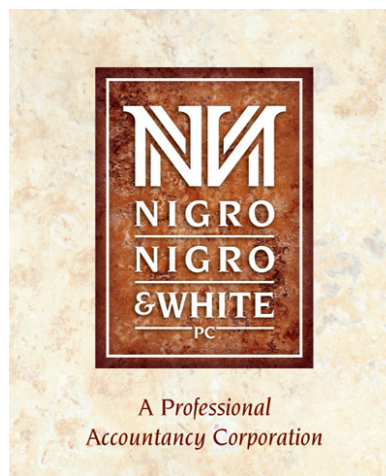


**SAN DIEGO  
UNIFIED SCHOOL DISTRICT**

**AUDIT REPORT**

**For the Fiscal Year Ended  
June 30, 2009**



**SAN DIEGO UNIFIED SCHOOL DISTRICT  
AUDIT REPORT  
For the Fiscal Year Ended June 30, 2009  
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**SAN DIEGO UNIFIED SCHOOL DISTRICT  
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Board of Accountancy

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

## INDEPENDENT AUDITORS' 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, 2009, 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, 2009, 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 16, 2009 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 15, the required supplementary information on pages 64 and 65, and the schedule of funding progress on page 66 are not a required part of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States. We have applied certain limited procedures, consisting 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 performed 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 fund financial statements, supplementary schedules listed in the table of contents, the continuing disclosure information 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. The combining and individual fund financial statements, supplementary schedules listed in the table of contents, and the Schedule of Expenditures of Federal Awards have 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 financial statements taken as a whole. The management's discussion and analysis, budgetary comparison information and the continuing disclosure information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.



San Diego, California  
November 16, 2009

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*Management's Discussion and Analysis*

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**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Fiscal Year Ended June 30, 2009**

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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, 2009. 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 2% to a total of \$1.4 billion. Total expenses exceeded revenues by \$74.0 million.
- General revenues accounted for \$982.2 million or 70% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$416.0 million or 30% of total revenues of \$1.4 billion.
- Long-term outstanding debt has increased by \$215.9 million or 13%.
- Capital assets increased by 4% to \$2.6 billion.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Fiscal Year Ended June 30, 2009**

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*FINANCIAL HIGHLIGHTS OF THE PAST YEAR (continued)*

- ADA in the District increased by 917.
- The General Fund reported a positive fund balance of \$160.6 million; this is an increase of \$20.5 million before other financing sources and uses. The increase is primarily due to the receipt of federal American Recovery and Reinvestment Act funding received late in the fiscal year.

**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, 2009**

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**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, 2009**

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**THE DISTRICT AS A WHOLE**

Net Assets

The District's net assets were \$879.8 million for the fiscal year ended June 30, 2009. Of this amount, \$33.2 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 Statement of Net Assets**

	(in millions)		Total
	Governmental Activities		Percentage
	2008	2009	Change
	2008	2009	2008-09
Current and other assets	\$ 787.2	\$ 881.1	12%
Capital assets	1,928.2	1,987.6	3%
Total assets	<u>2,715.4</u>	<u>2,868.7</u>	6%
Current liabilities	159.1	220.5	39%
Long-term liabilities	1,602.4	1,768.4	10%
Total liabilities	<u>1,761.5</u>	<u>1,988.9</u>	13%
<b>Total net assets</b>	<u>\$ 953.9</u>	<u>\$ 879.8</u>	-8%

Current assets and current liabilities increased primarily due to the receipt of American Recovery and Reinvestment Act funding, offset by deferred revenue for federal grants unspent and the current portion of early retirement incentives payable in 2009-10. Overall long-term liabilities increased \$108.0 million through a combination of \$170 million issued for Proposition S Series A general obligation bonds, Qualified School Construction Bonds, early retirement incentives less the repayment on outstanding debt. Also contributing to the increase in other liabilities and the increase in long-term liabilities is the issuance of an early retirement incentive for both classified and certificated employees.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Fiscal Year Ended June 30, 2009**

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**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 millions)		Total
	Governmental Activities		Percentage
	2008	2009	Change
	2008	2009	2008-09
Revenues:			
<i>Program revenues</i>			
Charges for services	\$ 10.9	\$ 11.7	7%
Operating grants and contributions	463.9	395.4	-15%
Capital grants and contributions	50.3	8.9	-82%
<i>General revenues</i>			
Property taxes	582.9	611.8	5%
Other revenues	320.9	370.4	15%
Total revenues	<u>1,428.9</u>	<u>1,398.2</u>	-2%
Expenses:			
Instruction-related	922.7	974.4	6%
Student support services	182.3	202.2	11%
Maintenance & operations	97.7	86.8	-11%
Administration	48.1	54.8	14%
Other expenses	179.8	154.0	-14%
Total expenses	<u>1,430.6</u>	<u>1,472.2</u>	3%
<b>Increase in net assets</b>	<u>\$ (1.7)</u>	<u>\$ (74.0)</u>	

Across all funds, revenues decreased 2% primarily due to state budget cuts. Expenditures increased 3% due primarily to \$70.9 million in early retirement expense, without this one-time cost expenses would have decreased 2% in fiscal year 2008-09.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Fiscal Year Ended June 30, 2009**

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**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 \$1,472.2 billion (refer to Table A-3). The amount that our taxpayers ultimately financed for these activities through taxes was only \$1,056.2 million because the cost was paid by those who benefited from the programs (\$11.7 million), by other governments and organizations who subsidized certain programs with grants and contributions (\$404.3 million) or through other local sources (\$62.4 million).

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

	<b>Total Cost of Services</b>	<b>Net Cost of Services</b>
Instructional services	\$ 974.4	\$ 662.1
Pupil support services	202.2	110.2
Maintenance & operations	86.8	82.5
Administration	54.8	47.5
Other expenses	154.0	153.9
Total expenses	<u>\$ 1,472.2</u>	<u>\$ 1,056.2</u>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Fiscal Year Ended June 30, 2009**

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**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS**

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, the governmental funds reflected a combined net asset amount of \$643,877,078, compared to last year's net asset amount of \$556,604,828. This increase is due primarily to the issuance of Proposition S Series A bonds and Qualified School Construction Bonds totaling \$170 million in 2008-09.

**General Fund Budgetary Highlights**

Over the course of the year, the District revised its budget several times; see Budgetary Comparison Schedule on page 64. 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 \$25.0 million and Local grants and special projects of \$21.6 million.
- Revenues that were included in the original adopted budget which were not received – Revenue Limit Sources of \$8.4 million and State grants and special projects of \$25.2 million.
- Expenditures that were appropriated during the year that were not included in the originally adopted budget – Salaries and Benefits of \$67.0 million, Books and Supplies of \$39.4 million, Services and Other Operating Expenses of \$29.8 million, and Capital Outlay of \$4.2 million.

Even with these adjustments, actual revenues available were \$34.9 million above the final budgeted amounts. The most significant positive variances resulted from:

- Federal revenues were \$29.8 million above final budget amounts. The most significant was the NCLB/IASA grants which were \$36.7 million above appropriations. Other Federal grants were \$6.0 million below appropriations which largely represents grant money that has been received but not spent by June 30, 2009.
- State and local revenues were \$4.9 million above final budget amounts. Various State grants became flexible in FY 08/09 resulting in \$34.9 million above appropriations, School and Library Improvement Block Grant was \$6.0 million below appropriations, Special Ed Master Plan was \$1.8 million below appropriations, Special Ed Transportation was \$3.8 million below appropriations, Instructional Materials was \$3.9 million below appropriations, Interagency Services was \$1.2 million below appropriations, and various other Local grants were \$13.0 million below appropriations.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Fiscal Year Ended June 30, 2009**

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**FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)**

**General Fund Budgetary Highlights, Continued**

Actual expenditures were \$92.8 million below the final budgeted amounts. The most significant positive variances resulted from:

- Salaries and benefits were \$20.1 million below final budget amounts. The variance is broken down as follows:
  - Unrestricted resources - \$4.5 million
  - Federal, state, and local restricted resources - \$15.6 million
  
- Books and supplies were \$52.2 million below final budget amounts. The variance is broken down as follows:
  - Unrestricted resources - \$12.3 million
  - Federal, state, and local restricted resources - \$39.9 million
  
- Services and other operating expenses were \$18.0 million below final budget amounts. The variance is broken down as follows:
  - Unrestricted resources - \$10.4 million
  - Federal, state, and local restricted resources - \$7.6 million

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Fiscal Year Ended June 30, 2009**

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**CAPITAL ASSET AND DEBT ADMINISTRATION**

Capital Assets

At June 30, 2009, the District had \$2.6 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 \$108.3 million or 4% from last year.

**Table A-4**  
**San Diego Unified School District's Capital Assets**

	(In millions)		Total Percentage
	Governmental Activities		Change
	2008	2009	2008-09
Land	\$ 273.2	\$ 273.3	0%
Site improvements	188.9	203.6	8%
Buildings	1,202.9	1,283.4	7%
Equipment and furniture	229.3	216.9	-5%
Construction in progress	585.8	611.2	4%
Total	<u>\$ 2,480.1</u>	<u>\$ 2,588.4</u>	4%

The District obtained principal sign-off for completion for capital improvements projects for 68 schools. These projects included work in the following categories:

- Ceiling tile repair/replacement
- Roofing repair/replacement
- Plumbing repair
- Door and window replacements
- ADA compliance upgrades
- Electrical system repair/replacement
- New/upgraded science classrooms
- HVAC repair
- Flooring replacements
- Upgrade of fire security and alarm systems
- Asphalt/paving
- Lunch court shelter construction
- Interior and exterior painting
- New/expanded libraries

The District finalized the completion of the Proposition MM projects for the following schools: Laura Rodriguez Elementary, Sherman Elementary, Joyner Elementary, Fremont Elementary, Henry High School, Muir Alternative School, Normal Heights Elementary, and EB Scripps.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Fiscal Year Ended June 30, 2009**

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**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 an increase of 13% (refer to Table A-5). This is mainly due to the issuance of the early retirement incentive, the issuance of Series A of the Proposition S bonds, the issuance of Qualified School Construction Bonds and an increase in other postemployment benefits as determined by an actuarial study. Those long-term liabilities consisted of:

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

	<b>Governmental Activities</b>		<b>Total</b>
	<b>2008</b>	<b>2009</b>	<b>Percentage Change</b>
	<b>2008</b>	<b>2009</b>	<b>2008-09</b>
General obligation bonds	\$ 1,485.2	\$ 1,670.0	12%
Other postemployment benefits	0.9	-	-100%
Other general long term debt	41.4	1.2	-97%
Self-insurance claims payable	51.1	53.7	5%
Compensated absences	23.8	22.5	-5%
Supplementary retirement plan	-	70.9	100%
<b>Total</b>	<b>\$ 1,602.4</b>	<b>\$ 1,818.3</b>	<b>13%</b>



**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Fiscal Year Ended June 30, 2009**

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**FACTORS BEARING ON THE DISTRICT'S FUTURE**

Unlike most years, California began the 2009-10 fiscal year with a budget already in place. On February 20, 2009, Governor Schwarzenegger signed a spending plan aimed at addressing the State's worsening budget crisis. However, after the signing of the budget, the fiscal outlook began to worsen. The Governor and Legislature began working to close the budget gap.

On July 28, Governor Schwarzenegger signed a package of bills aimed at closing the state's \$23.241 billion budget shortfall. The package of bills includes a total of \$24.159 billion in "solutions" - \$16.125 billion in spending cuts; \$3.492 billion in revenues and revenue accelerations; \$2.182 billion in borrowing, including \$1.935 billion from local government property tax revenues; \$1.005 billion in fund shifts; and \$1.355 billion in other "solutions", including one-time savings from deferring the payment of state employees' final paycheck for the 2009-10 fiscal year until July 1, 2010.

**K-12 Education Budget Agreement:**

- Reduces 2008-09 funding for categorical programs by \$1.6 billion compared to the funding level provided by the February budget agreement.
- Reduces 2009-10 revenue limit payments by \$4.0 billion compared to the 2009-10 Budget enacted in February and adjusts the revenue limit deficit factor to 18.4 percent for school districts and 18.6 percent for county offices of education.
- Defers \$1.7 billion of school districts' revenue limit payments from 2009-10 to 2010-11.
- Counts \$402 million in 2009-10 funding for the Quality Education Investment Act (QEIA) toward the Proposition 98 minimum funding guarantee to produce an equal amount of General Fund savings. Historically, QEIA dollars provided funds to school districts with the lowest academic achievement and did not count toward the Proposition 98 guarantee. The budget agreement extends the QEIA program by one year, to 2014-15.
- Provides \$496 million in 2009-10 Proposition 98 funding for home-to-school transportation – a reduction of approximately 20 percent from the \$618.7 million provided for the program in 2008-09.
- Reduces 2009-10 funding by \$80 million for Basic Aid school districts' categorical programs to provide a proportionate reduction to non-Basic Aid districts' revenue limit reductions.
- Allows school districts to reduce the school year by up to five instructional days through 2012-13 without losing incentive grants.
- Suspends the requirement that school districts purchase newly adopted instructional materials through 2012-13.
- Allows school districts to sell surplus property and use the proceeds for General Fund purposes through 2011.
- Suspends the High School Exit Exam graduation requirement for students with disabilities beginning in 2009-10. The suspension would last until the State Board of Education authorizes an alternative exam for disabled students.

The Governor's line item vetoes include a \$3.9 million cut to student transportation at State Special Schools, which the Governor states is duplicative because federal special education funds are available for this purpose.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Fiscal Year Ended June 30, 2009**

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**FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)**

**Federal Funding (ARRA)**

On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act of 2009 (ARRA). The ARRA aims to boost the economy through a \$787 billion package of spending and tax measures. Nationally, more than \$100 billion is dedicated to education. California's schools, colleges, and universities can expect to receive approximately \$11.0 billion over three years that can be used to mitigate the impact of state budget reductions and address specified policy goals.

The largest share of the ARRA's education dollars comes from an allocation called the State Fiscal Stabilization Fund, which aims to help states balance their budgets and mitigate the impact of cuts. Other ARRA funds targeting education include support for special education, schools that serve disproportionate numbers of students from disadvantaged backgrounds, school technology, statewide data systems, and teacher improvement programs.

The new State Fiscal Stabilization Fund (SFSF), aimed at helping to stabilize state budgets and mitigate the impact of budget cuts, is the largest pot of ARRA funding focused on education.

The California Department of Education (CDE) recently reported that California's schools received preliminary payments totaling \$2.5 billion from the state's initial Education Stabilization Fund (ESF) allocation. These payments were based on the reductions made to each school district's 2008-09 general-purpose and categorical funds as part of the February budget agreement. K-12 school districts received \$1.6 billion to backfill reductions made to their 2008-09 general-purpose funds and \$887.5 million to backfill reductions made to their 2008-09 categorical funding.

While California cannot use ESF dollars to replace state spending required by the Proposition 98 guarantee, ESF dollars *can* be used to mitigate the impact of the significant state spending reductions enacted as part of current efforts to balance the budget. Local schools can use ESF dollars to help pay for any activity authorized under the Elementary and Secondary Education Act, the Individuals With Disabilities Education Act (IDEA), the Adult Education and Family Literacy Act, and/or the Carl D. Perkins Career and Technical Education Act.

The ARRA significantly increases funding for the primary federal program aimed at improving the education of disadvantaged students, including students from low-income families and English language learners. The federal Title I program aims to ensure that all children have a fair, equal, and significant opportunity to obtain a high-quality education. California is slated to receive \$1.5 billion in additional Title I dollars under the ARRA, a significant boost in federal support.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Management's Discussion and Analysis (Unaudited)**  
**Fiscal Year Ended June 30, 2009**

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**FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)**

**Federal Funding (ARRA) (continued)**

The ARRA also significantly increases federal support for the IDEA, also referred to as special education, with the goal of helping to ensure that students with disabilities receive an appropriate education. The CDE estimates that California's schools will receive \$1.3 billion in additional special education support from the ARRA - \$1.2 billion for K-12 education and \$41 million for pre-school programs. California received half of its ARRA IDEA dollars in April and will receive the second half by the end of September upon approval of a report the state must submit to the Department of Education (DOE).

The ARRA provides a significant level of funding to support California's schools, which will help mitigate the impact of state spending cuts. While the ARRA limits the extent to which ARRA's education dollars can be used to help close the state's budget shortfall, the Legislature may choose to use some ARRA dollars for this purpose. To receive additional ARRA dollars, however, California must submit reports to the DOE that include information regarding how the state and local schools use their ARRA allocations. These reports are designed to promote transparency and accountability at the local, state, and federal levels and will be reviewed by the DOE to determine whether California receives additional ARRA dollars.

All of these factors were considered in preparing the San Diego Unified School District budget for the 2009-10 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 Financial Operations Office.

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*Financial Section*

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**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Statement of Net Assets**  
**June 30, 2009**

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	Total Governmental Activities
<b>ASSETS</b>	
Current assets:	
Cash	\$ 699,252,189
Accounts receivable	179,420,386
Inventories	1,839,832
Prepaid expenses	591,367
Total current assets:	<u>881,103,774</u>
Capital assets:	
Land	273,284,132
Improvement of sites	203,642,875
Buildings	1,283,432,944
Furniture and equipment	216,907,377
Construction in progress	611,168,172
Less accumulated depreciation	<u>(600,840,490)</u>
Total capital assets, net of depreciation	<u>1,987,595,010</u>
Total assets	<u>2,868,698,784</u>
<b>LIABILITIES</b>	
Current liabilities:	
Accounts payable	139,692,401
Deferred revenue	31,059,989
Current portion of long-term liabilities	49,715,335
Total current liabilities:	<u>220,467,725</u>
Long-term liabilities	<u>1,768,409,599</u>
Total liabilities	<u>1,988,877,324</u>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	451,690,962
Restricted for:	
Capital projects	293,829,037
Debt service	31,171,643
Educational programs	69,915,728
Unrestricted	<u>33,214,090</u>
Total net assets	<u>\$ 879,821,460</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, 2009**

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue and Changes in Net Assets
					Governmental Activities
<b>Instructional Services:</b>					
Instruction	\$ 790,726,307	\$ 3,440,826	\$ 177,345,676	\$ 8,897,786	\$ (601,042,019)
<b>Instruction-Related Services:</b>					
Supervision of instruction	82,453,504	5,438,763	105,160,449	-	28,145,708
Instructional library, media and technology	8,851,973	448,073	3,542,195	-	(4,861,705)
School site administration	92,353,536	635,737	7,335,503	-	(84,382,296)
<b>Pupil Support Services:</b>					
Home-to-school transportation	52,407,907	228,816	20,270,561	-	(31,908,530)
Food services	46,503,608	8,210	38,849,435	-	(7,645,963)
All other pupil services	103,265,098	1,153,520	31,473,676	-	(70,637,902)
<b>General Administration Services:</b>					
Data processing services	12,558,212	-	-	-	(12,558,212)
Other general administration	42,266,032	236,445	7,088,183	-	(34,941,404)
Plant services	86,831,729	128,775	4,158,967	-	(82,543,987)
Ancillary services	3,530,155	1,884	9,188	-	(3,519,083)
Community services	345,720	-	-	-	(345,720)
Enterprise activities	4,329,365	-	-	-	(4,329,365)
Interest on long-term debt	71,987,167	-	-	-	(71,987,167)
Other outgo	7,569,089	6,474	142,568	-	(7,420,047)
Depreciation (unallocated)	66,246,834	-	-	-	(66,246,834)
<b>Total Governmental Activities</b>	<b>\$ 1,472,226,236</b>	<b>\$ 11,727,523</b>	<b>\$ 395,376,401</b>	<b>\$ 8,897,786</b>	<b>(1,056,224,526)</b>
<b>General Revenues:</b>					
<b>Taxes:</b>					
Property taxes, levied for general purposes					511,689,134
Property taxes, levied for debt service					91,655,720
Property taxes, levied for other specific purposes					8,445,605
Federal and state aid not restricted to specific purpose					307,106,356
Interest and investment earnings					15,515,629
Interagency revenues					9,317,723
Miscellaneous					38,432,543
					<b>982,162,710</b>
					<b>Change in net assets (74,061,816)</b>
					<b>Net assets - July 1, 2008 953,883,276</b>
					<b>Net assets - June 30, 2009 \$ 879,821,460</b>

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

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Balance Sheet – Governmental Funds**  
**June 30, 2009**

	General Fund	Child Development Fund	Building Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>ASSETS</b>							
Cash	\$ 68,153,801	\$ 4,047,373	\$ 157,132,042	\$ 236,987,802	\$ 97,826,425	\$ 78,014,157	\$ 642,161,600
Accounts receivable	149,300,375	19,511,469	373,114	1,068,912	322,662	8,640,637	179,217,169
Due from other funds	72,920,981	5,761,843	745	26,156,616	-	2,437,710	107,277,895
Inventories	1,090,104	-	-	-	-	749,728	1,839,832
Prepaid expenditures	554,819	15,403	1,188	511	-	7,303	579,224
<b>Total Assets</b>	<b>\$ 292,020,080</b>	<b>\$ 29,336,088</b>	<b>\$ 157,507,089</b>	<b>\$ 264,213,841</b>	<b>\$ 98,149,087</b>	<b>\$ 89,849,535</b>	<b>\$ 931,075,720</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>LIABILITIES</b>							
Accounts payable	\$ 61,455,933	\$ 284,115	\$ 3,848,273	\$ 5,486,843	\$ 66,977,444	\$ 1,246,928	\$ 139,299,536
Due to other funds	39,065,490	28,687,330	1,506,514	23,897,960	-	23,681,823	116,839,117
Deferred revenue	30,889,369	143,697	-	-	-	26,923	31,059,989
<b>Total Liabilities</b>	<b>131,410,792</b>	<b>29,115,142</b>	<b>5,354,787</b>	<b>29,384,803</b>	<b>66,977,444</b>	<b>24,955,674</b>	<b>287,198,642</b>
<b>Fund Balances</b>							
Reserved for:							
Inventories	1,090,104	-	-	-	-	749,728	1,839,832
Revolving cash	57,800	-	-	-	-	57,800	115,600
Debt service	-	-	-	-	31,171,643	-	31,171,643
Prepaid expenditures	554,819	15,403	1,188	511	-	7,303	579,224
Categorical programs	69,915,728	-	-	-	-	-	69,915,728
Unreserved; reported in:							
General fund	88,990,837	-	-	-	-	-	88,990,837
Capital project funds	-	-	152,151,114	234,828,527	-	58,292,594	445,272,235
Other funds	-	205,543	-	-	-	5,786,436	5,991,979
<b>Total Fund Balances</b>	<b>160,609,288</b>	<b>220,946</b>	<b>152,152,302</b>	<b>234,829,038</b>	<b>31,171,643</b>	<b>64,893,861</b>	<b>643,877,078</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 292,020,080</b>	<b>\$ 29,336,088</b>	<b>\$ 157,507,089</b>	<b>\$ 264,213,841</b>	<b>\$ 98,149,087</b>	<b>\$ 89,849,535</b>	<b>\$ 931,075,720</b>

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, 2009**

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<b>Total fund balances - governmental funds</b>		\$ 643,877,078
<p>Amounts reported for governmental <i>activities</i> 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 assets is \$2,588,435,500 and the accumulated depreciation is (\$600,840,490).</p>		
		1,987,595,010
<p>Certain bond premiums, issue costs and deferred charges are not recorded at the fund level.</p>		
		(38,155,376)
<p>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:</p>		
	Compensated absences	\$ 22,458,944
	Arbitrage liability	1,198,329
	General obligations bonds, net	1,592,926,242
	Qualified School Construction Bonds	38,840,000
	Early retirement incentive	70,893,394
		(1,726,316,909)
<p>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:</p>		
		12,821,657
<b>Total net assets - governmental activities</b>		<u>\$ 879,821,460</u>

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, 2009**

REVENUES	General Fund	Child	Building Fund	County School Facilities Fund	Bond Interest	Non-Major Governmental Funds	Total Governmental Funds
		Development Fund			and Redemption Fund		
<b>REVENUES</b>							
General Revenues:							
Property taxes	\$ 459,216,267	\$ -	\$ -	\$ -	\$ 91,655,720	\$ 8,338,298	\$ 559,210,285
Federal and state aid not restricted to specific purpose	359,686,530	-	-	-	-	-	359,686,530
Earnings on investments	10,973,451	-	854,933	-	1,371,194	2,316,052	15,515,630
Interagency revenues	9,317,723	-	-	-	-	-	9,317,723
Miscellaneous	15,397,014	-	39,887	-	-	22,135,299	37,572,200
Program Revenues:							
Charges for services	10,772,727	954,796	-	-	-	-	11,727,523
Operating grants and contributions	325,412,079	30,559,310	-	452,587	-	38,952,426	395,376,402
Capital grants and contributions	-	-	-	8,897,786	-	-	8,897,786
<b>Total Revenues</b>	<b>1,190,775,791</b>	<b>31,514,106</b>	<b>894,820</b>	<b>9,350,373</b>	<b>93,026,914</b>	<b>71,742,075</b>	<b>1,397,304,079</b>
<b>EXPENDITURES</b>							
Instructional Services:							
Instruction	718,297,140	22,379,380	-	-	-	857,948	741,534,468
Instruction-Related Services:							
Supervision of instruction	79,448,730	2,904,830	-	-	-	372,931	82,726,491
Instructional library, media and technology	12,298,451	-	-	-	-	-	12,298,451
School site administration	90,173,872	1,796,772	-	-	-	334,188	92,304,832
Pupil Support Services:							
Home-to-school transportation	51,523,678	-	-	-	-	54	51,523,732
Food services	9,283	193,691	-	-	-	46,463,883	46,666,857
All other pupil services	91,772,617	714,777	-	-	-	64,081	92,551,475
General Administration Services:							
Data processing services	12,558,212	-	-	-	-	-	12,558,212
Other general administration	32,017,246	1,681,290	-	-	-	466,175	34,164,711
Plant services	64,661,858	1,523,674	118,725	3,259,771	-	15,378,133	84,942,161
Facility acquisition and construction	4,730,773	114,150	23,314,157	76,804,264	-	16,419,447	121,382,791
Ancillary services	3,530,155	-	-	-	-	-	3,530,155
Community services	345,720	-	-	-	-	-	345,720
Enterprise activities	1,373,574	-	-	-	-	-	1,373,574
Other outgo:							
Transfers between agencies	370,405	-	-	-	-	-	370,405
Debt service - issuance costs	7,195,034	-	3,503,141	-	-	(3,498,841)	7,199,334
Debt service - principal	-	-	-	-	22,716,428	-	22,716,428
Debt service - interest	-	-	-	-	74,771,957	-	74,771,957
<b>Total Expenditures</b>	<b>1,170,306,748</b>	<b>31,308,564</b>	<b>26,936,023</b>	<b>80,064,035</b>	<b>97,488,385</b>	<b>76,857,999</b>	<b>1,482,961,754</b>
Excess (Deficiency) of Revenues							
Over (Under) Expenditures	20,469,043	205,542	(26,041,203)	(70,713,662)	(4,461,471)	(5,115,924)	(85,657,675)
<b>OTHER FINANCING SOURCES (USES)</b>							
Interfund transfers in	26,689,219	1,210	-	2,323,907	-	7,789,865	36,804,201
Interfund transfers out	(6,372,266)	-	(2,323,907)	-	-	(26,036,028)	(34,732,201)
Proceeds from long term debt	-	-	173,500,722	-	-	(3,503,141)	169,997,581
All other financing sources	894,703	-	(294,764)	260,405	-	-	860,344
<b>Total Other Financing Sources and Uses</b>	<b>21,211,656</b>	<b>1,210</b>	<b>170,882,051</b>	<b>2,584,312</b>	<b>-</b>	<b>(21,749,304)</b>	<b>172,929,925</b>
<b>Net Change in Fund Balances</b>	<b>41,680,699</b>	<b>206,752</b>	<b>144,840,848</b>	<b>(68,129,350)</b>	<b>(4,461,471)</b>	<b>(26,865,228)</b>	<b>87,272,250</b>
Fund Balances, July 1, 2008	118,928,589	14,194	7,311,454	302,958,388	35,633,114	91,759,089	556,604,828
<b>Fund Balances, June 30, 2009</b>	<b>\$ 160,609,288</b>	<b>\$ 220,946</b>	<b>\$ 152,152,302</b>	<b>\$ 234,829,038</b>	<b>\$ 31,171,643</b>	<b>\$ 64,893,861</b>	<b>\$ 643,877,078</b>

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, 2009**

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<b>Total net change in fund balances - governmental funds</b>	<b>\$ 87,272,250</b>
Amounts reported for governmental <i>activities</i> 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.	61,776,726
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:	36,480,000
Debt proceeds: In governmental funds, proceeds from debt are recognized as other financing sources. In the government-wide statements, proceeds from debt are reported as increase to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:	(169,997,581)
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:	(2,402,097)
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.	894,499
In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was:	710,433
Arbitrage liability is classified as a long-term liability in the government-wide statements and increased in the current period by:	(48,877)
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:	(13,763,572)
In the statement of activities, compensated absences are measured by the amounts <i>earned</i> 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 <i>paid</i> .)	1,390,380
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:	(70,893,394)
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:	2,075,209
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.	<u>(7,555,792)</u>
<b>Change in net assets of governmental activities</b>	<b><u>\$ (74,061,816)</u></b>

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, 2009**

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	Liability Insurance	Property Insurance	Workers' Compensation Fund	Vision Fund	Total
<b><u>Assets</u></b>					
Cash in county treasury	\$ 3,244,051	\$ 2,377,144	\$ 50,636,396	\$ 332,998	\$ 56,590,589
Cash on hand and in bank	100,000	-	400,000	-	500,000
Accounts receivable	12,633	7,742	180,663	2,179	203,217
Due from other funds	-	-	8,611,952	1,106,255	9,718,207
Prepaid expenditures	-	-	12,143	-	12,143
<b>Total Assets</b>	<b>3,356,684</b>	<b>2,384,886</b>	<b>59,841,154</b>	<b>1,441,432</b>	<b>67,024,156</b>
<b><u>Liabilities</u></b>					
Accounts payable	\$ 54,432	\$ 608	\$ 338,322	\$ 152	\$ 393,514
Claims payable	3,067,000	-	50,585,000	-	53,652,000
Due to other funds	29,027	76,890	51,068	-	156,985
<b>Total Liabilities</b>	<b>3,150,459</b>	<b>77,498</b>	<b>50,974,390</b>	<b>152</b>	<b>54,202,499</b>
<b><u>Net Assets</u></b>					
Unrestricted	206,225	2,307,388	8,866,764	1,441,280	12,821,657
<b>Total Net Assets</b>	<b>\$ 206,225</b>	<b>\$ 2,307,388</b>	<b>\$ 8,866,764</b>	<b>\$ 1,441,280</b>	<b>\$ 12,821,657</b>

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, 2009**

	Liability Insurance	Property Insurance	Workers' Compensation Fund	Vision Fund	Total
<b>Operating Revenues</b>					
Transfers in from other funds	\$ 2,428,000	\$ -	\$ -	\$ -	\$ 2,428,000
Self-insurance premiums	788,112	744,589	10,425,921	1,845,852	13,804,474
<b>Total Operating Revenues</b>	<b>3,216,112</b>	<b>744,589</b>	<b>10,425,921</b>	<b>1,845,852</b>	<b>16,232,474</b>
<b>Operating Expenditures</b>					
Classified salaries	234,501	145,348	247,056	-	626,905
Employee benefits	85,701	52,394	91,594	-	229,689
Books and supplies	427	-	7,085	-	7,512
Transfers out to other funds	-	-	4,500,000	-	4,500,000
Payments for claims	3,335,973	831,960	13,950,855	1,436,882	19,555,670
<b>Total Operating Expenditures</b>	<b>3,656,602</b>	<b>1,029,702</b>	<b>18,796,590</b>	<b>1,436,882</b>	<b>24,919,776</b>
Operating income (loss)	(440,490)	(285,113)	(8,370,669)	408,970	(8,687,302)
<b>Operating Revenues</b>					
Interest income	72,935	58,270	988,419	11,886	1,131,510
Net income (loss)	(367,555)	(226,843)	(7,382,250)	420,856	(7,555,792)
Net Assets at the Beginning of Year	573,780	2,534,231	16,249,014	1,020,424	20,377,449
Net Assets at End of Year	\$ 206,225	\$ 2,307,388	\$ 8,866,764	\$ 1,441,280	\$ 12,821,657

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, 2009**

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	Governmental Activities: Self-Insurance Fund
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from premiums and other revenues	\$ 26,476,550
Cash paid for claims and operating expenses	(21,680,903)
	<hr/>
Net cash provided by operating activities	4,795,647
	<hr/>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	1,131,510
	<hr/>
Net cash provided by investing activities	1,131,510
	<hr/>
Net increase in cash	5,927,157
Cash, July 1, 2008	51,163,432
	<hr/>
Cash, June 30, 2008	\$ 57,090,589
	<hr/> <hr/>
Reconciliation of operating loss to net cash provided by operating activities:	
Operating income	\$ (8,687,302)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Decrease in accounts receivable	195,568
Decrease in due from other funds	10,244,076
Decrease in prepaid expense	3,060
Increase in accounts payable	380,983
Increase in due to other funds	131,262
Increase in claims payable	2,528,000
	<hr/>
Net cash provided by operating activities	\$ 4,795,647
	<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, 2009**

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	Agency Funds
	<u>Student</u>
	<u>Body Funds</u>
<b>Assets</b>	
Cash on hand and in banks:	
Checking	\$ 6,443,542
Savings	1,594,587
Accounts receivable:	
Miscellaneous	108,805
Prepaid expense	29,228
Stores Inventory	<u>273,571</u>
<b>Total Assets</b>	<u><u>\$ 8,449,733</u></u>
<b>Liabilities</b>	
Funds held in trust	<u>8,449,733</u>
<b>Total Liabilities</b>	<u><u>\$ 8,449,733</u></u>

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

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES**

A. Accounting Policies

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, 2009**

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**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 34 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, 2009 is presented below:

**Unaudited 2008-09 Condensed Financial Information**

	<b>Total Not-for- Profit</b>	<b>Total Governmental</b>	<b>Total Charter Schools</b>
Total assets	\$ 46,032,142	\$ 12,551,080	\$ 58,583,222
Total liabilities	10,937,974	2,240,385	13,178,359
Total net assets	<u>\$ 35,094,168</u>	<u>\$ 10,310,696</u>	<u>\$ 45,404,864</u>
Total revenues	\$91,730,895	\$24,022,838	\$115,753,732
Total expenses	\$87,016,873	\$22,842,593	\$109,859,466
Change in net assets	<u>\$ 4,714,021</u>	<u>\$ 1,180,245</u>	<u>\$ 5,894,266</u>



**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**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, 2009**

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**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 present 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 enterprise fund are parent fees for child care programs.

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, 2009**

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**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 report 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. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**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 *Child Development Fund* is used to account for resources committed to child development programs maintained by the District.
- 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.
- 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 six 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 *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, 2009**

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**NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)**

E. Fund Accounting (continued)

3. The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of District property.
  4. The *Pupil Transportation Equipment Fund* is used to account for resources committed for the acquisition, rehabilitation or replacement of pupil transportation equipment.
  5. The *Special Reserve Fund (Other than Capital Outlay)* is used to set aside funds for general operating purposes.
  6. The *Special Reserve Fund (Insurance Fund)* is used to account for funds set aside for the District's workers' compensation, medical and dental insurance programs. This fund is reported as an internal service fund on the District's Annual Financial and Budget report.
- *Capital Projects Funds* are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains two non-major capital project funds:
    1. The *Capital Facilities Fund* is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
    2. 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, 2009**

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**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 financial statements.

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, in accordance with GASB Statement No. 31.

2. Stores 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 average 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" even though they are a component of net current assets.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**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 useful lives:

<u>Description</u>	<u>Estimated Lives</u>
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, 2009**

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**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 resignation 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 using the effective-interest method. 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, premiums, or discounts is reported as other financing sources/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, 2009**

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**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 District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

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 March 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 (March 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 prescribe 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, 2009**

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**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 Pronouncements

During the 2008-09 fiscal year, the following GASB Pronouncements became effective for the District.

GASB Statement No. 49 – *Accounting and Financial Reporting for Pollution Remediation Obligations* was issued in November, 2006. This statement addresses standards for obligations to address the current or potential detrimental effects of existing pollution by participating in pollution remediation activities such as site assessments and cleanups. This statement is not expected to have any financial impact on the District.

GASB Statement No. 52 – *Land and Other Real Estate Held as Investments by Endowments* was issued in November, 2007. The statement establishes consistent standards for the reporting of land and other real estate held as investments by endowments and similar entities, such as pension and other postemployment benefit plans, external investment pools, and deferred compensation plans. It requires land and other real estate held to be reported at fair value. This statement is not expected to have any financial impact on the District.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 2 – CASH AND INVESTMENTS**

Summary of Cash and Investments

Cash and investments as of June 30, 2009 are classified in the accompanying financial statements as follows:

	Governmental Funds	Proprietary Funds	Fiduciary Funds	Total
Cash in county treasury	\$ 640,996,204	\$ 56,590,589	\$ -	\$ 697,586,793
Cash on hand and in banks	1,107,596	-	8,038,129	9,145,725
Cash with fiscal agent	-	500,000	-	500,000
Cash in revolving fund	57,800	-	-	57,800
Total deposits	\$ 642,161,600	\$ 57,090,589	\$ 8,038,129	\$ 707,290,318

Policies and Practices

The District is 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 and/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 debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

*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 their County Treasurer (Education Code Section 41001). The fair value of the District’s investment in the pool is reported in the accounting financial statements at amounts based upon the District’s pro-rata share of 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 based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 2 – CASH AND INVESTMENTS (continued)**

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 web site. The table below identifies some of the investment types permitted in the investment policy:

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
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 \$702,469,902 and an amortized book value of \$697,586,793. The average weighted maturity for this pool is 332 days.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 2 – CASH AND INVESTMENTS (continued)**

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.

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, 2009, the District's bank balance was not exposed to custodial credit risk because it was insured and 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, 2009 consist of the following:

	General Fund	Child Development Fund	Building Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds	Internal Service Fund
Federal Government	\$ 58,343,419	\$ 771,606	\$ -	\$ -	\$ -	\$ 7,694,116	\$ 66,809,141	\$ -
State Government	40,633,099	14,167,738	-	-	-	162,013	54,962,850	-
Local Sources	50,323,857	4,572,125	373,114	1,068,912	322,662	784,508	57,445,178	203,217
Total	<u>\$149,300,375</u>	<u>\$ 19,511,469</u>	<u>\$ 373,114</u>	<u>\$ 1,068,912</u>	<u>\$ 322,662</u>	<u>\$ 8,640,637</u>	<u>\$ 179,217,169</u>	<u>\$ 203,217</u>



**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

**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 2008-09 fiscal year are as follows:

Transfers From Other Funds	Transfers From Other Funds				Total	
	General Fund	Child Development Fund	County School Facilities Fund	Other Governmental Funds		Self Insurance Fund
General Fund	\$ -	\$ 1,210	\$ -	\$ 2,408,056	\$ 3,963,000	\$ 6,372,266
Building Fund	-	-	2,323,907	-	-	2,323,907
Other Governmental Funds	20,654,219	-	-	5,381,809	-	26,036,028
Self Insurance Fund	6,035,000	-	-	-	(1,535,000)	4,500,000
	<u>\$ 26,689,219</u>	<u>\$ 1,210</u>	<u>\$ 2,323,907</u>	<u>\$ 7,789,865</u>	<u>\$ 2,428,000</u>	<u>\$ 39,232,201</u>

Transfer from the General Fund to the Adult Education Fund per the rules established for the Tier III Flexibility for Categorical Programs.	\$	1,786,007
Transfer from the General Fund to the State Preschool Fund to cover required reserves for prepaid expenses.		1,210
Transfer from the General fund to the Postemployment Benefits Fund for annual contribution for retirees' medical benefits per union contract.		418,953
Transfer from the General Fund to the Postemployment Benefits Fund per Administrator's Association agreement.		203,096
Transfer from the General Fund to the Liability Insurance Fund for premiums and insurance costs.		2,428,000
Transfer from the General Fund to the Property Insurance Fund for premiums and insurance costs.		1,535,000
Transfer from the Pupil Transportation Fund to the General Fund for money not needed for bus replacement.		943,980
Transfer from the Special Reserve for Non-Capital Outlay Fund to the General Fund for a one time allowance for research and new programs.		4,394,516
Transfer from the Special Reserve for Non-Capital Outlay Fund to the General Fund for the SERP buy out.		6,836,709
Transfer from the Postemployment Benefits Fund to the General Fund for reimbursement of premiums paid for retirees' medical benefits per union contract.		568,860
Transfer from the Prop MM Building Fund to the County School Facilities Fund for the close out of the Prop MM Fund.		2,323,907
Transfer from the Developer Fees Capital Facilities Fund to the General Fund for interest sweep per FCMAT and Board Approval.		5,552,891
Transfer from the Property Management Fund to the General Fund for teacher moves.		25,000
Transfer from the Property Management Fund to the General Fund for overcapacity transportation		50,000
Transfer from the Property Management Fund to the General Fund for civic center rental.		256,875
Transfer from the Property Management Fund to the General Fund for custodial supplies.		9,858
Transfer from the Property Management Fund to the General Fund for the Dell lease payment.		341,170
Transfer from the Property Management Fund to the General Fund to cover teacher moving expense and nurses.		170,298
Transfer from the Facilities Master Plan Fund to the General Fund for election costs.		1,504,062
Transfer from the Facilities Master Plan Fund to the Deferred Maintenance Fund as part of the apportionment required by the State.		5,381,809
Transfer from the Workers Compensation Fund to the General Fund because the fund was over funded based on an actuarial study.		4,500,000
	Total	<u>\$ 39,232,201</u>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 5 – FUND BALANCES**

The following amounts of the ending fund balance were designated by the Governing Board as of June 30, 2009:

	<u>General Fund</u>
Economic Uncertainties	\$ 23,600,000
Designated for Other Purposes	135,306,565
Total	<u>\$ 158,906,565</u>

**NOTE 6 – CAPITAL ASSETS AND DEPRECIATION**

Capital asset activity for June 30, 2009 is shown below:

	Beginning Balance July 1, 2008	Additions	Deletions	Ending Balance June 30, 2009
Land	\$ 273,165,782	\$ 118,350	\$ -	\$ 273,284,132
Site improvements	188,921,998	14,720,877	-	203,642,875
Buildings and improvements	1,202,887,794	81,077,472	532,322	1,283,432,944
Furniture and equipment	229,293,720	6,701,692	19,088,035	216,907,377
Work in progress	585,763,003	121,382,789	95,977,620	611,168,172
Total at historical cost	<u>2,480,032,297</u>	<u>224,001,180</u>	<u>115,597,977</u>	<u>2,588,435,500</u>
Less accumulated depreciation:				
Site improvements	77,944,765	9,498,747	-	87,443,512
Buildings	292,275,607	48,266,703	547,321	339,994,989
Furniture and equipment	181,591,749	8,481,384	16,671,144	173,401,989
Total accumulated depreciation	<u>551,812,121</u>	<u>66,246,834</u>	<u>17,218,465</u>	<u>600,840,490</u>
Governmental activities capital assets, net	<u>\$ 1,928,220,176</u>	<u>\$ 157,754,346</u>	<u>\$ 98,379,512</u>	<u>\$1,987,595,010</u>



**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 7 - TAX REVENUE ANTICIPATION NOTES**

The District issued \$215,000,000 of Tax Revenue Anticipation Notes dated July 1, 2008. The notes mature on July 1, 2009 and yield 1.63% 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 \$215,000,000 principal plus \$6,450,000 interest to be paid July 1, 2009.

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, 2009 is as follows:

	Balance July 1, 2008	Additions	Deductions	Balance June 30, 2009	Amounts Due Within One Year
Compensated absences payable	\$ 23,849,324	\$ -	\$ 1,390,380	\$ 22,458,944	\$ 18,865,513
Arbitrage liability	1,149,452	48,877	-	1,198,329	-
Deferred bond premium and issue cost	40,231,234	-	2,075,209	38,156,025	-
Other postemployment benefits	894,499	3,769,888	4,664,387	-	-
General obligation bonds	1,485,194,669	144,211,573	36,480,000	1,592,926,242	23,962,335
Qualified School Construction Bonds	-	38,840,000	-	38,840,000	-
Early retirement incentive	-	70,893,394	-	70,893,394	14,178,678
Totals - Governmental Activities	<u>\$ 1,551,319,178</u>	<u>\$ 257,763,732</u>	<u>\$ 44,609,976</u>	<u>\$ 1,764,472,934</u>	<u>\$ 57,006,526</u>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 8 – LONG-TERM DEBT (continued)**

**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 2009 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
2010	\$ -	\$ 3,056,708	\$ 3,056,708
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
2015-2019	8,340,000	15,283,540	23,623,540
2020-2023	30,500,000	11,462,655	41,962,655
Total	<u>\$ 38,840,000</u>	<u>\$ 42,029,735</u>	<u>\$ 80,869,735</u>

**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.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

**NOTE 8 – LONG-TERM DEBT (continued)**

**General Obligation Bonds (continued)**

The outstanding general obligation bonded debt of San Diego Unified School District at June 30, 2009 is summarized in the following:

Series	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2008	Current Year Additions	Redeemed Current Year	Outstanding June 30, 2009
1998, Series A	5/27/1999	4.20 - 5.34	2023	\$ 139,995,085	\$ 102,353,122	\$ -	\$ 7,781,727	\$ 94,571,395
A - Accreted Interest					58,943,086	8,620,897	4,558,273	63,005,710
1998, Series B	12/14/2000	4.40 - 5.35	2025	149,999,084	135,265,868	-	1,373,870	133,891,998
B - Accreted Interest					19,391,913	1,445,980	2,346,130	18,491,763
1998, Series C	11/21/2001	2.95 - 5.00	2026	199,995,712	182,626,834	-	1,421,307	181,205,527
C - Accreted Interest					7,996,907	560,705	1,743,693	6,813,919
1998, Series D	9/12/2002	2.10 - 5.25	2027	274,995,346	254,409,746	-	1,634,746	252,775,000
D - Accreted Interest					1,148,400	96,854	1,245,254	-
1998, Series E	8/19/2003	1.90 - 5.25	2028	349,993,599	330,072,370	-	2,941,015	327,131,355
E - Accreted Interest					14,126,724	1,227,026	2,558,985	12,794,765
1998, Series F	9/2/2004	1.95 - 5.00	2029	199,996,373	44,749,127	-	2,393,763	42,355,364
F - Accreted Interest					3,410,572	1,102,530	1,311,237	3,201,865
1998, Series G	9/8/2005	3.00 - 5.00	2030	195,024,802	68,035,000	-	5,170,000	62,865,000
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
				<u>\$ 1,907,977,582</u>	<u>\$ 1,485,194,669</u>	<u>\$ 144,211,573</u>	<u>\$ 36,480,000</u>	<u>\$ 1,592,926,242</u>

The annual requirement to amortize each bond issuance, outstanding as of June 30, 2009, follows:

**1998 Series A**

Year Ended	Principal	Accreted Interest	Total
2010	\$ 7,665,704	\$ 5,169,296	\$ 12,835,000
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
2015-2019	33,246,773	51,333,227	84,580,000
2020-2023	24,531,919	56,148,081	80,680,000
	<u>\$ 94,571,395</u>	<u>\$ 140,203,605</u>	<u>\$ 234,775,000</u>

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 \$63,005,710 has been reflected in the long-term debt balance.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 8 – LONG-TERM DEBT (continued)**

**General Obligation Bonds (continued)**

1998 Series B

<u>Year Ended</u>	<u>Principal</u>	<u>Accreted Interest</u>	<u>Current Interest Component</u>	<u>Total</u>
2010	\$ 1,357,490	\$ 6,549,296	\$ 2,772,510	\$ 10,679,296
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
2015-2019	34,727,915	30,384,030	5,262,085	70,374,030
2020-2024	71,465,000	17,079,307	-	88,544,307
2025	21,215,000	1,060,750	-	22,275,750
	<u>\$ 133,891,998</u>	<u>\$ 81,270,568</u>	<u>\$ 23,873,002</u>	<u>\$ 239,035,568</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 \$18,491,763 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 \$107,495,000 of the Series B Bonds is expected to be redeemed on July 1, 2010.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 8 – LONG-TERM DEBT (continued)**

**General Obligation Bonds (continued)**

1998 Series C

Year Ended	Principal	Accreted Interest Component	Current Interest Component	Total
2010	\$ 1,459,270	\$ 2,150,730	\$ 8,681,763	\$ 12,291,763
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
2015-2019	41,870,000	-	37,740,563	79,610,563
2020-2024	74,360,000	-	24,606,000	98,966,000
2025-2027	49,740,000	-	3,860,750	53,600,750
	\$ 181,205,527	\$ 7,799,472	\$ 109,414,328	\$ 298,419,327

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 2008-09 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 2008-09 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 \$6,813,919 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, 2009**

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**NOTE 8 – LONG-TERM DEBT (continued)**

**General Obligation Bonds (continued)**

1998 Series D

<u>Year Ended</u>	<u>Principal</u>	<u>Current Interest Component</u>	<u>Total</u>
2010	\$ 3,385,000	\$ 12,620,750	\$ 16,005,750
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
2015-2019	45,570,000	54,645,251	100,215,251
2020-2024	81,965,000	39,794,987	121,759,987
2025-2027	101,315,000	11,114,012	112,429,012
	<u>\$ 252,775,000</u>	<u>\$ 167,033,000</u>	<u>\$ 419,808,000</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 2008-09 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 2008-09 year.

Capital appreciation bonds were issued as part of the Series D issuance with maturity dates from July 1, 2004 through 2009, 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**  
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**NOTE 8 – LONG-TERM DEBT (continued)**

**General Obligation Bonds, continued**

1998 Series E

<u>Year Ended</u>	<u>Principal</u>	<u>Accreted Interest Component</u>	<u>Current Interest Component</u>	<u>Total</u>
2010	\$ 2,859,629	\$ 3,090,370	\$ 16,016,930	\$ 21,966,929
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
2015-2019	52,915,000	-	73,545,337	126,460,337
2020-2024	88,115,000	-	56,876,763	144,991,763
2025-2028	167,445,000	-	23,295,000	190,740,000
	<u>\$ 327,131,355</u>	<u>\$ 15,703,644</u>	<u>\$ 233,801,750</u>	<u>\$ 576,636,749</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 2008-09 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 2008-09 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 \$12,794,765 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**  
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**NOTE 8 – LONG-TERM DEBT (continued)**

**General Obligation Bonds (continued)**

1998 Series F

<u>Year Ended</u>	<u>Principal</u>	<u>Accreted Interest Component</u>	<u>Current Interest Component</u>	<u>Total</u>
2010	\$ 2,160,242	\$ 1,499,758	\$ 8,934,773	\$ 12,594,773
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
2015-2019	17,580,000	-	41,844,496	59,424,496
2020-2024	9,175,000	-	37,809,425	46,984,425
2025-2029	2,830,000	-	28,571,995	31,401,995
	<u>\$ 42,355,364</u>	<u>\$ 4,954,636</u>	<u>\$ 152,779,031</u>	<u>\$ 200,089,031</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 2008-09 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 2008-09 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 accreting through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$3,201,865 has been reflected in the long-term debt balance.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 8 – LONG-TERM DEBT (continued)**

**General Obligation Bonds (continued)**

1998 Series G

Year Ended	Principal	Current Interest Component	Total
2010	5,075,000	\$ 2,741,481	\$ 7,816,481
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
2015-2019	18,150,000	7,507,155	25,657,155
2020-2024	17,505,000	3,763,996	21,268,996
2025-2028	2,060,000	717,572	2,777,572
	\$ 62,865,000	\$ 29,445,508	\$ 92,310,508

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 2008-09 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 2008-09 year.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 8 – LONG-TERM DEBT (continued)**

**General Obligation Bonds (continued)**

Refunding Bonds

On November 13, 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, 2009 are as follows:

Year Ended	Principal	Current Interest Component	Total
2010	\$ -	\$ 12,617,542	\$ 12,617,542
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
2015-2019	-	50,470,170	50,470,170
2020-2024	3,240,000	63,087,712	66,327,712
2025-2028	70,910,000	58,878,637	129,788,637
2029	188,515,000	14,014,725	202,529,725
	\$ 262,665,000	\$ 249,538,954	\$ 512,203,954

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 2008-09 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 \$82,298 was recognized during the 2008-09 year.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 8 – LONG-TERM DEBT (continued)**

**General Obligation Bonds (continued)**

2009 Series A

Year Ended	Principal	Current Interest Component	Total
2012	\$ 1,150,555	\$ 94,446	\$ 1,245,001
2013	1,336,515	163,485	2,745,001
2014	1,305,735	234,265	3,040,000
2015-2019	37,363,703	125,504,497	164,408,200
2020-2023	90,001,073	147,998,227	400,867,500
	<u>\$ 131,157,581</u>	<u>\$ 273,994,920</u>	<u>\$ 572,305,702</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.

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. No accreted interest accrued as of June 30, 2009.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 8 – LONG-TERM DEBT (continued)**

**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 and will be paid out according to the following:

	<u>Payments</u>
July 10, 2009	\$ 14,178,679
July 10, 2010	14,178,679
July 10, 2011	14,178,679
July 10, 2012	14,178,679
July 10, 2013	<u>14,178,678</u>
Total	<u>\$ 70,893,394</u>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**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, 2009, 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 \$53,652,000. Changes in the reported liability are shown below:

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimated	Claim Payments	Ending Fiscal Year Liability
Liability	\$ 3,131,000	\$ 3,271,973	\$ 3,335,973	\$ 3,067,000
Workers' Compensation	47,993,000	16,542,855	13,950,855	50,585,000
Totals	<u>\$ 51,124,000</u>	<u>\$ 19,814,828</u>	<u>\$ 17,286,828</u>	<u>\$ 53,652,000</u>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 10 - 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 State Teachers' Retirement System (STRS), and classified employees are members of the Public Employees' Retirement System (PERS).

Plan Description and Provisions

**Public Employees' Retirement System (PERS)**

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 2008-09 was 9.428%. 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>
2008-09	\$ 21,945,467	100%
2007-08	\$ 22,765,551	100%
2006-07	\$ 20,579,989	100%

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 10 - EMPLOYEE RETIREMENT PLANS (continued)**

**State Teachers' Retirement System (STRS)**

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. 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. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 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 2008-09 was 8.25% of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2008-09	\$ 47,149,467	100%
2007-08	\$ 47,767,897	100%
2006-07	\$ 44,644,997	100%

**On-Behalf Payments**

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state general fund contributions of approximately \$25,815,048 to STRS (4.517% of salaries subject to STRS in 2008-09).

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 11– 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 2, 1007, 1,288 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*	1,488
	<hr/>
* As of July 1, 2007 actuarial valuation	
Number of participating employers	1
	<hr/> <hr/>



**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 11- 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	\$ 3,769,888
Interest on net OPEB obligation	-
Annual OPEB cost	<u>3,769,888</u>
Contributions made	2,150,288
Rate subsidy paid in current year	<u>2,514,099</u>
Increase in net OPEB obligation	(894,499)
Net OPEB obligation - July 1, 2008	<u>894,499</u>
Net OPEB obligation - June 30, 2009	<u><u>\$ -</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2008-09 are as follows:

Actuarial Valuation Date	Value of Assets	Actuarial Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio
1/1/2007	-	40,320,317	40,320,317	0%

**Funded Status and Funding Progress – OPEB Plans**

As of July 1, 2007, the most recent actuarial valuation date, the implicit rate subsidy plan was unfunded. The actuarial accrued liability (AAL) for benefits was \$40.3 million and the unfunded actuarial accrued liability (UAAL) was \$40.3 million.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 11– 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	7/1/2007
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level-Dollar Basis
Remaining amortization period	30 years
Actuarial assumptions:	
Discount rate	5.0%
Health care rate increase July 1, 2008	9.0%

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 12 – 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, 2009 is \$3,369,937. 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 13 – EXPENDITURES OVER APPROPRIATIONS**

In the General Fund classified salaries expenditures exceeded appropriations by \$5,561,977.

**NOTE 14 - 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, 2009, the District had commitments with respect to unfinished capital projects of approximately \$158,562,668.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Notes to Financial Statements**  
**June 30, 2009**

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**NOTE 14 - COMMITMENTS AND CONTINGENCIES (continued)**

D. Supplemental Early Retirement – Title I

The District has allocated a portion of the costs associated with their Supplemental Retirement Plan offered to employees to Title I. The amount allocated to Title I is approximately \$1.9 million, and will be applied over the payment period of 5 years. For 2005-06, the amount applied was \$511,125. Due to an advisory letter from the California Department of Education dated December 15, 2006, the District did not allocate costs associated with their Supplemental Early Retirement Plan to Title I and all other federal programs for the years 2006-07, 2007-08, 2008-09.

**NOTE 15 – SUBSEQUENT EVENTS**

Accounting Treatment of Re-apportioned Categorical Funds

On July 28, 2009 Governor Schwarzenegger signed a package of bills amending the 2008-09 and 2009-10 California State budgets. The budget amendments were designed to address the State's budget gap of \$24 billion that had developed as a result of the deepening recession since the State's last budget actions in February 2009. The July budget package reduced, on a state-wide basis, \$1.6 billion in 2008-09 Proposition 98 funding through a reversion of undistributed categorical program balances. The budget language identified 51 specific programs and required the amount associated with these programs that were "unallocated, unexpended, or not liquidated as of June 30, 2009" to revert to the State's General Fund. The July budget package also provided an appropriation in 2009-10 to backfill \$1.5 billion of these cuts to repay the 2008-09 reversion of the undistributed categorical program balances.

The District recorded the revenue and related receivable associated with its portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package prior to notification by the State that the 2009-10 re-appropriation should not be accrued. No adjustment has been made to reduce revenue and the related receivable in the financial statements as of June 30, 2009 because the amount of the District's portion of the unallocated, unexpended or unliquidated categorical program balances identified in the July 2009 State Budget package is not deemed to be material to the District's financial statements.

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 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.

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*Required Supplementary Information*

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**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Budgetary Comparison Schedule – General Fund**  
**For the Fiscal Year Ended June 30, 2009**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with
	Original	Final		Final Budget - Pos (Neg)
<b>Revenues</b>				
Revenue Limit Sources	\$ 645,515,177	\$ 637,108,501	\$ 637,269,160	\$ 160,659
Federal	109,844,535	134,883,891	164,727,890	29,843,999
Other State	304,517,072	279,320,332	297,421,232	18,100,900
Other Local	82,866,963	104,470,948	91,357,509	(13,113,439)
Total Revenues	1,142,743,747	1,155,783,672	1,190,775,791	34,992,119
<b>Expenditures</b>				
Certificated Salaries	527,369,900	592,790,088	573,979,728	18,810,360
Classified Salaries	203,533,175	193,945,033	199,507,010	(5,561,977)
Employee Benefits	244,993,833	256,211,481	249,283,770	6,927,711
Books and Supplies	75,088,338	114,485,281	62,248,101	52,237,180
Services and Other Operating Expenditures	71,250,294	101,054,366	83,003,212	18,051,154
Capital Outlay	883,245	5,036,194	4,061,987	974,207
Direct Support/Indirect Costs	(1,805,880)	(911,534)	(2,147,465)	1,235,931
Other Outgo	353,600	480,454	370,405	110,049
Total Expenditures	1,121,666,505	1,263,091,363	1,170,306,748	92,784,615
Excess (Deficiency) of Revenues Over (Under) Expenditures	21,077,242	(107,307,691)	20,469,043	127,776,734
<b>Other Financing Sources and Uses</b>				
Interfund Transfers In	9,849,987	20,850,472	26,689,219	5,838,747
Interfund Transfers Out	(10,719,044)	(6,595,497)	(6,372,266)	223,231
All Other Financing sources	-	-	894,703	894,703
Total Other Financing Sources and Uses	(869,057)	14,254,975	21,211,656	6,956,681
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	20,208,185	(93,052,716)	41,680,699	134,733,415
Fund Balances, July 1, 2008	118,928,589	118,928,589	118,928,589	-
Fund Balances, June 30, 2009	\$ 139,136,774	\$ 25,875,873	\$ 160,609,288	\$ 134,733,415

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Budgetary Comparison Schedule – Child Development Fund**  
**For the Fiscal Year Ended June 30, 2009**

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	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget -
	Original	Final		Pos (Neg)
<b>Revenues</b>				
Federal	\$ 715,034	\$ 736,098	\$ 732,546	\$ (3,552)
Other State	21,679,718	23,013,238	22,727,596	(285,642)
Other Local	4,205,736	9,041,478	8,053,964	(987,514)
Total Revenues	26,600,488	32,790,814	31,514,106	(1,276,708)
<b>Expenditures</b>				
Certificated Salaries	9,199,312	10,338,678	10,275,600	63,078
Classified Salaries	7,661,538	9,877,402	9,697,760	179,642
Employee Benefits	7,775,557	8,281,936	7,756,999	524,937
Books and Supplies	639,000	1,478,177	1,177,814	300,363
Services and Other Operating Expenditures	448,450	841,495	704,749	136,746
Capital Outlay	883,245	19,000	14,352	4,648
Direct Support/Indirect Costs	1,308,591	1,954,126	1,681,290	272,836
Total Expenditures	27,915,693	32,790,814	31,308,564	1,482,250
Excess (Deficiency) of Revenues Over (Under) Expenditures	(1,315,205)	-	205,542	205,542
<b>Other Financing Sources and Uses</b>				
Interfund Transfers In	472,249	-	1,210	1,210
Total Other Financing Sources and Uses	472,249	-	1,210	1,210
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(842,956)	-	206,752	206,752
Fund Balances, July 1, 2008	14,194	14,194	14,194	-
Fund Balances, June 30, 2009	\$ (828,762)	\$ 14,194	\$ 220,946	\$ 206,752

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Schedule of Funding Progress**  
**For the Fiscal Year Ended June 30, 2009**

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Actuarial Valuation Date	Value of Assets	Accrued Liability (AAL)	Unfunded AAL (UAAL)	Funded Ratio	Covered Payroll	Percentage of Covered Payroll
1/1/2007	\$ -	\$ 40,320,317	\$ 40,320,317	0%	\$765,499,371	5%



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*Supplementary Information Section*

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**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Combining Balance Sheet – Non-Major Special Revenue Funds (Unaudited)**  
**June 30, 2009**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Pupil Transportation Equipment Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve Fund for Postemployment Benefits	Total
<b>ASSETS</b>							
Cash	\$ 2,297,999	\$ 6,981,802	\$ 104,147	\$ -	\$ 119,884	\$ 1,324,407	\$ 10,828,239
Accounts receivable	114,710	8,178,790	3,424	3,132	3,745	5,019	8,308,820
Stores Inventories	-	749,728	-	-	-	-	749,728
Due from other funds	2,061,740	130,537	244,549	-	-	-	2,436,826
<b>Total Assets</b>	<b>\$ 4,474,449</b>	<b>\$ 16,040,857</b>	<b>\$ 352,120</b>	<b>\$ 3,132</b>	<b>\$ 123,629</b>	<b>\$ 1,329,426</b>	<b>\$ 22,323,613</b>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>LIABILITIES</b>							
Accounts payable and accrued liabilities	\$ 117,798	\$ 913,988	\$ 1,274	\$ -	\$ -	\$ -	\$ 1,033,060
Due to other funds	1,940,767	12,649,852	98,748	(81)	-	-	14,689,286
<b>Total Liabilities</b>	<b>2,058,565</b>	<b>13,563,840</b>	<b>100,022</b>	<b>(81)</b>	<b>-</b>	<b>-</b>	<b>15,722,346</b>
<b>Fund Balances</b>							
Reserved for:							
Reserved for special purpose	-	2,477,017	-	-	-	-	2,477,017
Designated for special purpose	2,415,884	-	252,098	3,213	123,629	1,329,426	4,124,250
<b>Total Fund Balances</b>	<b>2,415,884</b>	<b>2,477,017</b>	<b>252,098</b>	<b>3,213</b>	<b>123,629</b>	<b>1,329,426</b>	<b>6,601,267</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 4,474,449</b>	<b>\$ 16,040,857</b>	<b>\$ 352,120</b>	<b>\$ 3,132</b>	<b>\$ 123,629</b>	<b>\$ 1,329,426</b>	<b>\$ 22,323,613</b>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Combining Statement of Revenues, Expenses, and Changes in Fund Balances – Non-Major Special Revenue Funds (Unaudited)**  
**For the Fiscal Year Ended June 30, 2009**

	Adult Education Fund	Cafeteria Fund	Deferred Maintenance Fund	Pupil Transportation Equipment Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Special Reserve Fund for Postemployment Benefits	Total Non-Major Governmental Funds
<b>REVENUES</b>							
General Revenues:							
Interest and investment earnings	\$ -	\$ 202,373	\$ -	\$ 21,659	\$ 213,162	\$ 34,574	\$ 471,768
Miscellaneous	-	11,432,917	-	1,002	-	-	11,433,919
Program Revenues:							
Operating grants and contributions	227,497	38,644,047	71,182	-	-	-	38,942,726
Total Revenues	227,497	50,279,337	71,182	22,661	213,162	34,574	50,848,413
<b>EXPENDITURES</b>							
Instructional Services:							
Instruction	857,948	-	-	-	-	-	857,948
Supervision of instruction	372,931	-	-	-	-	-	372,931
School site administration	334,188	-	-	-	-	-	334,188
Pupil Support Services:							
Home-to-school transportation	-	-	-	54	-	-	54
Food services	-	46,463,883	-	-	-	-	46,463,883
All other pupil services	64,081	-	-	-	-	-	64,081
General Administration Services:							
Other general administration	75,788	390,387	-	-	-	-	466,175
Plant services	40,984	1,358,715	7,192	-	-	-	1,406,891
Facility acquisition and construction	23,277	144,990	5,194,105	-	-	-	5,362,372
Total Expenditures	1,769,197	48,357,975	5,201,297	54	-	-	55,328,523
Excess (Deficiency) of Revenues Over (Under) Expenditures							
	(1,541,700)	1,921,362	(5,130,115)	22,607	213,162	34,574	(4,480,110)
<b>OTHER FINANCING SOURCES (USES)</b>							
Interfund transfers out	-	-	-	(943,980)	(11,231,225)	(568,860)	(12,744,065)
Interfund transfers in	1,786,007	-	5,381,809	-	-	622,049	7,789,865
Total Other Financing Sources and Uses	1,786,007	-	5,381,809	(943,980)	(11,231,225)	53,189	(4,954,200)
Net Change in Fund Balances	244,307	1,921,362	251,694	(921,373)	(11,018,063)	87,763	(9,434,310)
Fund Balances, July 1, 2008	2,171,577	555,655	404	924,586	11,141,692	1,241,663	16,035,577
Fund Balances, June 30, 2009	\$ 2,415,884	\$ 2,477,017	\$ 252,098	\$ 3,213	\$ 123,629	\$ 1,329,426	\$ 6,601,267

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Combining Balance Sheet – Non-Major Capital Project Funds (Unaudited)**  
**June 30, 2009**

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	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total Non-Major Governmental Funds
	<u>Fund</u>	<u>Outlay Projects</u>	<u>Funds</u>
<b>ASSETS</b>			
Cash	\$ 30,497,189	\$ 36,688,729	\$ 67,185,918
Accounts receivable	135,586	196,231	331,817
Prepaid expenditures	520	6,783	7,303
Due from other funds	-	884	884
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Assets	<u>\$ 30,633,295</u>	<u>\$ 36,892,627</u>	<u>\$ 67,525,922</u>
 <b>LIABILITIES AND FUND BALANCES</b>			
<b>LIABILITIES</b>			
Accounts payable and accrued liabilities	\$ 154,949	\$ 58,919	\$ 213,868
Due to other funds	8,438,874	553,663	8,992,537
Deferred revenue	-	26,923	26,923
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Liabilities	<u>8,593,823</u>	<u>639,505</u>	<u>9,233,328</u>
 <b>Fund Balances</b>			
Reserved for:			
Designated for special purpose	22,039,472	36,253,122	58,292,594
Total Fund Balances	<u>22,039,472</u>	<u>36,253,122</u>	<u>58,292,594</u>
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Liabilities and Fund Balances	<u>\$ 30,633,295</u>	<u>\$ 36,892,627</u>	<u>\$ 67,525,922</u>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –**  
**Non-Major Capital Project Funds (Unaudited)**  
**For the Fiscal Year Ended June 30, 2009**

	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total Non-Major Governmental Funds
<b>REVENUES</b>			
General Revenues:			
Property taxes	\$ 8,338,298	\$ -	\$ 8,338,298
Interest and investment earnings	812,200	1,032,084	1,844,284
Miscellaneous	4,396,782	6,304,598	10,701,380
Program Revenues:			
Operating grants and contributions	-	9,700	9,700
 Total Revenues	 <u>13,547,280</u>	 <u>7,346,382</u>	 <u>20,893,662</u>
<b>EXPENDITURES</b>			
Plant services	10,708,319	3,262,923	13,971,242
Facility acquisition and construction	5,501,682	5,555,393	11,057,075
Issuance costs and discounts	-	4,300	4,300
 Total Expenditures	 <u>16,210,001</u>	 <u>8,822,616</u>	 <u>25,032,617</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	 <u>(2,662,721)</u>	 <u>(1,476,234)</u>	 <u>(4,138,955)</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Interfund transfers out	(5,552,891)	(7,739,072)	(13,291,963)
 Total Other Financing Sources and Uses	 <u>(5,552,891)</u>	 <u>(7,739,072)</u>	 <u>(13,291,963)</u>
Net Change in Fund Balances	(8,215,612)	(9,215,306)	(17,430,918)
Fund Balances, July 1, 2008	30,255,084	45,468,428	75,723,512
Fund Balances, June 30, 2009	<u>\$ 22,039,472</u>	<u>\$ 36,253,122</u>	<u>\$ 58,292,594</u>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Local Educational Agency Organization Structure**  
**June 30, 2009**

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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>
Shelia Jackson	President	December 2012
Richard Barrera	Vice President	December 2012
Richard de Beck	Member	December 2010
John Lee Evans	Member	December 2012
Katherine Nakamura	Member	December 2010

DISTRICT ADMINISTRATORS

Terry B. Grier, Ed.D.,\*  
*Superintendent*

Chuck Morris  
*Deputy Superintendent*

James Masias  
*Chief Financial Officer*

Bill Kowba  
*Chief Logistics Officer*

Joan McRobbie  
*Interim Chief of Staff*

*\*As of September 19, 2009 Bill Kowba became the Interim Superintendent*

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Schedule of Average Daily Attendance**  
**For the Fiscal Year Ended June 30, 2009**

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	Second Period Report	Annual Report
<b>Elementary:</b>		
Kindergarten	9,485	9,496
Grades 1 Through 3	26,791	26,982
Grades 4 Through 6	24,433	24,726
Grades 7 and 8	14,592	14,766
Opportunity Schools	2	1
Home and Hospital	38	44
Special Education	3,124	2,178
Community Day School	31	35
Extended Year Speical Education	133	146
Extended Year - Nonpublic, Nonsectarian	19	20
	<hr/>	<hr/>
Total Elementary	78,648	78,394
	<hr/>	<hr/>
<b>Secondary:</b>		
Grades 9 Through 12, regular classes	30,344	30,330
Continuation Education	574	584
Home and Hospital	17	19
Special Education	1,733	1,195
Community Day School	22	22
Extended Year Speical Education	90	90
Extended Year - Nonpublic, Nonsectarian	36	37
	<hr/>	<hr/>
Total Secondary	32,816	32,277
	<hr/>	<hr/>
<b>Classes for Adults:</b>		
Concurrently Enrolled	59	67
Not Concurrently Enrolled	261	319
	<hr/>	<hr/>
Total Adult Classes	320	386
	<hr/>	<hr/>
Total Average Daily Attendance	<u>111,784</u>	<u>111,057</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, 2009**

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Grade Level	1982-83	1986-87	2008-09	Number of Days		Status
	Actual Minutes	Minutes Requirement		Traditional Calendar	Multi-track Year Round	
Kindergarten	35,400	36,000	56,820	180	175	Complied
Grade 1	50,445	50,400	54,025	180	175	Complied
Grade 2	50,445	50,400	54,025	180	175	Complied
Grade 3	53,985	50,400	54,025	180	175	Complied
Grade 4	53,985	54,000	54,025	180	175	Complied
Grade 5	53,985	54,000	54,025	180	175	Complied
Grade 6	53,985	54,000	54,025	180	175	Complied
Grade 7	62,835	54,000	64,804	180	175	Complied
Grade 8	62,835	54,000	64,804	180	175	Complied
Grade 9	62,835	64,800	64,813	180	175	Complied
Grade 10	62,835	64,800	64,813	180	175	Complied
Grade 11	62,835	64,800	64,813	180	175	Complied
Grade 12	62,835	64,800	64,813	180	175	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, 2009**

General Fund	(Budget) 2010***	2009	2008	2007
Revenues and other financing sources	\$ 1,092,787,681	\$ 1,218,359,713	\$ 1,176,490,887	\$ 1,233,919,213
Expenditures	1,119,922,650	1,170,306,748	1,203,387,861	1,129,856,700
Other uses and transfers out	4,535,302	6,372,266	21,567,951	87,035,664
Total outgo	1,124,457,952	1,176,679,014	1,224,955,812	1,216,892,364
Change in fund balance (deficit)	(31,670,271)	41,680,699	(48,464,925)	17,026,849
Ending fund balance	\$ 128,939,017	\$ 160,609,288	\$ 118,928,589	\$ 124,257,612
Available reserves*	\$ 22,627,129	\$ 23,723,629	\$ 24,200,000	\$ 24,318,718
Available reserves as a percentage of total outgo	2.0%	2.0%	2.0%	2.2%
Total long-term debt	\$ 1,707,466,408	\$ 1,764,472,934	\$ 1,551,319,178	\$ 1,585,955,417
Average daily attendance at P-2**	111,677	111,464	110,547	110,266

The General Fund balance has increased by \$36.4 million over the past two years. The fiscal year 2008-09 adopted budget projects a decrease of \$31.7 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). Long-term debt has increased \$181.0 million 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).

\*\* Excludes Adult Education and Charter School ADA.

\*\*\* Revised Final Budget September 2009.

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, 2009**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>Federal Programs:</b>			
U.S. Department of Education:			
Other Federal: Reduce Alcohol Abuse	84.184A	(1)	\$ 50,307
Elementary Secondary School Counseling	84.215E	(1)	487,156
Emergency Response to Crisis Management	84.184E	(1)	252,428
Striving Readers	84.371A	(1)	4,042,796
Advance Placement Incentive Program Grant	84.330C	14504	1,506,742
Magnet School Assistance Program	84.165	(1)	4,488,053
Secure Our School			71,711
Unrestricted: Federal Impact-Aid-Unrestricted	84.041	10015	12,481,321
Subtotal: Direct Programs			<u>23,380,514</u>
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	42,450,947
ARRA-Title I, Part A, Basic Grants, Recovery Act	84.389	15005	16,612
Title I - Part A, PI School Assist and Intervention Teams	84.010	14417	25,000
Title I - Part A, Non-PI LEAs with PI Schools	84.010	14796	2,988
Title I, Part B, Even Start Family Literacy Program	84.213	14331	174,430
Subtotal Title I, Part A Cluster			<u>42,669,977</u>
Title II - Improving Teacher Quality	84.367	14341	9,194,727
Title II - Part A, Principal Training	84.367	14344	3,596
Title II - Part B, Math and Science	84.366	14512	94,544
Title II - Part D, Enhancing Education Through Technology	84.318	14334	434,234
Title II - Part D, Enhancing Education Through Technology Competitive	84.318	14368	1,070,209
Title III - Immigrant Education	84.365	14346	444,937
Title III - Limited English Proficiency	84.365	10084	550,489
Title IV - Safe and Drug Free Schools	84.186	14347	603,291
Title IV - Part B, 21st Century CLCP	84.287	14681	2,928,434
Title V - Part A, Innovative Education Technologies	84.298A	14354	100,186
Subtotal NCLB			<u>58,094,624</u>
Special Education Cluster (IDEA):			
Preschool Grants, Part B	84.173	13430	892,351
ARRA-IDEA Part B, Preschool Grants	84.392	15000	48
Preschool Local Staff Development, Part B, Sec 619	84.173A	13431	5,367
Preschool Local Entitlement, Part B	84.027A	13682	1,223,595
Basic Local Assistance Entitlement, Part B	84.027	13379	22,193,772
ARRA-IDEA Part B, Preschool Local Entitlement	84.391	15002	146
Local Assistance, Part B, Private School ISPs	84.027	10115	271,806
State Improvement Grant, Improving Special Ed Systems	84.323	14577	5,168
Early Intervention Grants, Part C	84.181	23761	296,758
ARRA-IDEA Part B, Basic Local Assistance	84.391	15003	2,475
Subtotal IDEA Cluster			<u>24,891,486</u>
ARRA-State Fiscal Stabilization Fund	84.394	25008	35,094
Vocational and Applied Technology Education	84.048	13924	1,183,471
Federal Impact Aid	84.041	10015	955,589
Transition to Teaching	84.350	(1)	1,829,578
Subtotal: Passed-Through California Department of Education			<u>86,989,842</u>
Pass-Through Programs From the California Department of Rehabilitation			
Workability II, Transition Partnership	84.158	10006	155,286
Ext Situational	(1)	(1)	14,079
Total U.S. Department of Education			<u>155,286</u>

(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, 2009**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
Needy School Breakfast	10.553	13526	7,761,471
National School Lunch	10.555	13523	25,407,989
Basic School Breakfast	10.553	13525	654,583
Federal Snack Program	10.558	23165	1,552,368
USDA Reduced Price Commodities	10.565	13389	2,017,560
Total U.S. Department of Agriculture			37,393,971
Department of Homeland Security:			
Pass Through Program From the CDE:			
Federal Emergency Management Act (FEMA)	97.036	10014	1,960
Total Department of Homeland Security			1,960
U.S. Department of Health & Human Services:			
Direct Federal to Local Funding:			
AIDS Education			249,945
Asthma Management Prevention			239,835
Youth Risky Behavior Survey	(1)	(1)	43,342
Child Development: Federal Child Care, Center-Based	93.596	13609	712,670
Child Development: Quality Improvement Activities	93.575	13979	9,475
Adolescent Family Life Program	93.995	(1)	310,798
Passed through California Dept of Health Services:			
Medi-Cal Billing Option	93.778	10013	904,905
Total U.S. Department of Health & Human Services			2,470,970
 Total Expenditures of Federal Awards			 \$ 150,392,543

(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, 2009**

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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
Darnall E-Charter School (K-6)	No
Explorer Elementary Charter School (K-5)	No
Gompers Charter Middle School (6-9)	No
Gompers Preparatory Academy **	No
Harriett Tubman Village Charter School (K-8)	No
Health Sciences High School and Middle College (9-12)	No
High Tech High - Quarry Falls **	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
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
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
Preuss School UCSD (6-12)	No
Promise Charter School (K-5)	No
San Diego Cooperative (K-8)	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, 2009

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, 2009**

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There were no adjustments between the annual financial and budget report and the audited financial statements for the fiscal year ended June 30, 2009.

The accompanying note is an integral part of this schedule.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Note to the Supplementary Information**  
**June 30, 2009**

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**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.

**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.

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*Other Independent Auditors' Reports*

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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

We have audited the financial statements of San Diego Unified School District as of and for the fiscal year ended June 30, 2009, and have issued our report thereon dated November 16, 2009. 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 the San Diego Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the San Diego Unified School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A *control deficiency* 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 *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2009-1 through 2009-9 to be significant deficiencies in internal control over financial reporting.



A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be presented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### 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 no instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards*.

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

This report is intended solely for the information and use of the Board, management, the California Department of Education, the 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.



San Diego, California  
November 16, 2009



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

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH  
MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN  
ACCORDANCE WITH OMB CIRCULAR A-133**

Compliance

We have audited the compliance of San Diego Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009. San Diego Unified School District's major federal programs are identified in the summary of auditors' 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; 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, *Audits of States, Local Governments, and Non-Profit Organizations*. 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 requirements referred to above that are applicable to each of its major federal programs for the fiscal year ended June 30, 2009.

#### Internal Control Over Compliance

The 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, 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 District's internal control over compliance.

A *control deficiency* in an entity's 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider deficiencies in internal control over compliance described in the accompanying *Schedule of Audit Findings and Questioned Costs* as item #2009-9 to be a significant deficiency.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control. We did not consider the deficiency #2009-9 described in the accompanying *Schedule of Audit Findings and Questioned Costs* to be a material weakness.

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

This report is intended solely for the information and use of the Board, management, the California Department of Education, the 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.



San Diego, California  
November 16, 2009



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San Diego, California

### AUDITORS' REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the San Diego Unified School District, as of and for the fiscal year ended June 30, 2009, and have issued our report thereon dated November 16, 2009. Our audit was made in accordance with auditing standards generally accepted; 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, 2008-09*, 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 opinion.

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 laws and regulations applicable to the following items:

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Adult Education	9	Not applicable <sup>1</sup>
Regional Occupational Centers and Programs	6	Not applicable
Instructional Time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Community Day Schools	9	No (see below)
Morgan-Hart Class Size Reduction Program	7	Not applicable <sup>1</sup>



Description	Procedures in Audit Guide	Procedures Performed
Instructional Materials:		
General Requirements	12	1 <sup>2</sup>
K-8 only	1	Not applicable <sup>1</sup>
Grades 9-12 only	1	Not applicable <sup>1</sup>
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Not applicable <sup>1</sup>
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	No (see below)
Mode of Instruction	1	No (see below)
Nonclassroom-Based Instruction/Independent Study	15	No (see below)
Determination of Funding for Nonclassroom-Based Instruction	3	No (see below)
Annual Instructional Minutes – Classroom Based	3	No (see below)

<sup>1</sup> This program is not required to be audited per flexibility provisions in SBx3 4.

<sup>2</sup> The number of procedures to be performed was reduced per flexibility provisions in SBx3 4. Section 19828.3 procedures (b), (c), and (e) were not performed.

Testing for charter schools is performed by each charter's respective auditor (refer to Note 1B on page 27). 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 examination, 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, the California Department of Education, the Department of Finance, the 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.

*Rigo Rigo & White, PC*

San Diego, California  
November 16, 2009

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*Findings and Questioned Costs Section*

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**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2009**

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**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>Yes</u>

Identification of major programs:

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I - Part A, Basic Grants Low -Income and Neglected
84.389	ARRA-Title I, Part A, Basic Grants, Recovery Act
84.367	Title II - Improving Teacher Quality
84.394	ARRA-State Fiscal Stabilization Fund
84.027 - 84.181	IDEA Cluster
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

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 4,511,776</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, 2009**

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**Section II – Financial Statement Findings**

This section identifies the 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:

Five Digit Code	AB 3627 Finding Types
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 #2009-1: Associated Student Body Internal Controls (30000)**

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:

- 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.

**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.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2009**

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**Section II – Financial Statement Findings, Continued**

**Finding #2009-1: Associated Student Body Internal Controls (30000) (continued)**

**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. District procedures regarding ASB financial operations are available through the District’s web site. In addition, the Financial Accounting Department plans to offer training to the ASB bookkeepers on how to use Quickbooks, monthly bank reconciliations, and year-end closing procedures.

To the extent that resources are available, Internal Audit will monitor compliance with standardized district procedures and provide the appropriate training.

**Finding #2009-2: Use of Purchase Orders (30000)**

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.

**Recommendation:** 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.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2009**

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**Section II – Financial Statement Findings, Continued**

**Finding #2009-2: Use of Purchase Orders (30000) (continued)**

**District Response:** During the fiscal year ended June 30, 2008, the value of Purchase Orders was \$91,383,268.17. During the fiscal year ended June 30, 2009, the value of Purchase Orders was \$145,018,092.21, a 58.7% increase. During the same periods, the number of Purchase Orders increased from 13,319 to 27,453, a 106% increase.

Cabinet-level approval is now required for any requisition submitted “after the fact” for the purchasing of goods or services.

In March 2009, staff positions responsible for establishing construction building contracts and construction-related professional services contracts (e.g., architectural/engineering services) were incorporated into and physically relocated within the new Strategic Sourcing and Contracts Department. On May 12, 2009, the School Board awarded a construction contract in the amount of \$5,414,000 for a new classroom building at Hoover High School. Purchase Order 95478 was created to encumber the funds for this construction contract.

Since then, funds for additional construction contracts and construction-related professional services contracts have been encumbered by Purchase Orders. There have been weekly meetings of the Prop S/Facilities Planning and Construction (FPC) staff and the district’s Strategic Sourcing and Contracts Officer and staff to implement a Purchase Order encumbrance and payment process for all construction contracts and construction-related professional services contracts. Beginning with the August 4, 2009 School Board agenda, all contracts approved for fixed-cost construction projects have a corresponding Purchase Order to properly encumber funds for the work defined in each construction contract. Beginning October 1, 2009, all contracts to support construction work using IDIQ (indefinite delivery, indefinite quantity) contracts, and contracts to support Proposition S and FPC professional service contracts have budgeted funds encumbered in the PeopleSoft financial system using Purchase Orders

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2009**

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**Section II – Financial Statement Findings, Continued**

**Finding #2009-3: Cash Receipting in Facilities (30000)**

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.

**Recommendation:** 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.

**District Response:** The District concurs with the Auditor's recommendations for the need to segregate the collection of fees for processing and billing for facilities use. To address this finding the following action will be put in place to become effective on Tuesday, December 1, 2009; a log will be created to support receiving checks and/or cashier's checks at the main reception desk of Physical Plant Operations which is located in a separate area of the facility and staffed by a clerk not assigned to Acquisition and ASSETT, Rentals Management. This log will contain the name of individual/s and/or organization and the billing amount to be collected. The clerk will be responsible for the cash receipting process; to receive, log, and make copies of cash received, then submit the cash received and a copy of the permit to the District Cashier to be processed.

**Finding #2009-4: Cash Receipting at the Jefferson Child Development Center (30000)**

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.

**Recommendation:** 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.

**District Response:** The Early Childhood Education Program has reviewed the cash receipting procedures followed by the Child Development Centers. A new process is being developed that includes using pre-numbered receipts as well as a monitoring system that includes reviewing all documentation to ensure that all deposits match. Training on the system is being developed and implementation is planned within 30 days.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2009**

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**Section II – Financial Statement Findings, Continued**

**Finding #2009-5: Cold Storage Inventory (20000)**

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.

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.

**Recommendation:** 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.

**District Response:** Each day of operation San Diego Unified School Districts Food Services Preparation Kitchens throughout the district receive cold storage deliveries. Managers or designated employees are instructed to receive the cold storage products properly by inspecting all of the cases received to make sure product cases are complete and not tampered with. Managers or designated employees are required to report any shortages or damaged product cases immediately to Food Service Central Staff. Central office staff will research the problem with cold storage and/or the appropriate vendors or manufactures.

Each month, San Diego Cold Storage provides a detailed listing of all San Diego Unified School Districts cold storage items that includes current counts, batch number and receipt date for each item. The school district staff reviews the monthly listing and reconciles all items to the districts database. The school districts cold storage database tracks all product receipts and product movement. Discrepancies between the monthly listing and the school districts cold storage database are researched and reconciled. School district staff will request San Diego Cold Storage to perform a physical count on an item or items as part of the reconciliation process. The school districts cold storage database is adjusted appropriately based on the outcome of an investigation and/ or a physical count. Any items that are found to be missing from the cold storage facility, San Diego Cold Storage will be billed for the cost of the missing inventory.

Each month a school district food section staff member reviews the cold storage item list to ensure that food products are being used up in a timely manner and that a first in first out system is being followed by San Diego Cold Storage.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2009**

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**Section II – Financial Statement Findings, Continued**

**Finding #2009-5: Cold Storage Inventory (20000)(continued)**

**District Response, continued:** Every June, the food services department schedules a physical inventory count to be conducted with at least one district material controls staff member and one food services staff member. The inventory is scheduled for a two day period. During the two day period all inventory process, i.e. product pulls and product deliveries are halted so as not to interfere with the physical inventory count. The physical count is compared to a district count from the food services cold storage database. Discrepancies are resolved and the food services cold storage database counts are set to the physical counts completed by district staff members.

**Finding #2009-6: Fixed Assets (30000)**

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.

**Recommendation:** 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.

**District Response:** The District concurs the Auditor's recommendation to review and update On-Line Training Materials and will verify employee system access for the Asset Management system. In addition the Financial Accounting Department will meet with Physical Plant Operations for Building and Site Improvement project reporting, to reduce the large year-end reconciliation.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**For the Fiscal Year Ended June 30, 2009**

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**Section II – Financial Statement Findings, Continued**

**Finding #2009-7: Closing Procedures – Cafeteria Fund (30000)**

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.

**Recommendation:** 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.

**District Response:** The District closely reviews and monitors budgetary and operational activities of the Cafeteria Fund throughout the year with monthly meetings between Finance staff and Cafeteria staff. Accounts Payable was reviewed, analyzed, and accruals were recorded at year end, however, there was a misinterpretation of what the appropriate ending balance should be. Upon learning of the discrepancy, the District has modified procedures specifically related to the posting of use tax payable and the reconciliation process at year-end.

**Finding #2009-8: Human Resources Files (30000)**

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.

**Recommendation:** We recommend the District work to bring the personnel files up-to-date with the noted incomplete information.

**District Response:** The District concurs with the Auditor's recommendations. Human Resource Services staff will follow up with employees noted in the audit and will collect the required missing documents by January 15, 2010.

Currently we are diligent in collecting all required documents prior to the start of an employee's assignment. Our electronic document imaging system allows us to manage and retrieve employee documents. We are now able to scan in the I-9 forms, which recently became allowable by the U.S. Department of Justice.

We are confident that we have an electronic document imaging and management system in place that will provide for accurate Human Resource file management.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**June 30, 2009**

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**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., reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs).

**Finding #2009-9: Personnel Time Accounting for Federal Programs (50000)**

**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)

**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.

**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.

**Questioned Costs:** None

**Context:** Time certifications for hourly employees are signed by the employee but the federal program the employee was charged to 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).

**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.

**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.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**June 30, 2009**

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

**Finding #2009-9: Personnel Time Accounting for Federal Programs (50000) (continued)**

**Recommendation:** 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.

**District Response:** The District concurs with the Auditor’s recommendations to provide the timesheet documentation in a timelier basis. The program charged is reflected in the budget string; district staff will look into more clearly identifying the information on the payroll records.

The Internal Audit department currently performs payroll record audits at schools and departments. The Payroll and Internal Auditing Departments will continue to inform the site and department management of the requirement to maintain payroll records. The District will also take necessary steps to centralize the hourly payroll records.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Schedule of Audit Findings and Questioned Costs**  
**June 30, 2009**

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**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 state award findings and questioned costs in 2008-09.*

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Summary Schedule of Prior Audit Findings**  
**For the Fiscal Year Ended June 30, 2009**

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Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2008-1: Associated Student Body Internal Controls</i>	<p>We audited a sampling of twenty-four 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"> <li>• Lack of segregation of duties, e.g., bookkeeper is also the signer on the bank account.</li> <li>• Budgets and revenue potentials are not used.</li> <li>• Lack of adequate backup on cash receipts found, e.g., ticket reconciliations, receipts, evidence of timely deposit.</li> <li>• Expenditures are lacking proper approval and/or invoice.</li> <li>• Student council minutes are missing or inadequate.</li> </ul>	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. Lastly, the District's internal audit function might assist in periodic monitoring of compliance with standardized District procedures.</p>	See Finding #2009-1

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Summary Schedule of Prior Audit Findings**  
**For the Fiscal Year Ended June 30, 2009**

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Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2008-2: Payroll – Overpayments to Employees</i>	<p>This was an audit finding in the prior year and payroll matters continue to be an area where improvement is needed. We understand that the District is aware of the payroll overpayments to employees and is actively seeking a solution. In our discussions with staff, the overpayments we observed appear to be due to several reasons:</p> <ul style="list-style-type: none"> <li>• There is a problem with the 12 month pay for teachers; they are being paid in advance in July and August before working at the start of the school year. Teachers elect whether they want to enroll in the 12 month pay plan. So when a teacher quits or leaves, they are naturally being overpaid from the start.</li> <li>• At the schoolsites, there are instances where personnel activity reports (PARs) have been incorrectly filled out.</li> <li>• Terminations are not always timely notified to payroll.</li> </ul>	30000	<p>We would recommend:</p> <ul style="list-style-type: none"> <li>• Greater accountability at the site/department level for the accuracy in payroll submissions and timely notification of terminations and leaves is needed.</li> <li>• Improved communications between the sites, human resources and payroll is needed. The system might, for example, be too “paperless” and would benefit from encouraging phone calls, emails and faxes, especially when there is an employee terminating that needs to be taken off payroll.</li> <li>• Consider changing the pay cycle to September through August (instead of July through June) and thereby prevent overpayment. This cycle is being done by other larger school districts, Garden Grove USD, as an example. To achieve this, the District would need to pay over a 10 month period for one year and then restart it on the new cycle. For example, abandon the program in 2008-10 and resume it on a September through August pay cycle in 2010-11.</li> </ul>	Implemented

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Summary Schedule of Prior Audit Findings**  
**For the Fiscal Year Ended June 30, 2009**

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Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2008-3: Use of Purchase Orders</i>	<p>In what appears to be a long-standing practice, goods and services are in many cases being 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 will be ordered twice; and, the budget is not being encumbered. We also found that contracts (e.g., construction) do not have a purchase order in the system. In our testing, we found less than 50% of the checks written were 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>The District has a policy that prohibits sites from ordering items before issuing a purchase order. We recommend the policy be enforced. We also recommend that contracts be encumbered in the system with a purchase order.</p>	See Finding #2009-2
<i>Finding #2008-4: Monitoring of Vendor Suspension and Debarment</i>	<p><b>Federal Program:</b> General procedure applicable to all federal programs</p> <p><b>Criteria:</b> Parts 2 and 3 of the OMB Circular A-133 Compliance Supplement direct auditors to determine whether appropriate controls are in place to monitor vendor debarment, provided that the District enters into vendor contracts exceeding \$25,000.</p> <p><b>Condition:</b> The results of our internal control evaluation found that program administrators and the Procurement Department do not apparently monitor vendors for debarment (however, in the Food Services Department, vendors must certify they are not debarred as part of the contract bidding process).</p> <p><b>Effect:</b> No instances of noncompliance were noted; however, an internal control deficiency appears to exist.</p>	50000	<p>Implement a system in the procurement process to not approve purchase orders or contracts for Federal expenditures (for amounts exceeding \$25,000) until a SDUSD employee can determine whether the prospective vendor is not debarred (for example, by checking the Excluded Parties List System website at EPLS.gov).</p>	Implemented

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Summary Schedule of Prior Audit Findings**  
**For the Fiscal Year Ended June 30, 2009**

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Original Finding No.	Finding	Code	Recommendation	Current Status
<p><i>Finding #2008-5: After School Education and Safety (ASES) Program</i></p>	<p><b>Criteria:</b> Section 19846 of the <u>Standards and Procedures for the Audits of California LEAs</u> requires the auditor to: "Determine whether the reported number of students served, as that term is used in the report, for each selected school is supported by written records that document pupil participation, by tracing the reported numbers through any documentation used to summarize the numbers of students served, to written data origination documentation." (Education Code Section 8482.3 and 8484)</p> <p><b>Condition:</b> We found in a sample of 2,087 pupil days tested that a net 5 days were over-reported, which is insignificant at .2%.</p> <p><b>Effect:</b> The fiscal impact is insignificant, 5 days at \$7.50 per day is \$37.50. However, there appears to be an internal control weakness that allows for both over and under-reported days.</p>	40000	<p>We recommend that the sign in sheets are kept more orderly and legible to minimize the data entry error. The best solution might be to automate the recordkeeping for manageability and accuracy.</p>	Implemented

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Summary Schedule of Prior Audit Findings**  
**For the Fiscal Year Ended June 30, 2009**

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Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding #2008-6: Short-Term Independent Study</i>	<p><b>Criteria:</b> Section 19819 of the of the <u>Standards and Procedures for the Audits of California LEAs</u> requires the auditor to verify that Independent Study contracts are supported by proper documentation in conformity with State law. (Education Code Section 51747)</p> <p><b>Condition:</b> In testing short-term independent study (i.e., used for pupils temporarily availing themselves of the program while returning to a seat in their classroom), we found an error rate of 25% in the proper completion of contracts. Note: no errors were found in the accounting for long-term independent study.</p> <p><b>Cause:</b> It appears that school site staff lacked sufficient training and we not fully monitoring the contracts to ensure full compliance.</p> <p><b>Effect:</b> The District claimed ADA for non-compliant contracts.</p>	40000	<p>The District needs to revise 2007-08 P-2 and Annual attendance reports to exclude the days inappropriately claimed for ADA.</p> <p>We also recommend more training in the proper completion of the contracts. The main error was not signing and dating the contract prior to the commencement of the work. We also found instances where the pupil was not on independent study for a minimum of 5 days, as required by law, and yet apportionment was granted.</p>	Implemented

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*Continuing Disclosure Information*

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**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Continuing Disclosure Information (Unaudited)**  
**June 30, 2009**

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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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4. Balance in the Debt Service Fund	18
5. Balance in the Improvement Fund (Building Fund)	18
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**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Continuing Disclosure Information (Unaudited)**  
**June 30, 2009**

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**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).

<b>District's Fiscal Year</b>	<b>Assessed Value</b>
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

Secured taxes collected in fiscal year 2008-09 amounted to \$491,839,315.

**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, 2009**

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The largest taxpayers in San Diego County and the taxes assessed in 2008-09 are listed below.

**LARGEST TAXPAYERS 2008-2009**

<u>PROPERTY OWNER</u>	<u>AMOUNT OF TAX</u>
1. SAN DIEGO GAS & ELECTRIC COMPANY	\$ 52,371,436.84
2. IRVINE CO	\$ 19,601,828.66
3. SOUTHERN CALIFORNIA EDISON CO.	\$ 19,100,180.12
4. KILROY REALTY L P	\$ 15,017,425.94
5. QUALCOMM INC	\$ 13,497,683.98
6. ARDEN REALTY LTD PARTNERSHIP	\$ 10,739,580.24
7. PACIFIC BELL TELEPHONE COMPANY	\$ 10,682,549.30
8. SAN DIEGO EXPRESSWAY LIMITED PARTNERSHIP	\$ 10,483,505.84
9. O C/S D HOLDINGS LLC	\$ 10,042,041.84
10. GENENTECH INC	\$ 5,881,739.64
11. SAN DIEGO FAMILY HOUSING LLC	\$ 5,606,366.92
12. PFIZER INC	\$ 5,198,983.04
13. FASHION VALLEY MALL LLC	\$ 4,859,748.26
14. BRE PROPERTIES INC	\$ 4,490,081.10
15. K S L LA COSTA RESORTS CORPORATION	\$ 4,488,993.56
16. CHELSEA SAN DIEGO FINANCE LLC	\$ 4,382,007.30
17. SEA WORLD INC	\$ 4,288,906.70
18. HOST SAN DIEGO HOTEL LLC	\$ 4,247,142.96
19. CNL HOTEL DEL PARTNERS LP	\$ 4,074,875.76
20. MANCHESTER RESORTS LP	\$ 3,926,416.36
21. ONE PARK BOULEVARD LLC	\$ 3,908,408.10
22. E R P OPERATING LTD PARTNERSHIP	\$ 3,733,679.20
23. PREBYS CONRAD TRUST	\$ 3,681,644.30
24. SHEA HOMES LTD	\$ 3,633,417.28
25. GRAND DEL MAR RESORT LP	\$ 3,507,525.18
26. SOLAR TURBINES INC	\$ 3,372,570.78
27. BROADWAY TOWER 655 LLC	\$ 3,354,733.44
28. VILLAGE II OF OTAY HB SUB GP	\$ 3,338,091.74
29. SPRINT PCS	\$ 3,306,097.48
30. LA JOLLA CROSSROADS 1 LLC	\$ 3,164,473.36