

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**AUDIT REPORT**

**JUNE 30, 2011**



**SAN DIEGO UNIFIED SCHOOL DISTRICT  
OF SAN DIEGO COUNTY**

**SAN DIEGO, CALIFORNIA**

**JUNE 30, 2011**

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The San Diego Unified School District (the "District") began operations in 1854 under the laws of the State of California. The San Diego Unified School District serves nearly 132,000 students in pre-school through grade 12. The District's educational facilities include 107 traditional elementary schools, 11 K-8 schools, 24 traditional middle schools, 28 high schools, 41 charter schools and 13 alternative schools.

<b>GOVERNING BOARD</b>		
<b>Member</b>	<b>Office</b>	<b>Term Expires</b>
Richard Barrera	President	December 2012
John Lee Evans	Vice President	December 2012
Kevin Beiser	Member	December 2014
Shelia Jackson	Member	December 2012
Scott Barnett	Member	December 2014

**DISTRICT ADMINISTRATORS**

William Kowba  
*Superintendent*

Nellie Meyer, Ed.D.  
*Deputy Superintendent of Academics*

Phil Stover  
*Deputy Superintendent of Business*

Bernie Rhinerson  
*Chief of Staff*

Ronald Little II  
*Chief Financial Officer*

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# FINANCIAL SECTION

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## INDEPENDENT AUDITORS' REPORT

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

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, 2011, 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; and *Standards and Procedures for Audits of California K – 12 Local Educational Agencies 2010 – 11*. 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 the 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, 2011, and the respective changes in financial position, and, where applicable, cash flows 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 18, 2011 on our consideration of the San Diego Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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.

SAN DIEGO

RANCHO CUCAMONGA

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The required supplementary information, such as management's discussion and analysis on pages 3 through 11, the budgetary comparison schedule on page 65, and the schedule of funding progress on page 66 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the San Diego Unified School District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of federal awards, which is required by the U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, the Combining Statements – Non-Major Governmental Funds, and Selective Statements of Revenues, Expenditures and Changes in Fund Balance is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Christine White Accountancy Corporation*

San Diego, California  
November 18, 2011

# SAN DIEGO UNIFIED SCHOOL DISTRICT MANAGEMENT'S DISCUSSION AND ANALYSIS

## INTRODUCTION

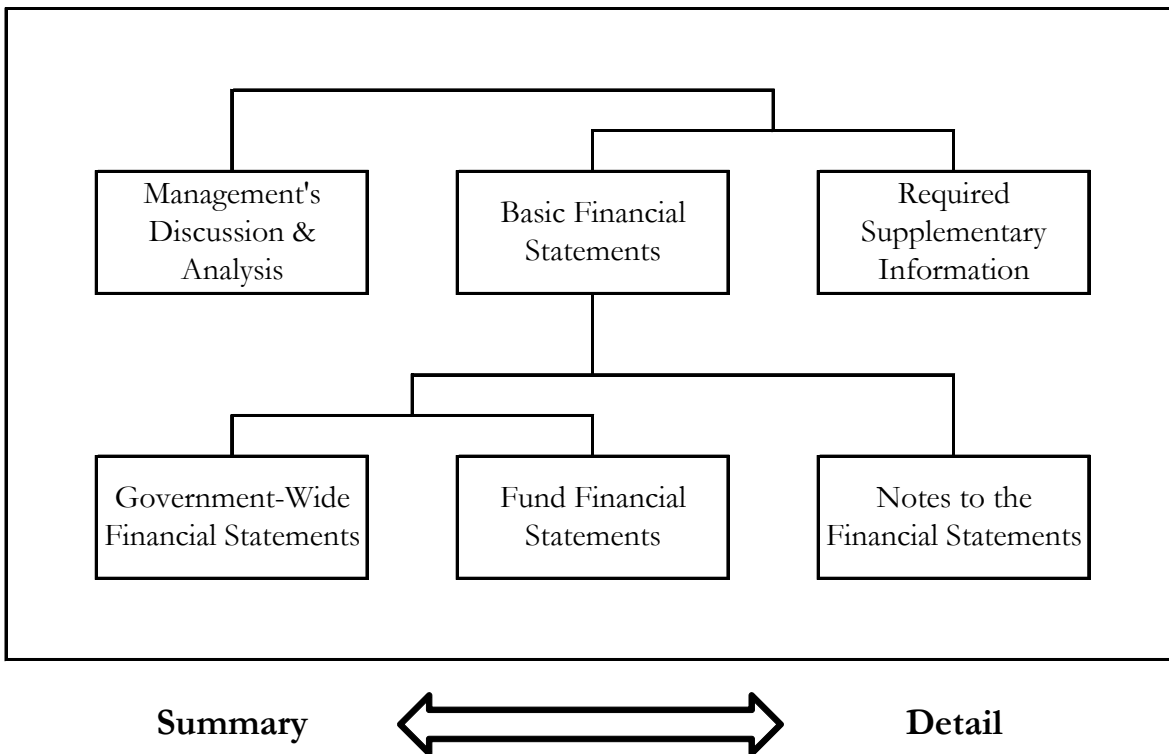
Our discussion and analysis of San Diego Unified School District's (District) financial performance provides an overview of the District's financial activities for the fiscal year ended June 30, 2011. It should be read in conjunction with the District's financial statements, which follow this section.

## FINANCIAL HIGHLIGHTS

- ▶ Total net assets were \$814.7 million at June 30, 2011. This was an increase of \$3.4 million over the prior year.
- ▶ Overall revenues were \$1,339.1 million, which exceeded expenses of \$1,335.7 million.

## OVERVIEW OF FINANCIAL STATEMENTS

### Components of the Financials Section





SAN DIEGO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, *continued*  
JUNE 30, 2011

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This annual report consists of three parts – Management's Discussion and Analysis (this section), the basic financial statements, and required supplementary information. The three sections together provide a comprehensive overview of the District. The basic financial statements are comprised of two kinds of statements that present financial information from different perspectives:

- ▶ **Government-wide financial statements**, which comprise the first two statements, provide both short-term and long-term information about the entity's overall financial position.
  
- ▶ **Fund financial statements** focus on reporting the individual parts of District operations in more detail. The fund financial statements comprise the remaining statements.
  - ▶ **Governmental Funds** provide a detailed *short-term* view that helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.
  - ▶ **Proprietary Funds** report services for which the District charges customers a fee. Like the government-wide statements, they provide both long- and short-term financial information.
  - ▶ **Fiduciary Funds** report balances for which the District is a custodian or *trustee* of the funds, such as Associated Student Bodies and pension funds.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The basic financial statements are followed by a section of required and other supplementary information that further explain and support the financial statements.

### **Government-Wide Statements**

The government-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the statement of activities, regardless of when cash is received or paid.

The two government-wide statements report the District's net assets and how they have changed. Net assets, the difference between assets and liabilities, are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether its financial health is improving or deteriorating, respectively. The District experienced an increase in net assets. To assess the overall health of the District, one needs to consider additional non-financial factors such as changes in enrollment, changes in the property tax base, changes in program funding by the federal and state governments, and condition of facilities..

The government-wide financial statements of the District include governmental activities. All of the District's basic services are included here, such as regular education, food service, maintenance and general administration. Revenue limit funding and federal and state grants finance most of these activities.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
JUNE 30, 2011**

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**FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE**

**Net Assets**

The District's combined net assets were \$814.7 million at June 30, 2011, as reflected below. 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.

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

	<b>Governmental Activities</b>		<b>Total</b>
	<b>2010</b>	<b>2011</b>	<b>Percentage Change 2010-11</b>
Current assets	\$ 647.7	\$ 724.2	12%
Noncurrent assets	2,093.8	2,220.6	6%
<b>Total assets</b>	<b>2,741.5</b>	<b>2,944.8</b>	<b>7%</b>
Current liabilities	209.9	234.3	12%
Noncurrent liabilities	1,720.3	1,895.8	10%
<b>Total liabilities</b>	<b>1,930.2</b>	<b>2,130.1</b>	<b>10%</b>
Invested in capital assets, net of related debt	492.8	531.6	8%
Restricted	312.9	245.4	-22%
Unrestricted	5.6	37.7	573%
<b>Total net assets</b>	<b>\$ 811.3</b>	<b>\$ 814.7</b>	<b>0%</b>

District government-wide assets increased primarily due to E-Rate and Class Size Reduction receivables from the state, and liabilities increased primarily due to the issuance of the Series C and D of the 2008 General Obligation Bond.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
JUNE 30, 2011**

**FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE, continued**

**Changes in Net Assets**

As shown in Table A-2 below, the District's total revenues were \$1,339.1 million. The majority of the revenue comes from Revenue Limit and property taxes (43%). Other federal and state aid for specific programs accounted for another 44% of total revenues. Miscellaneous local sources accounted for the remaining 13%.

The total cost of all programs and services was \$1,335.7 million. The District's expenses are predominately related to educating and caring for students (65%). Pupil Services (including transportation and food) account for 14% of expenses. Administrative activities accounted for just 4% of total costs. Plant services, which represent the facilities maintenance and operations costs, account for 5% of all costs. The remaining expenses were for ancillary services, community services, and other outgo (12%). Expenditures increased (decreased) primarily due to capital outlay.

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

	Governmental Activities		Total
	2010	2011	Percentage Change 2010-11
<b>Revenues:</b>			
<i>Program revenues</i>			
Charges for services	\$ 11.2	\$ 7.3	-35%
Operating grants and contributions	376.2	394.6	5%
Capital grants and contributions	16.8	7.9	-53%
<i>General revenues</i>			
Property taxes	600.4	574.7	-4%
Other revenues	287.2	354.6	23%
<b>Total revenues</b>	<b>1,291.8</b>	<b>1,339.1</b>	<b>4%</b>
<b>Expenses:</b>			
Instruction-related	878.6	860.3	-2%
Student support services	195.5	190.4	-3%
Maintenance and operations	82.0	73.1	-11%
Administration	42.7	48.4	13%
Other expenses	161.4	163.5	1%
<b>Total expenses</b>	<b>1,360.2</b>	<b>1,335.7</b>	<b>-2%</b>
<b>Change in net assets</b>	<b>\$ (68.4)</b>	<b>\$ 3.4</b>	<b>-105%</b>

SAN DIEGO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
JUNE 30, 2011

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FINANCIAL ANALYSIS OF THE ENTITY AS A WHOLE, continued

Changes in Net Assets, continued

As reported in the Statement of Activities on page 13, the cost of all our governmental activities this year was \$1,335.7 million (refer to Table A-3). The amount ultimately financed for these activities through taxes and State Aid was \$879.8 million, the cost paid by those who benefited from the programs was \$7.3 million, the costs paid by other governments and organizations who subsidized certain programs with grants and contributions was \$402.5 million and other revenues contributed \$47.3 million.

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

	Total Cost of Services	Net Cost of Services
Instructional services	\$ 860.3	\$ 566.0
Pupil support services	190.4	82.5
Maintenance and operations	73.1	70.3
Administration	48.4	44.7
Other expenses	163.5	162.4
<b>Total expenses</b>	<b>\$ 1,335.7</b>	<b>\$ 925.9</b>

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
JUNE 30, 2011**

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

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed this year, its governmental funds reported a combined fund balance of \$495.7 million, which is greater than last year's ending fund balance of \$441.3 million. The District's General Fund received \$20.2 million more in operating revenues than expenditures in 2010-2011.

**CURRENT YEAR BUDGET 2010-11**

During the fiscal year, budget revisions and appropriation transfers are presented to the Board for their approval on a monthly basis to reflect changes to both revenues and expenditures that become known during the year. In addition, the Board of Education approves financial projections included with the Adopted Budget, First Interim, and Second Interim financial reports. The Unaudited Actuals reflect the District's financial projections and current budget based on State and local financial information.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

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 \$27.0 million, Federal grants and special projects of \$43.6 million, State grants and special projects of \$36.4 million, and Local grants and special projects of \$2.97 million.
- Expenditures that were appropriated during the year which were not included in the originally adopted budget – Salaries and Benefits of \$9.37 million, Books and Supplies of \$23.9 million, and Services and Other Operating Expenses of \$8.35 million.

Even with these adjustments, actual revenues available were \$35.7 million below the final budgeted amounts. The most significant variances resulted from:

- Revenue Limit Sources were \$2.3 million above final budget amounts.
- Federal revenues were \$21.9 million below final budget amounts. The most significant was the Special Education Entitlement which was \$2.3 million below appropriations and NCLB/IASA grants which were \$14.5 million below appropriations. Other Federal grants were \$4.9 million below appropriations which largely represents grant money that has been received but not spent by June 30, 2011.
- State and local revenues were \$16.1 million below final budget amounts. One significant reduction was the Special Ed Master Plan funding decrease of \$4.7 million below appropriations. Other State grants were \$2.3 million below appropriations. Interagency Services were \$3.3 million below appropriations, interest income declined \$.9 million below appropriations and various other Local grants and miscellaneous revenues were \$4.9 million below appropriations.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
JUNE 30, 2011**

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**GENERAL FUND BUDGETARY HIGHLIGHTS, continued**

Actual expenditures were \$54.1 million below the final budgeted amounts. The most significant positive variances resulted from:

- Salaries and benefits were \$20.9 million below final budget amounts. The variance is broken down as follows:
  - Unrestricted resources - \$1.5 million
  - Federal, state, and local restricted resources - \$19.4 million
- Books and supplies were \$32.2 million below final budget amounts. The variance is broken down as follows:
  - Unrestricted resources - \$7.1 million
  - Federal, state, and local restricted resources - \$25.1 million
- Services and other operating expenses were \$1.2 million below final budget amounts. The variance is broken down as follows:
  - Unrestricted resources - \$15.6 million
  - Federal, state, and local restricted resources - (\$14.4) million

**CAPITAL ASSET AND DEBT ADMINISTRATION**

**Capital Assets**

By the end of 2010-11 the District had invested \$2,944.3 million 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 \$182.6 million or 7% from last year.

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

	Governmental Activities		Total
	2010	2011	Percentage Change 2010-11
Land	\$ 273.3	\$ 273.3	0%
Site improvements	213.7	217.1	2%
Buildings	1,299.1	1,333.3	3%
Furniture and equipment	228.2	253.9	11%
Construction in progress	747.4	866.7	16%
<b>Total capital assets</b>	<b>\$ 2,761.7</b>	<b>\$ 2,944.3</b>	<b>7%</b>

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
MANAGEMENT'S DISCUSSION AND ANALYSIS, continued  
JUNE 30, 2011**

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**CAPITAL ASSET AND DEBT ADMINISTRATION, continued**

**Long-Term Debt**

At year-end, the District had \$1,892.7 million in long-term debt, an increase of 9% from last year – as shown in Table A-5. (More detailed information about the District's long-term liabilities is presented in footnotes to the financial statements.)

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

	<b>Governmental Activities</b>		<b>Total</b>
	<b>2010</b>	<b>2011</b>	<b>Percentage Change 2010-11</b>
Compensated absences	\$ 23.8	\$ 24.4	3%
Arbitrage liability	1.0	0.1	-90%
General Obligation (GO) Bonds	1,570.2	1,709.9	9%
Issuance costs/premiums	36.1	36.0	0%
Net OPEB obligations	3.7	4.8	30%
Qualified school construction bonds	38.8	75.0	93%
Early retirement incentive	56.7	42.5	-25%
<b>Total long-term debt</b>	<b>\$ 1,730.3</b>	<b>\$ 1,892.7</b>	<b>9%</b>

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES**

At the time these financial statements were prepared and audited, the District was aware of several circumstances that could affect its future financial health.

- At the state level, the budget situation continues to reflect challenging economic times. The 2011 State Budget was balanced on optimistic revenue projections and contains "trigger" language that would reduce school funding mid-year, should the state fail to meet those projections. In addition, one-time sources of federal funding from the American Recovery and Reinvestment Act and the Education Jobs Act are ending and to continue program services funded by these sources will require either new federal funding or a reallocation of district funds. State categorical program flexibility continues for the 2010-11 and 2011-12 fiscal years with no anticipated changes. School districts continue to be authorized to use funding from 42 Tier III categorical programs for any purpose. K-3 class size reduction penalties have been relaxed through 2012-13 and school agencies maintain the flexibility to shorten the school year until 2014-15.
- Enrollment can fluctuate due to factors such as population growth, competition from private, parochial, inter-district transfers in or out, economic conditions and housing values. Losses in enrollment will cause a school district to lose operating revenues without necessarily permitting the district to make adjustments in fixed operating costs.

All of these factors were considered in preparing the District's budget for the 2011-12 fiscal years.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

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



**SAN DIEGO UNIFIED SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2011**

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	<b>Governmental Activities</b>
<b>ASSETS</b>	
Cash and cash equivalents	\$ 539,064,323
Accounts receivable	180,738,818
Inventory	3,583,709
Prepaid expenses	806,540
Total current assets	724,193,390
Deferred charges	15,000,000
Capital assets, non-depreciable	1,139,995,001
Capital assets, depreciable, net	1,065,654,473
Total non-current assets	2,220,649,474
<b>Total Assets</b>	<b>2,944,842,864</b>
<b>LIABILITIES</b>	
Accrued liabilities	155,814,301
Deferred revenue	13,373,358
Long-term liabilities, current portion	65,162,564
Total current liabilities	234,350,223
Long-term liabilities, non-current portion	1,895,759,794
<b>Total Liabilities</b>	<b>2,130,110,017</b>
<b>NET ASSETS</b>	
Invested in capital assets, net of related debt	531,629,917
Restricted for:	
Capital projects	201,995,670
Debt service	24,206,987
Educational programs	19,157,679
Unrestricted	37,742,594
<b>Total Net Assets</b>	<b>\$ 814,732,847</b>

The accompanying notes are an integral part of these financial statements.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

Function/Programs	Expenses	Program Revenues			Governmental Activities	Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants		
<b>GOVERNMENTAL ACTIVITIES</b>						
Instruction	\$ 712,346,863	\$ 4,744,864	\$ 240,381,983	\$ 7,911,547	\$ (459,308,469)	
Instruction-related services						
Instructional supervision and administration	51,398,738	776,124	31,921,876	-	(18,700,738)	
Instructional library, media, and technology	12,739,030	58,708	1,634,382	-	(11,045,940)	
School site administration	83,859,570	256,430	6,697,151	-	(76,905,989)	
Pupil services						
Home-to-school transportation	45,088,456	17,555	17,282,901	-	(27,788,000)	
Food services	53,929,320	17,909	46,819,834	-	(7,091,577)	
All other pupil services	91,385,611	1,166,844	42,570,692	-	(47,648,075)	
General administration						
Centralized data processing	19,538,241	-	15,336	-	(19,522,905)	
All other general administration	28,835,027	82,589	3,580,923	-	(25,171,515)	
Plant services	73,132,832	149,066	2,676,235	-	(70,307,531)	
Ancillary services	2,999,502	578	3,720	-	(2,995,204)	
Community services	390,406	-	-	-	(390,406)	
Enterprise activities	3,845,028	-	68,109	-	(3,776,919)	
Interest on long-term debt	76,695,997	-	-	-	(76,695,997)	
Transfer to other agencies	6,173,326	77,137	945,925	-	(5,150,264)	
Depreciation (unallocated)	73,432,354	-	-	-	(73,432,354)	
<b>Total Governmental Activities</b>	<b>\$ 1,335,790,301</b>	<b>\$ 7,347,804</b>	<b>\$ 394,599,067</b>	<b>\$ 7,911,547</b>	<b>(925,931,883)</b>	
General revenues						
Taxes and subventions						
					471,521,413	
					95,127,316	
					8,092,723	
					305,016,872	
					7,206,087	
					4,802,696	
					35,321,414	
					<b>927,088,521</b>	
<b>Excess (Deficiency) of Revenues Over Expenses</b>						
					1,156,638	
<b>Before Transfers &amp; Special Items</b>						
					2,252,264	
					<b>2,252,264</b>	
<b>CHANGE IN NET ASSETS</b>						
					3,408,902	
					811,323,945	
					<b>\$ 814,732,847</b>	

The accompanying notes are an integral part of these financial statements.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2011**

	<b>General Fund</b>	<b>Building Fund</b>	<b>County School Facilities Fund</b>	<b>Bond Interest &amp; Redemption Fund</b>	<b>Non-Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>						
Cash and cash equivalents	\$ 66,205,132	\$ 172,999,028	\$ 123,479,067	\$ 96,236,024	\$ 44,593,701	\$ 503,512,952
Accounts receivable	163,910,993	271,129	245,140	118,891	16,150,290	180,696,443
Due from other funds	44,695,809	316,946	61,512,948	-	7,082,715	113,608,418
Stores inventory	2,818,140	-	-	-	765,569	3,583,709
Prepaid expenditures	802,378	-	-	-	4,162	806,540
<b>Total Assets</b>	<b>\$ 278,432,452</b>	<b>\$ 173,587,103</b>	<b>\$ 185,237,155</b>	<b>\$ 96,354,915</b>	<b>\$ 68,596,437</b>	<b>\$ 802,208,062</b>
<b>LIABILITIES</b>						
Accrued liabilities	\$ 56,020,507	\$ 22,385,346	\$ 1,578,538	\$ 72,147,928	\$ 2,529,955	\$ 154,662,274
Due to other funds	91,212,584	1,411,869	6,818,785	-	39,050,939	138,494,177
Deferred revenue	13,153,753	-	-	-	219,605	13,373,358
<b>Total Liabilities</b>	<b>160,386,844</b>	<b>23,797,215</b>	<b>8,397,323</b>	<b>72,147,928</b>	<b>41,800,499</b>	<b>306,529,809</b>
<b>FUND BALANCES</b>						
Nonspendable	3,674,818	-	-	-	769,207	4,444,025
Restricted	19,157,679	149,789,888	176,839,832	24,206,987	25,155,838	395,150,224
Committed	-	-	-	-	471,969	471,969
Assigned	60,304,233	-	-	-	398,924	60,703,157
Unassigned	34,908,878	-	-	-	-	34,908,878
<b>Total Fund Balances</b>	<b>118,045,608</b>	<b>149,789,888</b>	<b>176,839,832</b>	<b>24,206,987</b>	<b>26,795,938</b>	<b>495,678,253</b>
<b>Total Liabilities and Fund</b>						
<b>Balances</b>	<b>\$ 278,432,452</b>	<b>\$ 173,587,103</b>	<b>\$ 185,237,155</b>	<b>\$ 96,354,915</b>	<b>\$ 68,596,437</b>	<b>\$ 802,208,062</b>

The accompanying notes are an integral part of these financial statements.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT  
OF NET ASSETS  
JUNE 30, 2011**

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**Total Fund Balance - Governmental Funds** \$ 495,678,253

Amounts reported for assets and liabilities for governmental activities in the statement of net assets are different from amounts reported in governmental funds because:

Capital assets:

In governmental funds, only current assets are reported. In the statement of net assets, all assets are reported, including capital assets and accumulated depreciation:

	Capital assets	\$ 2,944,351,695	
	Accumulated depreciation	738,702,221	2,205,649,474

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Long-term liabilities:

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	24,368,859	
	Arbitrage liability	118,404	
	General Obligation (GO) Bonds	1,709,874,350	
	Issuance costs/premiums	35,965,091	
	Net OPEB obligations	4,784,618	
	Qualified school construction bonds	74,970,000	
	Early retirement incentive	42,536,036	(1,892,617,358)

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Internal service funds:

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

		6,022,478	
<b>Total Net Assets - Governmental Activities</b>			<b>\$ 814,732,847</b>

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The accompanying notes are an integral part of these financial statements.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Building Fund	County School Facilities Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>REVENUES</b>						
Revenue limit sources	\$ 584,425,859	\$ -	\$ -	\$ -	\$ -	\$ 584,425,859
Federal sources	173,489,427	-	-	-	43,525,290	217,014,717
Other state sources	314,285,212	9,166,683	6,596,090	741,530	22,658,220	353,447,735
Other local sources	46,826,135	1,494,474	1,376,310	94,762,729	37,421,598	181,881,246
<b>Total Revenues</b>	<b>1,119,026,633</b>	<b>10,661,157</b>	<b>7,972,400</b>	<b>95,504,259</b>	<b>103,605,108</b>	<b>1,336,769,557</b>
<b>EXPENDITURES</b>						
Current						
Instruction	694,779,721	-	-	-	23,259,886	718,039,607
Instruction-related services						
Instructional supervision and administration	48,507,877	-	-	-	3,821,704	52,329,581
Instructional library, media, and technology	13,047,240	-	-	-	-	13,047,240
School site administration	84,078,507	-	-	-	1,359,686	85,438,193
Pupil services						
Home-to-school transportation	46,515,834	-	-	-	3,114,125	49,629,959
Food services	238,122	-	-	-	54,015,675	54,253,797
All other pupil services	90,677,465	-	-	-	812,089	91,489,554
General administration						
Centralized data processing	19,735,638	-	-	-	-	19,735,638
All other general administration	28,265,621	-	-	-	1,808,706	30,074,327
Plant services	60,584,389	-	324,801	-	13,226,729	74,135,919
Facilities acquisition and maintenance	2,981,541	121,359,295	32,788,930	-	23,606,379	180,736,145
Ancillary services	2,999,501	-	-	-	-	2,999,501
Community services	390,407	-	-	-	-	390,407
Enterprise activities	14,061	-	-	-	66,881	80,942
Transfers to other agencies	1,427,278	-	-	-	-	1,427,278
Debt service						
Principal	-	-	-	24,188,356	-	24,188,356
Interest and other	4,587,536	2,149,921	-	78,732,885	158,512	85,628,854
<b>Total Expenditures</b>	<b>1,098,830,738</b>	<b>123,509,216</b>	<b>33,113,731</b>	<b>102,921,241</b>	<b>125,250,372</b>	<b>1,483,625,298</b>
<b>Excess (Deficiency) of Revenues</b>						
<b>Over Expenditures</b>	<b>20,195,895</b>	<b>(112,848,059)</b>	<b>(25,141,331)</b>	<b>(7,416,982)</b>	<b>(21,645,264)</b>	<b>(146,855,741)</b>
<b>Other Financing Sources (Uses)</b>						
Transfers in	9,956,122	-	178,380	-	8,748,516	18,883,018
Other sources	599,939	203,986,217	-	3,552,763	-	208,138,919
Transfers out	(11,122,522)	(178,380)	-	-	(12,665,116)	(23,966,018)
Other uses	-	(1,836,513)	-	-	-	(1,836,513)
<b>Net Financing Sources (Uses)</b>	<b>(566,461)</b>	<b>201,971,324</b>	<b>178,380</b>	<b>3,552,763</b>	<b>(3,916,600)</b>	<b>201,219,406</b>
<b>NET CHANGE IN FUND BALANCE</b>						
Fund Balance - Beginning, as originally stated	97,014,189	60,666,623	201,802,783	28,071,206	53,759,787	441,314,588
Adjustment for restatement	1,401,985	-	-	-	(1,401,985)	-
<b>Fund Balance - Beginning, as restated</b>	<b>98,416,174</b>	<b>60,666,623</b>	<b>201,802,783</b>	<b>28,071,206</b>	<b>52,357,802</b>	<b>441,314,588</b>
<b>Fund Balance - Ending</b>	<b>\$ 118,045,608</b>	<b>\$ 149,789,888</b>	<b>\$ 176,839,832</b>	<b>\$ 24,206,987</b>	<b>\$ 26,795,938</b>	<b>\$ 495,678,253</b>

The accompanying notes are an integral part of these financial statements.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2011**

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**Net Change in Fund Balances - Governmental Funds** \$ 54,363,665

Amounts reported for governmental activities in the statement of activities are different from amounts reported in governmental funds because:

Capital outlay:

In governmental funds, the costs of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

	Expenditures for capital outlay: \$	184,885,585	
	Depreciation expense:	(70,963,657)	113,921,928

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 reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were:

41,145,000

Debt proceeds:

In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were:

(199,999,783)

Arbitrage liability:

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

920,395

Accreted interest:

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:

(16,957,729)

Gain or loss from the disposal of capital assets:

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

(2,127,542)

The accompanying notes are an integral part of these financial statements.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES,  
EXPENDITURES, AND CHANGES IN FUND BALANCE TO THE STATEMENT OF  
ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011**

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Compensated absences:

In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amount earned. The difference between compensated absences paid and compensated absences earned, was: (590,044)

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 the accrual basis. This year, the difference between OPEB costs and actual employer contributions was: (1,094,113)

Other liabilities not normally liquidated with current financial resources:

In the government-wide statements, expenses must be accrued in connection with any liabilities incurred during the period that are not expected to be liquidated with current financial resources. Examples include special termination benefits such as retirement incentives financed over time, and structured legal settlements. This year, expenses incurred for such obligations were: 14,178,679

Amortization of debt issue premium or discount:

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: 137,532

Internal Service Funds:

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 benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was: (489,086)

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<b>Change in net assets of Governmental Activities</b>	<b>\$ 3,408,902</b>
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The accompanying notes are an integral part of these financial statements.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2011**

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	<b>Liability Insurance</b>	<b>Property Insurance</b>	<b>Workers' Compensation Fund</b>	<b>Vision Fund</b>	<b>Total</b>
<b>ASSETS</b>					
Cash and cash equivalents	\$ 1,929,203	\$ 1,130,405	\$ 31,664,970	\$ 826,793	\$ 35,551,371
Accounts receivable	2,972	1,574	37,122	707	42,375
Due from other funds	-	-	24,408,891	528,299	24,937,190
<b>Total assets</b>	<b>1,932,175</b>	<b>1,131,979</b>	<b>56,110,983</b>	<b>1,355,799</b>	<b>60,530,936</b>
<b>LIABILITIES</b>					
Accrued liabilities	20,652	-	1,131,375	-	1,152,027
Claims payable	2,529,000	-	50,776,000	-	53,305,000
Due to other funds	29,514	21,917	-	-	51,431
<b>Total liabilities</b>	<b>2,579,166</b>	<b>21,917</b>	<b>51,907,375</b>	<b>-</b>	<b>54,508,458</b>
<b>NET ASSETS</b>					
Unrestricted	(646,991)	1,110,062	4,203,608	1,355,799	6,022,478
<b>Total Net Assets</b>	<b>\$ (646,991)</b>	<b>\$ 1,110,062</b>	<b>\$ 4,203,608</b>	<b>\$ 1,355,799</b>	<b>\$ 6,022,478</b>

The accompanying notes are an integral part of these financial statements.



**SAN DIEGO UNIFIED SCHOOL DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS  
 FOR THE YEAR ENDED JUNE 30, 2011**

	Liability Insurance	Property Insurance	Workers' Compensation Fund	Vision Fund	Total
<b>OPERATING REVENUE</b>					
Transfers in from other funds	\$ 4,548,000	\$ 1,535,000	\$ -	\$ -	\$ 6,083,000
Self-insurance premiums	892,696	23,690	16,816,608	1,759,844	19,492,838
Total operating expenses	5,440,696	1,558,690	16,816,608	1,759,844	25,575,838
<b>OPERATING EXPENSE</b>					
Salaries and benefits	311,597	218,870	511,949	-	1,042,416
Supplies and materials	189	-	2,500	-	2,689
Transfers out to other funds	-	-	-	1,000,000	1,000,000
Payments for claims	4,084,949	2,022,573	16,798,283	1,328,153	24,233,958
Total operating expenses	4,396,735	2,241,443	17,312,732	2,328,153	26,279,063
<b>OPERATING GAIN/(LOSS)</b>	1,043,961	(682,753)	(496,124)	(568,309)	(703,225)
<b>NON-OPERATING REVENUES/(EXPENSES)</b>					
Interest income	18,692	8,635	183,398	3,414	214,139
Total non-operating revenues/(expenses)	18,692	8,635	183,398	3,414	214,139
<b>CHANGE IN NET ASSETS</b>	1,062,653	(674,118)	(312,726)	(564,895)	(489,086)
<b>Net Assets - Beginning</b>	(1,709,644)	1,784,180	4,516,334	1,920,694	6,511,564
<b>Net Assets - Ending</b>	(646,991)	1,110,062	4,203,608	1,355,799	6,022,478

The accompanying notes are an integral part of these financial statements.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
 PROPRIETARY FUNDS  
 STATEMENT OF CASH FLOWS  
 FOR THE YEAR ENDED JUNE 30, 2011**

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	<u>Governmental Activities</u>
	<u>Internal Service Funds</u>
	<u>Total</u>
<b>Cash flows from operating activities</b>	
Cash received from user charges	\$ 19,539,552
Cash received/(paid) from assessments made to/ (from) other funds	5,294,950
Cash payments for insurance claims	(21,280,456)
Cash payments to employees for services	(2,141,678)
<u>Net cash provided by operating activities</u>	<u>1,412,368</u>
<b>Cash flows from investing activities</b>	
Interest received	214,139
<u>Net cash provided by investing activities</u>	<u>214,139</u>
NET INCREASE/(DECREASE) IN CASH	1,626,507
<b>CASH</b>	
Beginning of year	33,924,864
<u>End of year</u>	<u>\$ 35,551,371</u>
<b>Reconciliation of operating loss to cash used in operating activities</b>	
Operating loss	\$ (703,225)
Decrease in accounts receivable	46,714
Increase in due from other funds	(788,050)
Increase in accounts payable	1,145,502
Decrease in due to other funds	(96,573)
Increase in claims liabilities	1,808,000
<u>Net cash by operating activities</u>	<u>\$ 1,412,368</u>

The accompanying notes are an integral part of these financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT  
 FIDUCIARY FUNDS  
 STATEMENT OF NET ASSETS  
 JUNE 30, 2011

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	<u>Agency Funds</u>
	<u>Student Body</u>
	<u>Funds</u>
<b>ASSETS</b>	
Cash and cash equivalents:	
Checking	\$ 5,717,729
Cash on hand	19,372
Savings	1,478,583
Accounts receivable	196,449
Prepaid expense	9,893
Stores inventory	284,734
<b>Total Assets</b>	<b>\$ 7,706,760</b>
<b>LIABILITIES</b>	
Accrued liabilities	\$ 79,954
Due to student groups	7,626,806
<b>Total Liabilities</b>	<b>\$ 7,706,760</b>

The accompanying notes are an integral part of these financial statements.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2011**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**A. Financial Reporting Entity**

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

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.

**B. Component Unit**

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.
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.

SAN DIEGO UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

**B. Component Unit, continued**

Based upon the application of the criteria listed above, the District’s sponsored charter schools have been excluded from the District’s reporting entity:

Charter Schools – There are 41 charter schools which operate within the District’s boundaries. These charter schools receive their funding directly from other government agencies, and have separate governing boards. Each charter school has an independent audit performed annually. The financial information has been grouped by business type, i.e., not-for-profit or governmental. The condensed unaudited financial information for June 30, 2011 is presented below:

	<u>Total</u> <u>Not-for Profit</u>	<u>Total</u> <u>Governmental</u>	<u>Total</u> <u>Charter Schools</u>
Total assets	\$ 61,804,455	\$ 3,046,332	\$ 64,850,787
Total liabilities	13,643,839	1,331,081	14,974,920
Total net assets	<u>48,160,616</u>	<u>1,715,251</u>	<u>49,875,867</u>
Total revenues	118,056,989	9,322,768	127,379,757
Total expenses	113,025,908	9,180,729	122,206,637
Change in net assets	<u>\$ 5,031,081</u>	<u>\$ 142,039</u>	<u>\$ 5,173,120</u>

**C. Other Related Entities**

**Joint Powers Authority (JPA).** The District is associated with one JPA, the San Diego City Schools Financing Authority. This organization does not meet the criteria for inclusion as a component unit of the District. Additional information is presented in the Note 17 to the financial statements. The organization is:

**D. Basis of Presentation**

**Government-Wide Statements.** The statement of net assets and the statement of activities display information about the primary government (the District) and its component units. These statements include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenue, and other non-exchange transactions.

The statement of activities presents a comparison between direct expenses and program revenue for each function of the District’s governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function.

SAN DIEGO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

D. Basis of Presentation, *continued*

Indirect expense allocations that have been made in the funds have been reserved for the statement of activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting of operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District.

**Fund Financial Statements.** The fund financial statements provide information about the District's funds, including its fiduciary funds and blended component units. Separate statements for each fund category – *governmental* and *fiduciary* – are presented. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as non-major funds.

*Governmental funds* are used to account for activities that are governmental in nature. Governmental activities are typically tax-supported and include education of pupils, operation of food service and child development programs, construction and maintenance of school facilities, and repayment of long-term debt.

*Proprietary funds* are used to account for activities that are more business-like than government-like in nature. Business-type activities include those for which a fee is charged to external users or to other organizational units of the LEA, normally on a full cost-recovery basis. Proprietary funds are generally intended to be self-supporting.

*Fiduciary funds* are used to account for assets held by the LEA in a trustee or agency capacity for others that cannot be used to support the LEA's own programs.

Major Governmental Funds

**General Fund.** The general fund is the main operating fund of the LEA. It is used to account for all activities except those that are required to be accounted for in another fund. In keeping with the minimum number of funds principle, all of an LEA's activities are reported in the general fund unless there is a compelling reason to account for an activity in another fund. An LEA may have only one general fund.

**Building Fund.** This fund exists primarily to account separately for proceeds from the sale of bonds (Education Code Section 15146) and may not be used for any purposes other than those for which the bonds were issued. Other authorized revenues to the Building Fund (Fund 21) are proceeds from the sale or lease-with-option-to-purchase of real property (Education Code Section 17462) and revenue from rentals and leases of real property specifically authorized for deposit into the fund by the governing board (Education Code Section 41003).

SAN DIEGO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

D. Basis of Presentation, *continued*

**County School Facilities Fund.** This fund is established pursuant to Education Code Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (Education Code Section 17070 et seq.).

**Bond Interest and Redemption Fund.** This fund is used for the repayment of bonds issued for an LEA (Education Code Sections 15125–15262). The board of supervisors of the county issues the bonds. The proceeds from the sale of the bonds are deposited in the county treasury to the Building Fund (Fund 21) of the LEA. Any premiums or accrued interest received from the sale of the bonds must be deposited in the Bond Interest and Redemption Fund (Fund 51) of the LEA. The county auditor maintains control over the LEA's Bond Interest and Redemption Fund. The principal and interest on the bonds must be paid by the county treasurer from taxes levied by the county auditor-controller.

Non-Major Governmental Funds

**Special Revenue Funds** are used to account for and report the proceeds of specific revenue sources that are restricted or committed to expenditures for specified purposes other than debt service or capital projects. The District maintains the following special revenue funds:

**Adult Education Fund.** This fund is used to account separately for federal, state, and local revenues for adult education programs. Money in this fund shall be expended for adult education purposes only. Moneys received for programs other than adult education shall not be expended for adult education (Education Code Sections 52616[b] and 52501.5[a]).

**Child Development Fund.** This fund is used to account separately for federal, state, and local revenues to operate child development programs. All moneys received by an LEA for, or from the operation of, child development services covered under the Child Care and Development Services Act (Education Code Section 8200 et seq.) shall be deposited into this fund. The moneys may be used only for expenditures for the operation of child development programs. The costs incurred in the maintenance and operation of child development services shall be paid from this fund, with accounting to reflect specific funding sources (Education Code Section 8328).

**Cafeteria Special Revenue Fund.** This fund is used to account separately for federal, state, and local resources to operate the food service program (Education Code Sections 38090–38093). The Cafeteria Special Revenue Fund (Fund 13) shall be used only for those expenditures authorized by the governing board as necessary for the operation of the LEA's food service program (Education Code Sections 38091 and 38100).

SAN DIEGO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

D. Basis of Presentation, continued

**Deferred Maintenance Fund.** This fund is used to account separately for state apportionments and the LEA's contributions for deferred maintenance purposes (Education Code Sections 17582–17587). In addition, whenever the state funds provided pursuant to Education Code Sections 17584 and 17585 (apportionments from the State Allocation Board) are insufficient to fully match the local funds deposited in this fund, the governing board of a school district may transfer the excess local funds deposited in this fund to any other expenditure classifications in other funds of the district (Education Code Sections 17582 and 17583).

**Pupil Transportation Equipment Fund.** This fund is used to account separately for state and local revenues specifically for the acquisition, rehabilitation, or replacement of equipment used to transport students (Education Code Section 41852[b]).

**Capital Project Funds.** Capital project funds are established to account for financial resources to be used for the acquisition or construction of major capital facilities (other than those financed by proprietary funds and trust funds).

**Capital Facilities Fund.** This fund is used primarily to account separately for moneys received from fees levied on developers or other agencies as a condition of approving a development (Education Code Sections 17620–17626). The authority for these levies may be county/city ordinances (Government Code Sections 65970–65981) or private agreements between the LEA and the developer. Interest earned in the Capital Facilities Fund (Fund 25) is restricted to that fund (Government Code Section 66006).

**Special Reserve Fund for Capital Outlay Projects.** This fund exists primarily to provide for the accumulation of general fund moneys for capital outlay purposes (Education Code Section 42840).

Proprietary Funds

**Internal Service Funds.** Internal service funds are created principally to render services to other organizational units of the LEA on a cost-reimbursement basis. These funds are designed to be self-supporting with the intent of full recovery of costs, including some measure of the cost of capital assets, through user fees and charges.

**Self-Insurance Fund.** Self-insurance funds are used to separate moneys received for self-insurance activities from other operating funds of an LEA. Separate funds may be established for each type of self-insurance activity, such as workers' compensation, health and welfare, and deductible property loss (Education Code Section 17566).



SAN DIEGO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

D. Basis of Presentation, *continued*

Fiduciary Funds

**Trust and Agency Funds.** Trust and Agency funds are used to account for assets held in a trustee or agent capacity for others that cannot be used to support the LEA's own programs. The key distinction between trust and agency funds is that trust funds are subject to a trust agreement that affects the degree of management involvement and the length of time that the resources are held.

**Student Body Fund.** The Student Body Fund is an agency fund and, therefore, consists only of accounts such as Cash and balancing liability accounts, such as Due to Student Groups. The student body itself maintains its own general fund, which accounts for the transactions of that entity in raising and expending money to promote the general welfare, morale, and educational experiences of the student body (Education Code Sections 48930–48938).

E. Basis of Accounting – Measurement Focus

**Government-Wide, Proprietary, and Fiduciary Financial Statements**

The government-wide, proprietary, and fiduciary fund financial statements are reported using the economic resources measurement focus. The government-wide, proprietary, and fiduciary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place.

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

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

All governmental and business-type activities and enterprise funds of the District follow FASB Statements and Interpretations issued on or before November 30, 1989, Accounting Principles Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with GASB pronouncements.

SAN DIEGO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

E. Basis of Accounting – Measurement Focus, *continued*

**Governmental Funds**

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District considers all revenues reported in the governmental funds to be available if the revenues are collected within one year after year-end. All other revenue items are considered to be measurable and available only when the District receives cash. Revenue limits, property taxes, and grant awards are recorded the same as what is described for Government-Wide Statements.

Expenditures generally are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, early retirement and postemployment healthcare benefits and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

**Revenues – Exchange and Non-Exchange Transactions**

Revenue limits and other state apportionments are government mandated non-exchange transactions and are recognized when all eligibility requirements have been met. When the annual calculation of the revenue limit (Form K-12 Annual) is made, and the District's actual tax receipts as reported by the county auditor is subtracted, the result determines the annual state aid to which the LEA is entitled. If the difference between the calculated annual state aid and the state aid received on the second principal apportionment is positive a receivable is recorded, and if it is negative a payable is recorded. The District recognizes property tax revenues actually received as reported on CDE's Principal Apportionment Tax Software, used by county offices of education and county auditors to report school district and county taxes. The District makes no accrual for property taxes receivable as of June 30.

The District receives grant awards that are "reimbursement type" or "expenditure driven." The eligibility requirements of these awards have not been met until the LEA has made the required expenditures of the grant within the time period specified by the grantor. Revenue is recognized in the period in which the qualifying expenditures are made. Cash received but unspent at the end of the fiscal period is booked as a liability, and revenue is reduced to the amount that has been expended.

The District also receives funds for which they have fulfilled specific eligibility requirements or have provided a particular service. Once the LEAs have provided these services, they have earned the revenue provided. Any unspent money may be carried to the next year to be expended for the same restricted purposes. Revenue is recognized in the period that the service is provided, and any carryover becomes a part of the LEA's ending fund balance.

SAN DIEGO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

E. Basis of Accounting – Measurement Focus, *continued*

**Deferred Revenue**

Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received that have not met eligibility requirements are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

**Expenses/Expenditures**

On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on long-term obligations, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

F. Assets, Liabilities, and Net Assets

**Deposits and Investments**

The cash balances of substantially all funds are pooled and invested by the county treasurer for the purpose of increasing earnings through investment activities. The pool's investments are reported at fair value at June 30, 2011, based on market process. The individual funds' portions of the pool's fair value are presented as "Cash in County." Earnings on the pooled funds are apportioned and paid or credited to the funds quarterly based on the average daily balance of each participating fund.

**Cash and Cash Equivalents**

The District considers cash and cash equivalents to be cash on hand and demand deposits. In addition, because the Cash in County is sufficiently liquid to permit withdrawal of cash at any time without prior notice or penalty, equity in the pool is also deemed to be a cash equivalent.

**Inventories and Prepaid Items**

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

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued**

**F. Assets, Liabilities, and Net Assets, continued**

**Inventories and Prepaid Items, continued**

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.

**Capital Assets**

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

<u>Asset Class</u>	<u>Estimated Useful Life</u>
Buildings and Improvements	25 – 50 years
Furniture and Equipment	5 – 15 years
Vehicles	6 years

**Interfund Balances**

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "Due from other funds/Due to other funds." These amounts are eliminated in the governmental activities columns of the statement of net assets.

**Compensated Absences**

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid. The non-current portion of the liability is not reported.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

F. Assets, Liabilities, and Net Assets, *continued*

**Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the funds.

However, claims and judgments and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as liabilities in the governmental fund financial statements when due.

**Deferred Issuance Costs, Premiums, Discounts and Charges**

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities 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 straight line method.

**Fund Balance**

Fund balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The classifications are as follows:

*Nonspendable* - The nonspendable fund balance classification reflects amounts that are not in spendable form. Examples include inventory, prepaid items, the long-term portion of loans receivable, and nonfinancial assets held for resale. This classification also reflects amounts that are in spendable form but that are legally or contractually required to remain intact, such as the principal of a permanent endowment.

*Restricted* - The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation. These are the same restrictions used to determine restricted net assets as reported in the government-wide, proprietary fund, and fiduciary trust fund statements.

*Committed* - The committed fund balance classification reflects amounts subject to internal constraints self-imposed by formal action of the Governing Board. The constraints giving rise to committed fund balance must be imposed no later than the end of the reporting period. The actual amounts may be determined subsequent to that date but prior to the issuance of the financial statements. In contrast to restricted fund balance, committed fund balance may be redirected by the government to other purposes as long as the original constraints are removed or modified in the same manner in which they were imposed, that is, by the same formal action of the Governing Board.

SAN DIEGO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

F. Assets, Liabilities, and Net Assets, *continued*

*Assigned* - The assigned fund balance classification reflects amounts that the government *intends* to be used for specific purposes. Assignments may be established either by the Governing Board or by a designee of the governing body, and are subject to neither the restricted nor committed levels of constraint. In contrast to the constraints giving rise to committed fund balance, constraints giving rise to assigned fund balance are not required to be imposed, modified, or removed by formal action of the Governing Board. The action does not require the same level of formality and may be delegated to another body or official. Additionally, the assignment need not be made before the end of the reporting period, but rather may be made any time prior to the issuance of the financial statements.

*Unassigned* - In the general fund only, the unassigned fund balance classification reflects the residual balance that has not been assigned to other funds and that is not restricted, committed, or assigned to specific purposes  
*Unassigned, continued* - However, deficits in any fund, including the general fund, that cannot be eliminated by reducing or eliminating amounts assigned to other purposes are reported as negative unassigned fund balance.

The District applies restricted resources first when expenditures are incurred for purposes for which either restricted or unrestricted (committed, assigned and unassigned) amounts are available. Similarly, within unrestricted fund balance, committed amounts are reduced first followed by assigned, and then unassigned amounts when expenditures are incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used.

**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 improvement of those assets. The District has related debt outstanding as of June 30, 2011. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

G. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements. Interfund transfers are eliminated in the governmental activities columns of the statement of activities.

SAN DIEGO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, *continued*  
JUNE 30, 2011

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NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, *continued*

H. Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

I. Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For purposes of the budget, on-behalf payments have been included as revenue and expenditures as required under generally accepted accounting principles.

J. Newly Implemented Accounting Principle

For the fiscal year ended June 30, 2011, the District implemented GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds.

SAN DIEGO UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

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NOTE 2 – DEPOSITS AND INVESTMENTS

A. Summary of Deposits and Investments

The investments at June 30 are as follows:

	Governmental Activities	Fiduciary Funds	Total
Cash in county treasury	\$ 537,325,452	\$ -	\$ 537,325,452
Cash on hand and in banks	1,184,571	7,215,684	8,400,255
Cash with a fiscal agent	500,000	-	500,000
Cash in revolving fund	54,300	-	54,300
<b>Total</b>	<b>\$ 539,064,323</b>	<b>\$ 7,215,684</b>	<b>\$ 546,280,007</b>

B. 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; collateralized mortgage obligations; and the San Diego County Investment Pool.

**Investment in County Treasury** – The District is considered to be an involuntary participant in an external investment pool as the District is required to deposit all receipts and collections of monies with their County Treasurer (Education Code Section 41001). The fair value of the District's investment in the pool is reported in the accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.



SAN DIEGO UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011

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NOTE 2 – DEPOSITS AND INVESTMENTS, continued

C. General Authorizations

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

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

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool and purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

**Specific Identification**

The District maintains an investment with the San Diego County Investment Pool with at fair value of \$539,109,373 and an amortized book value of \$537,325,452. The average weighted to maturity for this pool is 425 days.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 2 – DEPOSITS AND INVESTMENTS, continued**

**E. Credit Risk**

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

**F. Custodial Credit Risk – Deposits**

This 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, 2011, the District's bank balance of \$250,000 was insured, but \$8,204,555 was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

**NOTE 3 – ACCOUNTS RECEIVABLE**

Receivables at June 30, 2011, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	<u>General Fund</u>	<u>Building Fund</u>	<u>County School Facilities Fund</u>	<u>Bond Interest &amp; Redemption Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Self-Insurance</u>	<u>Total Governmental Activities</u>	<u>Total Fiduciary</u>
Federal Government								
Categorical aid	\$ 18,380,309	\$ -	\$ -	\$ -	\$ 232,652	\$ -	\$ 18,612,961	\$ -
State Government								
Categorical aid	32,590,397	-	-	-	9,023,729	-	41,614,126	-
Lottery	6,091,981	-	-	-	-	-	6,091,981	-
K-3 CSR	15,553,302	-	-	-	-	-	15,553,302	-
Local Government								
Interest	-	271,129	245,140	118,891	707,497	42,375	1,385,032	-
Other Local Sources	7,927,370	-	-	-	3,495,745	-	11,423,115	-
Unrestricted	83,367,634	-	-	-	2,690,667	-	86,058,301	196,449
<b>Total</b>	<b>\$ 163,910,993</b>	<b>\$ 271,129</b>	<b>\$ 245,140</b>	<b>\$ 118,891</b>	<b>\$ 16,150,290</b>	<b>\$ 42,375</b>	<b>\$ 180,738,818</b>	<b>\$ 196,449</b>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 4 – DEFERRED CHARGES**

As of April 19, 2010 the San Diego Unified School District entered into agreement with the City of San Diego for a portion of the building known as the “New San Diego Central Library”. The District will prepay a total of \$20.0 million to assist the City of San Diego in the construction of the facilities. As of June 30, 2011 \$5.0 million has been paid.

**NOTE 5 – CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	<b>Balance</b>			<b>Balance</b>
	<b>July 01, 2010</b>	<b>Additions</b>	<b>Deductions</b>	<b>June 30, 2011</b>
<b>Governmental Activities</b>				
Capital assets not being depreciated				
Land	\$ 273,284,132	\$ -	\$ -	\$ 273,284,132
Construction in progress	747,352,267	184,885,585	65,526,983	866,710,869
<hr/>				
Total Capital Assets not Being Depreciated	1,020,636,399	184,885,585	65,526,983	1,139,995,001
<hr/>				
Capital assets being depreciated				
Land improvements	213,696,082	3,397,635	-	217,093,717
Buildings & improvements	1,299,082,365	34,288,058	40,500	1,333,329,923
Furniture & equipment	228,178,810	27,841,290	2,087,046	253,933,054
<hr/>				
Total Capital Assets Being Depreciated	1,740,957,257	65,526,983	2,127,546	1,804,356,694
<hr/>				
Less Accumulated Depreciation				
Land improvements	96,160,702	7,680,522	-	103,841,224
Buildings & improvements	391,639,271	53,334,392	21,060	444,952,603
Furniture & equipment	179,938,591	12,417,440	2,447,637	189,908,394
<hr/>				
Total Accumulated Depreciation	667,738,564	73,432,354	2,468,697	738,702,221
<hr/>				
<b>Governmental Activities</b>				
<b>Capital Assets, net</b>	<b>\$ 2,093,855,092</b>	<b>\$ 176,980,214</b>	<b>\$ 65,185,832</b>	<b>\$ 2,205,649,474</b>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

**NOTE 6 – INTERFUND TRANSACTIONS**

**A. Interfund Receivables/Payables (Due From/Due To)**

<u>Due To Other Funds</u>	Due From Other Funds					Total
	General Fund	Building Fund	County School Facilities Fund	Other Governmental Funds	Self Insurance Funds	
General Fund	\$ 1,586,980	\$ -	\$ 60,485,474	\$ 4,202,940	\$ 24,937,190	\$ 91,212,584
Building Fund	1,233,882	-	177,987	-	-	1,411,869
County School Facilities Fund	6,606,859	136,231	75,695	-	-	6,818,785
Other Governmental Funds	35,216,657	180,715	773,792	2,879,775	-	39,050,939
Self Insurance Fund	51,431	-	-	-	-	51,431
	\$ 44,695,809	\$ 316,946	\$ 61,512,948	\$ 7,082,715	\$ 24,937,190	\$ 138,545,608

Adult Education Fund due to General Fund for indirect cost, reimbursement of job cost, expenses, and for salary and employee benefits.	\$	1,557,547
State Preschool Fund due to General Fund for indirect cost, reimbursement of job cost, expenses, and for salary and employee benefits.		4,311,750
Child Development Fund due to General Fund for indirect cost, reimbursement of job cost, expenses, and for salary and employee benefits.		8,112,260
Cafeteria Fund due to General Fund for reimbursement of job cost, expenses, and for salary and employee benefits.		14,816,008
Deferred Maintenance Fund due to General Fund for reimbursement of job cost expenses.		1,152,057
Other Governmental Fund due to Other Governmental Fund		4,453,281
Prop S Building Fund due to General Fund for reimbursement of job cost, expenses, and for salary and employee benefits.		1,233,257
Capital Facilities Redevelopment Agency Fund due to General Fund for reimbursement of job cost, expenses, and for salary and employee benefits.		1,544,509
Developer Fees Capital Facilities Fund due to General Fund for reimbursement of job cost, expenses, and for salary and employee benefits.		370,935
County School Facilities Fund due to General Fund for reimbursement of job cost and expense.		6,606,693
Balboa Stadium Fund due to General Fund for reimbursement of expenses.		1,276
Property Management Fund due to General Fund for reimbursement of job cost, expenses, and for salary and employee benefits.		1,510,515
Facilities Master Plan/Prop O due to General Fund for reimbursement of expenses.		1,826,022
Liability Insurance Fund due to General Fund for reimbursement of salary and employee benefits.		29,515
Property Insurance fund due to General Fund for reimbursement of job cost and for salary and employee benefits.		21,916
Workers Compensation Fund due to General Fund for reimbursement of expenses and for salary and employee benefits.		89,169
State Preschool Fund due to Stores Revolving for reimbursement of expenses.		791
Child Development Fund due to Stores Revolving for reimbursement of expenses.		208
Adult Education Fund due to Stores Revolving for reimbursement of expenses.		190
Cafeteria Fund due to Stores Revolving for reimbursement of expenses.		1,708
Cafeteria Fund due to SIM Revolving for reimbursement of expenses.		9,934
General Fund due to County School Facilities Fund for loan and interest expense and PPO inventory expense.		60,485,474
Prop S Building Bond due to County School Facilities Fund for expenditure transfers.		177,987
Prop S Building Bond due to Stores Revolving Fund for inventory expenditure transfers.		625
General Fund due to Adult Education Fund for prior year adj to state apportionment and Tier III Flexibility transfers.		858,121
General Fund due to State Preschool Fund for NHA receivable for 08/09 which was denied by the State.		2,827,836
General Fund due to Child Development Fund for expenditure transfers.		58,263
State Preschool Fund due to County School Facilities Fund for expenditure transfers.		258,360
General Fund due to Cafeteria Fund for PERS recap credit, PPO inventory, HHSA grant, and interest owed on Due To balances.		179,625
General Fund due to Deferred Maintenance for expenditure transfers.		262,902
General Fund due to Property Management Fund for PPO inventory expenditures.		4,061
General Fund due to Facilities Master Plan/Prop O Fund for PPO inventory expenses.		3,131
General Fund due to Mesa CC Mid College Construction Fund for PPO inventory expenses.		8,317
General Fund due to Developer Fees Capital Facilities Fund for reimbursement of expenses.		684
General Fund due to Workers Compensation Fund for monthly premiums.		24,408,890
General Fund due to Self Insured Vision Care Fund for monthly premiums.		528,300
County School Facilities Fund due to Prop S Building Bond for reimbursement of expenses.		136,231
County School Facilities Fund due to Stores Revolving Fund for inventory expenditure transfers.		166
Property Management Fund due to Stores Revolving Fund for inventory expenditure transfers.		947
Developer Fees Capital Facilities Fund due to Prop S Building Bond Fund for reimbursement of expenses.		180,715
Developer Fees Capital Facilities Fund due to County School Facilities Fund for job cost expenses.		515,432
	Total	\$ 138,545,608

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

**NOTE 6 – INTERFUND TRANSACTIONS, continued**

**B. Operating Transfers**

<u>Transfers Out</u>	Transfers In				Total
	General Fund	County School Facilities Fund	Other Governmental Funds	Self Insurance Funds	
General Fund	\$ 1,291,006	\$ -	\$ 3,748,516	\$ 6,083,000	\$ 11,122,522
Building Fund	-	178,380	-	-	178,380
Other Governmental Funds	7,665,116	-	5,000,000	-	12,665,116
Self Insurance Fund	1,000,000	-	-	-	1,000,000
	\$ 9,956,122	\$ 178,380	\$ 8,748,516	\$ 6,083,000	\$ 24,966,018

Transfer from the General Fund to the Adult Education Fund per the rules established for the Tier III Flexibility fo Categorical Programs.	\$ 989,625
Transfer from the General Fund to the State Preschool Fund to cover required expenses.	2,758,891
Transfer from the General fund to the Postemployment Benefits Fund for annual contribution for retirees' medical benefits per union contract.	315,646
Transfer from the General Fund to the Postemployment Benefits Fund per Administrator's Association agreement.	263,375
Transfer from the Postemployment Benefits Fund to the General Fund for reimbursement of premiums paid for retirees' medical benefits per union contract.	586,600
Transfer from the Special Reserve for Non-Capital Outlay Fund to the General Fund for remaining balance prior to closure of the fund.	125,385
Transfer from the General Fund to the Liability Insurance Fund for premiums and insurance costs.	4,548,000
Transfer from the General Fund to the Property Insurance Fund for premiums and insurance costs.	1,535,000
Transfer from the Prop MM Building Fund to the County School Facilities Fund for Surplus Fund Balance for the Prop MM Fund.	178,380
Transfer from the Facilities Master Plan Fund to the Deferred Maintenance Fund as part of the original budget adoption.	5,000,000
Transfer from the Self Insured Vision Care Fund to the General Fund per Board approval.	1,000,000
Transfer from the Adult Education Fund to the General Fund beginning fund balance due to Tier III Flexibility.	1,012,060
Transfer from the Property Management Fund to the General Fund for ADA 504 expenses.	153,056
Transfer from the Mesa CC Mid College Fund to the General Fund as part of the Budget solutions for FY 2010/2011.	6,500,000
Total	<u>\$ 24,966,018</u>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

**NOTE 7 – ACCRUED LIABILITIES**

Accrued liabilities at June 30, 2011, consisted of the following:

	General Fund	Building Fund	County School Facilities Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Self- Insurance	Total Governmental Activities	Total Fiduciary
Payroll	\$ 19,531,758	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 19,531,758	\$ -
Construction	339	22,385,346	1,578,538	-	258,866	-	24,223,089	-
Vendors payable	22,613,408	-	-	-	2,046,117	-	24,659,525	-
Other liabilities	13,875,002	-	-	71,197,708	224,972	1,152,027	86,449,709	79,954
Interest payable	-	-	-	950,220	-	-	950,220	-
<b>Total</b>	<b>1 \$ 56,020,507</b>	<b>\$ 22,385,346</b>	<b>\$ 1,578,538</b>	<b>\$ 72,147,928</b>	<b>\$ 2,529,955</b>	<b>\$ 1,152,027</b>	<b>\$ 155,814,301</b>	<b>\$ 79,954</b>

**NOTE 8 – TAX REVENUE ANTIPCATION NOTES**

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

The funds will be held with the trustee, The Depository Trust Company, unless and until the District needs to draw funds out. Repayment requirements are that approximately \$235,000,000 principal plus \$4,517,222 interest to be paid April 2011.

The monies were required to remain on deposit until maturity, at which time they were applied to pay the interest on the notes. All deposits were made to the Trustee on a timely basis. The District paid the note. The District is not required to make any additional payments on the note. The District has recorded the cash available to make the principal and interest payments as investments.

**NOTE 9 – DEFERRED REVENUE**

The District periodically will receive grant money prior to making expenditures for that grant. The source of that grant money is listed below by fund. The deferred revenue totals at June 30, 2011, consist of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal sources	\$ 10,715,063	\$ 69,976	\$ 10,785,039
State categorical sources	1,062,688	-	1,062,688
Local deferrals	1,376,002	149,629	1,525,631
<b>Total</b>	<b>\$ 13,153,753</b>	<b>\$ 219,605</b>	<b>\$ 13,373,358</b>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 10 – LONG-TERM DEBT**

A schedule of changes in long-term debt, excluding claims payable on self-insurance activities described in Note 15, for the fiscal year ended June 30, 2011 is as follows:

	Balance July 01, 2010	Accretion/ Additions	Deductions	Balance June 30, 2011	Balance Due In One Year
<b>Governmental Activities</b>					
Compensated absences	\$ 23,778,815	\$ 590,044	\$ -	\$ 24,368,859	\$ 20,469,842
Arbitrage liability	1,038,799	145,244	1,065,639	118,404	-
General Obligation (GO) Bonds	1,570,191,838	180,827,512	41,145,000	1,709,874,350	25,514,043
Issuance costs/premiums	36,102,627	1,900,438	2,037,974	35,965,091	-
Net OPEB obligations	3,690,505	1,094,113	-	4,784,618	-
Qualified school construction bond:	38,840,000	36,130,000	-	74,970,000	-
Early retirement incentive	56,714,715	-	14,178,679	42,536,036	14,178,679
Capital lease	-	20,000,000	5,000,000	15,000,000	5,000,000
<b>Total</b>	<b>\$ 1,730,357,299</b>	<b>\$ 240,687,351</b>	<b>\$ 63,427,292</b>	<b>\$ 1,907,617,358</b>	<b>\$ 65,162,564</b>

**General Obligation Bonds**

**Proposition MM General Obligation Bond Authorization**

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

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

**NOTE 10 – LONG-TERM DEBT, continued**

**General Obligation Bonds, continued**

**Proposition S General Obligation Bond Authorization**

On November 4, 2008, San Diego voters in San Diego passed the \$2.1 billion general obligation bond measure, Proposition S. This bond program will provide resources for the San Diego Unified School District to repair renovate and revitalize 181 neighborhood schools. Proposition S extends the previously voter approved Proposition MM tax rate from year 2029 to 2044. The District issued Series A through D totaling \$369,997,364 including Qualified School Construction Bonds.

The outstanding general obligation bonded debt of San Diego Unified School District at June 30, 2011 is summarized in the following:

Series	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2010	Current Year Additions	Redeemed Current Year	Outstanding June 30, 2011
1998, Series A	5/27/1999	4.20 - 5.34	2023	\$ 139,995,085	\$ 86,905,691	\$ -	\$ 7,504,302	\$ 79,401,389
A - Accreted Interest					66,019,043	7,989,712	5,845,698	68,163,057
1998, Series B	12/14/2000	4.40 - 5.35	2025	149,999,084	132,534,508	-	1,332,520	131,201,988
B - Accreted Interest					17,060,146	1,206,971	3,222,480	15,044,637
1998, Series C	11/21/2001	2.95 - 5.00	2026	199,995,712	179,746,257	-	1,480,951	178,265,306
C - Accreted Interest					5,125,800	337,669	2,589,049	2,874,420
1998, Series D	9/12/2002	2.10 - 5.25	2027	274,995,346	249,390,000	-	4,040,000	245,350,000
1998, Series E	8/19/2003	1.90 - 5.25	2028	349,993,599	324,271,726	-	2,766,768	321,504,958
E - Accreted Interest					10,777,606	872,429	3,638,232	8,011,803
1998, Series F	9/2/2004	1.95 - 5.00	2029	199,996,373	40,195,122	-	1,943,816	38,251,306
F - Accreted Interest					2,558,359	590,883	1,661,184	1,488,058
1998, Series G	9/8/2005	3.00 - 5.00	2030	195,024,802	57,790,000	-	5,120,000	52,670,000
Refunding (F-1, G-1)	11/30/2006	4.00 - 5.25	2030	266,820,000	262,665,000	-	-	262,665,000
2008, Series A	5/7/2009	2.50 - 6.19	2033	131,157,581	131,157,581	-	-	131,157,581
A - Accreted Interest					3,994,999	3,689,818	-	7,684,817
2008, Series C	8/18/2010	6.1 - 6.625	2050	163,869,783	-	163,869,783	-	163,869,783
C - Accreted Interest	8/18/2010	6.1 - 6.625			-	2,270,247	-	2,270,247
				\$ 2,071,847,365	\$ 1,570,191,838	\$ 180,827,512	\$ 41,145,000	\$ 1,709,874,350



**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 10 – LONG-TERM DEBT, continued**

**1998 Series A**

Fiscal Year Ended		Principal	Accreted Interest	Total
June 30,				
2012	\$	7,344,741	\$ 6,535,259	\$ 13,880,000
2013		7,226,161	7,208,839	14,435,000
2014		7,051,795	7,963,205	15,015,000
2015		6,921,036	8,693,964	15,615,000
2016		6,786,371	9,453,629	16,240,000
2017-2021		31,984,016	59,500,984	91,485,000
2022-2023		12,087,269	29,832,731	41,920,000
<b>Total</b>	<b>\$</b>	<b>79,401,389</b>	<b>\$ 129,188,611</b>	<b>\$ 208,590,000</b>

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 accruing through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$66,163,057 has been reflected in the long-term debt balance.

**1998 Series B**

Fiscal Year Ended		Principal	Current Interest Component	Accreted Interest Component	Total
June 30,					
2012	\$	1,301,800	\$ 6,549,296	\$ 3,698,200	\$ 11,549,296
2013		1,266,295	6,549,296	4,198,705	12,014,296
2014		1,225,978	6,549,297	4,719,022	12,494,297
2015		1,182,915	6,549,297	5,262,085	12,994,297
2016		6,965,000	6,549,297	-	13,514,297
2017-2021		50,035,000	26,075,968	-	76,110,968
2022-2025		69,225,000	9,349,525	-	78,574,525
<b>Total</b>	<b>\$</b>	<b>131,201,988</b>	<b>\$ 68,171,976</b>	<b>\$ 17,878,012</b>	<b>\$ 217,251,976</b>

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 accruing through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$15,044,637 has been reflected in the long-term debt balance.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 10 – LONG-TERM DEBT, continued**

**1998 Series B, continued**

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

**1998 Series C**

Fiscal Year Ended		Current Interest	Accreted Interest	
June 30,	Principal	Component	Component	Total
2012	\$ 1,490,306	\$ 8,681,763	\$ 3,059,693	\$ 13,231,762
2013	5,045,000	8,681,763	-	13,726,763
2014	5,760,000	8,479,963	-	14,239,963
2015	6,525,000	8,249,563	-	14,774,563
2016	7,355,000	7,972,250	-	15,327,250
2017-2021	52,335,000	33,351,250	-	85,686,250
2022-2026	99,755,000	16,634,250	-	116,389,250
Total	\$ 178,265,306	\$ 92,050,802	\$ 3,059,693	\$ 273,375,801

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 2010-11 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 2010-11 year.

Capital appreciation bonds were issued as part of the Series C issuance with maturity dates from July 1, 2004 through 2012, each capital appreciation bond will accrete interest on the principal component, with all interest accreting through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$2,874,420 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.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 10 – LONG-TERM DEBT, continued**

**1998 Series D**

Fiscal Year Ended			Current Interest	
June 30,	Principal	Component		Total
2012	\$ 4,740,000	\$ 12,323,750	\$ 17,063,750	
2013	5,485,000	12,134,150	17,619,150	
2014	6,275,000	11,914,750	18,189,750	
2015	7,120,000	11,663,750	18,783,750	
2016	8,025,000	11,370,050	19,395,050	
2017-2021	57,005,000	49,813,039	106,818,039	
2022-2026	113,200,000	30,532,411	143,732,411	
2027	43,500,000	2,175,000	45,675,000	
Total	\$ 245,350,000	\$ 141,926,900	\$ 387,276,900	

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 2010-11 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 2010-11 year.

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

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

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 10 – LONG-TERM DEBT, continued**

**1998 Series E**

Fiscal Year Ended June 30,	Principal	Current Interest Component	Accreted Interest Component	Total
2012	\$ 2,665,336	\$ 16,016,930	\$ 4,199,664	\$ 22,881,930
2013	2,559,622	16,016,930	4,775,378	23,351,930
2014	7,805,000	16,016,930	-	23,821,930
2015	8,625,000	15,681,315	-	24,306,315
2016	9,540,000	15,251,722	-	24,791,722
2017-2021	63,675,000	67,809,850	-	131,484,850
2022-2026	122,600,000	47,071,213	-	169,671,213
2027-2028	104,035,000	7,903,000	-	111,938,000
<b>Total</b>	<b>\$ 321,504,958</b>	<b>\$ 201,767,890</b>	<b>\$ 8,975,042</b>	<b>\$ 532,247,890</b>

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 2010-11 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 2010-11 year.

Capital appreciation bonds were issued as part of the Series E issuance with maturity dates from July 1, 2005 through 2013, each capital appreciation bond will accrete interest on the principal component, with all interest accreting through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$8,011,803 has been reflected in the long-term debt balance.

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

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 10 – LONG-TERM DEBT, continued**

**1998 Series F**

Fiscal Year Ended June 30,	Principal	Current Interest Component	Accreted Interest Component	Total
2012	\$ 1,741,306	\$ 8,934,773	\$ 1,793,694	\$ 12,469,773
2013	3,450,000	8,934,773	-	12,384,773
2014	3,475,000	8,814,023	-	12,289,023
2015	3,485,000	8,688,054	-	12,173,054
2016	3,520,000	8,528,564	-	12,048,564
2017-2021	17,455,000	40,249,793	-	57,704,793
2022-2026	2,295,000	35,772,480	-	38,067,480
2027-2029	2,830,000	14,987,025	-	17,817,025
<b>Total</b>	<b>\$ 38,251,306</b>	<b>\$ 134,909,485</b>	<b>\$ 1,793,694</b>	<b>\$ 174,954,485</b>

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The amount of the premium remaining after the 2006 refunding is \$2,153,823. This amount is amortized using a straight-line method. Amortization of \$94,882 was recognized during of 2010-11 year.

In addition, the remaining discount issuance costs are netted against the premium on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$442,063 are amortized using the straight-line method. Amortization of \$19,474 was recognized during the 2010-11 year.

Capital appreciation bonds were issued as part of the Series F issuance with maturity dates from July 1, 2006 through 2012, each capital appreciation bond will accrete interest on the principal component, with all interest accreting through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$1,488,058 has been reflected in the long-term debt balance.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 10 – LONG-TERM DEBT, continued**

**1998 Series G**

Fiscal Year Ended				
June 30,	Principal	Current Interest	Total	
2012	\$ 5,080,000	\$ 2,487,731	\$ 7,567,731	
2013	4,975,000	2,487,732	7,462,732	
2014	4,900,000	2,487,733	7,387,733	
2015	4,800,000	2,487,734	7,287,734	
2016	4,650,000	2,487,735	7,137,735	
2017-2021	20,130,000	34,692,775	54,822,775	
2022-2026	6,390,000	3,763,996	10,153,996	
2027-2028	1,745,000	717,572	2,462,572	
Total	\$ 52,670,000	\$ 51,613,008	\$ 104,283,008	

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The amount of the premium remaining after the 2006 refunding is \$3,911,207. This amount is amortized using a straight-line method. Amortization of \$172,300 was recognized during of 2010-11 year.

In addition, the remaining discount issuance costs are netted against the premium on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$712,658 are amortized using the straight-line method. Amortization of \$31,391 was recognized during the 2010-11 year.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 10 – LONG-TERM DEBT, continued**

**Refunding Bonds**

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

The debt service requirements for the Refunding Bonds outstanding as of June 30, 2011 are as follows:

Year Ended		Principal	Current Interest	Total
June 30,				
2012	\$	-	\$ 12,617,543	\$ 12,617,543
2013		-	12,617,543	12,617,543
2014		-	12,617,543	12,617,543
2015		-	12,617,543	12,617,543
2016		-	12,617,543	12,617,543
2017-2021		-	63,087,713	63,087,713
2022-2026		25,870,000	61,995,923	87,865,923
2027-2028		236,795,000	36,132,525	272,927,525
<b>Total</b>	<b>\$</b>	<b>262,665,000</b>	<b>\$ 224,303,876</b>	<b>\$ 486,968,876</b>

The bonds include a premium of \$19,072,853 and a deferred charge on refunding of \$7,210,585. These amounts were amortized using the straight-line method. Premium amortization of \$840,214 and deferred charge amortization of \$317,647 for a net amortization of \$522,567 was recognized during the 2010-11 year. Associated issuance costs are netted against the premium on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$1,868,157 were amortized using the straight-line method. Amortization of \$399,945 was recognized during the 2010-11 year.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 10 – LONG-TERM DEBT, continued**

**2008 Series A**

Year Ended June 30,	Principal	Accreted Interest	Total
2012	\$ 1,150,554	\$ 94,446	\$ 1,245,000
2013	1,336,515	163,485	1,500,000
2014	1,305,735	234,265	1,540,000
2015	1,085,319	315,731	1,401,050
2016	1,004,269	315,731	1,320,000
2017-2021	6,596,224	19,778,376	26,374,600
2022-2026	16,599,891	65,224,109	81,824,000
2027-2031	48,756,864	135,247,136	184,004,000
2032-2033	53,322,209	52,672,691	105,994,900
<b>Total</b>	<b>\$ 131,157,580</b>	<b>\$ 274,045,970</b>	<b>\$ 405,203,550</b>

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series A bonds included a premium of \$3,503,141 that was used to pay for bond issuance costs in the same amount. These amounts were amortized using the straight-line method. Premium amortization of \$144,758 and deferred charge amortization of \$144,758 for a net amortization of \$0 was recognized during the 2010-11 year.

Capital appreciation bonds were issued as part of the Series A issuance with a maturity date of July 1, 2033, each capital appreciation bond will accrete interest on the principal component, with all interest accruing through the applicable maturity \$7,684,817 has been reflected in the long-term debt balance.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 10 – LONG-TERM DEBT, continued**

**2008 Series C**

Year Ended June 30,	Principal	Accreted Interest	Total
2012	\$ -	\$ -	\$ -
2013	-	-	-
2014	-	-	-
2015	-	-	-
2016	-	-	-
2017-2021	-	-	-
2022-2026	-	-	-
2027-2031	12,408,237	29,406,763	41,815,000
2032-2036	21,549,668	79,055,332	100,605,000
2037-2041	29,898,983	161,281,017	191,180,000
2042-2046	23,854,846	243,180,154	267,035,000
2047-2050	76,158,050	227,436,950	303,595,000
Total	\$ 163,869,784	\$ 740,360,216	\$ 904,230,000

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 is \$35,886,872. This amount is amortized using a straight-line method. Amortization of \$147,911 was recognized during of 2010-11 year.

In addition, the 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 \$2,149,921 are amortized using the straight-line method. Amortization of \$109,316 was recognized during the 2010-11 year.

Capital appreciation bonds were issued as part of the Series C issuance with a maturity date of July 1, 2050, each capital appreciation bond will accrete interest on the principal component with all interest accreting through the applicable maturity \$2,270,247 has been reflected in the long-term debt balance.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 10 – LONG-TERM DEBT, continued**

**Qualified School Construction Bonds**

The QSCBs are tax credit bonds within the meaning of Section 54F of the Internal Revenue Code (the Code), and accordingly the QSCBs do not bear interest to be paid by the District. The owners of the QSCBs will be allowed a credit under the Code against their Federal income tax liability. Proceeds from the sale of QSCBs are restricted to the uses prescribed for bonds designated as QSCBs under Section 54F of the Code.

**2008 Series A**

The District issued \$38,840,000 of Qualified School Construction Bonds (QSCBs) on April 21, 2009, pursuant to an authorization granted by voters of the District on November 4, 2008. The QSCBs were issued simultaneously with the District's 2010 General Obligation Bonds in order to fund projects authorized under Proposition S. The QSCBs are payable from ad valorem taxes upon all property subject to taxation by the District.

Year Ended June 30,	Principal Amount	Tax Credit Amount	Total
2012	\$ -	\$ 3,056,708	\$ 3,056,708
2013	-	3,056,708	3,056,708
2014	-	3,056,708	3,056,708
2015	-	3,056,708	3,056,708
2016	-	3,056,708	3,056,708
2017-2021	21,340,000	15,283,540	36,623,540
2021-2023	17,500,000	5,349,239	22,849,239
<b>Total</b>	<b>\$ 38,840,000</b>	<b>\$ 35,916,319</b>	<b>\$ 74,756,319</b>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 10 – LONG-TERM DEBT, continued**

**2008 Series D-1 and D-2**

On August 5, 2010, Election of 2008, Series D-1 and D-2 of the Proposition S bond authorization was issued, which consisted of tax credit bonds with an initial par amount of \$16,130,000 and \$20,000,000, a tax credit rate of 5.26%, and maturing through July 1, 2027. The QSCBs are payable from ad valorem taxes upon all property subject to taxation by the District.

Year Ended June 30,	Principal Amount	Tax Credit Amount	Total
2012	\$ -	\$ 1,900,438	\$ 1,900,438
2013	-	1,900,438	1,900,438
2014	-	1,900,438	1,900,438
2015	-	1,900,438	1,900,438
2016	-	1,900,438	1,900,438
2017-2021	-	9,502,190	9,502,190
2021-2023	15,000,000	9,502,190	24,502,190
2024-2027	21,130,000	3,800,876	24,930,876
<b>Total</b>	<b>\$ 36,130,000</b>	<b>\$ 32,307,446</b>	<b>\$ 68,437,446</b>

**Early Retirement Incentive**

In 2008-09, the District offered an early retirement incentive, through the Public Agency Retirement Services, which was accepted by 1,062 certificated and classified employees, who were eligible to retire under STRS or PERS and who had at least 5 years of district service. A benefit of 100% of the employee's contract salary was paid to each employee in exchange for their early retirement. The District projects a net cost savings for the non-replacement employees over the next five years to be \$31.9 million. The total liability for the incentive paid amounts to \$70,893,394, the payment outstanding as of June 30, 2011 are as follows:

	Payments
July 10, 2011	\$ 14,178,679
July 10, 2012	14,178,679
July 10, 2013	14,178,678
<b>Total</b>	<b>\$ 42,536,036</b>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

**NOTE 10 – LONG-TERM DEBT, continued**

**Capital Lease**

On April 10, 2010 the San Diego Unified School District entered in to a lease agreement with the City of San Diego for a portion of the building known as the “New San Diego Central Library” for an initial Lease term of 40 years starting on first day of the first month following occupancy date.

**The District will prepay using Proposition S Funds as follows:**

- Five Million Dollars (\$5,000,000) shall be paid on the Commencement of Construction.
- Five Million Dollars (\$5,000,000) shall be paid when the Building is twenty-five percent (25%) complete, as certified by project architect.
- Five Million Dollars (\$5,000,000) shall be paid when the Building is fifty percent (50%) complete, as certified by project architect.
- Three Million Dollars (\$3,000,000) shall be paid when the Building is seventy-five percent (75%) complete, as certified by project architect.
- Two Million Dollars (\$2,000,000) shall be paid upon Completion of Construction.

**NOTE 11 – FUND BALANCES**

Fund balances are composed of the following elements:

	General Fund	Building Fund	County School Facilities Fund	Bond Interest & Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds
<b>Non-spendable</b>						
Revolving cash	\$ 54,300	\$ -	\$ -	\$ -	\$ -	\$ 54,300
Stores inventory	2,818,140	-	-	-	-	2,818,140
Prepaid expenditures(expenses)	802,378	-	-	-	769,207	1,571,585
<b>Restricted</b>						
Educational programs	19,157,679	-	-	-	-	19,157,679
Capital projects						
Building for Proposition S	-	149,789,888	-	-	-	149,789,888
Capital facilities - developer fees	-	-	-	-	17,677,033	17,677,033
County school facilities	-	-	176,839,832	-	-	176,839,832
Capital outlay	-	-	-	-	5,491,183	5,491,183
Debt service	-	-	-	24,206,987	-	24,206,987
Food services	-	-	-	-	1,906,943	1,906,943
Pupil transportation	-	-	-	-	80,679	80,679
<b>Committed</b>						
Adult education	-	-	-	-	248,429	248,429
Deferred maintenance	-	-	-	-	223,540	223,540
<b>Assigned</b>						
General fund	60,304,233	-	-	-	-	60,304,233
Child development	-	-	-	-	398,924	398,924
<b>Unassigned</b>						
Reserve for economic uncertainties	23,476,230	-	-	-	-	23,476,230
Unassigned	11,432,648	-	-	-	-	11,432,648
<b>Total</b>	<b>\$ 118,045,608</b>	<b>\$ 149,789,888</b>	<b>\$ 176,839,832</b>	<b>\$ 24,206,987</b>	<b>\$ 26,795,938</b>	<b>\$ 495,678,253</b>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 11 – FUND BALANCES, continued**

The District is committed to maintaining a prudent level of financial resources to protect against the need to reduce service levels because of temporary revenue shortfalls or unpredicted expenditures. The District’s Fund Balance Policy establishes a minimum Unassigned Fund Balance equal to 2 percent of total General Fund expenditures. In the event that the balance drops below the established minimum level, the district’s governing board will develop a plan to replenish the fund balance to the established minimum level within one year.

**NOTE 12 – EXPENDITURES (BUDGET VERSUS ACTUAL)**

At June 30, 2011, the following District major fund exceeded the budgeted amount in total as follows:

	<b>Expenditures and Other Uses</b>		
	<b>Budget</b>	<b>Actual</b>	<b>Excess</b>
Cafeteria Special Revenue Fund	\$ 55,148,937	\$ 56,914,094	\$ (1,765,157)
Building Fund	\$ 123,000,008	\$ 125,524,109	\$ (2,524,101)
Bond Interest and Redemption Fund	\$ 101,263,917	\$ 102,921,241	\$ (1,657,324)

**NOTE 13 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB)**

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

**Defined Contribution Monthly Stipend Plan**

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

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

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

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 13 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB), continued**

**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*	1,303
<i>* As of July 1, 2009 actuarial valuation</i>	
Number of participating employers	1

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	\$ 3,789,735
Interest on net OPEB obligation	166,073
Adjustment to annual required contribution	(166,291)
<u>Annual OPEB cost (expense)</u>	<u>3,789,517</u>
<u>Contributions made</u>	<u>(2,695,403)</u>
Increase in net OPEB obligation	1,094,114
Net OPEB obligation, beginning of the year	3,690,505
<u>Net OPEB obligation, end of the year</u>	<u>\$ 4,784,619</u>

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
 NOTES TO FINANCIAL STATEMENTS, continued  
 JUNE 30, 2011**

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**NOTE 13 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS  
 (OPEB), continued**

The District’s annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation for 2010-11 are as follows:

<b>Actuarial Valuation Date</b>	<b>Actuarial Valuation of Assets (a)</b>	<b>Actuarial Liability (AAL) - Unprojected Unit Credit (b)</b>	<b>Unfunded AAL (UAAL) (b - a)</b>	<b>Funded Ratio (a / b)</b>
7/1/2007	\$ -	\$ 40,320,317	\$ 40,320,317	0%
7/1/2009	\$ -	\$ 43,593,885	\$ 43,593,885	0%

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

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

SAN DIEGO UNIFIED SCHOOL DISTRICT  
NOTES TO FINANCIAL STATEMENTS, continued  
JUNE 30, 2011

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**NOTE 13 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS  
(OPEB), continued**

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

**Actuarial Methods and Assumptions**

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

Additional information as of the latest actuarial valuation follows:

Valuation Date	7/1/2009
Actuarial Cost Method	Entry Age Normal Cost
Amortization Method	Level-Dollar Basis
Remaining Amortization Period	27 years
Actuarial Assumptions:	
Discount Rate:	5%



**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 14 – EMPLOYEE RETIREMENT SYSTEMS**

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

**A. CalSTRS**

**Plan Description**

The District contributes to the California State Teachers' Retirement System (CalSTRS); a cost-sharing multiple employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

**Funding Policy**

Active plan members are required to contribute 8.0% 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2011 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalSTRS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2010-11	\$ 43,516,268	100%
2009-10	\$ 44,524,756	100%
2008-09	\$ 47,149,467	100%

**On-Behalf Payments**

The District was the recipient of on-behalf payments made by the state of California to CalSTRS for K-12 education. These payments consist of state general fund contributions of approximately \$22,507,141 to CalSTRS (4.267% of salaries subject to CalSTRS in 2010-11).

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 14 – EMPLOYEE RETIREMENT SYSTEMS, continued**

**B. CalPERS**

**Plan Description**

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Laws. 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, CA 95811.

**Funding Policy**

Active plan members are required to contribute 7.0% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), 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 rate for fiscal year 2011 was 10.707% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the last three fiscal years were as follows:

	<u>Contribution</u>	<u>Percent of Required Contribution</u>
2010-11	\$ 24,290,928	100%
2009-10	\$ 22,150,014	100%
2008-09	\$ 21,945,467	100%

**C. Social Security**

As established by federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use the Social Security as its alternative plan.

**NOTE 15 – 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.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 15 – INTERNAL SERVICE FUNDS, continued**

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, 2011, the District accrued the claims liability in accordance with GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. Claims liability is estimated at \$53,305,000. Changes in the reported liability are shown below:

	Beginning Liability June 30, 2010	Current Year Claims and Changes in Estimated	Claims Payments	Ending Liability June 30, 2011
Liability	\$ 2,648,000	\$ 2,346,443	\$ 2,465,443	\$ 2,529,000
Workers' Compensation	48,849,000	12,654,597	10,727,597	50,776,000
Totals	\$ 51,497,000	\$ 15,001,040	\$ 13,193,040	\$ 53,305,000

**NOTE 16 – COMMITMENTS AND CONTINGENCIES**

**A. Grants**

The District received financial assistance from federal and state agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2011.

**B. Litigation**

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2011.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 16 – COMMITMENTS AND CONTINGENCIES, continued**

**C. Negotiated Salary Increase**

As of February 26, 2010 the San Diego Unified School District negotiated increases with their bargaining units that allows for a 2 percent raise effective July 1, 2012, a second 2 percent wage increase due January 1, 2013, and a 3 percent salary bump on June 30, 2013, this will result in an estimated increase of \$22,083,495 in salaries in the 2012-13 fiscal year.

**D. Construction Commitments**

As of June 30, 2011, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Projects</u>		<u>Remaining Construction Commitment</u>
Project 1	Cherokee Pt ES: Air Conditioning Mechanical Systems Upgrade	\$ 262,638
Project 2	Clairemont HS: NATEF Auto Program Building	588,254
Project 3	Clairemont HS: Stadium ADA Improvements Phase 2	53,710
Project 4	Clairemont HS: Stadium ADA Improvements Phase 2	3,003,555
Project 5	Hoover HS: Green Construction Program Building	1,759,002
Project 6	Hoover HS: Sports Facilities Upgrade	9,338,800
Project 7	Ibarra ES: Air Conditioning Mechanical Systems Upgrade	79,309
Project 8	Jefferson ES: Joint Use and Building Improvements	2,094,435
Project 9	Language Academy: Teachers Lounge Upgrades	134,688
Project 10	Madison HS: Football Stadium Improvements	447,905
Project 11	Morse HS: Autobody Program Facility	1,307,349
Project 12	Morse HS: Child Development Program Building	2,731,035
Project 13	Morse HS: Culinary Arts Program New Facility	1,431,563
Project 14	Morse HS: Stadium Complex Upgrade	5,092,884
Project 15	Normal Heights ES HVAC	610,289
Project 16	Point Loma HS: Convert Wood Shop into Music Room	234,610
Project 17	Point Loma HS: Convert Wood Shop into Music Room	1,055,353
Project 18	Point Loma HS: Motion Picture Facility	235,559
Project 19	Point Loma HS: Motion Picture Facility	2,187,797
Project 20	Point Loma HS: Motion Picture Facility	43,614
Project 21	Point Loma HS: New Classroom Building	98,544
Project 22	Point Loma HS:- Weight Room	641,566
Project 23	San Diego HS: New Classroom Building ORG	387,836
Project 24	Sessions ES: Parking Lot and Student Drop Off/Pick-up Upgrades	1,825,000
Project 25	PPO Projects	6,763,100
<u>Total</u>		<u>\$ 42,408,395</u>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO FINANCIAL STATEMENTS, continued**  
**JUNE 30, 2011**

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**NOTE 17 – PARTICIPATION IN JOINT POWERS AUTHORITIES**

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, 2011 is \$3,830,126. 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 18 – ADJUSTMENT FOR RESTATEMENT**

The District implemented Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, during the fiscal year 2010-11, the effect of which was to reclassify and restate the following funds as General Fund activities:

	General Fund	Special Revenue Fund for Other Than Capital Outlay	Special Revenue Fund for Postemployment Benefits
<b>Fund Balance June 30, 2010, as originally stated</b>	\$ 97,014,189	\$ 124,926	\$ 1,277,059
Change in fund type classifications per implementation of GASB No. 54	1,401,985	\$ (124,926)	\$ (1,277,059)
<b>Fund Balance June 30, 2010, as restated</b>	<b>\$ 98,416,174</b>	<b>\$ -</b>	<b>\$ -</b>

**NOTE 19 – SUBSEQUENT EVENTS**

**Tax Revenue Anticipation Notes (TRANs)**

The District issued \$218,000,000 of Tax Revenue Anticipation Notes dated July 07, 2011. The notes mature on August 07, 2012 and yield .23% interest. The notes were sold by the District to supplement its cash flow.

The funds will be held with the trustee until the District needs to draw funds out. Repayment requirements are that approximately \$218,000,000 principal plus \$4,723,333 interest to be paid August 07, 2012.

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**REQUIRED SUPPLEMENTARY  
INFORMATION**

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**SAN DIEGO UNIFIED SCHOOL DISTRICT  
GENERAL FUND – BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual	Variances -
	Original	Final		Positive / (Negative) Final to Actual
<b>REVENUES</b>				
Revenue limit sources				
State aid	\$ 555,100,271	\$ 585,374,787	\$ 584,425,859	\$ (948,928)
Federal sources	151,755,139	177,675,523	173,489,427	(4,186,096)
Other state sources	285,436,730	318,400,350	314,285,212	(4,115,138)
Other local sources	52,393,213	51,845,438	46,826,135	(5,019,303)
<b>Total Revenues</b>	<b>1,044,685,353</b>	<b>1,133,296,098</b>	<b>1,119,026,633</b>	<b>(35,116,382)</b>
<b>EXPENDITURES</b>				
Certificated salaries	528,199,463	534,268,226	528,826,300	5,441,926
Classified salaries	193,714,953	196,087,987	192,309,227	3,778,760
Employee benefits	282,182,116	277,627,687	271,518,502	6,109,185
Books and supplies	45,652,193	44,736,653	37,357,212	7,379,441
Services and other operating expenditures	57,308,407	68,053,826	64,524,633	3,529,193
Capital outlay	7,137,866	6,952,008	4,662,417	2,289,591
Other outgo				
Excluding transfers of indirect costs	850,000	987,835	1,427,278	(439,443)
Transfers of indirect costs	(1,838,445)	(1,836,117)	(1,794,831)	(41,286)
<b>Total Expenditures</b>	<b>1,113,206,553</b>	<b>1,126,878,105</b>	<b>1,098,830,738</b>	<b>28,047,367</b>
<b>Excess (Deficiency) of Revenues</b>				
<b>Over Expenditures</b>	<b>(68,521,200)</b>	<b>6,417,993</b>	<b>20,195,895</b>	<b>(7,069,015)</b>
<b>Other Financing Sources (Uses):</b>				
Transfers in	10,752,273	11,260,514	9,956,122	(1,304,392)
Other sources	-	599,939	599,939	-
Transfers out	(7,622,598)	(9,250,739)	(11,122,522)	(1,871,783)
<b>Net Financing Sources (Uses)</b>	<b>3,129,675</b>	<b>2,609,714</b>	<b>(566,461)</b>	<b>(3,176,175)</b>
<b>NET CHANGE IN FUND BALANCE</b>				
Fund Balance - Beginning, as originally stated	97,014,189	97,014,189	97,014,189	-
Adjustment for restatement	-	-	1,401,985	1,401,985
<b>Fund Balance - Beginning, as restated</b>	<b>97,014,189</b>	<b>97,014,189</b>	<b>98,416,174</b>	<b>1,401,985</b>
<b>Fund Balance - Ending</b>	<b>\$ 31,622,664</b>	<b>\$ 106,041,896</b>	<b>\$ 118,045,608</b>	<b>\$ 10,601,727</b>

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
SCHEDULE OF OTHER POSTEMPLOYMENT BENEFIT (OPEB) FUNDING PROGRESS AND  
EMPLOYER CONTRIBUTION  
FOR THE YEAR ENDED JUNE 30, 2011**

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



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**SUPPLEMENTARY  
INFORMATION**

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**SAN DIEGO UNIFIED SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Federal Grantor/Pass-Through Grantor/Program or Cluster</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Federal Expenditures</u>
<b>U. S. DEPARTMENT OF EDUCATION:</b>			
Emergency Response School Safe	84.184E	*	\$ 60,914
Emergency Response to Crisis Management	84.184E	*	100,000
Emergency Response Secure Our School	84.184E	*	57,666
Striving Readers	84.371A	*	2,669,204
Advanced Placement Incentive Program Grant	84.330C	14504	949,553
Magnet School Assistance Program	84.165	*	2,796,088
Arts in Education Model Development and Dissemination Grants	84.351D	*	71,740
JROTC	*	*	1,055,263
Subtotal Direct Programs			<u>7,760,428</u>
<i>Passed through California Department of Education:</i>			
Title I, Part A Cluster			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	14329	45,859,078
Title I, Even Start Family Literacy	84.213	14331	41,013
Title I, Part D, Local Delinquent Programs	84.010	14357	1,399
Title I, School Improvement Grant	84.377	15127	1,899,188
ARRA Title I, School Improvement Grant	84.388	15020	665,283
ARRA Title I, Part A, Basic Grants Low Income and Neglected	84.389	15005	17,967,474
Subtotal Title I, Part A Cluster			<u>66,433,435</u>
Title II, Part A, Administrator Training	84.367	14344	40,109
Title II, Part A, Teacher Quality	84.367A	14341	6,577,680
Educational Technology State Grants Cluster			
Title II, Part D, Enhancing Education Through Technology, Formula Grants	84.318	14334	393,138
Title II, Part D, Enhancing Education Through Technology, Competitive Grants	84.318	14368	89,750
ARRA Title II, Part D, Enhancing Education Through Technology	84.386	15019	650,799
ARRA Title II, Part D, Enhancing Education Through Technology, Competitive Grants	84.386	15126	544,939
Subtotal Education Technology State Grants Cluster			<u>1,678,626</u>
Title III, Limited English Proficient (LEP) Student Program	84.365	14346	3,596,131
Title III, Immigrant Education Program	84.365	15146	629,757
Title IV, Part A, Drug-Free Schools	84.186	14347	287,034
Title IV, Part B, 21st Century Community Learning Centers Program	84.287	14681	1,959,607
Indian Education	84.060	10011	77,708
Federal Impact Aid/ SPED	84.041	14792	1,000,000
Advanced Placement Test Fee Reimbursement Program	84.330	14831	141,609
Education Jobs Fund	84.410	25152	21,251,012
Technical Assistance for Student Assignment Plans	84.004F	*	18,598
Operation Student Success	12.030	*	1,158,422
Special Education Cluster			
IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	22,347,159
IDEA Local Assistance, Part B, Sec 611, Private School ISPs	84.027	10115	201,651
IDEA Preschool Grants, Part B, Sec 619	84.173	13430	707,699
State Improvement Grant, Improving Special Ed Systems	84.323	14920	1,714
ARRA - Basic Local Assistance Entitlement, Part B	84.391	15003	5,805,526
ARRA IDEA Part B, Sec 611, Preschool Local Entitlement	84.391	15002	653,728
ARRA IDEA Part B, Sec 619, Preschool Grants	84.392	15000	429,786
IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	1,174,786
IDEA Preschool Staff Development, Part B, Sec 619	84.173A	13431	4,773
Subtotal Special Education Cluster			<u>31,326,822</u>

See accompanying note to supplementary information.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, continued  
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster	CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Early Intervention Services (IDEA) Cluster			
IDEA Early Intervention Grants	84.181	23761	297,851
Subtotal Early Intervention Services (IDEA) Cluster			297,851
Carl D. Perkins Career and Technical Education: Secondary, Section 131	84.048	14894	1,097,238
Title X, McKinney-Vento Homeless Assistance	84.196	14332	41,848
ARRA Title X McKinney-Vento Homeless Assistance	84.196	15120	57,519
ARRA - State Fiscal Stabilization Fund	84.394	24997	28,117,532
Department of Rehab: Workability II, Transition Partnership	84.158	10006	684,212
Department of Rehab: Ext Situational	*	*	9,210
<b>Total U. S. Department of Education</b>			174,242,388
<b>U. S. DEPARTMENT OF AGRICULTURE:</b>			
<i>Passed through California Department of Education:</i>			
Child Nutrition Cluster			
Needy School Breakfast Program	10.553	13526	10,946,979
National School Lunch Program	10.555	13523	29,582,587
Basic School Breakfast Program	10.553	13525	299,274
Federal Snack Program	10.558	23165	1,574,499
Subtotal Child Nutrition Cluster			42,403,339
<b>Total U. S. Department of Agriculture</b>			42,403,339
<b>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES:</b>			
<i>Direct Federal to Local Funding:</i>			
AIDS Prevention Instruction	*	23044	243,342
Asthma Management Prevention	*	*	232,499
Youth Risky Behavior Survey	*	*	40,952
Adolescent Family Life Program	93.995	*	291,533
Subtotal Direct Programs			808,326
<i>Passed through California Department of Health Services:</i>			
Medi-Cal Billing Option	93.778	10013	1,165,640
Subtotal Head Start Cluster			1,165,640
<b>Total U. S. Department of Health &amp; Human Services</b>			1,973,966
<b>Total Federal Expenditures</b>			\$ 218,619,693

[1] - Major Program

[2] - In-Kind Contribution

\* - PCS or CFDA Number not available or not applicable

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)  
FOR THE YEAR ENDED JUNE 30, 2011**

	<b>Second Period Report</b>	<b>Revised Second Period Report</b>	<b>Annual Report</b>	<b>Revised Annual Report</b>
<b>ELEMENTARY</b>				
Kindergarten	9,557	9,557	9,560	9,560
First through third	27,136	27,136	27,138	27,138
Fourth through sixth	24,335	24,335	24,353	24,353
Seventh through eighth	14,772	14,772	14,764	14,764
Opportunity Schools	1	1	1	1
Home and hospital	38	38	38	38
Special day class	1,931	1,931	1,880	1,880
Nonpublic, Nonsectarian	121	121	122	122
Mandatory Expelled Pupils	1	1	1	1
All Other Pupils	18	18	24	24
Extended Year - Special Education	107	107	120	120
Extended Year - Nonpublic, Nonsectarian	16	20	16	20
<b>Total Elementary</b>	<b>78,033</b>	<b>78,037</b>	<b>78,017</b>	<b>78,021</b>
<b>SECONDARY</b>				
Regular classes	30,001	30,009	29,628	29,628
Continuation education	565	565	571	571
Home and hospital	22	22	21	21
Special day class	1,360	1,360	1,316	1,316
Nonpublic, Nonsectarian	211	211	207	207
Mandatory Expelled Pupils	-	-	1	1
All Other Pupils	19	19	21	21
Extended Year - Special Education	88	88	125	125
Extended Year - Nonpublic, Nonsectarian	39	44	39	44
<b>Total Secondary</b>	<b>32,305</b>	<b>32,318</b>	<b>31,929</b>	<b>31,934</b>
<b>Average Daily Attendance Total</b>	<b>110,338</b>	<b>110,355</b>	<b>109,946</b>	<b>109,955</b>

See accompanying note to supplementary information.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2011**

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<b>Grade Level</b>	<b>1982 - 83</b>	<b>1982 - 83</b>	<b>1986 - 87</b>	<b>1986 - 87</b>	<b>2010-11</b>	<b>Number of Days</b>	<b>Status</b>
	<b>Actual Minutes</b>	<b>Actual Minutes Reduced</b>	<b>Minutes Requirement</b>	<b>Minutes Requirement Reduced</b>	<b>Actual Minutes</b>		
Kindergarten	35400	34,417	36,000	35,000	53,250	175	Complied
Grade 1	50445	49,044	50,400	49,000	52,500	175	Complied
Grade 2	50445	49,044	50,400	49,000	52,500	175	Complied
Grade 3	53985	52,485	50,400	49,000	52,500	175	Complied
Grade 4	53985	52,485	54,000	52,500	52,500	175	Complied
Grade 5	53985	52,485	54,000	52,500	52,500	175	Complied
Grade 6	53985	52,485	54,000	52,500	52,500	175	Complied
Grade 7	62835	61,090	54,000	52,500	62,702	175	Complied
Grade 8	62835	61,090	54,000	52,500	62,702	175	Complied
Grade 9	62835	61,090	64,800	63,000	63,000	175	Complied
Grade 10	62835	61,090	64,800	63,000	63,000	175	Complied
Grade 11	62835	61,090	64,800	63,000	63,000	175	Complied
Grade 12	62835	61,090	64,800	63,000	63,000	175	Complied

See accompanying note to supplementary information.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2011**

	2012 (Budget)	2011	2010	2009
<b>GENERAL FUND:</b>				
Revenues	\$ 1,039,654,464	1,119,026,633	1,077,193,150	\$ 1,218,359,713
Transfers in	8,145,425	10,556,061	-	-
Total	1,047,799,889	1,129,582,694	1,077,193,150	1,218,359,713
Expenditures	1,085,630,666	1,098,830,738	1,125,645,970	1,170,306,748
Other uses and transfers out	7,859,488	11,122,522	15,142,279	6,372,266
Total	1,093,490,154	1,109,953,260	1,140,788,249	1,176,679,014
<b>INCREASE/(DECREASE)</b>				
IN FUND BALANCE	\$ (45,690,265)	\$ 19,629,434	\$ (63,595,099)	\$ 41,680,699
<b>ENDING FUND BALANCE</b>				
	\$ 72,355,343	\$ 118,045,608	\$ 98,416,174	\$ 160,609,288
<b>AVAILABLE RESERVES</b>				
	\$ 47,272,649	\$ 34,908,878	\$ 22,960,926	\$ 23,723,629
<b>AVAILABLE RESERVES AS A PERCENTAGE OF OUTGO *</b>				
	4.3%	3.1%	2.0%	2.0%
<b>LONG-TERM DEBT</b>				
	\$ 1,842,454,794	\$ 1,907,617,358	\$ 1,730,357,299	\$ 1,764,472,934
<b>AVERAGE DAILY ATTENDANCE AT P-2</b>				
	110,355	110,355	110,844	111,464

The General Fund balance has decreased by \$42.5 million over the past two years. The fiscal year 2011-2012 budget projects a further decrease of \$45.7 million. For a district this size, the state recommends available reserves of at least 2% of General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating deficit in each one of the past three years and anticipates incurring an operating deficit during the 2011-2012 fiscal years. Total long term obligations have increased by \$128.1 million over the past two years.

Average daily attendance has decreased by 1,108 ADA over the past two years. No change in ADA was budgeted for 2011-2012 fiscal years.

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\* Available reserves consist of all unassigned fund balance within the General Fund including the Reserve for Economic Uncertainty.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED  
FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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	<b>General Fund</b>	<b>Special Revenue Fund for Postemployment Benefits</b>
<b>FUND BALANCE</b>		
June 30, 2011, annual financial and budget report (SACS) fund balances	\$ 116,766,378	\$ 1,279,230
Adjustments and reclassifications:		
Increasing (decreasing) the fund balance		
Reclassification for financial statement presentation*	1,279,230	(1,279,230)
<b>June 30, 2011 audited financial statement fund balances</b>	<b>\$ 118,045,608</b>	<b>\$ -</b>

\*This audit reclassification is made for financial statement presentation purposes only, pursuant to GASB Statement 54 which, when applied, does not recognize these funds as special revenue fund types. Therefore, the fund balances are consolidation with the General Fund. However, the District is permitted under current state law to account for these funds as a special revenue fund type for interim reporting and budgeting purposes.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2011**

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<b>Charter School</b>	<b>Status</b>	<b>Inclusion in Financial Statements*</b>
Albert Einstein Academy Charter School	Active	No
Albert Einstein Middle Charter School	Active	No
Arroyo Paseo Charter High School	Active	No
Audeo Charter School	Active	No
Charter School of San Diego	Active	No
Coleman Tech High	Active	No
Darnall E-Charter School	Active	No
Explorer Elementary Charter School	Active	No
Gompers Preparatory Academy	Active	No
Harriet Tubman Village Charter School	Active	No
Health Sciences Charter High School and Middle College	Active	No
High Tech High Charter School	Active	No
High Tech High International	Active	No
High Tech High Media Arts	Active	No
High Tech Middle	Active	No
High Tech Middle Media Arts	Active	No
Holly Drive Leadership Academy	Active	No
IFTIN Charter School	Active	No
IFTIN High	Active	No
Innovations Academy	Active	No
Keiller Middle Charter School	Active	No
King/Chavez Academy of Excellence	Active	No
King/Chavez Arts Academy	Active	No
King/Chavez Athletics Academy	Active	No
King/Chavez Community High	Active	No
King/Chavez Preparatory Academy	Active	No
King/Chavez Primary Academy	Active	No
KIPP Adelante Preparatory Academy	Active	No
Learning Choice Academy	Active	No
Magnolia Science A2	Inactive as of March 1, 2011	No
Magnolia Science Academy (Momentum Middle)	Active	No
McGill School of Success	Active	No
Museum School	Active	No
Nubia	Active	No
O'Farrell Community School	Active	No
Pacific American Academy	Active	No
Preuss School UCSD	Active	No
Promise Charter School	Active	No
SD Cooperative	Active	No
San Diego Global Vision Academy	Active	No
Urban Discovery Academy Charter	Active	No

See accompanying note to supplementary information.



**SAN DIEGO UNIFIED SCHOOL DISTRICT  
COMBINING BALANCE SHEET  
JUNE 30, 2011**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Pupil Transportation Equipment Fund	Special Reserve Other Than Capital Outlay Fund	Special Reserve for Post- Employment Benefits Fund	Capital Facilities Fund	Special Reserve for Capital Outlay Fund	Non-Major Governmental Funds
<b>ASSETS</b>										
Cash and cash equivalents	\$ 1,007,219	\$ 5,186,091	\$ 7,922,115	\$ 1,111,189	\$ 80,570	\$ -	\$ -	\$ 20,513,953	\$ 8,772,564	\$ 44,593,701
Accounts receivable	4,095	5,962,171	9,799,158	1,506	109	-	-	29,277	353,974	16,150,290
Due from other funds	858,120	5,754,572	190,928	262,902	-	-	-	684	15,509	7,082,715
Stores inventory	-	-	765,569	-	-	-	-	-	-	765,569
Prepaid expenditures	-	3,637	-	-	-	-	-	522	3	4,162
<b>Total Assets</b>	<b>\$ 1,869,434</b>	<b>\$ 16,906,471</b>	<b>\$ 18,677,770</b>	<b>\$ 1,375,597</b>	<b>\$ 80,679</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,544,436</b>	<b>\$ 9,142,050</b>	<b>\$ 68,596,437</b>
<b>LIABILITIES</b>										
Accrued liabilities	\$ 63,266	\$ 951,937	\$ 1,096,465	\$ -	\$ -	\$ -	\$ -	\$ 255,811	\$ 162,476	\$ 2,529,955
Due to other funds	1,557,739	15,551,838	14,838,951	1,152,057	-	-	-	2,611,592	3,338,762	39,050,939
Deferred revenue	-	135	69,841	-	-	-	-	-	149,629	219,605
<b>Total Liabilities</b>	<b>1,621,005</b>	<b>16,503,910</b>	<b>16,005,257</b>	<b>1,152,057</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,867,403</b>	<b>3,650,867</b>	<b>41,800,499</b>
<b>FUND BALANCES</b>										
Non-spendable	-	3,637	765,570	-	-	-	-	-	-	769,207
Restricted										
Capital projects	-	-	-	-	-	-	-	17,677,033	5,491,183	23,168,216
Food services	-	-	1,906,943	-	-	-	-	-	-	1,906,943
Pupil transportation	-	-	-	-	80,679	-	-	-	-	80,679
Committed	248,429	-	-	223,540	-	-	-	-	-	471,969
Assigned	-	398,924	-	-	-	-	-	-	-	398,924
<b>Total Fund Balances</b>	<b>248,429</b>	<b>402,561</b>	<b>2,672,513</b>	<b>223,540</b>	<b>80,679</b>	<b>-</b>	<b>-</b>	<b>17,677,033</b>	<b>5,491,183</b>	<b>26,795,938</b>
<b>Total Liabilities and Fund Balance</b>	<b>\$ 1,869,434</b>	<b>\$ 16,906,471</b>	<b>\$ 18,677,770</b>	<b>\$ 1,375,597</b>	<b>\$ 80,679</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 20,544,436</b>	<b>\$ 9,142,050</b>	<b>\$ 68,596,437</b>

See accompanying note to supplementary information.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2011**

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Pupil Transportation Equipment Fund	Special Reserve Other Than Capital Outlay Fund	Special Reserve for Post-Employment Benefits Fund	Capital Facilities Fund	Special Reserve for Capital Outlay Fund	Non-Major Governmental Funds
<b>REVENUES</b>										
Federal sources	\$ -	\$ 422,339	\$ 43,102,951	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 43,525,290
Other state sources	-	19,027,740	3,630,480	-	-	-	-	-	-	22,658,220
Other local sources	43,150	8,581,422	8,867,957	8,766	3,946	-	-	13,065,825	6,850,532	37,421,598
<b>Total Revenues</b>	<b>43,150</b>	<b>28,031,501</b>	<b>55,601,388</b>	<b>8,766</b>	<b>3,946</b>	<b>-</b>	<b>-</b>	<b>13,065,825</b>	<b>6,850,532</b>	<b>103,605,108</b>
<b>EXPENDITURES</b>										
Current										
Instruction	380,675	22,879,211	-	-	-	-	-	-	-	23,259,886
Instruction-related services										
Instructional supervision and administration	165,879	3,655,825	-	-	-	-	-	-	-	3,821,704
School site administration	204,688	1,154,998	-	-	-	-	-	-	-	1,359,686
Pupil services										
Home-to-school transportation	-	-	-	-	3,114,125	-	-	-	-	3,114,125
Food services	-	434	54,015,241	-	-	-	-	-	-	54,015,675
All other pupil services	15,108	796,981	-	-	-	-	-	-	-	812,089
All other general administration	17,741	696,846	1,080,245	-	-	-	-	13,874	-	1,808,706
Plant services	-	1,308,869	1,154,018	4,736	-	-	-	7,061,954	3,697,152	13,226,729
Facilities acquisition and maintenance	-	455,253	597,709	4,857,571	-	-	-	7,733,446	9,962,400	23,606,379
Enterprise activities	-	-	66,881	-	-	-	-	-	-	66,881
Debt service - Interest and other	-	156,422	-	-	-	-	-	-	2,090	158,512
<b>Total Expenditures</b>	<b>784,091</b>	<b>31,104,839</b>	<b>56,914,094</b>	<b>4,862,307</b>	<b>3,114,125</b>	<b>-</b>	<b>-</b>	<b>14,809,274</b>	<b>13,661,642</b>	<b>125,250,372</b>
<b>Excess (Deficiency) of Revenues</b>										
<b>Over Expenditures</b>	<b>(740,941)</b>	<b>(3,073,338)</b>	<b>(1,312,706)</b>	<b>(4,853,541)</b>	<b>(3,110,179)</b>	<b>-</b>	<b>-</b>	<b>(1,743,449)</b>	<b>(6,811,110)</b>	<b>(21,645,264)</b>
<b>Other Financing Sources (Uses)</b>										
Transfers in	989,625	2,758,891	-	5,000,000	-	-	-	-	-	8,748,516
Transfers out	(1,012,059)	-	-	-	-	-	-	-	(11,653,057)	(12,665,116)
<b>Net Financing Sources (Uses)</b>	<b>(22,434)</b>	<b>2,758,891</b>	<b>-</b>	<b>5,000,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(11,653,057)</b>	<b>(3,916,600)</b>
<b>NET CHANGE IN FUND BALANCE</b>	<b>(763,375)</b>	<b>(314,447)</b>	<b>(1,312,706)</b>	<b>146,459</b>	<b>(3,110,179)</b>	<b>-</b>	<b>-</b>	<b>(1,743,449)</b>	<b>(18,464,167)</b>	<b>(25,561,864)</b>
Fund Balance - Beginning, as originally stated	1,011,805	717,008	3,985,219	77,081	3,190,858	124,926	1,277,059	19,420,482	23,955,349	53,759,787
Adjustment for restatement	-	-	-	-	-	(124,926)	(1,277,059)	-	-	(1,401,985)
<b>Fund Balance - Beginning, as restated</b>	<b>1,011,805</b>	<b>717,008</b>	<b>3,985,219</b>	<b>77,081</b>	<b>3,190,858</b>	<b>-</b>	<b>-</b>	<b>19,420,482</b>	<b>23,955,349</b>	<b>52,357,802</b>
<b>Fund Balance - Ending</b>	<b>\$ 248,430</b>	<b>\$ 402,561</b>	<b>\$ 2,672,513</b>	<b>\$ 223,540</b>	<b>\$ 80,679</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 17,677,033</b>	<b>\$ 5,491,182</b>	<b>\$ 26,795,938</b>

See accompanying note to supplementary information.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
NOTES TO SUPPLEMENTARY INFORMATION  
JUNE 30, 2011**

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**NOTE 1 – PURPOSE OF SCHEDULES**

**A. 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.

**B. 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.

**C. 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 requirements, whichever is greater, as required by Education Code Section 46201.

**D. 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.

**E. Schedule 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 Annual Financial and Budget Report Unaudited Actuals to the audited financial statements.

**F. Schedule of Charter Schools**

This schedule lists all Charter Schools chartered by the District, and displays information for each Charter School on whether or not the Charter School is included in the District audit.

**G. Combining Statements – Non-Major Governmental Funds**

These statements provide information on the District's non-major funds.

**H. Local Education Agency Organization Structure**

This schedule provides information about the District's boundaries, schools operated, members of the governing board, and members of the administration. (Located in the front of the audit report)

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**OTHER INDEPENDENT  
AUDITORS' REPORTS**

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**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND  
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited the financial statements of San Diego Unified School District as of and for the year ended June 30, 2011, and have issued our report thereon dated November 18, 2011. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

Management of San Diego Unified School District is responsible for establishing and maintaining effective 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 District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Audit Findings and Questioned Costs as #2011-1 through #2011-3 that we consider to be significant deficiencies in internal control over financial reporting. *A significant deficiency* is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether San Diego Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*

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

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the California State Controller's Office, the California Department of Finance, 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.

*Chint White Accountancy Corporation*

San Diego, California

November 18, 2011



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

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

**Compliance**

We have audited San Diego Unified School District's compliance with the types of compliance requirements described in the OMB *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. San Diego Unified School District's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of San Diego Unified School District's management. Our responsibility is to express an opinion on San Diego Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *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 of 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 could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011.

## Internal Control over Compliance

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

*A deficiency in internal control over compliance* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be *material weaknesses* as defined above.

This report is intended solely for the information and use of the governing board, management, the California Department of Education, the California State Controller's Office, the California Department of Finance, 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.

*Christle White Accountancy Corporation*

San Diego, California

November 18, 2011



**INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE**

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

We have audited San Diego Unified School District's compliance with the types of compliance requirements described in the *Standards and Procedures for Audits of California K – 12 Local Educational Agencies 2010-11*, issued by the California Education Audit Appeals Panel as regulations for the year ended June 30, 2011. Compliance with the requirements of laws, regulations, contracts, and grants listed below 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 in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K – 12 Local Educational Agencies 2010-11*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above 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 the state laws and regulations referred to above.

In connection with the audit referred to above, we selected and tested transactions and records to determine San Diego Unified School District's compliance with the state laws and regulations applicable to the following items:

<u>PROGRAM NAME</u>	<u>PROCEDURES IN AUDIT GUIDE</u>	<u>PROCEDURES PERFORMED</u>
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	23	Yes
Continuation Education	10	Yes
Instructional Time for:		
School Districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials, general requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes

<u>PROGRAM NAME</u>	<u>PROCEDURES IN AUDIT GUIDE</u>	<u>PROCEDURES PERFORMED</u>
Classroom Teacher Salaries	1	Yes
Early Retirement Incentive	4	No
Gann Limit Calculation	1	Yes
School Accountability Report Card	3	Yes
Public Hearing Requirement - Receipt of Funds	1	Yes
Class Size Reduction (including in charter schools):		
General requirements	7	Yes
Option One	3	Yes
Option Two	4	Yes
Districts or charter schools 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
Contemporaneous Records of Attendance; for charter schools	1	Not Applicable
Mode of Instruction; for charter schools	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study; for charter schools	15	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction; for charter schools	3	Not Applicable
Annual Instructional Minutes – Classroom Based; for charter schools	3	Not Applicable

Testing for charter schools is performed by each charter’s respective auditor (refer to Note 1B on page 24).

In our opinion, San Diego Unified School District complied, in all material respects, with the state laws and regulations referred to above for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with the *Standards and Procedures for Audits of California K – 12 Local Educational Agencies 2010-11* and which is reported in the accompanying Schedule of Audit Findings and Questioned Costs as finding 2011-4 through 2011-6.

San Diego Unified School District’s response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit 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 governing board, management, the California Department of Education, the California State Controller’s Office, the California Department of Finance, federal awarding agencies, and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Christ White*  
 San Diego, California  
 November 18, 2011

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**SCHEDULE OF FINDINGS AND  
QUESTIONED COSTS**

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**SAN DIEGO UNIFIED SCHOOL DISTRICT  
SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**FINANCIAL STATEMENTS**

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Non-compliance material to financial statements noted?	<u>No</u>

**FEDERAL AWARDS**

Internal control over major program:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>None Reported</u>
Type of auditors' report issued:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with section .510(a) of OMB Circular A-133?	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program of Cluster</u>
84.01	Title I - Part A, Basic Grants Low- Income and Neglected
84.389	ARRA - Title I, Part A, Basic Grants, Recovery Act
84.01	Title I - Part A, PI School Assit and Intervention Teams
84.01	Title I - Part A, PI SAIT, Corrective Action Plans
84.389	ARRA Title I, School Improvement Grant
84.027-84.181	Individuals with Disabilities Education Act (IDEA) Cluster
84.323	State Improvement Grant, Improving Special Ed Systems
84.392	ARRA - IDEA Part B, Preschool Grants
84.391	ARRA - IDEA Part B, Preschool Local Entitlement
84.391	ARRA - IDEA Part B, Basic Local Assistance
84.394	ARRA - State Fiscal Stabilization Fund
84.371A	Striving Readers
84.165	Magnet School Assistance Program
84.367	Title II, Part A, Administrator Training
84.367A	Title II, Part A, Teacher Quality
84.41	Education Jobs Fund
94.041	Federal Impact Aid/ SPED
84.365	Title III, Limited English Proficient (LEP) Student Program
84.365	Title III, Immigrant Education Program
10.558	Child Care Food Program

Dollar threshold used to distinguish between Type A and Type B programs:	\$ 3,000,000
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified?	<u>Yes</u>
Type of auditors' report issued on compliance for state programs:	<u>Unqualified</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT  
FINANCIAL STATEMENT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011

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FIVE DIGIT CODE

20000  
30000  
60000

AB 3627 FINDING TYPE

Inventory of Equipment  
Internal Control  
Miscellaneous

**Finding #2011-1: Associated Student Body Internal Controls (30000)**

**Criteria:** Proper internal controls are necessary to ensure safeguards over assets.

**Condition:** Overall, the middle schools had the majority of findings as compared to the elementary and high schools. A summary of the most common internal control deficiencies observed are listed below:

- Lack of adequate backup for cash deposits that shows all funds collected were deposited intact. Cash control backup might include, for example: ticket reconciliations; receipt books; tally sheets; revenue potentials; and inventory/cash reconciliations.
- Lack of evidence of timely deposit.
- Expenditures are lacking proper approval by all three required persons (the principal, the advisor and the student representative).

**Cause:** Staffing reductions and shifting of employees due to bumping into these positions has an impact on performance.

**Effect:** Lack of proper internal controls can lead to the misappropriation of assets.

**Perspective:** We audited 28 associated student body (ASB) funds at the school sites selected for testing in fiscal year 2010-11. Our audit included an evaluation of internal control procedures over: cash disbursements, cash receipts, inventory, and ASB organization. A detailed report of our findings by individual schoolsite has been provided to the District for follow-up

**Recommendation:** We recommend the staff that handles student funds be reminded of the importance of good internal controls and documentation over cash receipts and the proper approval of expenditures. Instruction on the use of standardized formats should continue to be provided annually with compliance follow-up by the district office.

**District Response:** The district is aware of the practice at some sites to not adhere to exercising sound internal controls as indicated by the external auditors. Noncompliance with established district procedures on internal controls is a common audit exception that we report.

The staffing reductions and shifting of employees due to bumping into these positions has an impact on performance. Also, audit exceptions are usually due to lack of training and knowledge of the district procedures regarding different ASB activities by site administrators, ASB bookkeepers, ASB advisors, and club/class advisors.

SAN DIEGO UNIFIED SCHOOL DISTRICT  
FINANCIAL STATEMENT FINDINGS, *continued*  
FOR THE YEAR ENDED JUNE 30, 2011

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**Finding #2011-1: Associated Student Body Internal Controls (30000), continued**

**District Response, continued:**

The Office of Internal Audit completed a video, "ASB Top Ten Things You Should Know," which is presented on the Office of Internal Audit's web page. The information is also available as a PowerPoint presentation. These materials provide high level instruction on the duties expected in conducting the ASB.

Principals, ASB Advisors and Financial Clerical Support were required to review and certify the review of these materials. Also, at a principals' meeting, principals were made aware of their responsibilities and the availability of the Office of Internal Audit to help them successfully perform the ASB function.

We have addressed these concerns through our audit reports to the site administrators and made correcting deficiencies a necessary corrective action.

**Finding #2011-2: Cash Receipting at the Child Development Centers (30000)**

**Criteria:** Duties are segregated among different people to reduce the risk of error or inappropriate action. Normally, responsibilities for authorizing transactions, recording transactions (accounting), and handling the related asset (custody) are divided.

**Condition:** The CDC Clerks process the parent payments from start to finish without the review of a second person. . This is a repeat finding from the prior year.

**Cause:** The District attempted to correct the finding last year by instituting a lock box system, whereby the clerk and a teacher would count the cash together. But we found that the new system was not in use and that procedures surrounding the use of the lock box may need refinement. In particular, there needs to be a final review by an independent person to ensure the ultimate cash deposited matches the lock box count(s).

**Effect:** Without the segregation of duties there is a lack of preventative controls. The opportunity for one individual to access cash and the accounting records could lead to errors or fraud occurring

**Perspective:** We audited a sampling of four Child Development Centers at District school sites to test internal control procedures over cash receipts.

The CDC Clerks collect, process, enter the information into the system, and prepare the deposit. The District attempted to correct the finding last year by instituting a lock box system, whereby the clerk and a teacher would count the cash together. But we found that the new system was not in use and that procedures surrounding the use of the lock box may need refinement.

**Recommendation:** We recommend that: (1) the lock box system, once refined, is used; (2) a person independent of the collection, receipting, and billing reviews the final deposit against the lock box counts; and, (3) the issuance of pre-numbered receipts to the parents when the fees are collected.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
FINANCIAL STATEMENT FINDINGS, continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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**Finding #2011-2: Cash Receipting at the Child Development Centers (30000), continued**

**District Response:** The Early Childhood Program Office has implemented systems to minimize liability that include the parents depositing cash deposits in the lock box only (staff is not to receive cash from parents), the lock box system that includes having the center administrator hold the key to the lock box, and verification of deposits by two people with review by the center administrator. The center administrator opens the box for the clerk and lead teacher to count the cash together and both must also verify the deposit. When the lead teacher is not available, cash is counted by the clerk and center administrator. In addition, parents are issued pre-numbered NCR receipts after the cash deposit is verified.

**Finding #2011-3: Physical Plant Operations (PPO) Inventory and Work Order Internal Control (30000)**

**Criteria:** Work orders are the key to providing plant services to District sites and ensuring proper internal controls over District materials and labor. Work orders show what needs to be done, what materials were used, where it is needed, who is responsible to perform the service and when it is scheduled to be performed.

**Condition:** In performing a physical inventory count of the SDUSD warehouse we found that 8 out of 40 items on the inventory listing did not match what the auditor counted during the physical inventory count on June 2, 2011. The net quantity impact of the errors was 2.7% between the system count and the physical count. But, dollar-wise the physical count of inventory was net over the system value by \$87. In other words, there was a surplus of some high dollar items "on the floor" that offset the loss of some smaller dollar items.

It appears that the discrepancies between the inventory listing and CWA's count are due to errors in the counting by the District and/or shrinkage.

**Cause:** We found management did not fully monitor the status of open work orders, for example missing from the system might be the finished date or no labor and materials data was entered. We selected forty work orders for testing and found fifteen exceptions. All of the exceptions were work orders that had remained open near or more than three months.

**Effect:** After further inquiry of District personnel, they reported that an approximate \$30,000 adjustment to inventory is needed out of a \$500,000 inventory balance. While the variance is relatively small, we then found that the work order system is not fully operational and is one cause of the discrepancies.

**Perspective:** There were over thirty thousand work orders generated during the audit period.

**Recommendation:** We recommend the District improve the accuracy of its physical inventory count and its controls over the warehouse to ensure that shrinkage is minimized and inventory is valued at the appropriate balance. Additionally, management should develop and implement comprehensive policies and procedures for all essential inventory and work order transactions and operations. These should include work order completion standards and a practical monitoring process to ensure timely work order completion. When completed, the procedures should be communicated to the District PPO employees.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
FINANCIAL STATEMENT FINDINGS, continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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**Finding #2011-3: Physical Plant Operations (PPO) Inventory and Work Order Internal Control (30000, continued**

**District Response:** As stated in the findings of the PPO Warehouse and the Work Order Audits, we agree that finishing and completing work orders is a critical step to bring closure to work requests. Supervisors review aged work orders regularly and will close the work order when work is complete. To address the deficiencies identified during this audit, each Lead and/or Supervisor was asked to respond to items in question, and to correct and modify, if applicable. Since we were not able to add dates or comments to closed work orders, the need to finish and add comments, as applicable, was discussed for future adoption. To continue supporting and improving our standard operational practices, we will review the audit findings with all appropriate staff and utilize the report as a tool to review the correct actions as defined in our PPO Business Guide. Discrepancies in 8 out of the 40 inventory items from the inventory listing could be due to miscounting and shrinkage.

The following are examples of how they will be remedied now and in the future: (1) inconsistent unit measurements while counting, which creates an error in the inventory listing, could be due to temporary staff doing inventory. For example, one box of ten nails versus ten nails. (2) Part No. 113477: 40ft of strut was missing.

Technicians had taken materials after hours for a job to be completed the next business day. The standard practice is to leave a Materials Request Form (MRF) for the Senior Parts Clerk for input on the following business day, which was not done. (3) Part No. 106410: Item records showed 9 and the actual count was 11. Tighter controls via real time MRF entries by Parts Clerks and monthly inventory reviews will be implemented. A review of SKUs has been in progress to assure units of measure are consistent with unit costs.

A reminder will be sent to all departments regarding after hours accountability and process review will take place to assure all staff have current knowledge related to all processes. Periodic training among permanent staff will continue and a training guide has been developed and is in use to ensure consistent adherence to procedures.



**SAN DIEGO UNIFIED SCHOOL DISTRICT  
FEDERAL AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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**FIVE DIGIT CODE**

50000

**AB 3627 FINDING TYPE**

Federal Compliance

*There were no audit findings or questioned costs related to federal awards in 2010-11.*

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2011**

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<u>FIVE DIGIT CODE</u>	<u>AB 3627 FINDING TYPE</u>
10000	Attendance
40000	State Compliance
61000	Classroom Teacher Salaries
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

**Finding #2011-4: Attendance Accounting (10000)**

**State Funding Source:** Revenue limit ADA.

**Criteria:** Absence notes and other source documents of attendance should be correctly posted to the District's attendance system per Education Code Section 46000 et seq. Auditors are required to verify compliance in Section 19817.1 of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies*.

**Condition:** We found 4 of 620 students at all sites tested were marked present instead of absent; absent notes or tardy logs indicate the students were absent. Auditor requested the Attendance Clerk change the record in the attendance system and revise P-2. Additionally, at 1 out of 28 sites tested, Hawthorne Elementary, there appears to be incomplete documentation of the absence verifications. Absence logs were missing for a few months, and phone call verification was not completely filled out, the reason for absence and the person who the clerk talked to was not documented.

**Cause:** Unknown.

**Effect:** The District overstated four days of attendance, which appears to be isolated and very minor. The District then made the requested changes and revised P-2. In the case where Hawthorne Elementary did not have complete documentation on absences, an internal audit and the site administrator reviewed records and procedures to determine that there was no additional misstatement of ADA. Based on their follow-up work, we were able to conclude the correction action was taken and ADA was materially correct.

**ADA Impact:** The District's 2010-11 P-2 report was overstated by the 4 pupils attendance for 4 days. Given 125 days in the 2010-11 P-2 attendance period and a 2010-11 base revenue limit per ADA of \$6,373.85, the fiscal impact of the ADA overstatement is \$203.96. The District revised P-2 to include the change. No further ADA impact noted.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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**Finding #2011-4: Attendance Accounting (10000), continued**

**Recommendation:** During the audit, we recommended the District Attendance Department audit the records to determine the total amount of ADA that was miss-reported and revise the P-2 accordingly. This was done to our satisfaction. We recommend training to help improve controls and compliance at the District sites.

**District Response:** On March 25, 2011 an attendance audit was performed at Hawthorne Elementary School. The findings of the audit have been thoroughly reviewed by the Principal and discussed with Hawthorne office personnel as well.

The following corrective actions will be put into place immediately:

- The Attendance Verification Log will be printed daily, date stamped, and signed by the school clerk. The daily log will be filed in a binder to be kept in the front office. In addition, the Master Absence List and Collections Status reports will be printed daily and filed in said binder.
- The phone contact list that is produced by the ConnectEd system will be printed, date stamped, and signed by the school clerk on a daily basis. It will be filed in binder to be kept in front office. Automated calls to students marked absent are currently sent out at 9:45 a.m. This has been changed so that families receive a ConnectEd call at 9:00 a.m.
- An additional column titled "date of absence" has been added to the current spreadsheet being used for attendance verification.
- I have reviewed the Attendance Codes Sheet with the school clerk. Appropriate absence coding will be put into place to ensure that the code "I" for Illness and the code "E" for excused absence are not confused.
- Office personnel will no longer post attendance for any teacher. All teachers have been notified by memorandum that they are to post their attendance in Zangle by 8:15 a.m. In the event a teacher enters incorrect information into Zangle, the school clerk will print a class roster on which the teacher will make the appropriate changes, sign and date. Additionally, in the case when a substitute cannot access Zangle to post attendance, a class roster will be printed for the substitute to properly document student attendance.
- Teachers have been asked to review and sign the Teachers Summary of Attendance reports for all weeks in February and March. These reports are now filed in the attendance binder that is kept in the front office.

Pupil Accounting personnel have visited the Hawthorne site since the March 25, 2011 audit to ensure that all required documentation has been produced and would be available in the event of a follow-up audit. The Pupil Accounting staff will again return to Hawthorne during the 2011-12 school year to make sure that all appropriate documentation continues to be in compliance with District and State requirements.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS, *continued*  
FOR THE YEAR ENDED JUNE 30, 2011**

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**Finding #2011-5: Short-Term Independent Study (10000)**

**State Funding Source:** Revenue limit ADA, independent study program.

**Criteria:** For attendance generated through independent study, all independent study written agreements need to contain the signatures of the pupil, pupil's parent, and a certificated employee affixed prior to the commencement of the independent study (Education Code Section 51747(c)(8)). Auditors are required to verify compliance in Section 19819 of the *Standards and Procedures for Audits of California K-12 Local Educational Agencies*.

**Condition:** We found that 3 of 123 independent study contracts sampled recorded did not have a completed contract (missing signatures, work samples and contracts).

**Cause:** Procedures were not fully followed to obtain all required elements of the independent study agreement on or before the independent study start date.

**Context:** The errors found were within the short-term independent study program only and minor overall.

**Effect:** Possible loss of apportionment funding for days of attendance related to deficient independent study contracts.

**ADA Impact:** 14 attendance days were overstated as tested. Given 125 days in the 2010-11 P-2 attendance period and a 2010-11 base revenue limit per ADA of \$6,373.85, the fiscal impact of the ADA overstatement is \$713.87. The District revised P-2 to include the change. The errors appear isolated to minor short-term independent study programs.

**Recommendations:** We recommend that the District revise the Period 2 and Annual attendance reports and implement internal control procedures to ensure that independent study contracts are being filled out with all necessary information required by Education Code Section 51747 and completed prior to the beginning of the contract. Also teachers should evaluate work and assign attendance credit periodically through the year, not just at the end of the contract date.

**District Response:** The P-2 and Annual attendance reports have been revised to allow for the overstated days due to incomplete or incorrectly prepared Independent Study Contracts. Prior to the start of this school year, the district's standard form for Independent Study contracts (short-term) was revised. The revised form was presented to comprehensive school staff at a series of Independent Study training sessions held during the week of November 7, 2011. Personnel who were unable to attend were sent the revised form and explanations for correct use. Additional Independent Study contract trainings at individual schools sites have been scheduled for the near future.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
STATE AWARD FINDINGS AND QUESTIONED COSTS, continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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**Finding #2011 - 6: Kindergarten Retention (40000)**

**Criteria:** For pupils that continued in kindergarten after completing one school year of kindergarten the local education agency is required to have a signed parental "agreement to continue" form, approved in form and content by the California Department of Education, ref. Education Code Sections 46300 and 48011.

**Condition:** We found that 3 out of 28 of the kindergarten retention forms tested were insufficient to claim apportionment for the days generated after one full year of kindergarten.

**Effect:** Ineligible ADA claimed.

**Cause:** Procedures were not followed to obtain all required elements of the kindergarten retention forms on or before the anniversary date.

**Questioned Costs:** \$19,121.55 – comprised of 125 apportionment days, or 3 ADA, at a base revenue limit of \$6,373.85. The District revised P-2 to include the change prior to release of this report.

**Recommendation:** ADA associated with ineligible kindergarten attendance must be excluded from the P2 and Annual attendance reports. We recommend more training with school site personnel in the completion of kindergarten retention forms.

**District Response:** ADA associated with ineligible kindergarten attendance was excluded from P-2 and Annual attendance reports. At the beginning of each school year a "Back to School" training session is held for school site personnel. During this training, we address the requirement to have the "Agreement to Continue in Kindergarten" form on file for any student who repeats kindergarten. This year we placed greater emphasis on this requirement in light of the audit findings.

In addition, the Pupil Accounting staff performs audits at school sites throughout the year. During the audit sessions, the kindergarten retention forms are reviewed for correctness and accuracy. If there are no forms (no students repeating), the item remains on the audit form and the clerical staff are reminded that the form is required for any student who happens to repeat kindergarten.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2011**

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

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

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

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

**Current Status:** Partially Implemented See Finding #2011-1.

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

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

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

**Current Status:** See Finding #2011-2.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, *continued*  
FOR THE YEAR ENDED JUNE 30, 2011**

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

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

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

**Current Status:** Implemented.

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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

Absence Reporting and Substitute Time Reconciliation

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

Timekeeping

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

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

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

**Current Status:** Implemented.



**SAN DIEGO UNIFIED SCHOOL DISTRICT  
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS, continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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

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

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

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

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

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

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

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

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

**Current Status:** Implemented.

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**CONTINUING DISCLOSURE  
INFORMATION**

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**SAN DIEGO UNIFIED SCHOOL DISTRICT  
CONTINUING DISCLOSURE INFORMATION (Unaudited)  
FOR THE YEAR ENDED JUNE 30, 2011**

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

	Audit Report <u>Page(s)</u>
1. General fund budget and actual results	65
2. Assessed valuations	98
3. Outstanding bonded indebtedness	43
4. Balance in the Debt Service Fund	14
5. Balance in the Improvement Fund (Building Fund)	14
6. Tax levy under Teeter Plan	98
7. Largest local secured taxpayers	99

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
CONTINUING DISCLOSURE INFORMATION (Unaudited), continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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**Assessed Valuations**

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

<b>District's Fiscal Year</b>	<b>Assessed Value</b>
1999-2000	\$ 63,590,856,897
2000-2001	\$ 68,914,092,936
2001-2002	\$ 74,558,996,509
2002-2003	\$ 80,806,653,526
2003-2004	\$ 87,856,623,236
2004-2005	\$ 95,685,708,742
2005-2006	\$ 108,123,995,636
2006-2007	\$ 120,172,905,029
2007-2008	\$ 131,390,290,644
2008-2009	\$ 131,895,647,665
2009-2010	\$ 137,384,713,473
2010-2011	\$ 134,714,145,620

Secured taxes collected in fiscal year 2010-11 amounted to \$507,848,038.

**Tax Levy Under Teeter Plan**

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

**SAN DIEGO UNIFIED SCHOOL DISTRICT  
CONTINUING DISCLOSURE INFORMATION (Unaudited), continued  
FOR THE YEAR ENDED JUNE 30, 2011**

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The largest taxpayers in San Diego County and the taxes assessed in 2010-11 are listed below.

**LARGEST TAXPAYERS FOR FISCAL YEAR 2010-2011**

<u>NO.</u>	<u>PROPERTY OWNER</u>	<u>AMOUNT OF TAX</u>
1.	SAN DIEGO GAS & ELECTRIC CO	\$ 63,455,984.98
2.	SOUTHERN CALIFORNIA EDISON CO	\$ 28,818,695.26
3.	IRVINE CO	\$ 17,761,357.70
4.	SAN DIEGO FAMILY HOUSING LLC	\$ 14,835,726.26
5.	KILROY REALTY LLP	\$ 14,679,406.72
6.	QUALCOMM INC	\$ 13,626,003.42
7.	CAMP PENDLETON & QUANTICO HOUSING LLC	\$ 11,654,352.08
8.	PACIFIC BELL TELEPHONE COMPANY	\$ 9,708,651.86
9.	ARDEN REALTY LLP	\$ 8,440,140.80
10.	O C/S D HOLDINGS LLC	\$ 6,584,928.52
11.	GENENTECH INC	\$ 5,762,892.74
12.	PFIZER INC	\$ 5,565,708.66
13.	OTAY MESA GENERATING CO LLC	\$ 5,552,752.94
14.	FASHION VALLEY MALL LLC	\$ 5,001,450.88
15.	ONE PARK BOULEVARD LLC	\$ 4,778,202.20
16.	ANHEUSER-BUSCH (DBA SEA WORLD INC)	\$ 4,571,849.40
17.	PREBYS CONRAD TRUST	\$ 4,491,044.94
18.	C N L HOTEL DEL PARTNERS LLP	\$ 4,230,006.52
19.	LAJOLLA CROSSROADS 1 LLC	\$ 4,041,928.06
20.	SOLAR TURBINES INC	\$ 3,998,150.42
21.	MANCHESTER RESORTS L P	\$ 3,993,039.36
22.	E R P OPERATING LLP	\$ 3,308,044.88
23.	CHELSEA SAN DIEGO FINANCE LLC	\$ 3,178,582.58
24.	PACIFIC GATEWAY LTD	\$ 3,155,608.34
25.	SAN DIEGO EXPRESSWAY LLP	\$ 2,970,124.40
26.	L C INVESTMENT 2010 INC	\$ 2,936,605.22
27.	M S RIALTO THE LAKES CA L L C	\$ 2,836,617.32
28.	SORRENTO WEST PROPERTIES INC	\$ 2,830,691.72
29.	FEDERAL NATIONAL MORTGAGE ASSN	\$ 2,675,266.62
30.	C C W LA JOLLA LLC	\$ 2,672,893.68