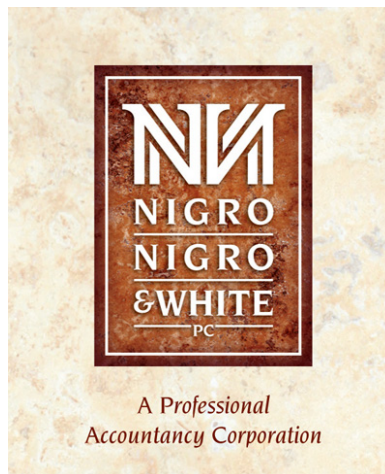


SAN DIEGO UNIFIED SCHOOL DISTRICT

**SAN DIEGO COUNTY
SAN DIEGO, CALIFORNIA**

AUDIT REPORT

June 30, 2008



**SAN DIEGO UNIFIED SCHOOL DISTRICT
AUDIT REPORT
June 30, 2008**

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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 year ended June 30, 2008, 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, 2008, 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 12, 2008 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 11, the budgetary comparison information on page 59, and the schedule of funding progress on page 60 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 12, 2008

Management's Discussion and Analysis

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

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, 2008. 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 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 11% to a total of \$1.4 billion. Total expenses exceeded revenues by \$1.6 million.
- General revenues accounted for \$903.8 million or 63% of all revenues. Program specific revenues in the form of charges for services and sales, grants and contributions accounted for \$525.1 million or 37% of total revenues of \$1.4 billion.
- Long-term outstanding debt has decreased by \$37.9 million or 2%.
- Capital assets increased by 6% to \$2.5 billion.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

FINANCIAL HIGHLIGHTS OF THE PAST YEAR (continued)

- ADA in the District increased by 306.
- The General Fund reported a positive fund balance of \$118.9 million; this is a decrease of \$5.3 million or 4%.

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)
Year Ended June 30, 2008

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)
Year Ended June 30, 2008

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$953.9 million for the fiscal year ended June 30, 2008. Of this amount, \$61.0 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 Dollars)

	Governmental Activities		Total
	2007*	2008	Percentage
			Change
			2007-08
Current and other assets	\$ 876,776,927	\$ 787,225,321	-10%
Capital assets	1,886,136,342	1,928,220,176	2%
Total assets	2,762,913,269	2,715,445,497	-2%
Other liabilities	249,459,702	159,119,043	-36%
Long-term liabilities	1,557,921,176	1,602,443,178	3%
Total liabilities	1,807,380,878	1,761,562,221	-3%
Total net assets	\$ 955,532,391	\$ 953,883,276	0%

* As restated, see footnote 16

Current assets and current liabilities decreased primarily due to spending down of Proposition MM and other capital project funds in 2007-08. Overall bonded debt decreased \$21 million through debt service payments made during the year and no new debt issued. Also contributing to the decrease in other liabilities and the increase in long-term liabilities is the fact that the current portion of the long-term liabilities was more June 30, 2007, compared to June 30, 2008.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

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 16. 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 dollars)

	Governmental Activities		Total
	2007	2008	Percentage
			Change
			2007-08
Revenues:			
<i>Program revenues</i>			
Charges for services and sales	\$ 12,981,098	\$ 10,916,917	-16%
Operating grants and contributions	532,822,718	463,936,808	-13%
Capital grants and contributions	142,663,691	50,222,275	-65%
<i>General revenues</i>			
Taxes and governmental sources	554,096,029	582,892,333	5%
Other revenues	362,498,623	320,935,077	-11%
Total revenues	<u>1,605,062,159</u>	<u>1,428,903,410</u>	<u>-11%</u>
Expenses:			
Instruction-related	879,115,711	922,650,092	5%
Student support services	174,437,438	182,255,941	4%
Maintenance & operations	129,257,996	97,734,259	-24%
Administration	53,751,482	48,073,352	-11%
Other expenses	137,008,246	179,838,881	31%
Total expenses	<u>1,373,570,873</u>	<u>1,430,552,525</u>	<u>4%</u>
Change in net assets	<u>\$ 231,491,286</u>	<u>\$ (1,649,115)</u>	<u>-101%</u>

Across all funds, revenues decreased 11% primarily due to one-time apportionments received from the State in the prior year for facilities, art and music, and other special purpose grants. Expenditures increased 4% with salary and benefit increases less budget cuts made throughout the district, including maintenance and operations, and administrative services.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

THE DISTRICT AS A WHOLE, Continued

Governmental Activities

As reported in the Statement of Activities on page 16, the cost of all our governmental activities this year was \$1.4 billion (refer to Table A-3). The amount that our taxpayers ultimately financed for these activities through taxes was only \$813.8 million because the cost was paid by those who benefited from the programs (\$10.9 million), by other governments and organizations who subsidized certain programs with grants and contributions (\$514.0 million) or through other miscellaneous sources (\$90.0 million).

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

	<u>Total Cost of Services</u>	<u>Net Cost of Services</u>
Instructional services	\$ 922,650,092	\$ 580,480,584
Pupil support services	182,255,941	68,126,216
Maintenance & operations	97,734,259	40,118,262
Administration	48,073,352	37,556,151
Other expenses	179,838,881	179,195,312
Total expenses	<u>\$ 1,430,552,525</u>	<u>\$ 905,476,525</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

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 \$556,604,828, compared to last year's net asset amount of \$641,784,000.

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times. 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 – Revenue Limit Sources of \$2.8 million, Federal grants and special projects of \$24.1 million, State grants and special projects of \$69.9 million, and Local grants and special projects of \$38.8 million.
- Expenditures that were appropriated during the year that were not included in the originally adopted budget – Salaries and Benefits of \$72.5 million, Books and Supplies of \$34.7 million, Services and Other Operating Expenses of \$23.8 million, and Capital Outlay of \$5.6 million.

Even with these adjustments, actual resources available were \$86.5 million below the final budgeted amounts. The most significant negative variances resulted from:

- Other state and local revenues were \$66.1 million below final budget amounts. Targeted Instructional Improvement Block Grant (TIIBG) was \$8.8 million below appropriations, Economic Impact Aid was \$6.6 million below appropriations, Special Education Transportation was \$2.4 million below appropriations, Supplemental School Counseling Program was \$2.3 million below appropriations, Arts and Music Block Grant was \$1.9 million below appropriations, Staff Development was \$1.1 million below appropriations and various other State grants were \$30.2 million below appropriations. This largely represents grant money that has been received but not spent by June 30, 2008. Interest income was \$4.5 million above appropriations, Interagency Services was \$2.1 million below appropriations, Other Local Non-Categorical revenue was \$3.3 million above appropriations, and various other Local grants were \$17.3 million below appropriations.
- Federal revenues were \$23.2 million below final budget amounts. NCLB/IASA grants were \$12.1 million below appropriations, Maintenance and Operations was \$1.4 million below appropriations, Medi-Cal was \$1.4 million below appropriations, Magnet School Assistance Program was \$2.3 million below appropriations, Striving Readers was \$3.6 million below appropriations, and various other Federal grants were \$2.4 million below appropriations. This largely represents grant money that has been received but not spent by June 30, 2008.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

FINANCIAL ANALYSIS OF THE DISTRICT'S FUNDS (continued)

General Fund Budgetary Highlights, Continued

Actual expenditures and other financing uses were \$100.3 million below the final budgeted amounts. The most significant positive variances resulted from:

- Salaries and benefits were \$25.0 million below final budget amounts. This variance was primarily due to reduction in personnel as a result of decreases in the following:
 - unrestricted resources - \$1.1 million
 - federal resources - \$8.7 million
 - state resources - \$12.7 million
 - local and other resources - \$2.5 million

- Books and supplies were \$57.0 million below final budget amounts. This variance can be attributed to revenues from the State that were unspent at the end of the year in the following resources:
 - Music, Arts, PE and Educational Technology Grants - \$9.6 million
 - Master Plan for Instructional Materials, Lottery, and Targeted Instructional Improvement Block Grant (TIIBG) - \$25.2 million
 - Microsoft Settlement - \$4.0 million
 - ROC/P - \$2.2 million
 - TIIBG - \$1.9 million
 - Economic Impact Aid - \$1.6 million
 - Magnet School Assistance Grant - \$1.0 million
 - Title I - \$0.6 million
 - English Language Acquisition - \$0.7 million
 - All other resources - \$10.2 million

- Services and other operating expenses were \$9.5 million below final budget amounts. This variance can be attributed to unspent budgets in the following:
 - ASES Transitional Grant - \$6.7 million
 - Grant from the Bill Gates Foundation - \$1.7 million
 - Other grants - \$1.1 million

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At June 30, 2008, the District had \$2.5 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 \$132 million or 6% from last year.

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

	Governmental Activities		Total Percentage
	2007*	2008	Change
			2007-08
Land	\$ 273,231,866	\$ 273,165,782	0%
Site Improvements	132,513,909	188,921,998	43%
Buildings	1,018,736,968	1,202,887,794	18%
Equipment and furniture	222,342,301	229,293,720	3%
Work in progress	701,488,211	585,763,003	-16%
Total	\$ 2,348,313,255	\$ 2,480,032,297	6%

* As restated, see footnote 16

The District has obtained principal sign-off for completion of promised work at 204 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

Construction was completed on the following new schools: Thurgood Marshall Middle School, Lincoln High School, Luther Burbank Elementary, Mary Lanyon Fay Elementary, Florence Griffith-Joyner Elementary, Laura Rodriguez Elementary, and Normal Heights Elementary. Minor work is being done at four schools to complete the Proposition MM requirements. All Proposition MM fund money was expended by January 2008. The final work funded by the County School Facilities Fund will complete in early 2009.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

CAPITAL ASSET AND DEBT ADMINISTRATION, Continued

Long-Term Debt

At the end of this year, the District had \$1.6 billion in long-term debt, which is a decrease of 2% (refer to Table A-5). This is mainly due to repayment of the early retirement incentive and a reduction 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 Dollars

	Governmental Activities		Percentage Change
	2007	2008	2007-08
General obligation bonds	\$ 1,506,393,018	\$ 1,485,194,669	-1%
Other postemployment benefits	15,580,282	894,499	-94%
Other general long-term debt	42,494,744	41,380,686	-3%
Self-insurance claims payable	54,378,000	51,124,000	-6%
Compensated absences	21,487,373	23,849,324	11%
Total	\$ 1,640,333,417	\$ 1,602,443,178	-2%

FACTORS BEARING ON THE DISTRICT'S FUTURE

- On September 23, 2008, Governor Schwarzenegger signed the 2008-09 Budget, ending the longest budget stalemate in California's history. The final spending plan includes \$24.0 billion of "solutions", including \$10.3 billion in spending cuts, \$9.6 billion in revenue-related provisions, and \$4.0 billion in borrowing.

The final budget agreement includes:

- A total of \$10.3 billion in spending reductions, including \$3.3 billion in cuts to "base" K-14 education spending.
- Changes to the budget process that would substantially increase the size of the state's reserve and limit the use of future revenues that exceed anticipated levels. The agreement also would give governors vast new power to unilaterally reduce spending midway through the budget year.
- Assumes that the state will issue bonds backed by lottery proceeds in 2009-10. The budget agreement includes provisions aimed at doubling the amount Californians spend on lottery purchases and would replace schools' allocation from lottery proceeds with a General Fund appropriation equivalent to the amount allocated to education from the lottery in 2008-09. The General Fund allocation for education would increase over time based on enrollment and per capita personal income growth..

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

- A one-time shift of \$350 million in property tax revenues from redevelopment agencies to schools and a commensurate reduction in state General Fund support for schools and community colleges.

As signed by the Governor, the 2008-09 Budget provides \$58.1 billion in funding for K-14 education programs under the Proposition 98 guarantee. The Budget reduces "base" K-14 education spending by \$3.3 billion.

The 2008-09 Budget and related legislation:

- Provide a 0.68 percent COLA to fund revenue limits for school districts and county offices of education, which is below the 5.66 percent statutory COLA and the 2.12 percent COLA proposed by the Conference Committee. The 2008-09 Budget does not provide a COLA for categorical programs, such as class size reduction and instructional materials.
- Do not provide \$150 million in 2008-09 Proposition 98 "settle-up" funds needed to meet prior-year Proposition 98 obligations.
- Proposed to modify Proposition 49, the After School Education and Safety Program (ASES) Act, by submitting a ballot measure to voters in November 2008. However, the Governor vetoed the bill that would have submitted the measure to voters. The measure would have removed Proposition 49's minimum funding level of \$550 million and would have allowed annual ASES budgeting decisions to be made by the Legislature.

The State's final budget provides Proposition 98 funding that meets the minimum guarantee. However, this funding level is insufficient to fund the statutory COLA of 5.66%, instead it provides a small 0.68% COLA for revenue limits only. This COLA will provide an additional \$4.5 million in revenue limit income to the District. This funding also restores the 6.5% cuts in categorical programs that were proposed in the Governor's May revised budget. This restoration will provide \$9.7 million in categorical funding to the District. The District's 08/09 general fund budgets include \$53.1 million in budget expenditure reductions; \$26.1 million unrestricted and \$27 million in restricted programs.

- Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, and public charter schools, inter-district transfers in or out, and other causes. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs. The District's 2009 second period average daily attendance (excluding charter schools and adult education) is budgeted as 110,080, down 0.4%.
- Assessed valuation used for the 2009 budget preparation was up \$5.5 billion, or 4.8% from 2008.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
Year Ended June 30, 2008

FACTORS BEARING ON THE DISTRICT'S FUTURE (continued)

These indicators were taken into account when adopting the General Fund budget for 2009. Amounts available for appropriation in the General Fund budget are \$1,267.8 million, a decrease of 10.1% over the final 2008 budget of \$1,409.9 million. Restricted Programs for which awards, grants and contracts have not been received and amounts are not known are typically not included in the original adopted budget. As they are received or become known they are subsequently adopted as budget adjustments. This conservative practice contributes to a decrease in the 2009 budget of \$23.3 million in Federal funding, \$47.8 million in State funding, and \$27.3 million in Local funding. Additionally, the State budget included a reduction in restricted funding of 6.5% over the prior year. Combined with a projected enrollment decline of 0.52%, these factors resulted in a budget reduction of \$14.0 million in restricted funding and \$6.7 million in unrestricted funding over the 2008 final budget. Federal funding was reduced \$2.7 million. Also, Transfers In to the General Fund in 2008 in the amount of \$15.0 million for one-time purposes will not recur in 2009. Furthermore, the 2009 budgeted Beginning Balance declined by \$5.3 million. Property taxes are budgeted to increase due to an increase in assessed valuation.

Expenditures and other financing uses are budgeted to fall 13.2%, from \$1,304.9 million to \$1,132.4 million in 2009 due to the following:

- 08/09 adopted budget reduction - \$53.1 million
- 07/08 one-time funding in PE, Arts, and Music Grant - \$11.8 million
- Instructional Material funds for textbook adoption unspent in 07/08, carried over into 08/09 in a reserve account, the 08/09 budget has been adjusted to move these funds into books and supplies - \$26.8 million
- Reduction in Title I and Striving Readers Funding - \$16.0 million
- Reduction in ASES Transitional Grant - \$12.1 million
- Reduction in TIIBG budget - \$24.2 million
- Reduction in School Based Coordination Program Budgets at Schools - \$12.3 million
- Reduction in Microsoft Settlement Reimbursement - \$2.2 million
- Reductions in all other Federal, State, and Local resources - \$13.9 million

The District added no major new programs to the budget for 2009.

If these estimates are realized, the District's budgetary General Fund balance is expected to increase by the close of 2009.

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.

Financial Section

SAN DIEGO UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2008

	Total Governmental Activities
ASSETS	
Cash	\$ 645,135,242
Accounts receivable	117,779,796
Investments	20,069,405
Stores	2,429,289
Prepaid expenses	1,811,589
Capital assets:	
Land	273,165,782
Improvement of sites	188,921,998
Buildings	1,202,887,794
Furniture and equipment	229,293,720
Work in progress	585,763,003
Less accumulated depreciation	<u>(551,812,121)</u>
Total capital assets, net of depreciation	<u>1,928,220,176</u>
Total assets	<u>2,715,445,497</u>
LIABILITIES	
Accounts payable and current liabilities	145,503,933
Deferred revenues	13,615,110
Long-term liabilities:	
Portion due or payable within one year:	
Self-insurance claims payable	14,350,866
Compensated absences	20,033,432
General obligations bonds	22,716,428
Portion due or payable after one year:	
Self-insurance claims payable	36,773,134
Compensated absences	3,815,892
Arbitrage liability	1,149,452
Deferred bond premium and issue cost	40,231,234
Other postemployment benefits	894,499
General obligations bonds	<u>1,462,478,241</u>
Total liabilities	<u>1,761,562,221</u>
NET ASSETS	
Invested in capital assets, net of related debt	410,105,727
Restricted for:	
Capital projects	378,681,300
Debt service	35,633,114
Educational programs	68,486,758
Unrestricted	<u>60,976,377</u>
Total Net Assets	<u>\$ 953,883,276</u>

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

SAN DIEGO UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2008

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Instructional Services:					
Instruction	\$ 727,947,901	\$ 3,324,359	\$ 243,682,407	\$ -	\$ (480,941,135)
Instruction-Related Services:					
Supervision of instruction	89,045,043	4,930,624	69,836,010	-	(14,278,409)
Instructional library, media and technology	11,706,547	211,242	6,604,533	-	(4,890,772)
School site administration	93,950,601	509,694	13,070,639	-	(80,370,268)
Pupil Support Services:					
Home-to-school transportation	47,667,155	786,330	34,631,809	-	(12,249,016)
Food services	44,996,608	7,856	34,223,299	-	(10,765,453)
All other pupil services	89,592,178	850,502	43,629,929	-	(45,111,747)
General Administration Services:					
Data processing services	17,792,832	-	-	-	(17,792,832)
Other general administration	30,280,520	169,242	10,347,959	-	(19,763,319)
Plant services	97,734,259	123,177	7,270,545	50,222,275	(40,118,262)
Ancillary services	2,792,876	-	367	-	(2,792,509)
Community services	287,516	-	-	-	(287,516)
Enterprise activities	791,224	-	171,500	-	(619,724)
Interest on long-term debt	72,236,639	-	-	-	(72,236,639)
Other outgo	13,121,980	3,891	467,811	-	(12,650,278)
Depreciation (unallocated)	90,608,646	-	-	-	(90,608,646)
Total Governmental Activities	\$ 1,430,552,525	\$ 10,916,917	\$ 463,936,808	\$ 50,222,275	\$ (905,476,525)
General Revenues:					
Taxes:					
					489,740,892
					86,867,242
					6,284,199
					230,902,761
					28,664,950
					9,593,424
					671,555
					51,102,387
					903,827,410
					(1,649,115)
					909,326,756
					46,205,635
					955,532,391
					\$ 953,883,276

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

SAN DIEGO UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2008

	General Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
ASSETS					
Cash	\$ 72,023,450	\$ 297,685,645	\$ 99,748,285	\$ 124,514,430	\$ 593,971,810
Investments	-	-	-	20,069,405	20,069,405
Accounts receivable	95,126,513	2,657,032	787,271	18,810,195	117,381,011
Prepaid expenditures	1,769,869	-	-	26,517	1,796,386
Due from other funds	56,458,718	21,912,339	-	7,851,519	86,222,576
Inventories	1,873,634	-	-	555,655	2,429,289
Total Assets	\$ 227,252,184	\$ 322,255,016	\$ 100,535,556	\$ 171,827,721	\$ 821,870,477
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued liabilities	\$ 69,413,206	\$ 6,657,138	\$ 64,902,442	\$ 4,518,617	\$ 145,491,403
Due to other funds	25,433,479	12,639,490	-	68,086,167	106,159,136
Deferred revenue	13,476,910	-	-	138,200	13,615,110
Total Liabilities	108,323,595	19,296,628	64,902,442	72,742,984	265,265,649
Fund Balances					
Reserved for:					
Inventories	1,873,634	-	-	555,655	2,429,289
Revolving cash	57,800	600	-	-	58,400
Prepaid Expenditures	1,769,869	-	-	26,176	1,796,045
Debt service	-	-	35,633,114	-	35,633,114
Categorical programs	68,486,758	-	-	-	68,486,758
Unreserved; reported in:					
General fund	46,740,528	-	-	-	46,740,528
Special revenue funds	-	-	-	15,467,940	15,467,940
Capital project funds	-	302,957,788	-	83,034,966	385,992,754
Total Fund Balances	118,928,589	302,958,388	35,633,114	99,084,737	556,604,828
Total Liabilities and Fund Balances	\$ 227,252,184	\$ 322,255,016	\$ 100,535,556	\$ 171,827,721	\$ 821,870,477

The notes to the 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, 2008

Total fund balances - governmental funds \$ 556,604,828

Amounts reported for governmental *activities* in the statement of net assets are different because capital assets used for governmental activities are not financial resources and therefore are not reported as assets in governmental funds. The cost of the assets is \$2,480,032,297 and the accumulated depreciation is (\$551,812,121). 1,928,220,176

Certain bond premiums, issue costs and deferred charges are not recorded at the fund level. (40,231,233)

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

Compensated absences	\$ 23,849,324	
Arbitrage liability	1,149,452	
General obligations bonds	1,485,194,669	
Other postemployment benefits	<u>894,499</u>	(1,511,087,944)

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: 20,377,449

Total net assets - governmental activities \$ 953,883,276

The notes to the 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 Year Ended June 30, 2008

REVENUES	General Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
General Revenues:					
Property taxes	\$ 489,842,245	\$ -	\$ 86,867,242	\$ 6,182,846	\$ 582,892,333
Federal and state aid not restricted to specific purpose	281,751,920	-	-	-	281,751,920
Earnings on investments	17,172,833	-	2,971,832	8,520,284	28,664,949
Interagency Revenue	9,593,423	-	-	-	9,593,423
Miscellaneous	18,773,394	-	-	32,328,993	51,102,387
Program Revenues:					
Charges for services	9,739,386	-	-	1,177,531	10,916,917
Operating grants and contributions	349,617,686	146,318	-	63,323,648	413,087,652
Capital grants and contributions	-	50,222,275	-	-	50,222,275
Total revenues	1,176,490,887	50,368,593	89,839,074	111,533,302	1,428,231,856
EXPENDITURES					
Instructional Services:					
Instruction	717,376,199	-	-	21,733,142	739,109,341
Instruction-Related Services:					
Supervision of instruction	89,288,659	-	-	2,256,662	91,545,321
Instr. library, media and technology	11,804,335	-	-	-	11,804,335
School site administration	91,624,180	-	-	2,326,422	93,950,602
Pupil Support Services:					
Home-to-school transportation	47,706,893	-	-	2,318,320	50,025,213
Food services	1,654	-	-	45,058,059	45,059,713
All other pupil services	89,933,999	-	-	552,774	90,486,773
General Administration Services:					
Data processing services	17,792,832	-	-	-	17,792,832
Other general administration	33,448,994	-	-	1,672,883	35,121,877
Plant services	86,084,516	4,223,935	-	7,609,502	97,917,953
Facility acquisition and construction	3,941,336	65,985,246	-	58,808,231	128,734,813
Ancillary services	2,792,876	-	-	-	2,792,876
Community services	287,516	-	-	-	287,516
Enterprise activity	-	-	-	171,499	171,499
Other outgo:					
Transfers between agencies	1,116,861	-	-	-	1,116,861
Debt service - principal	-	-	22,908,964	-	22,908,964
Debt service - interest	-	-	72,579,421	-	72,579,421
Debt service - issuance costs	10,187,011	-	-	1,818,107	12,005,118
Total Expenditures	1,203,387,861	70,209,181	95,488,385	144,325,601	1,513,411,028
Excess (Deficiency) of Revenues					
Over (Under) Expenditures	(26,896,974)	(19,840,588)	(5,649,311)	(32,792,299)	(85,179,172)
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	22,709,094	505,519	-	32,620,603	55,835,216
Interfund transfers out	(1,141,143)	(25,847,695)	-	(28,846,378)	(55,835,216)
Total Other Financing Sources and Uses	21,567,951	(25,342,176)	-	3,774,225	-
Net Change in Fund Balances	(5,329,023)	(45,182,764)	(5,649,311)	(29,018,074)	(85,179,172)
Fund Balances, July 1, 2007, as originally stated					
	124,505,467	348,141,152	41,282,425	128,654,306	642,583,350
Adjustment for restatement					
	(247,855)	-	-	(551,495)	(799,350)
Fund Balances, July 1, 2007, as restated					
	124,257,612	348,141,152	41,282,425	128,102,811	641,784,000
Fund Balances, June 30, 2008					
	\$ 118,928,589	\$ 302,958,388	\$ 35,633,114	\$ 99,084,737	\$ 556,604,828

The notes to the 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 Year Ended June 30, 2008

Total net change in fund balances - governmental funds	\$ (85,179,172)
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 (\$132,758,564) exceed depreciation expense (\$90,608,646) in the period.	42,146,918
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:	49,910,282
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:	(66,084)
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:	(1,785,997)
Arbitrage liability is classified as a long-term liability in the government-wide statements and increased in the current period by:	(939,339)
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:	(13,131,651)
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> .)	(2,361,951)
Postemployment benefits other than pensions (OPEB): In governmental funds, OPEB costs are recognized when employer contributions are made. In the statement of activities, OPEB costs are recognized on an accrual basis. This year, the difference between OPEB costs and actual employer contributions was:	894,499
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:	2,053,397
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>6,809,983</u>
Change in net assets of governmental activities	<u>\$ (1,649,115)</u>

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

SAN DIEGO UNIFIED SCHOOL DISTRICT
Statement of Fund Net Assets – Proprietary Funds
June 30, 2008

	Liability Insurance	Property Insurance	Workers' Compensation Fund	Dental Fund	Vision Fund	Total
<u>Assets</u>						
Cash in county treasury	\$ 3,152,177	\$ 2,536,574	\$ 44,335,121	\$ -	\$ 639,560	\$ 50,663,432
Cash on hand and in bank	100,000	-	400,000	-	-	500,000
Accounts receivable	30,659	23,572	341,010	-	3,544	398,785
Due from other funds	432,669	-	19,152,294	-	377,320	19,962,283
Prepaid expenditures	(725)	-	15,928	-	-	15,203
Total Assets	3,714,780	2,560,146	64,244,353	-	1,020,424	71,539,703
<u>Liabilities</u>						
Accounts payable	10,000	192	2,339	-	-	12,531
Claims payable	3,131,000	-	47,993,000	-	-	51,124,000
Due to other funds	-	25,723	-	-	-	25,723
Total Liabilities	3,141,000	25,915	47,995,339	-	-	51,162,254
<u>Net Assets</u>						
Unrestricted	573,780	2,534,231	16,249,014	-	1,020,424	20,377,449
Total Net Assets	\$ 573,780	\$ 2,534,231	\$ 16,249,014	\$ -	\$ 1,020,424	\$ 20,377,449

The notes to the 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 Year Ended June 30, 2008

	Liability Insurance	Property Insurance	Workers' Compensation Fund	Dental Fund	Vision Fund	Total
Operating Revenues						
Transfers in from other funds	\$ 3,488,000	\$ 2,550,066	\$ -	\$ -	\$ -	\$ 6,038,066
Self-insurance premiums	638,420	730,715	19,603,207	4,264,361	1,821,878	27,058,581
Total Operating Revenues	4,126,420	3,280,781	19,603,207	4,264,361	1,821,878	33,096,647
Operating Expenditures						
Classified salaries	234,290	144,225	225,783	-	-	604,298
Employee benefits	88,248	52,502	81,143	-	-	221,893
Books and supplies	1,574	1,999	13,892	1,140	-	18,605
Transfers out to other funds	-	43,000	-	2,109,865	-	2,152,865
Payments for claims	3,468,025	2,087,518	12,695,746	5,838,581	1,339,429	25,429,299
Total Operating Expenditures	3,792,137	2,329,244	13,016,564	7,949,586	1,339,429	28,426,960
Operating income (loss)	334,283	951,537	6,586,643	(3,685,225)	482,449	4,669,687
Operating Revenues						
Interest income	153,584	106,715	1,831,384	37,764	10,849	2,140,296
Net income (loss)	487,867	1,058,252	8,418,027	(3,647,461)	493,298	6,809,983
Net Assets at the Beginning of Year	85,913	1,475,979	7,830,987	3,647,461	527,126	13,567,466
Net Assets at the End of Year	\$ 573,780	\$ 2,534,231	\$ 16,249,014	\$ -	\$ 1,020,424	\$ 20,377,449

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

SAN DIEGO UNIFIED SCHOOL DISTRICT
Statement of Cash Flows – Proprietary Funds
For the Year Ended June 30, 2008

	Governmental Activities: Self-Insurance Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from premiums and other revenues	\$ 27,816,194
Cash paid for claims and operating expenses	(32,997,024)
	<u>(5,180,830)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	2,140,296
	<u>2,140,296</u>
Net decrease in cash	(3,040,534)
Cash, July 1, 2007	<u>54,203,966</u>
Cash, June 30, 2008	<u>\$ 51,163,432</u>
Reconciliation of operating income to net cash used by operating activities:	
Operating income	\$ 4,669,687
Adjustments to reconcile operating income to net cash used by operating activities:	
Changes in assets and liabilities:	
Decrease in accounts receivable	431,604
Increase in due from other funds	(5,280,453)
Increase in prepaid expense	(11,165)
Decrease in accounts payable	(136,357)
Decrease in due to other funds	(1,600,146)
Decrease in claims payable	(3,254,000)
Net cash used by operating activities	<u>\$ (5,180,830)</u>

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

SAN DIEGO UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets
June 30, 2008

	<u>Associated Student Body Funds</u>
ASSETS	
Cash on hand and in banks:	
Checking	\$ 5,875,440
Savings	1,957,863
Accounts receivable:	
Miscellaneous	83,122
Prepaid expense	11,892
Stores inventory	338,038
	<u> </u>
Total Assets	<u><u>\$ 8,266,355</u></u>
LIABILITIES	
Funds held in trust	<u>\$ 8,266,355</u>
	<u> </u>
Total Liabilities	<u><u>\$ 8,266,355</u></u>

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

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

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, 2008

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 –34 charter schools which operate within the District's boundaries. These charter schools receive their funding directly from other government agencies, and have a separate governing board. 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, 2008 is presented below:

Unaudited 2007-08 Condensed Financial Information

	Total Not-for- Profit	Total Governmental	Total Charter Schools
Total assets	\$ 49,910,165	\$ 6,064,448	\$ 55,974,613
Total liabilities	11,001,029	3,366,380	14,367,409
Total net assets	<u>\$ 38,909,136</u>	<u>\$ 2,698,068</u>	<u>\$ 41,607,204</u>
Total revenues	\$ 97,666,980	\$ 17,115,441	\$114,782,421
Total expenses	92,044,006	16,696,906	108,740,912
Change in net assets	<u>\$ 5,622,974</u>	<u>\$ 418,535</u>	<u>\$ 6,041,509</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

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, 2008

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, 2008

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, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting

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

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The *County School Facilities Fund* is used to receive apportionments from the 1998 State School Facilities Fund, the 2002 State School Facilities Fund, or the 2005 State School Facilities Fund for new school facility construction.

The *Bond Interest and Redemption Fund* is used to account for bond interest and redemption of bond principal.

Non-major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains seven non-major special revenue funds:

1. The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.
2. The Child Development Fund is used to account for resources committed to child development programs mandated by the District.
3. The Cafeteria Fund is used to account for revenues received and expenditures made to operate the District's food service operations.
4. The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.
5. The Pupil Transportation Equipment Fund is used to account for resources committed for the acquisition, rehabilitation or replacement of pupil transportation equipment.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

6. The Special Reserve Fund for Other Than Capital Outlay Projects is used to accumulate mandated cost reimbursements to the District or for funds from other sources not required to be used for capital outlay purposes.
7. The Special Reserve Fund for Postemployment Benefits is used to account for future payments of health and welfare benefits.

Capital Projects Funds are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains three non-major capital project funds:

1. The Building Fund is used to account for repairs, construction and/or acquisition of major capital facilities; acquisition, retro-fitting, and operation of real property and the proceeds of Proposition MM general obligation bonds. The Building Fund is a consolidation of two sub-funds.
2. The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act.
3. The Special Reserve Fund for Capital Outlay Projects provides for the accumulation of General Fund moneys for capital outlay purposes.

Proprietary Funds:

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

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The 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, 2008

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, 2008

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, 2008

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, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (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.

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.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

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 2007-08 fiscal year, the following GASB pronouncements became effective for the District.

GASB Statement No. 48-Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues was issued in September 2006. This statement establishes criteria that governments use to ascertain whether proceeds received as lump sum payment in exchange for certain receivables should be reported as a revenue or liability. The District had no such transactions during the year.

GASB Statement No. 50-Pension Disclosures-and amendment of GASB Statements No. 25 and No.27 was issued in May 2007. This statement amends statements 25 and 27 to require defined benefit pension plans and sole and agent employers present certain information related to note disclosures.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2008 are classified in the accompanying financial statements as follows:

	Governmental Funds	Fiduciary Funds	Proprietary Funds	Total
Cash in county treasury	\$ 593,914,010	\$ -	\$ 50,663,432	\$ 644,577,442
Cash on hand and in banks	-	7,833,303	500,000	8,333,303
Cash in revolving fund	57,800	-	-	57,800
Total deposits and investments	<u>\$ 593,971,810</u>	<u>\$ 7,833,303</u>	<u>\$ 51,163,432</u>	<u>\$ 652,968,545</u>

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.

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.

Investments – Government Code Section 16430 allows governmental entities to invest surplus monies in certain eligible securities. The District did not violate any provisions of the Government Code during the 2007-08 fiscal year, nor were they involved in any reverse repurchase agreements during the year. Investments totaling \$20,069,405 consist of funds deposited in a Guaranteed Investment Contract (GIC) which are not required to be categorized.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

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 \$646,897,922, and an amortized book value of \$644,577,442. The average weighted maturity for this pool is 171 days.

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the San Diego County Investment Pool is rated AAAs/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, 2008, the District's bank balance of \$8,441,103 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.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2008 consist of the following:

	General Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Activities	Self-Insurance Fund	Fiduciary Fund
Federal government							
Categorical aid	\$ 17,634,998	\$ -	\$ -	\$ -	\$ 17,634,998	\$ -	\$ -
Other federal	112,661	-	-	-	112,661	-	-
State government							
Apportionment	18,545,691	-	-	-	18,545,691	-	-
Categorical aid	24,994,047	-	-	-	24,994,047	-	-
Lottery	5,380,979	-	-	-	5,380,979	-	-
Other state	1,679,645	-	-	-	1,679,645	-	-
Local sources							
Interest	5,168,479	2,657,032	787,271	1,389,210	10,001,992	398,785	-
Other local	21,610,013	-	-	17,420,985	39,030,998	-	83,122
Total	<u>\$ 95,126,513</u>	<u>\$ 2,657,032</u>	<u>\$ 787,271</u>	<u>\$ 18,810,195</u>	<u>\$ 117,381,011</u>	<u>\$ 398,785</u>	<u>\$ 83,122</u>

NOTE 4 - INTERFUND TRANSACTIONS

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

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 4 - INTERFUND TRANSACTIONS (continued)

A. Due From/Due To Other Funds

Individual interfund receivable and payable balances as of June 30, 2008 are as follows:

	Due From Other Funds				Total
	General Fund	County School Facilities Fund	Other Governmental Funds	Self Insurance Fund	
General Fund	\$ -	\$ 104,232	\$ 5,366,964	\$ 19,962,283	\$ 25,433,479
County School Facilities Fund	10,804,563	-	1,834,927	-	12,639,490
Other Governmental Funds	45,628,432	21,808,107	649,628	-	68,086,167
Self Insurance Fund	25,723	-	-	-	25,723
	<u>\$ 56,458,718</u>	<u>\$ 21,912,339</u>	<u>\$ 7,851,519</u>	<u>\$ 19,962,283</u>	<u>\$ 106,184,859</u>

County School Facilities Fund due to General Fund for reimbursement of job cost and expense.	\$ 10,804,563
Adult Education Fund due to General Fund for indirect cost, reimbursement of job cost, expenses, and for salary and employee benefits.	210,417
State Preschool Fund due to General Fund for indirect cost, reimbursement of job cost, expenses, and for salary and employee benefits.	3,855,498
Child Development Fund due to General Fund for indirect cost, reimbursement of job cost, expenses, and for salary and employee benefits.	9,542,558
Cafeteria Fund due to General Fund for reimbursement of job cost, expenses, and for salary and employee benefits.	20,060,493
Deferred Maintenance Fund due to General Fund for reimbursement of job cost expenses.	6,891,441
Pupil Transportation Fund due to General Fund for reimbursement of expenses.	288
Building Fund-Prop MM due to General Fund for reimbursement of job cost, expenses, and for salary and employee benefits.	445,667
Capital Facilities Redevelopment Agency Fund due to General Fund for reimbursement of job cost, expenses, and for salary and employee benefits.	444,520
Developer Fees Capital Facilities Fund due to General Fund for reimbursement of job cost, expenses, and for salary and benefits.	475,016
Property Management Fund due to General Fund for reimbursement of job cost, expenses, and for salary and employee benefits.	1,105,726
Facilities Master Plan/Prop O Fund due to General Fund for reimbursement of job cost and expenses.	8,639
Mesa CC Mid College Construction Fund due to General Fund for reimbursement of job cost expenses.	45,092
Stores Revolving and SIM Revolving Fund due to General Fund for temporary loan and reimbursement of expenses.	2,457,828
Liability Insurance Fund due to General Fund for reimbursement of salary and employee benefits.	61,923
Property Insurance fund due to General Fund for reimbursement of job cost and for salary and employee benefits.	33,038
Workers Compensation Fund due to General Fund for reimbursement of expenses and for salary and employee benefits.	87,580
General Fund due to County School Facilities Fund for reduction in expenditure transfer.	104,232
Building Fund-Prop MM due to County School Facilities Fund for repayment of loan.	21,808,107
General Fund due to Adult Education Fund for reimbursement of salary and benefits for the ASES program and for Lottery revenue.	143,832
General Fund due to State Preschool Fund for First 5 Commission and expenditure transfers.	854,506
General Fund due to Child Development Fund for expenditure transfers.	302,595
General Fund due to Cafeteria Fund for PERS recap credit, Child Nutrition Breakfast Start-Up, and expenditure transfers.	465,262
General Fund due to Building Fund-Prop MM for expenditure transfers.	1,067,960
General Fund due to Property Management Fund for reimbursement of salary and benefits for paraprofessionals.	20,564
General Fund due to Liability Insurance Fund for monthly premiums.	494,592
General Fund due to Property Insurance Fund for monthly premiums.	7,315
General Fund due to Workers Compensation Fund for monthly premiums.	19,239,874
General Fund due to Self Insured Vision Care Fund for monthly premiums.	377,320
County School Facilities Fund due to Deferred Maintenance Fund for reimbursement of expenses.	1,834,925
Child Development Fund due to State Preschool for expenditure transfers.	406,401
State Preschool Fund due to Child Development Fund for expenditure transfers.	1,612,525
Developer Fees Capital Facilities due to Building Fund-Prop MM for expenditure transfers.	218,954
Property Management Fund due to Building Fund-Prop MM for expenditure transfers.	695,608
Total	<u>\$ 106,184,859</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

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 2007-08 fiscal year are as follows:

	Interfund Transfers In			Total
	General Fund	County School Facilities Fund	Other Governmental Funds	
General Fund	\$ -	\$ -	\$ 1,141,143	\$ 1,141,143
County School Facilities Fund	-	-	25,847,695	25,847,695
Other Governmental Funds	22,709,094	505,519	5,631,765	28,846,378
	<u>\$ 22,709,094</u>	<u>\$ 505,519</u>	<u>\$ 32,620,603</u>	<u>\$ 55,835,216</u>
Transfer from the General Fund to the State Preschool Fund to cover required reserves and negative fund balance.				\$ 14,194
Transfer from the General Fund to the Child Development Fund to cover required reserves and negative fund balance.				299,457
Transfer from the General Fund to the Cafeteria Special Revenue Fund to cover negative fund balance.				261,363
Transfer from the General fund to the Postemployment Benefits Fund for annual contribution for retirees' medical benefits per union contract.				363,033
Transfer from the General Fund to the Postemployment Benefits Fund per Administrator's Association agreement.				203,096
Transfer from the Cafeteria Special Revenue Fund to the General Fund for trash pick-up at Kimbrough Elementary.				991
Transfer from the Special Reserve for Non-Capital Outlay Fund to the General Fund for a one time allowance for site allocations.				5,900,000
Transfer from the Special Reserve for Non-Capital Outlay Fund to the General Fund for the SERP buy out.				12,740,587
Transfer from the Postemployment Benefits Fund to the General Fund for reimbursement of premiums paid for retirees' medical benefits per union contract.				636,535
Transfer from the Capital Facilities Redevelopment Agencies' Fund to the General Fund for reimbursement of redevelopment expenditures.				3,003,858
Transfer from the Capital Facilities Redevelopment Agencies' Fund to the County School Facilities Fund for overcharged HMC allocation per the CCDC.				505,519
Transfer from the County School Facilities Fund to the Building Fund - Prom MM for E-Rate reimbursement.				3,722,980
Transfer from the County School Facilities Fund to the Building Fund - Prom MM for set-aside monies.				20,000,000
Transfer from the County School Facilities Fund to the Capital Facilities Redevelopment Agency Fund for HMC charges for Architectural and Planning fees.				1,387,076
Transfer from County School Facilities Fund to the Building Fund for the reimbursement of a land purchase.				737,638
Transfer from the Property Management Fund to the General Fund for school transition budgets.				244,885
Transfer from the Property Management Fund to the General Fund for the Over Capacity Transportation Program for financial assistance for transportation expenditures to relieve over crowded schools.				182,239
Transfer from the Facilities Master Plan Fund to the Deferred Maintenance Fund for certification of matching of funds.				5,631,765
			Total	<u>\$ 55,835,216</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 5 – FUND BALANCES

The following amounts of the ending fund balance were designated by the Governing Board as of June 30, 2008:

General Fund

Designated for Economic Uncertainty	\$	24,200,000
Designated for Other Purposes	\$	22,796,567

NOTE 6 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2008 is shown below:

	Beginning Balance July 1, 2007,		Beginning Balance July 1, 2007,				Ending Balance June 30, 2008
	As Originally Stated	Adjustments*	As Restated	Additions	Deletions		
Land	\$ 273,273,866	\$ (42,000)	\$ 273,231,866	\$ -	\$ 66,084		\$ 273,165,782
Site improvements	141,509,469	(8,995,560)	132,513,909	56,408,089	-		188,921,998
Buildings and improvements	1,020,875,461	(2,138,493)	1,018,736,968	184,466,826	316,000		1,202,887,794
Furniture and equipment	170,518,796	51,823,505	222,342,301	7,608,857	657,438		229,293,720
Work in progress	701,488,211	-	701,488,211	129,513,310	245,238,518		585,763,003
Total at historical cost	<u>2,307,665,803</u>	<u>40,647,452</u>	<u>2,348,313,255</u>	<u>377,997,082</u>	<u>246,278,040</u>		<u>2,480,032,297</u>
Less accumulated depreciation:							
Site improvements	71,716,279	(1,767,807)	69,948,472	7,996,293	-		77,944,765
Buildings	246,961,700	(432,861)	246,528,839	46,062,768	316,000		292,275,607
Furniture and equipment	143,461,361	2,238,241	145,699,602	36,549,585	657,438		181,591,749
Total accumulated depreciation	<u>462,139,340</u>	<u>37,573</u>	<u>462,176,913</u>	<u>90,608,646</u>	<u>973,438</u>		<u>551,812,121</u>
Governmental activities capital assets, net	<u>\$ 1,845,526,463</u>	<u>\$ 40,609,879</u>	<u>\$ 1,886,136,342</u>	<u>\$ 287,388,436</u>	<u>\$245,304,602</u>		<u>\$ 1,928,220,176</u>

* See footnote 16

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 7 - TAX REVENUE ANTICIPATION NOTES

The District issued \$210,000,000 of Tax Revenue Anticipation Notes dated July 1, 2007. The notes matured on July 22, 2008 and yielded 3.66% interest. The notes were sold by the District to supplement its cash flow.

The Funds were held with the trustee, Trinity Funding Company, unless and until the District needs to draw funds out. Repayment requirements were that \$9,423,750 interest be paid by July 1, 2008 and that \$210,000,000 principal plus \$551,250 interest be paid by July 22, 2008.

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 – GENERAL OBLIGATION BONDS

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 outstanding general obligation bonded debt of San Diego Unified School District at June 30, 2008 is:

Series	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2007	Issued Current Year	Redeemed Current Year	Outstanding June 30, 2008
A	5/27/1999	4.20 - 5.34	2023	\$ 139,995,085	\$ 110,268,975	\$ -	\$ 7,915,853	\$ 102,353,122
A - Accreted Interest					54,754,689	8,137,544	3,949,147	58,943,086
B	12/14/2000	4.40 - 5.35	2025	149,999,084	136,645,643	-	1,379,775	135,265,868
B - Accreted Interest					19,811,870	1,525,268	1,945,225	19,391,913
C	11/21/2001	2.95 - 5.00	2026	199,995,712	183,993,765	-	1,366,931	182,626,834
C - Accreted Interest					8,736,379	633,597	1,373,069	7,996,907
D	9/12/2002	2.10 - 5.25	2027	274,995,346	255,884,137	-	1,474,391	254,409,746
D - Accreted Interest					1,896,176	167,833	915,609	1,148,400
E	8/19/2003	1.90 - 5.25	2028	349,993,599	333,323,717	-	3,251,347	330,072,370
E - Accreted Interest					14,986,678	1,353,699	2,213,653	14,126,724
F	9/2/2004	1.95 - 5.00	2029	199,996,373	47,256,293	-	2,507,166	44,749,127
F - Accreted Interest					3,134,696	1,313,710	1,037,834	3,410,572
G	9/8/2005	3.00 - 5.00	2030	195,024,802	73,035,000	-	5,000,000	68,035,000
Refunding (F-1, G-1)	11/30/2006	4.00 - 5.25	2030	266,820,000	262,665,000	-	-	262,665,000
				<u>\$ 1,776,820,001</u>	<u>\$ 1,506,393,018</u>	<u>\$ 13,131,651</u>	<u>\$ 34,330,000</u>	<u>\$ 1,485,194,669</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 8 – GENERAL OBLIGATION BONDS (continued)

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2008, are as follows:

Series A

Year Ended				
June 30	Principal	Accreted Interest	Total	
2009	\$ 7,781,727	\$ 4,558,273	\$ 12,340,000	
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	
2014-2018	33,912,655	47,412,345	81,325,000	
2019-2023	30,917,832	68,032,168	180,275,000	
	<u>\$ 102,353,122</u>	<u>\$ 144,761,878</u>	<u>\$ 328,440,000</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 \$58,943,086 has been reflected in the long-term debt balance.

Series B

Year Ended		Current Interest	Accreted Interest	Total
June 30	Principal	Component	Component	
2009	\$ 1,373,870	\$ 6,549,296	\$ 2,346,130	\$ 10,269,296
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
2014-2018	26,028,893	31,657,483	9,981,107	67,667,483
2019-2023	62,000,000	20,324,901	-	82,324,901
2024-2025	40,605,000	3,091,000	-	43,696,000
	<u>\$ 135,265,868</u>	<u>\$ 87,819,864</u>	<u>\$ 26,219,132</u>	<u>\$ 249,304,864</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 8 – GENERAL OBLIGATION BONDS (continued)

Series B (continued)

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 \$19,391,913 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 are to be 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.

Series C

Year Ended June 30	Principal	Accreted Interest Component	Current Interest Component	Total
2009	\$ 1,421,307	\$ 1,743,693	\$ 8,681,762	\$ 11,846,762
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
2014-2018	37,240,000	-	39,496,026	76,736,026
2019-2023	64,405,000	-	27,826,250	92,231,250
2024-2026	70,085,000	-	7,365,000	77,450,000
	<u>\$ 182,626,834</u>	<u>\$ 9,543,165</u>	<u>\$ 118,096,090</u>	<u>\$ 310,266,089</u>

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series C bonds included a premium of \$15,332,829. This amount is amortized using a straight-line method. Amortization of \$623,286 was recognized during of 2007-08 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 2007-08 year.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 8 – GENERAL OBLIGATION BONDS (continued)

Series C (continued)

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 accruing through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$7,996,907 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.

Series D

Year Ended	Principal	Accreted Interest Component	Current Interest Component	Total
June 30				
2009	\$ 1,634,746	\$ 1,245,254	\$ 12,620,750	\$ 15,500,750
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
2014-2018	40,530,000	-	56,534,288	97,064,288
2019-2023	70,360,000	-	43,488,888	113,848,888
2024-2027	124,235,000	-	17,445,824	141,680,824
	<u>\$ 254,409,746</u>	<u>\$ 1,245,254</u>	<u>\$ 179,653,750</u>	<u>\$ 435,308,750</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 2007-08 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 2007-08 year.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 8 – GENERAL OBLIGATION BONDS (continued)

Series D (continued)

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 accruing through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$1,148,400 has been 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 are to be 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.

Series E

Year Ended		Accreted Interest	Current Interest	
June 30	Principal	Component	Component	Total
2009	\$ 2,941,015	\$ 2,558,985	\$ 16,016,930	\$ 21,516,930
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
2014-2018	48,055,000	-	75,939,630	123,994,630
2019-2023	75,775,000	-	60,849,225	136,624,225
2024-2028	192,450,000	-	32,945,175	225,395,175
	<u>\$ 330,072,370</u>	<u>\$ 18,262,629</u>	<u>\$ 249,818,680</u>	<u>\$ 598,153,679</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 2007-08 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 2007-08 year.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 8 – GENERAL OBLIGATION BONDS (continued)

Series E (continued)

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 accruing through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$14,126,724 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 are to be 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.

Series F

Year Ended June 30	Principal	Accreted Interest Component	Current Interest Component	Total
2009	\$ 2,393,763	\$ 1,311,237	\$ 1,612,023	\$ 5,317,023
2010	2,160,242	1,499,758	1,612,023	5,272,023
2011	1,943,816	1,661,184	1,612,023	5,217,023
2012	1,741,306	1,793,694	1,612,023	5,147,023
2013	3,450,000	-	1,612,023	5,062,023
2014-2018	17,560,000	-	6,710,190	24,270,190
2019-2023	10,375,000	-	1,226,414	11,601,414
2024-2028	2,295,000	-	901,235	3,196,235
2029	2,830,000	-	268,848	3,098,848
	<u>\$ 44,749,127</u>	<u>\$ 6,265,873</u>	<u>\$ 17,166,802</u>	<u>\$ 68,181,802</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 \$63,255 was recognized during of 2007-08 year.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 8 – GENERAL OBLIGATION BONDS (continued)

Series F (continued)

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 \$12,983 was recognized during the 2007-08 year.

Capital appreciation bonds were issued as part of the Series F issuance with maturity dates from July 1, 2006 through 2012, each capital appreciation bond will accrete interest on the principal component, with all interest accruing through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$3,410,572 has been reflected in the long-term debt balance.

Series G

Year Ended				
June 30	Principal	Current Interest	Total	
2009	\$5,170,000	\$2,896,581	\$ 8,066,581	
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	
2014-2018	23,050,000	7,507,155	30,557,155	
2019-2023	17,505,000	3,763,996	21,268,996	
2024-2028	2,060,000	717,572	2,777,572	
	<u>\$ 68,035,000</u>	<u>\$ 24,480,378</u>	<u>\$ 92,515,378</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 \$3,911,207. This amount is amortized using a straight-line method. Amortization of \$114,867 was recognized during of 2007-08 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 \$20,927 was recognized during the 2007-08 year.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 8 – 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 difference in cash flow requirements related to this refunding is a savings of cash outflow of approximating \$19,240,000. The present value of the economic gain to the District amounts to approximately \$12,000,000. The net carrying value of the bonds refunded was \$7,210,585 less than the amount paid into the escrow account. This amount has been netted against the new debt and amortized over the life of the new debt which is the same as the life of the old debt. The amount of debt that remains outstanding at June 30, 2008 for the original Series F issuance \$44,749,127 and for Series G issuance is \$68,035,000. The amount of refunding debt outstanding at June 30, 2008 for Series F is \$144,960,000 and for Series G is \$117,705,000.

The debt service requirements for the Refunding Bonds outstanding as of June 30, 2008 are as follows:

Year Ended	Principal	Current Interest	Total
June 30			
2009	\$ -	\$ 12,617,543	\$ 12,617,543
2010	-	12,617,543	12,617,543
2011	-	12,617,543	12,617,543
2012	-	12,617,543	12,617,543
2013	-	12,617,543	12,617,543
2014-2018	-	63,087,713	63,087,713
2019-2023	3,240,000	63,087,713	66,327,713
2024-2028	70,910,000	58,878,638	129,788,638
2028-2029	188,515,000	14,014,725	202,529,725
	<u>\$ 262,665,000</u>	<u>\$ 262,156,500</u>	<u>\$ 524,821,500</u>

The bonds include a premium of \$19,072,853 and a deferred charge on refunding of \$7,210,585. These amounts were amortized using the straight-line method. Premium amortization of \$560,143 and deferred charge amortization of \$211,765, for a net amortization of \$348,378 was recognized during the 2007-08 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 \$54,865 was recognized during the 2007-08 year.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 9 – LONG-TERM DEBT

A schedule of changes in long-term debt for the year ended June 30, 2008 is as follows:

	Balance July 1, 2007, as Originally Stated	Adjustments for Restatement	Balance July 1, 2007, as Restated	Additions and Adjustments	Deductions and Adjustments	Balance June 30, 2008	Due in One Year
Compensated absences	\$ 21,487,373	\$ -	\$ 21,487,373	\$ 2,361,951	\$ -	\$ 23,849,324	\$ 20,033,432
Arbitrage liability	210,113	-	210,113	939,339	-	1,149,452	-
Deferred bond premium and issue cost	42,284,631	-	42,284,631	-	2,053,397	40,231,234	-
General obligation bonds	1,506,393,018	-	1,506,393,018	13,131,651	34,330,000	1,485,194,669	22,716,428
Other postemployment benefits	21,975,388	(6,395,106)	15,580,282	894,499	15,580,282	894,499	7,289,605
Total	\$ 1,592,350,523	\$ (6,395,106)	\$ 1,585,955,417	\$ 17,327,440	\$ 51,963,679	\$ 1,551,319,178	\$ 50,039,465

NOTE 10 – 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, 2008, the District accrued the claims liability in accordance with GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims liability is estimated at \$51,124,000. 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	\$ 3,467,000	\$ 3,132,025	\$ 3,468,025	\$ 3,131,000
Workers' Compensation	50,911,000	9,777,746	12,695,746	47,993,000
Totals	\$ 54,378,000	\$ 12,909,771	\$ 16,163,771	\$ 51,124,000

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 11 - EMPLOYEE RETIREMENT PLANS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the 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 2007-08 was 9.306%. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2008, 2007, and 2006 were \$22,765,551, \$20,579,989, and \$18,085,855 respectively, which represent 100% of the required contributions for each fiscal year.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 11 - 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 2007-08 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 fiscal years ending June 30, 2008, 2007, and 2006 were \$47,767,897, \$44,644,997, and \$41,573,229, respectively, and equal 100% of the required contributions for each year.

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 \$37,341,441 to STRS (4.517% of salaries subject to STRS in 2007-08 and 2.237% of salaries subject to STRS in 2003-04).

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 12– OTHER POSTEMPLOYMENT BENEFITS

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

Defined Contribution Monthly Stipend Plan

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

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

The stipend arrangement does not result in a GASB No. 45 obligation and the actuary has not included this benefit in the valuation. As of July 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
Total	<u>1,488</u>
* As of July 1, 2007 actuarial valuation	
Number of participating employers	<u>1</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

NOTE 12- OTHER POSTEMPLOYMENT BENEFITS (continued)

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

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

Annual required contribution	\$ 3,769,988
Interest on net OPEB obligation	-
Adjustment to annual required contribution	-
Annual OPEB cost	<u>3,769,988</u>
Contributions made	<u>2,875,489</u>
Increase in net OPEB obligation	894,499
Net OPEB obligation - July 1, 2007	-
Net OPEB obligation - June 30, 2008	<u><u>\$ 894,499</u></u>

The District's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2007-08 are as follows:

Year Ended	Annual Required Contribution	Percentage Contributed	Net OPEB Obligation
<u>June 30,</u> 2008	<u>\$ 3,769,988</u>	76%	<u>\$ 894,499</u>

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, 2008

NOTE 12– OTHER POSTEMPLOYMENT BENEFITS (continued)

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

Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	7/1/2007
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, 2008

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

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

In November 2003, the JPA issued \$5 million of Lease Revenue Bonds to be used for construction improvements. These bonds will be repaid over a period of 15 years. At the same time, the District deposited \$2,823,818 into an escrow account for the repayment of Lease Revenue Bonds. The fair market value of investment at June 30, 2008 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 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, 2008, the District had commitments with respect to unfinished capital projects of approximately \$2,281,000. Of this amount approximately \$1,254,000 is attributed to Proposition MM bond program commitments with the remaining \$1,027,000 attributed to other construction projects.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2008

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 and 2007-08.

NOTE 15 – SUBSEQUENT EVENTS

Passage of Proposition “S” General Obligation Bonds

On November 4, 2008, the District’s voters authorized a \$2.1 billion general obligation bond measure, Proposition “S.” The bonds, once issued, will be used in accordance with the repair and renovation projects specified in the District’s Long-Range Facilities Master Plan. At present, no bonds have been issued.

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.

NOTE 16 – ADJUSTMENTS FOR RESTATEMENT

The following adjustments for restatement were made to the beginning fund balance/net assets balances:

	<u>Fund Balances</u>	<u>Net Assets</u>
To correct for amounts paid in the current period that relate to the prior period	\$ (799,350)	\$ (799,350)
To correct OPEB liability to actuarially determined amount	-	6,395,106
To correct capital assets to fixed asset schedules as reconciled	-	40,609,879
	<u>\$ (799,350)</u>	<u>\$ 46,205,635</u>

Required Supplementary Information

SAN DIEGO UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
Year Ended June 30, 2008

	Budgeted Amounts		Actual (Budgetary Basis)	Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Revenue Limit Sources	\$ 638,448,404	\$ 641,273,303	\$ 646,338,259	\$ 5,064,956
Federal	111,925,354	136,064,713	112,825,374	(23,239,339)
Other State	300,981,945	370,861,507	316,104,594	(54,756,913)
Other Local	73,777,631	112,615,545	101,222,660	(11,392,885)
Total Revenues	1,125,133,334	1,260,815,068	1,176,490,887	(84,324,181)
Expenditures				
Certificated Salaries	534,559,303	585,540,588	569,143,011	16,397,577
Classified Salaries	203,714,877	214,646,077	211,680,260	2,965,817
Employee Benefits	253,604,819	264,226,944	258,603,405	5,623,539
Books and Supplies	81,090,288	115,788,969	58,828,521	56,960,448
Services and Other Operating Expenditures	84,137,942	107,917,083	98,425,128	9,491,955
Capital Outlay	597,499	6,158,942	1,207,934	4,951,008
Other Outgo	(988,580)	2,048,176	(538,464)	2,586,640
Total Expenditures	1,156,716,148	1,296,326,779	1,197,349,795	98,976,984
Excess (Deficiency) of Revenues Over (Under) Expenditures	(31,582,814)	(35,511,711)	(20,858,908)	14,652,803
Other Financing Sources and Uses				
Interfund Transfers In	6,801,734	24,861,959	22,709,094	(2,152,865)
Interfund Transfers Out	(7,577,795)	(8,529,992)	(7,179,209)	1,350,783
Total Other Financing Sources and Uses	(776,061)	16,331,967	15,529,885	(802,082)
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(32,358,875)	(19,179,744)	(5,329,023)	13,850,721
Fund Balances, July 1, 2007, as originally stated	124,505,467	124,505,467	124,505,467	-
Adjustment for restatement	(247,855)	(247,855)	(247,855)	-
Fund Balances, July 1, 2007, restated	124,257,612	124,257,612	124,257,612	-
Fund Balances, June 30, 2008	\$ 91,898,737	\$ 105,077,868	\$ 118,928,589	\$ 13,850,721

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Funding Progress
For the Year Ended June 30, 2008

Schedule of Funding Progress

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%

Supplementary Information Section

SAN DIEGO UNIFIED SCHOOL DISTRICT
Combining Balance Sheet – Non-Major Special Revenue Funds
June 30, 2008

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Pupil Transportation Equipment Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Post Employment Benefits Fund	Total
Assets								
Cash	\$ 2,024,948	\$ 9,353,817	\$ 2,098,052	\$ 5,140,042	\$ 917,016	\$ 11,046,928	\$ 1,230,285	\$ 31,811,088
Investments	-	-	6,515,846	-	-	-	-	6,515,846
Accounts receivable	233,153	3,274,385	11,970,626	29,946	7,858	94,764	11,378	15,622,110
Prepaid expenditures	-	14,193	-	-	-	-	-	14,193
Due from other funds	143,832	3,404,416	465,262	1,834,926	-	-	-	5,848,436
Stores inventories	-	-	555,655	-	-	-	-	555,655
Total Assets	\$ 2,401,933	\$ 16,046,811	\$ 21,605,441	\$ 7,004,914	\$ 924,874	\$ 11,141,692	\$ 1,241,663	\$ 60,367,328
Liabilities								
Accounts payable	\$ 19,939	\$ 328,709	\$ 887,231	\$ 113,069	\$ -	\$ -	\$ -	\$ 1,348,948
Due to other funds	210,417	15,573,811	20,162,555	6,891,441	288	-	-	42,838,512
Deferred revenues	-	130,097	-	-	-	-	-	130,097
Total Liabilities	230,356	16,032,617	21,049,786	7,004,510	288	-	-	44,317,557
Fund Balances								
Reserved for:								
Reserved for special purpose	-	-	555,655	-	-	-	-	555,655
Designated for special purpose	2,171,577	14,194	-	404	924,586	11,141,692	1,241,663	15,494,116
Total Fund Balances	2,171,577	14,194	555,655	404	924,586	11,141,692	1,241,663	16,049,771
Total Liabilities and Fund Balances	\$ 2,401,933	\$ 16,046,811	\$ 21,605,441	\$ 7,004,914	\$ 924,874	\$ 11,141,692	\$ 1,241,663	\$ 60,367,328

SAN DIEGO UNIFIED SCHOOL DISTRICT
Combining Statement of Revenues, Expenses, and Changes in Fund Balances – Non-Major Special Revenue Funds
For the Year Ended June 30, 2008

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Pupil Transportation Equipment Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Post Employment Benefits Fund	Total
Revenues								
General Revenues:								
Interest and investment earnings	\$ -	\$ 11,354	\$ 410,522	\$ -	\$ 117,352	\$ 1,047,621	\$ 65,914	\$ 1,652,763
Miscellaneous	-	-	12,361,577	-	-	-	-	12,361,577
Program Revenues:								
Charges for services	-	1,177,531	-	-	-	-	-	1,177,531
Operating grants and contributions	2,928,496	26,416,953	34,253,637	(275,438)	-	-	-	63,323,648
Total revenues	<u>2,928,496</u>	<u>27,605,838</u>	<u>47,025,736</u>	<u>(275,438)</u>	<u>117,352</u>	<u>1,047,621</u>	<u>65,914</u>	<u>78,515,519</u>
Expenditures								
Instruction	973,863	20,759,279	-	-	-	-	-	21,733,142
Instruction-related services								
Supervision of instruction	180,386	2,076,276	-	-	-	-	-	2,256,662
School site administration	498,225	1,828,197	-	-	-	-	-	2,326,422
Pupil Services:								
Home-to-school transportation	-	-	-	-	2,318,320	-	-	2,318,320
Food services	-	151,844	44,906,215	-	-	-	-	45,058,059
All other pupil services	52,453	500,321	-	-	-	-	-	552,774
General Administration:								
All other general administration	50,373	1,214,565	390,387	-	-	-	-	1,655,325
Plant services	51,939	1,366,155	1,503,993	-	-	-	-	2,922,087
Facility acquisition and construction	576	12,634	126,580	5,438,433	-	-	-	5,578,223
Enterprise activities	-	-	171,498	-	-	-	-	171,498
Total expenditures	<u>1,807,815</u>	<u>27,909,271</u>	<u>47,098,673</u>	<u>5,438,433</u>	<u>2,318,320</u>	<u>-</u>	<u>-</u>	<u>84,572,512</u>
Other Financing Sources (Uses)								
Interfund transfers out	-	-	(990)	-	-	(18,640,587)	(636,535)	(19,278,112)
Interfund transfers in	-	313,651	261,363	5,631,765	-	-	566,129	6,772,908
Total Other Sources (Uses)	<u>-</u>	<u>313,651</u>	<u>260,373</u>	<u>5,631,765</u>	<u>-</u>	<u>(18,640,587)</u>	<u>(70,406)</u>	<u>(12,505,204)</u>
Excess (Deficiency)	<u>1,120,681</u>	<u>10,218</u>	<u>187,436</u>	<u>(82,106)</u>	<u>(2,200,968)</u>	<u>(17,592,966)</u>	<u>(4,492)</u>	<u>(18,562,197)</u>
Fund Balances, June 30, 2007, as originally stated								
	1,051,011	555,356	368,219	82,510	3,125,554	28,734,658	1,246,155	35,163,463
Adjustments for restatements								
	(115)	(551,380)	-	-	-	-	-	(551,495)
Fund Balances, June 30, 2007, as adjusted								
	<u>1,050,896</u>	<u>3,976</u>	<u>368,219</u>	<u>82,510</u>	<u>3,125,554</u>	<u>28,734,658</u>	<u>1,246,155</u>	<u>34,611,968</u>
Fund Balances, June 30, 2008								
	<u>\$ 2,171,577</u>	<u>\$ 14,194</u>	<u>\$ 555,655</u>	<u>\$ 404</u>	<u>\$ 924,586</u>	<u>\$ 11,141,692</u>	<u>\$ 1,241,663</u>	<u>\$ 16,049,771</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Combining Balance Sheet – Non-Major Capital Project Funds
June 30, 2008

	Building Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total
Assets				
Cash	\$ 7,442,903	\$ 31,696,370	\$ 47,048,223	\$ 86,187,496
Investments	20,069,405	-	-	20,069,405
Accounts receivable	2,310,391	374,069	503,625	3,188,085
Prepaid expenditures	1,351	120	10,853	12,324
Due from other funds	1,982,519	-	20,564	2,003,083
Total Assets	\$ 31,806,569	\$ 32,070,559	\$ 47,583,265	\$ 111,460,393
Liabilities				
Accounts payable	\$ 2,241,341	\$ 676,985	\$ 251,343	\$ 3,169,669
Due to other funds	22,253,774	1,138,490	1,855,391	25,247,655
Deferred revenues	-	-	8,103	8,103
Total Liabilities	24,495,115	1,815,475	2,114,837	28,425,427
Fund Balances				
Reserved for:				
Designated for special purpose	7,311,454	30,255,084	45,468,428	83,034,966
Total Fund Balances	7,311,454	30,255,084	45,468,428	83,034,966
Total Liabilities and Fund Balances	\$ 31,806,569	\$ 32,070,559	\$ 47,583,265	\$ 111,460,393

SAN DIEGO UNIFIED SCHOOL DISTRICT
Combining Statement of Revenues, Expenditures, and Changes in Fund Balances –
Non-Major Capital Project Funds
For the Year Ended June 30, 2008

	Building Fund	Capital Facilities Fund	Special Reserve Fund for Capital Outlay Projects	Total
Revenues				
General Revenues:				
Property taxes	\$ -	\$ 6,182,846	\$ -	\$ 6,182,846
Interest and investment earnings	2,771,944	1,670,975	2,424,602	6,867,521
Miscellaneous	3,007,167	9,949,712	7,010,537	19,967,416
Total revenues	<u>5,779,111</u>	<u>17,803,533</u>	<u>9,435,139</u>	<u>33,017,783</u>
Expenditures				
All other general administration	-	17,558	-	17,558
Plant services	-	2,030,959	2,656,457	4,687,416
Facility acquisition and construction	26,707,013	19,854,604	6,668,391	53,230,008
Issuance costs and discounts	1,808,107	-	10,000	1,818,107
Total expenditures	<u>28,515,120</u>	<u>21,903,121</u>	<u>9,334,848</u>	<u>59,753,089</u>
Other Financing Sources (Uses)				
Interfund transfers out	-	(3,509,377)	(6,058,889)	(9,568,266)
Interfund transfers in	24,460,618	1,387,077	-	25,847,695
Total Other Sources (Uses)	<u>24,460,618</u>	<u>(2,122,300)</u>	<u>(6,058,889)</u>	<u>16,279,429</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures and Other Financing Sources and Uses	1,724,609	(6,221,888)	(5,958,598)	(10,455,877)
Fund Balances, June 30, 2007	<u>5,586,845</u>	<u>36,476,972</u>	<u>51,427,026</u>	<u>93,490,843</u>
Fund Balances, June 30, 2008	<u>\$ 7,311,454</u>	<u>\$ 30,255,084</u>	<u>\$ 45,468,428</u>	<u>\$ 83,034,966</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT
Local Education Agency Organization Structure
June 30, 2008

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>
Katherine Nakamura	President	December 2010
John de Beck	Vice President	December 2010
Mitz Lee	Member	December 2008
Shelia Jackson	Member	December 2008
Luis Acle	Member	December 2008

DISTRICT ADMINISTRATORS

Terry B. Grier, Ed.D.,
Superintendent

Chuck Morris
Deputy Superintendent

Gamy Rayburn
*Interim Chief Financial Officer**

Bill Kowba
Chief Logistics Officer

Joan McRobbie
Interim Chief of Staff

* James Masias became the permanent Chief Financial Officer on July 14, 2008

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2008

	Second Period Report	Annual Report
Elementary:		
Kindergarten	8,913	8,913
Grades 1 Through 3	26,285	26,276
Grades 4 Through 6	24,754	24,753
Grades 7 and 8	14,195	14,215
Opportunity Schools	2	2
Home and Hospital	37	37
Special Education	3,318	3,435
Community Day School	38	41
Extended Year Speical Education	172	216
Extended Year - Nonpublic, Nonsectarian	18	19
	<u>77,732</u>	<u>77,907</u>
Total Elementary		
Secondary:		
Grades 9 Through 12, regular classes	30,259	29,757
Continuation Education	607	613
Home and Hospital	16	17
Community Day School	30	29
Special Education	1,742	1,724
Extended Year Speical Education	122	147
Extended Year - Nonpublic, Nonsectarian	39	38
	<u>32,815</u>	<u>32,325</u>
Total Secondary		
Classes for Adults:		
Concurrently Enrolled	88	139
Not Concurrently Enrolled	234	305
	<u>322</u>	<u>444</u>
Total Adult Classes		
Total Average Daily Attendance	<u>110,869</u>	<u>110,676</u>
	Hours of	
<u>Supplemental Instruction Hours</u>	<u>Attendance</u>	
Elementary	1,259,309	
Secondary	793,819	

The accompanying note is an integral part of this schedule.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
June 30, 2008

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2007-2008 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	35,400	36,000	55,570	180	Complied
Grade 1	50,445	50,400	54,900	180	Complied
Grade 2	50,445	50,400	54,900	180	Complied
Grade 3	53,985	50,400	54,900	180	Complied
Grade 4	53,985	54,000	54,900	180	Complied
Grade 5	53,985	54,000	54,900	180	Complied
Grade 6	53,985	54,000	54,900	180	Complied
Grade 7	62,835	54,000	63,942	180	Complied
Grade 8	62,835	54,000	63,942	180	Complied
Grade 9	62,835	64,800	64,802	180	Complied
Grade 10	62,835	64,800	64,802	180	Complied
Grade 11	62,835	64,800	64,802	180	Complied
Grade 12	62,835	64,800	64,802	180	Complied

The accompanying note is an integral part of this schedule.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
Year Ended June 30, 2008

General Fund	(Budget) 2009***	2008	2007	2006
Revenues and other financing sources	\$ 1,142,743,747	\$ 1,176,490,887	\$ 1,233,919,213	\$ 1,113,437,042
Expenditures	1,121,666,505	1,203,387,861	1,129,856,700	1,067,805,976
Other uses and transfers out	(869,057)	21,567,951	87,035,664	48,049,678
Total outgo	<u>1,120,797,448</u>	<u>1,224,955,812</u>	<u>1,216,892,364</u>	<u>1,115,855,654</u>
Change in fund balance (deficit)	<u>20,208,185</u>	<u>(5,329,023)</u>	<u>17,026,849</u>	<u>(2,418,612)</u>
Ending fund balance, as restated	<u>\$ 139,136,774</u>	<u>\$ 118,928,589</u>	<u>\$ 124,257,612</u>	<u>\$ 109,897,230</u>
Available reserves*	<u>\$ 22,660,000</u>	<u>\$ 24,200,000</u>	<u>\$ 24,318,718</u>	<u>\$ 22,261,794</u>
Available reserves as a percentage of total outgo	<u>2.0%</u>	<u>2.0%</u>	<u>2.2%</u>	<u>2.1%</u>
Total long-term debt, as restated	<u>\$ 1,501,279,713</u>	<u>\$ 1,551,319,178</u>	<u>\$ 1,585,955,417</u>	<u>\$ 1,626,277,466</u>
Average daily attendance at P-2**	<u>110,547</u>	<u>110,547</u>	<u>110,266</u>	<u>112,743</u>

The General Fund balance has increased by \$9,031,359 over the past two years. The fiscal year 2008-09 adopted budget projects an increase of \$20,208,185. 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).

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

** Excludes adult education and county operated programs ADA

*** Adopted September 2008

The accompanying note is an integral part of this schedule.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
For the Year Ended June 30, 2008

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S. Department of Education:			
Indian Education	84.060	10011	\$ 81,704
Other Federal: Reduce Alcohol Abuse	84.184A	(1)	478,852
Elementary Secondary School Counseling	84.215E	(1)	408,019
Smaller Learning Community	84.215	14307	1,358,526
Emergency Response to Crisis Management	84.184E	(1)	258,267
Striving Readers	84.371A	(1)	3,738,689
Advance Placement Incentive Program Grant	84.330C	14504	848,887
Magnet School Assistance Program	84.165	(1)	1,251,392
Unrestricted: Federal Impact-Aid-Unrestricted	84.041	10015	13,599,230
Subtotal: Direct Programs			<u>22,023,566</u>
Passed through California Dept. of Education (CDE):			
No Child Left Behind Act (NCLB)			
Title I - Part A, Basic Grants Low-Income and Neglected	84.010	14329	43,866,530
Title I - Part A, PI School Assist and Intervention Teams	84.010	(1)	37,500
Title I - Part A, PI School Assist and Intervention Teams, Corrective Action Plans	84.010	(1)	447,714
Title I - Part D, Local Delinquent Program	84.013	13798	18,331
Title I - Part A, Non-PI LEAs with PI Schools	84.010	14796	747,012
Title II - Improving Teacher Quality	84.367	14341	7,466,213
Title II - Part A, Principal Training	84.367	(1)	68,434
Title II - Part B, Math and Science	84.366	14512	341,315
Title II - Part D, Enhancing Education Through Technology	84.318	14334	502,008
Title II - Part D, Enhancing Education Through Technology Competitive	84.318	14368	1,040,059
Title III - Immigrant Ed	84.365	14346	156,289
Title III - Limited English Proficiency	84.365	10084	3,669,964
Title IV - Safe and Drug Free Schools	84.186	14347	685,344
Title IV - Part B, 21st Century CLCP	84.287	14349	1,020,426
Title V - Part A, Innovative Education Technologies	84.298	14354	349,175
Title V - Community Prevention	(1)	(1)	264,533
Even Start Family Literacy	84.213	14331	532,275
Individuals with Disabilities Education Act (IDEA):			
Preschool Grants, Part B	84.173	13430	889,795
Preschool Local Staff Development, Part B, Sec 611	84.027A	13613	1,195,088
Preschool Accountability Grants, Part B, Sec 619	84.173	(1)	11,346
Preschool Local Staff Development, Part B, Sec 619	84.173A	13431	10,033
Basic Local Assistance Entitlement, Part B	84.027	13379	21,940,543
State Improvement Grant, Improving Special Ed Systems	84.323	(1)	8,650
Early Intervention	84.181	23761	297,054
Rehab for External Situational Assessment	(1)	(1)	20,000
Vocational and Applied Technology Education	84.048	13924	1,244,981
21st Century Learning	84.287	14349	986,857
Federal Impact Aid	84.041	10015	2,172,744
Transition to Teaching	84.350	(1)	17,178
Subtotal: Passed-Through California Department of Education			<u>90,007,391</u>
Pass-Through Programs From the California Department of Rehabilitation			
Workability II, Transition Partnership	84.158	10006	155,325
Total U.S. Department of Education			<u>112,186,282</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 Year Ended June 30, 2008

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	5,400,452
National School Lunch	10.555	13523	24,331,857
Basic School Breakfast	10.553	13525	431,936
Federal Snack Program	10.558	23165	1,225,841
USDA Reduced Price Commodities	10.565	13389	496,907
Total U.S. Department of Agriculture			31,886,993
Department of Homeland Security:			
Pass Through Program From the CDE:			
Federal Emergency Management Act (FEMA)	97.036	10014	3,969
Total Department of Homeland Security			3,969
U.S. Department of Health & Human Services:			
Direct Federal to Local Funding:			
Youth Risky Behavior Survey	(1)	(1)	340,163
CCDF-Center Child Care	93.596	03879	730,710
Adolescent Family Life Program	93.995	(1)	88,976
Passed through California Dept of Health Services:			
Medi-Cal Billing Option	93.778	10013	794,035
Total U.S. Department of Health & Human Services			1,953,884
U.S. Department of Justice:			
Bullet Proof Vest Partnership Award	16.007	(1)	760
Total U.S. Department of Justice:			760
Department of National Science Foundation			
Urban Systematic Program	47.076	(1)	429,440
Total Department of National Science Foundation			429,440
Total Expenditures of Federal Awards			\$ 146,461,328

(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
Fiscal Year Ended June 30, 2008

Charter School	Inclusion in Financial Statements*
Albert Einstien Middle Charter School (6-8)	No
Albert Einstien Academy	No
Arroyo Paseo Charter High School	No
Audeo (6-12)	No
Chanc. William McGill School of Success (K-1)	No
Charter School of San Diego (7-12)	No
Cortez Hill Academy (9-12)	No
Darnall E-Campus (K-5)	No
Explorer Elementary (K-6)	No
Gompers Middle (7-9)	No
Harriett Tubman Village	No
Health Sciences Charter High School	No
High Tech High (9-12)	No
High Tech International (9-12)	No
High Tech 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
Keiller Middle (6-8)	No
King/Chavez Arts Academy (3-5)	No
King/Chavez Athletics Academy (3-5)	No
King/Chavez Charter School (K-8)	No
King/Chavez Primary (K-2)	No
King/Chavez Preparatory Academy (K-5)	No
Kipp Adelante Preparatory Academy (3-5)	No
The Learning Choice Academy (K-12)	No
Memorial Academy (6-9)	No
Momentum Middle (6-8)	No
Museum School (3-6)	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

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

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
Year Ended June 30, 2008

There were no adjustments to reconcile the Annual Financial and Budget Report with the Audited Financial Statements.

The accompanying note is an integral part of this schedule.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Excess Sick Leave
June 30, 2008

San Diego Unified School District does not provide more than 12 sick leave days in a school year to employees who are CalSTRS members.

The accompanying note is an integral part of this schedule.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Note to the Supplementary Information
June 30, 2008

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.

Schedule of Excess Leave

This schedule provides information on whether the District grants excess sick leave, as that term is defined in subdivision (c) of Education Code Section 22170.5, to employees who are members of the California State Teachers Retirement System.

Other Independent Auditors' Reports



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**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 the governmental activities, each major fund, and the aggregate remaining fund information of San Diego Unified School District as of and for the year ended June 30, 2008, which collectively comprise the San Diego Unified School District's basic financial statements and have issued our report thereon dated November 12, 2008. We conducted our audit in accordance with generally accepted auditing standards 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 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 Audit Findings and Questioned Costs* 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 entity's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Diego Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying *Schedule of Audit Findings and Questioned Costs* as #2008-4 through #2008-6.

The San Diego Unified School District's response to the findings identified in our audit is 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 these specified parties.



San Diego, California
November 12, 2008



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**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 year ended June 30, 2008. 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 year ended June 30, 2008.

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.

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 #2008-4 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 is 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 12, 2008



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AUDITORS' REPORT ON STATE COMPLIANCE

We have audited the basic financial statements of the San Diego Unified School District, as of and for the year ended June 30, 2008, and have issued our report thereon dated November 12, 2008. 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, 2007-2008*, 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
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Adult Education	9	Yes
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	Yes

Description	Procedures in Audit Guide	Procedures Performed
Morgan-Hart Class Size Reduction Program	7	Yes
Instructional Materials:		
General Requirements	12	Yes
K-8 only	1	Yes
Grades 9-12 only	1	Yes
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 Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Excess Sick Leave	2	Yes
Notice of Right to Elect CalSTRS Membership	1	Yes
Proposition 20 Lottery Funds	2	Yes
State Lottery Funds	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Yes
School Accountability Report Card	3	Yes
Mathematics and Reading Professional Development	4	Yes
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
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
Mode of Instruction	1	No
Nonclassroom-Based Instruction/Independent Study	15	No
Determination of Funding for Nonclassroom-Based Instruction	3	No
Annual Instructional Minutes – Classroom Based	3	No

Testing for charter schools is performed by each charter's respective auditor (refer to Note 1B on page 26).

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, except as described in Section IV of the *Findings and Questioned Costs Section* of the report. 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, except as described in Section IV of the *Findings and Questioned Costs Section* of the report.

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.

Rigido Rigido & White, PC

San Diego, California
November 12, 2008

Findings and Questioned Costs Section

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

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(s) 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(s) 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
84.365	Title III, Immigrant Education
84.165	Magnet School Assistance Program
84.371A	Striving Readers
10.553, 10.555	Child Nutrition

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 3,000,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

State Awards

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

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section II – Financial Statement Findings

This section identifies the reportable conditions, 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 #2008-1: Associated Student Body Internal Controls (30000)

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 schoolsite 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.

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. Lastly, the District’s internal audit function might assist in periodic monitoring of compliance with standardized District procedures.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section II – Financial Statement Findings, Continued

Finding #2008-1: 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.

To the extent that resources are available the Internal Audit Department will monitor compliance with standardized District procedures. In addition, the District has established a Peer to Peer group that meets regularly to discuss issues and helps impart information to each other. A recommendation will be made to the group that at least once a year they discuss ASB issues and procedures.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section II – Financial Statement Findings, Continued

Finding #2008-2: Payroll – Overpayments to Employees (30000)

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:

- 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.
- At the schoolsites, there are instances where personnel activity reports (PARs) have been incorrectly filled out.
- Terminations are not always timely notified to payroll.

Recommendation: We would recommend:

- Greater accountability at the site/department level for the accuracy in payroll submissions and timely notification of terminations and leaves is needed.
- 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.
- 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 2009-10 and resume it on a September through August pay cycle in 2010-11.

District Response: The majority of overpayments are a result of three things:

1. Late notification of employee actions/status changes (i.e. resignation, leave of absence, retirement, FTE reductions, etc.)
2. Incorrect job information in the HR database (i.e. salary placement, step increment, work year, compensation rate, FTE, etc.)
3. Time reporting errors

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section II – Financial Statement Findings, Continued

Finding #2008-2: Payroll – Overpayments to Employees (30000)(continued)

District Response, continued: The Payroll department has undertaken several initiatives to address overpayments in the last year such as modifications to the SAMS interface, changes to processes on how time is reported to the Time and Labor application, additional online query tools to analyze specific types of employees and their pay on each payroll and at peak times of the year, and training classes. The training classes include: a What Timekeepers Should Know guide provided this fall to all timekeepers, two timekeeper briefings to discuss their roles and responsibilities as well as content specific topics, a payroll component for principals on payroll processing, discussions on procedures at their sites and what overpayments mean to them as well as the District and a measurement of what types of employee actions continue to be reported late and how late (this will be presented to the chief human relations officer and the chief financial officer in the coming weeks).

The following are more specific responses to the three recommendations listed above:

Greater Accountability at the Site/Department Level – The Finance Division has begun an initiative in 2008-09 to hold site and department managers accountable for adhering to their budgets which translates directly to employee data, actions and payroll. School Improvement Officers have been established to oversee school sites with the expectation of improved accountability on the part of managers. A monthly financial report has been developed to help guide performance on the financial health of sites/departments and gauge performance on a month to month basis over the course of the year.

The finance team has initiated Finance 101 training for site principals with a specific component on payroll and managing employee actions and time and attendance reporting. Six sessions are being held during November 2008 to work with site leaders on improving practice at the local level.

Improved Communications Between Sites, Human Resources and Payroll - A payroll web site was established in April 2008 to provide an interactive way for employees and those responsible for managing payroll information to access information regarding payroll. The site includes information on understanding your paycheck, payroll schedules and earnings paid on each of our pay dates, links to leave policy and collective bargaining requirements, leave of absence information, and news on specific content areas. Timekeeping tips are sent to District staff responsible for reporting time and absences for employees and taking actions on behalf of their sites for employee status changes. These tips are sent monthly via an online list serve and are available for each month on the web site.

The Payroll Department has begun a twice annual timekeeper workshop that brings together staff responsible for reporting time and attendance. These workshops are geared toward improving the efficiency of timekeepers, providing a broader understanding of the implications of untimely and inaccurate employee actions and reported time, specific content discussions around leave policies, the importance of payroll procedures at the local level and defining their roles and responsibilities. The first session was held in October 2008.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section II – Financial Statement Findings, Continued

Finding #2008-2: Payroll – Overpayments to Employees (30000)(continued)

District Response, continued: Payroll initiated a tracking device and virtually a one-to-one relationship between the payroll director and the former manager of HR Input during the spring/summer of 2008. This unit is the heart of data input and affecting employee changes that come as a result of Board of Education action and site initiated action requests. The HR Input management position was eliminated in the District central office budget reductions effective July 1. The employee still remains but in a reduced role. We continued to work together during July, August and September which are critical peak months of activity regarding employee status and assignment changes. This past summer proved to be even more challenging with the layoff of teachers, administrators and classified personnel as well as significant movement of employees between jobs.

Consider Changing the Pay Cycle to September through August (instead of July through June) to Prevent Overpayment – Any change to a pay cycle must be bargained. The cost of effectuating a bargained change must be compared to the cost associated with overpayments. The following information should be considered as part of this decision:

- There are 8,000 teachers on monthly salaried assignments in 2008-09
- 3,275 are paid in 10 equal installments September through June
- 2,730 are on year-round schedules with work days in July and end of August and paid in 12 equal installments July through June
- 2,014 (25% of all teachers) are on a traditional September through June assignments and have elected 12 equal installments July through June
- Of the total overpayments to teachers in 2007-08 only 14% came as a result of 12-pay.
- If the district were to begin to accrue from September to June, the first year of implementation would require that teachers not receive a pay check in July and August. The first payment would be made in September.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2008

Section II – Financial Statement Findings, Continued

Finding #2008-3: Use of Purchase Orders (30000)

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.

Recommendation: 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.

District Response: The District concurs with the Auditor's recommendation. As the District progresses towards greater financial accountability and best business practices, many operational segments need to move to a Requisition-to-Purchase Order business process, allowing for the proper budgeting and approval to be incorporated into all business transactions, whether they be for construction, goods, or services. The District is working with consultants to analyze and revamp current procedures. The new processes will be in place by the end of the current fiscal year.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
June 30, 2008

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 #2008-4: Monitoring of Vendor Suspension and Debarment (50000)

Federal Program: General procedure applicable to all federal programs

Criteria: 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.

Condition: 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).

Effect: No instances of noncompliance were noted; however, an internal control deficiency appears to exist.

Cause: Lack of policy and procedure in this area.

Questioned Costs: None. We found no suspended or debarred vendors in our samples of federal program expenditures.

Recommendation: 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).

District Corrective Action Plan: A system has been implemented in the procurement process in which a SDUSD employee determines whether the prospective vendor is not debarred by checking the Excluded Parties List System website at EPLS.gov. The employee completes a form for each applicable purchase order or contract which records the findings after checking the website, submits the form to his/her supervisor for review/approval, and then retains the approved form in either the contract file, if the vendor will be awarded a contract, or the employee's workspace.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
June 30, 2008

Section IV – State Award Findings and Questioned Costs

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

Finding #2008-5: After School Education and Safety (ASES) Program (40000)

Criteria: Section 19846 of the Standards and Procedures for the Audits of California LEAs 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)

Condition: We found in a sample of 2,087 pupil days tested that a net 5 days were over-reported, which is insignificant at .2%.

Effect: 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.

Cause: Program recordkeeping is largely manual which is prone to error. The process to enroll a new pupil is also lengthy due to coordination between the county office and the after school provider. Thus, the sign in and out sheets do not include new students enrolled in the program and become difficult to read when handwritten in by parents and pupils.

Questioned Costs: \$37.50

Recommendation: 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.

District’s Corrective Action Plan:

The PrimeTime services provided at the ASES program schools that were audited are contracted through the YMCA of San Diego County.

As referenced in the 07/08 Contract Agreement, approved by the San Diego Unified School District’s (SDUSD) Board of Education, between SDUSD and YMCA; the YMCA is required to:

1. Section II.N.3 - “Beginning September 2007, Contractor shall use the web-based program as determined by the District to maintain program student attendance records and reports.”

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
June 30, 2008

Section IV – State Award Findings and Questioned Costs, continued

Finding #2008-5: After School Education and Safety (ASES) Program (40000)(continued)

As referenced in the 08/09 Contract Agreement, approved by the SDUSD's Board of Education on June 26, 2007, between SDUSD and YMCA; the YMCA is required to:

1. Section II.N.1 - "Contractor shall use Academics Plus to maintain program student attendance records and reports." And Section II.N.2 - "Contractor shall provide the District with a roster for any new students to be enrolled in PrimeTime within ten (10) days of receiving a completed PrimeTime Enrollment Packet."

Corrective Action:

1. The 08/09 Agreement between SDUSD and YMCA, along with all other contractors, shall be amended to require all sign-in and sign-out sheets be printed utilizing the District's web-based Academics Plus student attendance accountability system, and any additional names not listed be typed, rather than hand-written.
2. YMCA will be required to revise the attendance report that was submitted to the District, and the District will revise the report that was submitted to CDE. The attendance will also be deducted from YMCA's earnings.

The ASES grant is a direct grant and not earned through student attendance, so there is no fiscal impact to SDUSD due to over/underreported student attendance. Extended Learning Opportunities Department's PrimeTime Program Coordinators will continue to perform unannounced PrimeTime school visits to monitor program and financial contract agreement requirements to ensure compliance. The Extended Learning Opportunities Department is currently piloting a new student attendance tracking system for program participants.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
June 30, 2008

Section IV – State Award Findings and Questioned Costs, Continued

Finding #2008-6: Short-Term Independent Study (40000)

Criteria: Section 19819 of the of the Standards and Procedures for the Audits of California LEAs requires the auditor to verify that Independent Study contracts are supported by proper documentation in conformity with State law. (Education Code Section 51747)

Condition: 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.

Cause: It appears that schoolsite staff lacked sufficient training and we not fully monitoring the contracts to ensure full compliance.

Effect: The District claimed ADA for non-compliant contracts.

Questioned Costs: District-wide it was projected that 5,437.50 days were inappropriately claimed, the cost is computed as 5,437.50 days x \$48.22 (District's funding rate per day in P-2) = \$262,196.

Recommendation: The District needs to revise 2007-08 P-2 and Annual attendance reports to exclude the days inappropriately claimed for ADA.

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.

District's Corrective Action Plan: The District concurs with the Auditor's recommendation. The District will amend the P-2 report for 5,437.50 days of ADA which were incorrectly claimed. The District will also amend the Annual report for 8,928.75 days of ADA which were incorrectly claimed.

Audit Guide Section 19819 requires the Master Agreement to contain signatures, affixed prior to the commencement of independent study, by the pupil; the pupil's parent, legal guardian, if the pupil is less than 18 years of age; the certificated employee who has been designated as having responsibility for the general supervision of independent study. Site personnel should ensure that all required signatures on the Master Agreement have been obtained prior to the student beginning an Independent Study program.

Pupil Accounting staff will increase the amount of sites internally audited this year and will also conduct training for site personnel to advise the correct procedure for creating and monitoring independent study contracts.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2007-1: Capital Asset Tracking</i>	It was noted in the review of fixed assets that 8 out of 10 items tested could not be traced to the fixed asset module as additions. A listing of amounts capitalized was not available for audit. The amounts reported on the ASSET form were not reconciled to the actual activity and could not be validated by district personnel. The original cost of land purchased in 2001 and subsequent sale in 2006 were not recorded in the asset tracking system. A training entry was not identified and reported as both an addition and deletion to buildings on the ASSET form.	20000	It is recommended that a detailed listing of all capital assets be prepared including a listing by project for all amounts in work in progress. Develop a procedure for asset retirements that includes a clear process for communication between all District departments. A final, "high level" review of the additions and deletions reported in the asset module should also be considered.	Implemented
<i>Finding 2007-2: Independent Study</i>	It was noted in the review of the independent study program at the Metropolitan Regional Career and Technical High School that the master agreements did not contain all of the required elements and were not signed prior to the commencement of independent study. There was not a complete audit trail from student work samples to the teacher attendance records and attendance reported in Zangle.	10000	It is recommended that the Master Agreement is immediately revised to include all the required elements pursuant to Ed Code Sec. 51747 (c). The district should also revise P-2 to exclude any ADA reported for this site. The District should continue to provide training and monitoring of the long-term independent study programs. It is also advised that sites keep a representative work sample sufficient in size to enable the auditor to verify the work completed.	Implemented
<i>Finding 2007-3: Closing Procedures</i>	It was noted in the review of closing procedures that state revenues and accounts receivable were understated. Entries were recorded to the prepaid account after the final date on the districts closing calendar. Write-offs of accounts receivables were entered into the general ledger and not entered into the subsidiary ledger. The District did not reconcile the detailed listing of accounts payable at year end to the final accounts payable reported on the SACS report for the Cafeteria Fund. There was also unrecorded accounts payable that resulted in an audit adjustment in the Building Fund.	30000	It is recommended that the district review the established closing procedures. Emphasis should be placed on a review of entries and final trial balances by and appropriate level of supervisor.	Implemented

SAN DIEGO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2007-4: Unrecorded Accounts Payable</i>	It was noted in the closing procedures that several obligations, related to construction projects, were not properly accrued at year end for services performed prior to June 30, 2007.	30000	It is recommended that the District develop a process to assure that facilities forwards information to the accounts payable department to allow for proper cut-off procedures in recognizing expenditures at year-end.	Implemented
<i>Finding 2007-5: Child Development Revenues</i>	It was noted in the review of child development revenues that state revenues and accounts receivable reported for the General Child Care and State Preschool programs were understated. The Final Earning Calculation was not available and the estimates completed did not use a similar format.	30000	It is recommended that the District perform a reconciliation, during the closing process, for each program that considers total day of enrollment. Revenue should be booked to the lowest amount calculated and this reconciliation should be available for audit purposes.	Implemented
<i>Finding 2007-6: Cafeteria Accounting and Budgeting</i>	The District did not reconciled the detailed listing of accounts payable at year-end to the final accounts payable reported on the SACS report for the Cafeteria Fund.	30000	It is recommended that the District assure that staff is properly trained to reconcile accounts payable detail records to the final general ledger control accounts used for SACS reporting.	Implemented
<i>Finding 2007-7: Supplemental Hourly Programs</i>	It was noted in the review of supplemental hourly programs that attendance was not taken hourly by 27 teacher at Hancock Elementary for both Winter and Spring Intersession. At Emerson/Bandini E.S. 3 teachers were not taking hourly attendance. At Porter E.S. 1 teacher was not taking hourly attendance.	10000	It is recommended that the District continue to provide training for all sites on the importance of taking hourly attendance for supplemental programs. Manual attendance registers configured for hourly attendance reporting should be available at all sites for use by visiting teachers or substitutes.	Implemented
<i>Finding 2007-8: Kindergarten Holdover Forms</i>	It was noted in the review of kindergarten holdover forms that forms were missing required signatures and anniversary date.	10000	It is recommended that the District continue to provide training for all sites on the importance of using the state-approved form for kindergarten holdover authorizations and completing the form timely and in its entirety.	Implemented

SAN DIEGO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
Year Ended June 30, 2008

Original Finding No.	Finding	Code	Recommendation	Current Status
<i>Finding 2007-9: California School Age Families Education Program</i>	It was noted in the review of the Cal-SAFE program that a signed "Teacher Summary of Attendance", from Garfield High School was not provided for audit.	40000	It is recommended that sites provide signed copies of the "Teacher Summary of Attendance" for all students sampled.	Implemented
<i>Finding 2007-10: Instructional Materials</i>	It was noted in the review of instructional materials tht the required public hearing was held ten weeks after the first day pupils attended school for 2006-07.	40000	It is recommended that the District hold the public hearing required by Education Code Section 60119 on or before the eighth week from the first day pupils attended school for that year.	Implemented
<i>Finding 2007-11: Direct Cost Transfers</i>	It was noted in the review of direct costs transfers that the District charged amounts to object 5750, direct costs for interprogram/interfund services. Reporting contractor payments to this account code appears misleading.	60000	It is recommended that the District discuss and obtain the approval of the California Department of Education regarding the procedures agreed to. Additionally, contracted services for construction should be charged directly to the appropriate fund.	Implemented
<i>Finding 2007-12: Segregation of Duties</i>	There should greater segregation of duties within the cash receipting process. In our review of the cash recipient process, we noted that the cashier is opening the mail, preparing list of remittances, preparing deposits, comparing remittance lists with bank deposits, and maintaining cash receipts journal.	30000	It is recommended that more than one individual should be performing the various tasks from opening mail, preparing a listing of remittances, preparing the deposit, and inputting the receipt information into PeopleSoft.	Implemented
<i>Finding 2007-13: Payroll Overpayments</i>	It was noted in the review of payroll that overpayment have been a lingering issue for the last several years due to poor workflow timing, data entry errors, late detection, timekeeper error, error during Personnel Action Request, and absences never reported.	30000	It is recommended that the District continue to make this a priority and inform the school sites and Human Resources Department about the importance of communicating an employee's status to the Payroll Department in a timely manner.	Not fully implemented, refer to Finding 2008-2
<i>Finding 2007-14: Equipment Inventory</i>	Inventory of equipment was not taken every two years as required by federal OMB Circular A-133.	50000	Inventory equipment, compare to existing records and investigate variances.	Implemented

Continuing Disclosure Information

SAN DIEGO UNIFIED SCHOOL DISTRICT
Continuing Disclosure Information (Unaudited)
June 30, 2008

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

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SAN DIEGO UNIFIED SCHOOL DISTRICT
Continuing Disclosure Information (Unaudited)
June 30, 2008

Assessed Valuations

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

District's Fiscal Year	Assessed Value
1997-1998	\$ 53,102,124,533
1998-1999	57,342,043,545
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

Secured taxes collected in fiscal year 2007-08 amounted to \$466,669,281.

Tax Levy Under Teeter Plan

The ad valorem property tax to be levied to pay the principal of and interest on the Series A-G 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, 2008

The largest taxpayers in San Diego County and the taxes assessed in 2007-08 are listed below.

LARGEST TAXPAYERS 2007-2008

<u>PROPERTY OWNER</u>	<u>AMOUNT OF TAX</u>
1. SAN DIEGO GAS & ELECTRIC COMPANY	47,514,704.70
2. SOUTHERN CALIFORNIA EDISON CO.	19,670,452.06
3. IRVINE CO	17,213,176.58
4. QUALCOMM INC	12,972,228.80
5. KILROY REALTY L P	10,159,045.86
6. PACIFIC BELL TELEPHONE COMPANY	9,317,128.42
7. HOST SAN DIEGO HOTEL LLC	7,386,453.36
8. SAN DIEGO FAMILY HOUSING LLC	5,684,618.80
9. CAMP PENDLETON & QUANTICO HOUSING	5,611,937.38
10. GENENTECH INC	5,527,862.32
11. PFIZER INC	5,313,608.50
12. BRE PROPERTIES INC	5,225,394.74
13. ARDEN REALTY LTD PARTNERSHIP	5,126,106.10
14. FASHION VALLEY MALL LLC	5,112,462.62
15. SHEA HOMES L P	5,000,566.32
16. ONE PARK BOULEVARD LLC	4,803,455.36
17. CARR NP PROPERTIES LLC	4,444,711.32
18. SEA WORLD INC	4,280,634.98
19. MANCHESTER PACIFIC GATEWAY	3,993,501.50
20. CNL HOTEL DEL PARTNERS	3,990,107.30
21. MANCHESTER RESORTS LP	3,898,444.16
22. VILLAGE II OF OTAY HB SUB GP	3,810,884.36
23. PREBYS CONRAD TRUST	3,673,928.98
24. E R P OPERATING LTD PARTNERSHIP	3,220,915.26
25. SOLAR TURBINES INC	3,186,913.06
26. PACIFIC GATEWAY LTD	3,031,058.98
27. TRIZEC 701 B STREET LLC	2,874,553.92
28. IRVINE APARTMENT COMMUNITIES LP	2,864,281.10
29. CRICKET COMMUNICATIONS INC	2,763,738.44
30. LA JOLLA CROSSROADS 1 LLC	2,761,948.38