter Plan. The School District will receive 100% of the ad valorem property tax levied to pay these Bonds irrespective of actual delinquencies in the collection of the tax by the County.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Continuing Disclosure Information (Unaudited)
June 30, 2010

The largest taxpayers in San Diego County and the taxes assessed in 2009-10 are listed below.

LARGEST TAXPAYERS 2009-10

<u>PROPERTY OWNER</u>	<u>AMOUNT OF TAX</u>
1. SAN DIEGO GAS & ELECTRIC COMPANY	\$ 58,842,349.00
2. IRVINE CO	\$ 19,181,454.00
3. SOUTHERN CALIFORNIA EDISON CO.	\$ 18,895,022.00
4. SAN DIEGO FAMILY HOUSING LLC	\$ 17,976,307.00
5. KILROY REALTY L P	\$ 14,623,393.00
6. QUALCOMM INC	\$ 14,214,400.00
7. CAMP PENDLETON & QUANTICO HOUSING LLC	\$ 14,041,303.00
8. PACIFIC BELL TELEPHONE COMPANY	\$ 10,868,904.00
9. ARDEN REALTY LTD PARTNERSHIP	\$ 8,948,348.00
10. SAN DIEGO EXPRESSWAY LIMITED PARTNERSHIP	\$ 6,990,534.00
11. O C/S D HOLDINGS LLC	\$ 6,961,859.00
12. ONE PARK BOULEVARD LLC	\$ 6,591,859.00
13. GENENTECH INC	\$ 5,484,194.00
14. PFIZER INC	\$ 5,375,316.00
15. FASHION VALLEY MALL LLC	\$ 5,027,849.00
16. SEA WORLD INC	\$ 4,653,967.00
17. HOST SAN DIEGO HOTEL LLC	\$ 4,399,466.00
18. PREBYS CONRAD TRUST	\$ 4,222,464.00
19. CNL HOTEL DEL PARTNERS LP	\$ 4,129,648.00
20. OTAY MESA GENERATING CO LLC	\$ 4,085,754.00
21. MANCHESTER RESORTS LLP	\$ 4,016,007.00
22. SOLAR TURBINES INC	\$ 3,928,012.00
23. AVIARA RESORT ASSOCIATES LLC	\$ 3,510,419.00
24. LA JOLLA CROSSROADS 1 LLC	\$ 3,428,316.00
25. C C W LA JOLLA LLC	\$ 3,403,697.00
26. E R P OPERATING LLP	\$ 3,362,086.00
27. BLACK MOUNTAIN RANCH LLC	\$ 3,349,813.00
28. CHELSEA SAN DIEGO FINANCE LLC	\$ 3,331,919.00
29. PACIFIC GATEWAY LTD	\$ 3,164,397.00
30. OMNIPOINT COMMUNICATIONS INC	\$ 3,096,496.00