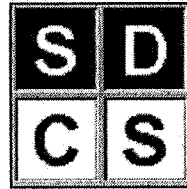


SAN DIEGO UNIFIED SCHOOL DISTRICT

SAN DIEGO COUNTY

**REPORT ON AUDIT OF FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
INCLUDING REPORTS ON COMPLIANCE**

June 30, 2004



SAN DIEGO UNIFIED SCHOOL DISTRICT

**AUDIT REPORT
June 30, 2004**

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SAN DIEGO UNIFIED SCHOOL DISTRICT

**AUDIT REPORT
June 30, 2004**

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SAN DIEGO CITY SCHOOLS

EUGENE BRUCKER EDUCATION CENTER
4100 Normal St., Room 2244, San Diego, CA 92103-2682

(619) 725-8193
Fax: (619) 296-6832

FINANCIAL OPERATIONS DIVISION

Scott H. Patterson
Chief Financial Officer

Members of the Board of Education
San Diego Unified School District
San Diego, California 92103

Members of the Board:

Attached are the annual financial statements of the San Diego Unified School District (the District) for the fiscal year ended June 30, 2004, and the Independent Auditors' Reports on those financial statements and on the Federal and State Compliance audits. These financial statements confirm that the District is a fiscally sound district, as defined by the State Controller's Office, with a general fund balance of \$103,933,762.

The California Education Code requires that the governing board provide for an annual audit made by certified public accountants licensed by the State Board of Accountancy. The licensed firm of Vicenti, Lloyd & Stutzman LLP rendered the attached auditors' reports. It is my opinion that the audit satisfies all of the requirements of the Education Code.

The auditors' reports cite no material internal control weaknesses, and no material instances of non-compliance with the requirements of federal and state programs.

The annual financial statements for the fiscal year 2003-2004, also include financial statements in the format required under the Government Accounting Standards Board Statement 34 (GASB 34). These financial statements are explained in more detail in the Management's Discussion and Analysis that accompanies the GASB 34 compliant financial statements.

The auditors also provided a list of findings and recommendations and an analysis of the District's response to the findings and recommendations contained in the prior year's audit. District administration has reviewed the findings and recommendations and has positively responded to each of the recommendations.

A handwritten signature in black ink, appearing to read 'S. H. Patterson'.

April 26, 2005



INDEPENDENT AUDITORS' REPORT

Board of Education
San Diego Unified School District
4100 Normal Street
San Diego, California 92103

Chairman
ROYCE A. STUTZMAN

Partners
PETER F. GAUTREAU
RENÉE S. GRAVES
WADE N. McMULLEN
KARIN HECKMAN NELSON
CARL PON
GEMA M. PTASINSKI
MARY ANN QUAY
LINDA M. SADDLEMIRE

Principal
JERI A. WENGER

Senior Managers
TIMOTHY D. EVANS
PHEBE M. McCUTCHEON
SHARI PROSSER
COLLEEN K. TAYLOR
DEAN WEST

We have audited the accompanying financial statements of the governmental activities, each major fund, proprietary funds, fiduciary funds and the aggregate remaining fund information of the San Diego Unified School District as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit. The financial statements of San Diego Unified as of June 30, 2003, were audited by other auditors whose report, dated April 15, 2004, expressed an unqualified opinion on these statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall basic 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, 2004, and the respective changes in financial position and cash flows for the fiscal year then ended in conformity with accounting principles generally accepted in the United States of America.

Board of Education
San Diego Unified School District

In accordance with Government Auditing Standards, we have also issued our report dated March 11, 2005 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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The management's discussion and analysis, budgetary comparison information and statistical tables, 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, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the San Diego Unified School District basic financial statements. The management's discussion and analysis, combining and individual non-major fund financial statements, supplementary schedules and statistical tables are presented for purposes of additional analysis and are not a required part of the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, and is also not a required part of the basic financial statements of San Diego Unified School District. The combining and individual non-major fund financial statements and supplementary section, including the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The management's discussion and analysis has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on it.

Vicenti, Lloyd & Stutzman LLP
VICENTI, LLOYD & STUTZMAN LLP

March 11, 2005

SAN DIEGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year ended June 30, 2004

This section of the San Diego Unified School District's (the District's) annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year ended June 30, 2004. Please read it in conjunction with the District's basic financial statements, which follow this section.

Financial Highlights

- The District's total net assets were \$549.6 million at June 30, 2004.
- During the year, the District's expenses were \$73.4 million less than the \$1,407.8 million generated in taxes and other revenues for governmental activities.
- The General Fund reported a fund balance this year of \$103.9 million.
- The District issued approximately \$350.0 million in bonds during fiscal year 2004.

Overview of the Basic Financial Statements

This annual report consists of three parts – *management's discussion and analysis* (this section), the *basic financial statements*, and *required supplementary information*. The basic financial statements include two kinds of statements that present different views of the District:

- The first two statements are *government-wide financial statements* that provide both *long-term* and *short-term* information about the District's *overall* financial status.
- The remaining statements are *fund financial statements* that focus on *individual parts* of the District, reporting the District's operations in *more detail* than the government-wide statements.
 - The *governmental funds* statements tell how *general government* services were financed in the *short-term* as well as what remains for future spending.
 - *Proprietary fund* statements offer *short-* and *long-term* financial information about the activities the District operates *like businesses*.

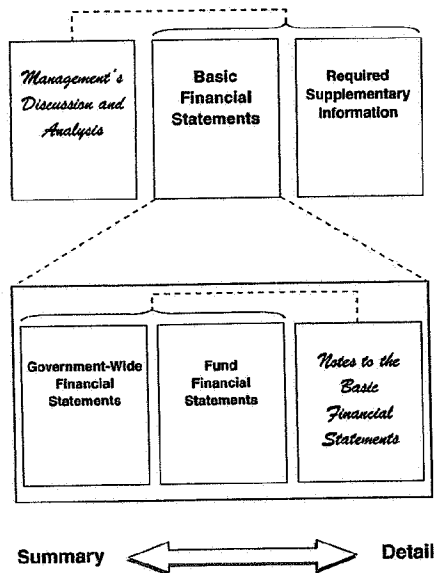
SAN DIEGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year ended June 30, 2004

- *Fiduciary fund* statements provide information about the financial relationships in which the District acts solely as a *trustee or agent* for the benefit of others, to whom the resources in question belong.

The financial statements also include *notes* that explain some of the information in the basic financial statements and provide more detailed data. Generally accepted accounting principals prescribe that certain information be presented as required supplementary information (RSI). The District has met that requirement by including the RSI, other than the management's discussion and analysis, as part of the basic financial statements. Figure A-1 shows how the required parts of this annual report are arranged and related to one another.

Figure A-1. Required Components of the District's Annual Financial Report



SAN DIEGO UNIFIED SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year ended June 30, 2004**

Figure A-2 summarizes the major features of the District's basic financial statements, including the portion of the District government they cover and the types of information they contain. The remainder of this overview section of management's discussion and analysis explains the structure and contents of each of the statements.

Figure A-2. Major Features of the District's Government-wide and Fund Financial Statements

<i>Type of Statements</i>	Fund Statements			
	Government-wide Statements	Governmental Funds	Proprietary Funds	Fiduciary Funds
<i>Scope</i>	Entire District's government (except fiduciary funds) and the District's component units	The activities of the District that are not proprietary or fiduciary	Activities the District operates similar to private businesses	The District is the trustee or agent for someone else's resources
<i>Required financial statements</i>	<ul style="list-style-type: none"> * Statement of net assets * Statement of activities 	<ul style="list-style-type: none"> * Balance sheet * Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> * Statement of net assets * Statement of revenues, expenses, and changes in net assets * Statement of cash flows 	<ul style="list-style-type: none"> * Statement of fiduciary net assets * Statement of changes in fiduciary net assets
<i>Accounting basis and measurement focus</i>	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
<i>Type of asset/liability information</i>	All assets and liabilities both financial and capital, and short-term and long-term	Only assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term. District funds do not currently have capital assets, although they can
<i>Type of inflow/outflow information</i>	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and payment is due during the year or soon thereafter	All revenues and expenses during year, regardless of when cash is received or paid	All revenues and expenses during year, regardless of when cash is received or paid

SAN DIEGO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year ended June 30, 2004

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 the District's 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.
- To assess the overall health of the District, you need to consider additional nonfinancial factors such as changes in the District's tax base and changes in composition and amounts of external funding.

The government-wide financial statements of the District include the *Governmental activities*. Most of the District's basic services are included here, such as instruction, extracurricular activities, curriculum and staff development, health services, and general administration. Property taxes and grants finance most of these activities. Also included in *Governmental activities* are the business-like activities of the District's self-insurance operations. Premium payments and operating transfers from the other District funds finance most of these activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the District's most significant *funds* – not the District as a whole. Funds are accounting devices that the District uses to keep track of specific sources of funding and spending for particular purposes.

- Some funds are required by State law and by bond covenants.
- The Board of Trustees establishes other funds to control and manage money for particular purposes or to show that it is properly using certain taxes and grants.

SAN DIEGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year ended June 30, 2004

The District has three kinds of funds:

- *Governmental funds* – Most of the District's basic services are included in governmental funds, which focus on (1) how *cash and other financial assets* that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental funds statements 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. Because this information does not encompass the additional long-term focus of the government-wide statements, we provide additional information on the subsequent page, that explain the relationship (or differences) between them.
- *Proprietary funds* – Activities the District operates like a business are generally reported in proprietary funds. The District's self-insurance funds are included in this category. Proprietary funds, like the government-wide statements, provide both long-term and short-term financial information. All of the District's proprietary activities are reported in a separate statement of net assets and a statement of revenues, expenses, and changes in net assets. A statement of cash flows is also included to provide more detail and additional information.
- *Fiduciary funds* – The District is the trustee, or *fiduciary*, for certain funds. It is also responsible for other assets that – because of a trust arrangement – can be used only for the trust beneficiaries. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the District's government-wide financial statements because the District cannot use these assets to finance its operations.

SAN DIEGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year ended June 30, 2004

Financial Analysis of the District as a Whole

Net Assets. The District's net assets were approximately \$549.6 million at June 30, 2004 (See Table A-1).

Table A-1
The District's Net Assets
(In millions of dollars)

	Governmental activities		Percentage change
	2004	2003	
Current and other assets	\$ 807.4	595.0	35.7%
Capital and noncurrent assets	1,240.5	927.8	33.7%
Total assets	<u>\$ 2,047.9</u>	<u>1,522.8</u>	34.5%
Current liabilities	233.4	185.3	25.9%
Long-term liabilities	1,264.9	793.1	59.5%
Total liabilities	<u>\$ 1,498.3</u>	<u>978.4</u>	53.1%
Net assets:			
Invested in capital assets net of related debt	507.1	441.8	14.8%
Restricted	70.6	35.5	98.9%
Unrestricted	(28.1)	67.1	(141.9)%
Total net assets	<u>\$ 549.6</u>	<u>544.4</u>	1.0%

The 2003-04 increase in current and other assets of \$212.4 million was primarily due to a \$202.1 million increase in the cash balance in the County School Facilities Fund resulting from the large increase in State apportionment income. Capital and noncurrent assets increased by \$312.7 million related to continued Proposition MM activity as detailed in Table A-4. The \$48.1 million increase in current liabilities was largely a combination of a new \$15.8 million current portion of the District's Supplementary Early Retirement Plan (SERP) and a \$33.4 million increase in accounts payable and other current liabilities. There are many factors contributing to the increase in long-term liabilities. Some of the most significant are: the \$350.0 million of Series E bonds issued under Proposition MM; the \$67.0 million net increase due to accreted interest on capital appreciation bonds; the \$52.5 million liability for the long-term portion of the SERP.

SAN DIEGO UNIFIED SCHOOL DISTRICT

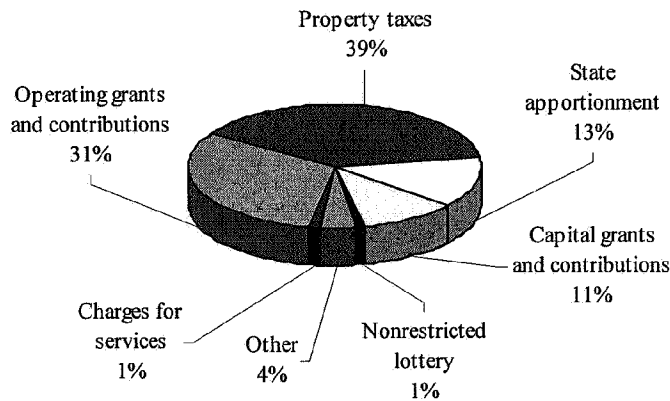
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year ended June 30, 2004

Total net assets either are restricted as to the purposes they can be used for or are invested in capital assets (land, buildings, equipment, etc.). Consequently, unrestricted net assets showed a \$28.1 million deficit at the end of 2004. This deficit does not mean that the District does not have resources available to pay its bills next year. Rather, it is the result of having long-term commitments that are greater than currently available resources. Specifically, the District did not include in past annual budgets the full amounts needed to finance the future liabilities of the actuarially determined workers' compensation liability. Likewise, current resources do not include the full amounts needed to finance the future liabilities of the SERP. The District will include these amounts in future years' budgets as they come due.

Changes in Net Assets. The District's total revenues were \$1,408.7 million. The largest portion, 39%, of the District's revenue comes from property taxes (See Figure A-3). A significant portion, 31%, comes from operating grants and contributions. 13% comes from state apportionment, 11% from capital grants and contributions, 1% from nonrestricted lottery apportionment, 4% from other revenues, while only 1% relates to charges for services.

**Figure A-3. District
Sources of Revenue for Fiscal Year 2004**



SAN DIEGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year ended June 30, 2004

The total cost of all programs and services was \$1,334.4 million; 79% of these costs are for instructional and student services.

Governmental Activities

- The District sold capital bonds of \$350.0 million. These bonds were authorized under Proposition MM for school construction and capital improvements.
- The District completed the site acquisition for four new schools (Normal Heights Elementary, Griffith-Joyner Elementary, Burbank Elementary, and Lincoln High) this year as well as completed construction on 81 Whole Site Modernization Projects. Of these 81 projects, 80 were the last Whole Site Modernization Phase at that school. These projects included work in the following categories:
 - Ceiling tile repair/replacement
 - Roofing repair/replacement
 - Plumbing repair
 - Door and window replacements
 - ADA compliance upgrades
 - Electrical system repair/replacement
 - Interior and exterior painting
 - New/upgraded science classrooms
 - HVAC repair
 - Flooring replacements
 - Upgrade of fire security and alarm systems
 - Asphalt/paving
 - Lunch court shelter construction
 - Playground equipment replacement for safety compliance
 - New/expanded libraries

SAN DIEGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year ended June 30, 2004

Table A-2
Changes in the District's Net Assets
(In millions of dollars)

	Governmental activities		Percentage change
	2004	2003	
Revenues:			
Program revenues:			
Charges for services	\$ 11.9	11.3	5.3%
Operating grants and contributions	439.8	738.1	(40.4)%
Capital grants and contributions	157.3	101.5	55.0%
General revenues:			
Property taxes	551.5	430.2	28.2%
State apportionment	174.8	219.0	(20.2)%
Lottery apportionment – nonrestricted	14.4	14.6	(1.4)%
Mandated cost reimbursement	—	0.2	(100.0)%
Other	59.0	40.0	47.5%
Total revenues	1,408.7	1,554.9	(9.4)%
Expenses:			
Instruction	697.3	707.3	(1.4)%
Instruction related services	196.0	201.0	(2.5)%
Pupil services	162.5	162.5	0.0%
Ancillary services	0.9	1.0	(10.0)%
Community services	0.3	0.3	0.0%
Enterprise	12.7	-	100.0%
General administration	35.9	41.8	(14.1)%
Plant services	146.4	112.6	30.0%
Other outgo	32.6	143.8	(77.3)%
Interest expense	49.8	63.6	(21.7)%
Total expenses	1,334.4	1,433.9	(6.9)%
Increase in net assets before special item	74.3	121.0	(38.6)%
Special item – loss on disposal of equipment	(0.9)	(0.7)	28.6%
Increase in net assets	73.4	120.3	(39.0)%
Beginning net assets (1)	476.2	424.1	12.3%
Ending net assets	\$ 549.6	544.4	1.0%

(1) Beginning net assets does not match ending net assets from previous year due to the following restatements: accreted interest \$(72.1) million, charter schools \$(14.1) million, adjustment to prior-year purchase of land \$12.5 million, deferred maintenance allowance \$1.4 million, and employee benefits \$4.1 million. In addition, the capital grants for 2003 were shown as part of operating grants in the prior year audit.

SAN DIEGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year ended June 30, 2004

District revenues saw the following material changes in 2003-04. A \$298.3 million reduction in operating grants and contributions for 2003-04 was the result of three main factors. First, revenues of over \$143.0 million associated with the Public School Building Corporation did not exist after the close out of this corporation. Second, a reduction of approximately \$33.2 million in various federal and state programs. And lastly, a decrease of \$43.4 million in the Proposition O fund. Property tax revenues increased by \$121.3 million as a result of the increased assessed valuation of property in San Diego. This increase in property tax had an inverse effect on the State apportionment reducing it by \$44.2 million. The State of California's elimination of mandated cost reimbursements was the final material change.

District expenses saw the following material changes for 2003-04. Enterprise expenditures became its own category in 2003-04, reducing expenditures in existing categories. The increase of \$33.8 million in plant services was the result of implementation costs associated with the District-Wide Applications (DWA), startup supplies and non-capitalized equipment/furniture for various renovated school sites, and construction costs related to maintenance and code compliance of existing school infrastructures. Other outgo was reduced by \$111.2 million as a result of Proposition O certificates of participation being paid early in the previous year, resulting in unusually high expenditures for other outgo in 2002-03. The reduction of \$13.8 million in interest payments was also related to the additional amounts that were paid along with the Proposition O certificates in 2002-03.

Table A-3 presents the cost of each of the District's largest functions as well as each function's *net cost* (total cost less fees generated by the activities and intergovernmental aid). The net cost reflects what was funded by state and federal revenues as well as local tax dollars.

- The cost of all *governmental* activities this year was \$1,334.4 million.
- However, the amount that our taxpayers paid for these activities through property taxes was \$551.5 million.
- Some of the cost was paid by those who directly benefited from the programs (\$11.9 million), or by grants and contributions (\$597.1 million).

SAN DIEGO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year ended June 30, 2004

Table A-3
Net Cost of Selected District Functions
(In millions of dollars)

	<u>Total cost of services</u>		<u>Percentage change</u>	<u>Net cost of services</u>		<u>Percentage change</u>
	<u>2004</u>	<u>2003</u>		<u>2004</u>	<u>2003</u>	
Instruction	\$ 697.3	707.4	(1.4)%	\$ 459.6	423.8	8.4%
Instruction related services	196.0	201.0	(2.5)%	129.4	120.2	7.7%
Pupil services	162.5	162.5	0.0%	96.3	88.4	8.9%
Plant services	146.4	112.6	30.0%	(60.5)	(62.9)	(3.8)%
Other	132.2	250.4	(47.2)%	100.7	13.6	640.4%
Total	<u>\$ 1,334.4</u>	<u>1,433.9</u>	(6.9)%	<u>\$ 725.5</u>	<u>583.1</u>	24.4%

Financial Analysis of the District's Funds

Revenues from governmental fund types totaled \$1,396.7 million, while expenditures were \$1,586.9 million. When combined with the \$363.5 million in other financing sources, the governmental funds experienced a \$173.3 million increase in fund balance during the year. This increase was primarily attributed to the following:

- The fund balance of the Capital Projects – Building Fund (Proposition MM) increased by \$33.4 million due to less funds being reserved for year-end encumbrance contracts and that cash from bond proceeds was \$74.9 million higher than last year's receipt.
- The fund balance of the Capital Projects – County School Facilities Fund increased by \$107.6 million due to the large increase in cash received for State apportionments income over the amount of spending of the awards.
- The fund balance of the Bond Interest and Redemption Fund increased by \$20.5 million due to the large appropriations collected in 2003-04 to prepare for the larger interest and new principal payments that would be due on July 1, 2004.
- The fund balances of the other governmental funds increased by \$9.7 million. The primary cause of this was an increase in developer fee income of \$14.5 million, which is to be spent over a 5-year period. Only \$4.8 million had been spent by June 30, 2004.

SAN DIEGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year ended June 30, 2004

General Fund Budgetary Highlights

Over the course of the year, the District revised its budget several times. The following were the major changes between original and amended budget:

- Revenues that were received during the year that were not included in the originally adopted budget – Federal grants and special projects of \$35.0 million and State grants and special projects of \$37.0 million.
- Expenditures that were appropriated during the year that were not included in the originally adopted budget – The District adopted new appropriations as new grants/resources were received during the course of the year as well as the carryover balances for grants/resources after the amounts became known with certainty.

Even with these adjustments, actual expenditures and other financing uses were \$182.8 million below final budget amounts. The most significant positive variances resulted from:

- Salaries and benefits were \$48.3 million below final budget amounts. This variance was primarily due to a hiring freeze imposed during the 2003-04 fiscal year, as well as realizing the natural vacancy savings due to the fact that not all positions are filled for the entire year.
- Books and supplies were \$85.9 million below final budget amounts. This variance can be attributed to a District imposed freeze on the purchases of books and supplies that were deemed to be non-essential to the instructional program or health and safety of students. Additionally, appropriations for these expenditures were not spent but encumbered at the end of the year, in the amount of \$10.5 million.
- Services and other operating expenses were \$28.4 million below final budget amounts. This variance can be attributed to a District imposed freeze on the purchases services that were deemed to be non-essential to the instructional program or health and safety of students. Additionally, appropriations for these expenditures were not spent but encumbered at the end of the year, in the amount of \$3.6 million.

Actual resources available were \$62.8 million below the final budgeted amount. The most significant negative variances resulted from:

- Federal revenues were \$32.5 million below final budget amounts. NCLB/IASA grants were \$17.0 million below appropriations and various other Federal grants were \$15.4 million below. This largely represents grant money that has been received but not spent by June 30, 2004.

SAN DIEGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year ended June 30, 2004

- Other local revenues (excluding interest) were \$16.6 million below final budget amounts. This was a result of two factors: local grants were \$13.6 million below appropriations, representing grant money that has been received but not spent by June 30, 2004; and special education excess taxes of \$3.3 million budgeted under other local revenue were actually recognized as property tax transfers under revenue limit income.

Capital Assets and Debt Administration

Capital Assets

At the end of 2004, the District had invested \$1,240.5 million in a broad range of capital assets, including land, equipment, buildings, and vehicles (See Table A-4).

Table A-4
The District's Capital Assets
(In millions of dollars)

	Governmental activities		Percentage change
	2004	2003	
Land	\$ 209.6	111.9	87.3%
Land improvements	110.8	106.5	4.0%
Buildings	367.4	370.4	(0.8)%
Building improvements	290.8	177.1	64.2%
Personal property and equipment	175.2	136.3	28.5%
Work in progress	455.4	366.6	24.2%
Totals at historical cost	1,609.2	1,268.8	26.8%
Total accumulated depreciation	(368.7)	(341.0)	8.1%
Net capital assets	\$ 1,240.5	927.8	33.7%

Net capital assets increased by \$312.7 million in 2003-2004. The primary components of this increase include: an increase of \$97.7 million in land, most of which was from purchases for new schools; an increase of \$113.7 million in building improvements and \$38.9 million in personal property and equipment from the completion of various Proposition MM projects; and an increase of \$88.8 million in work in progress for the continuation of Proposition MM projects for building new schools and remodeling existing schools. Completion of these projects will be occurring at various times through 2008.

SAN DIEGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year ended June 30, 2004

The District's fiscal year 2005 capital budget projects spending another \$369.0 million for capital projects, principally for school construction and capital improvements. This spending will primarily be financed by the proceeds from the bonds issued this year. More detailed information about the District's capital assets is presented in note 9 to the financial statements.

Long-Term Borrowings

Bond Ratings

The District's bonds presently carry ratings as follows: Moody's Investor Services "Aa2" and Standard & Poors "AA."

At year-end, the District had \$1,180.6 million in bonds and notes outstanding as shown in Table A-5. More detailed information about the District's debt is presented in the notes to the financial statements.

Table A-5
The District's Long-Term Borrowings
(In millions of dollars)

	Governmental activities		Percentage change
	2004	2003	
Bonds payable	\$ 1,180.6	765.0	54.3%

The increase in bonds payable is primarily due to the issuance of \$350.0 million of Series E bonds under Proposition MM.

Short-Term Debt

The District issued \$200,000,000 of Tax Revenue Anticipation Notes dated July 1, 2003 through the California School Boards Association Finance Corporation's Cash Reserve Program (Series 2003-04). The notes matured on June 30, 2004 and yielded 0.89% interest. The notes were sold by the District to supplement its cash flow.

SAN DIEGO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year ended June 30, 2004

Repayment requirements were that \$100,000,000 principal be repaid by January 14, 2004 and \$100,000,000 principal plus \$3,988,889 interest be paid by April 30, 2004.

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

Economic Factors and Next Year's Budgets and Rates

- The Governor signed a \$105.4 billion 2004-05 State Budget (the "2004-05 Budget") on July 31, 2004, addressing a State budget shortfall through program savings, borrowing, local government contributions and funding shifts. The State's 2004-05 Budget assumed 2004-05 revenues of \$77.3 billion, expenditures of \$78.8 billion and a year-end reserve of \$678.0 million. Approximately \$268.0 million of the reserve was designated for Proposition 98 and the remaining \$410.0 million was designated for non-Proposition 98 purposes.

The 2004-05 K-12 Budget assumed spending of \$42.1 billion for Proposition 98 funding in 2004-05 and suspended the Proposition 98 minimum guarantee at a level approximately \$2.1 billion less than otherwise required for 2004-05.

The items in the State Budget that had a major impact on the District's 2004-2005 budgets are the following:

- Revenue Limit Growth: The State budget reflected \$508.5 million for enrollment growth. The District continues to decline in enrollment. The 2004-2005 budget includes a reduction in revenue limit resources of \$23.0 million due to enrollment decline.
- COLA: The 2004-05 State Budget included \$1.0 billion to provide a 2.41 percent COLA increase to K-12 programs. The District's 2004-05 budget includes \$13.1 million for revenue limit COLA.
- Deficit Reduction: The State Budget included \$270.0 million to reduce the deficit factor on base revenue limits from 1.2 percent to 0.3 percent. The District included in the 2004-05 budget an increase in resources of \$4.8 million for revenue limit deficit reduction.

SAN DIEGO UNIFIED SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year ended June 30, 2004

- Deferred Maintenance: The 2004-05 State Budget fully funded the deferred maintenance program by including \$250.3 million for district deferred maintenance needs. The District's Deferred maintenance Budget included \$5.1 million of State funding.
- Equalization Aid: The 2004-05 Budget included \$109.9 million for equalization of school district revenue limits. This closed 26 percent of the remaining gap of the targeted 90th percentile of the distribution of revenue limits. The District's 2004-05 budget includes \$2.4 million for equalization aid.
- Assessed valuation used for the 2005 budget preparation will be up \$6.0 billion, or 7.4% from 2004.
- The District's 2005 second period average daily attendance (excluding charter schools and adult education) is budgeted as 118,971, down 2.7%.

These indicators were taken into account when adopting the General Fund budget for 2005. Amounts available for appropriation in the General Fund budget are \$1,062.9 million, a decrease of 13.6% over the final 2004 budget of \$1,229.7 million. The decrease in the District's revenue budgets is primarily due to the decline in enrollment. For the 2004-2005 budget year, the District projected a decline of 2,000 students. Property taxes are budgeted to increase due to an increase in assessed valuation.

Expenditures and other financing uses are budgeted to fall 16.8%, from \$1,245.8 million to \$1,036.5 million in 2005. The primary contributor to this is the reduction in school site allocations of \$13.2 million due to the projected decline in enrollment. Additionally, actions that reduced General Fund expenditures were approved by the Board of Education for the 2004-2005 fiscal year to balance the budget. Budget reductions were: \$22.0 million in sites reductions; \$7.0 million in Special Education; \$3.0 million in site and central office work reduction; \$10.0 million in the Core Instructional Improvement Allocation; and transfers of General Fund capital expenditures of \$3.4 million that was eligible for State School Facilities funding. In 2004-2005 expenditures for the district's ERP implementation is projected to decrease by \$9.0 million. During the year it is typical for the District to receive and appropriate resources from grants and other special projects. This accounts for the remaining variance.

The District has added two major new programs to the 2005 budget. One is the Williams Case grant, a \$3.0 million state grant for instructional materials, safe schools, and quality teachers. The other is the Smaller Learning Communities Program, a \$4.1 million federal grant from the United States Department of Education.

SAN DIEGO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year ended June 30, 2004

If these estimates are realized, the District's budgetary General Fund balance is expected to decrease by the close of 2005.

Contacting the District's Financial Management

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

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2004

<u>Assets</u>	<u>Governmental Activities</u>
Cash	\$ 652,767,456
Accounts receivable:	
Federal and state governments	80,255,409
Miscellaneous	71,327,904
Inventories	2,162,109
Prepaid expenditures	878,713
Land	209,659,350
Work in progress	455,384,018
Depreciable assets, net	<u>575,493,582</u>
Total Assets	<u>2,047,928,541</u>
<u>Liabilities</u>	
Accounts payable and other current liabilities	133,690,506
Deferred revenue	14,724,521
Current portion of long-term liabilities:	
Arbitrage liabilities payable	613,034
Claims and judgements payable	18,932,403
Compensated absences	11,167,313
General obligation bonds	38,510,001
Loan payable	6,382
Supplemental Early Retirement Plan	15,809,593
Non-current portion of long-term liabilities:	
Arbitrage liabilities payable	2,347,714
Claims and judgements payable	36,012,597
Deferred bond premium	32,008,276
General obligation bonds	1,142,052,255
Loan payable	11,505
Supplemental Early Retirement Plan	<u>52,451,772</u>
Total Liabilities	<u>1,498,337,872</u>
<u>Net Assets</u>	
Invested in capital assets, net of related debt	507,132,800
Restricted for:	
Categorical Programs	43,300,507
Debt service	27,289,811
Unrestricted	<u>(28,132,449)</u>
Total Net Assets	<u>\$ 549,590,669</u>

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2004

Functions	Program Revenues				Net (Expense) Revenue and Changes in Net Assets
Governmental Activities	Expenses	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Instruction	\$ 697,279,033	\$ 856,746	\$ 236,799,155	\$	\$ (459,623,132)
Instruction - related services	196,011,950		66,566,557		(129,445,393)
Pupil services	162,485,377	10,996,225	55,180,778		(96,308,374)
Ancillary services	900,278		305,739		(594,539)
Community services	270,128		91,737		(178,391)
Enterprise activities	12,699,392		7,826,109		(4,873,283)
General administration	35,918,792		12,198,186		(23,720,606)
Plant services	146,450,945		49,735,412	157,312,322	60,596,789
Other outgoing	32,581,483		11,064,821		(21,516,662)
Debt service - interest	49,812,187				(49,812,187)
Total School District	\$ 1,334,409,565	\$ 11,852,971	\$ 439,768,494	\$ 157,312,322	(725,475,778)
General Revenues and Special Items					
Property taxes levied for					460,317,155
General purposes					89,303,580
Debt service					1,923,426
Other specific purposes					129,975,166
Revenue Limit - State Aid					18,207,454
Federal aid not restricted to specific purposes					37,357,977
Class size reduction					14,364,326
State Lottery - non-restricted					6,135,978
Interest and investment earnings - realized and unrealized					42,194,341
Miscellaneous					(895,432)
Loss on disposal of equipment					798,883,971
Total General Revenues and Special Items					798,883,971
Change in net assets					73,408,193
Net Assets - Beginning of Year, as originally stated					544,351,883
Adjustment for restatement (see note 14)					(68,169,407)
Net Assets - Beginning of Year, as restated					476,182,476
Net Assets - End of Year					549,590,669

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

**BALANCE SHEET - GOVERNMENTAL FUNDS
June 30, 2004**

	<u>General Fund</u>	<u>Building Fund</u>	<u>County School Facilities Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
<u>Assets</u>						
Cash in county treasury	\$ 7,127,394	\$ 255,299,514	\$ 223,812,192	\$ 77,366,438	\$ 71,522,809	\$ 635,128,347
Cash on hand and in banks					681,770	681,770
Cash in revolving fund	83,555				500	84,055
Accounts receivable:						
Federal and state governments	55,925,169		21,567,149		14,205,598	91,697,916
Miscellaneous	57,278,917	1,082,076	682,288	229,054	552,973	59,825,308
Due from other funds	60,073,751				6,486,995	66,560,746
Inventories	986,042				1,176,066	2,162,108
Prepaid expenditures	878,705					878,705
Total Assets	\$ 182,353,533	\$ 256,381,590	\$ 246,061,629	\$ 77,595,492	\$ 94,626,711	\$ 857,018,955
<u>Liabilities and Fund Balances</u>						
<u>Liabilities</u>						
Accounts payable	\$ 49,881,600	\$ 22,992,700	\$ 334,949	\$ 56,834,370	\$ 2,476,484	\$ 132,520,103
Due to other funds	13,865,868	15,168,431	23,635,659		28,738,260	81,408,218
Deferred revenue	14,672,303				54,807	14,727,110
Total Liabilities	78,419,771	38,161,131	23,970,608	56,834,370	31,269,551	228,655,431
Fund Balances						
Reserved for special purposes	1,948,302				1,176,566	3,124,868
Restricted for special purposes	43,300,507					43,300,507
Restricted for debt service				20,761,122	6,528,689	27,289,811
Designated	58,684,953	210,434	1,369,469		1,880,976	62,145,832
Undesignated		218,010,025	220,721,552		53,770,929	492,502,506
Total Fund Balances	103,933,762	218,220,459	222,091,021	20,761,122	63,357,160	628,363,524
Total Liabilities and Fund Balances	\$ 182,353,533	\$ 256,381,590	\$ 246,061,629	\$ 77,595,492	\$ 94,626,711	\$ 857,018,955

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

June 30, 2004

Total fund balances – governmental funds	\$ 628,363,524
Amounts reported for governmental activities in the statement of net assets are different because:	
Capital assets, net of accumulated depreciation, used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds.	1,240,536,950
Certain Bond issue costs are not recorded at fund level.	(32,008,276)
Internal service funds are used by the District’s management to charge the cost of the health and welfare insurance programs to the individual funds. The assets and liabilities of the internal service funds are included with governmental activities.	(24,331,960)
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:	
Bonds payable/Notes payable	(1,180,580,143)
Supplemental Early Retirement Plan	(68,261,365)
Arbitrage Liability	(2,960,748)
Accrued vacation payable	<u>(11,167,313)</u>
Total net assets – governmental activities	\$ <u>549,590,669</u>

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2004

	<u>General Fund</u>	<u>Building Fund</u>	<u>County School Facilities Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
Revenues						
Revenue limit sources:						
State apportionments	\$ 157,571,942	\$	\$ 156,490,963	\$	\$ 1,076,558	\$ 315,139,463
Local sources	460,317,154	-	156,490,963	-	-	460,317,154
Total revenue limit sources	617,889,096	-	312,981,926	-	1,076,558	775,456,617
Federal sources	118,085,626	-	-	1,028,543	28,984,358	147,069,984
Other state sources	279,943,501	-	823,959	82,306,153	26,666,695	307,638,739
Other local sources	39,707,323	3,987,769	823,959	82,306,153	39,733,757	166,558,961
Total Revenues	<u>1,055,625,546</u>	<u>3,987,769</u>	<u>157,314,922</u>	<u>83,334,696</u>	<u>96,461,368</u>	<u>1,396,724,301</u>
Expenditures						
Instruction	613,770,142				15,698,199	629,468,341
Instruction - related services	175,240,834				3,853,842	179,094,676
Pupil services	109,163,660				41,829,139	150,992,799
Ancillary services	906,169				906,169	906,169
Community services	271,360				271,360	271,360
Enterprise	2,666,754				37,510	2,704,264
General administration	45,329,709				1,168,004	46,497,713
Plant services	72,418,973	320,597,002	49,755,081		19,187,434	461,958,490
Other outgo	35,477,987			25,939,007	6,266	61,423,260
Debt service				53,610,063	7,279	53,617,342
Total Expenditures	<u>1,055,245,588</u>	<u>320,597,002</u>	<u>49,755,081</u>	<u>79,549,070</u>	<u>81,787,673</u>	<u>1,586,934,414</u>
Excess (deficiency) of revenues over expenditures	<u>379,958</u>	<u>(316,609,233)</u>	<u>107,559,841</u>	<u>3,785,626</u>	<u>14,673,695</u>	<u>(190,210,113)</u>
Other Financing Sources (Uses)						
Interfund transfers in	4,527,753				5,813,875	10,341,628
Proceeds from sale of bonds		349,993,599				349,993,599
All other financing sources	5,000,000			16,700,944	(2,823,818)	18,877,126
Interfund transfers out	(7,768,497)				(7,924,153)	(15,692,650)
Total Other Financing Sources (Uses)	<u>1,759,256</u>	<u>349,993,599</u>	<u>-</u>	<u>16,700,944</u>	<u>(4,934,096)</u>	<u>363,519,703</u>
Net changes in fund balances	2,139,214	33,384,366	107,559,841	20,486,570	9,739,599	173,309,590
Fund Balances - Beginning of Year, as previously reported (see note 1B)	97,677,318	184,836,093	114,531,180	274,552	52,253,342	449,572,485
Adjustment for restatement (see note 14)	4,117,230				1,364,219	5,481,449
Fund Balances - Beginning of Year, as restated	<u>101,794,548</u>	<u>184,836,093</u>	<u>114,531,180</u>	<u>274,552</u>	<u>53,617,561</u>	<u>455,053,934</u>
Fund Balances - End of Year	<u>\$ 103,933,762</u>	<u>\$ 218,220,459</u>	<u>\$ 222,091,021</u>	<u>\$ 20,761,122</u>	<u>\$ 63,357,160</u>	<u>\$ 628,363,524</u>

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2004**

Net change in fund balances – total governmental funds \$ 173,309,590

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

Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlay	332,815,554
Depreciation Expense	<u>(32,542,716)</u>

Excess of capital outlay over depreciation expense 300,272,838

Expenses reported in the government-wide financials are expensed over time in the fund statements for Supplemental Early Retirement Plan (68,261,365)

Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which proceeds exceeded repayments (334,047,611)

Internal service funds are used by the District to charge the costs of the health and welfare insurance programs to the individual funds. The net loss of the internal service funds is reported with governmental activities. (356,853)

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Net decrease in compensated absences	<u>2,491,594</u>
--------------------------------------	------------------

Change in net assets of governmental activities \$ 73,408,193

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT
STATEMENT OF FUND NET ASSETS
PROPRIETARY FUNDS
June 30, 2004

	Liability Fund	Property Fund	Workers' Compensation Fund	Dental Fund	Total
Assets					
Cash in county treasury	\$ 2,446,010	\$ 1,974,554	\$ 9,498,306	\$ 2,589,414	\$ 16,508,284
Cash in revolving fund	200,000				200,000
Cash with fiscal agent			40,000	125,000	165,000
Accounts receivable:					
Miscellaneous	10,385	6,440	42,612	911	60,348
Due from other funds	380,566		13,101,730	2,338,819	15,821,115
Total Assets	<u>3,036,961</u>	<u>1,980,994</u>	<u>22,682,648</u>	<u>5,054,144</u>	<u>32,754,747</u>
Liabilities					
Accounts payable	78,013	85,236	606,830	397,985	1,168,064
Claims and judgements (see note 10)	2,727,000		52,218,000		54,945,000
Due to other funds		973,643			973,643
Total Liabilities	<u>2,805,013</u>	<u>1,058,879</u>	<u>52,824,830</u>	<u>397,985</u>	<u>57,086,707</u>
Net Assets					
Reserved for special purposes			40,000	125,000	165,000
Designated for special purposes		44,117	1,578		45,695
Undesignated	231,948	877,998	(30,183,760)	4,531,159	(24,542,655)
Total Net Assets	<u>\$ 231,948</u>	<u>\$ 922,115</u>	<u>\$ (30,142,182)</u>	<u>\$ 4,656,159</u>	<u>\$ (24,331,960)</u>

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS
 PROPRIETARY FUND

For the Fiscal Year Ended June 30, 2004

	Liability Fund	Property Fund	Workers' Compensation Fund	Dental Fund	Total
Operating Revenues					
Self-insurance premiums				\$ 9,530,080	\$ 36,088,875
Other operating revenues	67		\$ 26,558,795		67
Total Operating Revenues	<u>67</u>		<u>26,558,795</u>	<u>9,530,080</u>	<u>36,088,942</u>
Operating Expenditures					
Salaries	156,296	104,127	120,166	16,286	396,875
Benefits	58,029	35,047	43,885	5,663	142,624
Other supplies	1,851	13,454	4,383		19,688
Payments for health and welfare claims	2,958,037	1,142,425	28,076,246	9,340,975	41,517,683
Total Operating Expenditures	<u>3,174,213</u>	<u>1,295,053</u>	<u>28,244,680</u>	<u>9,362,924</u>	<u>42,076,870</u>
Operating (loss)	(3,174,146)	(1,295,053)	(1,685,885)	167,156	(5,987,928)
Non-Operating Revenues					
Interest income	27,041	17,246	204,781	30,985	280,053
Net income (loss) before operating transfers	<u>(3,147,105)</u>	<u>(1,277,807)</u>	<u>(1,481,104)</u>	<u>198,141</u>	<u>(5,707,875)</u>
OPERATING TRANSFERS FROM OTHER FUNDS					
Operating transfers in	3,447,724	1,903,298			5,351,022
TOTAL OPERATING TRANSFERS FROM OTHER FUNDS	<u>3,447,724</u>	<u>1,903,298</u>	<u>-</u>	<u>-</u>	<u>5,351,022</u>
Change in net assets	300,619	625,491	(1,481,104)	198,141	(356,853)
Net Assets at Beginning of Year, as previously reported	2,703,329	296,624	18,668,408	4,458,018	26,126,379
Adjustment for restatement (see note 14)	(2,772,000)		(47,329,486)		(50,101,486)
Net Assets at Beginning of Year, as restated	(68,671)	296,624	(28,661,078)	4,458,018	(23,975,107)
Net Assets at End of Year	<u>\$ 231,948</u>	<u>\$ 922,115</u>	<u>\$ (30,142,182)</u>	<u>\$ 4,656,159</u>	<u>\$ (24,331,960)</u>

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 INCREASE (DECREASE) IN CASH
 For the Fiscal Year Ended June 30, 2004**

	Governmental Activities
	Self Insurance Funds
Cash Flows from Operating Activities	
Cash received from premiums and other revenues	\$ 20,383,433
Cash paid for claims and operating expenses	<u>(35,105,467)</u>
Net cash used by operating activities	(14,722,034)
Cash Flows from Investing Activities	
Interest income	<u>308,592</u>
Cash Flows from Financing Activities	
Cash received for operating transfer in	<u>5,351,022</u>
Net decrease in cash and cash equivalents	(9,062,420)
Cash and cash equivalents - July 1, 2003	<u>25,935,704</u>
Cash and cash equivalents - June 30, 2004	<u>\$ 16,873,284</u>
Adjustments to Reconcile Operating (Loss) to Net Cash Provided by Operating Activities	
Operating Loss	\$ (5,987,928)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Decrease in accounts receivable	75,305
Increase in due from other funds	(13,329,359)
Increase in accounts payable	323,565
Increase in claims and judgements	<u>4,196,383</u>
Total adjustments	<u>(8,734,106)</u>
Net Cash Used by Operating Activities	<u>\$ (14,722,034)</u>
Cash balances at June 30, 2004 consisted of the following:	
Cash in county treasury	\$ 16,508,284
Cash in revolving fund and with fiscal agent	<u>365,000</u>
Total cash balances at June 30, 2004	<u>\$ 16,873,284</u>

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATEMENT OF FUND NET ASSETS - FIDUCIARY FUNDS
June 30, 2004

	<u>Associated Student Body Funds</u>
<u>Assets</u>	
Cash on hand and in banks:	
Checking	\$ 4,594,008
Savings	2,342,702
Accounts receivable:	
Miscellaneous	165,658
Prepaid expense	25,267
Stores inventory	<u>356,735</u>
Total Assets	<u>\$ 7,484,370</u>
<u>Liabilities</u>	
Accounts payable	\$ 107,658
Funds held in trust	<u>7,376,712</u>
Total Liabilities	<u>\$ 7,484,370</u>

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The District accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's California School Accounting Manual, updated to conform to the most current financial and reporting requirements promulgated by the California Department of Education. The accounting policies of the District conform to generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants.

The significant accounting policies applicable to the District are described below.

A. BASIS OF PRESENTATION:

The accompanying financial statements have been prepared in conformity with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board (GASB), including Statement No. 34, Basic Financial Statements and Management's Discussion and Analysis – for State and Local Governments and Audits of State and Local Governmental Units issued by the American Institute of Certified Public Accountants. The financial statement presentation required by GASB No. 34 provides a comprehensive, entity-wide perspective of the District's financial activities. The entity-wide perspective enhances the fund-group perspective previously required. Fiduciary activities are excluded from the basic financial statements. The Fiduciary activities of the District's component unit are reported separately in the Fiduciary Fund statements.

The School District's basic financial statements consist of government-wide statements, including a statement of net assets and a statement of activities, and fund financial statements.

1. Government-wide Financial Statements:

The statement of net assets and the statement of activities display information about the District as a whole. These statements include the financial activities of the primary government, including governmental activities of proprietary funds. Fiduciary funds are excluded.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

A. BASIS OF PRESENTATION: (continued)

1. Government-wide Financial Statements: (continued)

The statement of net assets presents the financial condition of the governmental activities of the District at year-end. The statement of activities presents a comparison between direct expenses and program revenues for each program or function of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program, grants and contributions that are restricted to meeting the operational or capital requirements of a particular program and interest earned on grants that is required to be used to support a particular program. Revenues which are not classified as program revenues are presented as general revenues of the District. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

2. Fund Financial Statements:

During the year, the District segregates transactions related to certain District functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the District at this more detailed level. The focus of governmental fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. The fiduciary and proprietary funds are reported by type.

The fund financial statement expenditures are presented in a function-oriented format. The following is a brief description of the functions:

Instruction – includes the activities directly dealing with the interaction between teachers and students.

Instruction-related services – includes supervision of instruction, instructional library, media and technology, and school site administration.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

A. BASIS OF PRESENTATION: (continued)

2. Fund Financial Statements: (continued)

Pupil services – includes home to school transportation, food services and other pupil services.

Ancillary services – includes activities that are generally designed to provide students with experiences outside the regular school day.

Community services – includes activities that provide services to community participants other than students.

Enterprise activities – includes activities that are financed and operated in a manner similar to private business enterprises, where the stated intent is that the costs are financed or recovered primarily through user charges. This function is used with self-insurance funds and retiree benefit funds.

General administration – includes data processing services and all other general administration services.

Plant services – includes activities of maintaining the physical plant. This also includes facilities acquisition and construction expenditures.

Other outgo – includes transfers to other agencies.

The proprietary and fiduciary fund expenditures are presented by natural classification.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. FUND ACCOUNTING:

To ensure compliance with the California Education Code, the financial resources of the District are divided into separate funds for which separate accounts are maintained for recording cash, other resources and all related liabilities, obligations and equities.

The statements of revenue, expenditures and changes in fund balance are statements of financial activities of the particular fund related to the current reporting period. Expenditures of the various funds frequently include amounts for land, buildings, equipment, retirement of indebtedness, transfers to other funds, etc. Consequently, these statements do not purport to present the result of operations or the net income or loss for the period as would a statement of income for a profit-type organization. The modified accrual basis of accounting is used for all governmental funds.

GOVERNMENTAL FUNDS - MAJOR

General Fund - the general operating fund of the District is used to account for all financial resources except those required to be accounted for in another fund. The Foundation trust activity is included as an asset and liability in the General Fund.

In the 2002-03 audited financial statements, the activity of the Special Reserve Fund for Post Employment Benefits and the Proprietary Funds were combined with the General Fund as follows:

2002-03 ending fund balance – General Fund	\$ 97,677,318
2002-03 ending fund balance – Proprietary Funds	26,126,379
2002-03 ending fund balance – Postemployment Benefits Fund	<u>2,264,696</u>
2002-03 Audited ending fund balance – General Fund, as previously reported	<u>\$126,068,393</u>

Building Fund – used to account for repairs, construction and/or acquisition of major capital facilities; acquisition, retro-fitting, and operation of real property and the proceeds of Proposition MM general obligation bonds. The Building Fund is a consolidation of two sub-funds.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. FUND ACCOUNTING: (continued)

GOVERNMENTAL FUNDS – MAJOR (continued)

Bond Interest and Redemption Fund - used to account for bond interest and redemption of bond principle.

County School Facilities Fund – used to account for the School Facility Program grants award for modernization and new construction of various school sites.

GOVERNMENTAL FUNDS – NON-MAJOR

Classification changes from the 2002-03 audited financial statements are as follows:

2002-03 Audited ending fund balance – Other Governmental Funds, as previously reported	\$ 64,362,153
2002-03 Audited ending fund balance – Charter School Fund, as previously reported	(14,098,955)
2002-03 ending fund balance – Bond Interest and Redemption Fund (Major Fund 2003-04)	(274,552)
2002-03 ending fund balance – Postemployment Benefits Fund	<u>2,264,696</u>
2002-03 ending fund balance – Other Governmental Funds	<u>\$ 52,253,342</u>

Debt Service Funds – used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

1. Tax Override Fund - used to account for the repayment of voted indebtedness tax levies (other than bond interest and redemption fund payments) to be financed from AdValorem Tax Levies.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. FUND ACCOUNTING: (continued)

GOVERNMENTAL FUNDS – NON-MAJOR (continued)

Special Revenue Funds - used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

1. Adult Education Fund - used to account for resources committed to adult education programs maintained by the District.
2. Child Development Fund - used to account for resources committed to child development programs maintained by the District.
3. Cafeteria Fund - used to account for revenues received and expenditures made to operate the District's cafeterias.
4. Deferred Maintenance Fund - used for the purpose of major repair or replacement of District property.
5. Pupil Transportation Equipment Fund – used to account for resources committed for the acquisition, rehabilitation or replacement of pupil transportation equipment.
6. Special Reserve for Postemployment Benefits Fund – used to account for future payments of health and welfare benefits.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. FUND ACCOUNTING: (continued)

GOVERNMENTAL FUNDS – NON-MAJOR (continued)

Capital Projects Funds - used to account for the acquisition and/or construction of major governmental general fixed assets.

1. Capital Facilities Fund – used to account for monies received from fees levied on developers or other agencies as a condition of approving developments. Expenditures are restricted to capital projects related to housing students.
2. Redevelopment Agencies Fund – used to account for resources received from residential and commercial developer impact fees and for tax allocations received from the Centre City Development Corporation and the City of San Diego. The Capital Facilities Fund is a consolidation of two sub-funds.
3. State School Building Fund – used for modernization and construction projects funded by State apportionments.
4. Balboa Stadium Fund – used to account for monies received for the use and maintenance of Balboa Stadium.
5. Special Reserve Fund – used to account for specific board-approved capital expenditures.
6. Property Management Fund – used to account revenues received from the rental and lease of facilities and land.
7. Prop O Fund – used to account for reimbursements and expenditures related to the State under the Federal Renovation Program.
8. Energy Efficiency Fund – used to receive excess amounts sufficient to pay certain Public School Building Corporation unpaid bond obligations.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

B. FUND ACCOUNTING: (continued)

PROPRIETARY FUNDS

Internal Service Funds - used to account for services rendered on a cost-reimbursement basis within the District. The Internal Service Fund consists of four sub-funds as follows: Liability Insurance Fund - used to account for resources committed to the District's self-insurance program for liability insurance; Property Insurance Fund - used to account for resources committed to the District's self-insurance program for property insurance; Workers' Compensation Fund - used to account for resources committed to the District's self-insurance program for workers' compensation; and Dental Fund - used to account for resources committed to the District's dental insurance program.

In the 2002-03 audited financial statements, these funds were combined with the General Fund. For this report, these funds have been displayed separately. This is merely a change in financial statement presentation and therefore, has no effect on the accounting policies of these funds.

FIDUCIARY FUNDS

Associated Student Body Funds - used to account for raising and expending money to promote the general welfare, morale and educational experiences of the student body. The District operates one hundred and seventy five Associated Student Body funds.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING:

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of measurement made, regardless of the measurement focus applied.

Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds use the accrual basis of accounting. Differences in the accrual and the modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

In accordance with GASB Statement No. 20, the District's proprietary funds follow all GASB statements issued prior to November 30, 1989 until subsequently amended, superceded or rescinded. The District also applies all FASB statements issued after November 30, 1989 that are developed for business enterprises, unless those statements conflict with or contradict a GASB statement.

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash in the County treasury is recorded at fair value, in accordance with the requirements of GASB Statement No. 31.

2. Receivables

Receivables are generally recorded when the amount is earned and can be estimated. Per Education Code Section 33128.1, a local education agency may recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current year costs as a receivable in the current year. The District accrued a receivable for an adjustment to the PERS reduction regarding the Target Instructional Improvement Grant related to fiscal years 2001-02 and 2002-03. The total amount accrued was \$2,531,792.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

3. Inventory

Inventories are presented at the lower of cost or market on an average basis and are expensed when used.

Inventory consists of expendable supplies held for consumption. At June 30, 2004, the inventory for supplies is \$986,042. The inventory for food is \$1,176,066.

4. Prepaid Expenses

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2004, 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.

5. Capital Assets

Generally, capital assets result from expenditures in the governmental funds. These 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. 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.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

5. Capital Assets (continued)

All reported capital assets except for land and work in progress are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives and allocated to the appropriate functions:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	20 to 50 years
Furniture and Equipment	5 to 15 years
Vehicles	6 years

6. Deferred Revenue

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

7. Compensated Absences

In accordance with GASB Statement No. 16, accumulated unpaid employee vacation benefits are recognized as a liability of the District. The entire compensated absences liability is reported on the government-wide financial statements.

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

7. Compensated Absences (continued)

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

8. Long Term Obligations

The District reports long-term debt of governmental funds at face value in the government-wide financial statements. Long-term debt and other obligations financed by proprietary funds are reported as liabilities in the appropriate funds.

9. Fund Balance Reservations and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriable for expenditure. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period. Section 39 of AB 1754 provides that, for the 2003-04 fiscal year only, Districts may use up to 100 percent of their general fund and cafeteria fund restricted balances as of June 30, 2003 to mitigate the 1.2 percent reduction in revenue limits. However, Section 39 states that Districts may not use funds reserved for capital outlay, bond funds, sinking funds, or federal funds; or balances in the following programs: Special Education, Economic Impact Aid, Targeted Instructional Improvement Grants, Public School Accountability Act programs (II/USP and HPSGP), and Instructional Materials. The amounts transferred from restricted programs in 2003-04 was \$6,517,864.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

10. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors or laws or regulations of other governments. The negative unrestricted assets of \$(28,132,449) is a result of recognizing the long-term liabilities referred to in Note 8.

11. State Apportionments

Certain current year apportionments from the State are based upon various financial and statistical information of the previous year. Second period to annual corrections for revenue limits and other state apportionments (either positive or negative) are accrued at the end of the fiscal year. See Note 1 C 2.

12. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31.

Real and personal property tax revenues are reported in the same manner in which the County auditor records and reports actual property tax receipts to the Department of Education. This is generally on a cash basis. A receivable has not been recognized in the General Fund for property taxes due to the fact that any receivable is offset by a payable to the State for revenue limit purposes. Property taxes for debt service purposes are not material and have therefore not been accrued in the Government-wide financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

C. BASIS OF ACCOUNTING: (continued)

13. On-Behalf Payments

GASB Statement No. 24 requires that direct on-behalf payments for fringe benefits and salaries made by one entity to a third party recipient for the employees of another, legally separate entity be recognized as revenue and expenditures by the employer government. The State of California makes direct on-behalf payments for retirement benefits to the State Teachers and Public Employees Retirement Systems on behalf of all school districts in California. However, a fiscal advisory was issued by the California Department of Education instructing districts not to record revenue and expenditures for these on-behalf payments. The amount of on-behalf payments made for the District is estimated at \$22,741,000 for STRS and \$162,700 for PERS.

14. Estimates

The preparation of the financial statements in conformity with generally accepted accounting principles 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.

15. Contributed Services

Generally accepted accounting principles require that contributions of donated services that create or enhance non-financial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are to be recorded at fair value in the period received. Although the District receives numerous hours of volunteer time, it is not deemed necessary to record these hours on the books of the District based on the above guidelines. In addition, the District receives donations of immaterial equipment and supplies which are not recorded upon receipt.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

D. REPORTING ENTITY:

The District is the level of government primarily accountable for activities related to public education. The governing authority consists of elected officials who, together, constitute the Board of Education.

The District considered its financial and operational relationships with potential component units under the reporting entity definition of GASB Statement No. 14, The Financial Reporting Entity. The basic, but not the only, criterion for including another organization in the District's reporting entity for financial reports is the ability of the District's elected officials to exercise oversight responsibility over such agencies. Oversight responsibility implies that one entity is dependent on another and that the dependent unit should be reported as part of the other.

Oversight responsibility is derived from the District's power and includes, but is not limited to: financial interdependency; selection of governing authority; designation of management; ability to significantly influence operations; and accountability for fiscal matters.

Based upon the requirements of GASB Statement No. 14, and as amended by GASB Statement No. 39, Determining Whether Certain Organizations are Component Units, certain organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the District, including their ongoing financial support to the District or its other component units. A legally separate, tax-exempt organization should be reported as a component unit of the District if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the District, its component units, or its constituents.
2. The District, or its component units, is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the District, or its component units, is entitled to, or has the ability to otherwise access, are significant to the District.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (continued)

D. REPORTING ENTITY: (continued)

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

Various PTA, PTO and Booster Clubs – Each of these types of organizations at each of the school sites within the District were evaluated using the three criterion listed above. Each entity has been excluded as a component unit because the third criterion was not met in all cases; the economic resources received and held by the PTA, PTO and the Booster Club individually are not significant to the District.

Charter Schools – The District has 20 charter schools which operate within the District's boundaries. These charter schools receive their funding directly from other government agencies; and have a separate governing board. Each charter school has an independent audit performed annually. The financial information has been grouped by business type, i.e., not for profit or governmental. The condensed audited financial information for June 30, 2004 is presented below.

	<u>Total Not for Profit</u>	<u>Total Governmental</u>	<u>Total Charter Schools</u>
Total assets	\$ 14,868,533	\$ 23,255,312	\$ 38,123,845
Total liabilities	<u>3,523,388</u>	<u>15,934,184</u>	<u>19,457,572</u>
Total net assets	<u>\$ 11,345,145</u>	<u>\$ 7,321,128</u>	<u>\$ 18,666,273</u>
Total revenue	\$ 21,753,141	\$ 35,740,103	\$ 57,493,244
Total expenses	<u>18,095,941</u>	<u>35,020,849</u>	<u>53,116,790</u>
Change in net assets	<u>\$ 3,657,200</u>	<u>\$ 719,254</u>	<u>\$ 4,376,454</u>

Separate financial statements for these entities can be obtained through the District.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 2 - BUDGETS:

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

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

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

NOTE 3 - DEPOSITS:

Cash at June 30, 2004, consisted of the following:

	<u>Statement of Net Assets</u>	<u>Statement of Fiduciary Net Assets</u>	<u>Total</u>
Deposits:			
Cash on Hand and in Banks	\$ 681,770	\$ 6,936,710	\$ 7,618,480
Cash in Revolving Fund	284,055		284,055
Cash with Fiscal Agent	<u>165,000</u>		<u>165,000</u>
Total	<u>1,130,825</u>	<u>6,936,710</u>	<u>8,067,535</u>
Pooled Funds (not required to be categorized):			
Cash in County Treasury, at cost	655,403,081		655,403,081
Unrealized Loss on Investment	<u>(3,766,450)</u>		<u>(3,766,450)</u>
Cash in County Treasury, at fair value	<u>651,636,631</u>		<u>651,636,631</u>
Total Deposits	<u>\$652,767,456</u>	<u>\$ 6,936,710</u>	<u>\$659,704,166</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 3 - DEPOSITS: (continued)

Cash balances held in banks and in revolving funds are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized.

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool. These pooled funds are carried at cost which may differ from fair value. The fair market value of the District's deposits in this pool as of June 30, 2004, as provided by the pool sponsor, was \$651,636,631

The County is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et. seq. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The funds maintained by the County are either secured by federal depository insurance or are collateralized. Interest earned is deposited quarterly into participating funds, except for the Tax Override fund, in which case interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

Differences between Cash in County confirmed balances as well as year-end accrual balances reported on the District's Annual Financial and Budget Report and the audited financial statements are a result of timing differences in transaction postings between the District's records and County records. Differences in Cash in County balances were offset by differences in accrual accounts, therefore, this timing issue had no effect on year-end fund balances.

	<u>Category*</u>			<u>Bank Balance</u>	<u>Carrying Amount</u>
	<u>1</u>	<u>2</u>	<u>3</u>		
Cash on Hand and in Banks	\$ 900,545	\$	\$ 9,372,895	\$10,273,440	\$7,618,480
Cash in Revolving Fund	100,000		323,558	423,558	284,055
Cash with Fiscal Agent	<u> </u>	<u> </u>	<u>165,000</u>	<u>165,000</u>	<u>165,000</u>
Total	<u>\$1,000,545</u>	<u>\$</u>	<u>\$ 9,861,453</u>	<u>\$10,861,998</u>	<u>\$8,067,535</u>

* Category 1 includes amounts that are insured or collateralized. Category 2 includes amounts that are insured or collateralized by the pledging financial institution's trust department or agent in the District's name. Category 3 includes amounts that are insured or collateralized, but not in the District's name.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 4 - INTERFUND TRANSACTIONS:

Interfund activity has been eliminated in the Government-wide statements as required by GASB No. 34. The following balances and transactions are reported in the fund financial statements.

A. Interfund Receivables/Payables

Individual interfund receivable and payable balances at June 30, 2004 are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General Fund	\$60,073,751	\$13,865,868
Building Fund		15,168,431
County School Facilities Fund		23,635,659
Non-Major Funds:		
Tax Override	6,486,995	
Special Revenue Funds:		
Adult Education Fund		822,852
Child Development Fund		1,850,495
Cafeteria Fund		8,737,319
Deferred Maintenance Fund		3,865,263
Pupil Transportation Fund		530
Post Employment Benefits Fund		286,208
Capital Projects Funds:		
Capital Facilities Fund		2,123,460
Redevelopment Agencies Fund		3,617
State School Building Fund		14,015
Special Reserve Fund – Property Management		1,758,673
Special Reserve Fund – Prop O		6,604,514
Special Reserve Fund – Energy Efficiency		2,671,314

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 4 - INTERFUND TRANSACTIONS: (continued)

A. Interfund Receivables/Payables (continued)

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Internal Service Funds:		
Liability	380,566	
Property		973,643
Worker's Compensation Fund	13,101,730	
Dental	2,338,819	
Totals	\$82,381,861	\$82,381,861

B. Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 2003-04 fiscal year are as follows:

Transfer from the Postemployment Benefits Fund to the General Fund for reimbursement of premiums paid for retirees' medical benefits per union contract	\$ 812,785
Transfer from the General Fund to the Postemployment Benefits Fund for annual contribution for retirees' medical benefits per union contract	313,875
Transfer from the State School Building Fund to the General Fund to close out fund	14,015
Transfer from the Property Management Fund to the General Fund for Hazardous Waste Fund	897,710
Transfer from the Prop O/Preconstruction Fund to the Deferred Maintenance Fund to match state allocation	3,396,400

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 4 - INTERFUND TRANSACTIONS: (continued)

B. Interfund Transfers (continued)

Transfer from the Energy Efficiency Fund to the General Fund to close out fund	2,671,336
Transfer from the Tax Override Fund to the General Fund for PSBC monies returned to the District from arbitrage reserve releases	131,907
Transfer from the General Fund to Deferred Maintenance Fund to match state allocation	2,103,600
Transfer from the General Fund to Liability Fund for premiums and insurance costs	3,447,724
Transfer from the General Fund to Property Fund for premiums and insurance costs	<u>1,903,298</u>
Total	<u>\$15,692,650</u>

NOTE 5 - FUND BALANCES - RESERVED/RESTRICTED/DESIGNATED:

The following amounts were reserved by the Board of Education for the special purposes below:

	<u>General Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Revolving Cash	\$ 83,555	\$ 500	\$ 84,055
Stores inventory	986,042	1,176,066	2,162,108
Prepaid Expenditures	<u>878,705</u>	<u> </u>	<u>878,705</u>
Total	<u>\$1,948,302</u>	<u>\$1,176,566</u>	<u>\$3,124,868</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 5 - FUND BALANCES - RESERVED/RESTRICTED/DESIGNATED: (continued)

The following ending balances were legally restricted as to use:

Major Funds:

General Fund:

Lottery	\$ 1,431,996
Gifted and Talented Education	209,707
Instructional Materials Fund K-8	3,184,036
Standards Based Instructional	180,792
Home to School Transportation	343,333
Reading is Fundamental	728
Medi-Cal Billing Option	3,154,130
FEMA – Public Assistance	200,661
Certificated Performance Bonus	27,261
English Language Acquisition Program	2,125,239
English Language Literacy Intensive Program	9,443
Library Materials Funds	17,862
California Public School Library Act	917,687
Professional Development Institutes	527,862
Targeted Instructional Improvement Grant	19,688,937
Economic Impact Aid (EIA)	2,633,189
Education Technology: Staff Development	72,589
School Based Coordination Program	4,564,436
California Peer Assistance	3,035,700
International Baccalaureate	5,995
AB 466 Literacy	851,245
School Plan (SB 1882)	6,970
AB 75 Principal Training	62,800
10 th Grade Counseling	<u>47,909</u>

Restricted Resources \$43,300,507

Bond Interest and Redemption Fund:

Restricted for Debt Service \$20,761,122

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 5 - FUND BALANCES - RESERVED/RESTRICTED/DESIGNATED: (continued)

Non-major Funds:

Tax Override Fund:	
Restricted for Debt Service	\$ <u>6,528,689</u>
	<u>\$27,289,811</u>

The following amounts were designated by the Board of Education for the special purpose below:

Major Funds:

General Fund:	
Economic Uncertainties	\$13,167,959
Mandated Costs	4,057,163
Carryover Encumbrances	4,042,145
Contingencies	<u>37,417,686</u>
Total General Fund	<u>58,684,953</u>
Building Fund:	
Carryover Encumbrances	210,434
County School Facilities Fund:	
Carryover Encumbrances	<u>1,369,469</u>
Total Major Funds	<u>\$60,264,856</u>

Non-Major Funds:

Carryover Encumbrances	
Capital Facilities Fund	\$ 76,684
Designated Fund Balance	
Special Reserve for Post-Employment	
Benefits Fund	<u>1,804,292</u>
Total Non-Major Funds	<u>\$ 1,880,976</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 6 - TAX REVENUE ANTICIPATION NOTES:

The District issued \$200,000,000 of Tax Revenue Anticipation Notes dated July 1, 2003 through the California School Boards Association Finance Corporation's Cash Reserve Program (Series 2003-04). The notes matured on June 30, 2004 and yielded .89% interest. The notes were sold by the District to supplement its cash flow.

Repayment requirements were that \$100,000,000 principal be repaid by January 14, 2004 and \$100,000,000 principal plus \$3,988,889 interest be paid by April 30, 2004.

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

NOTE 7 - BONDED DEBT:

A. General Obligation Bonds

In November 1998, the voters approved the issuance of general obligation bonds, not to exceed \$1.51 billion (Proposition MM), for the purposes 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 school needs.

The outstanding general obligation bonded debt of San Diego Unified School District at June 30, 2004 is:

<u>Series</u>	<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2003</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2004</u>
A	5/13/1999	4.05 -	2023	\$ 139,995,085	\$139,995,085	\$	\$ 6,941,423	\$ 133,053,662
A - Accreted Interest		5.34			32,379,447	8,500,692	2,853,577	38,026,562
B	12/6/2000	4.30 -	2025	149,999,084	149,999,084		5,525,997	144,473,087
B - Accreted Interest		5.35			21,940,676	2,180,151	2,829,003	21,291,824
C	11/8/2001	2.70 -	2026	199,995,712	199,995,712		7,157,599	192,838,113
C - Accreted Interest		5.00			12,426,216	1,192,051	2,262,401	11,355,866
D	8/11/2002	1.70 -	2027	274,995,346	274,995,346		6,313,989	268,681,357
D - Accreted Interest		5.25			5,304,732	645,006	1,016,011	4,933,727
E	8/7/2003	1.90 -	2028	349,993,599		349,993,599		349,993,599
E - Accreted Interest		5.25				15,914,459		15,914,459
				<u>\$1,114,978,826</u>	<u>\$837,036,298</u>	<u>\$378,425,958</u>	<u>\$ 34,900,000</u>	<u>\$1,180,562,256</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 7 - BONDED DEBT: (continued)

A. General Obligation Bonds (continued)

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2004, are as follows:

Series A

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Accreted</u> <u>Interest</u> <u>Component</u>	<u>Total</u>
2005	\$ 6,034,906	\$ 2,415,094	\$ 8,450,000
2006	8,740,417	3,079,583	11,820,000
2007	8,009,364	3,400,636	11,410,000
2008	7,915,853	3,949,147	11,865,000
2009	7,781,727	4,558,273	12,340,000
2010-14	36,792,703	32,722,297	69,515,000
2015-19	33,246,773	51,333,227	84,580,000
2020-23	<u>24,531,919</u>	<u>56,148,081</u>	<u>80,680,000</u>
Totals	<u>\$133,053,662</u>	<u>\$157,606,338</u>	<u>\$290,660,000</u>

Capital appreciation bonds were issued as part of Series A with maturity dates from July 1, 2004 through 2023. Prior to the applicable maturity date, each bond will accrete interest on the principal components, 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 \$38,026,562 has been reflected in the long-term debt balance.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 7 - BONDED DEBT: (continued)

A. General Obligation Bonds (continued)

Series B

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Accreted</u> <u>Interest</u> <u>Component</u>	<u>Current</u> <u>Interest</u> <u>Component</u>	<u>Total</u>
2005	\$ 3,717,325	\$ 2,597,675	\$ 6,549,296	\$ 12,864,296
2006	2,310,355	2,099,645	6,549,296	10,959,296
2007	1,799,764	2,060,236	6,549,296	10,409,296
2008	1,379,775	1,945,225	6,549,296	9,874,296
2009	1,373,870	2,346,130	6,549,296	10,269,296
2010-2014	6,484,083	18,610,917	32,746,481	57,841,481
2015-2019	34,727,915	5,262,085	30,384,030	70,374,030
2020-2024	71,465,000		17,079,307	88,544,307
2025	<u>21,215,000</u>	<u> </u>	<u>1,060,750</u>	<u>22,275,750</u>
Totals	<u>\$144,473,087</u>	<u>\$ 34,921,913</u>	<u>\$114,017,048</u>	<u>\$293,412,048</u>

Capital appreciation bonds were issued as part of Series B with maturity dates from July 1, 2004 through 2015. Prior to the applicable maturity date, each bond will accrete interest on the principal components, 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 \$21,291,824 has been reflected in the long-term debt balance.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 7 - BONDED DEBT: (continued)

A. General Obligation Bonds (continued)

Series C

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Accreted Interest Component</u>	<u>Current Interest Component</u>	<u>Total</u>
2005	\$ 4,456,064	\$ 2,058,936	\$ 8,681,762	\$ 15,196,762
2006	2,515,053	1,569,947	8,681,762	12,766,762
2007	1,873,230	1,506,770	8,681,762	12,061,762
2008	1,366,931	1,373,069	8,681,762	11,421,762
2009	1,421,307	1,743,693	8,681,762	11,846,762
2010-2014	15,235,528	7,799,472	43,207,015	66,242,015
2015-2019	41,870,000		37,740,563	79,610,563
2020-2024	74,360,000		24,606,000	98,966,000
2025	<u>49,740,000</u>	<u> </u>	<u>3,860,750</u>	<u>53,600,750</u>
Totals	<u>\$192,838,113</u>	<u>\$ 16,051,887</u>	<u>\$152,823,138</u>	<u>\$361,713,138</u>

Capital appreciation bonds were issued as part of Series C with maturity dates from July 1, 2004 through 2012. Prior to the applicable maturity date, each bond will accrete interest on the principal components, 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 \$11,355,866 has been reflected in the long-term debt balance.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 7 - BONDED DEBT: (continued)

A. General Obligation Bonds (continued)

Series D

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Accreted</u> <u>Interest</u> <u>Component</u>	<u>Current</u> <u>Interest</u> <u>Component</u>	<u>Total</u>
2005	\$ 7,342,902	\$ 1,917,098	\$ 12,620,750	\$ 21,880,750
2006	3,496,604	1,293,396	12,620,750	17,410,750
2007	1,957,714	962,286	12,620,750	15,540,750
2008	1,474,391	915,609	12,620,750	15,010,750
2009	1,634,746	1,245,254	12,620,750	15,500,750
2010-2014	23,925,000		61,478,750	85,403,750
2015-2019	45,570,000		54,645,251	100,215,251
2020-2024	81,965,000		39,794,987	121,759,987
2025-2027	<u>101,315,000</u>	<u> </u>	<u>11,114,012</u>	<u>112,429,012</u>
Totals	<u>\$268,681,357</u>	<u>\$ 6,333,643</u>	<u>\$230,136,750</u>	<u>\$505,151,750</u>

Capital appreciation bonds were issued as part of Series D with maturity dates from July 1, 2004 through 2009. Prior to the applicable maturity date, each bond will accrete interest on the principal components, 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 \$4,933,727 has been reflected in the long-term debt balance.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 7 - BONDED DEBT: (continued)

A. General Obligation Bonds (continued)

Series E

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Accreted</u> <u>Interest</u> <u>Component</u>	<u>Current</u> <u>Interest</u> <u>Component</u>	<u>Total</u>
2005	\$ 6,530,618	\$ 1,439,382	\$ 16,016,930	\$ 23,986,930
2006	5,707,643	2,042,358	16,016,930	23,766,931
2007	4,431,621	2,263,379	16,016,930	22,711,930
2008	3,251,347	2,213,653	16,016,930	21,481,930
2009	2,941,015	2,558,985	16,016,930	21,516,930
2010-2014	18,656,355	15,703,644	80,084,650	114,444,649
2015-2019	52,915,000		73,545,337	126,460,337
2020-2024	88,115,000		56,876,763	144,991,763
2025-2028	<u>167,445,000</u>	<u> </u>	<u>23,295,000</u>	<u>190,740,000</u>
Totals	<u>\$349,993,599</u>	<u>\$ 26,221,401</u>	<u>\$313,886,400</u>	<u>\$690,101,400</u>

Capital appreciation bonds were issued as part of Series E with maturity dates from July 1, 2004 through 2013. Prior to the applicable maturity date, each bond will accrete interest on the principal components, 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 \$15,914,459 has been reflected in the long-term debt balance.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 7 - BONDED DEBT: (continued)

B. State and Public School Building Loans

State school building loans outstanding at June 30, 2004 are as follows:

<u>Year Disbursed</u>	<u>Interest Rate</u>	<u>Balance July 1, 2003</u>	<u>Interest Charge</u>	<u>Repayment Current Year</u>	<u>Outstanding June 30, 2004</u>	<u>Amount Due in One Year</u>
1990	4.5%-5.5%	\$ 24,013	-	\$ 6,126	\$ 17,887	\$ 6,382

The State and Public School Building Loans are secured by all sites purchased and improved, all equipment purchased, and all buildings constructed, reconstructed, altered or added to through the expenditure of such funds in accordance with Section 16019 of the Education Code.

Annual repayment is determined by the State Controller in accordance with Section 16214 of the Education Code.

NOTE 8 – LONG-TERM DEBT – SCHEDULE OF CHANGES:

Long-term debt - A schedule of changes in long-term debt for the year ended June 30, 2004 is shown below.

	<u>Balance July 1, 2003</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments*</u>	<u>Balance June 30, 2004</u>	<u>Amount Due in One Year</u>
Accrued vacation	\$ 13,658,907	\$ 10,148,497	\$ (12,640,091)	\$	\$ 11,167,313	\$ 8,375,485
Arbitrage liability	5,736,720		(2,775,972)		2,960,748	613,034
Bonded debt	764,985,227	378,425,958	(34,900,000)	72,051,071	1,180,562,256	38,510,001
State school building loans	24,013		(6,126)		17,887	6,382
Special termination benefits (SERP)		84,070,958	(15,809,593)		68,261,365	15,809,593
Qualified Zone Academy Bonds		5,000,000	(5,000,000)			
Totals	\$ 784,404,867	\$ 477,645,413	\$ (71,131,782)	\$ 72,051,071	\$ 1,262,969,569	\$ 63,314,495

NOTE: \$50,101,486 of the beginning balance from the prior year audit is shown in the proprietary funds.

* This adjustment relates to unreported accreted interest, related to both current year and prior year.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 9 – CAPITAL ASSETS AND DEPRECIATION – SCHEDULE OF CHANGES:

Capital asset activity for the year ended June 30, 2004 is shown below.

	<u>Balance</u> <u>July 1, 2003</u>	<u>Additions</u>	<u>Deductions</u>	<u>Adjustments</u>	<u>Balance</u> <u>June 30, 2004</u>
Land	\$ 111,921,411	\$ 85,238,769	\$	\$ 12,499,170	\$ 209,659,350
Work in Progress	366,597,991	239,967,875	151,181,848		455,384,018
Land Improvements	106,484,342	4,381,977	75,485		110,790,834
Buildings and Improvements	547,434,743	114,472,429	3,677,556		658,229,616
Machinery and Equipment	<u>136,309,976</u>	<u>40,831,787</u>	<u>1,950,605</u>		<u>175,191,158</u>
Total at historical cost	<u>1,268,748,463</u>	<u>484,892,837</u>	<u>156,885,494</u>	<u>12,499,170</u>	<u>1,609,254,976</u>
Less accumulated depreciation for:					
Land Improvements	47,675,429	5,338,701	5,661		53,008,469
Buildings and Improvements	182,251,055	12,506,346	2,884,737		191,872,664
Machinery and Equipment	<u>111,057,039</u>	<u>14,697,669</u>	<u>1,917,815</u>		<u>123,836,893</u>
Total accumulated depreciation	<u>340,983,523</u>	<u>32,542,716</u>	<u>4,808,213</u>		<u>368,718,026</u>
Governmental activities capital assets, net	<u>\$ 927,764,940</u>	<u>\$ 452,350,121</u>	<u>\$ 152,077,281</u>	<u>\$ 12,499,170</u>	<u>\$1,240,536,950</u>

* The adjustment to land consisted of the cost related to land purchased for the Cherokee Point Elementary School during the 2001-02 fiscal year. These purchases were not added to the capital asset listing at that time.

NOTE 10 – INTERNAL SERVICE FUND(S):

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 up to 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 Fund 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

June 30, 2004

NOTE 10 – INTERNAL SERVICE FUND(S): (continued)

Funding of the Internal Service Fund is based on estimates of the amounts needed to pay prior and current year claims. Workers' 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, 2004, 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. The amount of liability is estimated at \$54,945,000. The amount due in one year is \$18,932,403. Changes in the reported liability are shown below:

	<u>Beginning Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Fiscal Year Liability</u>
Liability	\$ 2,772,000	\$ 1,723,604	\$ 1,768,604	\$ 2,727,000
Workers' Compensation	<u>47,329,486</u>	<u>23,925,472</u>	<u>19,036,958</u>	<u>52,218,000</u>
	<u>\$50,101,486</u>	<u>\$25,649,076</u>	<u>\$20,805,562</u>	<u>\$54,945,000</u>

It is important to note that by recognizing these obligations, the Worker's Compensation Fund ended the June 30, 2004 fiscal year with a deficit ending balance of \$(30,142,182).

NOTE 11 - EMPLOYEE RETIREMENT PLANS:

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

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 11 - EMPLOYEE RETIREMENT PLANS: (continued)

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Boulevard, Sacramento, 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 the STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2003-04 was 8.25% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Public Employees' Retirement System (PERS)

Plan Description

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

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 11 - EMPLOYEE RETIREMENT PLANS: (continued)

Public Employees' Retirement System (PERS) (continued)

Funding Policy

Active plan members are required to contribute 7.0% of their salary and the District is required to contribute an actuarially determine 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 2003-04 was 10.42% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

Contributions to STRS and PERS

The District's contributions to STRS and PERS for each of the last three fiscal years is as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>STRS</u>		<u>PERS</u>	
	<u>Required</u> <u>Contribution</u>	<u>Percent</u> <u>Contributed</u>	<u>Required</u> <u>Contribution</u>	<u>Percent</u> <u>Contributed</u>
2002	\$43,165,923	100%	\$ 555,015	100%
2003	46,931,179	100%	6,254,990	100%
2004	41,260,195	100%	17,902,375	100%

NOTE 12 – POSTRETIREMENT HEALTH CARE AND SPECIAL TERMINATION BENEFITS:

A. Post Retirement Health Care

The District provides postretirement health care benefits to employees who retire from the District and meet certain age and service requirements. The provisions and obligations to contribute are established through collective bargaining agreements between the District and various unions.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

**NOTE 12 – POSTRETIREMENT HEALTH CARE AND SPECIAL
TERMINATION BENEFITS: (continued)**

A. Post Retirement Health Care (continued)

Currently, 1,627 retirees meet those eligibility requirements. The District's contributions are advance funded each year based on an amount arrived at through union negotiations. The amount to be deposited is calculated using a base amount, plus cost-of-living increases, less any advance deposits made in the prior year. The contributions are deposited into a fund designated to account for District monies used to reduce medical contributions paid by retirees participating in a District-sponsored group medical plan for medical insurance. Contributions of approximately \$2,369,464 were reimbursed to the General Fund in the current year for postretirement health care costs.

B. Special Termination Benefits (Supplemental Early Retirement Plan)

Pursuant to a Board approved resolution dated February 4, 2003, the District adopted a tax qualified governmental defined benefit plan to provide supplemental retirement benefits to eligible employees. The Supplemental Early Retirement Plan (SERP) became effective on August 1, 2003 for both Certificated and Classified employees that met the following eligibility requirements:

Tier I – Certificated non-charter school employees, who were employed on February 4, 2003, who were at least 50 years of age with 30 years of STRS service or 55 years of age with at least 5 years of STRS service as of August 1, 2003, and had terminated employment on or before July 31, 2003 and has applied for benefits under this plan.

Tier II – Classified non-charter school employees, who were employed on February 4, 2003, who were at least 50 years of age with at least 5 years of PERS service as of August 1, 2003, and has terminated employment on or before July 31, 2003 and had applied for benefits under this plan.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

**NOTE 12 – POSTRETIREMENT HEALTH CARE AND SPECIAL
TERMINATION BENEFITS:**

**B. Special Termination Benefits (Supplemental Early Retirement Plan)
(continued)**

The special termination benefits, in the normal form, are paid monthly in an amount equal to one-twelfth (1/12) of seven percent (7%) of Final Pay and ending on the first day of the month in which the member's death occurs. There are 1,461 participants in this plan.

The District will make premium payments to fund this program to a trustee. The total amount required to fund the program is \$84,070,958 and will be paid over six years. The first payment of \$15,809,593 was paid during the 2003-04 fiscal year. The remaining payments are due as follows and is included as a long term liability on the Statement of Net Assets:

2004-05	\$15,809,593
2005-06	15,809,593
2006-07	14,678,187
2007-08	14,678,187
2008-09	<u>7,285,805</u>
Total	<u>\$68,261,365</u>

NOTE 13 – JOINT POWERS AUTHORITY (JPA) – QZAB:

In April 2003, the District applied to the California Department of Education for the Qualified Zone Academy Bonds (QZAB) lottery. The QZAB program allows districts to access interest free financing through the use of private sector tax incentives. The proceeds are to be used for repair and renovation, equipment and other qualified education purposes. In June 2003, the District received notification that it was successful in the QZAB lottery and was entitled to issue \$5 million worth of bonds.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 13 – JOINT POWERS AUTHORITY (JPA) – QZAB: (continued)

In November 2003, the Board approved the establishment of San Diego City Schools Financing Authority, a JPA. 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 the bonds.

In November 2003, the JPA issued \$5 million of Lease Revenue Bonds to be used for the construction of 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 the Lease Revenue Bonds. The fair market value of the investment at June 30, 2004 is \$2,900,314. This deposit is considered full payment over the term of the \$5 million debt. The debt liability has not been included in these financial statements since the debt is considered defeased.

NOTE 14 – RESTATEMENT TO BEGINNING FUND BALANCE:

The financial statements of San Diego Unified School District, as of June 30, 2003, were audited by other auditors whose report dated April 15, 2004 expressed an unqualified opinion on those statements.

To Fund Statements:

The beginning fund balance for the General Fund has been restated by \$4,117,230 to adjust for an overstatement of prior year expense primarily related to employee benefits. The beginning fund balance for the Deferred Maintenance Fund has been restated \$1,364,219 to recognize additional 2002-03 state apportionment receipts previously unreported.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 14 – RESTATEMENT TO BEGINNING FUND BALANCE: (continued)

To Proprietary Funds:

The beginning balance has been restated in the proprietary fund types to recognize the liabilities associated with claims and judgments that were reported as a long term debt in the prior year. The internal service activities were rolled into the general fund in the prior year, however for the current year, the funds are being reported separately as proprietary funds. The restatement totaled \$(50,101,486). Including a restatement to the Liability Fund in the amount of \$(2,772,000) and a restatement to Workers' Compensation Fund in the amount of \$(47,329,486).

To Statement of Activities:

The restatement associated with the government-wide financial statements relates to the following adjustments:

Restatement in general fund described above	\$ 4,117,230
Restatement in Deferred Maintenance described above	1,364,219
Removal of Charter Schools per CDE	(14,098,955)
Recognition of Accreted Interest on GO Bonds	(72,051,071)
Report land purchase previously unreported	<u>12,499,170</u>
Total	<u>\$(68,169,407)</u>

NOTE 15 - COMMITMENTS AND CONTINGENCIES:

A. Litigation

The District is a defendant in various pending liability lawsuits. The outcome of the litigation is unknown at the present time. The estimated possible judgment(s) against the District is approximately \$3 million.

B. State and Federal Allowances, Awards, and Grants

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

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 15 - COMMITMENTS AND CONTINGENCIES: (continued)

C. State School Building and County School Facilities Funds

The District is currently involved in several construction and modernization projects funded through the State School Building and County School Facilities Funds. These projects are subject to future audits by the State, which may result in other adjustments to the fund.

D. Purchase Commitments

As of June 30, 2004, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$180,052,000. Projects will be funded through Bond Proceeds, State School Building Lease-Purchase Grants, State Deferred Maintenance Allocations, Capital Facilities Funds and the General Fund.

E. Supplemental Early Retirement – Title I

The District has allocated a portion of the costs associated with their Supplemental Retirement Plan offered to employees to Title I. The amount allocated to Title I is approximately \$2.7 million, and will be applied over the payment period of five years. For 2003-04, the amount applied was \$511,125. An opinion has been requested directly from the U.S. Department of Education regarding the acceptability of the methodology used, which we believe will be accepted. However, the final outcome is contingent upon this approval. If the U.S. Department of Education has a differing opinion, the District may be required to reallocate this expenditure. Due to the uncertainty of the outcome, no adjustments have been made in these financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 16- SUBSEQUENT EVENT:

A. Tax Revenue Anticipation Notes

The District issued \$180,000,000 of Tax Revenue Anticipation Notes dated July 1, 2004 through the California School Boards Association Finance Corporation's Cash Reserve Program (Series A). The notes mature on July 25, 2005 and yield 1.59% interest. The notes were sold by the District to supplement its cash flow.

The funds will be held with the trustee, Bank of America, unless and until the District needs to draw funds out. Repayment requirements are that approximately \$5,385,000 interest be repaid by June 30, 2005 and that \$180,000,000 principal plus \$375,000 interest be repaid by July 25, 2005.

B. General Obligation Bonds

In August 2004, the District issued 2004 General Obligation Bonds, Election of 1998, Series F in the amount of \$199,996,373. This issuance is comprised of capital appreciation bonds totaling \$17,031,373 at yields ranging from 1.95% to 3.80% and current interest bonds totaling \$182,965,000 with yields from 3.58% to 4.75%

Additionally, in August 2004, the District issued the following General Obligation Refunding Bonds, Election of 1998:

<u>Series</u>	<u>Amount</u>
B-1	\$ 37,060,000
C-1	23,980,000
D-1	126,310,000
E-1	<u>113,905,000</u>
Total	<u>\$301,255,000</u>

The District intends to use the proceeds from the sale of the Refunding Bonds to refund, on a cross-over basis, certain maturities of its Series B, D and E Bonds; collectively referred to as the "Refunded Bonds." Certain maturities of the Refunded Bonds may only be refunded at a premium on the first redemption dates; others are payable on the first redemption date at par, plus accrued interest to the redemption date. Each series of Refunded Bonds has a different date scheduled for redemption under the District's plan of refunding.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2004

NOTE 16- SUBSEQUENT EVENT: (continued)

C. GASB Statement No. 45

The Governmental Accounting Standards Board (GASB) has recently issued Statement No. 45 outlining new accounting standards for governmental agencies regarding other post-employment benefits. The statement would be effective for phase one GASB Statement No. 34 implementers in fiscal year 2007-08. The statement requires governmental agencies to record and disclose the actuarially determined cost based on the benefits expected to be earned by employees in the future, as well as those benefits the employees have already earned. Annual required contributions shall include the employer's normal cost and a provision(s) for amortizing the total unfunded actuarial accrued liability for a period not to exceed 30 years. The statement also requires that an actuarial valuation be performed every two years for a plan with more than 200 members and every three years for plans with fewer than 200 members.

D. Property Sale

The District has entered into an escrow for the sale of the Copley property for \$30.4 million. The escrow is expected to close in January 2006. There are certain conditions contained in the purchase and sale agreement that provide for the buyer to terminate the agreement at certain increments or to deliver into escrow agreed-upon non-refundable deposits. The conditions of the escrow provide for a non-refundable initial deposit of \$50,000 that has already been released to the District. Following the expiration of the review period and satisfaction of the review period, which is scheduled to occur April 1, 2005, contingency buyer will release an additional \$500,000 to the District. The second additional deposit shall occur on or before July 1, 2005 in the amount of \$500,000. The third additional non-refundable deposit to the District shall be released by the buyer on or before November 1, 2005 in the amount of \$1 million and the balance of \$28,350,000 will be due at the close of escrow.

SUPPLEMENTARY INFORMATION SECTION

SAN DIEGO UNIFIED SCHOOL DISTRICT

HISTORY AND ORGANIZATION

June 30, 2004

The San Diego Unified School District was incorporated in 1889 and is comprised of an area of approximately 210 square miles located in San Diego County. The District maintains one hundred ninety-three education facilities, including one-hundred sixteen elementary schools, twenty middle schools, three junior high schools, sixteen senior high schools and thirty-eight alternative program sites.

As of July 2003, the Board of Education and the District Administrators for the fiscal year ended June 30, 2004 were as follows:

BOARD OF EDUCATION

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Ron Ottinger	President	December 2004
Ed Lopez	Vice President	December 2004
John de Beck	Trustee	December 2006
Frances Zimmerman	Trustee	December 2004
Katherine Nakamura	Trustee	December 2006

DISTRICT ADMINISTRATORS

Alan D. Bersin	Superintendent
Lou Smith	Chief Administrative Officer
Mary Hopper	Chief Academic Officer
Terrance Smith	Chief of Staff
Scott Patterson	Chief Financial Officer

SAN DIEGO UNIFIED SCHOOL DISTRICT

**NON-MAJOR DEBT SERVICE FUND
COMBINING BALANCE SHEET**

June 30, 2004

	Tax Override Fund
<u>ASSETS</u>	
Cash in county treasury	\$ 12,494
Cash in bank	73,585
Accounts receivable:	
Miscellaneous	28,841
Due from other funds	<u>6,486,995</u>
TOTAL ASSETS	<u>\$ 6,601,915</u>
 <u>LIABILITIES AND FUND BALANCE</u>	
LIABILITIES	
Accounts payable	\$ <u>73,226</u>
TOTAL LIABILITIES	<u>73,226</u>
 FUND BALANCE	
Reserved for debt service	<u>6,528,689</u>
TOTAL FUND BALANCE	<u>6,528,689</u>
 TOTAL LIABILITIES AND FUND BALANCE	 <u>\$ 6,601,915</u>

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT

**NON-MAJOR DEBT SERVICE FUND
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
For the Fiscal Year Ended June 30, 2004**

	Tax Override Fund
REVENUES	
Revenue from state sources	\$ 4,776
Revenue from local sources	<u>6,526,997</u>
TOTAL REVENUES	<u>6,531,773</u>
 EXPENDITURES	
Other outgo	2,272
Debt service	<u>7,279</u>
TOTAL EXPENDITURES	<u>9,551</u>
Excess (deficiency) of revenues over expenditures	<u>6,522,222</u>
 OTHER FINANCING SOURCES (USES)	
Interfund transfer out	<u>(131,907)</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(131,907)</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	6,390,315
Fund Balances at beginning of year	<u>138,374</u>
Fund Balances at end of year	<u>\$ 6,528,689</u>

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET

June 30, 2004

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Pupil Transportation Equipment Fund	Post Employment Benefits Fund	Total (Memorandum Only)
ASSETS							
Cash in county treasury	\$ 951,696	\$ 2,631,511	\$ 4,370,767	\$ 4,017,169	\$ 2,505,637	\$ 2,082,076	\$ 16,558,856
Cash on hand and in banks			608,185				608,185
Cash in revolving fund		500					500
Accounts receivable:							
Federal and state governments		441,498	8,810,295	4,953,805			14,205,598
Miscellaneous	11,083	79,290	171,744	30,002	8,899	8,424	309,442
Inventories			1,176,066				1,176,066
TOTAL ASSETS	\$ 962,779	\$ 3,152,799	\$ 15,137,057	\$ 9,000,976	\$ 2,514,536	\$ 2,090,500	\$ 32,858,647
LIABILITIES AND FUND BALANCE							
LIABILITIES							
Accounts payable	\$ 60,293	\$ 100,767	\$ 1,285,685	\$ 851,714	\$	\$	\$ 2,298,459
Due to other funds	822,852	1,850,495	8,737,319	3,865,263	530	286,208	15,562,667
Deferred revenue			2,590				2,590
TOTAL LIABILITIES	883,145	1,951,262	10,025,594	4,716,977	530	286,208	17,863,716
FUND BALANCE							
Reserved for special purposes		500	1,176,066				1,176,566
Designated for special purpose						1,804,292	1,804,292
Undesignated	79,634	1,201,037	3,935,397	4,283,999	2,514,006		12,014,073
TOTAL FUND BALANCE	79,634	1,201,537	5,111,463	4,283,999	2,514,006	1,804,292	14,994,931
TOTAL LIABILITIES AND FUND BALANCE	\$ 962,779	\$ 3,152,799	\$ 15,137,057	\$ 9,000,976	\$ 2,514,536	\$ 2,090,500	\$ 32,858,647

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT
 NON-MAJOR SPECIAL REVENUE FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE
 For the Fiscal Year Ended June 30, 2004

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Pupil Transportation Equipment Fund	Post Employment Benefits Fund	Total (Memorandum Only)
REVENUES							
Revenue from revenue limit sources:							
State apportionment	\$ 1,076,558	\$	\$	\$	\$	\$	\$ 1,076,558
Revenue from federal sources	1,268,941	698,207	28,048,626				28,746,833
Revenue from other state sources	176,109	16,752,333	1,804,189	4,953,805			24,779,268
Revenue from local sources	2,521,608	1,019,281	11,178,371	96,007	795,997	38,506	13,304,271
TOTAL REVENUES							
		18,469,821	41,031,186	5,049,812	795,997	38,506	67,906,930
EXPENDITURES							
Instruction	1,175,970	14,522,229					15,698,199
Instruction-related services	1,633,516	2,220,326					3,853,842
Pupil services	110,889	497,565	41,168,535		52,150		41,829,139
Enterprise			37,510				37,510
General administration	54,122	719,740	394,142				1,168,004
Plant services	81,751	1,268,957	1,739,176	7,696,331			10,786,215
TOTAL EXPENDITURES							
	3,056,248	19,228,817	43,339,363	7,696,331	52,150	-	73,372,909
Excess (deficiency) of revenues over expenditures	(534,640)	(758,996)	(2,308,177)	(2,646,519)	743,847	38,506	(5,465,979)
OTHER FINANCING SOURCES (USES)							
Interfund transfers in				5,500,000		313,875	5,813,875
Interfund transfers out						(812,785)	(812,785)
TOTAL OTHER FINANCING SOURCES (USES)							
				5,500,000		(498,910)	5,001,090
Excess (deficiency) of revenues over expenditures and other sources (uses)	(534,640)	(758,996)	(2,308,177)	2,853,481	743,847	(460,404)	(464,889)
Fund Balances at beginning of year, as previously reported	614,274	1,960,533	7,419,640	66,299	1,770,159	2,264,696	14,095,601
Adjustment for Restatement (see Note 14)	-	-	-	1,364,219	-	-	1,364,219
Fund Balances at beginning of year, as restated	614,274	1,960,533	7,419,640	1,430,518	1,770,159	2,264,696	15,459,820
Fund Balances at end of year	79,634	1,201,537	5,111,463	4,283,999	2,514,006	1,804,292	14,994,931

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NON-MAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET

June 30, 2004

	Capital Facilities Fund	Redevelopment Agencies' Fund	State School Building Fund	Special Reserve Balboa Stadium	Special Reserve Capital Projects
ASSETS					
Cash in county treasury	\$ 35,440,274	\$ 3,372,234	\$ 14,037	\$ 15,373	\$ 530
Accounts receivable:					
Miscellaneous	135,780	12,733	53	63	
TOTAL ASSETS	<u>\$ 35,576,054</u>	<u>\$ 3,384,967</u>	<u>\$ 14,090</u>	<u>\$ 15,436</u>	<u>\$ 530</u>
LIABILITIES AND FUND BALANCE					
LIABILITIES					
Accounts payable	\$ 20,378	\$	\$ 75	\$	\$
Due to other funds	2,123,460	3,617	14,015		
Deferred revenue					
TOTAL LIABILITIES	<u>2,143,838</u>	<u>3,617</u>	<u>14,090</u>	<u>-</u>	<u>-</u>
FUND BALANCE					
Designated for special purposes	76,684				
Undesignated	33,355,332	3,381,350	-	15,436	530
TOTAL FUND BALANCE	<u>33,432,016</u>	<u>3,381,350</u>	<u>-</u>	<u>15,436</u>	<u>530</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 35,576,054</u>	<u>\$ 3,384,967</u>	<u>\$ 14,090</u>	<u>\$ 15,436</u>	<u>\$ 530</u>

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NON-MAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET

June 30, 2004

	Special Reserve Property Management Fund	Prop O Preconstruction	Energy Efficiency Fund	Total Memorandum (Only)
ASSETS				
Cash in county treasury	\$ 4,999,098	\$ 8,408,525	\$ 2,701,388	\$ 54,951,459
Accounts receivable:				
Miscellaneous	34,198	21,677	10,186	214,690
TOTAL ASSETS	<u>\$ 5,033,296</u>	<u>\$ 8,430,202</u>	<u>\$ 2,711,574</u>	<u>\$ 55,166,149</u>
LIABILITIES AND FUND BALANCE				
LIABILITIES				
Accounts payable	33,483	50,863		104,799
Due to other funds	1,758,673	6,604,514	2,671,314	13,175,593
Deferred revenue		52,217		52,217
TOTAL LIABILITIES	<u>1,792,156</u>	<u>6,707,594</u>	<u>2,671,314</u>	<u>13,332,609</u>
FUND BALANCE				
Designated for special purposes				76,684
Undesignated	3,241,140	1,722,608	40,260	41,756,856
TOTAL FUND BALANCE	<u>3,241,140</u>	<u>1,722,608</u>	<u>40,260</u>	<u>41,833,540</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 5,033,296</u>	<u>\$ 8,430,202</u>	<u>\$ 2,711,574</u>	<u>\$ 55,166,149</u>

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NON-MAJOR CAPITAL PROJECTS FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE

For the Fiscal Year Ended June 30, 2004

	Capital Facilities Fund	Redevelopment Agencies' Fund	State School Building Fund	Special Reserve Balboa Stadium	Special Reserve Capital Projects
REVENUES					
Revenue from federal sources	\$	\$	\$	\$	\$
Revenue from other state sources	14,797,502	1,882,651	186	788	530
Revenue from local sources	14,797,502	1,882,651	186	788	530
TOTAL REVENUES					
	5,115,381	92,204	3,994	-	-
EXPENDITURES					
Plant services	5,115,381	92,204	3,994	-	-
Other outgo					
TOTAL EXPENDITURES					
	9,682,121	1,790,447	(3,808)	788	530
Excess (deficiency) of revenues over expenditures					
OTHER FINANCING SOURCES (USES)					
All other financing uses			(14,015)		(344,588)
Interfund transfers out			(14,015)		(344,588)
TOTAL OTHER FINANCING SOURCES (USES)					
Excess (deficiency) of revenues over expenditures and other sources (uses)	9,682,121	1,790,447	(17,823)	788	(344,058)
Fund Balances at beginning of year	23,750,095	1,590,903	17,823	14,648	344,588
Fund Balances at end of year	\$ 33,432,216	\$ 3,381,350	\$ -	\$ 15,436	\$ 530

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NON-MAJOR CAPITAL PROJECTS FUNDS
 COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND
 CHANGES IN FUND BALANCE

For the Fiscal Year Ended June 30, 2004

	Special Reserve Property Management Fund	Prop O Preconstruction	Energy Efficiency Fund	Total (Memorandum Only)
REVENUES				
Revenue from federal sources	\$	\$ 237,525	\$	\$ 237,525
Revenue from other state sources				1,882,651
Revenue from local sources	4,943,582	117,321	42,580	19,902,489
TOTAL REVENUES	<u>4,943,582</u>	<u>354,846</u>	<u>42,580</u>	<u>22,022,665</u>
EXPENDITURES				
Plant services	1,914,899	1,278,735		8,401,219
Other outgo	1,914,899	1,278,735	-	3,994
TOTAL EXPENDITURES	<u>1,914,899</u>	<u>1,278,735</u>	<u>-</u>	<u>8,405,213</u>
Excess (deficiency) of revenues over expenditures	3,028,683	(923,889)	42,580	13,617,452
OTHER FINANCING SOURCES (USES)				
All other financing uses		(2,479,230)		(2,823,818)
Interfund transfers out	(897,710)	(3,396,400)	(2,671,336)	(6,979,461)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(897,710)</u>	<u>(5,875,630)</u>	<u>(2,671,336)</u>	<u>(9,803,279)</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	2,130,973	(6,799,519)	(2,628,756)	3,814,173
Fund Balances at beginning of year	1,110,167	8,522,127	2,669,016	38,019,367
Fund Balances at end of year	<u>\$ 3,241,140</u>	<u>\$ 1,722,608</u>	<u>\$ 40,260</u>	<u>\$ 41,833,540</u>

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF BUDGETARY COMPARISON FOR THE GENERAL FUND
For the Fiscal Year Ended June 30, 2004**

	<u>Budgeted Amounts</u>			<u>Variance with Final Budget</u>
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	<u>Final to Actual Favorable (Unfavorable)</u>
Revenues:				
Revenue Limit Sources	\$ 614,307,174	\$ 614,307,174	\$ 617,889,096	\$ 3,581,922
Federal Sources	115,230,002	150,568,551	118,085,626	(32,482,925)
Other State Sources	262,382,951	304,085,208	279,943,501	(24,141,707)
Other Local Sources	<u>31,172,166</u>	<u>50,481,987</u>	<u>39,707,323</u>	<u>(10,774,664)</u>
Total Revenues	<u>1,023,092,293</u>	<u>1,119,442,920</u>	<u>1,055,625,546</u>	<u>(63,817,374)</u>
Expenditures:				
Certificated Salaries	521,224,809	539,896,650	511,272,540	28,624,110
Classified Salaries	161,412,573	182,050,386	165,442,849	16,607,537
Employee Benefits	188,578,393	204,154,730	201,080,917	3,073,813
Books & Supplies	106,687,854	162,339,631	76,453,726	85,885,905
Services, Other Operating Expenses	40,011,234	98,982,995	70,601,736	28,381,259
Capital Outlay	6,352,214	8,309,107	624,964	7,684,143
Other Outgo	<u>35,757,715</u>	<u>38,881,098</u>	<u>29,768,856</u>	<u>9,112,242</u>
Total Expenditures	<u>1,060,024,792</u>	<u>1,234,614,597</u>	<u>1,055,245,588</u>	<u>179,369,009</u>
Excess (Deficiency) of Revenues over Expenditures	(36,932,499)	(115,171,677)	379,958	115,551,635
Other financing sources (uses):				
Transfer In	2,600,000	3,497,712	4,527,753	1,030,041
All other financing sources		5,000,000	5,000,000	-
Transfer out	<u>(7,286,385)</u>	<u>(11,209,442)</u>	<u>(7,768,497)</u>	<u>3,440,945</u>
Net change in fund balances	<u>\$ (41,618,884)</u>	<u>\$ (117,883,407)</u>	<u>2,139,214</u>	<u>\$ 120,022,621</u>
Fund Balance at Beginning of Year, as Originally Stated			97,677,318	
Adjustment for Restatement (See Note 16)			<u>4,117,230</u>	
Fund Balance at Beginning of Year, as Restated			<u>101,794,548</u>	
Fund Balance - June 30, 2004			<u>\$ 103,933,762</u>	

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)
For the Fiscal Year Ended June 30, 2004

The requirements governing ADA, admission of pupils, types of schools, recording and reporting of pupil attendance, and similar matters are controlled by provisions of the Education Code and by regulations of the State Department of Education.

ADA statistics reported to the State for the fiscal year ended June 30, 2004 are as follows:

	<u>Second</u>	<u>Annual</u>
	<u>Period</u>	<u>Annual</u>
Elementary:		
Kindergarten	9,719	9,689
First through third grade	30,205	29,989
Fourth through eighth grade	45,826	45,423
Opportunity schools	1	1
Home or hospital - temporary physical disabilities	67	68
Special education	3,293	3,288
Special Education – nonpublic, nonsectarian schools	203	206
Extended year special education – mandated	236	277
Extended year programs - nonpublic, nonsectarian schools	32	32
Community day schools	55	72
Total elementary ADA	<u>89,637</u>	<u>89,045</u>
Secondary:		
Regular classes	30,034	29,433
Continuation education	616	605
Home or hospital - temporary physical disabilities	59	60
Special education	1,587	1,564
Special education – nonpublic, nonsectarian schools	223	219
Extended year special education – mandated	106	106
Extended year programs - nonpublic, nonsectarian schools	40	40
Community day schools	32	37
Total secondary ADA	<u>32,697</u>	<u>32,064</u>
Classes for Adults:		
Concurrently enrolled	142	161
Not concurrently enrolled	<u>421</u>	<u>542</u>
Total classes for adults	<u>563</u>	<u>703</u>
Total ADA	<u>122,897</u>	<u>121,812</u>

<u>Hourly Programs</u>	<u>Hours of Attendance</u>
Elementary	1,895,021
Secondary	879,084

See the accompanying notes to supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
For the Fiscal Year Ended June 30, 2004**

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>1982-83 Actual Minutes</u>	<u>2003-04 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	35,400	56,595	180	In compliance
Grades 1 through 2	50,400	50,445	54,000	180	In compliance
Grade 3	50,400	53,985	54,000	180	In compliance
Grades 4 through 6	50,400	53,985	54,000	180	In compliance
Grades 7 through 8	54,000	62,835	63,060	180	In compliance
Grades 9 through 12	64,800	62,835	64,821	180	In compliance

See the accompanying notes to supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2004

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Categorical Aid Programs:			
Department of Education:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	13797	\$ 46,607,284
Title I, Part D, Local Delinquent Program	84.013	13798	6,091
Title I, Local Improvement Plan, Regional School Support	84.010	14330	1,013,256
Title I, Part F, Comprehensive School Reform Demonstration	84.010	14325	331,220
Title I, Program Improvement and School Choice	84.348	14106	30,848
Title II, Part A, Improving Teacher Quality	84.367	14341	9,189,306
Title II, Part D, Enhancing Education Through Technology	84.318	14334	368,498
Title III, Immigrant Education Program	84.365	14346	130,371
Title III, Limited English Proficient Student Program	84.365	10084	1,322,571
Title VI, Emergency Immigrant	84.162	13159	2,886
Title VI, Part A Drug-Free Schools	84.186	14347	1,307,208
Title V Innovative Education Strategies	84.298A	13340	955,573
IASA: Technology Literacy Challenge Grant	84.318	13285	14,464
Even Start Family Literacy	84.213	3700	768,810
Special Education: IDEA Preschool Grants, Part B, Sec 619	84.173	13430	918,770
Special Education: IDEA Preschool Local Entitlement, Part B, Sec 611	84.027A	13682	1,011,933
Special Education: IDEA Preschool Infant Discretionary, Part B, Sec 611	84.027A	13612	42,567
Special Education: IDEA Preschool Local Staff Development, Part B, Sec 611	84.027A	13613	53,614
Special Education: IDEA Preschool Interpreter Certification Part B, Sec 611	84.027A	14466	7,877
Special Education: IDEA Preschool Local Staff Development, Part B, Sec 619	84.173A	13431	1,152
Special Education: IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	18,578,024
Special Education: IDEA Early Intervention	84.181	23761	297,052
Special Education: Workability	84.027	24463	107,910
NASA Explorer School Program	84.318	10010	7,806
Vocational and Application Technology Education	84.048	13924	1,536,910
21st Century Learning	84.287	14349	1,698,197
Indian Education	84.060	10011	90,053
Other Federal: Middle School	84.184K	(1)	443,084
Other Federal: Teaching History	84.215X	(1)	194,785
Other Federal: Safe School Healthy	84.184L	(1)	2,509,826
Other Federal: Reduce Alcohol Abuse	84.184A	(1)	461,034
Other Federal: Foreign Language Elementary	84.294A	(1)	20,763
Emergency Response School Safety	84.184E	(1)	3,579
Fund for Improvement of Education	84.215K	(1)	186,477
Magnet School Assistance	84.165A	(1)	2,638,269
Federal School Renovation Program	84.352(A)	14318	1,619,412
Federal Impact Aid	84.041	10015	18,742,868
Transition to Teaching	(1)	(1)	<u>255,842</u>
Subtotal: Department of Education			<u>113,476,190</u>

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Fiscal Year Ended June 30, 2004

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Categorical Aid Programs:			
Department of Health and Human Services:			
Aids Education	93.938	01982	292,427
CCDF- Center Child Care	93.575	03879	698,207
Medi-Cal	93.773	10013	<u>1,248,659</u>
Subtotal: Department of Health and Human Services			<u>2,239,293</u>
U.S. Department of Defense:			
Army Reserve Officer Training Corps. (JROTC)	(1)	(1)	<u>815,076</u>
Department of National Science Foundation:			
Urban Systemic Program	47.076	(1)	<u>1,643,097</u>
Department of Labor:			
Workforce Investment Act	17.255	10055	<u>340,067</u>
Department of Agriculture:			
National School Lunch Program	10.555	3523	22,148,872
Especially Needy Breakfast	10.553	3526	4,724,216
Basic School Breakfast	10.553	3525	138,526
Federal Snack Program	(1)	(1)	<u>1,037,012</u>
Subtotal: Department of Agriculture			<u>28,048,626</u>
Reconciliation to Federal Revenues			
Total Federal Program Expenditures			146,562,349
Revenue in excess of expenditures related to Federal Entitlements:			
Program-Medi-Cal			<u>507,635</u>
Total Federal Grants			<u>\$ 147,069,984</u>

(1) Pass-through entity identifying number is either not applicable or not readily available.

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
For the Fiscal Year Ended June 30,

	(Budget) 2005		2004		2003 *		2002 *	
	Amount	%	Amount	%	Amount	%	Amount	%
GENERAL FUND:								
Revenue								
Revenue Limit Sources	\$ 615,481,740	59.2	\$ 617,889,096	58.1	\$ 628,358,599	56.8	\$ 621,582,136	57.8
Federal	103,302,811	10.0	118,085,626	11.1	121,252,604	11.0	83,970,333	7.8
State	244,652,468	23.6	279,943,503	26.3	306,223,900	27.7	324,400,348	30.2
County and Local	29,142,859	2.8	39,707,321	3.7	39,291,190	3.6	50,503,124	4.7
Other Sources	995,000	0.1	9,527,753	0.9	34,013,742	3.1	9,053,074	0.8
Total Revenue	993,574,878	95.7	1,065,153,299	100.1	1,129,140,035	102.1	1,089,509,015	101.3
Expenditures								
Certificated Salaries	465,155,100	44.8	511,272,540	48.1	549,185,428	49.7	539,766,566	50.2
Classified Salaries	160,589,988	15.5	165,442,849	15.6	172,038,715	15.6	172,897,268	16.1
Employee Benefits	217,270,600	20.9	201,080,917	18.9	182,628,611	16.5	160,755,966	14.9
Books and Supplies	91,226,220	8.8	76,453,726	7.2	63,485,491	5.7	62,974,948	5.9
Services and Other								
Operating Expenses	45,509,090	4.4	70,601,736	6.6	91,490,923	8.3	68,330,330	6.4
Capital Outlay	7,189,776	0.7	624,964	0.1	7,425,123	0.7	18,048,745	1.7
Other Transfers Out	42,264,875	4.1	30,804,755	2.9	26,788,703	2.4	35,942,235	3.3
Direct Support/Indirect Costs	(1,071,381)	(0.1)	(1,035,899)	(0.1)	-	-	-	-
Interfund Transfers Out	9,367,877	0.9	7,768,497	0.7	12,360,845	1.1	16,651,792	1.5
Total Expenditures	1,037,502,145	100.0	1,063,014,085	100.0	1,105,403,839	100.0	1,075,367,850	100.0
Change in Fund Balance	\$ (43,927,267)	(4.2)	\$ 2,139,214	0.2	\$ 23,736,196	2.1	\$ 14,141,165	1.3
Adjustment for Restatement			\$ 4,117,230	0.4	\$ -	-	\$ -	-
Ending Fund Balance	\$ 60,006,495	5.8	\$ 103,933,762	9.8	\$ 97,677,318	8.8	\$ 73,941,122	6.9
Available Reserve	\$ 16,550,673	1.6	\$ 13,167,959	1.2	\$ 11,101,345	1.0	\$ 21,146,957	2.0
Recommended Reserve Percentage		2.0		2.0		2.0		2.0
Average Daily Attendance	118,971		122,333		123,915		125,529	
Total Long-Term Debt	\$ 1,399,651,449		\$ 1,262,969,569		\$ 856,455,938	**	\$ 717,482,114	

IMPORTANT NOTES:

Available reserves are those amounts designated for economic uncertainty, contingencies and any other remaining undesignated fund balance from the General Fund.

Fiscal year 2005 revised Budget, as reflected in the First Interim Financial Report (Projected year totals).

All percentages are of total expenditures.

Average daily attendance is based upon P-2 and excludes Adult Education.

District has received a waiver of the 2% reserve requirement from the State. Their reserve requirement with the waiver is 1%.

* These financial statements were prepared by other auditors.

** Amount includes restatement to beginning balance - See Note 8

See the accompanying notes to supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
For the Fiscal Year Ended June 30, 2004**

<u>Charter School</u>	<u>Included in District Audit Report</u>
Albert Einstein Academy (K-4)	No
Audeo (6-12)	No
Chanc. William McGill School of Success (K-1)	No
Charter School of San Diego (7-12)	No
Cortez Hill Academy (9-12)	No
Darnall E-Campus (K-5)	No
Explorer Elem. (K-6)	No
Harriett Tubman Village (K-8)	No
High Tech High (9-12)	No
High Tech High International (9-12)	No
High Tech Middle (6-8)	No
Holly Drive Leadership Academy (K-8)	No
King/Chavez Charter School (K-8)	No
KIPP Adelante Prep. Academy (5-8)	No
Learning Choice Academy (K-12)	No
Memorial Academy (6-9)	No
Museum School (3-6)	No
Nubia Leadership Academy (K-6)	No
O'Farrell Community School (6-8)	No
Preuss School UCSD (6-12)	No
Promise Charter School (K-5)	No
Promise Charter School (K-5)	No
San Diego Cooperative (K-8)	No
Southern California Connections Academy (K-8)	No

(See Note 1.D)

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT
RECONCILIATION BETWEEN DISTRICT'S ANNUAL FINANCIAL
REPORT AND AUDITED FINANCIAL STATEMENTS
For the Fiscal Year Ended June 30, 2004

	General Fund	Deferred Maintenance Fund	Building Fund	County School Facilities Fund	Liability Fund	Property Fund	Workers' Compensation Fund
June 30, 2004 Annual Financial and Budget Report Fund Balances	\$ 102,776,453	\$ 2,580,194	\$ 225,489,336	\$ 202,283,331	\$ 2,958,948	\$ 222,533	\$ 22,075,818
Adjustments and Reclassifications:							
Increasing (Decreasing) the Fund Balance:							
Cash in County Treasury	1,353,328		(2,006,991)	(1,759,459)			
Revolving Cash	17,705						
Accounts Receivable	14,800	1,703,805		21,567,149			
Due From Other Funds	(260)						
Stores Inventory	(1,497,640)						
Accounts Payable	766,943		(3,199,629)			699,582	(52,218,000)
Claims and judgements					(2,727,000)		
Due from General Fund			(2,062,257)				
Deferred Revenue	502,433						
Net Adjustments and Reclassifications	1,157,309	1,703,805	(7,268,877)	19,807,690	(2,727,000)	699,582	(52,218,000)
June 30, 2004 Audited Financial Statement Fund Balances	\$ 103,933,762	\$ 4,283,999	\$ 218,220,459	\$ 222,091,021	\$ 231,948	\$ 922,115	\$ (30,142,182)

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2004

NOTE 1 - PURPOSE OF SCHEDULES:

A. Combining Financial Statements

Combining balance sheets and statements of revenues, expenditures and changes in fund balance have been presented for the non-major funds to provide additional information to the users of these financial statements. These statements have been prepared using the basis of accounting described in the notes to financial statements.

B. Schedule of Budgetary Comparison For The General Fund

GASB Statement No. 34 requires a budgetary comparison be presented for the general fund and for any major special revenue fund that has a legally adopted annual budget. This schedule presents the budget as originally adopted, the revised budget as of the fiscal year end, actual amounts at fiscal year end and the variance between the final budget and actual amounts.

C. Schedule of Average Daily Attendance (ADA)

Average daily attendance 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.

D. 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.

E. Schedule of Expenditures of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all federally funded programs. To comply with A-133, this schedule was prepared for the District and is presented on the modified accrual basis of accounting.

SAN DIEGO UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2004

NOTE 1 - PURPOSE OF SCHEDULES: (continued)

F. Schedule of Financial Trends and Analysis

The State Controller's Office requires that this schedule be prepared showing financial trends of the general fund over the past three fiscal years as well as the current year budget. This report is intended to identify if the District faces potential fiscal problems and if they have met the recommended available reserve percentages.

G. Schedule of Charter Schools

The State Controller's Office requires that this schedule list all charter schools chartered by the District and inform the users whether or not the charter school information is included in the District's financial statements.

H. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balances of all funds as reported on the Annual Financial and Budget Report to the audited financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2004

NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

There were excesses of expenditures over appropriations in the Governmental Funds as follows:

Major Funds:

Building Fund:		
Services and Other Operating Expenses	\$	2
County School Facilities Fund:		
Services and Other Operating Expenses		2,100,000

Non-Major Funds:

Postemployment Benefits Fund:		
Interfund Transfers Out		812,785
Prop O Preconstruction Fund:		
Classified Salaries		110,567
Employee Benefits		17,936
Services and Other Operating Expenses		32
Pupil Transportation Fund:		
Books and Supplies		3,191
Deferred Maintenance Fund:		
Capital Outlay		12,578
Capital Facilities Fund:		
Classified Salaries		85
Employee Benefits		12
Services and Other Operating Expenses		92,203



**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**

Chairman

ROYCE A. STUTZMAN

Partners

PETER F. GAUTREAU
RENÉE S. GRAVES
WADE N. McMULLEN
KARIN HECKMAN NELSON
CARL PON
GEMA M. PTASINSKI
MARY ANN QUAY
LINDA M. SADDLEMIRE

Principal

JERI A. WENGER

Senior Managers

TIMOTHY D. EVANS
PHEBE M. McCUTCHEON
SHARI PROSSER
COLLEEN K. TAYLOR
DEAN WEST

Board of Education
San Diego Unified School District
4100 Normal Street
San Diego, California 92103

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Diego Unified School District (the District) as of and for the year ended June 30, 2004 which collectively comprise the District's basic financial statements, and have issued our report thereon dated March 11, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered San Diego Unified School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect San Diego Unified School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying schedule of findings and questioned costs.

**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**

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

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

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

Vicenti, Lloyd & Stutzman LLP
VICENTI, LLOYD & STUTZMAN LLP

March 11, 2005



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

Chairman

ROYCE A. STUTZMAN

Partners

PETER F. GAUTREAU
RENÉE S. GRAVES
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DEAN WEST

Board of Education
San Diego Unified School District
4100 Normal Street
San Diego, California 92103

Compliance

We have audited the compliance of San Diego Unified School District (the District) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2004. 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 on San Diego Unified School District's compliance with those requirements.

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

In our opinion, San Diego Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2004. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs.

Internal Control Over Compliance

The management of San Diego Unified School District is responsible for establishing and maintaining effective internal control over compliance with 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 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 the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect San Diego Unified School District's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items 04-23, and 04-24.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

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

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

Vicenti, Lloyd & Stutzman LLP
VICENTI, LLOYD & STUTZMAN LLP

March 11, 2005



Chairman

ROYCE A. STUTZMAN

Partners

PETER F. GAUTREAU
 RENÉE S. GRAVES
 WADE N. McMULLEN
 KARIN HECKMAN NELSON
 CARL PON
 GEMA M. PTASINSKI
 MARY ANN QUAY
 LINDA M. SADDLEMIRE

Principal

JERI A. WENGER

Senior Managers

TIMOTHY D. EVANS
 PHEBE M. McCUTCHEON
 SHARI PROSSER
 COLLEEN K. TAYLOR
 DEAN WEST

REPORT ON STATE COMPLIANCE

Board of Education
 San Diego Unified School District
 4100 Normal Street
 San Diego, California 92103

We have audited the basic financial statements of the San Diego Unified School District, as of and for the year ended June 30, 2004, and have issued our report thereon dated March 11, 2005.

Our audit was made in accordance with auditing standards generally accepted in the United States of America, the standards for financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and the State Controller's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Attendance accounting:		
Attendance reporting	6	Yes
Kindergarten continuation	3	Yes
Independent study	22	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational center/programs	6	Not applicable

REPORT ON STATE COMPLIANCE

<u>Description</u>	<u>Procedures in Controller's Audit Guide</u>	<u>Procedures Performed</u>
Instructional time and staff development reform program	7	Yes
Incentives for longer instructional day:		
School Districts	4	Yes
County Offices of Education	3	Not applicable
GANN limit calculation	1	Yes
Early retirement incentive program	4	Not applicable
Community day schools	9	Yes
Class size reduction program:		
General requirements	7	Yes
Option 1	3	Yes
Option 2	4	Not applicable
One school serving K-3	4	Not applicable
State instructional materials fund:		
General requirements	9	Yes
Grades K-8 only	1	Yes
Grades 9-12 only	1	Yes
Ratios of administrative employees to teachers	1	Yes
Office of Criminal Justice Planning	-	Not applicable

The District did not participate in the Early Retirement Incentive Program; therefore, the compliance procedures are not applicable. The District had two options under which to implement class size reduction; the District exercised Option 1, therefore, audit procedures for Option 2 were not performed.

Based on our audit, we found that, for the items tested, the San Diego Unified School District complied with the laws and regulations of the state programs referred to above, except as described in the Schedule of Findings and Questioned Costs Related to General Purpose Financial Statements section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the San Diego Unified School District had not complied with the laws and regulations of state programs and requirements, except as noted in the Schedule of Findings and Questioned Costs Related to General Purpose Financial Statements section of this report.

This report is intended solely for the information and use of the Board, management, the California Department of Education, and the State Controller's Office and is not intended to be and should not be used by anyone other than these specified parties.

Vicenti, Lloyd & Stutzman LLP
VICENTI, LLOYD & STUTZMAN LLP

March 11, 2005

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
SUMMARY OF AUDITOR RESULTS
June 30, 2004

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:
 Material weakness(es) identified? Yes X No
 Reporting condition(s) identified not considered
 to be material weaknesses? X Yes None reported

Noncompliance material to financial statements noted? Yes X No

Federal Awards

Internal control over major programs:
 Material weakness(es) identified? Yes X No
 Reporting condition(s) identified not considered
 to be material weaknesses? X Yes None reported

Type of auditor's report issued on compliance for
 major programs: Unqualified

Any audit findings disclosed that are required to be
 Reported in accordance with Circular A-133,
 Section .510(a) X Yes No

Identification of major programs

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010, 84.013	Title I
84.367	Title II, Part A
10.553, 10.555	Child Nutrition Cluster
84.041	Impact Aid
84.181, 84.173, 84.173A, 84.027, 84.027A	Special Education Cluster

Dollar threshold used to distinguish between Type A
 and Type B programs: \$ 3,000,000

Auditee qualified as low-risk auditee? X Yes No

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2004

Per Assembly Bill 3627, all audit findings must be identified as one or more of the following six categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
50000	Federal Compliance
60000	Miscellaneous

For each of the following findings we have included (if applicable) the criteria, condition, questioned cost, effect, and cause in the finding description.

FINDING 04-01 - ANTIFRAUD PROGRAM **30000**

Finding: In accordance with the auditing standard (SAS 99) related to our consideration of fraud, we were required to assess the organizations anti-fraud program. Although the District has many processes and procedures in place, we believe that additional controls and policies would strengthen the District’s programs and bring it into alignment with the newly published recommendations issued by the American Institute of Certified Public Accountants, in their document entitled “Management Antifraud Programs and Controls: Guidance to Help Prevent, Deter, and Detect Fraud”. The following recommendations are the result of interviews with a sample of management and employees regarding the culture of the organization and the intricacies of the current antifraud program.

Recommendation: We believe the District should consider the following:

- 1) Adopt an organizational-wide code of ethics, which is permeated throughout the organization at least annually. It is important to provide a written document to promote honest and ethical conduct. This should be effectively communicated to employees through annual confirmation, training and management oversight.
- 2) Integrate ethics into the training program for employees including training on understanding and being aware of red flags related to fraud. This demonstrates the District’s commitment to fraud awareness throughout the entity.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2004

FINDING 04-01 - ANTIFRAUD PROGRAM
(continued)

30000

Recommendation: (continued)

- 3) Incorporate a formal, anonymous mechanism for reporting concerns about fraud. This should include a documented process for the receipt, retention and treatment of complaints that is confidential and anonymous.
- 4) Consider adopting and implementing employee recognition programs that are aligned to goals in the organization. This will help in improving morale and rewarding employee efforts. The risk of fraud is reduced in an organization when employee morale is positive.
- 5) Institute processes from top management that ensure effective processes are in place to involve employees in key decisions. The AICPA has determined that a participatory environment results in a lower potential for fraud.
- 6) Conduct an analysis of the role internal audit has in developing and implementing the antifraud program. Items to consider include whether the current staff levels adequately meet the objectives of the District, whether the staff is receiving sufficient training, whether the organizational structure provides a sufficient level of authority and oversight of the operations of internal audit and whether tools are sufficient to enable the internal audit staff to analyze and utilize computer assisted techniques. In the review of objectives, we believe attention should be given to provide a greater emphasis on risk-assessment in the financial accounting system. In addition, more resources are needed to assure attendance audits are performed throughout the year.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2004

FINDING 04-01 - ANTIFRAUD PROGRAM
(continued)

30000

District Response:

1. The District currently has a code of ethics set forth for certificated staff as outlined in District Procedures 7045 & 7046. Also, a copy of "Rules of Conduct for Professional Educators" in reference to Title 5 Regulations, Sections 80331-80338 are provided to all certificated staff along with the SDEA Collective Negotiations contract upon employment with the District. In addition, all employees must fill out a conviction report form and be fingerprinted for a background check by the DOJ. The district will be looking into a policy for classified employees.
2. The internal audit staff has attended various training classes in fraud detection, interviewing techniques and presentation of fraud cases. Internal audit currently utilizes this training along with ACL, a highly recommended computer assisted technique to identify fraud, to actively pursue fraud reduction at the district. Internal audit could provide fraud detection training to all district employees with additional staffing resources.
3. The District will research options to provide an anonymous reporting mechanism for management's consideration. Personnel researched the feasibility of an employee suggestion program in the past but district management determined the increase in cost and workload for a truly effective program was prohibitive at that time.
4. The district currently has an employee of the month program to recognize employees and build morale. Additional employee rewards may need to be negotiated with the various bargaining units.
5. The district recognizes the importance of a participatory environment and its relationship to minimize the possibility of fraud, and will be taken into consideration by management.
6. The district will investigate the role of internal audit in implementing a larger scale anti-fraud program and the staffing needs of internal audit to make the program effective.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2004

FINDING 04-02 – KINDERGARTEN CONTINUANCE

10000

Finding: Ed Code Section 46300(g) allows a school district to include in its Actual Daily Attendance (ADA), kindergarten pupils who have already completed one school year in kindergarten. The school district should have on file for each pupil, an agreement made pursuant to Section 48011, approved in form and content by California Department of Education (CDE). The agreement should be signed and dated by the pupil's parent or guardian. We reviewed a sample of kindergarten students who were retained and noted the retention forms used by some of the sites did not contain the necessary content required by CDE. The Pupil Accounting Office provided the correct form via the website, but it was not used by some of the sites.

We noted discrepancies at Zamarano, Curie, Doyle, Franklin and Garfield Elementary Schools. The number of students that did not meet the compliance requirements was twelve.

Recommendation: As required by Education Code 19818, the district must revise the P-2 attendance form to reduce the ADA claimed in relation to these students. We estimate the reduction in ADA to be approximately 11.4 ADA; however the District has received the detail for each student and will determine the exact revision necessary. This will result in a reduction of funding of approximately \$53,700. In addition, the sites must be made aware and accountable for using the approved state form. Pupil Attendance and/or Internal Audit should assure through the periodic audit process that sites are in compliance with this requirement.

District Response: The pupil accounting staff trains new attendance clerks on the requirements for kindergarten holdovers and follows up with documentation audits. The form is called "Agreement for Pupil to Continue in Kindergarten" and is available on the District's web-page. The form "Teacher's Decision to Promote or Retain" is used to test a student's level from a curriculum standpoint, this is commonly the form referred to as the retention form. The "Teacher's Decision to Promote or Retain" form will have a line added that indicates the use of the "Agreement for Pupil to Continue in Kindergarten" form for kindergarten students as a mandatory accompanying document. Pupil accounting will also compose a memo to the Attendance clerks with the correct form and a reminder to use it when appropriate. Pupil accounting has calculated ADA for each student and will amend P2 for 10.48 ADA (\$49,379.32) and Annual for 10.07 ADA (\$47,460.97).

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2004

FINDING 04-03 – ATTENDANCE -
WEBSTER ELEMENTARY SCHOOL

10000

Finding: Webster Elementary School was one of 26 sites selected by the auditors for a site visit to review attendance documentation. Upon arrival, the supporting documentation regarding attendance could not be located. The site believes that the files containing the documents were misplaced or improperly destroyed due to construction being completed at the site. We expanded our testing by performing analytical procedures of attendance reported by the site for the past several years as well as analyzing the reasonableness of ADA reported by Webster to other elementary schools in the District. We also gained an understanding of procedures in place at Webster for attendance accounting through inquiry and observation at the site. Based on this analysis there was no evidence of a material misstatement to ADA at Webster Elementary.

In addition, upon notification of the issue to Pupil Attendance, we requested that they determine whether other sites in the district had records available for audit. This was critical to determine if the lack of records was prevalent throughout the District, or whether Webster was an isolated situation. Personnel from Pupil Attendance visited all sites and determined that all of the other sites had documents available, although some were unorganized. (However, see Finding 04-04 regarding missing records at San Diego High School). Therefore, we believe that this situation was isolated and unusual. In order to obtain our opinion on the ADA reported at the elementary level, we also chose an additional elementary site for testing, which meant that we visited our desired 10% of elementary sites in order to validate our opinion on the ADA reported.

Recommendation: We are not suggesting any revision to attendance data related to the above issue. We suggest that the record retention policies be reinforced by management and consideration be given to requiring the site principals to annually certify to the Pupil Attendance Office that attendance records are maintained and with a statement as to where they will be stored.

District Response: The pupil accounting and internal audit staff conducted site visits from December through January to review the record retention procedures with the attendance staff and to distribute a copy of the district's record retention policies. Site personnel were asked to sign documentation acknowledging the receipt and confirmation of the policy being read and understood by necessary staff. Pupil accounting will include the actual location of records for the current year and previous years with its site audit checklist. Pupil accounting will also hand out the record retention policy at the time of audit for new employees.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2004

FINDING 04-04 – ATTENDANCE -
SAN DIEGO HIGH SCHOOL

10000

Finding: When we arrived at San Diego High School to test attendance, there were no original source documents, (attendance rosters), available for audit. After an exhaustive search by site personnel, the documents were not found. In order to form an opinion on the ADA for this school, we performed alternative audit procedures and expanded our testing.

We expanded our testing of notes, which were available for audit and determined that there were no exceptions of reported absences based on notes. In addition, since the attendance system at San Diego High School is an online computerized system, we were able to test whether teachers were taking roll on a daily basis by reviewing a log-in summary downloaded from the mainframe. We determined that several teachers were not logging in on a daily basis. Based on a sample size of 100 days where teachers had not logged in, 25% of those were the result of teacher absences and were accounted for by substitutes. Based on this finding, we reviewed a sample of 9 students, covering 40 days, and researched those students that were marked absent for 4 or more periods, and present for only one or two periods. It was determined that in 32.5% of these situations, the teacher had not logged in for those periods the student is marked present. Based on this finding, we believe that ADA is overstated due to the fact that some teachers were not taking roll on a daily basis, nor did we have the teacher roster to verify that the student was indeed present.

In addition, we performed various analytical procedures and gained an understanding of the attendance procedures in place through inquiry and observation. The site principal has also provided a written response substantiating the fact that the rosters were kept and provided a written assurance of the understanding of the importance of such records and has assured that a process is in place for future years.

Based on our error rate of .006%, we have applied that to the total possible days of apportionment for the site, which results an overstatement of ADA of 14.6 or approximately \$68,800.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2004

FINDING 04-04 – ATTENDANCE -
SAN DIEGO HIGH SCHOOL
(continued)

10000

Recommendation: We recommend that the Attendance Reports be amended and filed with the California Department of Education reflecting the above mentioned adjustment. The process of keeping signed teacher rosters has been reiterated by the Pupil Attendance Office. We suggest that Pupil Attendance and/or Internal Audit perform internal audits at the site throughout the year to assure that procedures are in place and records are being maintained in accordance with district and state requirements.

District Response: The Pupil accounting and internal audit staff conducted site visits from December through January to review the correct procedures for documenting attendance and record retention. They also distributed copies of the district's record retention policies to each of the new small school sites. Site personnel were asked to sign documentation acknowledging receipt and confirmation of the policy being read and understood by necessary staff. Pupil accounting staff retrained all the Attendance clerks at the San Diego High campus on procedures and the requirement to print weekly "Teacher's Summary of Attendance" (rosters) in order to be in compliance with Education Code requirements. Pupil accounting will update the attendance procedures with specific instructions using the new Zangle system and make the procedures available to the sites online. Pupil accounting will amend P2 and Annual for 2003-04.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2004

FINDING 04-05 – INTERNAL CONTROLS - PAYABLES

30000

Original management letter observation from fiscal year 2002-03

Finding: An important aspect of the year end closing process is the accrual of liabilities related to services or goods received prior to June 30th. We found that there were several obligations related to construction projects that were not properly accrued at year end for services performed prior to June 30, 2004. These obligations should have been included as 2003-04 expenditures in the building fund, and an audit adjustment of \$3.2 million was proposed for unrecorded expenditures noted in our subsequent payments testing.

Recommendation: A process should be in place to assure that facilities forward information to the accounts payable department to allow for proper cut-off procedures in recognizing expenditures at year end. Facilities should review all existing contracts and work performed as of the end of year to determine the appropriate accruals.

District Response: The accounts payable unit sends out a district-wide circular annually asking for accrual information. Starting in 2003-04 an urgent e-mail was also sent to the contract specialist in facilities and will continue to be sent in subsequent years to remind staff that this information is mandatory.

In addition, all accounts payable technicians review all invoices on their desks the day before the accrual deadline to catch invoices just received that had not had accrual forms submitted for them and which cannot be entered with an accounting date in the previous fiscal year. The technicians then prepare accrual forms for any invoices that meet the criteria for goods received or services rendered in the prior period that will be paid in the following fiscal year.

Any recommendations for improvement in enforcing the submission of appropriate financial accrual information in a timely manner are welcome.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2004

FINDING 04-06 – FOOD SERVICE INVENTORY **30000**

Finding: The physical inventory did not agree with the amount recorded in the financial statements at year end. The difference was approximately \$267,000. In discussing this with personnel in food services, there were discrepancies between the perpetual and physical systems due to inabilities in the PeopleSoft software system to properly account for these activities.

Recommendation: A system must be established and implemented to efficiently and effectively report the inventory for food services. A reconciliation to the physical inventory should be completed in a timely manner to assure that adjustments can be posted prior to year end closing. Without this process in place, the financial statements for food service will not be presented accurately.

District Response: The food services department will create a new inventory process to accommodate the changes in requirements for tracking inventory due to the PeopleSoft program. The new process will include an updated plan for physical inventory counts that will insure that they will be both timely and accurate and include an immediate follow up reconciliation so adjustments can be posted in a timely manner.

FINDING 04-07 – INTERNAL CONTROL – CASH RECEIPTS **30000**

Finding: Proper segregation of duties for cash receipts include the separation of the initial receiving of funds, preparing the deposit and recording in the financial system. Currently these functions are being handled by the same individual. The types of collections involved include collections for fingerprinting, site collections, payroll reimbursements, and other similar items.

Recommendation: To strengthen internal controls over the above mentioned receipting process, the cash receipt functions should be segregated to provide an adequate separation of duties.

District Response: The District concurs with the recommendation and will incorporate a process requiring that the person who prepares the bank reconciliation, who is a separate individual, will verify that the receipts issued agree with the bank deposits.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2004

FINDING 04-08 – INTERNAL CONTROL –
GENERAL JOURNAL ENTRIES

30000

Original management letter observation from fiscal year 2002-03

Finding: Our evaluation (sample size of 152 entries) of the journal entry process indicated the following:

- The District does not have written procedures for the journal entry process.
- There is no comprehensive record or log of all journal entries.
- Review and approval of journal entries prior to entry into PeopleSoft is not consistently performed (approval noted for only one entry within the sample tested).
- Documentation for journal entries was not available (7 entries), limited to a copy of the journal entry itself (13 entries), and did not support the description and amounts (2 entries)

Recommendation: The District needs to establish procedures for processing and maintaining a comprehensive record of all journal entries. The procedures should be written and include any forms considered necessary for noting review and approval. In addition, the District should establish a centralized filing system for all entries complete with supporting documentation. All journal entries should be reviewed and approved prior to entry into PeopleSoft and that approval should be noted within the journal entry documentation. In addition, the District may want to consider including a procedure whereas internal audit will perform random audits of journal entries for validity and authorization.

District Response: The finance division has implemented a uniform journal voucher entry process that includes the following components:

A staff member at an appropriate level will review the journal voucher input and backup documentation after the originator of the journal has provided a hard/soft copy and filed the documentation in a central location.

The supervisor will perform monthly audits of journals and review random samples of journals created, approved and posted.

The journal voucher will remain in the central file until the annual audit is complete and then transferred to storage.

A list of journal vouchers and their status can be reviewed via PeopleSoft queries.

It would be prohibitive to require supervisors to completely review every journal voucher before they are posted and even more prohibitive to have a hard copy central file due to the various locations of staff creating journal vouchers and the lack of storage space.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2004

FINDING 04-09 – GENERAL FUND RESERVES AND CASH FLOW **60000**

Finding: The California State Board of Education requires the District to maintain a budget reserve requirement of two percent. In 1998 the District was granted a waiver to lower its reserves from two to one percent for five fiscal years. In 2002 the State Board of Education extended the waiver for the 2002-03 and 2003-04 fiscal years. Due to the decline in state funding of education, the State Board granted one time relief to all districts for fiscal year 2004-05 allowing districts to reduce the required reserves by 50%, making the District's level one percent for an additional year. As noted on the Trends Schedule (page 85) the District's reserves are above the 1% reduced reserve requirement. The budget for the 2004-05 fiscal year however projects a deficit of \$43.9 million for the combined General Fund and multi-year projections for the General Unrestricted Fund for future years continue to show deficit spending. These projected deficits will place the District's Unrestricted General Fund ending fund balance at \$9.7 million at the end of fiscal year 2006-07, a decrease of \$46.1 million over the next three years, and raise doubt about the District's ability to maintain reserves at the State's required level in future years.

One of the most significant increases in costs for the District is related to the health and welfare benefits currently offered by the District. There was an increase in total benefits of 10 percent in the last fiscal year despite decreases in certificated and classified salaries of 6.9 percent and 3.8 percent respectively. In addition, the district is in declining enrollment which will continue to force financial hardships on the district.

These issues will always have an impact on cash flows. At year end, the districts cash reached an extremely low level of \$4.5 million. The balance one year prior was in excess of \$30 million. The district has met its financial obligations by using temporary borrowing instruments, such as TRANS and interfund borrowing. The declining cash balances must be closely monitored.

Recommendation: It is extremely important that the District closely examine their budget and the impact that declining enrollment, increased benefit costs, special education encroachments, and other factors may have on the financial status of the District. As the external auditors, we believe the low reserves must be restored to assure that cash flow remains positive and that the district is able to maintain a sound financial position. The need to build the reserves must be emphasized in the negotiation process and in all key budgeting decisions.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2004

FINDING 04-09 – GENERAL FUND RESERVES AND CASH FLOW **60000**
(continued)

District Response: Management has been working and continues to work closely with the Board in monitoring and addressing budgetary issues including the key issues of district reserve requirements and deficit spending. Regular budget briefings are conducted to review the status of current and projected years' budgets, with the goal of establishing adequate reserves while reducing and ultimately eliminating deficit spending. All operational issues are examined and discussed including declining enrollment, benefit costs, and encroachment. With one or more of these issues affecting school districts statewide, the district is also pursuing action at the state level, individually and together with other school districts and proponents, in an effort to generate additional revenues for K-12 education, as well as remedy unintended inequities in current state funding formulas.

Management continues to discuss with the Board opportunities to reduce costs wherever possible. Programs are continually examined and monitored to ensure the most efficient allocation of resources and, at the same time, maintain program integrity.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2004

FINDING 04-10 – FINANCIAL REPORTING
AND BUDGETING PROCESS

30000

Original Finding 03-02

Finding: The District's financial system is paramount in offering meaningful financial information to managers and administrators throughout the District in a timely manner. The District transitioned into a new data processing system during the 2003-04 fiscal year. The first year of implementation is typically challenging for any organization, but we are particularly concerned about the following issues that we noted during our evaluation of the budget process and analytical review.

- The budget for 2004-05 was prepared primarily from excel spreadsheets because the PeopleSoft budget module was not operable. This was extremely laborious and time consuming for district staff. This increased the likelihood of errors occurring during the budget process. We did note an error in the formulas used to calculate employee benefits which resulted in an overstatement of benefits approximating \$17.7 million. Although these errors were eventually corrected in subsequent interim reports, the system allowed for such errors to go undetected.
- Timely, user friendly financial reports were not available for managers to properly monitor their budgets throughout the year. As an example, the lack of various financial reports from PeopleSoft made it difficult for facilities to reconcile their financial reports to the financial system.

Recommendation: We recommend the following:

- The budgeting process should include the use of an integrated budget module which would provide more accurate budgetary data and decrease the likelihood of errors. This module would greatly facilitate the budget process.
- Reports and report writing capabilities should be incorporated within the financial system to allow for timely and user friendly financial reports. Training should be provided to users to understand the reports and to better utilize the existing capabilities.

District Response: The District agrees with the importance of timely financial reporting and is continuing to make progress in this area. The District currently has budget transaction reports available to managers through their site's web page. Managers also have the option to have canned reports pushed out to their web page weekly if they do not feel comfortable running their own reports. The reports are updated weekly to show all the budgets, transactions and balances up to the preceding Friday. The budget analyst have provided training sessions to school site staff and are available to meet with site staff to go over reports and help them to plan and execute their budgets. Also, two full time systems analysts have been hired to write reports to facilitate extracting necessary data from PeopleSoft to address this problem and district staff that have the training and the background to write their own reports can request report writing capability.

SAN DIEGO UNIFIED SCHOOL DISTRICT
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FINDING 04-11 – STATE COMPLIANCE - 40000
INSTRUCTIONAL TIME AND STAFF DEVELOPMENT PROGRAM

Finding: The district is required to keep contemporaneous records regarding the number of days claimed related to the Instructional Time and Staff Development Program. The law requires that the staff development day be at least as long as the full-time instructional work-day and that each participant be present for the full day of training. These records typically consist of sign-in and sign-out sheets signed by the teachers at the beginning and end of the staff development period. Although some of the sites selected did provide us with sign-in and sign-out sheets, the majority of the sites selected provided an attendance sheet with no indication of when they arrived or left. The agendas for the program indicated that the training did meet the specified time requirements.

Recommendation: It is critical that a standardized procedure is implemented to document whether a participant is present for the entire day of training. We recommend that those responsible for the training acknowledge in writing their understanding of the required procedures. One individual at the District level should be responsible for collecting the documentation at the end of the training prior to the days being submitted for reimbursement.

Based on the information we have been provided, which supports that the training occurred, who was present and that the training was scheduled for the required amount of time, we are not recommending an amendment to the claim filed for this program; however, we believe that the state requirements would be better met, by assuring the record includes documentation that the individual was in attendance for the entire day.

District Response: Staff Development activities are nearing completion for the 2004-05 fiscal year so a procedure change would be moot this late in the fiscal year. The staff development grant will be undergoing changes combining it with other state grants into a larger block grant for the 2005-06 fiscal year so the new requirements are not yet known. The District would be willing to implement a new timekeeping method to insure attendance for the entire day.

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FINDING 04-12 – STATE COMPLIANCE - **40000**
CLASS SIZE REDUCTION

Finding: The State requires that any class exceeding 20.4 shall not be eligible for class size reduction funding. We found one situation where the percentage exceeded 20.45, but was rounded to 20 instead of 21. This resulted in one class being claimed for class size reduction that should not have been. However, in addition, we noted that the formulas in the worksheet used to tabulate the number of students per class, incorrectly rounded down, when it should have rounded up. Therefore, the number of students claimed was underreported in approximately 82 instances. After considering these adjustments, the District is entitled to an additional \$55,266 of CSR funding.

Recommendation: The district must revise the CSR form and adjust the number of students claimed in accordance with the new calculation.

District Response: The District administration concur with the auditor's methodology for rounding. We have amended and submitted to the county on March 10, 2005.

FINDING 04-13 – INTERNAL CONTROL - **30000**
CHILD DEVELOPMENT CASH RECEIPTS

Finding: The District collects parent fees for various child care programs operated by the District at various locations. Receipts are written at the sites for cash collections and the funds are forwarded to the bank. The district receives notification from the bank that the deposit is made; however there is no reconciliation to the details of receipts. Therefore, it is possible that the deposits do not reconcile to the details of the receipts.

Recommendation: A process is needed to require that a reconciliation be completed of receipts collected from the sites to the cash collections. This is an important internal control to identify possible variances and allow for proper investigation into discrepancies.

District Response: The Financial Accounting Unit will work with the Child Development Office to create a reconciliation process that will be conducted by the Child Development Office and submitted to the Financial Accounting unit on a monthly basis to be filed with the Financial Accounting Units Reconciliation.

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FINDING 04-14 – ADULT EDUCATION -
DEFICIT SPENDING AND ACCOUNTING ISSUES

60000

Finding: The Adult Education Fund has experienced deficit spending in the last two years, with the excess of expenditures over revenues amounting to \$817,893 in 2002-03 and \$534,640 in 2003-04. This has resulted in the ending fund balance at June 30, 2004 reaching only \$79,634, which represents just approximately 2.6% of expenditures. The District has made changes to the budget for 2004-05 to correct this position; however, in reviewing the actual expenditures to date, we believe that the actual expenditures may exceed the budgeted amounts in various categories.

In addition, we noted various weaknesses in the accounting for the adult education fund including the following:

- Transfers via journal entries are being made between resources and object codes incorrectly. These journal entries are not approved by an appropriate level of management. This resulted in an \$11 million dollar reclassification adjustment between revenue sources.
- Accruals were not completed at year end in regards to estimated revenues for the revenue limit. This resulted in revenues being understated by approximately \$133,000.

Recommendation: It is necessary to closely monitor the financial activities in this fund to assure financial solvency is maintained. Oversight of the accounting operations for this fund should include the monitoring of budgets throughout the year, approval of all journal entries and oversight and approval of year end accrual entries.

District Response:

1. The \$11M of expenses entered into PeopleSoft with an incorrect Resource Code. This resource code only applies to expenses incurred within a federally funded program. These expenses represented thousands of lines of expense data and as a concession to our year-end timeline, the accountant shifted 'state revenues' to cover the negative federal resource. The correct procedure would have been to move the expenses to the correct state-funded resource.
2. The accountant could not confirm the underlying components of the revenue-limit accrual equation and chose a conservative approach of not booking an incorrect or overstated amount.

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FINDING 04-15 – INTERNAL CONTROLS - PAYROLL

30000

Finding: The Districts policy of record retention for personnel files is not in compliance with Title 5, Ed Code 16023 which states “all detail records relating to employment, assignment, amounts and dates of services rendered, termination or dismissal of an employee in any position, sick leave records, rate of compensation, salaries or wages paid, deductions or withholdings made and the person or agency to whom such amounts were paid, should be permanent.” During our testing 30 of the 40 employees selected for testing did not have support for deductions or withholdings in the form of a W-4 and other supporting documentation related to hiring was not available.

Recommendation: The District should review their existing retention policies and revise according to legal requirements and assure compliance with this policy.

District Response: The District will review its retention policy and revise where needed. It will also publish the policy so it's available to all employees. Efforts will be made to assure compliance with the policy.

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FINDING 04-16 – REVENUE LIMIT

60000

Finding: The calculation of the District's Revenue Limit is an area of complexity that warrants crosschecking and cross training by District business management. During our review of the annual revenue limit calculation we noted discrepancies in the amount of Average Daily Attendance figures used to calculate the revenue limit. Our audit procedures also determined that amendments to second-period A.D.A were not included in the second period certification by the State and as a result, there will be a substantial delay in the receipt of \$9 million of apportionment from the State.

Recommendation: The District business administrators should assure that there is sufficient verification of the Revenue Limit calculation. We recommend that another individual be trained on the completion of revenue limit schedules. This person can also be involved in checking the final calculations. The County Office also prepares the Revenue Limit calculation, the District should work closely with the County for checking the final calculation and determining what information is being used by the State to assure timely cash flows related to the revenue limit.

District Response: The district is in agreement with the auditor's recommendation in regards to revenue limit calculations. The financial accounting department will train additional staff in revenue limit calculation so final calculations can be verified and followed up by a secondary check with the County Office of Education staff.

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FINDING 04-17 – INTERNAL CONTROLS –
DUE TO/DUE FROM OTHER FUNDS

30000

Finding: The District underwent the implementation of a new data processing system related to its financial budget and accounting functions, PeopleSoft. One of the issues associated with the new system is related to automated transactions that are setup to either debit or credit accounts for standard interfund transactions (i.e. payroll, benefits, stock issues and job distribution costs.) We noted that the system was programmed to automatically create journal entries to setup due to and due from transactions between resources within the same fund, this system process resulted in an overstatement of due to and due from activity within the same fund. Additionally the interfund transactions were not reconciled in a timely manner, therefore duplications and other erroneous entries were not corrected prior to year-end closing.

Recommendation: The District must undergo a thorough reconciliation process prior to the closing of the books and on a monthly basis, to assure that all amounts reported in the due to other funds and due from other funds ledger accounts are appropriate and in balance. This will assure that duplications or other errors do not exist. The systematic programming issues need to be resolved to prevent unnecessary accounting entries.

District Response: The District is working with our DWA consultants (Empower) to determine the appropriate systematic solution to the inter-fund balancing limitations inherent in the PeopleSoft Financial Application. In the interim, we have discontinued the inter-fund balancing feature and we will manually balance all inter-fund activity. We have also changed our reconciliation procedures, moving the responsibility of reconciling the Due to/Due from accounts to individual funds managers.

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FINDING 04-18 – INTERNAL CONTROLS – **30000**
CASH IN COUNTY RECONCILIATIONS

Finding: The year-end reconciliation between the District's Cash in County balance and the County Treasurer's cash balance contained numerous reconciling items. Additionally, the District and the County are utilizing two different accounting systems, resulting in difficulties with the accounting of warrant payments. Voided and stale dated checks are recorded on the District books as they are recognized; however, these transactions are not recorded on the County ledger until several months after the transaction, resulting in an understatement of the cash balance of funds held with the County Treasury.

Recommendation: The District should reconcile the Cash in County account on a monthly basis and work towards resolving the issues with accounting for voided and stale dated checks between the two systems.

District Response: The District financial accounting unit currently reconciles cash with the County Treasury monthly and is working with the District's and the County's information technology units to rectify the timing discrepancies in the void and stale dated check systems.

FINDING 04-19 – INTERNAL CONTROLS – **30000**
ASSOCIATED STUDENT BODIES

Original management letter observation from fiscal year 2002-03

Finding: We noted that the District Office does not have current bank statements and reconciliations for all Associated Student Body Investment Accounts. The account documentation on hand was collected several months before year-end, therefore the amounts recorded on the statement of net assets does not accurately reflect the account balances as of June 30, 2004.

Recommendation: We recommend that the District monitor and verify on a monthly basis the completeness of the investment information submitted by the ASB's. The necessity to have accurate and up to date information should be conveyed to school site staff and an individual at the District should be appointed to follow-up with non-compliance.

District Response: The District and the County of San Diego are currently working on a plan to increase the continuity of investment accounts held by the various sub-divisions of both agencies. This new process will expedite the collection of investment information by the District's financial accounting department and allow for monthly reconciliations.

SAN DIEGO UNIFIED SCHOOL DISTRICT
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FINDING 04-20 – FINDING INTERNAL CONTROL – 30000
DISASTER RECOVERY AND BUSINESS CONTINUITY IMPLEMENTATION

Original management letter observation from fiscal year 2002-03

Finding: The District has developed formal plans related to disaster recovery and business continuity; however, the plan has not been tested or implemented.

Recommendation: A formal test needs to be conducted. The results need to be documented and reported to District management. Following a successful test, the plans should be implemented district-wide.

District Response: Information technology specific, the department's disaster recovery and business continuity effort is an ongoing study during the conversion to enterprise applications. The District's IT Staff have brought the data center to a complete shut down as part of the power supply implementation. From this, all systems were brought back online and policies evaluated to reflect the actual steps that were learned to differ from the recovery manuals. Staff as a part of ongoing operations recovered data and implemented new releases from PeopleSoft and Zangle as they happened. We have restored entire server hardware and SAN storage from backup tapes, having done so on a number of occasions. We have a high degree of confidence in our ability to restore functionality from tape backup.

The IT department is assessing and planning to develop on another site redundant hardware running the core applications that would enable the district to continue operations should the Education Center be lost as a processing site. This implementation is under planning and development, and conditioned on using equipment that will be replaced by newly acquired hardware. Processing at any site would be conditioned by the impact of a disaster on the network infrastructure.

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FINDING 04-21 – INTERNAL CONTROL – ENTERPRISE SECURITY **30000**

Original management letter observation from fiscal year 2002-03

Finding: The District's information and technology security policy has not been updated for the implementation of new information systems -- Zangle (Pupil Accounting) and PeopleSoft (Financial and Budgetary Accounting).

Recommendation: We recommend that a new security policy be developed and implemented based on the security configuration of the new information systems.

District Response: The district issued Procedure 7039 effective 2/1/2004 to hold staff accountable and to stress the importance of appropriate use of the new district information technology systems. The use of these systems did not change the structure for authorizing access to systems, which is based on staff needs to perform their tasks. At school sites, Zangle is replacing Aeries and the security profiles will be developed that allow staff to perform their duties, maintain data integrity and ensure adequate controls.

In PeopleSoft, access roles were established based on functional areas and considering segregation of duties. Roles are then assigned by Information Technology Department based on management authorization and job duties. As new systems are implemented, it is prudent for the district to revisit the access roles as recommended above.

SAN DIEGO UNIFIED SCHOOL DISTRICT
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FINDING 04-22 – SELF-INSURANCE – WORKERS COMPENSATION 60000

Finding: The District is self insured as described in Note 10 in the financial statements for property, liability and workers' compensation. These programs are accounted for in self insurance funds as allowed by Education Code 17566. These funds are considered proprietary funds under governmental accounting standards and are accounted for using the accrual basis of accounting, which is similar to private-sector businesses.

As shown in the financial statements, the workers' compensation funds is under-funded. The workers compensation fund ended the 2003-04 fiscal year with a negative ending balance of over \$30 million. This negative balance is primarily the result of the recognition of the actuarially determined estimated losses, which are obligations that will be incurred over several years. These liabilities had not been accounted for within self insurance fund. The District has maintained a positive cash position by applying a funding rate that covers current costs and a portion of the future costs, but it is not sufficient to fully fund the future obligations using the accountability standards prescribed by GASB 10 for self insurance activities.

Recommendation: As previously recommended to the District in the actuarial studies recently performed by an independent actuarial firm, the District must develop a plan to fund the self insurance programs and cover the current deficits. In addition, we recommend that the district report these liabilities in the self insurance funds within the districts' financial reporting system to provide visibility of the financial status throughout the year and at year end.

District Response: The District has a "Five Year Deficiency Funding Plan" that will eliminate the un-funded liability in the Self Insured Workers' Compensation Fund. Under this plan the liability is projected to be liquidated in 2008-09.

The 2004-05 adopted budgets, includes \$3.5 million of one-time deposit into the Self Insured Workers' Compensation Fund to accelerate the liquidation of the un-funded liability.

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FINDING 04-23 – NATIONAL SCHOOL LUNCH PROGRAM COMPLIANCE

50000

National School Lunch Program (10.555)

Finding: Districts are required to test a sample of NSLP applications for validity each year. If the applicant does not submit the required information or if they are no longer eligible the benefits should be adjusted or automatically converted to pay status. In fiscal year 2003-04, after the verification process began and applicants were notified, the District did not properly cutoff or adjust individuals that failed to meet eligibility criteria. Individuals were finally cutoff or adjusted as late as April 2004. The food service personnel believe that these errors occurred due to staffing shortages in their department.

Our testing revealed that 151 students were not eligible but had not been removed from the eligibility list. The District estimated that they over-claimed meals by 278 for a four month time frame. The over claimed meals totals approximately \$11,300.

Recommendation: The claim for NSLP should be revised to reflect the changes mentioned above. The amount of questioned costs is approximately \$11,300. Procedures must be implemented to assure that revisions to eligibility be completed in a timely manner.

District Response: San Diego City Schools implemented a district-wide hiring freeze in fiscal year 2003-04. During this time, the Food Service Certification Clerk left the department and the position was vacant for a period of time until an hourly office clerk could be placed to cover the position. As a result of the vacancy, eligibility for 151 students that were in verification as part of the National School Lunch Program (NSLP) that did not respond or responded after the December 15, 2003 deadline were not changed in a timely manner. In order to rectify this situation, we compiled the actual Point-Of-Sale (POS) data (meals served) on 5 of the students that were audited. We used this data to calculate an average \$ amount that would have been over claimed from December 2003 to April 2004. Upon agreement from our external auditors, we will submit a corrected claim for December 2003 to April 2004 with a reduction totaling \$11,302.35. Beginning with the 2004/2005 school year, the food service department implemented an automated system to systematically process all student certifications. This new system includes a verification process that will automatically eliminate all students that do not respond to the verification. In addition, food services hired a permanent staff member to handle the Certification Desk in January of 2005.

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FINDING 04-24 – FEDERAL COMPLIANCE – SEMI-ANNUAL CERTIFICATIONS

50000

Original Finding 03-03

National School Lunch Program (10.555)
National Science Foundation – (47.076)
Title II (84.367, NCLB Part A)
Special Education (84.027)

Finding: Federal law requires that salaries charged to federal programs be substantiated by confirmation or determination that costs distributed represent actual costs. Confirmation should be by a responsible person with suitable means of verification that the work was performed. The confirmations are typically referred to as semi-annual certifications. These certifications were not completed for employees in the NSLP program and were completed, but substantially after the fact for the National Science Foundation, Title II and Special Education.

Recommendation: The district has been working on implementing this federal requirement regarding employee certifications for the past year. The process has been established, but compliance by all employees has not been fully accomplished. The importance of complying with these regulations must be communicated to all effected managers and employees working in federal programs. We have not quantified a questioned cost because we do not believe there is evidence that employees are being charged inappropriately to the above mentioned programs; however, the District should know that if a federal audit was to occur, the funding could be in jeopardy. We believe the District should undergo a district-wide training for all employees and managers involved in federal programs to assure that there is an adequate understanding of the regulations.

District Response: The importance of complying with these regulations is communicated through district-wide circulars distributed semi-annually, is discussed at district-wide Principal and NCLB trainings/conferences, at monthly meetings with the program directors of the National Science Foundation and weekly meetings with the NCLB Leadership Committee, including Title II directors.

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FINDING 04-25 – FEDERAL COMPLIANCE – TITLE I INDIRECT COST

50000

Finding: The indirect cost was incorrectly charged to Title I, which resulted in an overcharge of \$43,124. We did not note this issue with other federal programs we tested; however, the District did determine that the error applied to a few other programs and adjustment will made accordingly.

Recommendation: We recommend an adjustment be made to the program to reimburse for this overpayment. In addition, any adjustments to the indirect cost calculations should be reviewed by manager or supervisor prior to the allocation. Since PeopleSoft is calculating this cost, there should be very few, if any, manual adjustments for indirect costs.

District Response: A correction will be made in the 2004-05 fiscal year to adjust for the amount Title I funding was over-charged in the 2003-04 fiscal year.

Two additional processes are now in place to avoid this error from occurring:

1. The journal review process that requires approval prior to posting of journals.
2. Management will perform a periodic review of the application of indirect costs to ensure all grants are charged the appropriate amounts.

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

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STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
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FINDING 03-01 - BOARD REVIEW OF INVESTMENT INFORMATION
Government Code (GC) Sections 53600-53686

Finding: During our test work, we noted the District is not presenting annually the written investment policy for Board adoption and is not presenting all required quarterly investment information and certification. Specific GC compliance requirements are not being fully met. The District, which maintains a significant portion of its total cash and investments with the County of San Diego, has relied solely on the County of San Diego's certification for those funds placed with the County.

Recommendation: It is recommended that the District management establish policies and procedures for presenting annually the written investment policy for Board adoption and presenting all required quarterly investment information for certification by the Board so as to be in compliance with GC compliance requirements.

Current Year Status: Implemented.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2004

FINDING 03-02 - MANAGEMENT REVIEW OF FINANCIAL INFORMATION

Finding: Good internal control practices over financial reporting include management review of financial statements on a periodic basis. The District does not currently prepare and distribute monthly financial statements for use by management in monitoring the activities of the District. There is no formal review of the financial information of the District until the year-end reporting process, and that review is very limited. Further, there do not seem to be adequate resources to complete the year-end reporting package and self-critique the data prior to fieldwork commencing, which results in ineffective controls over the financial reporting process. As a result, there were numerous entries made for the financial statements and numerous revisions made to financial statement schedules. By not reviewing the financial statements in a timely manner, the District increases the risk that misstatements, either due to error or irregularity, may not be identified and corrected in a timely manner. Our audit procedures resulted in a number of large dollar adjustments, indicating that the financial statements were not accurate and had not been reviewed in preparation for the current year audit. Care in the preparation and review of financial reporting information is an important internal control. It is also essential that management and the governing body have comfort that these controls are functioning effectively in order to justify their reliance on the financial information provided to them for decision-making purposes. District procedures do not provide for top level review of financial information.

Recommendation: The District should have established policies, procedures and internal controls over the financial reporting process. The design of the controls should include supervisory review of corrections to the general ledger throughout the year and over the year end closing transactions. Further, there should be ledger internal controls designed and implemented to perform and verify a reconciliation of the general ledger to the month-end financial reports and year-end financial statements, footnotes and supplementary information.

Current Year Status: In progress, see current year finding 04-10.

SAN DIEGO UNIFIED SCHOOL DISTRICT

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FINDING 03-3 – ALLOWABLE COSTS

Federal Agency: Department of Education

Program Name: Title II-NCLB Part A-Charter Schools/Safe Schools Healthy Students

CFDA# and Program Expenditures: 84.367(\$8,920,519)/84.184(\$3,029,922)

Award Year: FYE 6/30/03

Finding: OMB Circular A-87 Attachment B Section II. Paragraph h. Section 3. requires where employees are expected to work solely on a single federal award or cost objective, charges for their salaries and wages will be supported by periodic certifications that the employees worked solely on that program for the period covered by the certification. These certifications to be prepared at least semi-annually and are signed by the employee or supervisory official having first hand knowledge of the work performed by the employee. The District is not in compliance with OMB Circular A-87 for payroll costs charged to Title II-NCLB Part A-Charter Schools and Safe Schools Healthy Students because appropriate documentation supporting payroll costs, specified by OMB Circular A-87, is not maintained. KPMG selected 30 employees who are funded from the two grants (crosscutting) for control and compliance testwork. Of the 30 employees tested, eight employees were subject to bi-annual certifications of which six certifications could be provided by the District. The District budget department request certifications from the employees funded by various federal programs. However, the budget department does not have an internal control system that monitors the compliance of the completion of the certifications as well as system that monitors when an employee changes funding sources which require new certifications. The District is not in compliance with certification requirements of OMB Circular A-87 for the Title II-NCLB Part A-Charter Schools and Safe Schools Healthy Students programs.

Recommendation: Where employees work solely on a single federal program, charges for their salaries and wages should be supported by periodic certifications in accordance with OMB Circular A-87.

Current Year Status: Progress noted, see current year finding 04-24.

SAN DIEGO UNIFIED SCHOOL DISTRICT

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FINDING 03-04 – STATE COMPLIANCE (ATTENDANCE REPORTING)

Finding: Because of the relationship between attendance and the state apportionments, the District must develop and maintain accurate and adequate attendance records to support the attendance reported to the State. For two students, the District's attendance records were missing, and as such, we were not able to verify the attendance reported to the State. Attendance for one of the two school days tested for two of one-hundred students tested could not be verified due to missing teacher attendance rosters at the school sites. The attendance reported to the state and funding amounts were overstated. The District's school sites inadvertently misplaced the teacher attendance rosters and were unable to account for the attendance claimed on the J-18/19 P-2 report.

Recommendation: We recommend that the District amend the P-2 and Annual attendance reports to reflect the above adjustments. We also recommend that the attendance clerks at all school sites make an effort to account for all teacher attendance rosters on a daily (period) basis to support attendance reported to the State.

Current Year Status: The 2002-03 P-2 and annual attendance reports were amended to reflect adjustments.

FINDING 03-05 – STATE COMPLIANCE (ATTENDANCE REPORTING)

Finding: Because of the relationship between attendance and the state apportionments, the District must develop and maintain accurate and adequate attendance records to support the attendance reported to the State. During our test work to verify apportionment credit for independent study contract (CIS) we noted one student who received CIS credit was not marked as absent on the teacher attendance roster. One-of-twenty students tested is receiving apportionment credit for an independent study contract. The attendance reported to the state and funding amount was overstated. The student was given apportionment credit for both normal attendance and CIS because the student was not marked absent on the teacher attendance roster for that day.

Recommendation: We recommend that the District amend the P-2 and Annual attendance reports to reflect the above adjustment. We also recommend that the attendance clerks at all school sites make an effort to account for all absences accurately in the accounting records.

Current Year Status: Implemented.

SAN DIEGO UNIFIED SCHOOL DISTRICT
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NOTE: The following findings were noted in management letter dated March 21, 2004 and were not numbered or coded by the prior year auditors. They are referred to by heading noted in management letter.

OPEN PURCHASES ORDERS

Finding: The District does not have documented policies and procedures for the monitoring of open purchase orders during the year and at the year-end. We were informed that the District has internal controls over the validity of recorded purchase order commitments; however, we were unable to verify this assertion because such controls are not documented.

Recommendation: We recommend that the District document the policies and the activities associated with the monitoring of open purchased orders.

Current Year Status: Not Implemented. See current year finding 04-05.

SCHOOL REDUCED LUNCH PROGRAM

Finding: The District does not have a procedure for a managerial review over the required sampling of applications for the reduced lunch program.

Recommendation: We suggest that the District develop policies and procedures for a managerial review over the required sampling of applications for the reduced lunch program and provide training in the implementation of those procedures.

Current Year Status: In progress, see current year finding 04-23.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2004

GENERAL JOURNAL ENTRIES

Finding: Various individuals, approximately 20, have access to generate and post general journal entries. The process does not require a supervisory review or approval over the generation and posting of the general journal entries.

Recommendation: We recommend that levels of approval be designed to ensure that only qualified personnel have the ability to generate journal entries and that the ability to do so does not result in an employee performing incompatible functions. Further, we recommend that a review at a supervisory level be performed and documented in order to ensure the propriety of the transaction.

Current Year Status: Not Implemented. See current year finding 04-08.

ASSOCIATED STUDENT BODY INVESTMENTS

Finding: KPMG noted that the District's Financial Services Department does not verify the account balances of the Associated Student Body (ASB) investments at year-end. Copies of bank statements and notifications are requested as of March 31.

Recommendation: In order to monitor and fairly present ASB assets at June 30, we recommend policies and procedures be developed that provide for verification of account balances and type of depositor investment held in the Associated Student Body accounts at year-end.

Current Year Status: Not Implemented. See current year finding 04-19.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2004

INVESTMENT EARNINGS

Finding: The District participates in the County of San Diego Investment Pool. The County forwards to the District monthly statements which include the earnings on the accounts. The statements are not reviewed by District staff to determine the reasonableness of the earnings posted to the District accounts.

Recommendation: We recommend that the District formulate policies and procedures for reviewing and recalculating the earnings received on monies held at the County Investment Pool on a monthly basis.

Current Year Status: Implemented.

SALARY OVERPAYMENT RECEIVABLE

Finding: A salary overpayment receivable is recorded for amounts due from overpayments to District employees. Some of the amounts are aged beyond a few years and some amounts are due from terminated employees. There is doubt as to whether the amounts will be collected; however, the District has not provided for an allowance for the potentially uncollectible amounts.

Recommendation: KPMG recommends that policies and procedures be implemented to monitor receivables recorded as allowance for uncollectible balances of the Salary Overpayment Balances, and that an appropriate allowance for uncollectible balances be recorded.

Current Year Status: Implemented.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2004

DENTAL CLAIMS

Finding: The District is not monitoring the claims approved for payment by the third-party administrator. Claims are not verified by the District staff for legitimacy, accuracy, and that the amount paid out is reasonable. Furthermore, an analysis of the sufficiency of the reserve has not been conducted. Therefore, the District cannot verify either overpayment or that there are sufficient reserves. We also noted that the District does not receive a SAS 70 report from the third-party service provider. A SAS 70 report provides information regarding controls in place at the third-party administrator and the results of independent tests of such controls.

Recommendation: KPMG recommends that policies and procedures be adopted and implemented regarding Dental Fund payments and reserves. We also recommend that the District request a SAS 70 report from its third-party administrator.

Current Year Status: Implemented.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2004

PAYROLL PROCESSING

Finding: Controls over changes made by the Payroll Division include a system-generated Personnel Action Form (PAF) that reflects all changes to all employees. Through inquiry of the Payroll staff, it was explained that the PAFs are not reviewed and that there is no segregation of duties through system access controls between the Payroll Technicians who input new employees and change pay rates and with Payroll Technicians who process the payroll.

Recommendation: KPMG recommends that individual payroll information be maintained solely by the Human Resources Department. Further, within the Human Resources Department, levels of system access should be designed to provide segregation of the input and deletion of employee's personal data from other payroll changes. Further, we recommend that the Personnel Action Forms be reviewed at a supervisory level during every payroll cycle. This review should be documented, either on each PAF or on a summary transmittal document.

Current Year Status: Implemented.

PAYROLL PROCESSING

Finding: The District relies on a review and sign-off of batch headers of the periodic payroll reports by accounting technicians as a control over the proper classification of payroll. As part of our audit, we tested the sign-off control and found 4 instances out of a sample of 30 where the review was not documented.

Recommendation: KPMG recommends that all batch headers be reviewed and signed by a payroll technician other than the one who initially input the information.

Current Year Status: Finding is obsolete.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2004

APPLICATION SECURITY CONTROLS

Finding: We noted weakness in the District's implementation of application security, as follows:

KeyMaster Payroll Data Entry System – Security groups have not been correctly configured within the KeyMaster system to prevent end-users from performing security administrator functions. There are currently seven end-users with security administrator privileges (HR Data Entry Personnel).

Aeries Attendance System – We selected five schools within the school district to verify that user access to modify attendance data within Aeries is restricted to authorized personnel. We noted that each school selected had incorrectly configured Aeries user access providing unauthorized individuals with access to modify student attendance data. Specifically, we noted that two schools had each granted user access to modify attendance data to twenty-four (24) user accounts. Access to modify attendance data appears to be excessive and should be further restricted to prevent unauthorized access. At three schools, we noted that unauthorized users have been assigned access to modify student attendance data within the Aeries system.

Central Database of Attendance Data (Batch Server) – We noted that user access to modify attendance data on the District's centralized Batch Server has been granted to fifty-two (52) user accounts (IT personnel). Access to modify attendance data appears to be excessive and should be further restricted to prevent unauthorized access.

Payroll Application – Seven unauthorized users have been assigned access to modify employee data within the Payroll application (Fiscal Control Technicians, Retired Payroll Staff, etc.).

A stronger security control environment will reduce the risk that information assets will be inappropriately protected from unauthorized disclosure and manipulation.

SAN DIEGO UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2004

APPLICATION SECURITY CONTROLS
(continued)

Recommendation: KPMG recommends that the application security control environment be strengthened as follows:

- Restrict user access only to personnel who require the access
- Implement a District-wide Aeries security configuration to ensure that user access within the Aeries system is appropriately restricted.
- Process owners should perform a semi-annual review of user access by reviewing reports of specific transactions to which users have access.

Current Year Status: Implemented.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2004

DISASTER RECOVERY AND BUSINESS CONTINUITY PLANNING

Finding: A formal disaster recovery capability has not been developed to respond to emergencies affecting computer systems and to recover computer operations in the event of an unplanned processing disruption. Provisions for an off-site recovery of computer operations have not been formally considered or researched.

Business continuity plans have not been developed for the business units to continue operations after an unplanned processing disruption. The process of developing a Business Continuity Plan must include extensive involvement from business process owners to identify requirements and activities to be performed while systems are non-operational.

An example of the District's disaster scenario exposure would be the ability to re-establish Human Resources, Payroll, Budgeting, and Financial operations if the District's computer room were unavailable.

Recommendation: KPMG recommends that management perform disaster recovery and business continuity planning. The first step in the planning effort is the development of a business impact analysis and risk assessment. This effort is especially critical for the District now since a new system environment is in the process of being implemented. It is much more efficient and cost-effective to build in disaster recovery while systems are being implemented instead of after they are implemented.

Once developed, KPMG recommends that the plans be tested and updated on an annual basis.

Current Year Status: In progress, see current year finding 04-20.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2004

ENTERPRISE SECURITY

Finding: KPMG noted several instances where the District's approach to enterprise security could be strengthened, as follows:

- The Information Technology security policy is not up to date and is not sufficient for the complexity and security requirements of the District's information technology environment.
- Active monitoring of the central network and firewall for security breaches and vulnerabilities is not performed.
- The Information Technology Department does not administer and track the use of modems by end-user departments that connect to network workstations.

Recommendation: KPMG recommends that the District continue efforts to develop its enterprise security approach. We understand that security responsibilities have been assigned to a designated group within the Information Technology Department. This group should have sponsorship at the senior management level. Senior management should foster the development of an entity-wide security program which should address areas such as the following:

- A comprehensive security policy with topics such as minimum security baseline standards, security monitoring requirements, and security incident handling requirements.
- Responsible resources (including staff and system tolls) to monitor security vulnerabilities.
- Modem acquisition, tracking, and security requirements

Current Year Status: In progress, see current year finding 04-21.

STATISTICAL SECTION

SAN DIEGO UNIFIED SCHOOL DISTRICT
SELECTED STATISTICAL INFORMATION (UNAUDITED)
June 30, 2004

Assessed valuation for fiscal year 2003-04	\$87,856,623,236	(1)
Secured tax levies for fiscal year 2003-04	\$ 345,912,829	(1)
Secured tax delinquencies for fiscal year 2003-04	\$ 0	(1)
Secured tax collections for fiscal year 2003-04	\$ 343,977,965	(1)

(1) Information obtained from the San Diego County Auditor-Controller's Office

SAN DIEGO UNIFIED SCHOOL DISTRICT
SELECTED STATISTICAL INFORMATION (UNAUDITED)
June 30, 2004

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 statistical information section has not been subjected to the auditing procedures applied in the audit of the general purpose financial statements.

	<u>Audit Report Page(s)</u>
1. General fund budget and actual results	80
2. Assessed valuations	140
3. Outstanding indebtedness	20, 53-59
4. Balance in the Debt Service Funds	22, 72
5. Balance in the Improvement Fund (Building Fund)	22
6. Tax Levy Under Teeter Plan	140
7. Largest local secured taxpayers	141

SAN DIEGO UNIFIED SCHOOL DISTRICT
SELECTED STATISTICAL INFORMATION (UNAUDITED)
June 30, 2004

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.

<u>District's Fiscal Year</u>	<u>Assessed Value</u>
1994-95	\$51,503,165,288
1995-96	51,813,126,379
1996-97	51,823,360,632
1997-98	53,102,124,533
1998-99	57,342,043,545
1999-00	63,590,856,897
2000-01	68,914,092,936
2001-02	74,558,996,509
2002-03	80,806,653,526
2003-04	87,856,623,236

Tax Levy Under Teeter Plan

The ad valorem property tax to be levied to pay the principal of and interest on the Series A-E 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.