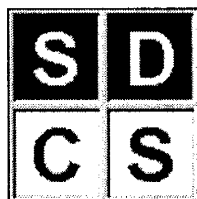


**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**SAN DIEGO COUNTY**

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

**June 30, 2005**



**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**AUDIT REPORT  
June 30, 2005**

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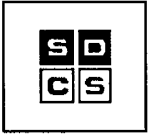
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**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**AUDIT REPORT  
June 30, 2005**

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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, 2005, 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 \$109,897,230.

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' report cites no material instances of non-compliance with the requirements of federal and state programs and two material internal control weaknesses. The first weakness identifies the District's inability to adequately track capital assets. The District concurs with the auditors' recommended solution of implementing a Project Module and we will work toward that end once funding resources have been identified. The second weakness relates to our direct cost transfer methodology. The District's process conflicts with the auditors' interpretation of the California School Accounting Manual. The District implemented this process after consulting with the County Office of Education and the California Department of Education (CDE). The District will work with CDE to further clarify a direct cost transfer process that will be acceptable to both the CDE and the auditors.

The annual financial statements for the fiscal year 2004-2005, 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. In particular, the auditors have questioned the district's method of compliance with the Restricted Maintenance Account required as a condition of participation in the State School Facility Program. District staff is working with the auditors and state level representatives as appropriate to confirm district compliance.

December 9, 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**

JANETTE CAMPS

CLAUDETTE ELIAS DAIN

TIMOTHY D. EVANS

PRISCILLA OSBORNE FLORES

PHEBE M. McCUTCHEON

SHARI PROSSER

COLLEEN K. TAYLOR

## INDEPENDENT AUDITORS' REPORT

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

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, 2005, 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.

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.

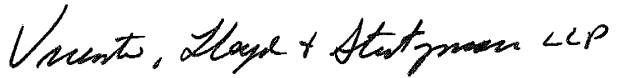
In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the San Diego Unified School District as of June 30, 2005, and the respective 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 November 4, 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 and statistical tables have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

  
VICENTI, LLOYD & STUTZMAN LLP

November 4, 2005

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Year ended June 30, 2005**

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, 2005. 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 \$576.9 million at June 30, 2005.
- During the year, the District's expenses were \$32.9 million less than the \$1,300.4 million generated in taxes and other revenues for governmental activities.
- The General Fund reported a fund balance this year of \$109.9 million.
- The District issued approximately \$200.0 million in bonds during fiscal year 2005.

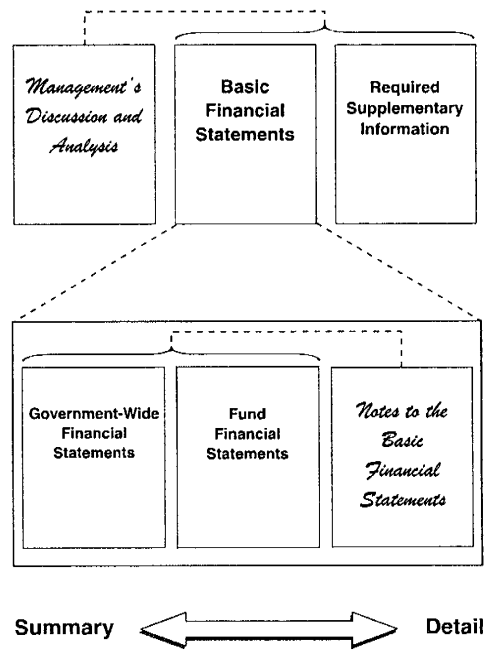
**Overview of the Basic Financial Statements**

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*.
  - *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, 2005**

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.

**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 the government-wide financial statements 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.

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

Type of Statements	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	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
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of revenues, expenses, and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	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
Type of asset/liability information	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
Type of inflow/outflow information	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, 2005

#### *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.

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. A statement of changes in fiduciary net assets is not presented since the District is holding these funds on behalf of others. 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, 2005**

**Financial Analysis of the District as a Whole**

**Net Assets.** The District's net assets were approximately \$576.9 million at June 30, 2005 (See Table A-1).

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

	<b>Governmental activities</b>		<b>Percentage change</b>
	<b>2005</b>	<b>2004</b>	
Current and other assets	\$ 836.7	\$ 807.4	3.6%
Capital and noncurrent assets	1,432.4	1,240.5	15.5%
Total assets	2,269.1	2,047.9	10.8%
Current liabilities	248.0	233.4	6.3%
Long-term liabilities	1,444.2	1,264.9	14.2%
Total liabilities	1,692.2	1,498.3	12.9%
Net assets:			
Invested in capital assets net of related debt	514.7	507.1	1.5%
Restricted	95.0	70.6	34.6%
Unrestricted	(32.8)	(28.1)	17.1%
Total net assets	\$ 576.9	\$ 549.6	5.0%

Capital and noncurrent assets increased by \$191.9 million due to continuing modernization projects and new schools being built under Proposition MM as detailed in Table A-4. The main factor contributing to the \$179.3 million increase in long-term liabilities is the \$175.7 million increase in general obligation bonds payable. Restricted net assets increased by \$24.4 million primarily as a result of increased balances in the Bond Interest and Redemption Fund (\$10.7 million), the K-8 Instructional Materials Fund (\$10.0 million), and the Targeted Instructional Improvement Grant (TIIG) (\$2.5 million).

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 \$32.8 million deficit at the end of 2005. 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 Supplemental Early Retirement Plan (SERP). The District will include these amounts in future years' budgets as they come due.

## SAN DIEGO UNIFIED SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) Year ended June 30, 2005

**Changes in Net Assets.** The District's total revenues were \$1,300.4 million. The largest portion, 40%, of the District's revenue comes from property taxes (See Figure A-3). A significant portion, 33%, comes from operating grants and contributions. 17% comes from state apportionment, 3% from capital grants and contributions, 1% from nonrestricted lottery apportionment, 5% from other revenues, while only 1% relates to charges for services.

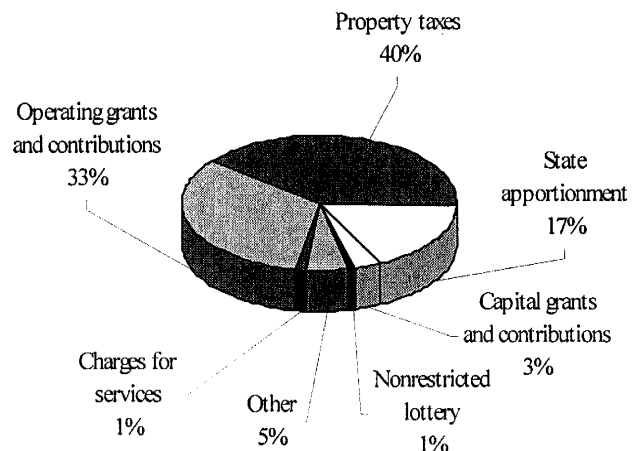
The total cost of all programs and services was \$1,267.5 million; 78% of these costs are for instructional and student services.

#### *Governmental Activities*

- The District sold capital bonds of \$977.1 million. These bonds were authorized under Proposition MM for school construction and capital improvements. Additionally, Series B-1, C-1, D-1, and E-1 were issued as refunding bonds totaling \$301.3 million, Series B-2, D-2, and E-2 were issued as refunding bonds totaling \$312.9 million and Series C-2 and D-3 were issued as refunding bonds totaling \$162.9 million. These bonds were issued as crossover refundings and will result in the redemption of \$825.6 million of debt at the various crossover dates. See Note 7 for additional discussion of the refunding bonds.
- The District completed construction on all major renovation projects and has obtained principal sign-off for completion of promised work at 42 schools. These projects included work in the following categories:
  - Ceiling tile repair/replacement
  - HVAC repair
  - Roofing repair/replacement
  - Flooring replacements
  - Plumbing repair
  - Upgrade of fire security and alarm systems
  - Door and window replacements
  - Asphalt/paving
  - ADA compliance upgrades
  - Lunch court shelter construction
  - Electrical system repair/replacement
  - Playground equipment replacement for safety compliance
  - Interior and exterior painting
  - New/expanded libraries
  - New/upgraded science classrooms

In addition, construction was nearing completion on two new elementary schools, Cherokee Point and Ibarra, both scheduled to open September 2005. Construction was continuing on the following new schools: future Thurgood Marshall Middle School, Lincoln High School, Mead Elementary, Walter Porter Elementary, and Golden Hill Elementary.

**Figure A-3. District  
Sources of Revenue for Fiscal Year 2005**



**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Year ended June 30, 2005**

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

	<u>Governmental activities</u>		<u>Percentage change</u>
	<u>2005</u>	<u>2004</u>	
Revenues:			
Program revenues:			
Charges for services	\$ 12.0	\$ 11.9	0.8%
Operating grants and contributions	435.2	439.8	(1.0)%
Capital grants and contributions	44.7	157.3	(71.6)%
General revenues:			
Property taxes	519.7	551.5	(5.8)%
State apportionment	217.0	174.8	24.1%
Lottery apportionment – nonrestricted	14.8	14.4	2.8%
Mandated cost reimbursement	0.7	—	100.0%
Other	56.3	58.1	(3.1)%
Total revenues	<u>1,300.4</u>	<u>1,407.8</u>	(7.6)%
Expenses:			
Instruction	649.7	697.3	(6.8)%
Instruction related services	181.6	196.0	(7.3)%
Pupil services	153.8	162.5	(5.4)%
Ancillary services	1.3	0.9	44.4%
Community services	0.3	0.3	0.0%
Enterprise	3.2	12.7	(74.8)%
General administration	32.3	35.9	(10.0)%
Plant services	146.3	146.4	(0.1)%
Other outgo	28.1	32.6	(13.8)%
Interest expense	70.9	49.8	42.4%
Total expenses	<u>1,267.5</u>	<u>1,334.4</u>	(5.0)%
Increase in net assets	32.9	73.4	(55.2)%
Beginning net assets (1)	<u>544.0</u>	<u>476.2</u>	14.2%
Ending net assets	<u>\$ 576.9</u>	<u>\$ 549.6</u>	5.0%

(1) Beginning net assets does not match ending net assets from previous year due to the following restatements: employee deductions and employer variable benefits payable \$(3.7) million, reversal of English Language Intensive Literacy grant receivable \$(3.1) million, Proposition MM Building Fund voided accounts payable warrants \$1.9 million, and other \$(0.7) million.

## SAN DIEGO UNIFIED SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) Year ended June 30, 2005

District revenues saw the following material changes in 2004-05. The reduction in capital grants and contributions was primarily the result of a \$117.7 million reduction in the School Facilities Apportionment due to the decrease in Proposition 1A grant funds received from the State for modernization and growth projects. Property tax revenues were down \$31.8 million. While revenues from secured and supplemental assessments provided a \$37.3 million increase, Education Revenue Augmentation Fund (ERAF) revenues went down by \$71.1 million as a result of legislation passed by the State which shifts ERAF taxes from school agencies back to local governments. This decrease in property tax revenues had an inverse effect on State apportionment revenues. \$35.0 million of the \$42.2 million increase in State apportionment revenues was attributed to the decrease in property tax revenues. The remaining difference was from a combination of several changes in Revenue Limit funding including: COLA of \$13.6 million, deficit reduction of \$5.1 million, equalization aid of \$2.7 million, and loss of revenue due to declining enrollment \$(10.5) million.

District expenses saw the following material changes in 2004-05. Enterprise expenses were down \$9.5 million, primarily due to the decline in self-insurance premium costs resulting from a decrease in salaries. Also, interest expense was up \$21.1 million as a result of the increased bond principal outstanding.

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 \$1,267.5 million.
- However, the amount that our taxpayers paid for these activities through property taxes was \$519.7 million.
- Some of the cost was paid by those who directly benefited from the programs (\$12.0 million), or by grants and contributions (\$479.9 million).

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

	Total cost of services		Percentage change	Net cost of services		Percentage change
	2005	2004		2005	2004	
Instruction	\$ 649.7	\$ 697.3	(6.8)%	\$ 411.9	\$ 459.6	(10.4)%
Instruction related services	181.6	196.0	(7.3)%	115.4	129.4	(10.8)%
Pupil services	153.8	162.5	(5.4)%	86.5	96.3	(10.2)%
Plant services	146.3	146.4	(0.1)%	49.5	(60.5)	(181.8)%
Other	136.1	132.2	3.0%	112.2	100.7	11.4%
Total	\$ 1,267.5	\$ 1,334.4	(5.0)%	\$ 775.5	\$ 725.5	6.9%

## SAN DIEGO UNIFIED SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year ended June 30, 2005

#### **Financial Analysis of the District's Funds**

Revenues from governmental fund types totaled \$1,298.9 million, while expenditures were \$1,496.1 million. When combined with the \$203.9 million in other financing sources, the governmental funds experienced a \$6.8 million increase in fund balance during the year. This increase was primarily attributed to the following:

- The fund balance of the General Fund increased by \$14.1 million mostly due to a decrease in certificated salary expenditures in restricted resources resulting from the following: a drop in enrollment of 3,688 students, Special Education programs cuts, and a decrease in professional development activities.
- The fund balance of the Capital Projects – Building Fund (Proposition MM) decreased by \$18.8 million due to the fact that this year's bond proceeds were almost \$150.0 million less than last year's proceeds. Cash balance at 2004-05 year-end is \$29.7 million less than previous year's balance.
- The fund balance of the Bond Interest and Redemption Fund increased by \$10.7 million due to the larger appropriations collected in 2004-05 to prepare for the larger interest and new principal payments that would be due on July 1, 2005.

#### ***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 \$43.7 million, State grants and special projects of \$74.2 million, and Local grants and special projects of \$25.4 million.
- Expenditures that were appropriated during the year that were not included in the originally adopted budget – certificated salaries of \$19.6 million, classified salaries of \$24.9 million, benefits of \$7.5 million, books and supplies of \$70.6 million, contracted services of \$22.0 million, capital outlay of \$0.2 million and other outgo of \$3.2 million.

Even with these adjustments, actual expenditures and other financing uses were \$136.7 million below final budget amounts. The most significant positive variances resulted from:

- Salaries and benefits were \$36.4 million below final budget amounts. This variance was primarily due to positions not filled during the year, in the following restricted resources or programs: \$12.7 million in Transportation; \$10.0 million in Special Education; \$3.1 million in Title III Limited English Proficiency and \$8.4 million in Other Federal Grants.

## SAN DIEGO UNIFIED SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year ended June 30, 2005

- Books and supplies were \$71.7 million below final budget amounts. This variance can be attributed to the following: \$17.0 million of unspent budgets for Instructional Materials that are being carried over for textbook adoptions in 2005-06; \$3.3 million of ELAP and Title III unspent budgets that were carried forward to 2005-06 to support initiatives that were implemented in 2005-06; and \$51.4 million of site budget balances that are carried forward in Targeted Instructional Improvement Grant and Title I resources. In general, sites leave their budgets in their Books and Supplies (4000) account. Throughout the year, budgets are transferred to other accounts as expenditure decisions are made. At the end of the year, unspent allocations are kept in the Books and Supplies (4000) account.
- Services and other operating expenses were \$21.4 million below final budget amounts. This variance can be attributed to an increase of \$14.0 million in interfund/interprogram services (credit expense) charged from the restricted maintenance program and \$5.0 million of unspent budgets from School Improvement Program, Title I, and Targeted Instructional Improvement Grant resources that the sites allocated in their budgets. Significant balances in these resources were not spent due to a district-wide hiring freeze of professional consultants in the middle of 2004-05 and to support planned programs in the 2005-06 fiscal year.

Actual resources available were \$79.2 million below the final budgeted amount. The most significant negative variances resulted from:

- Other state and local revenues were \$53.1 million below final budget amounts. Targeted Instructional Improvement Grant (TIIG) was \$22.2 million below appropriations and various other State and local grants were \$30.4 million below. This largely represents grant money that has been received but not spent by June 30, 2005.
- Federal revenues were \$33.5 million below final budget amounts. NCLB/IASA grants were \$23.7 million below appropriations and various other Federal grants were \$10.1 million below. This largely represents grant money that has been received but not spent by June 30, 2005.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Year ended June 30, 2005**

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of 2005, the District had invested \$1,432.4 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)

	<b>Governmental activities</b>		<b>Percentage change</b>
	<b>2005</b>	<b>2004</b>	
Land	\$ 238.1	\$ 209.6	13.6%
Land improvements	130.0	110.8	17.3%
Buildings	376.4	367.4	2.4%
Building improvements	479.3	290.8	64.8%
Personal property and equipment	174.1	175.2	(0.6)%
Work in progress	436.9	455.4	(4.1)%
Totals at historical cost	1,834.8	1,609.2	14.0%
Total accumulated depreciation	(402.4)	(368.7)	9.1%
Net capital assets	\$ 1,432.4	\$ 1,240.5	15.5%

Net capital assets increased by \$191.9 million in 2004-05 because of additional work on modernization projects and new schools. The primary components of this increase include: \$190.0 million was transferred from Work in Progress to Building Improvements representing modernization projects completed in 2004-05. \$9.0 million was transferred from Work in Progress to Buildings representing new schools completed; \$20.0 million was transferred from Work In Progress to Land Improvements representing work completed on such projects as fencing, slope repair, etc.; \$200.0 million additional expenditures were made and charged to Work in Progress; and \$28.0 million of land was purchased. This represents the final purchase of land for new schools. Total capital projects will continue to increase substantially over the next several years as the work on Proposition MM projects continues. These projects primarily are Modernization and New Schools.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**Year ended June 30, 2005**

The District's fiscal year 2006 capital budget projects spending another \$321.9 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***

At year-end, the District had \$1,356.2 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.

***Bond Ratings***

The District's bonds presently carry the underlying ratings for long-term and short-term, respectively, as follows: Moody's Investor Services "Aa2" and "MIG 1," and Standard & Poors "AA" and "SP-1 +."

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

	<b>Governmental activities</b>		<b>Percentage change</b>
	<b>2005</b>	<b>2004</b>	
Bonds payable	\$ 1,356.2	\$ 1,180.6	14.9%

The increase in bonds payable is primarily due to the issuance of \$200.0 million of Series F bonds under Proposition MM.

***Short-Term Debt***

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 2004-05). The notes matured on June 30, 2005 and yielded 1.59% interest. The notes were sold by the District to supplement its cash flow. The funds were held with the trustee, Bank of America, unless and until the District needs to draw funds out. Repayment requirements were that \$69,490,200 be deposited in January 2005 and \$110,509,800 plus accrued interest of \$5,760,000 be deposited in April 2005.

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 in-substance defeased and is not reported in these financial statements.

## SAN DIEGO UNIFIED SCHOOL DISTRICT

### MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED) Year ended June 30, 2005

#### Economic Factors and Next Year's Budgets and Rates

- The Governor signed a \$113.0 billion 2005-06 Budget (the "2005-06 Budget") on July 11, 2005. The 2005-06 Budget contains approximately \$6.0 billion in solutions to address State budget shortfall, repay some debt and establish a \$1.3 billion year-end reserve. The State's 2005-06 Budget assumed 2005-06 revenues and transfers of \$84.5 billion and expenditures of \$90.0 billion. This results in an operating deficit of \$5.5 billion.

The 2005-06 K-12 Budget assumed spending of \$50.0 billion for Proposition 98 funding in 2005-06 of which approximately 27 percent is funded by local property taxes. The budget agreement uses the 2004-05 Budget Act as the basis for the 2005-06 Proposition 98 funding level. Had the actual revenues been used as the basis, K-12 education would have received an additional \$3.1 billion, according to estimates from the Legislative Analyst's Office (LAO).

The items in the State Budget that had a major impact on the District's 2005-06 budgets are the following:

- Revenue Limit Growth: The State budget reflected \$328.0 million for enrollment growth. The District continues to decline in enrollment. The 2005-06 budget includes a reduction in revenue limit resources of \$23.9 million due to enrollment decline.
  - COLA: The 2005-06 State Budget included \$1.7 billion to provide a 4.23 percent COLA increase to K-12 programs. The District's 2005-06 budget includes \$22.5 million for revenue limit COLA.
  - Deficit Reduction: The State Budget included \$406.0 million to reduce the deficit factor on base revenue limits from 2.143 to 0.909 percent. The District included in the 2005-06 budget an increase in resources of \$5.7 million for revenue limit deficit reduction.
  - Teacher's Retirement Costs: Prior to the adoption of the State's 2005-06 budget, the State had planned on shifting \$469.0 million in teacher retirement costs to the local school districts. As such, the District included \$7.7 million in its' 2005-06 budget to cover this shift. Subsequent to the District's adoption of the 2005-06 budget, the State agreed to fund the \$469.0 million.
- Assessed valuation used for the 2006 budget preparation was up \$9.7 billion, or 11.0% from 2005.
  - The District's 2006 second period average daily attendance (excluding charter schools and adult education) is budgeted as 114,138, down 2.8%.

These indicators were taken into account when adopting the General Fund budget for 2006. Amounts available for appropriation in the General Fund budget are \$1,129.8 million, a decrease of 9.3% over the final 2005 budget of \$1,245.2 million. The decrease in the District's revenue is primarily due to the decline in enrollment. For the 2005-06 budget year, the District projected a decline of 5,640 students. While most categories of property tax revenues were budgeted to increase due to an increase in assessed valuation, overall property tax revenues are expected to be lower as a result of legislation passed by the State which shifts Education Revenue Augmentation Fund (ERAF) taxes from school agencies back to local governments. This action will be revenue-neutral to the District as the loss in property taxes will be backfilled by the State in the form of additional state apportionment revenue.

## **SAN DIEGO UNIFIED SCHOOL DISTRICT**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

**Year ended June 30, 2005**

Expenditures and other financing uses are budgeted to fall 10.0%, from \$1,184.5 million to \$1,065.7 million in 2006. This variance is primarily due to grants and other Federal and State restricted resources that were not included in the 2005-06 original adopted budget. Carryover balances, new grants, and actual awards are not known when the budgets are adopted in June. Throughout the year, the Board adopts these adjustments to the budgets when information is received by the District. As of November 30, 2005, the board has adopted \$95.9 million in restricted resources.

The District added no major new programs to the 2006 budget. However, the State's new Categorical Funding Reform (AB 825) allowed the District to consolidate several existing State grants into six block grants. The total amount included in the District's 2006 budget for these block grants was \$91.2 million.

If these estimates are realized, the District's budgetary General Fund balance is expected to decrease by the close of 2006.

#### **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, 2005

	Governmental Activities
<b><u>Assets</u></b>	
Cash	\$ 711,006,300
Accounts receivable:	
Federal and state governments	91,743,445
Miscellaneous	30,595,842
Inventories	2,595,453
Prepaid expenditures	793,330
Land	238,147,791
Work in progress	436,884,296
Depreciable assets, net	757,395,563
<b>Total Assets</b>	<b>2,269,162,020</b>
 <b><u>Liabilities</u></b>	
Accounts payable and other current liabilities	145,748,294
Deferred revenue	22,438,253
Current portion of long-term liabilities:	
Arbitrage liabilities payable	2,203,075
Claims and judgments payable	14,977,603
Compensated absences	7,834,735
General obligation bonds	39,020,001
Loan payable	2,680
Supplemental Early Retirement Plan	15,817,189
Non-current portion of long-term liabilities:	
Claims and judgments payable	44,110,397
Compensated absences	8,438,435
General obligation bonds	1,317,227,438
Deferred bond premium and issue costs	37,756,202
Loan payable	8,825
Supplemental Early Retirement Plan	36,661,171
<b>Total Liabilities</b>	<b>1,692,244,298</b>
 <b><u>Net Assets</u></b>	
Invested in capital assets, net of related debt	514,678,688
Restricted for:	
Categorical Programs	57,075,477
Debt service	38,018,482
Unrestricted	(32,854,925)
<b>Total Net Assets</b>	<b>\$ 576,917,722</b>

See the accompanying notes to the financial statements.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES**  
For the Fiscal Year Ended June 30, 2005

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
<b>Governmental Activities</b>					
Instruction	\$ 649,725,469	\$ 817,056	\$ 237,027,956	\$	\$ (411,880,457)
Instruction - related services	181,631,730		66,261,521		(115,370,209)
Pupil services	153,786,617	11,217,043	56,103,276		(86,466,298)
Ancillary services	1,287,061		469,536		(817,525)
Community services	315,192		114,986		(200,206)
Enterprise activities	3,191,913		1,153,758		(2,038,155)
General administration	32,319,340		11,778,028		(20,541,312)
Plant services	146,261,248		52,070,944	44,694,579	(49,495,725)
Other outgoing	28,092,844		10,248,620		(17,844,224)
Debt service - interest	70,901,886				(70,901,886)
<b>Total School District</b>	<u>\$ 1,267,513,300</u>	<u>\$ 12,034,099</u>	<u>\$ 435,228,625</u>	<u>\$ 44,694,579</u>	<u>(775,555,997)</u>
 <b>General Revenues and Special Items</b>					
Property taxes levied for					
General purposes					425,338,210
Debt service					91,784,621
Other specific purposes					2,558,597
Revenue Limit - State Aid					173,024,248
Federal aid not restricted to specific purposes					15,436,849
Class size reduction					36,697,868
State Lottery - non-restricted					14,784,328
Interest and investment earnings - realized and unrealized					9,020,621
Miscellaneous					39,839,450
<b>Total General Revenues and Special Items</b>					<u>808,484,792</u>
					Change in net assets <u>32,928,795</u>
<b>Net Assets - Beginning of Year, as originally stated</b>					549,590,669
					Adjustment for restatement (see note 14) <u>(5,601,742)</u>
<b>Net Assets - Beginning of Year, as restated</b>					<u>543,988,927</u>
<b>Net Assets - End of Year</b>					<u>\$ 576,917,722</u>

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT  
BALANCE SHEET - GOVERNMENTAL FUNDS  
June 30, 2005

	<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>
<b>Assets</b>						
Cash in county treasury	\$ 32,015,019	\$ 225,875,957	\$ 243,907,127	\$ 95,831,281	\$ 81,434,264	\$ 679,063,648
Cash on hand and in banks					401,541	401,541
Cash in revolving fund	7,471				500	7,971
Cash collections awaiting deposit	1,611,649					1,611,649
Accounts receivable:						
Federal and state governments	72,395,971		3,503,496		15,843,978	91,743,445
Miscellaneous	24,136,971	1,721,243	1,699,785	544,253	2,326,428	30,428,680
Due from other funds	52,296,716					52,296,716
Inventories	1,168,068				1,427,385	2,595,453
Prepaid expenditures	793,235				95	793,330
<b>Total Assets</b>	<u>\$ 184,425,100</u>	<u>\$ 227,597,200</u>	<u>\$ 249,110,408</u>	<u>\$ 96,375,534</u>	<u>\$ 101,434,191</u>	<u>\$ 858,942,433</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 53,327,736	\$ 23,794,814	\$ 275,311	\$ 64,911,936	\$ 2,875,820	\$ 145,185,617
Due to other funds		1,897,464	17,516,773		42,367,448	61,781,685
Deferred revenue	21,200,134				1,238,119	22,438,253
<b>Total Liabilities</b>	<u>74,527,870</u>	<u>25,692,278</u>	<u>17,792,084</u>	<u>64,911,936</u>	<u>46,481,387</u>	<u>229,405,555</u>
<b>Fund Balances</b>						
Reserved for special purposes	1,968,774				1,427,980	3,396,754
Restricted for special purposes	57,075,477					57,075,477
Restricted for debt service				31,463,598	6,554,884	38,018,482
Designated	50,852,979	201,904,922	231,318,324		46,969,940	531,046,165
<b>Total Fund Balances</b>	<u>109,897,230</u>	<u>201,904,922</u>	<u>231,318,324</u>	<u>31,463,598</u>	<u>54,952,804</u>	<u>629,536,878</u>
<b>Total Liabilities and Fund Balances</b>	<u>\$ 184,425,100</u>	<u>\$ 227,597,200</u>	<u>\$ 249,110,408</u>	<u>\$ 96,375,534</u>	<u>\$ 101,434,191</u>	<u>\$ 858,942,433</u>

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, 2005**

<b>Total fund balances – governmental funds</b>	<b>\$ 629,536,878</b>
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.	1,432,427,650
Certain Bond issue costs are not recorded at fund level.	(37,756,202)
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.	(20,077,054)
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	(1,356,258,945)
Supplemental Early Retirement Plan	(52,478,360)
Arbitrage Liability	(2,203,075)
Accrued vacation payable	<u>(16,273,170)</u>
<b>Total net assets – governmental activities</b>	<b>\$ <u>576,917,722</u></b>

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, 2005

	General Fund	Building Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
<b>Revenues</b>						
Revenue limit sources:						
State apportionments	\$ 201,247,680	\$	\$ 38,798,314	\$	\$ 1,450,798	\$ 241,496,792
Local sources	425,338,210					425,338,210
Total revenue limit sources	626,585,890	-	38,798,314	-	1,450,798	666,835,002
Federal sources	113,508,245				28,293,398	141,801,643
Other state sources	279,273,974			942,375	28,766,854	308,983,203
Other local sources	41,195,075	7,131,397	5,573,217	92,184,451	35,233,047	181,317,187
<b>Total Revenues</b>	<u>1,060,563,184</u>	<u>7,131,397</u>	<u>44,371,531</u>	<u>93,126,826</u>	<u>93,744,097</u>	<u>1,298,937,035</u>
<b>Expenditures</b>						
Instruction	611,760,557				16,049,563	627,810,120
Instruction - related services	175,999,089				3,773,815	179,772,904
Pupil services	106,725,707				42,419,373	149,145,080
Ancillary services	1,287,009					1,287,009
Community services	310,321				62,240	310,321
Enterprise	313,959					376,199
General administration	36,095,970				1,229,220	37,325,190
Plant services	73,458,330	225,981,947	35,144,228		37,880,756	372,465,261
Other outgo	35,892,544				5,215	35,897,759
Debt service				91,713,890	31	91,713,921
<b>Total Expenditures</b>	<u>1,041,843,486</u>	<u>225,981,947</u>	<u>35,144,228</u>	<u>91,713,890</u>	<u>101,420,213</u>	<u>1,496,103,764</u>
Excess (deficiency) of revenues over expenditures	18,719,698	(218,850,550)	9,227,303	1,412,936	(7,676,116)	(197,166,729)
<b>Other Financing Sources (Uses)</b>						
Interfund transfers in	1,424,262				690,146	2,114,408
Proceeds from sale of bonds		199,996,373		9,289,540		209,285,913
Interfund transfers out	(6,040,110)				(1,418,386)	(7,458,496)
<b>Total Other Financing Sources (Uses)</b>	<u>(4,615,848)</u>	<u>199,996,373</u>	<u>-</u>	<u>9,289,540</u>	<u>(728,240)</u>	<u>203,941,825</u>
Net changes in fund balances	14,103,850	(18,854,177)	9,227,303	10,702,476	(8,404,356)	6,775,096
<b>Fund Balances - Beginning of Year, as previously reported</b>	103,933,762	218,220,459	222,091,021	20,761,122	63,357,160	628,363,524
Adjustment for restatement (see note 14)	(8,140,382)	2,538,640				(5,601,742)
<b>Fund Balances - Beginning of Year, as restated</b>	<u>95,793,380</u>	<u>220,759,099</u>	<u>222,091,021</u>	<u>20,761,122</u>	<u>63,357,160</u>	<u>622,761,782</u>
<b>Fund Balances - End of Year</b>	<u>\$ 109,897,230</u>	<u>\$ 201,904,922</u>	<u>\$ 231,318,324</u>	<u>\$ 31,463,598</u>	<u>\$ 54,952,804</u>	<u>\$ 629,536,878</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, 2005**

Net change in fund balances – total governmental funds \$ 6,775,096

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	229,374,735
Depreciation Expense	<u>(37,484,035)</u>

Excess of capital outlay over depreciation expense	191,890,700
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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 (180,669,054)

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. 4,254,906

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 SERP liability	15,783,005
Net increase in compensated absences	<u>(5,105,858)</u>

Change in net assets of governmental activities	<u>\$ 32,928,795</u>
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See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATEMENT OF FUND NET ASSETS  
 PROPRIETARY FUNDS  
 June 30, 2005

	Liability Fund	Property Fund	Workers' Compensation Fund	Dental Fund	Total
<b><u>Assets</u></b>					
Cash in county treasury	\$ 2,989,869	\$ 2,386,070	\$ 22,719,728	\$ 1,460,824	\$ 29,556,491
Cash in revolving fund	200,000				200,000
Cash with fiscal agent			40,000	125,000	165,000
Accounts receivable:					
Miscellaneous	21,218	15,152	118,200	12,592	167,162
Due from other funds	374,091		7,906,074	2,438,213	10,718,378
Prepaid expenditures			1,271		1,271
<b>Total Assets</b>	<b>3,585,178</b>	<b>2,401,222</b>	<b>30,785,273</b>	<b>4,036,629</b>	<b>40,808,302</b>
<b><u>Liabilities</u></b>					
Accounts payable	151,601	2,463	272,346	137,537	563,947
Claims and judgments (see note 10)	2,331,000		56,757,000		59,088,000
Due to other funds	253,163	980,246			1,233,409
<b>Total Liabilities</b>	<b>2,735,764</b>	<b>982,709</b>	<b>57,029,346</b>	<b>137,537</b>	<b>60,885,356</b>
<b><u>Net Assets</u></b>					
Reserved for special purposes			41,271	125,000	166,271
Undesignated	849,414	1,418,513	(26,285,344)	3,774,092	(20,243,325)
<b>Total Net Assets</b>	<b>\$ 849,414</b>	<b>\$ 1,418,513</b>	<b>\$ (26,244,073)</b>	<b>\$ 3,899,092</b>	<b>\$ (20,077,054)</b>

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

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

For the Fiscal Year Ended June 30, 2005

	Liability Fund	Property Fund	Workers' Compensation Fund	Dental Fund	Total
<b>Operating Revenues</b>					
Self-insurance premiums	\$	\$	\$ 29,380,252	\$ 9,073,285	\$ 38,453,537
<b>Total Operating Revenues</b>	-	-	29,380,252	9,073,285	38,453,537
<b>Operating Expenditures</b>					
Salaries	161,230	96,942	94,060		352,232
Benefits	70,944	41,620	35,948		148,512
Other supplies	1,856	955	16,032		18,843
Payments for claims	2,736,696	1,230,768	25,588,432	9,864,773	39,420,669
<b>Total Operating Expenditures</b>	2,970,726	1,370,285	25,734,472	9,864,773	39,940,256
Operating income (loss)	(2,970,726)	(1,370,285)	3,645,780	(791,488)	(1,486,719)
<b>Non-Operating Revenues</b>					
Interest income	65,337	45,450	252,329	34,421	397,537
Net income (loss) before operating transfers	(2,905,389)	(1,324,835)	3,898,109	(757,067)	(1,089,182)
<b>OPERATING TRANSFERS FROM OTHER FUNDS</b>					
Operating transfers in	3,522,855	1,828,167			5,351,022
Operating transfers out		(6,934)			(6,934)
<b>TOTAL OPERATING TRANSFERS FROM OTHER FUNDS</b>	3,522,855	1,821,233	-	-	5,344,088
Change in net assets	617,466	496,398	3,898,109	(757,067)	4,254,906
<b>Net Assets at Beginning of Year</b>	231,948	922,115	(30,142,182)	4,656,159	(24,331,960)
<b>Net Assets at End of Year</b>	849,414	1,418,513	(26,244,073)	3,899,092	(20,077,054)

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 INCREASE (DECREASE) IN CASH  
 For the Fiscal Year Ended June 30, 2005

	Governmental Activities
	Self Insurance Funds
<b>Cash Flows from Operating Activities</b>	
Cash received from premiums and other revenues	\$ 38,071,258
Cash paid for claims and operating expenses	(30,671,271)
Net cash provided by operating activities	7,399,987
<b>Cash Flows from Investing Activities</b>	
Interest income	290,723
<b>Cash Flows from Financing Activities</b>	
Cash received for operating transfer in	5,357,497
Net increase in cash and cash equivalents	13,048,207
Cash and cash equivalents - July 1, 2004	16,873,284
<b>Cash and cash equivalents - June 30, 2005</b>	\$ 29,921,491
<b>Adjustments to Reconcile Operating Loss to Net Cash Provided by Operating Activities</b>	
<b>Operating Loss</b>	\$ (1,486,719)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Decrease in due from other funds	5,102,737
Increase in prepaid expense	(1,271)
Decrease in accounts payable	(617,526)
Increase in claims and judgments	4,143,000
Increase in due to other funds	259,766
Total adjustments	8,886,706
<b>Net Cash Used by Operating Activities</b>	\$ 7,399,987
Cash balances at June 30, 2005 consisted of the following:	
Cash in county treasury	\$ 29,556,491
Cash in revolving fund and with fiscal agent	200,000
Cash with fiscal agent	165,000
Total cash balances at June 30, 2005	\$ 29,921,491

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATEMENT OF FUND NET ASSETS - FIDUCIARY FUNDS

June 30, 2005

	<u>Associated Student Body Funds</u>
<b><u>Assets</u></b>	
Cash on hand and in banks:	
Checking	\$ 5,052,920
Savings	2,345,748
Accounts receivable:	
Miscellaneous	145,874
Prepaid expense	27,415
Stores inventory	<u>345,807</u>
<b>Total Assets</b>	<b><u>\$ 7,917,764</u></b>
 <b><u>Liabilities</u></b>	
Accounts payable	\$ 155,507
Funds held in trust	<u>7,762,257</u>
<b>Total Liabilities</b>	<b><u>\$ 7,917,764</u></b>

See the accompanying notes to the financial statements.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**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 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, 2005**

**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, 2005**

**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, 2005

**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.

**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.

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

The District is using its bond monies to cover the majority of expenditures for facility projects that are also receiving state monies. State monies are used for furniture and equipment, books, and other initial provisioning costs of the facilities projects. All state monies are being deposited into the County School Facilities Fund and remaining funds beyond those used for the subject projects will be used to fund other high priority capital facility needs. Therefore a portion of the expenditures reported in the County School Facilities Fund are being spent on other capital projects, and do not directly relate to the state project approvals. This approach is in line with the District's master facility plan and is in accordance with guidelines of the Office of Public School Construction regarding use of state monies.

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

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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

**B. FUND ACCOUNTING: (continued)**

**GOVERNMENTAL FUNDS – NON-MAJOR**

**Debt Service Fund** – 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.

**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. 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, 2005**

**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. This fund is one of two sub-funds consolidated in the Capital Facilities Fund.
3. State School Building Fund – used for modernization and construction projects funded by State apportionments.
4. Special Reserve Balboa Stadium Fund – used to account for monies received for the use and maintenance of Balboa Stadium.
5. Special Reserve Capital Projects Fund – used to account for specific board-approved capital expenditures.
6. Special Reserve Property Management Fund – used to account for revenues received from the rental and lease of facilities and land.
7. Special Reserve Prop O Preconstruction Fund – used to account for reimbursements and expenditures related to the Federal Renovation Program.
8. Special Reserve 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, 2005**

**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 Fund - used to account for resources committed to the District's self-insurance program for liability insurance; Property 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.

**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.

**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.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

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

**C. BASIS OF ACCOUNTING: (continued)**

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 has recognized receivables in accordance with this standard, the most notable being for the final P-2 apportionment.

3. Inventory

Inventories are presented at cost on an average basis and are expensed when used.

Inventory consists of expendable supplies held for consumption. At June 30, 2005, the inventory for supplies is \$1,168,068. The inventory for food is \$1,427,385.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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

C. BASIS OF ACCOUNTING: (continued)

4. Prepaid Expenses

Payments made to vendors for goods or services that will benefit periods beyond June 30, 2005, 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.

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

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

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

**C. BASIS OF ACCOUNTING: (continued)**

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.

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.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**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 \$(32,854,925) 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 December 10 and April 10. 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. The amount of property taxes for debt service purposes are not readily available and have therefore not been accrued in the Government-wide financial statements.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**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 Retirement System 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 \$10,003,000 for STRS.

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, 2005**

**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, 2005**

**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 23 charter schools which operate within the District's boundaries. These charter schools receive their funding directly from other government agencies; and have a separate governing board. Each charter school has an independent audit performed annually. The financial information has been grouped by business type, i.e., not for profit or governmental. The condensed unaudited financial information for June 30, 2005 is presented below.

	<u>Total Not for Profit</u>	<u>Total Governmental</u>	<u>Total Charter Schools</u>
Total assets	\$ 19,599,491	\$ 14,390,090	\$ 33,989,581
Total liabilities	<u>3,602,747</u>	<u>9,910,697</u>	<u>13,513,444</u>
Total net assets	<u>\$ 15,996,744</u>	<u>\$ 4,479,393</u>	<u>\$ 20,476,137</u>
Total revenue	\$ 33,524,415	\$ 26,601,283	\$ 60,125,698
Total expenses	<u>29,836,014</u>	<u>27,042,665</u>	<u>56,878,679</u>
Change in net assets	<u>\$ 3,688,401</u>	<u>\$ (441,382)</u>	<u>\$ 3,247,019</u>

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

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**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 General Fund budget is presented in a budgetary comparison schedule in the supplementary section.

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

**NOTE 3 - DEPOSITS:**

**Custodial Credit Risk - Deposits**

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a deposit policy for custodial risk. As of June 30, 2005, \$10,323,429 of the District's bank balance of \$11,219,401 was exposed to credit risk as follows:

Uninsured and uncollateralized	\$10,323,429
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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, 2005, as provided by the pool sponsor, was \$703,376,350, which is 99.26% of historical cost.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 3 - DEPOSITS: (continued)**

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.

**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, 2005 are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General Fund	\$ 52,296,716	\$
Building Fund		1,897,464
County School Facilities Fund		17,516,773

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 4 - INTERFUND TRANSACTIONS: (continued)**

**A. Interfund Receivables/Payables (continued)**

<b>Fund</b>	<b>Interfund Receivables</b>	<b>Interfund Payables</b>
Non-Major Funds:		
Tax Override		1,595
Special Revenue Funds:		
Adult Education Fund		784,697
Child Development Fund		9,508,881
Cafeteria Fund		14,807,025
Deferred Maintenance Fund		10,066,396
Capital Projects Funds:		
Capital Facilities Fund		5,807,996
Special Reserve Fund – Property Management		1,348,597
Special Reserve Fund – Prop O Preconstruction		42,261
Internal Service Funds:		
Liability Fund	374,091	253,163
Property Fund		980,246
Worker’s Compensation Fund	7,906,074	
Dental Fund	2,438,213	
Totals	\$ 63,015,094	\$ 63,015,094

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 4 - INTERFUND TRANSACTIONS: (continued)**

**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 2004-05 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	\$ 951,870
Transfer from the General Fund to the Postemployment Benefits Fund for annual contribution for retirees' medical benefits per union contract	516,914
Transfer from the State School Building Fund to the Special Reserve Prop O Preconstruction Fund to close out the fund	165
Transfer from the Special Reserve Property Management Fund to the General Fund's O'Farrell Charter School department as incentive for becoming a Charter School	13,501
Transfer from the Special Reserve Prop O Preconstruction Fund to the Special Reserve for Capital Outlay Fund to cover over-allocated audit expenditures	893
Transfer from Special Reserve Property Management Fund to the General Fund for a claim settlement	6,934
Transfer from the Tax Override Fund to the General Fund for Public School Building Corporation (PSBC) monies returned to the District from arbitrage reserve releases	445
Transfer from the General Fund to the Postemployment Benefits Fund per Administrator's Association agreement	171,988

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 4 - INTERFUND TRANSACTIONS: (continued)**

**B. Interfund Transfers (continued)**

Transfer from the General Fund to the State School Building Fund for interest earned	186
Transfer from the Special Reserve Property Management Fund to the General Fund's Over Capacity Transportation for financial assistance for transportation expenditures to relieve over crowded schools	451,512
Transfer from the General Fund to Liability Fund for premiums and insurance costs	3,522,855
Transfer from the General Fund to Special Reserve Property Management Fund for premiums and insurance costs	<u>1,828,167</u>
Total	<u>\$ 7,465,430</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	\$ 7,471	\$ 500	\$ 7,971
Stores inventory	1,168,068	1,427,385	2,595,453
Prepaid Expenditures	<u>793,235</u>	<u>95</u>	<u>793,330</u>
Total	<u>\$1,968,774</u>	<u>\$1,427,980</u>	<u>\$3,396,754</u>



**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

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

The following ending balances were legally restricted as to use:

**Major Funds:**

General Fund:

Lottery	\$ 1,530,089
School Facilities Needs Assessment	399,760
Instructional Materials Fund K-8	13,248,028
School Safety & Violence Prevention	1,879,028
Instructional Materials-Supplementary	693,825
Instructional Materials-William's Case	6,293
Instructional Materials-Grades 9-12	896
Medi-Cal Billing Option	2,865,233
FEMA – Public Assistance	196,407
English Language Acquisition Program	2,514,354
Staff Development-Math & Science	342,764
Staff Development-School	6,970
Staff Development-Principal's Training	13,800
Ongoing & Major Maintenance Account	27
Library Materials Funds	17,862
California Public School Library Act	461,849
Targeted Instructional Improvement Grant	22,232,795
Economic Impact Aid (EIA)	3,994,505
Education Technology: Staff Development	69,936
School Based Coordination Program	4,434,094
California Peer Assistance	2,057,840
International Baccalaureate	7,167
10 <sup>th</sup> Grade Counseling	<u>101,955</u>

Restricted Resources \$57,075,477

Bond Interest and Redemption Fund:

Restricted for Debt Service \$31,463,598

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2005

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

**Non-major Funds:**

Tax Override Fund:	
Restricted for Debt Service	\$ <u>6,554,884</u>
Total Restricted for Debt Service	\$ <u>38,018,482</u>

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

**Major Funds:**

General Fund:	
Economic Uncertainties	\$ 16,550,673
Mandated Costs	4,806,446
Contingencies	<u>29,495,860</u>
Total General Fund	<u>50,852,979</u>
Building Fund:	
Bond Projects	201,904,922
County School Facilities Fund:	
Capital Facilities Projects	<u>231,318,324</u>
Total Designated Major Funds	<u>\$484,076,225</u>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

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

The following amounts were designated by the Board of Education for the special purposes of the funds:

**Non-Major Funds:**

Special Revenue Funds:	
Adult Education	\$ 289,006
Child Development	512,847
Cafeteria	299,165
Deferred Maintenance	398
Pupil Transportation	2,566,783
Post Employment Benefits	1,583,523

The following amounts were designated by the Board of Education for capital projects:

Capital Facilities Funds	34,968,321
Special Reserve for Capital Outlay Projects Funds	<u>6,749,897</u>
Total Designated Non-Major Funds	<u>\$ 46,969,940</u>

**NOTE 6 - 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 2004-05). The notes matured on June 30, 2005 and yielded 1.59% interest. The notes were sold by the District to supplement its cash flow.

The funds were held with the trustee, Bank of America, unless and until the District needs to draw funds out. Repayment requirements were that \$69,490,200 be deposited in January 2005 and \$110,509,800 plus accrued interest of \$5,760,000 be deposited in April 2005.

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 in-substance defeased and is not reported in these financial statements.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 7 - BONDED DEBT:**

**A. General Obligation Bonds**

In November 1998, 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, 2005 is:

	<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2004</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2005</u>
Series A	5/27/1999	4.20 - 5.34	2023	\$ 139,995,085	\$ 133,053,662	\$	\$ 6,034,906	\$ 127,018,756
					38,026,562	8,522,513	2,415,094	44,133,981
Series B	12/14/2000	4.40 - 5.35	2025	149,999,084	144,473,087		3,717,325	140,755,762
					21,291,824	1,921,472	2,597,675	20,615,621
Series C	11/21/2001	2.95 - 5.00	2026	199,995,712	192,838,113		4,456,065	188,382,048
					11,355,866	976,805	2,058,935	10,273,736
Series D	9/12/2002	2.10 - 5.25	2027	274,995,346	268,681,357		7,342,902	261,338,455
					4,933,727	535,912	1,917,098	3,552,541
Series E	8/19/2003	1.90 - 5.25	2028	349,993,599	349,993,599		6,530,618	343,462,981
					15,914,459	1,707,343	1,439,382	16,182,420
Series F	9/2/2004	1.95 - 5.00	2029	199,996,373		199,996,373		199,996,373
						534,765		534,765
				<u>\$ 1,314,975,199</u>	<u>\$ 1,180,562,256</u>	<u>\$ 214,195,183</u>	<u>\$ 38,510,000</u>	<u>\$ 1,356,247,439</u>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 7 - BONDED DEBT: (continued)**

**A. General Obligation Bonds (continued)**

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2005, are as follows:

**Series A**

<b><u>Year Ended</u></b>		<b><u>Accreted</u></b>	
<b><u>June 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
		<b><u>Component</u></b>	
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	7,665,704	5,169,296	12,835,000
2011-2015	36,048,035	36,246,965	72,295,000
2016-2020	32,589,657	55,375,343	87,965,000
2021-2023	<u>18,267,999</u>	<u>43,412,001</u>	<u>61,680,000</u>
Totals	<u>\$127,018,756</u>	<u>\$155,191,244</u>	<u>\$282,210,000</u>

Capital appreciation bonds were issued as part of the Series A issuance with maturity dates from July 1, 2004 through 2023. Prior to their applicable maturity dates, each capital appreciation bond will accrete interest on the principal component, with all interest accruing through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$44,133,981 has been reflected in the long-term debt balance.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 7 - BONDED DEBT: (continued)**

**A. General Obligation Bonds (continued)**

**Series B**

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Current</u> <u>Interest</u> <u>Component</u>	<u>Accreted</u> <u>Interest</u> <u>Component</u>	<u>Total</u>
2006	\$ 2,310,355	\$ 6,549,296	\$ 2,099,645	\$ 10,959,296
2007	1,799,764	6,549,296	2,060,236	10,409,296
2008	1,379,775	6,549,296	1,945,225	9,874,296
2009	1,373,870	6,549,296	2,346,130	10,269,296
2010	1,357,490	6,549,296	2,772,510	10,679,296
2011-2015	6,309,508	32,746,482	21,100,492	60,156,482
2016-2020	44,670,000	28,515,077		73,185,077
2021-2025	<u>81,555,000</u>	<u>13,459,713</u>		<u>95,014,713</u>
Totals	<u>\$140,755,762</u>	<u>\$107,467,752</u>	<u>\$ 32,324,238</u>	<u>\$280,547,752</u>

Capital appreciation bonds were issued as part of the Series B issuance with maturity dates from July 1, 2004 through 2015. Prior to their applicable maturity dates, each capital appreciation bond will accrete interest on the principal component, with all interest accruing through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$20,615,621 has been reflected in the long-term debt balance.

During fiscal year 2004-2005, the District issued its Series B-1 and B-2 General Obligation Refunding Bonds (the Series B Refunding Bonds), the proceeds of which are to be used to redeem certain maturities of the Series B General Obligation Bonds, on a crossover refunding basis. The Series B Bonds to be redeemed will remain outstanding until July 1, 2010 (the Series B Crossover Date), upon which time proceeds of the Series B Refunding Bonds will be used to redeem the principal and premium, if any, of the specific maturities to be redeemed. Principal of \$107,495,000 of the Series B Bonds is expected to be redeemed on July 1, 2010. For additional details on the crossover refunding and the Series B Refunding Bonds, see pages 41-43.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**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</u> <u>Interest</u> <u>Component</u>	<u>Current</u> <u>Interest</u> <u>Component</u>	<u>Total</u>
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	1,459,270	2,150,730	8,681,763	12,291,763
2011-2015	20,301,258	5,648,742	42,774,815	68,724,815
2016-2020	46,895,000		35,696,000	82,591,000
2021-2025	85,075,000		20,888,000	105,963,000
2026-2027	<u>27,475,000</u>		<u>1,373,750</u>	<u>28,848,750</u>
Totals	<u>\$188,382,049</u>	<u>\$ 13,992,951</u>	<u>\$144,141,376</u>	<u>\$346,516,376</u>

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series C bonds included a premium of \$15,332,829. This amount is amortized using the straight-line method. Amortization of \$623,286 was recognized during the 2004-05 year.

In addition, associated issuance costs are recorded as deferred charges on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$1,671,006 are amortized using the straight-line method. Amortization of \$67,927 was recognized during the 2004-05 year.

Capital appreciation bonds were issued as part of the Series C issuance with maturity dates from July 1, 2004 through 2012. Prior to their applicable maturity dates, each capital appreciation bond will accrete interest on the principal component, with all interest accruing through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$10,273,736 has been reflected in the long-term debt balance.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 7 - BONDED DEBT: (continued)**

**A. General Obligation Bonds (continued)**

**Series C (continued)**

During fiscal year 2004-2005, the District issued its Series C-1 and C-2 General Obligation Refunding Bonds (the Series C Refunding Bonds), the proceeds of which are to be used to redeem certain maturities of the Series C General Obligation Bonds, on a crossover refunding basis. The Series C Bonds to be redeemed will remain outstanding until July 1, 2011 (the Series C Crossover Date), upon which time proceeds of the Series C Refunding Bonds will be used to redeem the principal and premium, if any, of the specific maturities to be redeemed. Principal of \$176,775,000 of the Series C Bonds is expected to be redeemed on July 1, 2011. For additional details on the crossover refunding and the Series C Refunding Bonds, see pages 41-43.

**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>
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	3,385,000		12,620,750	16,005,750
2011-2015	27,660,000		60,521,750	88,181,750
2016-2020	51,055,000		52,413,176	103,468,176
2021-2025	94,465,000		35,491,824	129,956,824
2011-2015	<u>76,210,000</u>	<u>                    </u>	<u>5,985,500</u>	<u>82,195,500</u>
Totals	<u>\$261,338,455</u>	<u>\$ 4,416,545</u>	<u>\$217,516,000</u>	<u>\$483,271,000</u>

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series D bonds included a premium of \$12,104,117. This amount is amortized using the straight-line method. Amortization of \$488,069 was recognized during the 2004-05 year.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 7 - BONDED DEBT: (continued)**

**A. General Obligation Bonds (continued)**

**Series D (continued)**

In addition, associated issuance costs are recorded as deferred charges on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$2,073,510 are amortized using the straight-line method. Amortization of \$83,609 was recognized during the 2004-05 year.

Capital appreciation bonds were issued as part of the Series D issuance with maturity dates from July 1, 2004 through 2009. Prior to their applicable maturity dates, each capital appreciation bond will accrete interest on the principal component, with all interest accruing through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$3,552,541 has been reflected in the long-term debt balance.

During fiscal year 2004-2005, the District issued its Series D-1, D-2 and D-3 General Obligation Refunding Bonds (the Series D Refunding Bonds), the proceeds of which are to be used to redeem certain maturities of the Series D General Obligation Bonds, on a crossover refunding basis. The Series D Bonds to be redeemed will remain outstanding until July 1, 2012 (the Series D Crossover Date), upon which time proceeds of the Series D Refunding Bonds will be used to redeem the principal and premium, if any, of the specific maturities to be redeemed. Principal of \$240,610,000 of the Series D Bonds is expected to be redeemed on July 1, 2012. For additional details on the crossover refunding and the Series D Refunding Bonds, see pages 41-43.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**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>
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	2,859,629	3,090,370	16,016,930	21,966,929
2011-2015	24,421,726	12,613,274	79,749,035	116,784,035
2016-2020	58,130,000		70,825,622	128,955,622
2021-2025	101,325,000		52,287,413	153,612,413
2021-2025	<u>140,395,000</u>	<u>                    </u>	<u>14,922,750</u>	<u>155,317,750</u>
Totals	<u>\$343,462,981</u>	<u>\$ 24,782,019</u>	<u>\$297,869,470</u>	<u>\$666,114,470</u>

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series E bonds included a premium of \$13,791,022. This amount is amortized using the straight-line method. Amortization of \$553,856 was recognized during the 2004-05 year.

In addition, associated issuance costs are recorded as deferred charges on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$2,909,922 are amortized using the straight-line method. Amortization of \$116,864 was recognized during the 2004-05 year.

Capital appreciation bonds were issued as part of the Series E issuance with maturity dates from July 1, 2005 through 2013. Prior to their applicable maturity dates, each capital appreciation bond will accrete interest on the principal component, with all interest accruing through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$16,182,420 has been reflected in the long-term debt balance.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 7 - BONDED DEBT: (continued)**

**A. General Obligation Bonds (continued)**

**Series E (continued)**

During fiscal year 2004-2005, the District issued its Series E-1 and E-2 General Obligation Refunding Bonds (the Series E Refunding Bonds), the proceeds of which are to be used to redeem certain maturities of the Series E General Obligation Bonds, on a crossover refunding basis. The Series E Bonds to be redeemed will remain outstanding until July 1, 2013 (the Series E Crossover Date), upon which time proceeds of the Series E Refunding Bonds will be used to redeem the principal and premium, if any, of the specific maturities to be redeemed. Principal of \$300,700,000 of the Series E Bonds is expected to be redeemed on July 1, 2013. For additional details on the crossover refunding and the Series E Refunding Bonds, see pages 41-43.

**Series F**

<b><u>Year Ended</u></b>		<b><u>Accreted</u></b>	<b><u>Current</u></b>	
<b><u>June 30</u></b>	<b><u>Principal</u></b>	<b><u>Interest</u></b>	<b><u>Interest</u></b>	<b><u>Total</u></b>
		<b><u>Component</u></b>	<b><u>Component</u></b>	
2006	\$ 5,224,467	\$ 940,533	\$ 8,934,772	\$ 15,099,772
2007	1,060,613	309,387	8,934,772	10,304,772
2008	2,507,166	1,037,834	8,934,772	12,479,772
2009	2,393,763	1,311,237	8,934,772	12,639,772
2010	2,160,242	1,499,758	8,934,773	12,594,773
2011-2015	14,095,122	3,454,878	44,306,396	61,856,396
2016-2020	17,565,000		41,048,337	58,613,337
2021-2025	22,010,000		36,860,575	58,870,575
2026-2029	<u>132,980,000</u>	<u>                    </u>	<u>21,628,950</u>	<u>154,608,950</u>
Totals	<u>\$199,996,373</u>	<u>\$ 8,553,627</u>	<u>\$188,518,119</u>	<u>\$397,068,119</u>

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The Series F bonds issued in August 2004 included a premium of \$9,289,530. This amount is amortized using the straight-line method. Amortization of \$299,662 was recognized during the 2004-05 year.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 7 - BONDED DEBT: (continued)**

**A. General Obligation Bonds (continued)**

**Series F (continued)**

In addition, associated discount and issuance costs are recorded as deferred charges on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$1,906,646 are amortized using the straight-line method. Amortization of \$61,505 was recognized during the 2004-05 year.

Capital appreciation bonds were issued as part of the Series F issuance with maturity dates from July 1, 2006 through 2012. Prior to their applicable maturity dates, each capital appreciation bond will accrete interest on the principal component, with all interest accruing through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$534,765 has been reflected in the long-term debt balance.

**Refunding Bonds**

During the 2004-05 fiscal year, the District issued the following General Obligation Refunding Bonds, Election of 1998:

<u>Series</u>	<u>Amount</u>	<u>Crossover Date</u>
B-1	\$ 37,060,000	7/1/2010
C-1	23,980,000	7/1/2011
D-1	126,310,000	7/1/2012
E-1	<u>113,905,000</u>	7/1/2013
	<u>\$301,255,000</u>	
B-2	67,850,000	7/1/2010
D-2	75,260,000	7/1/2012
E-2	<u>169,815,000</u>	7/1/2013
	<u>\$312,925,000</u>	
C-2	137,525,000	7/1/2011
D-3	<u>25,355,000</u>	7/1/2012
	<u>\$162,880,000</u>	

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 7 - BONDED DEBT: (continued)**

**A. General Obligation Bonds (continued)**

**Refunding Bonds (continued)**

The net proceeds of the refunding bonds were deposited into separate escrow funds with each escrow fund corresponding to one series of refunded bonds. Proceeds deposited into the escrow funds will be used to pay debt service on the refunding series until the respective crossover dates, at which point the amounts on deposit in the escrow fund (including investment earnings thereon) will be applied to the redemption in full of certain maturities of the corresponding refunded series. Each escrow fund has been invested at rates sufficient to pay interest on the related series of refunding bonds through the corresponding crossover date.

During the period when both the refunded bonds and the related series of refunding bonds are outstanding, the escrow fund containing the proceeds of each respective series of refunding bonds, will pay interest on the corresponding series of refunding bonds and is the sole source of payment for such series of refunding bonds. Then, on the designated crossover dates, the applicable escrow funds will pay the principal and premium, if any, on the designated maturities of the corresponding series of refunded bonds to be redeemed. The corresponding series of refunding bonds shall be payable on a parity with the District's outstanding general obligation bonds only following such respective redemption and conditional on there being sufficient funds in the respective escrow fund to successfully redeem the specified maturities of the refunded bonds to be redeemed. The refunded portions of the District's outstanding bonds are considered to have been economically defeased and therefore will remain recorded on the financial statements until they are successfully redeemed.

The difference in gross cash flow requirements related to the refundings is a savings of total cash outflow as follows:

<u>Series</u>	<u>Amount</u>
B	\$ 6,886,313
C	14,093,025
D	18,953,988
E	<u>22,892,613</u>
Total	<u>\$62,825,939</u>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 7 - BONDED DEBT: (continued)**

**A. General Obligation Bonds (continued)**

**Refunding Bonds (continued)**

The net present value of the economic gain to the District related to the refundings is as follows:

<u>Series</u>	<u>Amount</u>
B	\$ 3,790,494
C	7,831,299
D	9,599,900
E	<u>10,428,396</u>
Total	<u>\$31,650,089</u>

**B. State School Building Loans**

State school building loans outstanding at June 30, 2005 are as follows:

<u>Year Disbursed</u>	<u>Interest Rate</u>	<u>Balance July 1, 2004</u>	<u>Interest Charge</u>	<u>Repayment Current Year</u>	<u>Outstanding June 30, 2005</u>	<u>Amount Due in One Year</u>
1990	4.5%-5.5%	\$ 17,887	-	\$ 6,382	\$ 11,505	\$ 2,680

The State 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.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

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

A schedule of changes in long-term debt for the year ended June 30, 2005 is shown below.

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Adjustments*</u>	<u>Balance</u> <u>June 30, 2005</u>	<u>Amount</u> <u>Due in</u> <u>One Year</u>
Compensated absences	\$ 11,167,313	\$ 2,133,194	\$	\$ 2,972,663	\$ 16,273,170	\$ 7,834,735
Arbitrage liability	2,960,748		(613,034)	(144,639)	2,203,075	2,203,075
Bonded debt	1,180,562,256	214,195,183	(38,510,000)		1,356,247,439	39,020,001
Deferred bond premium and issue cost**	32,008,277	7,382,893	(1,634,968)		37,756,202	
State school building loans	17,887		(6,382)		11,505	2,680
Special termination benefits (SERP)	<u>68,261,365</u>	<u>34,184</u>	<u>(15,817,189)</u>	<u>        </u>	<u>52,478,360</u>	<u>15,817,189</u>
Totals	<u>\$1,294,977,846</u>	<u>\$ 223,745,445</u>	<u>\$ (56,581,573)</u>	<u>\$ 2,828,024</u>	<u>\$1,464,969,742</u>	<u>\$ 64,877,680</u>

\* Adjustment for compensated absences is to recognize benefits that were not previously recognized.

Adjustment for arbitrage liability is for changes in investment earnings.

\*\*Proceeds received in excess of debt and associated issue costs are netted against the total bonded debt and amortized over the life of the liability.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

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

Capital asset activity for the year ended June 30, 2005 is shown below.

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
Land	\$ 209,659,349	\$ 28,488,442	\$	\$ 238,147,791
Work in Progress	455,384,017	199,625,384	218,125,105	436,884,296
Land Improvements	110,790,834	19,224,769		130,015,603
Buildings and Improvements	658,229,618	197,828,552	381,300	855,676,870
Machinery and Equipment	<u>175,191,158</u>	<u>2,575,837</u>	<u>3,687,943</u>	<u>174,079,052</u>
Total at historical cost	<u>1,609,254,976</u>	<u>447,742,984</u>	<u>222,194,348</u>	<u>1,834,803,612</u>
Less accumulated depreciation for:				
Land Improvements	53,008,469	5,723,299		58,731,768
Buildings and Improvements	191,872,664	16,830,273	177,290	208,525,647
Machinery and Equipment	<u>123,836,893</u>	<u>14,930,463</u>	<u>3,648,809</u>	<u>135,118,547</u>
Total accumulated depreciation	<u>368,718,026</u>	<u>37,484,035</u>	<u>3,826,099</u>	<u>402,375,962</u>
Governmental activities capital assets, net	<u>\$1,240,536,950</u>	<u>\$ 410,258,949</u>	<u>\$ 218,368,249</u>	<u>\$1,432,427,650</u>

**NOTE 10 – INTERNAL SERVICE FUNDS:**

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has established Internal Service Funds to account for and finance its uninsured risks of loss. Under this program, the Internal Service Funds provide coverage for 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 funds and for all other risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 10 – INTERNAL SERVICE FUNDS: (continued)**

Funding of the Internal Service Funds is based on estimates of the amounts needed to pay prior and current year claims. 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, 2005, 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 \$59,088,000. Changes in the reported liability are shown below:

	<b><u>Beginning Fiscal Year Liability</u></b>	<b><u>Current Year Claims and Changes in Estimates</u></b>	<b><u>Claim Payments</u></b>	<b><u>Ending Fiscal Year Liability</u></b>
Liability	\$ 2,727,000	\$ 1,249,733	\$ 1,645,733	\$ 2,331,000
Workers' Compensation	<u>52,218,000</u>	<u>21,650,257</u>	<u>17,111,257</u>	<u>56,757,000</u>
	<u>\$54,945,000</u>	<u>\$22,899,990</u>	<u>\$18,756,990</u>	<u>\$59,088,000</u>

It is important to note that by recognizing these obligations, the Worker's Compensation Fund ended the June 30, 2005 fiscal year with a deficit ending balance of \$(26,244,073).

**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, 2005**

**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 2004-05 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, 2005**

**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 2004-05 was 9.952% 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:

Year Ended <u>June 30,</u>	<u>STRS</u>		<u>PERS</u>	
	<u>Required Contribution</u>	<u>Percent Contributed</u>	<u>Required Contribution</u>	<u>Percent Contributed</u>
2003	\$46,931,179	100%	\$ 6,254,990	100%
2004	41,260,195	100%	17,902,375	100%
2005	40,915,726	100%	18,743,950	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, 2005**

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

**A. Post Retirement Health Care (continued)**

Currently, 1,597 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 \$951,870 were reimbursed to the General Fund from the Postemployment Benefits Fund in the current year for postretirement health care costs. The total amount expended from all resources for this purpose is \$2,785,630 and the total budgeted for 2005-06 is \$2,762,660.

**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, 2005

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

**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 1,462 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 \$84,105,142 and will be paid over six years. During the 2004-05 fiscal year, the District paid \$15,817,189. The remaining payments are due as follows and are included as long term liabilities on the Statement of Net Assets:

2005-06	\$15,817,189
2006-07	14,685,783
2007-08	14,685,783
2008-09	<u>7,289,605</u>
Total	<u>\$52,478,360</u>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

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

In November 2003, the Board approved the establishment of San Diego City Schools Financing Authority, a JPA between the San Diego County Board of Education and the San Diego Unified School District. The purpose of this JPA is to provide assistance to the District in connection with the financing and refinancing of public capital improvements within the criteria of QZAB. In order to accomplish this, the Board approved a lease agreement between the JPA and the District whereby the District would lease certain parcels of real property including improvements to the Authority and a sublease whereby the District would rent these properties. The rental payments would be used to finance the repayment of 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, 2005 is \$3,002,442. This deposit is considered full payment over the term of the \$5 million debt. There is no liability included in these financial statements because the debt is considered in-substance defeased.

**NOTE 14 – RESTATEMENT TO BEGINNING FUND BALANCE:**

**A. General Fund**

The beginning fund balance for the General Fund has been restated by \$(8,140,382) to adjust for prior year's activities related to the reconciliation of interfund receivables and payables, to write-off a grant receivable improperly recognized in the prior year, to reverse TRANS interest revenue double-booked in prior periods and to recognize a liability for payroll tax withholdings.

**B. Building Fund**

The beginning fund balance for the Building Fund has been restated by \$2,538,640 to adjust for prior year's activities related to the reconciliation of interfund receivables and payables and to write-off prior year stale-dated warrant vouchers.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 15 - COMMITMENTS AND CONTINGENCIES:**

**A. National Science Foundation Investigation**

The Office of Inspector General is conducting an investigation of the District's compliance with spending of funds associated with the National Science Foundation federal grant for the time period of 1996 through 2002. The District received approximately \$10,000,000 under this program for that time period. Since the audit is still underway at this time it is uncertain whether the district will be subject to return any of these funds. Due to the uncertainty of the outcome of this matter, the district has not recognized any liability.

**B. Litigation**

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

**C. 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. Audits of this nature could result in adjustments of funding.

**D. 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 adjustments to the fund.

**E. Purchase Commitments**

As of June 30, 2005, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$106,493,300. Projects will be funded through Bond Proceeds, State School Building Grants, State Deferred Maintenance Allocations, Capital Facilities Funds and the General Fund.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 15 - COMMITMENTS AND CONTINGENCIES: (continued)**

**F. 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 2004-05, 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.

**G. Routine Repair and Maintenance**

As noted in Finding 05-22, the District may not be in compliance with Education Code 17070.75 regarding depositing 2% of the general fund budget for routine repair and maintenance. Depending on the outcome of this matter, the District may need to set aside additional monies for routine repair and maintenance from the general fund. The amount is uncertain at this point in time, but is estimated to be approximately \$500,000 for 2004-05. In addition, the current budget for 2005-06 may not have sufficient general fund monies set aside for this purpose and budget modifications may be warranted. The estimated amount for 2005-06 could be as high as \$15 million. Due to the uncertainty of the outcome in this matter, no adjustment has been in these financial statements.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 16- SUBSEQUENT EVENT:**

**A. Tax Revenue Anticipation Notes**

The District issued \$210,000,000 of Tax Revenue Anticipation Notes dated July 1, 2005 through the California School Boards Association Finance Corporation's Cash Reserve Program (Series A). The notes mature on July 24, 2006 and yield 2.64% 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 \$8,376,700 interest be paid by June 30, 2006 and that \$210,000,000 principal plus \$560,000 interest be paid by July 24, 2006.

**B. General Obligation Bonds**

In August 2005, the District issued 2005 General Obligation Bonds, Election of 1998, Series G in the amount of \$195,024,802. This issuance is comprised of a capital appreciation bond in the amount of \$4,802 and yielding 2.245% and current interest bonds totaling \$195,020,000 with yields from 2.80% to 4.46%.

**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.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2005**

**NOTE 16- SUBSEQUENT EVENT: (continued)**

**D. Property Sale**

The District has entered into an escrow for the sale of certain property commonly known as 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 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 and satisfaction of the review period, the contingency buyer deposited the first additional deposit of \$500,000 into escrow. The first additional deposit was released in two parts to the District: (1) \$50,000 on June 17, 2005 and (2) \$450,000 on August 3, 2005. On August 1, 2005, the contingency buyer was further required to make a second additional deposit of \$500,000 into escrow. The second additional deposit was also released to the District in two parts: (1) \$250,000 on November 3, 2005 and (2) \$250,000 on November 18, 2005. On November 1, 2005, the contingency buyer deposited a third additional deposit of \$1,000,000 into escrow which was released to the District on November 18, 2005. The Balance of \$28,350,000 will be due at the close of escrow on January 17, 2006.

**SUPPLEMENTARY INFORMATION SECTION**

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**HISTORY AND ORGANIZATION**

**June 30, 2005**

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.

The Board of Education and the District Administrators for the fiscal year ended June 30, 2005 were as follows:

**BOARD OF EDUCATION**

<b><u>Member</u></b>	<b><u>Office</u></b>	<b><u>Term Expires</u></b>
Luis Acle	President	December 2008
Mitz Lee	Vice President	December 2008
John de Beck	Trustee	December 2006
Shelia Jackson	Trustee	December 2008
Katherine Nakamura	Trustee	December 2006

**DISTRICT ADMINISTRATORS**

Alan Bersin	Superintendent
Leslie Fausset	Deputy Superintendent
Mary Hopper	Chief Administrative Officer
Kerry Flanagan	Chief of Staff
Scott Patterson	Chief Financial Officer

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NON-MAJOR DEBT SERVICE FUND**

**BALANCE SHEET**

**June 30, 2005**

	<b>Tax Override Fund</b>
<b><u>ASSETS</u></b>	
Cash in county treasury	\$ <u>6,556,479</u>
<b>TOTAL ASSETS</b>	<b>\$ <u>6,556,479</u></b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>	
<b>LIABILITIES</b>	
Due to other funds	\$ <u>1,595</u>
<b>TOTAL LIABILITIES</b>	<u>1,595</u>
<b>FUND BALANCE</b>	
Reserved for debt service	<u>6,554,884</u>
<b>TOTAL FUND BALANCE</b>	<u>6,554,884</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ <u>6,556,479</u></b>

See the accompanying notes to the supplementary information.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NON-MAJOR DEBT SERVICE FUND**

**STATEMENT OF REVENUES, EXPENDITURES AND**

**CHANGES IN FUND BALANCE**

**For the Fiscal Year Ended June 30, 2005**

	<b>Tax Override Fund</b>
<b>REVENUES</b>	
Revenue from local sources	\$ 31,886
<b>TOTAL REVENUES</b>	31,886
<b>EXPENDITURES</b>	
Other outgo	5,215
Debt service	31
<b>TOTAL EXPENDITURES</b>	5,246
Excess of revenues over expenditures	26,640
<b>OTHER FINANCING SOURCES (USES)</b>	
Interfund transfer out	(445)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	(445)
Excess of revenues over expenditures and other sources (uses)	26,195
<b>Fund Balances at beginning of year</b>	6,528,689
<b>Fund Balances at end of year</b>	\$ 6,554,884

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NON-MAJOR SPECIAL REVENUE FUNDS  
COMBINING BALANCE SHEET

June 30, 2005

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Pupil Transportation Equipment Fund	Post Employment Benefits Fund	Total (Memorandum Only)
<b>ASSETS</b>							
Cash in county treasury	\$ 1,468,519	\$ 9,064,192	\$ 4,987,357	\$ 5,067,424	\$ 2,549,992	\$ 1,572,697	\$ 24,710,181
Cash on hand and in banks			401,541				401,541
Cash in revolving fund		500					500
Accounts receivable:							
Federal and state governments		1,292,480	9,551,498	5,000,000			15,843,978
Miscellaneous	10,260	1,609,001	239,538	41,870	16,791	10,826	1,928,286
Inventories			1,427,385				1,427,385
Prepaid expenditures	95						95
<b>TOTAL ASSETS</b>	<b>\$ 1,478,874</b>	<b>\$ 11,966,173</b>	<b>\$ 16,607,319</b>	<b>\$ 10,109,294</b>	<b>\$ 2,566,783</b>	<b>\$ 1,583,523</b>	<b>\$ 44,311,966</b>
<b>LIABILITIES AND FUND BALANCE</b>							
<b>LIABILITIES</b>							
Accounts payable	\$ 309,663	\$ 860,433	\$ 66,767	\$ 42,500	\$	\$	\$ 1,279,363
Due to other funds	784,697	9,508,881	14,807,025	10,066,396			35,166,999
Deferred revenue	95,413	1,083,512	6,977				1,185,902
<b>TOTAL LIABILITIES</b>	<b>1,189,773</b>	<b>11,452,826</b>	<b>14,880,769</b>	<b>10,108,896</b>	<b>-</b>	<b>-</b>	<b>37,632,264</b>
<b>FUND BALANCE</b>							
Reserved for special purposes	95	500	1,427,385				1,427,980
Designated for special purpose	289,006	512,847	299,165	398	2,566,783	1,583,523	5,251,722
<b>TOTAL FUND BALANCE</b>	<b>289,101</b>	<b>513,347</b>	<b>1,726,550</b>	<b>398</b>	<b>2,566,783</b>	<b>1,583,523</b>	<b>6,679,702</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 1,478,874</b>	<b>\$ 11,966,173</b>	<b>\$ 16,607,319</b>	<b>\$ 10,109,294</b>	<b>\$ 2,566,783</b>	<b>\$ 1,583,523</b>	<b>\$ 44,311,966</b>

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, 2005

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Pupil Transportation Equipment Fund	Post Employment Benefits Fund	Total (Memorandum Only)
<b>REVENUES</b>							
Revenue from revenue limit sources:							
State apportionment	\$ 1,450,798	\$ 513,495	\$ 27,679,903	\$ -	\$ -	\$ -	\$ 1,450,798
Revenue from federal sources	1,209,814	17,846,154	1,771,235	5,363,476	-	-	28,193,398
Revenue from other state sources	28,779	1,020,868	11,488,660	191,340	56,491	42,199	26,190,679
Revenue from local sources	2,689,391	19,380,517	40,939,798	5,554,816	56,491	42,199	12,828,337
<b>TOTAL REVENUES</b>							<u>68,663,212</u>
<b>EXPENDITURES</b>							
Instruction	755,479	15,294,084	-	-	-	-	16,049,563
Instruction-related services	1,522,535	2,251,280	-	-	-	-	3,773,815
Pupil services	69,140	493,484	41,853,035	-	3,714	-	42,419,373
Enterprise	-	4,871	57,369	-	-	-	62,240
General administration	48,650	784,819	391,116	-	-	-	1,224,585
Plant services	84,120	1,240,169	2,023,191	9,838,417	-	-	13,185,897
<b>TOTAL EXPENDITURES</b>	<u>2,479,924</u>	<u>20,068,707</u>	<u>44,324,711</u>	<u>9,838,417</u>	<u>3,714</u>	<u>-</u>	<u>76,715,473</u>
Excess (deficiency) of revenues over expenditures	209,467	(688,190)	(3,384,913)	(4,283,601)	52,777	42,199	(8,052,261)
<b>OTHER FINANCING SOURCES (USES)</b>							
Interfund transfers in	-	-	-	-	-	688,902	688,902
Interfund transfers out	-	-	-	-	-	(951,870)	(951,870)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>						<u>(262,968)</u>	<u>(262,968)</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	209,467	(688,190)	(3,384,913)	(4,283,601)	52,777	(220,769)	(8,315,229)
<b>Fund Balances at beginning of year</b>	<u>79,634</u>	<u>1,201,537</u>	<u>5,111,463</u>	<u>4,283,999</u>	<u>2,514,006</u>	<u>1,804,292</u>	<u>14,994,931</u>
<b>Fund Balances at end of year</b>	<u>\$ 289,101</u>	<u>\$ 513,347</u>	<u>\$ 1,726,550</u>	<u>\$ 398</u>	<u>\$ 2,566,783</u>	<u>\$ 1,583,523</u>	<u>\$ 6,679,702</u>

See the accompanying notes to the supplementary information.



SAN DIEGO UNIFIED SCHOOL DISTRICT

NON-MAJOR CAPITAL PROJECTS FUNDS

COMBINING BALANCE SHEET

June 30, 2005

	Capital Facilities Fund	Redevelopment Agencies' Fund	State School Building Fund	Special Reserve Balboa Stadium Fund	Special Reserve Capital Projects Fund
<b>ASSETS</b>					
Cash in county treasury	\$ 36,178,868	\$ 5,623,795	\$ -	\$ 13,208	\$ -
Accounts receivable:					
Miscellaneous	293,091	37,353	-	93	-
<b>TOTAL ASSETS</b>	<u>\$ 36,471,959</u>	<u>\$ 5,661,148</u>	<u>\$ -</u>	<u>\$ 13,301</u>	<u>\$ -</u>
<b>LIABILITIES AND FUND BALANCE</b>					
<b>LIABILITIES</b>					
Accounts payable	\$ 1,355,580	\$ 1,210	\$ -	\$ -	\$ -
Due to other funds	5,807,996	-	-	-	-
Deferred revenue	-	-	-	-	-
<b>TOTAL LIABILITIES</b>	<u>7,163,576</u>	<u>1,210</u>	<u>-</u>	<u>-</u>	<u>-</u>
<b>FUND BALANCE</b>					
Designated for special purposes	29,308,383	5,659,938	-	13,301	-
<b>TOTAL FUND BALANCE</b>	<u>29,308,383</u>	<u>5,659,938</u>	<u>-</u>	<u>13,301</u>	<u>-</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 36,471,959</u>	<u>\$ 5,661,148</u>	<u>\$ -</u>	<u>\$ 13,301</u>	<u>\$ -</u>

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NON-MAJOR CAPITAL PROJECTS FUNDS  
COMBINING BALANCE SHEET

June 30, 2005

	Special Reserve Property Management Fund	Special Reserve Prop O Preconstruction Fund	Special Reserve Energy Efficiency Fund	Total (Memorandum Only)
<b>ASSETS</b>				
Cash in county treasury	\$ 6,694,468	\$ 1,610,274	\$ 46,991	\$ 50,167,604
Accounts receivable:				
Miscellaneous	56,602	10,694	309	398,142
<b>TOTAL ASSETS</b>	<u>\$ 6,751,070</u>	<u>\$ 1,620,968</u>	<u>\$ 47,300</u>	<u>\$ 50,565,746</u>
<b>LIABILITIES AND FUND BALANCE</b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 183,628	\$ 56,039	\$	\$ 1,596,457
Due to other funds	1,348,597	42,261		7,198,854
Deferred revenue		52,217		52,217
<b>TOTAL LIABILITIES</b>	<u>1,532,225</u>	<u>150,517</u>	<u>-</u>	<u>8,847,528</u>
<b>FUND BALANCE</b>				
Designated for special purposes	5,218,845	1,470,451	47,300	41,718,218
<b>TOTAL FUND BALANCE</b>	<u>5,218,845</u>	<u>1,470,451</u>	<u>47,300</u>	<u>41,718,218</u>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<u>\$ 6,751,070</u>	<u>\$ 1,620,968</u>	<u>\$ 47,300</u>	<u>\$ 50,565,746</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, 2005

	Capital Facilities Fund	Redevelopment Agencies' Fund	State School Building Fund	Special Reserve Balboa Stadium Fund	Special Reserve Capital Projects Fund
<b>REVENUES</b>					
Revenue from federal sources	\$	\$	\$	\$	\$
Revenue from other state sources		2,576,175			
Revenue from local sources	17,536,389		52		
<b>TOTAL REVENUES</b>	17,536,389	2,576,175	52	-	-
<b>EXPENDITURES</b>					
General administration	4,635				
Plant services	21,655,587	297,587	72	2,135	1,423
<b>TOTAL EXPENDITURES</b>	21,660,222	297,587	72	2,135	1,423
Excess (deficiency) of revenues over expenditures	(4,123,833)	2,278,588	(20)	(2,135)	(1,423)
<b>OTHER FINANCING SOURCES (USES)</b>					
Interfund transfers in			186		893
Interfund transfers out			(166)		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	-	-	20	-	893
Excess (deficiency) of revenues over expenditures and other sources (uses)	(4,123,833)	2,278,588	-	(2,135)	(530)
<b>Fund Balances at beginning of year</b>	33,432,216	3,381,350	-	15,436	530
<b>Fund Balances at end of year</b>	\$ 29,308,383	\$ 5,659,938	\$ -	\$ 13,301	\$ -

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, 2005

	Special Reserve Property Management Fund	Special Reserve Prop O Preconstruction Fund	Special Reserve Energy Efficiency Fund	Total Memorandum (Only)
<b>REVENUES</b>				
Revenue from federal sources	\$	\$ 100,000	\$	\$ 100,000
Revenue from other state sources				2,576,175
Revenue from local sources	4,758,249	71,091	7,043	22,372,824
<b>TOTAL REVENUES</b>	<u>4,758,249</u>	<u>171,091</u>	<u>7,043</u>	<u>25,048,999</u>
<b>EXPENDITURES</b>				
General administration				4,635
Plant services	2,315,532	422,520	3	24,694,859
<b>TOTAL EXPENDITURES</b>	<u>2,315,532</u>	<u>422,520</u>	<u>3</u>	<u>24,699,494</u>
Excess (deficiency) of revenues over expenditures	2,442,717	(251,429)	7,040	349,505
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers in		165		1,244
Interfund transfers out	(465,012)	(893)		(466,071)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(465,012)</u>	<u>(728)</u>	<u>-</u>	<u>(464,827)</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	1,977,705	(252,157)	7,040	(115,322)
<b>Fund Balances at beginning of year</b>	<u>3,241,140</u>	<u>1,722,608</u>	<u>40,260</u>	<u>41,833,540</u>
<b>Fund Balances at end of year</b>	<u>\$ 5,218,845</u>	<u>\$ 1,470,451</u>	<u>\$ 47,300</u>	<u>\$ 41,718,218</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, 2005

	Budgeted Amounts			Variance with Final Budget to Actual Favorable (Unfavorable)
	Original	Final	Actual	
<b>Revenues:</b>				
Revenue Limit Sources	\$ 615,481,740	\$ 619,199,192	\$ 626,585,890	\$ 7,386,698
Federal Sources	103,302,811	146,996,065	113,508,245	(33,487,820)
Other State Sources	244,652,468	319,093,735	279,273,974	(39,819,761)
Other Local Sources	29,142,859	54,515,209	41,195,075	(13,320,134)
<b>Total Revenues</b>	992,579,878	1,139,804,201	1,060,563,184	(79,241,017)
<b>Expenditures:</b>				
Certificated Salaries	465,155,100	513,950,687	500,308,627	13,642,060
Classified Salaries	160,589,988	171,356,439	164,727,471	6,628,968
Employee Benefits	217,270,600	242,664,834	226,521,236	16,143,598
Books & Supplies	91,226,220	151,470,192	79,742,618	71,727,574
Services, Other Operating Expenses	45,509,090	62,545,813	41,105,288	21,440,525
Capital Outlay	7,189,776	1,089,065	345,097	743,968
Other Outgo	41,193,494	35,441,720	29,093,149	6,348,571
<b>Total Expenditures</b>	1,028,134,268	1,178,518,750	1,041,843,486	136,675,264
<b>Excess (Deficiency) of Revenues over Expenditures</b>	(35,554,390)	(38,714,549)	18,719,698	57,434,247
<b>Other financing sources (uses):</b>				
Transfer In	995,000	1,460,013	1,424,262	(35,751)
Transfer out	(9,367,877)	(6,040,110)	(6,040,110)	-
<b>Net change in fund balances</b>	\$ (43,927,267)	\$ (43,294,646)	14,103,850	\$ 57,398,496
<b>Fund Balance at Beginning of Year, as Originally Stated</b>			103,933,762	
<b>Adjustment for Restatement (See Note 14)</b>			(8,140,382)	
<b>Fund Balance at Beginning of Year, as Restated</b>			95,793,380	
<b>Fund Balance - June 30, 2005</b>			\$ 109,897,230	

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, 2005**

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, 2005 are as follows:

	<b><u>Second Period</u></b>	<b><u>Annual</u></b>
<b>Elementary:</b>		
Kindergarten	9,064	9,078
First through third grade	28,580	28,405
Fourth through eighth grade	44,111	43,623
Opportunity schools	1	0
Home or hospital - temporary physical disabilities	25	25
Special education	2,876	3,153
Special Education – nonpublic, nonsectarian schools	229	189
Extended year special education – mandated	112	168
Extended year programs - nonpublic, nonsectarian schools	31	31
Community day schools	<u>48</u>	<u>65</u>
Total elementary ADA	<u>85,077</u>	<u>84,737</u>
<b>Secondary:</b>		
Regular classes	29,816	29,434
Continuation education	528	535
Opportunity school	0	2
Home or hospital - temporary physical disabilities	6	7
Special education	1,622	1,687
Special education – nonpublic, nonsectarian schools	247	201
Extended year special education – mandated	82	82
Extended year programs - nonpublic, nonsectarian schools	39	39
Community day schools	<u>52</u>	<u>56</u>
Total secondary ADA	<u>32,392</u>	<u>32,043</u>
<b>Classes for Adults:</b>		
Concurrently enrolled	110	134
Not concurrently enrolled	<u>462</u>	<u>523</u>
Total classes for adults	<u>572</u>	<u>657</u>
Total ADA	<u>118,041</u>	<u>117,437</u>

**Hourly Programs**

**Hours of Attendance**

Elementary	1,472,838
Secondary	752,357

See the accompanying notes to supplementary information.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME**

**For the Fiscal Year Ended June 30, 2005**

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>1982-83 Actual Minutes</u>	<u>2004-05 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	35,400	56,490	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	64,686	180	In compliance
Grades 9 through 12	64,800	62,835	64,825	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, 2005

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>Federal Categorical Aid Programs:</b>			
<b>Department of Education:</b>			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	13797	\$ 43,425,284
Title I, Part D, Local Delinquent Program	84.013	13798	29,290
Title I, Local Improvement Plan, Regional School Support	84.010	14330	195,163
Title I, Part F, Comprehensive School Reform Demonstration	84.010	14325	395,206
Title I, School Assistance Intervention	84.010A	14417	50,000
Title I, School Assistance Intervention Implementation	84.010A	14579	181,991
Title II, Part A, Improving Teacher Quality	84.367	14341	9,580,402
Title II, Part A, Principal Training	84.367	14344	5,791
Title II, Part B, Math and Science	84.366	14512	115
Title II, Part D, Enhancing Education Through Technology	84.318	14334	1,754,574
Title III, Immigrant Education Program	84.365	14346	157,875
Title III, Limited English Proficient Student Program	84.365	10084	2,539,988
Title VI, Part A Drug-Free Schools	84.186	14347	1,451,876
Title V Innovative Education Strategies	84.298A	13340	647,500
Even Start Family Literacy	84.213C	3700	651,771
Special Education: IDEA Preschool Grants, Part B, Sec 619	84.173	13430	908,280
Special Education: IDEA Preschool Entitlement, Part C, Sec 611	84.027A	13682	1,147,120
Special Education: IDEA Preschool Local Staff Development, Part B, Sec 611	84.027A	13613	52,949
Special Education: IDEA Preschool Interpreter Certification Part B, Sec 611	84.027A	14466	10,288
Special Education: IDEA Preschool Local Staff Development, Part B, Sec 619	84.173A	13431	7,544
Special Education: IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	21,059,867
Special Education: IDEA Early Intervention	84.181	23761	297,053
NASA Explorer School Program	84.318	10010	2,055
Vocational and Application Technology Education Act	84.048	13924	1,382,848
21st Century Learning	84.287	14349	1,037,742
Indian Education	84.060	10011	98,671
Other Federal: Middle School	84.184K	(1)	120,390
Other Federal: Teaching History	84.215X	(1)	246,878
Other Federal: Safe School Healthy	84.184L	(1)	2,993,450
Other Federal: Reduce Alcohol Abuse	84.184A	(1)	796,666
Other Federal: NEA	(1)	(1)	(2,204)
Elementary Secondary School Counseling	84.215E	(1)	139,380
CDE CIsolve-Learning Leadership	94.004	13161	10,000
Smaller Learning Community	84.215	14307	485,241
Emergency Response School Safety	84.184E	(1)	112,534
Fund for Improvement of Education	84.215K	(1)	25,714
Magnet School Assistance	84.165A	(1)	283,068
Federal School Renovation Program	84.352(A)	14318	102,891
Federal Impact Aid - Restricted	84.041	10015	2,181,779
Federal Impact Aid - Unrestricted	(1)	(1)	13,521,877
Transition to Teaching	84.350B	(1)	156,435
Subtotal: Department of Education			<u>108,245,342</u>
<b>Department of Health and Human Services:</b>			
Aids Education	93.938	01982	310,439
CCDF- Center Child Care	93.575	03879	513,495
Medi-Cal	93.773	10013	1,725,054
Subtotal: Department of Health and Human Services			<u>2,548,988</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, 2005

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. Department of Defense:</b>			
Army Reserve Officer Training Corps. (JROTC)	(1)	(1)	1,914,972
<b>Department of National Science Foundation:</b>			
Urban Systemic Program	47.076	(1)	1,559,293
<b>Department of Labor:</b>			
Workforce Investment Act	17.255	10055	237,381
<b>Department of Agriculture:</b>			
National School Lunch Program	10.555	3523	21,794,127
Especially Needy Breakfast	10.553	3526	4,762,028
Basic School Breakfast	10.553	3525	150,391
Federal Snack Program	(1)	(1)	973,357
Subtotal: Department of Agriculture			27,679,903
Total Federal Program Expenditures			<u>\$ 142,185,878</u>
<b>Reconciliation to Federal Revenues</b>			
Total Federal Program Expenditures			142,185,878
Expenditures in excess of revenue related to Federal Entitlements:			
Medi-Cal			(384,235)
<b>Total Federal Revenue</b>			<u>\$ 141,801,643</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,

	<u>(Budget) 2006</u>		<u>2005</u>		<u>2004</u>		<u>2003</u>	
	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>
<b>GENERAL FUND:</b>								
<b>Revenue</b>								
Revenue Limit Sources	\$ 636,837,496	59.8	\$ 626,585,890	59.8	\$ 617,889,096	58.1	\$ 628,358,599	56.8
Federal	111,892,961	10.5	113,508,245	10.8	118,085,626	11.1	121,252,604	11.0
State	254,886,542	23.9	279,273,974	26.7	279,943,503	26.3	306,223,900	27.7
County and Local	35,816,760	3.3	41,195,076	3.9	39,707,321	3.7	39,291,190	3.6
Other Sources	910,047	0.1	1,424,261	0.1	9,527,753	1.0	34,013,742	3.1
<b>Total Revenue</b>	<b>1,040,343,806</b>	<b>97.6</b>	<b>1,061,987,446</b>	<b>101.3</b>	<b>1,065,153,299</b>	<b>100.2</b>	<b>1,129,140,035</b>	<b>102.2</b>
<b>Expenditures</b>								
Certificated Salaries	485,442,047	45.6	500,308,627	47.7	511,272,540	48.1	549,185,428	49.7
Classified Salaries	172,414,528	16.2	164,727,471	15.7	165,442,849	15.6	172,038,715	15.6
Employee Benefits	245,860,749	23.1	226,521,236	21.6	201,080,917	18.9	182,628,611	16.5
Books and Supplies	74,356,290	7.0	79,742,618	7.6	76,453,726	7.2	63,485,491	5.7
Services and Other Operating Expenses	39,368,456	3.7	41,105,288	3.9	70,601,736	6.6	91,490,923	8.3
Capital Outlay	193,485	0.0	345,097	0.0	624,964	0.1	7,425,123	0.7
Outgoing Tuition	-	-	-	-	-	-	-	-
Other Transfers Out	43,115,069	4.0	30,223,575	2.9	30,804,755	2.9	26,788,703	2.4
Direct Support/Indirect Costs	(1,348,622)	(0.1)	(1,130,426)	(0.1)	(1,035,899)	(0.1)	-	-
Interfund Transfers Out	6,313,386	0.5	6,040,110	0.7	7,768,497	0.7	12,360,845	1.1
<b>Total Expenditures</b>	<b>1,065,715,388</b>	<b>100.0</b>	<b>1,047,883,596</b>	<b>100.0</b>	<b>1,063,014,085</b>	<b>100.0</b>	<b>1,105,403,839</b>	<b>100.0</b>
Change in Fund Balance	\$ (25,371,582)	(2.4)	\$ 14,103,850	1.3	\$ 2,139,214	0.2	\$ 23,736,196	2.1
Adjustment for Restatement			\$ (8,140,382)	(0.8)	\$ 4,117,230	0.4	\$ -	-
Ending Fund Balance	\$ 84,525,648	7.9	\$ 109,897,230	10.5	\$ 103,933,762	9.8	\$ 97,677,318	8.8
Available Reserve	\$ 21,550,673	2.0	\$ 16,550,673	1.6	\$ 13,167,959	1.2	\$ 11,101,345	1.0
Recommended Reserve Percentage		2.0		2.0		2.0		2.0
Average Daily Attendance	114,138		117,469		122,333		123,915	
Total Long-Term Debt	\$1,400,092,062		\$1,464,969,742		\$ 1,262,969,569		\$ 856,455,938	

**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 2006 original budget, as reflected in the 2005 Unaudited Actuals.

All percentages are of total expenditures.

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

District has received a waiver of the 2% reserve requirement from the State through the 2005-06 fiscal year. Their reserve requirement with the waiver is 1%.

As noted above, the 2005-06 budget shows an early restoration of the 2% reserve requirement.

2003 was audited by other auditors

See the accompanying notes to supplementary information.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS  
For the Fiscal Year Ended June 30, 2005**

<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
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, 2005

	General Fund	Building Fund	County School Facilities Fund	Liability Fund	Workers' Compensation Fund
June 30, 2005 Annual Financial and Budget Report Fund Balances	\$ 116,877,018	\$ 207,116,659	\$ 233,166,693	\$ 3,180,414	\$ 30,512,927
Adjustments and Reclassifications:					
Increasing (Decreasing) the Fund Balance:					
Cash in County Treasury		(1,683,943)	(1,848,369)		
Accounts Receivable	(6,979,788)				
Accounts Payable		(3,527,794)		(2,331,000)	(56,757,000)
Net Adjustments and Reclassifications	(6,979,788)	(5,211,737)	(1,848,369)	(2,331,000)	(56,757,000)
June 30, 2005 Audited Financial Statement Fund Balances	\$ 109,897,230	\$ 201,904,922	\$ 231,318,324	\$ 849,414	\$ (26,244,073)

See the accompanying notes to the supplementary information.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**For the Fiscal Year Ended June 30, 2005**

**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, 2005**

**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 Between District's Annual Financial Report and 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, 2005**

**NOTE 2 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS:**

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

**Non-Major Funds:**

Child Development Fund:	
Certificated Personnel Salaries	\$ 705,700
Classified Personnel Salaries	391,308
Employee Benefits	215,006
Direct Support/Indirect Costs	20,954
 Pupil Transportation Equipment Fund:	
General Administration and Plant Services	3,714
 State School Building Fund:	
General Administration and Plant Services	73
Interfund Transfers Out	165
 Special Reserve for Capital Projects Fund:	
General Administration and Plant Services	1,423



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

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

**Chairman**

ROYCE A. STUTZMAN

**Partners**

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PHEBE M. MCCUTCHEON

SHARI PROSSER

COLLEEN K. TAYLOR

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, 2005 which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 4, 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. We believe findings 05-07 and 05-11 of the reportable conditions described above are material weaknesses.

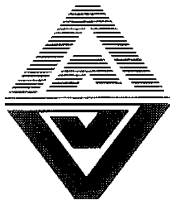
Compliance and Other Matters

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 as items 05-12, 05-13, 05-14, 05-15, 05-16, 05-17, 05-18 and 05-22.

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

November 4, 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**  
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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, 2005. 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, 2005. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items 05-24 and 05-25.

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 05-24 and 05-25.

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

November 4, 2005



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**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, 2005, and have issued our report thereon dated November 4, 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	8	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
Instructional time:		
School Districts	4	Yes
County Offices of Education	3	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
Instructional materials:		
General requirements	12	Yes
Grades K-8 only	1	Yes
Grades 9-12 only	1	Yes
Ratios of administrative employees to teachers	1	Yes
Early retirement incentive program	4	Not applicable
GANN limit calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Alternative Pension Plans	2	Not applicable
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-Safe) Program	3	Yes
School Accountability Report Card	3	Yes (see below)
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. For the School Accountability Report Card, we did not perform tests on the quarterly complaint information or the interim evaluation instruments because this information was not available at the time the 2003-04 School Accountability Report Card was issued. As this information was not in the 2003-04 School Accountability Report Card, it could not be audited.

## REPORT ON STATE COMPLIANCE

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

November 4, 2005

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**SUMMARY OF AUDITOR RESULTS**  
**June 30, 2005**

*Financial Statements*

Type of auditor's report issued: Unqualified

Internal control over financial reporting:  
 Material weakness(es) identified?  X  Yes   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
84.213	Even Start Family Literacy
84.365	Title III, Immigrant Education Program
84.048	Vocational and Application Technology Education Act
84.186	Title VI, Part A Drug-Free Schools
84.287	21 <sup>st</sup> Century Learning

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, 2005**

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 05-01 - ANTIFRAUD PROGRAM** **30000**

**Original Finding 04-01**

**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, and some revisions have been made in the last year, 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.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**FINDING 05-01 - ANTIFRAUD PROGRAM**  
**(continued)**

**30000**

**Original Finding 04-01**

**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. The District currently has a code of ethics for certificated staff, but does not for classified employees. It is important to provide a written document to promote honest and ethical conduct. This should be effectively communicated to employees through annual confirmation and included in training programs.
- 2) Integrate ethics and fraud awareness 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.
- 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) 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.
- 5) Review and clarify the role of the audit committee. It is clear that the committee is overseeing the external audit process; however there are other important roles of this committee. In particular we believe that increased objectivity and independence could be accomplished by having internal audit report directly to the audit committee. We also believe that clarification is needed regarding what the audit committee's role is in relation to financial statement oversight. This objective is mentioned in the role of the committee; however we do not believe that sufficient information is presented to the committee to meet this objective.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**FINDING 05-01 - ANTIFRAUD PROGRAM**  
**(continued)**

**30000**

**Original Finding 04-01**

**District Response:** Based on the prior year recommendations, the District has made significant progress towards developing a comprehensive antifraud program. The first draft of the organizational-wide code of ethics has been developed by the district's legal office and is now in the process of being thoroughly reviewed by management before being adopted into procedure. This is an important first step in integrating the adopted code into employee training programs. This process will be further implemented through the annual dissemination of materials, making available an anonymous reporting mechanism and developing a plan outlining how internal audit will support this entire process.

The District has also invited the auditors to attend the audit and finance committee meetings to clarify the role of the audit committee.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**FINDING 05-02 - REVENUE LIMIT CALCULATION**  
**AND ACCOUNTING**

**60000**

**Original Finding 04-16**

**Finding:** Nearly 60% of the District's revenue in the general fund comes from the revenue limit which is a formula based on average daily attendance. The revenue limit is made up of state apportionment and local property taxes. This calculation is somewhat complex and involves several adjustments including an adjustment for the PERS Reduction. This is one of the more complicated adjustments made to the revenue limit. In our review of the revenue limit we noted the following:

- An adjustment of \$4,002,469 was necessary to properly account for a prior receivable accrued for the revenue limit. This related to the fact that the amounts accrued in the prior year were not cleared prior to closing.
- The ADA used in the revenue limit calculation did not correspond with amended attendance reports. The ADA used was overstated by 43. This will result in a decline in state aid of approximately \$209,000.
- The amount used in the PERS reduction calculation for food service salaries was overstated. This was due to the fact that the District did not apply the cap related to this exclusion. Schedule H of the revenue limit must be revised to show this exclusion at the capped salary exclusion of \$204,918. This will result in a reduction in the revenue limit revenue of approximately \$385,000.
- The amount used in the PERS reduction calculation for PL 94-142 salaries appears to be understated. We believe this was due to coding of expenditures in the special education program and corrections should be made to correct this if appropriate. If corrected, we believe that it will result in approximately \$423,000 of additional revenue limit income.

The net impact on the revenue limit associated with the above mentioned corrections totals \$171,000. Due to the fact that this amount is below materiality level, these financial statements have not been adjusted for these amounts and any adjustment due to these revisions will be reported in the 2005-06 fiscal year.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**FINDING 05-02 - REVENUE LIMIT CALCULATION**  
**AND ACCOUNTING**  
**(continued)**

**60000**

**Original Finding 04-16**

**Recommendation:** As mentioned in the prior year, we believe that training and supervision is needed in regards to the revenue limit calculation. Due to the significance and complexity of this calculation in your financial reporting, we believe that at least two individuals receive training and a member of management should oversee and approve this calculation prior to closing. It may be appropriate to utilize outside consultants to work with district staff to assure that the PERS reduction is calculated correctly and that regulations are understood by all involved in identifying salaries for federally funded programs that may be legally excluded.

Schedule H, the "Schedule for the determination of the revenue limit reduction for PERS" must be corrected and resubmitted as soon as possible to correct the above calculation. It may also be necessary to review this calculation for prior years to assure its accuracy.

**District Response:** The District agrees with the necessity of additional staff to be trained in the data collection, calculation and verification of the revenue limit. However the following information needs to be disclosed in response to the specific items included in this finding:

- This District noted a \$4,002,469 accrual (unrelated to the Revenue Limit Calculation process) was not properly reversed prior to our year end close. It was agreed that the reversing entry should be made as an audit adjustment. All future accruals will be booked as automatic reversing entries.
- The District submitted an amended J-18/19 report to the State to reflect the overstated 43 ADA uncovered in the 03/04 audit on March 29, 2005 but was not received by the State prior to the P-2 apportionment.
- The District has relied on a legal opinion obtained from our legal counsel on January 4, 1991, which states, "Based on the language forbidding federal funds from supplanting state funds in these programs [Federal Impact Aid, PL 94-142 Special Education, and the National School Lunch Program], we believe positions totally funded in these three federal programs are exempt from the PERS recapture provisions." This opinion has been the basis for our exclusion of Federal Child Nutrition salaries since 1990/91.
- The District will amend Schedule H for fiscal year 2004-05 to properly reflect the amount of PL 94-142 salaries to exclude from the PERS reduction calculation.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
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**FINDING 05-03 – FINANCIAL REPORTING** **30000**  
**AND BUDGETING PROCESS**

**Original Finding 03-02 and 04-10**

**Finding:** We understand that the District is currently working with consultants to develop a budget module that will meet the needs of the District and allow for integration of budget and actual data. For the 2004-05 fiscal year, the District was still using Excel workbooks for budgeting purposes and it is our understanding the same process will be used in 2005-06.

**Recommendation:** We recommend that the budgeting process 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.

**District Response:** The District concurs and is currently working on an interim solution that was designed by Empower and will interface with the existing PeopleSoft module until an adequate budget module can be identified.

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**FINDING 05-04 – INTERNAL CONTROL –**  
**GENERAL JOURNAL ENTRIES**

**30000**

**Original management letter observation from fiscal year 2002-03 and 04-08**

**Finding:** Our evaluation (sample size of 24 entries) of the journal entry process indicated the following:

- 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 for 9 entries.

In addition, during our analytical testing in the cafeteria fund, we noted that there were two improper journal entries that were intended to be budget entries, but were recorded in the system as actual adjustments to expense accounts. This resulted in an overstatement in the PERS expense and a corresponding understatement in OASDI for over \$540,000.

**Recommendation:** 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 District concurs and has developed a new journal voucher process that was introduced at the end of fiscal year 2004/2005 and implemented 2005/2006.

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**FINDING 05-05 – NEW EMPLOYEE BOARD APPROVAL** **30000**

**Finding:** The District's policy when hiring new employees is that these employees be approved for hire by the Board of Education. During our testing of this process, we found that 3 of 10 employees tested were not submitted to the Board for approval.

**Questioned Costs:** Not applicable

**Recommendation:** We recommend that the employee action listing prepared by Human Resources for approval by the Board be made available for audit purposes and a reconciliation be completed to assure that all employees are submitted for approval prior to being added to the database for payment.

**District Response:** The District has revised the employee report to include hourly assignment changes so all activity will be available to be approved on the board report. The District does not withhold employees from the payment database that are being placed in board approved vacancies to avoid employees having to wait an unreasonable amount of time to be paid. However, the District does require all management level employees to be Board approved before they commence their new assignment.



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**FINDING 05-06 – CAFETERIA INVENTORY**

**30000**

**Original Finding 04-06**

**Finding:** The amount recorded on the financial statements for food inventory could not be reconciled to the physical inventory records maintained at Material Control. In discussing this with personnel in Food Services, our understanding is that there is no reconciliation completed between the PeopleSoft inventory and financial modules maintained by Material Control and Food Services.

**Questioned Costs:** Not applicable

**Recommendation:** A process must be established and implemented to efficiently and effectively report the inventory for food services. A reconciliation between the physical inventory maintained at Material Control and the amounts reported on the PeopleSoft general ledger 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 district concurs that a reconciliation process between PeopleSoft and Material Control must be established. The Food Services Department has established a system to correctly post and track daily inventory transactions in PeopleSoft and a reconciliation will be available for the 2005/2006 fiscal year

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**FINDING 05-07 – CAPITAL ASSET TRACKING**

**30000**

**Finding:** We noted the following related to the tracking of fixed assets:

- There is approximately \$9.3 million of capital outlay expenditures charged to departments 5610 and 5680 that were not capitalized as part of fixed assets. These amounts are recorded as Function 8500 expenses but were not able to be associated with a specific project. These departments may contain elements that should have been capitalized, resulting in a possible understatement of fixed assets reported by the District.
- There is approximately \$25 million in unallocated salaries recorded in department 5481 as Function 8500 expenses that were expensed. These were most likely administrative costs that should not have been capitalized; however, they should then be recorded in a different function.
- Department 5530 contains \$3.6 million of costs charged to the 8500 function code that were not capitalized. These charges relate to the cost of the PeopleSoft implementation that was capitalized as an addition in November 2003. These additional costs are likely related to maintenance and should not be recorded as a function 8500 expense.
- Not all costs related to construction in progress are properly identified. There is currently not an efficient way for District personnel to estimate which projects that are in process could potentially exceed the District's \$100,000 capitalization threshold. This results in portions of projects being expensed in year one and then being capitalized in year two. While this timing difference will eventually result in a minimal net effect on the District's net assets, each individual year's expenses may be misstated and could result in the need to restate beginning net assets if the difference was material.
- Equipment purchases of items over \$5,000 are not consistently charged to Object 6400 and Function 8500. This resulted in additional work for the accounting department as they attempted to reconcile accounting records with the additions reported by Material Control. Additionally, Material Control is not always informed of new equipment receipts. They record only items that are reported to them by Receiving and other locations and are not reconciling to the purchase order information contained in PeopleSoft. Out of 150 items that accounting identified as equipment additions (items greater than \$5,000) in 2004-05, Material Control had identified only 60.
- There is currently no accurate way to assign project costs for Prop MM. The general ledger indicates a site location for the expenses, but there is no way for Financial Accounting to determine which project at a particular site should be charged with any individual expense. Our understanding is that there is a Project Module in the PeopleSoft system that has been designed to track and report expenses by project, however, this has not yet been implemented.

**Questioned costs:** Not applicable

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**FINDING 05-07 – CAPITAL ASSET TRACKING**  
**(continued)**

**30000**

**Recommendation:**

- We recommend that all administrative salaries, maintenance expenses and other non-capitalizable costs be recorded in a function other than 8500. The California School Accounting Manual states that facility costs not clearly identifiable to a capital project should not be charged to function 8500. Facility planning or administration should be charged to Function 7200, Other General Administration, or to optional Function 7510, Planning, Research, Development, and Evaluation. Facility improvements that do not significantly extend the life or increase the value of a site or building or that do not meet the District's capitalization threshold should be charged to Function 8100, Plant Maintenance and Operations.
- The District should consider an alternate method for determining the amounts to be capitalized as part of construction in progress. If a project is close to the capitalization threshold, the District could elect to capitalize the project in year one. If the project is later determined to be an expense, the amount can be shown as a deletion to construction in progress. The construction in progress asset is an estimated amount that can be adjusted in subsequent years as needed.
- Additional training should be provided to any employee that originates, approves or processes purchase orders on the proper coding of equipment purchases. The California School Accounting Manual states that equipment that has both an estimated useful life in excess of one year and an individual cost per unit in excess of the District's capitalization threshold should be recorded in Object 6400. Additionally, periodic reconciliations should be completed between the purchase orders that have been marked as received and the equipment additions reported as received to Material Control.
- The District should consider implementing the Project Module for Prop MM reporting. This would allow for more accurate historical costs for individual projects as the costs would be identified with a project by an employee who has direct knowledge of the expense rather than being arbitrarily allocated by Financial Accounting.

**District Response:** Projects that need to be capitalized are coded to function 8500. The cost is accumulated in Maximo. The cost includes labor (employee's salaries), materials and overhead, all of which are legitimate costs of the project. When the project is complete, a report is generated from Maximo and provided to Financial Accounting. Projects that are not complete at the end of the year should be booked as "Construction in Progress".

The District will train employees that originate, approve or process purchase orders on the proper coding of equipment purchases. The District will investigate a software solution to address the lack of a proper interface that currently exists between Maximo and PeopleSoft. This will require additional resources yet to be identified.

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**FINDING 05-08 – STALE DATED CHECKS**

**60000**

**Finding:** Three of four bank reconciliations related to the accounts used to administer the District's Self Insurance programs contain stale dated checks dating back as far as January 2000. We estimate there is as much as \$149,000 in the three accounts that could be used to reimburse current expenditures.

**Questioned Costs:** Not applicable

**Recommendation:** The District should adopt a policy regarding stale dated checks and the timelines and procedures that should be used when completing the monthly bank reconciliations. After an appropriate amount of time, the stale dated checks should be reversed and added back to the cash balance.

**District Response:** The district's fiscal control department has researched the appropriate methods to properly handle these un-cashed checks and is in the process of escheating the funds back to district accounts. The Material Services department is preparing the notice required by law to be printed in local periodicals. Following the completion of the notification and subsequent claiming period, any unclaimed amounts could be used to reimburse current expenditures.

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**FINDING 05-09 – DEFERRED MAINTENANCE FUND**

**60000**

**Finding:** Expenses recorded in the Deferred Maintenance Fund include charges for District maintenance employee salaries. These expenses are recorded in the Deferred Maintenance Fund in object 5750. The Deferred Maintenance Handbook allows forced account labor charges only if the personnel was hired on a temporary basis to do work solely listed on the approved Five Year Plan. Salaries of regular District employees can only be charged if the employee was working outside their normal work hours on an approved Five Year Plan project. It is our understanding that the District is relying on a legal opinion to support the charges of these salaries, however, the opinion does not address specifically the allowability of salaries into the Deferred Maintenance Fund.

**Questioned Costs:** \$300,443 related to salaries of district employees

**Recommendation:** We suggest the District contact the Office of Public School Construction to discuss and obtain approval for the charges. If the charges are determined to be unallowable, the Deferred Maintenance Fund should be reimbursed. Additionally, procedures should be implemented to ensure all projects charged to the Deferred Maintenance Fund are reviewed for compliance with regulations. The District should also conduct its' own research to determine if there are other expenditures that may not be appropriately charged to this fund. Expenditures should also be reviewed to ensure that all possible appropriate charges were recorded in this fund. The above costs are from a sample only, and it is certainly possible that there are others.

**District Response:** The District maintains its own maintenance department staffed with skilled workers for construction and repair projects in the District. Each employee who works on any project including those listed on the approved Five Year Plan keeps record of time worked for each specific project. These time records are submitted and entered into the District's job cost system (Maximo). All supporting documentation for each deferred maintenance project is kept at the Maintenance Department.

The use of District full time employees instead of temporary employees provides economy, efficiency and the flexibility to react to emergencies.

The District will pursue a determination from the Office of Public School Construction that labor performed by District full time employees on any project listed on the approved Five Year Plan will be an acceptable charge in the Deferred Maintenance Fund.

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**FINDING 05-10 – COUNTY SCHOOL FACILITIES FUND**

**30000**

**Finding:** The majority of expenditures in the County School Facilities (CSF) Fund were transferred via journal entry from the Deferred Maintenance Fund at year end and district personnel were unable to provide a listing of the individual expenditures that made up the transfers. Three of fifteen expenses tested in the County School Facilities Fund totaling \$5,262,248, did not have adequate support. Although the descriptions on the journal entries appear to be related to facilities projects, without the supporting documentation, we are unable to determine if these are appropriate expenditures for this fund.

**Questioned Costs:** \$5,262,248

**Recommendation:** Any transfer that affects totals related to a CSF project, should be reviewed and authorized by signature of a project manager or other qualified individual. The transfer supporting documentation should include the related invoices, timecards or other items as necessary. This will ensure there is adequate documentation available for future audits by the Office of Public School Construction.

We believe that this issue is exacerbated by the lack of integration between the facilities project tracking system (Maximo) and the financial accounting system (PeopleSoft). The District should consider the feasibility of integrating a project tracking system with PeopleSoft.

**District Response:** All expenditures for projects in the Deferred Maintenance Fund are supported by time records, contracts or invoices. The transfers that were made from Deferred Maintenance were costs of projects that were determined by the District to be “non-qualified projects” under Deferred Maintenance. These costs are recorded in a separate resource (01401) within the Deferred Maintenance Fund. It is the District’s practice to transfer all these costs to the County School Facilities Fund at the end of the year. The use of savings generated in the County School Facilities Fund to pay for the costs of these “non-qualified projects” has been determined by the Office of Public School Construction to be an appropriate use of the County School Facilities Fund.

Effective in 2005-2006, all “non-qualified projects” are charged directly to the County School Facilities Fund.

The District also concurs that integration between the job cost system and the financial system will improve the tracking of costs for these projects.

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**FINDING 05-11 – DIRECT COST TRANSFER**

**30000**

**Finding:** The District has charged approximately \$51 million to Object 5750, Direct Costs for Interprogram/Interfund Services. This account is being used by the District to transfer the cost of construction work completed in-house. Amounts are originally tracked and recorded in the General Fund and transferred to other funds through the 5750 account. The transfer results in a reduction of expenditures in the general fund and an increase in expenditures in the other fund. The type of expenditures being transferred do not appear to meet the criteria established for this account in the California School Accounting Manual which states that, "Typical transfers in this account will be services provided or products developed by the LEA, such as maintenance and repair of duplicating, audiovisual, or other equipment; photocopying expenses; field trips; district vehicle use; and information technology expenses." Furthermore, the district is reporting the original expenditures, including contractor payments to a 4515 object code, which is not a recognized object code within the Statewide account code structure. Rather, the 4000 object code series relates to books and supplies. We believe that by reporting contractor payments to this account code, the State SACS financial reports are misleading.

In addition, the supporting documentation that is provided with the journal entries to transfer these costs does not include information regarding where the original cost was recorded, which fund was charged or the name of the vendor. This does not provide a sufficient audit trail and could result in duplication of costs being transferred. We must be assured that these costs are appropriately transferred and that supporting documentation exists to support the transfers.

**Questioned Costs:** Not applicable

**Recommendation:** The procedures in place regarding the 5750 object code for charges of major facility and repair projects should be reviewed by the District. We suggest that the District discuss and obtain the approval of the California Department of Education regarding the procedures agreed to. For construction payments to vendors, we recommend they be paid directly to the appropriate fund, to avoid the need for a transfer and that the statewide account be used which will typically be to record an expenditure in the 5600 object code for repairs and the 6000 object code series for building improvements and new construction. If a transfer is required for construction payments because it was reported in the incorrect fund, we suggest it be done by transferring the actual expenditure which would provide a direct correlation with the expenditure and would be in compliance with the statewide account code structure.

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**FINDING 05-11 – DIRECT COST TRANSFER** **30000**  
**(continued)**

**District Response:** The direct cost transfer process that was implemented by the District two years ago was done after consultation with the California Department of Education (CDE) and the County Office of Education. The district will work with these agencies again to identify a process that will be acceptable to the CDE and the auditors.

Costs of projects are tracked by work order number or job number. These identifying numbers are used to track all expenses charged to a specific project from the time an original expenditure is incurred up to the time when the journal entries, to charge the appropriate fund or resource, are charged to the project. This audit trail exists, however, the District concurs with the auditors that this information is not easily accessible. All supporting documentation exists and is kept by the Maintenance Department.

The appropriate use of the 4515 account will be reviewed with staff and the appropriate account code will be used to record original expenditures.

The auditor's recommendation to charge construction payments to vendors directly to the appropriate fund will be done whenever possible. Effective in 2005-2006 "non-qualified" deferred maintenance projects are charged directly to the County School Facilities Fund.



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**FINDING 05-12 – INDEPENDENT STUDY MASTER AGREEMENTS**      **10000**

**Finding:** Apportionment was claimed for a student prior to the date of the signatures on the Master Agreement. State Compliance Section 19819(7)(I) requires the Master Agreement to contain signatures, affixed prior to the commencement of independent study, by the pupil or adult education student; the pupil's parent, legal guardian, or caregiver and following, if the pupil is less than 18 years of age; the certificated employee who has been designated as having responsibility for the general supervision of independent study; and all other persons, if any, who had direct responsibility for providing assistance to the pupil or adult education student. During our testing, we noted one of ten Master Agreements selected for testing contained signatures dated March 1, 2005 and apportionment was claimed for this student beginning January 28, 2005.

**Questioned Costs:** Approximately 20 days disallowed (.15 ADA) for \$741.

**Recommendation:** Site personnel should ensure that all required signatures on the Master Agreement have been obtained prior to the student beginning an Independent Study program. Additionally, the ADA generated by this student prior to March 1, 2005 should be removed and the P-2 Attendance Report revised and resubmitted.

**District Response:** The Pupil accounting staff confirmed the finding and has re-trained the site staff on the correct procedures for Independent Study contracts. The student contract identified was in fact backdated. The district will deduct .15 ADA for P2 and .11 for Annual for 2004-2005.

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**FINDING 05-13 – INDEPENDENT STUDY**  
**ATTENDANCE ACCOUNTING**

**10000**

**Finding:** There was not a clear audit trail from the attendance register to the student's work samples, thus we were unable to verify the attendance reported by the site for 10 of 10 students tested. Additionally, the student work samples did not bear signed or initialed and dated notations by the supervising teacher indicating that he or she personally evaluated the work, or that he or she personally reviewed the evaluations made by another certificated teacher as required by State Compliance Section 19819 (9).

**Questioned Costs:** The maximum amount disallowed for these 10 students is 10 ADA or \$49,392, however, the actual amount of adjustment is unknown at this time.

**Recommendation:** Procedures should be developed that ensure all student work samples contain evidence of review by the supervising teacher and that the days of attendance awarded can be easily traced into the site's attendance roster. The District should determine the actual ADA generated by these students and revise the P-2 Attendance Report to reflect the decrease in ADA.

**District Response:** The Pupil Accounting Staff conducted a follow-up audit of the Twain SOAR program on 11/09/2005 resulting in the site increasing their documentation with signed and dated teacher reviews for individual contracts; an easily followed audit trail of days granted per each segment of the master agreement that ties to days claimed; and the site will follow District recommendations that all student work samples have the name of the student, show that a teacher has reviewed or graded the work and have an appropriate date within the contract timeframe. The 10 students ADA will be calculated for P2 and Annual in order to deduct the correct ADA and amend P-2 and Annual. This will be no more than 10 ADA.

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**FINDING 05-14 – COMMUNITY DAY SCHOOL**

**10000**

**Finding:** The following was noted during testing of the Community Day School attendance:

- Attendance was not taken hourly as required by State Compliance section 19815(e)(2). We were therefore unable to determine the proper reporting of fifth and sixth hour attendance.
- Teachers are not signing the attendance rosters.
- There were differences between the teacher roster source document and the attendance summary for 9 of 10 students tested. This resulted in 34 hours over reported by the Community Day School.

**Questioned Costs:** \$215,774 at Annual

**Recommendation:**

- Teacher rosters should be revised to include space to record attendance hourly. This will enable the site to support amounts claimed for additional fifth and sixth hour funding.
- The District should provide additional training to teachers reminding them of the importance of signed attendance rosters. The Department of Education requires that scan sheets and class rosters are signed and dated by the “eye-witness” employee within a 2 week maximum period. If the signature date is missing we cannot determine if it was signed timely. While this requirement is not written in an education code, the Department of Education will not approve any attendance forms that do not comply with these requirements.
- Compare monthly summaries to teacher rosters for accuracy before submitting them to the District Office. The monthly summaries should be revised to reflect the differences noted above and the Annual Attendance Report revised and resubmitted.
- The District should work with the California Department of Education to determine what, if any, steps can be taken to protect the district from losing the ADA associated with this program.

**District Response:** The District has recommended that the teacher rosters be revised to record hourly attendance. An audit follow-up visit was made to the ALBA site for grades 9-12 on 11/07/2005, and the teacher rosters were reviewed. Rosters are now signed by all teachers and follow-up is done if signatures are initially missing. The recommendation was made that all teachers continue signing and dating their rosters. Pupil Accounting will deduct all of ALBA’s 5<sup>th</sup> and 6<sup>th</sup> hour funding due to lack of proper hourly attendance being taken. The P-2 amount for the ALBA site audited, grades 9-12 is 51.12 for 5<sup>th</sup> hour and 38.90 for 6<sup>th</sup> hour. The annual amount for grades 9-12 was 53.99 for 5<sup>th</sup> hour and 40.82 for 6<sup>th</sup> hour. The district will amend P-2 and Annual for these amounts.

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**FINDING 05-15 – INSTRUCTIONAL MINUTES**

**10000**

**Finding:** During our attendance testing at the District sites, we noted the following for Morse High School:

- Attendance is not taken for seniors the last four days of school. Most seniors are recorded in the attendance system with a “D” code which is used when a student is detained in the school office. This attendance code generates apportionment. Teachers or district “eye-witnesses” are required to take attendance daily and sign and date attendance rosters in ink.
- We reviewed the finals schedule provided by the site and noted that Thursday, June 16 did not offer at least the absolute minimum amount of instructional minutes. Education Code Section 46141 establishes the minimum day for a high school at 240 minutes. Per Education Code 46142, a high school is deemed to be in compliance with this section if the two-day averaged instructional minutes are at least 240, with no single day falling below 180 minutes. Because this day did not meet the absolute minimum number of minutes, it cannot be used in the determination of the site’s annual instructional minutes or total days of instruction. While the site met the annual instructional minutes’ requirement, this disallowed day resulted in only 179 days of attendance. Education Code 46200(c) states that there will be a penalty deducted from the District’s revenue limit apportionment for each affected grade level for each day less than 180.

**Questioned Costs:**

- Unable to determine – the District obtained several lists from the site that supported attendance for some seniors. The District must conduct additional research to determine the amount of over reported ADA.
- Per Education Code 46200(c), districts that offer less than 180 instructional days will lose 0.56% (or 1/180<sup>th</sup>) of their revenue limit funding for the affected grade level, for each day of shortfall. This amount is \$167,344.

**Recommendation:** Finals schedule should be revised for the seniors to include at least 240 minutes per day of activities under the direct supervision of a certificated employee. Additionally, a certificated employee should continue to take attendance daily for the entire school year. The District should further research the attendance reported for the seniors on the last four days of school and revise the P-2 Attendance Report as needed.

**District Response:** The district will review this finding with top management, school administration and staff to reinforce the attendance policy at Morse and the District Pupil Accounting staff will amend P-2 and Annual by \$167,344.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
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**FINDING 05-16 – P-2 ATTENDANCE REPORTING**

**10000**

**Finding:** The following was noted from our review of the P-2 Attendance Report:

- Due to the implementation of Zangle for attendance accounting, there were significant problems reporting attendance for the Home Hospital and Special Education programs. Home Hospital ADA decreased approximately 94 ADA from the P-2 reporting period in 2003-04. The first two attendance months were not in Zangle and the sites provided manual attendance documents that were not adequate. Pupil Services has also identified that the attendance reported after the third attendance month is still significantly lower than expected.
- The Zangle system priorities were not set correctly for special education students. If students had multiple designations, Zangle was not picking up the special day class designation, thus under reporting the District's special education ADA.

**Questioned Costs:** District is still researching.

**Recommendation:** Zangle programming should be checked for all alternative attendance types to ensure the system is processing the attendance accurately. The above problems should continue to be researched and the P-2 Attendance Report should be revised as needed.

**District Response:**

- Site technicians were hired over the summer to reinstate the attendance from the teacher's rosters that was lost in the Zangle system for the Home Hospital Program.
- The Information Technology department will recalculate and rerun the reports for last year and summer school.
- Internal Audit has reviewed the special coding between 4GL/Encore and the Zangle system and is working to resolve system issues.
- Pupil Accounting will amend 2004-2005 reports when the student coding is corrected in the Zangle and Mainframe systems.

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**FINDING 05-17 – SUPPLEMENTAL HOURLY PROGRAMS** **10000**

**Finding:** While reviewing the District's records for hourly programs we noted that attendance was not taken hourly at 5 of 6 sites tested. This resulted in the sites claiming three hours more per student, per day than the attendance rosters support. The sites were using substitute teacher rosters instead of the correct District-developed form. Additionally, Euclid Elementary was left off the report of total hours. This resulted in 13,488 hours that the District under reported.

**Questioned Costs:**

- Attendance not taken Hourly - \$91,238 over reported
- Site left off report - \$46,264 under reported

**Recommendation:** District should continue to provide training for all sites on the importance of taking hourly attendance for supplemental programs. The Annual Attendance Report should be revised to reflect the above changes.

**District Response:** The Zangle system was not configured correctly for Winter Intersession for some sites to do hourly attendance posting. This was corrected for Spring Intersession. The district will amend P-2 and Annual to reflect the corrections from the Winter Intersession.

Pupil accounting amended the spreadsheet to include the hours for Euclid Elementary. The district had used 3 different systems for winter intersession requiring multiple reports to be run and multiple spreadsheets to be compiled due to system issues. Corrections were made in the annual report.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2005**

**FINDING 05-18 – STATE COMPLIANCE –** **40000**  
**INSTRUCTIONAL TIME AND STAFF DEVELOPMENT PROGRAM**

**Original Finding 04-11**

**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, staff was present and the training was scheduled for the required amount of time. Therefore, 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:** The district's staff development forms have been updated for the 2005/2006 fiscal year to include time in and time out to ensure individuals are in attendance for the entire day of staff development.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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**June 30, 2005**

**FINDING 05-19 – SELF-INSURANCE – WORKERS’ COMPENSATION    60000**

**Original Finding 04-22**

**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 fund does not have sufficient resources to cover future liabilities. The workers compensation fund ended the 2004-05 fiscal year with a negative ending balance of over \$60 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 the 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.

**Questioned Costs:** Not applicable

**Recommendation:** The District is currently on a five year plan to resolve this underfunded position. We recommend the District continue efforts in this regard and continue to have the required actuarial studies performed to assess the validity of the current plan. As factors change, it may be necessary to revise the plan. We also 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 completed year one of the five year plan in 2004/2005 and is currently in year two. The District will record the full liability in the self insurance fund to comply with GASB 10.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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**FINDING 05-20 –DISASTER RECOVERY**  
**AND BUSINESS CONTINUITY IMPLEMENTATION** **30000**

**Original management letter observation from fiscal year 2002-03 and 04-20**

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

**Questioned Costs:** Not applicable

**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:** The IT department has documented, tested and implemented our individual processes for disaster recovery (Disaster Recovery Procedures). We have also tested power failure and fail-over to our generator– although an ‘all systems failure’ has not been tested.

A business continuance recommendation was made to the Executive Committee on December 1, 2005. The Executive Committee requested additional options to be made available that will require a reduced level of funding.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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**FINDING 05-21 – RECEIVABLE TRACKING**

**30000**

**Finding:** Due to the conversion and other factors, the District has not sufficiently cleared out prior year receivables. There were amounts carried over from prior years that not been properly written off or cleared when the amount was received. This resulted in two material audit adjustments. This was also true for amounts due to and from funds. It is critical that receivables be tracked monthly and properly adjusted prior to year end closing.

**Questioned Costs:** Not applicable

**Recommendation:** It is very important that a tracking system be put in place to monitor receivables set up in all funds of the district to determine if and when they have been collected. This should be completed on a monthly basis. If at year end there are amounts still uncollected, a determination must be made as to whether the receivable is valid.

**District Response:** This year-end the district has made a concerted effort to analyze many of its balance sheet accounts. The district has made several adjustments and has identified the two discussed above that still need to be booked as a result of our review. The district uses an Excel spreadsheet to track major revenue receivables and will add several columns to this spreadsheet to help identify if and when a receivable has been collected. The district also recognizes that the Billing/Receivables module within PeopleSoft would offer better control over our receivables and as additional funds become available, we will request the IT department implement this module.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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**FINDING 05-22 – ROUTINE REPAIR AND**  
**MAINTENANCE REQUIREMENT**

**60000**

**Finding:** As required by Education Code Section 17070.75(2)(B), in 2004-05 the District must deposit 2 percent of total General Fund expenditures for ongoing routine repair and maintenance. (RRM) (3% in 2005-06). The District has established such an account, however, due to the transferring of expenditures to other funds in the district; the actual expenditures covered by the general fund do not meet this threshold. The required deposit was \$20.5 million and actual expenditures were \$15.2 million. It should be noted that the district is allowed to apply the transfer made to the deferred maintenance fund, limited to ½% of the general fund expenditure budget. Since the District used excess contributions to cover their state match requirement for deferred maintenance, this amount is not included in the \$15.2 million of expenditures. Applying this transfer, the district is short \$500,000.

In addition, the District has and is planning on using savings of State Facility project monies deposited in the County Schools Facilities Fund (Fund 35) to meet this routine repair and maintenance requirement. Based on our understanding of the requirement and on discussions with personnel from the Office of Public School Construction (OPSC), these state funds cannot be used to meet this requirement and the funds must come from the general fund.

**Questioned Costs:** Approximately \$500,000

**Recommendation:** It is imperative that the District monitor their compliance with the Education Code in regards to establishing and expending monies in line with these requirements. We believe the District should confirm in writing with OPSC that it is appropriate to apply the excess deferred maintenance contribution to meet the 2% allocation for 2004-05. Assuming this is the case, we believe the remaining \$500,000 would need to be established as a carryover for RRM in future years.

We are aware that management believes there may be other ways in which the district can meet this requirement and we support the District in pursuing these options. However, based on our initial discussions with OPSC, using the savings from State Funds does not appear to be an option and other alternatives will need to be considered. The District will need to assure that required monies have been set aside in the 2005-06 budget that equal the requirement for 3% to be set aside for routine repair and maintenance, which may result in future budget reductions in the general fund which could amount to over \$15 million for 2005-06. This is of significant importance to the financial solvency of the general fund and we believe immediate action is warranted. Any resolution to this matter with OPSC or legal advice should be in writing to provide documentation supporting the districts actions in this regard.

**District Response:** The District believes that it has fully complied with the intent of Education Code Section 17070.75(2) (B) and is interested in further review of our practice to confirm compliance.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
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**FINDING 05-23 – HIGHLY QUALIFIED TEACHERS**

**40000**

**Finding:** No Child Left Behind requirements state that all Title I teachers hired after the first day of school in 2002-03 are required to be “highly qualified” as defined in Title IX of the No Child Left Behind Act. Two teachers tested did not meet the “highly qualified” standards.

**Questions Costs:** Not applicable

**Recommendation:** Procedures should be put into place to ensure all teachers hired after the first day of school in 2002-03 are “highly qualified” and all teachers, regardless of hire date, will meet this requirement by 2005-06.

**District Response:** District procedures have been updated to ensure all teachers are “highly qualified”. District Administrative Circulars will be posted on the website annually with instructions and the required HOUSSE compliance forms that must be submitted to Human Resource Services to ensure compliance. The most recent Administrative Circular No.44 was posted to the District’s website on November 7, 2005.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FEDERAL AWARDS**  
**June 30, 2005**

**FINDING 05-24 – TIME ACCOUNTING**  
**FEDERAL COMPLIANCE – SEMI-ANNUAL CERTIFICATIONS**      **50000**

**Original Finding 04-24**

**21<sup>st</sup> Century (84.287)**  
**Drug Free Schools (84.186)**

**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 4 of 28 employees. In addition, one employee charged to 21<sup>st</sup> Century did not match the actual program charged.

**Questioned Cost:** Not Applicable

**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 district currently has procedures requiring employees funded by Federal Programs to complete semi-annual time certifications. Circulars are sent out semi-annually to inform district employees of the need to comply with the district's procedure. The district has received thousands of time certifications in response to the circulars. The district has provided training to school principals and classified employees located in the central office.

The budget office has imposed site meetings with budget analysts by November 18<sup>th</sup> to plan final employee placements with PARS due by December 2<sup>nd</sup> to ensure time certifications can be completed by the appropriate employees in January & June each fiscal year.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FEDERAL AWARDS**  
**June 30, 2005**

**FINDING 05-25 – INTEREST EARNED ON FEDERAL PROGRAMS**      **50000**

**Title I (84.010) – Total expense \$43,425,284**

**Drug Free Schools (84.186) – Total expense \$1,451,876**

**VTEA (84.048) – Total expense \$1,382,848**

**Even Start (84.213) – Total expense \$651,771**

**Limited English Proficient Student Program (84.365) – Total expense \$2,539,988**

**21<sup>st</sup> Century Learning (84.287) – Total expense \$1,037,742**

**Finding:** Federal law Title 34 CFR 80.21(i) requires that any interest earned by LEAs on federal dollars be returned to the United States Department of Education if the amount is in excess of \$100. There was a District-wide total of interest earned of \$24,043 that was not returned to the grantor agencies. The District does track the interest earned on federal funds, however, it is the District's policy not to remit this amount earned.

**Questions Costs:** \$24,043

**Recommendation:** The District should consider a policy that includes remitting all interest earned in excess of \$100 to the grantor agency.

**District Response:** The district is currently tracking federal interest and researching the federal requirement through a district consultant.

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
June 30, 2005**

**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.
- 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.

**Current Status:** In progress. See current year finding 05-01.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**June 30, 2005**

**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.

**Current Status:** Implemented.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
June 30, 2005**

**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.

**Current Status:** Implemented

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**June 30, 2005**

**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.

**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.

**Current Status:** Implemented

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
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**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 30<sup>th</sup>. 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.

**Current Status:** Procedures were implemented; however, corrections were required again in 2004-05.

**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.

**Current Status:** Not implemented for 2004-05. Reconciliation procedures developed for 2005-06. See current year finding 05-06.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
June 30, 2005**

**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.

**Current Status:** Implemented

**FINDING 04-08 – INTERNAL CONTROL –                      30000  
GENERAL JOURNAL ENTRIES**

**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.

**Current Status:** Not implemented for 2004-05. A revised procedure was put in place beginning 2005-06. See current year finding 05-04.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
June 30, 2005**

**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 70) 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.

**Current Status:** Improvement noted.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**June 30, 2005**

**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.

**Current Status:**

- Not implemented. See current year finding 05-03.
- Implemented.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
June 30, 2005**

**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, staff was present and the training was scheduled for the required amount of time. Therefore, 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.

**Current Status:** Not implemented for 2004-05. Forms were revised for 2005-06. See current year finding 05-18.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**June 30, 2005**

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

**40000**

**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.

**Current Status:** Implemented.

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

**30000**

**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.

**Current Status:** Implemented.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
June 30, 2005**

**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:** Implemented.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**June 30, 2005**

**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.

**Current Status:** Implemented.

**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.

**Current Status:** Not implemented. See current year finding 05-02.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**June 30, 2005**

**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.

**Current Status:** Implemented.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**June 30, 2005**

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

**30000**

**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.

**Current Status:** Implemented.

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

**30000**

**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.

**Current Status:** Implemented.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
June 30, 2005**

**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.

**Current Status:** In process. See current year finding 05-20.

**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.

**Current Status:** In Process.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
June 30, 2005**

**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 2004-05 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.

**Current Status:** In process. District is in year two of a five year recovery plan. See current year finding 05-19.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**

**June 30, 2005**

**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.

**Current Status:** Implemented.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
June 30, 2005**

**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.

**Current Status:** Improvement noted. See current year finding 05-24.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
June 30, 2005**

**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.

**Current Status:** Implemented.

**STATISTICAL SECTION**

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SELECTED STATISTICAL INFORMATION (UNAUDITED)**  
**June 30, 2005**

Assessed valuation for fiscal year 2004-05	\$89,830,457,942	(1)
Secured tax levies for fiscal year 2004-05	\$ 380,945,711	(1)
Secured tax delinquencies for fiscal year 2004-05	\$ 0	(1)
Secured tax collections for fiscal year 2004-05	\$ 379,712,239	(1)

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

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SELECTED STATISTICAL INFORMATION (UNAUDITED)**  
**June 30, 2005**

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	65
2. Assessed valuations	134
3. Outstanding indebtedness	33-44
4. Balance in the Debt Service Funds	3, 57
5. Balance in the Improvement Fund (Building Fund)	3
6. Tax Levy Under Teeter Plan	134
7. Largest local secured taxpayers	137

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SELECTED STATISTICAL INFORMATION (UNAUDITED)**  
**June 30, 2005**

**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>
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
2004-05	95,685,708,742

**Tax Levy Under Teeter Plan**

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

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SELECTED STATISTICAL INFORMATION (UNAUDITED)**  
**June 30, 2005**

The largest non-utility taxpayers in the District and their assessed valuations for 2004-05 are listed below.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Largest Non-Utility Taxpayers**  
**2004-05**

	<u>Property Owner</u>	<u>Primary Use</u>	<u>2004-05 Assessed Valuation</u>	<u>% of Total <sup>(1)</sup></u>
1.	Qualcomm Inc.	Industrial	\$ 511,979,321	0.57%
2.	Fashion Valley Mall LLC	Shopping Center/ Mall	419,066,802	0.47
3.	Kilroy Realty LP	Industrial	359,169,543	0.40
4.	Manchester Resorts LP	Hotel	356,214,061	0.40
5.	Sea World Inc.	Theme Park	349,403,984	0.39
6.	Arden Realty LP	Office Building	265,114,821	0.30
7.	H.G. Fenton Co.	Industrial/Apartments	264,534,933	0.29
8.	Pacific Gateway Ltd.	Hotel	255,188,432	0.28
9.	Costa Verde Developers LLC	Apartments	252,925,643	0.28
10.	Solar Turbines Inc.	Industrial	246,865,759	0.27
11.	Irvine Apartment Communities LP	Apartments	236,257,165	0.26
12.	University Towne Centre LLC	Shopping Center/ Mall	201,132,887	0.22
13.	ERP Operating LP	Apartments	192,863,533	0.21
14.	Horton Plaza LP	Shopping Center/ Mall	191,585,050	0.21
15.	National Steel & Shipbuilding	Industrial	184,058,762	0.20
16.	Calwest Industrial Holdings LLC	Industrial	181,633,313	0.20
17.	Irvine Co.	Industrial	171,826,760	0.19
18.	One America Plaza LLC	Office Building	169,388,521	0.19
19.	Mission Valley Partnership	Shopping Center/ Mall	165,467,425	0.18
20.	Starwood Sheraton San Diego/ Starwood Hotels	Hotel	<u>160,848,917</u>	<u>0.18</u>
			<u>\$5,135,525,632</u>	<u>5.72%</u>

Source: California Municipal Statistics, Inc.

<sup>(1)</sup>2004-05 Local Secured Assessed Valuation: \$ 7,372,840,982.