

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**SAN DIEGO COUNTY**

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

**June 30, 2006**



**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**AUDIT REPORT  
June 30, 2006**

**CONTENTS**

	<u>Page</u>
<b>Chief Financial Officer's Letter</b>	
<b>Independent Auditors' Report</b>	
<b>Management's Discussion and Analysis .....</b>	i-xii
<b>FINANCIAL SECTION</b>	
Basic Financial Statements:	
Government-wide Financial Statements:	
Statement of Net Assets.....	1
Statement of Activities .....	2
Fund Financial Statements:	
Balance Sheet – Governmental Funds.....	3
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets.....	4
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds.....	5
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance of Governmental Funds to the Statement of Activities .....	6
Statement of Fund Net Assets – Proprietary Funds.....	7
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds.....	8
Statement of Cash Flows – Proprietary Funds .....	9
Statement of Fund Net Assets – Fiduciary Funds .....	10
Notes to Financial Statements.....	11-54
<b>SUPPLEMENTARY INFORMATION SECTION</b>	
History and Organization .....	55
Combining Statements and Individual Fund Schedules:	
Combining Statements – Non-Major Funds:	
Non-Major Debt Service Fund	
Balance Sheet.....	56
Statement of Revenues, Expenditures, and Changes in Fund Balances .....	57

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**AUDIT REPORT**

**June 30, 2006**

**CONTENTS**

	<u>Page</u>
<b>SUPPLEMENTARY INFORMATION SECTION (continued)</b>	
Non-Major Special Revenue Funds	
Combining Balance Sheet.....	58
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance.....	59
Non-Major Capital Projects Funds	
Combining Balance Sheet.....	60-61
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance.....	62-63
Schedule of Budgetary Comparison for the General Fund .....	64
Schedule of Average Daily Attendance (ADA).....	65
Schedule of Instructional Time .....	66
Schedule of Expenditures of Federal Awards.....	67-68
Schedule of Financial Trends and Analysis.....	69
Schedule of Charter Schools .....	70
Reconciliation Between District's Annual Financial Report and Audited Financial Statements .....	71
Notes to Supplementary Information.....	72-74
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.....	75-76
Report on Compliance with Requirements Applicable to Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133 .....	77-78
Report on State Compliance .....	79-81
Schedule of Findings and Questioned Costs - Summary of Auditor Results .....	82
Schedule of Findings and Questioned Costs - Related to Financial Statements.....	83-104
Schedule of Findings and Questioned Costs - Related to Federal Awards.....	105
Status of Prior Year Findings and Questioned Costs.....	106-129
<b>CONTINUING DISCLOSURE INFORMATION .....</b>	<b>130-133</b>



# San Diego Unified School District

EUGENE BRUCKER EDUCATION CENTER  
4100 Normal Street, Room 3209 San Diego, CA 92103-2682

(619) 725-7562  
Fax: (619) 724-7564

**FINANCIAL OPERATIONS DIVISION**  
**William A. Kowba**  
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, 2006, 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 fiscally sound, as defined by the State Controller's Office, with a general fund balance of \$107,478,618.

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 annual financial statements for the fiscal year 2005-06, 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' report cites no material instances of non-compliance with the requirements of federal and state programs. It does identify two material internal control weaknesses. The first weakness relates to the District's inability to adequately track capital assets. The District concurs with the auditors' recommended solution to continue ongoing training of central office and school site staff in proper function/account citations backed by in-depth expenditure reviews. Further, the Financial Operations Division is pursuing the implementation of an automated asset tracking system.

The second weakness relates to a recurring concern for 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 (COE) and the California Department of Education (CDE). The District recently contacted the COE and CDE to revalidate our approach and identify alternatives. Both the COE and CDE have deemed the District's current process to be appropriate. The District will examine the feasibility within its job-cost process to directly charge contracted services expenditures to the appropriate funding resources.

November 30, 2006



**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

TIMOTHY D. EVANS

PRISCILLA OSBORNE FLORES

TINA HENTON

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, 2006, 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, 2006, 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 October 20, 2006 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 and budgetary comparison information, 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 the continuing disclosure information 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, are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole. The management's discussion and analysis, budgetary comparison information and the continuing disclosure information have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

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

October 20, 2006

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Year ended June 30, 2006**

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, 2006. 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 \$659.8 million at June 30, 2006.
- During the year, the District's expenses were \$82.9 million less than the \$1,398.5 million generated in taxes and other revenues for governmental activities.
- The General Fund reported a fund balance this year of \$107.5 million.
- The District issued approximately \$195.0 million in bonds during fiscal year 2006.

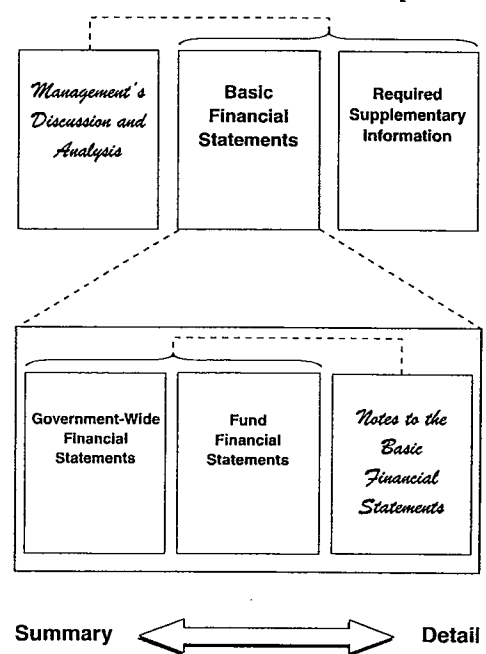
**Overview of the Basic Financial Statements**

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, 2006**

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.

**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

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.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Year ended June 30, 2006**

***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, 2006**

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

**Net Assets.** The District's net assets were approximately \$659.8 million at June 30, 2006 (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>2006</b>	<b>2005</b>	
Current and other assets	\$ 872.4	\$ 836.7	4.3%
Capital and noncurrent assets	1,629.5	1,432.4	13.8%
Total assets	2,501.9	2,269.1	10.3%
Current liabilities	235.0	248.0	(5.2)%
Long-term liabilities	1,607.1	1,444.2	11.3%
Total liabilities	1,842.1	1,692.2	8.9%
Net assets:			
Invested in capital assets net of related debt	565.0	514.7	9.8%
Restricted	97.8	95.0	2.9%
Unrestricted	(3.0)	(32.8)	(90.9)%
Total net assets	\$ 659.8	\$ 576.9	14.4%

Capital and noncurrent assets increased by \$197.1 million due to continuing modernization projects and new schools being built under Proposition MM as detailed in Table A-4. The main factors contributing to the \$162.9 million increase in long-term liabilities were the combination of a \$169.7 million increase in general obligation bonds payable that was offset by a \$1.2 million decrease in claims and judgements payable, a \$5.4 million decrease in compensated absences and a \$14.7 million decrease in the Supplemental Early Retirement Plan (SERP). The increase in unrestricted net assets was the net result of amounts capitalized as part of the District's ongoing modernization projects and the additional long-term debt incurred.

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 \$3.0 million deficit at the end of 2006. This deficit does not mean that the District does not have resources available to pay its bills next year. Rather, it is the result of having long-term commitments that are greater than currently available resources. Specifically, the District did not include in past annual budgets the full amounts needed to finance the future liabilities of the actuarially determined workers' compensation liability. Likewise, current resources do not include the full amounts needed to finance the future liabilities of the SERP. The District will include these amounts in future years' budgets as they come due.

# SAN DIEGO UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)

Year ended June 30, 2006

**Changes in Net Assets.** The District's total revenues were \$1,398.5 million. The largest portion, 40%, of the District's revenue comes from property taxes (See Figure A-3). A significant portion, 36%, comes from operating grants and contributions. 13% comes from state apportionment, 4% from capital grants and contributions, 1% from nonrestricted lottery apportionment, 5% from other revenues, while only 1% relates to charges for services.

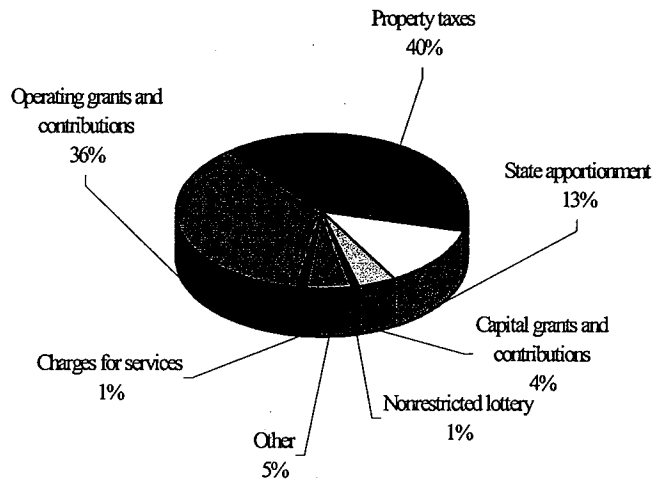
The total cost of all programs and services was \$1,315.6 million; 76% of these costs are for instructional and student services.

### **Governmental Activities**

- The District sold capital bonds of \$195.0 million. These bonds were authorized under Proposition MM for school construction and capital improvements.
- The District has obtained principal sign-off for completion of promised work at 57 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
  - Interior and exterior painting
  - New/upgraded science classrooms
  - New/expanded libraries

In addition, two new elementary schools were opened in January 2006: Golden Hill and Walter Porter South. Work was nearing completion for Francis Mead Elementary and Normal Heights Elementary, both scheduled to open by September 2006. Construction was continuing on the following new schools: future Thurgood Marshall Middle School, Lincoln High School, Luther Burbank Elementary, Mary Lanyon Fay Elementary, Walter Porter North Elementary, Florence Griffith-Joyner Elementary, and Laura Rodriguez Elementary, all scheduled to be open by September 2007.

Figure A-3. District  
Sources of Revenue for Fiscal Year 2006



**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Year ended June 30, 2006**

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

	<u>Governmental activities</u>		<u>Percentage change</u>
	<u>2006</u>	<u>2005</u>	
<b>Revenues:</b>			
Program revenues:			
Charges for services	\$ 13.0	\$ 12.0	8.3%
Operating grants and contributions	498.6	435.2	14.6%
Capital grants and contributions	59.4	44.7	32.9%
General revenues:			
Property taxes	554.5	519.7	6.7%
State apportionment	187.3	217.0	(13.6)%
Lottery apportionment – nonrestricted	15.1	14.8	2.0%
Mandated cost reimbursement	1.2	0.7	71.4%
Other	69.4	56.3	23.2%
Total revenues	<u>1,398.5</u>	<u>1,300.4</u>	7.5%
<b>Expenses:</b>			
Instruction	671.2	649.7	3.3%
Instruction related services	170.2	181.6	(6.3)%
Pupil services	155.1	153.8	0.8%
Ancillary services	2.7	1.3	107.7%
Community services	0.3	0.3	0.0%
Enterprise	1.5	3.2	(53.1)%
General administration	42.5	32.3	31.6%
Plant services	150.3	146.3	2.7%
Other outgo	51.8	28.1	84.3%
Interest expense	70.0	70.9	(1.3)%
Total expenses	<u>1,315.6</u>	<u>1,267.5</u>	3.8%
Increase in net assets	82.9	32.9	152.0%
Beginning net assets	<u>576.9</u>	<u>544.0</u>	6.0%
Ending net assets	<u>\$ 659.8</u>	<u>\$ 576.9</u>	14.4%

District revenues saw the following material changes in 2005-06. The increase in operating grants and contributions resulted from a \$16.2 million increase in the No Child Left Behind (NCLB) program, an \$11.5 million increase in the Targeted Instructional Improvement Block Grant (TIIBG). The remainder of the increase was from various other local income sources. Property tax revenues were up \$34.8 million. This increase in property tax revenues had an inverse effect on State apportionment revenues, resulting in a decrease in the State aid portion of revenue limit income.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Year ended June 30, 2006**

District expenses saw the following material changes in 2005-06. General administration expenses increased mainly due to \$13.5 million of cost increases for the General Fund. Other outgo was higher because of increased interest expense in the Bond Interest and Redemption Fund (\$10.0 million) and transfers to Charter Schools in lieu of property taxes in the General Fund (\$12.5 million).

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 \$1,315.6 million.
- However, the amount that our taxpayers paid for these activities through property taxes was \$554.5 million.
- Some of the cost was paid by those who directly benefited from the programs (\$13.0 million), or by operating or capital grants and contributions (\$558.0 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
	2006	2005		2006	2005	
Instruction	\$ 671.2	\$ 649.7	3.3%	\$ 401.3	\$ 411.9	(2.6)%
Instruction related services	170.2	181.6	(6.3)%	102.1	115.4	(11.5)%
Pupil services	155.1	153.8	0.8%	81.2	86.5	(6.1)%
Plant services	150.3	146.3	2.7%	30.7	49.5	(38.0)%
Other	168.8	136.1	24.0%	129.3	112.2	15.2%
Total	<u>\$ 1,315.6</u>	<u>\$ 1,267.5</u>	3.8%	<u>\$ 744.6</u>	<u>\$ 775.5</u>	(4.0)%

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Year ended June 30, 2006**

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

Revenues from governmental fund types totaled \$1,386.1 million, while expenditures were \$1,555.7 million. When combined with the \$200.4 million in net other financing sources, the governmental funds experienced a \$30.9 million increase in fund balance during the year. This increase was primarily attributed to the following:

- The fund balance of the County School Facilities Fund increased by \$26.1 million mostly due to the combination of an increase in revenues of 36.1% and a decrease in expenditures of 2.5%.
- The fund balance of the Capital Projects – Building Fund (Proposition MM) decreased by \$10.1 million primarily due to a year-end audit accrual for 2005-06 accounts payable, which was greater than the 2004-05 accrual, by \$7.5 million.
- The fund balance of the Other Governmental Funds increased by \$12.8 million mainly from the combination of an increase in Capital Outlay Funds of \$15.3 million and a decrease in Child Development and Cafeteria Funds totaling \$3.0 million.

**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 \$42.3 million, State grants and special projects of \$78.6 million, and Local grants and special projects of \$13.1 million.
- Expenditures that were appropriated during the year that were not included in the originally adopted budget – salaries and benefits of \$49.4 million, books and supplies of \$65.5 million, services and other operating expenses of \$31.0 million, capital outlay of \$1.2 million, and other outgo of \$4.1 million.

Even with these adjustments, actual expenditures and other financing uses were \$101.0 million below final budget amounts. The most significant positive variances resulted from:

- Salaries and benefits were \$26.8 million below final budget amounts. The District budgets for all positions as though they will be filled for the entire year. This balance represents vacancy savings during the year in positions funded with unrestricted and restricted resources.
- Books and supplies were \$51.2 million below final budget amounts. This variance can be attributed to the following: \$27.4 million of unspent budgets in Instructional Material resources that were reserved for future textbook adoptions; \$8.6 million of balances in school sites' discretionary budgets that were carried over for encumbrances and the following school year's operations; and \$15.0 million of school sites' balances in restricted resources (i.e. Title I, TIIG, EIA) that were set aside for encumbrances and for the following school year's operations.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**Year ended June 30, 2006**

- Services and other operating expenses were \$17.6 million below final budget amounts. This variance can be attributed to the following: \$6.2 million in Special Education contracted services which were underutilized because positions were filled during the year; \$2.6 million of Title I budgets for contract services that were unspent; and \$4.2 million of unspent appropriations in several unrestricted resources, including unspent site budgets for field trips, professional developments, printing and utilities savings achieved by the school sites.

Actual resources available were \$61.3 million below the final budgeted amount. The most significant negative variances resulted from:

- Other state and local revenues were \$37.9 million below final budget amounts. The Targeted Instructional Improvement Block Grant (TIIBG) was \$16.6 million below appropriations, Instructional Materials was \$16.9 million below and various other State grants were \$13.9 million below. This largely represents grant money that has been received but not spent by June 30, 2006. Interest income was \$4.4 million above appropriations and various other local grants were \$5.2 million above appropriations.
- Federal revenues were \$24.0 million below final budget amounts. NCLB/IASA grants were \$14.4 million below appropriations and various other Federal grants were \$9.8 million below. This largely represents grant money that has been received but not spent by June 30, 2006.

**Capital Assets and Debt Administration**

*Capital Assets*

At the end of 2006, the District had invested \$1,629.5 million in a broad range of capital assets, including land, equipment, buildings, and vehicles (See Table A-4).

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

	<b>Governmental activities</b>		<b>Percentage change</b>
	<b>2006</b>	<b>2005</b>	
Land	\$ 259.6	\$ 238.1	9.0%
Land improvements	134.4	130.0	3.4%
Buildings	427.7	376.4	13.6%
Building improvements	534.6	479.3	11.5%
Personal property and equipment	182.4	174.1	4.8%
Work in progress	530.9	436.9	21.5%
Totals at historical cost	2,069.6	1,834.8	12.8%
Total accumulated depreciation	(440.1)	(402.4)	9.4%
Net capital assets	\$ 1,629.5	\$ 1,432.4	13.8%

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Year ended June 30, 2006**

Net capital assets increased by \$197.1 million in 2005-06 because of additional work on modernization projects and new schools. The increase in land resulted from the completion of three newly built schools and the purchase of three parcels of land for new sites. The increases in land improvements, buildings, building improvements, and personal property and equipment resulted from the completion of the three new schools and seventeen modernized schools with costs exceeding \$1.0 million. Increased work in progress is comprised of job orders with estimated costs to exceed \$100,000 upon completion; current year and prior year costs related to modernization of technology were capitalized.

The District's fiscal year 2007 capital budget projects spending another \$231.5 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 \$1,526.0 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 underlying ratings as follows: Moody's Investor Services "Aa2" and Standard & Poors "AA."

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

	<b>Governmental activities</b>	<b>2005</b>	<b>Percentage change</b>
	<b>2006</b>		
Bonds payable	\$ 1,526.0	\$ 1,356.2	12.5%

The increase in bonds payable is primarily due to the issuance of \$195.0 million of Series G bonds under Proposition MM.

***Short-Term Debt***

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 2005-06). The notes matured on July 24, 2006 and yielded 2.64% 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 \$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, 2007.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Year ended June 30, 2006**

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.

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

- The Governor signed the 2006-07 State Budget on June 30, 2006. The 2006-07 State Budget reflects a sharply improving fiscal picture, brought about by continued stronger-than-expected growth in California General Fund revenues. While the projected 2006-07 revenues increased 1.7 percent to \$94.4 billion the total General Fund spending increased 9.2 percent to \$101.3 billion. This resulted in an estimated \$6.9 billion operating shortfall between revenues and expenditures and leaves the General Fund with a reserve of \$2.1 billion. The Legislative Analyst's Office is projecting operating shortfalls in the range of \$4.5 billion to \$5.0 billion in 2007-08 and 2008-09, respectively.

The State Budget includes an increase of \$4.5 billion in K-12 education spending to bring the total K-12 Proposition 98 spending to \$49.1 billion. This provides a 10 percent increase in K-12 education funding.

The items in the State Budget that had a major impact on the District's 2006-07 budget are the following:

- **Revenue Limit Growth:** The State saved \$220.0 million as a result of a statewide attendance decline of 0.26 percent. The District's budget reflects an enrollment decline of 2,782 students which results in a revenue decline of \$15.7 million or 2.59 percent.
- **COLA:** The 2006-07 State Budget includes \$2.6 billion to fund a 5.92 percent COLA. The District's 2006-07 budget includes \$32.2 million for revenue limit COLA.
- **Deficit Reduction:** The State Budget includes a \$309.0 million funding in general purpose funds to eliminate the revenue limit deficit factor. The District budget included \$6.6 million for the revenue limit deficit reduction.
- **Revenue Limit Equalization:** The State Budget provides \$350.0 million to reduce historical inequities in general purpose spending. The District included \$6.6 million in the Original Adopted Budget based on initial estimates that the State was to provide \$300.0 million for Equalization Aid. The District was able to add an additional \$1.1 million to its revenue once the final State allocation of \$350.0 million was determined.

The State Budget has provided for the following **on-going** funding in the 2006-07 budget. At the time of the District's adopted budget, these amounts were not known and as a result have not as yet been incorporated into the District's budget. The following are some of the major items included in the State Budget:

- Economic Impact Aid: (\$350.0 million)
- Counselors: (\$200.0 million)
- Arts and Music Block Grant: (\$105.0 million)
- Expansion of Child Care Eligibility: (\$67.0 million)
- Preschool Expansion: (\$50.0 million)
- Additional Support for High School Exit Exam: (\$50.0 million)

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**  
**Year ended June 30, 2006**

The State Budget has provided for \$2.5 billion in one-time K-12 education funds. At the time of the District's adopted budget, these amounts were not known and as a result have not as yet been incorporated into the District's budget. The following are some of the major items included in the State Budget:

- K-12 Education Mandates: (\$927.0 million)
  - Discretionary Block Grant: (\$584.0 million)
  - Equipment Block Grant: (\$500.0 million)
  - School Facilities Emergency Repairs: (\$137.0 million)
- Assessed valuation used for the 2007 budget preparation was up \$9.1 billion, or 9.4% from 2006.
  - The District's 2007 second period average daily attendance (excluding charter schools and adult education) is budgeted as 110,581, down 1.9%.

These indicators were taken into account when adopting the General Fund budget for 2007. Amounts available for appropriation in the General Fund budget are \$1,193.5 million, a decrease of 7.1% over the final 2006 budget of \$1,284.8 million. The decrease in the District's revenue is primarily due to the decline in enrollment. For the 2006-07 budget year, the District projected a decline of 2,782 students. While 2006-07 assessed valuations have increased over 2005-06, property tax revenues included in the General Fund budget have decreased. This is primarily due to the continuing effect of legislation passed by the State which shifts Education Revenue Augmentation Fund (ERAF) taxes from school agencies back to local governments, as well as to an estimated decrease in supplemental property tax collections as projected by San Diego County at the time of budget adoption.

Expenditures and other financing uses are budgeted to fall 10.3%, from \$1,216.9 million to \$1,091.6 million in 2007. During the year the district will adopt and appropriate additional revenues as they become known. Unspent balances in restricted resources will be carried over, adopted and appropriated after the close of the year to cover encumbrances rolled into the following fiscal year and for expenditures to support the current year's programs. As of the end of November 2006, the District has adopted \$90.2 million in restricted and unrestricted resources which were appropriated to salaries and benefits \$9.9 million; books and supplies \$63.6 million; services and other operating expenditures \$14.4 million; capital outlay \$0.8 million and other outgo \$1.5 million.

The District added two major new programs to the 2007 budget. One is a \$2.9 million, five-year grant from the United States Department of Education for a Striving Readers Program to identify, intervene and assess struggling readers at the middle and high school levels. Instructional Materials Program funding of \$5.2 million was added for the acquisition of instructional, library, and technical materials.

If these estimates are realized, the District's budgetary General Fund balance is expected to increase by the close of 2007.

**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, 2006**

	<b>Governmental Activities</b>
<b><u>Assets</u></b>	
Cash	\$ 537,854,470
Investments	220,404,428
Accounts receivable:	
Federal and state governments	78,496,633
Miscellaneous	31,639,876
Inventories	2,125,127
Prepaid expenditures	1,899,567
Land	259,604,365
Work in progress	530,914,589
Depreciable assets, net	838,948,854
<b>Total Assets</b>	<b>2,501,887,909</b>
<b><u>Liabilities</u></b>	
Accounts payable and other current liabilities	138,695,408
Deferred revenue	19,937,659
Current portion of long-term liabilities:	
Claims and judgments payable	14,298,750
Compensated absences	15,814,396
General obligation bonds	31,619,802
Loan payable	2,809
Supplemental Early Retirement Plan	14,685,783
Non-current portion of long-term liabilities:	
Claims and judgments payable	42,896,250
Compensated absences	3,012,266
General obligation bonds	1,494,411,477
Deferred bond premium and issue costs	44,479,166
Arbitrage liability payable	220,363
Loan payable	6,016
Supplemental Early Retirement Plan	21,975,388
<b>Total Liabilities</b>	<b>1,842,055,533</b>
<b><u>Net Assets</u></b>	
Invested in capital assets, net of related debt	564,971,584
Restricted for:	
Categorical Programs	55,407,518
Debt service	42,488,939
Unrestricted	(3,035,665)
<b>Total Net Assets</b>	<b>\$ 659,832,376</b>

See the accompanying notes to the financial statements.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
For the Fiscal Year Ended June 30, 2006**

<b>Functions</b>	<b>Expenses</b>	<b>Program Revenues</b>			<b>Net (Expense) Revenue and Changes in Net Assets</b>
		<b>Charges for Services</b>	<b>Operating Grants and Contributions</b>	<b>Capital Grants and Contributions</b>	<b>Governmental Activities</b>
<b>Governmental Activities</b>					
Instruction	\$ 671,242,890	\$ 1,223,552	\$ 268,677,579	\$	\$ (401,341,759)
Instruction - related services	170,221,359		68,134,297		(102,087,062)
Pupil services	155,057,679	11,820,682	62,064,749		(81,172,248)
Ancillary services	2,730,752		1,093,035		(1,637,717)
Community services	295,555		118,301		(177,254)
Enterprise activities	1,480,251		592,498		(887,753)
General administration	42,459,935		16,995,387		(25,464,548)
Plant services	150,295,943		60,158,775	59,387,386	(30,749,782)
Other outgoing	51,780,132		20,725,971		(31,054,161)
Debt service - interest	70,011,367				(70,011,367)
<b>Total School District</b>	<b>\$ 1,315,575,863</b>	<b>\$ 13,044,234</b>	<b>\$ 498,560,592</b>	<b>\$ 59,387,386</b>	<b>(744,583,651)</b>
<b>General Revenues</b>					
Property taxes levied for					
General purposes					457,540,536
Debt service					92,714,579
Other specific purposes					4,296,332
Revenue Limit - State Aid					150,738,973
Federal aid not restricted to specific purposes					16,894,867
Class size reduction					36,647,041
State Lottery - non-restricted					15,150,991
Mandated costs					1,180,487
Other state					867,627
Other local					37,882,581
Interest and investment earnings - realized and unrealized					13,584,291
<b>Total General Revenues</b>					<b>827,498,305</b>
					Change in net assets 82,914,654
					<b>Net Assets - Beginning of Year 576,917,722</b>
					<b>Net Assets - End of Year \$ 659,832,376</b>

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2006

	General Fund	Building Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
<b>Assets</b>						
Cash in county treasury	\$ 46,139,315	\$ 16,666,379	\$ 242,974,458	\$ 103,429,597	\$ 86,084,443	\$ 495,294,192
Cash on hand and in banks	69,459				1,034,768	1,104,227
Cash in revolving fund	57,800				500	58,300
Investments		218,982,797		1,421,631		220,404,428
Accounts receivable:						
Federal and state governments	63,902,916				14,593,717	78,496,633
Miscellaneous	19,916,082	5,656,588	2,791,697	1,057,699	1,798,621	31,220,687
Due from other funds	38,152,233		11,936,333		893,893	50,982,459
Inventories	1,433,310				691,817	2,125,127
Prepaid expenditures	1,894,661	1,302			475	1,896,438
<b>Total Assets</b>	<b>\$ 171,565,776</b>	<b>\$ 241,307,066</b>	<b>\$ 257,702,488</b>	<b>\$ 105,908,927</b>	<b>\$ 105,098,234</b>	<b>\$ 881,582,491</b>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 46,415,545	\$ 19,222,294	\$ 264,626	\$ 69,974,872	\$ 2,213,787	\$ 138,091,124
Due to other funds		30,288,804			32,834,002	63,122,806
Deferred revenue	17,671,613				2,266,046	19,937,659
<b>Total Liabilities</b>	<b>64,087,158</b>	<b>49,511,098</b>	<b>264,626</b>	<b>69,974,872</b>	<b>37,313,835</b>	<b>221,151,589</b>
<b>Fund Balances</b>						
Reserved for special purposes	3,385,771	1,302			692,792	4,079,865
Restricted for special purposes	55,407,518					55,407,518
Restricted for debt service				35,934,055	6,554,884	42,488,939
Designated	48,685,329	191,794,666	257,437,862		60,536,723	558,454,580
<b>Total Fund Balances</b>	<b>107,478,618</b>	<b>191,795,968</b>	<b>257,437,862</b>	<b>35,934,055</b>	<b>67,784,399</b>	<b>660,430,902</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 171,565,776</b>	<b>\$ 241,307,066</b>	<b>\$ 257,702,488</b>	<b>\$ 105,908,927</b>	<b>\$ 105,098,234</b>	<b>\$ 881,582,491</b>

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, 2006**

<b>Total fund balances – governmental funds</b>	<b>\$ 660,430,902</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.	1,629,467,808
Certain bond issue costs are not recorded at fund level.	(44,479,166)
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.	(3,838,868)
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	(1,526,040,104)
Supplemental Early Retirement Plan	(36,661,171)
Arbitrage Liability	(220,363)
Accrued compensated absences	<u>(18,826,662)</u>
<b>Total net assets – governmental activities</b>	<b>\$ <u>659,832,376</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, 2006

	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	\$ 179,957,625	\$	\$ 50,539,353	\$	\$ 1,280,698	\$ 231,777,676
Local sources	457,540,537					457,540,537
Total revenue limit sources	637,498,162		50,539,353		1,280,698	689,318,213
Federal sources	130,160,732				29,414,783	159,575,515
Other state sources	285,914,932			872,233	25,079,728	311,866,893
Other local sources	58,540,829	13,505,520	9,861,932	94,117,800	49,307,622	225,333,703
<b>Total Revenues</b>	<u>1,112,114,655</u>	<u>13,505,520</u>	<u>60,401,285</u>	<u>94,990,033</u>	<u>105,082,831</u>	<u>1,386,094,324</u>
<b>Expenditures</b>						
Instruction	648,687,433				16,079,152	664,766,585
Instruction - related services	164,361,361				3,630,516	167,991,877
Pupil services	110,439,230				42,693,540	153,132,770
Ancillary services	2,730,752					2,730,752
Community services	295,555					295,555
Enterprise					140,466	140,466
General administration	49,513,196				1,339,793	50,852,989
Plant services	81,524,325	218,639,276	34,281,747		28,384,586	362,829,934
Other outgo	51,768,067					51,768,067
Debt service				101,185,691		101,185,691
<b>Total Expenditures</b>	<u>1,109,219,919</u>	<u>218,639,276</u>	<u>34,281,747</u>	<u>101,185,691</u>	<u>92,268,053</u>	<u>1,555,694,686</u>
Excess (deficiency) of revenues over expenditures	2,794,736	(205,133,756)	26,119,538	(6,195,658)	12,814,778	(169,600,362)
<b>Other Financing Sources (Uses)</b>						
Interfund transfers in	1,322,387					1,322,387
Proceeds from sale of land					13,555,764	14,878,151
Proceeds from sale of bonds		195,024,802		10,666,115	600,000	600,000
Interfund transfers out	(6,535,735)					(6,535,735)
<b>Total Other Financing Sources (Uses)</b>	<u>(5,213,348)</u>	<u>195,024,802</u>	<u>-</u>	<u>10,666,115</u>	<u>(14,138,947)</u>	<u>205,690,917</u>
Net changes in fund balances	(2,418,612)	(10,108,954)	26,119,538	4,470,457	12,831,595	30,894,024
<b>Fund Balances - Beginning 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>
<b>Fund Balances - End of Year</b>	<u>\$ 107,478,618</u>	<u>\$ 191,795,968</u>	<u>\$ 257,437,862</u>	<u>\$ 35,934,055</u>	<u>\$ 67,784,399</u>	<u>\$ 660,430,902</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, 2006**

Net change in fund balances – total governmental funds \$ 30,894,024

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	234,763,329
Depreciation Expense	<u>(37,723,170)</u>

Excess of capital outlay over depreciation expense 197,040,159

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 (174,521,412)

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 income of the internal service funds is reported with governmental activities. 16,238,186

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	15,817,189
Net increase in compensated absences	<u>(2,553,492)</u>

Change in net assets of governmental activities \$ 82,914,654

See the accompanying notes to the financial statements.



SAN DIEGO UNIFIED SCHOOL DISTRICT

STATEMENT OF FUND NET ASSETS  
 PROPRIETARY FUNDS

June 30, 2006

	Liability Fund	Property Fund	Workers' Compensation Fund	Dental Fund	Vision Fund	Total
<b>Assets</b>						
Cash in county treasury	\$ 4,250,685	\$ 1,072,204	\$ 33,482,341	\$ 1,997,965	\$ 229,556	\$ 41,032,751
Cash in revolving fund	200,000					200,000
Cash with fiscal agent			40,000	125,000		165,000
Accounts receivable:						
Miscellaneous	45,834	14,611	330,410	26,372	1,962	419,189
Due from other funds	383,589		10,914,394	1,675,657	153,708	13,127,348
Prepaid expenditures			3,129			3,129
<b>Total Assets</b>	<u>4,880,108</u>	<u>1,086,815</u>	<u>44,770,274</u>	<u>3,824,994</u>	<u>385,226</u>	<u>54,947,417</u>
<b>Liabilities</b>						
Accounts payable	211,750	1,756	389,764	1,014		604,284
Claims and judgments (see note 10)	2,331,000		54,864,000			57,195,000
Due to other funds		987,001				987,001
<b>Total Liabilities</b>	<u>2,542,750</u>	<u>988,757</u>	<u>55,253,764</u>	<u>1,014</u>	<u>-</u>	<u>58,786,285</u>
<b>Net Assets</b>						
Reserved for special purposes			43,129	125,000		168,129
Undesignated	2,337,358	98,058	(10,526,619)	3,698,980	385,226	(4,006,997)
<b>Total Net Assets</b>	<u>\$ 2,337,358</u>	<u>\$ 98,058</u>	<u>\$ (10,483,490)</u>	<u>\$ 3,823,980</u>	<u>\$ 385,226</u>	<u>\$ (3,838,868)</u>

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

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

For the Fiscal Year Ended June 30, 2006

	Liability Fund	Property Fund	Workers' Compensation Fund	Dental Fund	Vision Fund	Total
<b>Operating Revenues</b>						
Self-insurance premiums			\$ 30,020,145	\$ 9,657,099	\$ 929,801	\$ 40,607,045
<b>Total Operating Revenues</b>			<u>30,020,145</u>	<u>9,657,099</u>	<u>929,801</u>	<u>40,607,045</u>
<b>Operating Expenditures</b>						
Salaries	198,136	126,893	153,413			478,442
Benefits	79,919	50,269	63,060			193,248
Other supplies	5,404	1,317	9,977	783		17,481
Payments for claims	2,797,146	2,564,812	14,965,652	9,795,696	546,826	30,670,132
<b>Total Operating Expenditures</b>	<u>3,080,605</u>	<u>2,743,291</u>	<u>15,192,102</u>	<u>9,796,479</u>	<u>546,826</u>	<u>31,359,303</u>
Operating income (loss)	(3,080,605)	(2,743,291)	14,828,043	(139,380)	382,975	9,247,742
<b>Non-Operating Revenues</b>						
Interest income	136,670	58,184	932,540	64,268	2,251	1,193,913
Net income (loss) before operating transfers	<u>(2,943,935)</u>	<u>(2,685,107)</u>	<u>15,760,583</u>	<u>(75,112)</u>	<u>385,226</u>	<u>10,441,655</u>
<b>OPERATING TRANSFERS FROM OTHER FUNDS</b>						
Operating transfers in	4,431,879	1,364,652				5,796,531
<b>TOTAL OPERATING TRANSFERS FROM OTHER FUNDS</b>	<u>4,431,879</u>	<u>1,364,652</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,796,531</u>
Change in net assets	1,487,944	(1,320,455)	15,760,583	(75,112)	385,226	16,238,186
Net Assets at Beginning of Year	849,414	1,418,513	(26,244,073)	3,899,092	-	(20,077,054)
<b>Net Assets at End of Year</b>	<u>\$ 2,337,358</u>	<u>\$ 98,058</u>	<u>\$ (10,483,490)</u>	<u>\$ 3,823,980</u>	<u>\$ 385,226</u>	<u>\$ (3,838,868)</u>

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATEMENT OF CASH FLOWS  
 PROPRIETARY FUNDS  
 INCREASE IN CASH

For the Fiscal Year Ended June 30, 2006

	Governmental Activities
	Self Insurance Funds
<b>Cash Flows from Operating Activities</b>	
Cash received from premiums and other revenues	\$ 38,114,818
Cash paid for claims and operating expenses	<u>(33,331,195)</u>
Net cash provided by operating activities	4,783,623
 <b>Cash Flows from Investing Activities</b>	
Interest income	<u>941,883</u>
 <b>Cash Flows from Financing Activities</b>	
Cash received for operating transfer in	<u>5,750,754</u>
Net increase in cash and cash equivalents	11,476,260
Cash and cash equivalents - July 1, 2005	<u>29,921,491</u>
<b>Cash and cash equivalents - June 30, 2006</b>	<u><u>\$ 41,397,751</u></u>
 <b>Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities</b>	
<b>Operating Income</b>	<b>\$ 9,247,742</b>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in due from other funds	(2,492,227)
Increase in prepaid expense	(1,858)
Increase in accounts payable	40,337
Decrease in claims and judgments	(1,893,000)
Decrease in due to other funds	<u>(117,371)</u>
Total adjustments	<u>(4,464,119)</u>
<b>Net Cash Provided by Operating Activities</b>	<b>\$ <u>4,783,623</u></b>
Cash balances at June 30, 2006 consisted of the following:	
Cash in county treasury	\$ 41,032,751
Cash in revolving fund and with fiscal agent	200,000
Cash with fiscal agent	<u>165,000</u>
Total cash balances at June 30, 2006	<u><u>\$ 41,397,751</u></u>

See the accompanying notes to the financial statements.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATEMENT OF FUND NET ASSETS - FIDUCIARY FUNDS**

**June 30, 2006**

	<u>Associated Student Body Funds</u>
<b><u>Assets</u></b>	
Cash on hand and in banks:	
Checking	\$ 5,072,518
Savings	2,378,195
Accounts receivable:	
Miscellaneous	109,614
Prepaid expense	14,457
Stores inventory	341,393
<b>Total Assets</b>	<b><u>\$ 7,916,177</u></b>
<b><u>Liabilities</u></b>	
Accounts payable	\$ 28,684
Funds held in trust	7,887,493
<b>Total Liabilities</b>	<b><u>\$ 7,916,177</u></b>

See the accompanying notes to the financial statements.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**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 (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) 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 GAAP as prescribed by the 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 and are reported separately in the Fiduciary Fund Statements.

The 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 displays 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, 2006**

**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, 2006**

**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, 2006

**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, 2006**

**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.
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, 2006**

**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. Special Reserve Balboa Stadium Fund – used to account for monies received for the use and maintenance of Balboa Stadium.
4. Special Reserve Property Management Fund – used to account for revenues received from the rental and lease of facilities and land.
5. Special Reserve Prop O Preconstruction Fund – used to account for reimbursements and expenditures related to the Federal Renovation Program.
6. Special Reserve Energy Efficiency Fund – used to receive excess amounts sufficient to pay certain Public School Building Corporation unpaid bond obligations.
7. Special Reserve Mesa College Construction Fund – used to account for funds received from the property exchange with San Diego Community College District.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**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 five 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; Dental Fund - used to account for resources committed to the District's dental insurance program; Vision Care Fund - used to account for resources committed to the District's self-insurance program for vision care.

**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, 2006**

**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. Inventories

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, 2006, the inventory for supplies is \$1,433,310. The inventory for food is \$691,817.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**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, 2006, 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 Statement of Net Assets, but are not reported in the fund financial statements.

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000 for equipment purchased; \$100,000 for improvement of land and modernization of building; and all costs associated with the construction of new buildings, including but not limited to purchase of land, cost of improvement of land purchase and all start up cost for the operation of the new facility. 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, 2006

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 appropriate 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, 2006**

**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 \$(3,035,665) 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, 2006**

**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 \$10,164,000 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, 2006**

**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, 2006**

**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 33 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, 2006 is presented below.

	<u>Total Not for Profit</u>	<u>Total Governmental</u>	<u>Total Charter Schools</u>
Total assets	\$ 33,811,428	\$ 5,478,557	\$ 39,289,985
Total liabilities	<u>7,750,558</u>	<u>3,175,378</u>	<u>10,925,935</u>
Total net assets	<u>\$ 26,060,870</u>	<u>\$ 2,303,179</u>	<u>\$ 28,364,049</u>
Total revenue	\$ 75,910,626	\$ 17,680,139	\$ 93,590,765
Total expenses	<u>66,732,004</u>	<u>18,876,723</u>	<u>85,608,727</u>
Change in net assets	<u>\$ 9,178,622</u>	<u>\$ (1,196,584)</u>	<u>\$ 7,982,038</u>

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

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**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 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 AND INVESTMENTS:**

**A. Deposits**

**Custodial Credit Risk**

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, 2006, \$10,927,396 of the District's bank balance of \$11,818,289 was exposed to credit risk as follows:

Uninsured and uncollateralized	\$10,927,396
--------------------------------	--------------

**Cash in County Treasury**

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, 2006, as provided by the pool sponsor, was \$537,142,575, which is 99.67% of historical cost.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**NOTE 3 – DEPOSITS AND INVESTMENTS: (continued)**

**A. 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.

**B. Investments**

Government Code Section 16430 allows governmental entities to invest surplus monies in certain eligible securities. The District did not violate any provisions of the Government Code during the 2005-06 fiscal year, nor were they involved in any reverse repurchase agreements during 2005-06.

Investments totaling \$220,404,428 at June 30, 2006 consist of funds deposited in a Guaranteed Investment Contract (GIC) which are not required to be categorized.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**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, 2006 are as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General Fund	\$ 38,152,233	\$
Building Fund		30,288,804
County School Facilities Fund	11,936,333	
Non-Major Funds:		
Special Revenue Funds:		
Adult Education Fund	867,142	
Child Development Fund		8,246,346
Cafeteria Fund		14,477,963
Deferred Maintenance Fund		5,290,032
Post Employment Benefits Fund		36,434
Capital Projects Funds:		
Capital Facilities Fund		2,512,586
Redevelopment Agencies' Fund		817,275
Special Reserve Fund – Property Management		1,453,366
Special Reserve Fund – Prop O Preconstruction	26,751	
Internal Service Funds:		
Liability Fund	383,589	
Property Fund		987,001
Worker's Compensation Fund	10,914,394	
Dental Fund	1,675,657	
Vision Fund	<u>153,708</u>	
Totals	<u>\$ 64,109,807</u>	<u>\$ 64,109,807</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

**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 2005-06 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	\$ 917,509
Transfer from the General Fund to the Postemployment Benefits Fund for annual contribution for retirees' medical benefits per union contract	286,182
Transfer from the General Fund to the Child Development Fund to cover negative fund balance	200,000
Transfer from the Special Reserve Property Management Fund to the General Fund for the Council of Great City Schools Conference	50,000
Transfer from the Special Reserve Property Management Fund to the General Fund for School Transition budgets	28,000
Transfer from the Special Reserve Prop O Preconstruction Fund to the Mesa College Construction Fund for the establishment of a new fund	12,816,560
Transfer from the Special Reserve Energy Efficiency Program Fund to the General Fund for final interest earned and remaining fund balance	47,639
Transfer from the General Fund to the Postemployment Benefits Fund per Administrator's Association agreement	253,022

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

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

**B. Interfund Transfers (continued)**

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	279,239
Transfer from the General Fund to Liability and Property Funds for premiums and insurance costs	<u>5,796,531</u>
Total	<u>\$20,674,682</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>Building Fund</u>	<u>Other Governmental Funds</u>	<u>Total</u>
Revolving Cash	\$ 57,800	\$	\$ 500	\$ 58,300
Stores inventory	1,433,310		691,817	2,125,127
Prepaid Expenditures	<u>1,894,661</u>	<u>1,302</u>	<u>475</u>	<u>1,896,438</u>
Total	<u>\$3,385,771</u>	<u>\$ 1,302</u>	<u>\$ 692,792</u>	<u>\$4,079,865</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

The following ending balances were legally restricted as to use:

**Major Funds:**

General Fund:

Lottery	\$ 4,463,074
School Facilities Needs Assessment	7,636
Instructional Materials Fund K-8	15,312,314
School Safety & Violence Prevention	1,668,308
Instructional Materials-Supplementary	13,712
Instructional Materials-William's Case	9,878
Instructional Materials-Grades 9-12	1,234
Medi-Cal Billing Option	2,433,463
FEMA – Public Assistance	199,209
English Language Acquisition Program	2,278,187
Staff Development-Math & Science	1,241,718
Staff Development-Principal's Training	23,950
Special Education: Home to School	1,627
California Public School Library Act	263,230
Targeted Instructional Improvement Grant	4,000,641
Gifted and Talented Education (GATE)	70,621
Economic Impact Aid (EIA)	4,567,392
California High School Exit Exam Improvement (CAHSEE)	66,265
Education Technology: Staff Development	39,964
School Based Coordination Program	4,992,589
California Peer Assistance	1,281,419
Pupil Development Block Grant	287,345
Teacher Credential Block Grant	45,068
Professional Development Block Grant	670,059
Targeted Instructional Improvement Block Grant	11,038,799
School and Library Improvement Block Grant	397,167
10 <sup>th</sup> Grade Counseling	<u>32,649</u>

Restricted Resources \$55,407,518

Bond Interest and Redemption Fund:

Restricted for Debt Service \$35,934,055



SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

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

**Non-major Funds:**

Tax Override Fund:

Restricted for Debt Service \$ 6,554,884

Total Restricted for Debt Service \$ 42,488,939

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

**Major Funds:**

General Fund:

Economic Uncertainties \$ 22,261,794

Contingencies 26,423,535

Total General Fund 48,685,329

Building Fund:

Bond Projects 191,794,666

County School Facilities Fund:

Capital Facilities Projects 257,437,862

Total Designated Major Funds \$497,917,857

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**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	\$ 855,072
Child Development	(991,747)
Cafeteria	(512,521)
Deferred Maintenance	260,431
Pupil Transportation	2,656,484
Post Employment Benefits	1,259,620

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

Capital Facilities Funds	36,232,418
Special Reserve for Capital Outlay Projects Funds	<u>20,776,966</u>
Total Designated Non-Major Funds	<u>\$ 60,536,723</u>

**NOTE 6 - 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 2005-06). The notes matured on July 24, 2006 and yielded 2.64% 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 \$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, 2007.

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, 2006**

**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, 2006 is:

	<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2005</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2006</u>
Series A	5/27/1999	4.20 - 5.34	2023	\$ 139,995,085	\$ 127,018,756	\$	\$ 8,740,417	\$ 118,278,339
					44,133,981	8,590,563	3,079,583	49,644,961
Series B	12/14/2000	4.40 - 5.35	2025	149,999,084	140,755,762		2,310,355	138,445,407
					20,615,621	1,734,332	2,099,645	20,250,308
Series C	11/21/2001	2.95 - 5.00	2026	199,995,712	188,382,048		2,515,053	185,866,995
					10,273,736	818,673	1,569,947	9,522,462
Series D	9/12/2002	2.10 - 5.25	2027	274,995,346	261,338,455		3,496,604	257,841,851
					3,552,541	354,631	1,293,396	2,613,776
Series E	8/19/2003	1.90 - 5.25	2028	349,993,599	343,462,981		5,707,643	337,755,338
					16,182,420	1,618,789	2,042,358	15,758,851
Series F	9/2/2004	1.95 - 5.00	2029	199,996,373	199,996,373		5,224,467	194,771,906
					534,765	662,051	940,533	256,283
Series G	9/8/2005	3.00 - 5.00	2030	195,024,802		195,024,802		195,024,802
				<u>\$ 1,510,000,001</u>	<u>\$ 1,356,247,439</u>	<u>\$ 208,803,841</u>	<u>\$ 39,020,001</u>	<u>\$ 1,526,031,279</u>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

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

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

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2006, are as follows:

**Series A**

<b><u>Year Ended</u></b> <b><u>June 30</u></b>	<b><u>Principal</u></b>	<b><u>Accreted</u></b> <b><u>Interest</u></b> <b><u>Component</u></b>	<b><u>Total</u></b>
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	7,504,302	5,845,698	13,350,000
2012-2016	35,330,104	39,854,896	75,185,000
2017-2021	31,984,016	59,500,984	91,485,000
2022-2023	<u>12,087,269</u>	<u>29,832,731</u>	<u>41,920,000</u>
Totals	<u>\$118,278,339</u>	<u>\$152,111,661</u>	<u>\$270,390,000</u>

Capital appreciation bonds were issued as part of the Series A issuance with maturity dates from July 1, 2004 through 2023. Prior to their applicable maturity dates, each capital appreciation bond will accrete interest on the principal component, with all interest accreting through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$49,644,961 has been reflected in the long-term debt balance.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

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

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

**Series B**

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Accreted Interest Component</u>	<u>Current Interest Component</u>	<u>Total</u>
2007	\$ 1,799,764	\$ 2,060,236	\$ 6,549,296	\$ 10,409,296
2008	1,379,775	1,945,225	6,549,296	9,874,296
2009	1,373,870	2,346,130	6,549,296	10,269,296
2010	1,357,490	2,772,510	6,549,296	10,679,296
2011	1,332,520	3,222,480	6,549,296	11,104,296
2012-2016	11,941,988	17,878,012	32,746,483	62,566,483
2017-2021	50,035,000		26,075,968	76,110,968
2022-2025	69,225,000		9,349,525	78,574,525
	<u>\$ 138,445,407</u>	<u>\$ 30,224,593</u>	<u>\$ 100,918,456</u>	<u>\$ 269,588,456</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 \$20,250,308 has been reflected in the long-term debt balance.

During fiscal year 2004-05, the District issued its Series B-1 and B-2 General Obligation Refunding Bonds (the Series B Refunding Bonds), the proceeds of which are to be used to redeem certain maturities of the Series B General Obligation Bonds, on a crossover refunding basis. The Series B Bonds to be redeemed will remain outstanding until July 1, 2010 (the Series B Crossover Date), upon which time proceeds of the Series B Refunding Bonds will be 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 42-44.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

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

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

**Series C**

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Accreted Interest Component</u>	<u>Current Interest Component</u>	<u>Total</u>
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	1,480,951	2,589,049	8,681,763	12,751,763
2012-2016	26,175,307	3,059,693	42,065,302	71,300,302
2017-2021	52,335,000		33,351,250	85,686,250
2022-2026	99,755,000		16,634,250	116,389,250
	<u>\$ 185,866,996</u>	<u>\$ 12,423,004</u>	<u>\$ 135,459,614</u>	<u>\$ 333,749,614</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 2005-06 year.

In addition, associated issuance costs are netted against the premium on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$1,671,006 are amortized using the straight-line method. Amortization of \$67,927 was recognized during the 2005-06 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 accreting through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$9,522,462 has been reflected in the long-term debt balance.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

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

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

**Series C (continued)**

During fiscal year 2004-05, the District issued its Series C-1 and C-2 General Obligation Refunding Bonds (the Series C Refunding Bonds), the proceeds of which are to be used to redeem certain maturities of the Series C General Obligation Bonds, on a crossover refunding basis. The Series C Bonds to be redeemed will remain outstanding until July 1, 2011 (the Series C Crossover Date), upon which time proceeds of the Series C Refunding Bonds will be used to redeem the principal and premium, if any, of the specific maturities to be redeemed. Principal of \$176,775,000 of the Series C Bonds is expected to be redeemed on July 1, 2011. For additional details on the crossover refunding and the Series C Refunding Bonds, see pages 42-44.

**Series D**

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Accreted</u> <u>Interest</u> <u>Component</u>	<u>Current Interest</u> <u>Component</u>	<u>Total</u>
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	4,040,000		12,485,350	16,525,350
2012-2016	31,645,000		59,406,450	91,051,450
2017-2021	57,005,000		49,813,039	106,818,039
2022-2026	113,200,000		30,532,411	143,732,411
2027	43,500,000		2,175,000	45,675,000
	<u>\$ 257,841,851</u>	<u>\$ 3,123,149</u>	<u>\$ 204,895,250</u>	<u>\$ 465,860,250</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 2005-06 year.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

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

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

**Series D (continued)**

In addition, associated issuance costs are netted against the premium on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$2,073,510 are amortized using the straight-line method. Amortization of \$83,609 was recognized during the 2005-06 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 accreting through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$2,613,776 has been reflected in the long-term debt balance.

During fiscal year 2004-05, 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 42-44.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

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

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

**Series E**

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Accreted Interest Component</u>	<u>Current Interest Component</u>	<u>Total</u>
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	2,766,768	3,638,232	16,016,930	22,421,930
2012-2016	31,194,958	8,975,042	78,983,827	119,153,827
2017-2021	63,675,000		67,809,850	131,484,850
2022-2026	122,600,000		47,071,213	169,671,213
2027-2028	104,035,000		7,903,000	111,938,000
	<u>\$ 337,755,338</u>	<u>\$ 22,739,661</u>	<u>\$ 281,852,540</u>	<u>\$ 642,347,539</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 2005-06 year.

In addition, associated issuance costs are netted against the premium on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$2,909,922 are amortized using the straight-line method. Amortization of \$116,864 was recognized during the 2005-06 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 \$15,758,851 has been reflected in the long-term debt balance.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

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

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

**Series E (continued)**

During fiscal year 2004-05, the District issued its Series E-1 and E-2 General Obligation Refunding Bonds (the Series E Refunding Bonds), the proceeds of which are to be used to redeem certain maturities of the Series E General Obligation Bonds, on a crossover refunding basis. The Series E Bonds to be redeemed will remain outstanding until July 1, 2013 (the Series E Crossover Date), upon which time proceeds of the Series E Refunding Bonds will be used to redeem the principal and premium, if any, of the specific maturities to be redeemed. Principal of \$300,700,000 of the Series E Bonds is expected to be redeemed on July 1, 2013. For additional details on the crossover refunding and the Series E Refunding Bonds, see pages 42-44.

**Series F**

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Accreted Interest Component</u>	<u>Interest Component</u>	<u>Total</u>
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	1,943,816	1,661,184	8,934,773	12,539,773
2012-2016	15,671,306	1,793,694	43,900,187	61,365,187
2017-2021	17,455,000		40,249,793	57,704,793
2022-2026	28,320,000		35,772,480	64,092,480
2027-2029	123,260,000		14,987,025	138,247,025
	<u>\$ 194,771,906</u>	<u>\$ 7,613,094</u>	<u>\$ 179,583,347</u>	<u>\$ 381,968,347</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 2005 included a premium of \$9,289,530. This amount is amortized using the straight-line method. Amortization of \$374,578 was recognized during the 2005-06 year.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

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

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

**Series F (continued)**

In addition, associated discount and issuance costs are netted against the premium on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$1,906,646 are amortized using the straight-line method. Amortization of \$76,881 was recognized during the 2005-06 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 accreting through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$256,283 has been reflected in the long-term debt balance.

**Series G**

<u>Year Ended</u> <u>June 30</u>	<u>Principal</u>	<u>Current Interest</u>	<u>Total</u>
2007	\$ 1,984,802	\$ 9,106,231	\$ 11,091,033
2008	5,000,000	9,046,831	14,046,831
2009	5,170,000	8,896,831	14,066,831
2010	5,075,000	8,741,731	13,816,731
2011	5,120,000	8,487,981	13,607,981
2012-2016	24,405,000	39,433,975	63,838,975
2017-2021	20,130,000	34,692,775	54,822,775
2022-2026	41,625,000	35,139,362	76,764,362
2027-2029	86,515,000	6,594,691	93,109,691
	<u>\$ 195,024,802</u>	<u>\$ 160,140,408</u>	<u>\$ 355,165,210</u>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

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

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

**Series G (continued)**

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 2005 included a premium of \$10,666,115. This amount is amortized using the straight-line method. Amortization of \$373,463 was recognized during the 2005-06 year.

In addition, associated discount and issuance costs are netted against the premium on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$1,943,220 are amortized using the straight-line method. Amortization of \$68,040 was recognized during the 2005-06 year.

**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, 2006**

**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, 2006**

**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, 2006 are as follows:

<u>Year Disbursed</u>	<u>Interest Rate</u>	<u>Balance July 1, 2005</u>	<u>Interest Charge</u>	<u>Repayment Current Year</u>	<u>Outstanding June 30, 2006</u>	<u>Amount Due in One Year</u>
1990	4.5%-5.5%	\$ 11,505	-	\$ 2,680	\$ 8,825	\$ 2,809

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, 2006**

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

A schedule of changes in long-term debt for the year ended June 30, 2006 is shown below.

	<b>Balance July 1, 2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2006</b>
Compensated absences	\$ 16,273,170	\$ 2,553,492	\$	\$ 18,826,662
Arbitrage liability	2,203,075		1,982,712	220,363
Bonded debt	1,356,247,439	208,803,841	39,020,001	1,526,031,279
Deferred bond premium and issue cost*	37,756,202	8,722,895	1,999,931	44,479,166
State school building loans	11,505		2,680	8,825
Other postretirement benefits	<u>52,478,360</u>		<u>15,817,189</u>	<u>36,661,171</u>
	<u>\$ 1,464,969,751</u>	<u>\$ 220,080,228</u>	<u>\$ 58,822,513</u>	<u>\$ 1,626,227,466</u>

\*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.

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

Capital asset activity for the year ended June 30, 2006 is shown below.

	<b>Balance July 1, 2005</b>	<b>Additions</b>	<b>Deletions</b>	<b>Balance June 30, 2006</b>
<b>Capital Assets Not Being Depreciated:</b>				
Land	\$ 238,147,791	\$ 21,476,574	\$ 20,000	\$ 259,604,365
Work In Progress	436,884,296	230,788,893	136,758,600	530,914,589
Land Improvements	130,015,603	4,621,687	293,476	134,343,814
Buildings and Improvements	855,676,870	107,055,685	404,400	962,328,155
Machinery and Equipment	<u>174,079,052</u>	<u>8,343,259</u>	<u>46,293</u>	<u>182,376,018</u>
Total at historical cost	<u>1,834,803,612</u>	<u>372,286,098</u>	<u>137,522,769</u>	<u>2,069,566,941</u>
<b>Less accumulated depreciation for:</b>				
Land Improvements	58,731,768	6,522,113	225,147	65,028,734
Buildings and Improvements	208,525,647	18,744,045	404,400	226,865,292
Machinery and Equipment	<u>135,118,547</u>	<u>13,127,789</u>	<u>41,229</u>	<u>148,205,107</u>
Total accumulated depreciation	<u>402,375,962</u>	<u>38,393,947</u>	<u>670,776</u>	<u>440,099,133</u>
Governmental activities capital assets, net	<u>\$ 1,432,427,650</u>	<u>\$ 333,892,151</u>	<u>\$ 136,851,993</u>	<u>\$ 1,629,467,808</u>

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**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.

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, 2006, 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 \$57,195,000. Changes in the reported liability are shown below:

	<u>Beginning Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Fiscal Year Liability</u>
Liability	\$ 2,331,000	\$ 2,206,564	\$ 2,206,564	\$ 2,331,000
Workers' Compensation	<u>56,757,000</u>	<u>12,372,623</u>	<u>14,265,623</u>	<u>54,864,000</u>
	<u>\$59,088,000</u>	<u>\$14,579,187</u>	<u>\$16,472,187</u>	<u>\$57,195,000</u>

It is important to note that by recognizing these obligations, the Worker's Compensation Fund ended the June 30, 2006 fiscal year with a deficit ending balance of \$(10,483,490).



# SAN DIEGO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

June 30, 2006

### 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).

#### 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 2005-06 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, 2006**

**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 2005-06 was 9.116% 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 June 30,	STRS		PERS	
	Required Contribution	Percent Contributed	Required Contribution	Percent Contributed
2004	\$41,260,195	100%	\$17,902,375	100%
2005	40,915,726	100%	18,743,950	100%
2006	41,573,229	100%	18,085,855	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, 2006**

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

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

Currently, 1,455 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 \$917,509 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 \$2,629,210 and the total budgeted for 2006-07 is \$2,789,823.

**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, 2006

**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 2005-06 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:

2006-07	\$14,685,783
2007-08	14,685,783
2008-09	<u>7,289,605</u>
Total	<u>\$36,661,171</u>

**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, 2006 is \$3,115,505. 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.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**NOTE 14 – DEFICIT FUND BALANCE:**

The Child Development Fund ended the 2005-06 fiscal year with a deficit fund balance of \$990,967. This was the result of an audit adjustment recorded to properly reflect accounts receivable.

**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. The Office of Inspector General is reviewing the documents provided by the District. 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.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

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

**E. Purchase Commitments**

As of June 30, 2006, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$72,381,800. Projects will be funded through Bond Proceeds, State School Building Grants, State Deferred Maintenance Allocations, Capital Facilities Funds and the General Fund.

**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 2005-06, 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. Revenue Limit – PERS Reduction**

As noted in finding 06-01, the auditors disagree with a legal opinion the District has relied upon in reporting the amount of salaries excluded for food service operations in the revenue limit calculation. The estimated reduction of revenues for the past two fiscal years associated with this matter approximates \$836,000. Estimates for previous years have not been calculated. Since the outcome of this matter is uncertain and contingent upon a ruling by the California Department of Education, there is no liability accrued in these financial statements.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**June 30, 2006**

**NOTE 16- SUBSEQUENT EVENTS:**

**A. Tax Revenue Anticipation Notes**

The District issued \$210,000,000 of Tax Revenue Anticipation Notes dated July 3, 2006 through the California School Boards Association Finance Corporation's Cash Reserve Program (Series A). The notes mature on July 24, 2007 and yield 3.70% 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 \$9,423,750 interest be paid by June 30, 2007 and that \$210,000,000 principal plus \$577,500 interest be paid by July 24, 2007.

**B. General Obligation Refunding Bonds**

On October 31, 2006, the District issued 2006 General Obligation Refunding Bonds, Series F-1 and Series G-1 in the amount of \$266,820,000. 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.

**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 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, 2006**

**NOTE 16- SUBSEQUENT EVENTS: (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 was 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 was due at the close of escrow on January 17, 2006.

On June 13, 2006 a fifth amendment to the sale agreement for the Copley property was signed allowing for the following payments in exchange for a delayed escrow: Home Depot may make two additional nonrefundable extension payments of \$150,000 each, and escrow will be extended until August 19, 2006. Both \$150,000 payments were received in July 2006. All deposits toward the purchase price that were received prior to June 30, 2006 are shown as deferred revenue in these financial statements. Sale was completed on August 10, 2006 with the receipt of \$28,158,756.

**E. Contract Litigation**

In September 2006, a court of appeals affirmed a trial court's ruling against the District, which was in excess of \$1,000,000 with pre and post judgment interest, to settle a construction contract payment dispute. This amount was budgeted and subsequently paid from Prop MM reserves.



**SUPPLEMENTARY INFORMATION SECTION**

# SAN DIEGO UNIFIED SCHOOL DISTRICT

## HISTORY AND ORGANIZATION

June 30, 2006

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, 2006 were as follows:

### BOARD OF EDUCATION

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
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

Dr. Carl Cohn	Superintendent
Geno Flores	Deputy Superintendent
Jose Betancourt	Chief Administrative Officer
Kerry Flanagan	Chief of Staff
Ken Leighton	Interim Chief Financial Officer

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NON-MAJOR DEBT SERVICE FUND**

**BALANCE SHEET**

**June 30, 2006**

	<u><b>Tax Override Fund</b></u>
<b><u>ASSETS</u></b>	
Cash in county treasury	\$ <u>6,554,884</u>
<b>TOTAL ASSETS</b>	<u>\$ 6,554,884</u>
<b><u>FUND BALANCE</u></b>	
<b>FUND BALANCE</b>	
Restricted 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>	<u>\$ 6,554,884</u>

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, 2006**

	<b>Tax Override Fund</b>
	<u>                    </u>
<b>TOTAL REVENUES</b>	\$ <u>                    </u> -
<b>TOTAL EXPENDITURES</b>	<u>                    </u> -
Excess of revenues over expenditures and other sources (uses)	-
<b>Fund Balances at beginning of year</b>	<u>                    </u> 6,554,884
<b>Fund Balances at end of year</b>	<u>                    </u> \$ <u>                    </u> 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, 2006

	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	\$ 745,418	\$ 6,731,181	\$ 4,628,022	\$ 485,746	\$ 2,629,060	\$ 1,281,763	\$ 16,501,190
Cash on hand and in banks			1,034,768				1,034,768
Cash in revolving fund		500					500
Accounts receivable:							
Federal and state governments		434,999	9,158,718	5,000,000			14,593,717
Miscellaneous	7,527	92,216	292,826	65,770	27,424	14,291	500,054
Due from other funds	867,142						867,142
Inventories			691,817				691,817
Prepaid expenditures		280					280
<b>TOTAL ASSETS</b>	<b>\$ 1,620,087</b>	<b>\$ 7,259,176</b>	<b>\$ 15,806,151</b>	<b>\$ 5,551,516</b>	<b>\$ 2,656,484</b>	<b>\$ 1,296,054</b>	<b>\$ 34,189,468</b>
<b>LIABILITIES AND FUND BALANCE</b>							
<b>LIABILITIES</b>							
Accounts payable	\$ 765,015	\$ 3,797	\$ 1,147,828	\$ 1,053	\$	\$	\$ 1,917,693
Due to other funds		8,246,346	14,477,963	5,290,032		36,434	28,050,775
Deferred revenue			1,064				1,064
<b>TOTAL LIABILITIES</b>	<b>765,015</b>	<b>8,250,143</b>	<b>15,626,855</b>	<b>5,291,085</b>	<b>-</b>	<b>36,434</b>	<b>29,969,532</b>
<b>FUND BALANCE</b>							
Reserved for special purposes		780	691,817				692,597
Designated for special purpose	855,072	(991,747)	(512,521)	260,431	2,656,484	1,259,620	3,527,339
<b>TOTAL FUND BALANCE</b>	<b>855,072</b>	<b>(990,967)</b>	<b>179,296</b>	<b>260,431</b>	<b>2,656,484</b>	<b>1,259,620</b>	<b>4,219,936</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 1,620,087</b>	<b>\$ 7,259,176</b>	<b>\$ 15,806,151</b>	<b>\$ 5,551,516</b>	<b>\$ 2,656,484</b>	<b>\$ 1,296,054</b>	<b>\$ 34,189,468</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, 2006

	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	\$ 1,280,698	\$ 602,098	\$ 28,812,685	\$ -	\$ -	\$ -	\$ 1,280,698
Revenue from federal sources	986,646	17,034,182	1,845,657	5,213,243			29,414,783
Revenue from other state sources	29,501	1,496,420	12,150,672	236,690	89,701	54,402	25,079,728
Revenue from local sources	2,296,845	19,132,700	42,809,014	5,449,933	89,701	54,402	14,057,386
<b>TOTAL REVENUES</b>							<b>69,832,595</b>
<b>EXPENDITURES</b>							
Instruction	523,176	15,555,976					16,079,152
Instruction-related services	1,016,322	2,614,194					3,630,516
Pupil services	60,693	516,840	42,116,007				42,693,540
Enterprise			140,466				140,466
General administration	37,469	899,660	390,587				1,327,516
Plant services	93,214	1,250,344	1,709,408	5,189,900			8,242,866
<b>TOTAL EXPENDITURES</b>	<b>1,730,874</b>	<b>20,837,014</b>	<b>44,356,268</b>	<b>5,189,900</b>	<b>-</b>	<b>-</b>	<b>72,114,056</b>
Excess (deficiency) of revenues over expenditures	565,971	(1,704,314)	(1,547,254)	260,033	89,701	54,402	(2,281,461)
<b>OTHER FINANCING SOURCES (USES)</b>							
Interfund transfers in		200,000				539,204	739,204
Interfund transfers out						(917,509)	(917,509)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>-</b>	<b>200,000</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(378,305)</b>	<b>(178,305)</b>
Excess (deficiency) of revenues over expenditures and other sources (uses)	565,971	(1,504,314)	(1,547,254)	260,033	89,701	(323,903)	(2,459,766)
<b>Fund Balances at beginning of year</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>Fund Balances at end of year</b>	<b>855,072</b>	<b>(990,967)</b>	<b>179,296</b>	<b>260,431</b>	<b>2,656,484</b>	<b>1,259,620</b>	<b>4,219,936</b>

See the accompanying notes to the supplementary information.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NON-MAJOR CAPITAL PROJECTS FUNDS  
COMBINING BALANCE SHEET**

June 30, 2006

	<b>Capital Facilities Fund</b>	<b>Redevelopment Agencies' Fund</b>	<b>Special Reserve Balboa Stadium Fund</b>	<b>Special Reserve Property Management Fund</b>
<b><u>ASSETS</u></b>				
Cash in county treasury	\$ 29,773,995	\$ 9,386,233	\$ 9,889	\$ 7,078,015
Accounts receivable:				
Miscellaneous	306,997	298,728	104	465,599
Due from other funds				
Prepaid expenditures	_____	_____	_____	195
<b>TOTAL ASSETS</b>	<b>\$ 30,080,992</b>	<b>\$ 9,684,961</b>	<b>\$ 9,993</b>	<b>\$ 7,543,809</b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 203,674	\$ _____	\$ 761	\$ 81,963
Due to other funds	2,512,586	817,275		1,453,366
Deferred revenue	_____	_____	_____	314,982
<b>TOTAL LIABILITIES</b>	<b>2,716,260</b>	<b>817,275</b>	<b>761</b>	<b>1,850,311</b>
<b>FUND BALANCE</b>				
Reserved for special purposes				195
Designated for special purposes	27,364,732	8,867,686	9,232	5,693,303
<b>TOTAL FUND BALANCE</b>	<b>27,364,732</b>	<b>8,867,686</b>	<b>9,232</b>	<b>5,693,498</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 30,080,992</b>	<b>\$ 9,684,961</b>	<b>\$ 9,993</b>	<b>\$ 7,543,809</b>

See the accompanying notes to the supplementary information.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**NON-MAJOR CAPITAL PROJECTS FUNDS**

**COMBINING BALANCE SHEET**

June 30, 2006

	Special Reserve Prop O Preconstruction Fund	Special Reserve Energy Efficiency Fund	Mesa College Construction Fund	Total (Memorandum Only)
<b><u>ASSETS</u></b>				
Cash in county treasury	\$ 3,953,870	\$	\$ 12,826,367	\$ 63,028,369
Accounts receivable:				
Miscellaneous	92,575		134,564	1,298,567
Due from other funds	26,751			26,751
Prepaid expenditures				195
<b>TOTAL ASSETS</b>	<b>\$ 4,073,196</b>	<b>\$ -</b>	<b>\$ 12,960,931</b>	<b>\$ 64,353,882</b>
<b><u>LIABILITIES AND FUND BALANCE</u></b>				
<b>LIABILITIES</b>				
Accounts payable	\$ 9,696	\$	\$	\$ 296,094
Due to other funds				4,783,227
Deferred revenue	1,950,000			2,264,982
<b>TOTAL LIABILITIES</b>	<b>1,959,696</b>	<b>-</b>	<b>-</b>	<b>7,344,303</b>
<b>FUND BALANCE</b>				
Reserved for special purposes				195
Designated for special purposes	2,113,500		12,960,931	57,009,384
<b>TOTAL FUND BALANCE</b>	<b>2,113,500</b>	<b>-</b>	<b>12,960,931</b>	<b>57,009,579</b>
<b>TOTAL LIABILITIES AND FUND BALANCE</b>	<b>\$ 4,073,196</b>	<b>\$ -</b>	<b>\$ 12,960,931</b>	<b>\$ 64,353,882</b>

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, 2006**

	<u>Capital Facilities Fund</u>	<u>Redevelopment Agencies' Fund</u>	<u>Special Reserve Balboa Stadium Fund</u>	<u>Special Reserve Property Management Fund</u>
<b>REVENUES</b>				
Revenue from local sources	\$ 11,293,266	\$ 4,475,529	\$ 382	\$ 5,890,112
<b>TOTAL REVENUES</b>	<u>11,293,266</u>	<u>4,475,529</u>	<u>382</u>	<u>5,890,112</u>
<b>EXPENDITURES</b>				
General administration		12,277		
Plant services	<u>13,236,917</u>	<u>1,255,504</u>	<u>4,451</u>	<u>5,058,220</u>
<b>TOTAL EXPENDITURES</b>	<u>13,236,917</u>	<u>1,267,781</u>	<u>4,451</u>	<u>5,058,220</u>
Excess (deficiency) of revenues over expenditures	<u>(1,943,651)</u>	<u>3,207,748</u>	<u>(4,069)</u>	<u>831,892</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers in				
Proceeds from sale of land				
Interfund transfers out				(357,239)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>-</u>	<u>-</u>	<u>-</u>	<u>(357,239)</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	(1,943,651)	3,207,748	(4,069)	474,653
<b>Fund Balances at beginning of year</b>	<u>29,308,383</u>	<u>5,659,938</u>	<u>13,301</u>	<u>5,218,845</u>
<b>Fund Balances at end of year</b>	<u>\$ 27,364,732</u>	<u>\$ 8,867,686</u>	<u>\$ 9,232</u>	<u>\$ 5,693,498</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, 2006**

	Special Reserve Prop O Preconstruction Fund	Special Reserve Energy Efficiency Fund	Mesa College Construction Fund	Total (Memorandum Only)
<b>REVENUES</b>				
Revenue from local sources	\$ 13,433,914	\$ 339	\$ 156,694	\$ 35,250,236
<b>TOTAL REVENUES</b>	<u>13,433,914</u>	<u>339</u>	<u>156,694</u>	<u>35,250,236</u>
<b>EXPENDITURES</b>				
General administration				12,277
Plant services	574,305		12,323	20,141,720
<b>TOTAL EXPENDITURES</b>	<u>574,305</u>	<u>-</u>	<u>12,323</u>	<u>20,153,997</u>
Excess (deficiency) of revenues over expenditures	<u>12,859,609</u>	<u>339</u>	<u>144,371</u>	<u>15,096,239</u>
<b>OTHER FINANCING SOURCES (USES)</b>				
Interfund transfers in			12,816,560	12,816,560
Proceeds from sale of land	600,000			600,000
Interfund transfers out	(12,816,560)	(47,639)		(13,221,438)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>(12,216,560)</u>	<u>(47,639)</u>	<u>12,816,560</u>	<u>195,122</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	643,049	(47,300)	12,960,931	15,291,361
<b>Fund Balances at beginning of year</b>	<u>1,470,451</u>	<u>47,300</u>	<u>-</u>	<u>41,718,218</u>
<b>Fund Balances at end of year</b>	<u>\$ 2,113,500</u>	<u>\$ -</u>	<u>\$ 12,960,931</u>	<u>\$ 57,009,579</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, 2006

	<u>Budgeted Amounts</u>			Variance with Final Budget to Actual Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
<b>Revenues:</b>				
Revenue Limit Sources	\$ 636,837,496	\$ 636,837,496	\$ 637,498,162	\$ 660,666
Federal Sources	111,892,961	154,185,479	130,160,732	(24,024,747)
Other State Sources	254,886,542	333,518,350	285,914,932	(47,603,418)
Other Local Sources	<u>35,816,760</u>	<u>48,874,618</u>	<u>58,540,829</u>	<u>9,666,211</u>
<b>Total Revenues</b>	<u>1,039,433,759</u>	<u>1,173,415,943</u>	<u>1,112,114,655</u>	<u>(61,301,288)</u>
<b>Expenditures:</b>				
Certificated Salaries	485,442,047	525,202,546	510,045,890	15,156,656
Classified Salaries	172,414,528	182,484,244	177,287,603	5,196,641
Employee Benefits	245,860,749	245,417,266	239,001,397	6,415,869
Books & Supplies	74,356,290	139,707,662	88,522,826	51,184,836
Services, Other Operating Expenses	39,368,456	70,344,215	52,793,723	17,550,492
Capital Outlay	193,485	1,365,812	154,537	1,211,275
Other Outgo	<u>41,766,447</u>	<u>45,788,125</u>	<u>41,513,943</u>	<u>4,274,182</u>
<b>Total Expenditures</b>	<u>1,059,402,002</u>	<u>1,210,309,870</u>	<u>1,109,319,919</u>	<u>100,989,951</u>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	(19,968,243)	(36,893,927)	2,794,736	39,688,663
<b>Other financing sources (uses):</b>				
Transfer In	910,047	1,495,047	1,322,387	(172,660)
Transfer out	<u>(6,313,386)</u>	<u>(6,563,386)</u>	<u>(6,535,735)</u>	<u>27,651</u>
<b>Net change in fund balances</b>	<u>\$ (25,371,582)</u>	<u>\$ (41,962,266)</u>	<u>(2,418,612)</u>	<u>\$ 39,543,654</u>
<b>Fund Balance at Beginning of Year</b>			<u>109,897,230</u>	
<b>Fund Balance - June 30, 2006</b>			<u>\$ 107,478,618</u>	

See the accompanying notes to the supplementary information.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE (ADA)**

**For the Fiscal Year Ended June 30, 2006**

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, 2006 are as follows:

	<b><u>Second</u></b>	<b><u>Annual</u></b>
	<b><u>Period</u></b>	
<b>Elementary:</b>		
Kindergarten	9,103	9,049
First through third grade	26,964	26,819
Fourth through eighth grade	41,016	40,897
Opportunity schools	1	2
Home or hospital - temporary physical disabilities	31	31
Special education	2,884	2,776
Special Education – nonpublic, nonsectarian schools	169	169
Extended year special education – mandated	119	154
Extended year programs - nonpublic, nonsectarian schools	27	27
Community day schools	48	72
Total elementary ADA	<u>80,362</u>	<u>79,996</u>
<b>Secondary:</b>		
Regular classes	29,979	29,555
Continuation education	560	548
Opportunity school	0	0
Home or hospital - temporary physical disabilities	14	14
Special education	1,441	1,262
Special education – nonpublic, nonsectarian schools	203	203
Extended year special education – mandated	103	107
Extended year programs - nonpublic, nonsectarian schools	34	34
Community day schools	47	53
Total secondary ADA	<u>32,381</u>	<u>31,776</u>
<b>Classes for Adults:</b>		
Concurrently enrolled	59	106
Not concurrently enrolled	270	328
Total classes for adults	<u>329</u>	<u>434</u>
Total ADA	<u>113,072</u>	<u>112,206</u>

**Hourly Programs**

**Hours of Attendance**

Elementary	1,326,889
Secondary	881,979

See the accompanying notes to supplementary information.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
For the Fiscal Year Ended June 30, 2006**

<u>Grade Level</u>	<u>1986-87 Minutes Requirement</u>	<u>1982-83 Actual Minutes</u>	<u>2005-06 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Status</u>
Kindergarten	36,000	35,400	55,400	180	In compliance
Grades 1 through 2	50,400	50,445	54,065	180	In compliance
Grade 3	50,400	53,985	54,065	180	In compliance
Grades 4 through 6	50,400	53,985	54,065	180	In compliance
Grades 7 through 8	54,000	62,835	64,320	180	In compliance
Grades 9 through 12	64,800	62,835	64,817	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, 2006

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>Federal Categorical Aid Programs:</b>			
<b>U.S. Department of Education:</b>			
Indian Education	84.060	10011	\$ 103,230
Other Federal: Teaching History	84.215X	(1)	77,712
Other Federal: Safe School Healthy	84.184L	(1)	1,041,317
Other Federal: Reduce Alcohol Abuse	84.184A	(1)	1,121,765
Elementary Secondary School Counseling	84.215E	(1)	366,454
Smaller Learning Community	84.215	14307	1,098,295
Emergency Response and Crisis Management	84.184E	(1)	392,771
Unrestricted: Federal Impact Aid-Unrestricted	(1)	(1)	15,529,996
Subtotal: Direct programs			<u>19,731,540</u>
<b>Pass-Through Programs From</b>			
<b>California Department of Education:</b>			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	13797	\$ 55,937,434
Title I, Part D, Local Delinquent Program	84.013	13798	1,818
Title I, Local Improvement Plan, Regional School Support	84.010	14330	10,862
Title I, Part F, Comprehensive School Reform Demonstration	84.010	14325	370,649
Title II, Part A, Improving Teacher Quality	84.367	14341	8,383,894
Title II, Part B, Math and Science	84.366	14512	464,597
Title II, Part D, Enhancing Education Through Technology	84.318	14334	1,762,640
Title II, Part D, Enhancing Education Through Technology Competitive	84.318	14368	577,876
Title III, Immigrant Education Program	84.365	14346	505,976
Title III, Limited English Proficient Student Program	84.365	10084	4,475,287
Title VI, Part A Drug-Free Schools	84.186	14347	1,370,847
Title V Innovative Education Strategies	84.298A	13340	367,985
Even Start Family Literacy	84.213	3700	525,306
Special Education: IDEA Preschool Grants, Part B, Sec 619	84.173	13430	893,948
Pre School Desired Results		(1)	53,509
Special Education: IDEA Preschool Entitlement, Part C, Sec 611	84.027A	13682	1,197,000
Special Education: IDEA Preschool Local Staff Development, Part B, Sec 611	84.027A	13613	50,467
Special Education: IDEA Preschool Local Staff Development, Part B, Sec 619	84.173A	13431	6,415
Special Education: IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	21,975,541
Special Education: IDEA Early Intervention	84.181	23761	297,054
Special Education: Rehab for External Situational Assessment	(1)	(1)	40,417
Vocational and Application Technology Education	84.048	13924	1,234,748
21st Century Learning	84.287	14349	3,537,802
Federal School Renovation Program	84.352(A)	14318	4,087
Federal Impact Aid	84.041	10015	2,111,014
Other Federal: Middle School	84.184K	(1)	(144)
Unrestricted: Advanced Placement (AP) Fee Reimbursement	(1)	(1)	60,532
Unrestricted: Title IV, Flexibility & Accountability-Statewide Student Identifier Assignment	(1)	(1)	62,412
Unrestricted: Title IV, Flexibility & Accountability-Standardized Testing and Reporting	(1)	(1)	251,998
Unrestricted: California Alternative Performance Assessment (CAPA)	(1)	(1)	5,455
Unrestricted: Army Reserve Officer Training Corps (JROTC)			984,475
Transition to Teaching			<u>13,112</u>
Subtotal: Pass-Through Programs			<u>107,535,013</u>
 Total: U.S. Department of Education			 <u>127,266,553</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, 2006**

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>Federal Categorical Aid Programs:</b>			
<b>Federal Emergency Management Agency</b>			
Pass-Through Program From			
California Department of Education:			
Federal Emergency Management Act (FEMA)	83.544	10014	<u>183,840</u>
Total: Federal Emergency Management Agency			<u>183,840</u>
<b>Department of Health and Human Services:</b>			
Aids Education	93.938	01982	239,166
CCDF-Center Child Care	93.575	03879	602,098
Pass-Through Programs From			
California Department of Education:			
Medi-Cal	93.773	10013	<u>1,516,158</u>
Total: Department of Health and Human Services			<u>2,357,422</u>
<b>Department of Labor:</b>			
Pass-Through Program From			
California Department of Education:			
Workforce Investment Act	17.255	10055	<u>79,567</u>
Total: Department of Labor			<u>79,567</u>
<b>Department of National Science Foundation:</b>			
Urban Systematic Program	47.076	(1)	<u>1,303,456</u>
<b>Department of Agriculture:</b>			
National School Lunch Program	10.555	3523	22,938,271
Especially Needy Breakfast	10.553	3526	4,598,317
Basic School Breakfast	10.553	3525	234,927
Federal Snack Program	(1)	(1)	<u>1,041,170</u>
Total: Department of Agriculture			<u>28,812,685</u>
<b>Reconciliation to Federal Revenues:</b>			
Total Federal Program Expenditures			160,003,523
Expenditure in excess of revenue related to Federal Entitlements:			
Medi-Cal			(430,810)
FEMA			<u>2,802</u>
<b>Total Federal Revenue</b>			<b><u>\$ 159,575,515</u></b>

(1) Federal catalog number or pass-through entity identifying number 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) 2007</u>		<u>2006</u>		<u>2005</u>		<u>2004</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	\$ 670,401,526	61.4	\$ 637,498,162	57.1	\$ 626,585,890	59.8	\$ 617,889,096	58.1
Federal	107,914,938	9.9	130,160,732	11.7	113,508,245	10.8	118,085,626	11.1
State	274,060,139	25.1	285,914,932	25.7	279,273,974	26.7	279,943,503	26.4
County and Local	39,996,063	3.7	58,540,829	5.2	41,195,076	3.9	39,707,321	3.7
Other Sources	<u>1,096,600</u>	<u>0.1</u>	<u>1,322,387</u>	<u>0.1</u>	<u>1,424,261</u>	<u>0.1</u>	<u>9,527,753</u>	<u>0.9</u>
Total Revenue	<u>1,093,469,266</u>	<u>100.2</u>	<u>1,113,437,042</u>	<u>99.8</u>	<u>1,061,987,446</u>	<u>101.3</u>	<u>1,065,153,299</u>	<u>100.2</u>
<b>Expenditures</b>								
Certificated Salaries	494,342,984	45.3	510,045,890	45.8	500,308,627	47.8	511,272,540	48.1
Classified Salaries	181,409,553	16.6	177,287,603	15.9	164,727,471	15.7	165,442,849	15.6
Employee Benefits	238,827,937	21.9	239,001,397	21.4	226,521,236	21.6	201,080,917	18.9
Books and Supplies	73,552,820	6.7	88,522,826	7.9	79,742,618	7.6	76,453,726	7.2
Services and Other Operating Expenses	54,604,057	5.0	52,793,723	4.7	41,105,282	3.9	70,601,736	6.6
Capital Outlay	293,364	0.0	154,537	0.0	345,097	0.0	624,964	0.1
Other Transfers Out	42,376,372	3.9	42,841,461	3.8	30,223,581	2.9	30,804,755	2.9
Direct Support/Indirect Costs	(1,220,093)	(0.1)	(1,327,518)	(0.1)	(1,130,426)	(0.1)	(1,035,899)	(0.1)
Interfund Transfers Out	<u>7,430,367</u>	<u>0.7</u>	<u>6,535,735</u>	<u>0.6</u>	<u>6,040,110</u>	<u>0.6</u>	<u>7,768,497</u>	<u>0.7</u>
Total Expenditures	<u>1,091,617,361</u>	<u>100.0</u>	<u>1,115,855,654</u>	<u>100.0</u>	<u>1,047,883,596</u>	<u>100.0</u>	<u>1,063,014,085</u>	<u>100.0</u>
Change in Fund Balance	<u>\$ 1,851,905</u>	<u>0.2</u>	<u>\$ (2,418,612)</u>	<u>(0.2)</u>	<u>\$ 14,103,850</u>	<u>1.3</u>	<u>\$ 2,139,214</u>	<u>0.2</u>
Adjustment for Restatement					<u>\$ (8,140,382)</u>	<u>(0.8)</u>	<u>\$ 4,117,230</u>	<u>0.4</u>
Ending Fund Balance	<u>\$ 109,330,523</u>	<u>10.0</u>	<u>\$ 107,478,618</u>	<u>9.6</u>	<u>\$ 109,897,230</u>	<u>10.5</u>	<u>\$ 103,933,762</u>	<u>9.8</u>
Available Reserve	<u>\$ 22,122,285</u>	<u>2.0</u>	<u>\$ 22,261,794</u>	<u>2.0</u>	<u>\$ 16,550,673</u>	<u>1.6</u>	<u>\$ 13,167,959</u>	<u>1.2</u>
Recommended Reserve Percentage		<u>2.0</u>		<u>2.0</u>		<u>2.0</u>		<u>2.0</u>
Average Daily Attendance	<u>110,581</u>		<u>112,743</u>		<u>117,469</u>		<u>122,333</u>	
Total Long-Term Debt	<u>\$1,591,008,516</u>		<u>\$1,626,227,466</u>		<u>\$ 1,464,969,742</u>		<u>\$1,262,969,569</u>	

**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 2007 original budget, as reflected in the 2006 Unaudited Actuals.

All percentages are of total expenditures.

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

For 2005 and 2004, District has received a waiver of the 2% reserve requirement from the State. Their reserve requirement with the waiver is 1%.

See the accompanying notes to supplementary information.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS  
For the Fiscal Year Ended June 30, 2006**

<u>Charter School</u>	<u>Included in District Audit Report</u>
A. Phillip Randolph (7-12)	
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
Children's Conservation Academy (K-6)	No
Cortez Hill Academy (9-12)	No
Darnall E-Campus (K-5)	No
Explorer Elem. (K-6)	No
Fanno Academy (K-8)	No
Gompers Middle (7-9)	No
Harriett Tubman Village (K-8)	No
High Tech High (9-12)	No
High Tech High International (9-12)	No
High Tech Media Arts (9-12)	No
High Tech Middle (6-8)	No
High Tech Middle Media Arts (6-8)	No
Holly Drive Leadership Academy (K-8)	No
Keiller Middle (6-8)	No
King/Chavez Arts Academy (3-5)	No
King/Chavez Athletics Academy (3-5)	No
King/Chavez Charter School (K-8)	No
King/Chavez Primary (K-2)	No
KIPP Adelante Prep. Academy (5-8)	No
Learning Choice Academy (K-12)	No
Memorial Academy (6-9)	No
Momentum Middle (6-8)	No
Museum School (3-6)	No
Nubia Leadership Academy (K-6)	No
O'Farrell Community School (6-8)	No
Preuss School UCSD (6-12)	No
Promise Charter School (K-5)	No
San Diego Cooperative (K-8)	No

(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, 2006

	General Fund	Building Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Adult Education Fund	Child Development Fund	Cafeteria Fund	Special Reserve Fund for Capital Outlay Projects	Liability Fund	Workers' Compensation Fund
June 30, 2006 Annual Financial Budget Report Fund Balances	\$ 110,244,575	\$ 202,866,620	\$ 258,242,332	\$ 36,276,503	\$ 1,227,196	\$ 4,327	\$ 1,271,783	\$ 22,727,161	\$ 4,668,358	\$ 44,380,510
Adjustments and Reclassifications:										
Increasing (Decreasing) the Fund Balance:										
Cash in County Treasury	(2,765,957)		(804,470)	(342,448)		(995,294)				
Accounts Receivable					(372,124)		(1,092,487)	(1,950,000)	(2,331,000)	(54,864,000)
Accounts Payable		(11,070,652)								
Deferred Revenue										
Net Adjustments and Reclassifications	(2,765,957)	(11,070,652)	(804,470)	(342,448)	(372,124)	(995,294)	(1,092,487)	(1,950,000)	(2,331,000)	(54,864,000)
June 30, 2006 Audited Financial Statement Fund Balances	\$ 107,478,618	\$ 191,795,968	\$ 257,437,862	\$ 35,934,055	\$ 855,072	\$ (990,967)	\$ 179,296	\$ 20,777,161	\$ 2,337,358	\$ (10,483,490)

See the accompanying notes to the supplementary information.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**For the Fiscal Year Ended June 30, 2006**

**NOTE 1 - PURPOSE OF SCHEDULES:**

**A. Individual Combining Financial Statements**

Individual 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.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**For the Fiscal Year Ended June 30, 2006**

**NOTE 1 - PURPOSE OF SCHEDULES: (continued)**

**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.

**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 form to the audited financial statements.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**NOTES TO SUPPLEMENTARY INFORMATION**  
**For the Fiscal Year Ended June 30, 2006**

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

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

**Major Funds:**

General Fund:	
Debt Service	\$ 3,332
Building Fund:	
General Administration and Plant Services	1,925,397
Bond Interest and Redemption Fund:	
General Administration and Plant Services	1,943,220

**Non-Major Funds:**

Adult Education Fund:	
General Administration and Plant Services	604,038
Cafeteria Fund:	
Classified Personnel Salaries	806,508
General Administration and Plant Services	43,105
Direct Support/Indirect Costs	390,387
Special Reserve for Post Employment Benefits Fund:	
Interfund Transfers Out	917,509



**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**

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

TIMOTHY D. EVANS

PRISCILLA OSBORNE FLORES

TINA HENTON

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, 2006 which collectively comprise the District's basic financial statements, and have issued our report thereon dated October 20, 2006. 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 06-4 and 06-16 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 06-07, 06-11, 06-12, 06-13, 06-14 and 06-15.

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

October 20, 2006



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

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

**Chairman**  
ROYCE A. STUTZMAN

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

**Principal**  
JERI A. WENGER

**Senior Managers**  
JANETTE CAMPS  
TIMOTHY D. EVANS  
PRISCILLA OSBORNE FLORES  
TINA HENTON  
PHEBE M. McCUTCHEON  
SHARI PROSSER  
COLLEEN K. TAYLOR

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, 2006. 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, 2006. However, the results of our auditing procedures disclosed an instance of noncompliance with those requirements, which is required to be reported in accordance with OMB Circular A-133 and which is described in the accompanying schedule of findings and questioned costs as item 06-19.

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.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. 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. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

October 20, 2006



**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

TIMOTHY D. EVANS

PRISCILLA OSBORNE FLORES

TINA HENTON

PHEBE M. MCCUTCHEON

SHARI PROSSER

COLLEEN K. TAYLOR

**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, 2006, and have issued our report thereon dated October 20, 2006.

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:		
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
Morgan-Hart class size reduction program	7	Yes
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
Charter Schools:		
Contemporaneous records of attendance	1	No
Nonclassroom-based instructional/independent study	1	No
Additional nonclassroom-based instruction	1	No
Determination of funding for nonclassroom-based instruction	3	No
Annual instructional minutes – classroom based	3	No
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. Testing for Charter Schools was done by each school's respective auditor.

## 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

October 20, 2006

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
SUMMARY OF AUDITOR RESULTS**

**June 30, 2006**

*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?   Yes  X  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>
84.027, 84.173	Special Education
84.318	Title II, Part D, Enhancing Education Through Technology
84.366	Title II, Part B Math and Science
84.215	Smaller Learning Communities
10.555	National School Lunch Program
84.184L	Safe School Healthy
84.184E	Emergency Response and Crisis Management
84.010	Title I, Part A, Basic Grants Low-Income and Neglected

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

Auditee qualified as low-risk auditee?   Yes  X  No

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2006**

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
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

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

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**FINDING 06-01 – REVENUE LIMIT CALCULATION**

**60000**

**Original Finding 05-02 and 04-16**

**Finding:** As mentioned in the prior years, we believe that the District is overstating salaries for food service employees to be excluded in the PERS Reduction calculation. Based on Education Code 42238.12(a)(4)(c), the District may deduct from the salaries subject to the reduction, to the extent of employer contributions not exceeding \$25,000. The District is not applying this cap to their exclusion, and instead is excluding all salaries paid to food service employees. The District has been relying on a legal opinion obtained in January 1991 to support their deduction of such salaries. This opinion is contrary to industry practice and current published revenue limit guidance.

The PERS Reduction represents an amount deducted from the Districts state apportionment. If the cap was applied, the amount of the exclusion for 2005-06 would be limited to \$274,243; the District reported \$14,023,354. The amount of potential reduction in the revenue limit is based on the PERS reduction rate of approximately 3% resulting in an overstatement of revenues of approximately \$451,000 for 2005-06. It should be noted that even though this would decrease the amount received for principal apportionment, the amount associated with this reduction of revenues can be charged as an expense in the appropriate funds. Therefore, we believe that the Food Service Fund potentially has a PERS Reduction expenditure that is not being reported. As mentioned in the prior year audit, the loss in revenue would amount to approximately \$385,000 for 2004-05. Years prior to 2004-05 have not been estimated.

**Recommendation:** We believe that the District should obtain an updated legal opinion in regards to this matter. We believe it would be prudent to work directly with the California Department of Education (CDE) and reach a mutual conclusion. Included in these deliberations should include a final decision on whether the Districts opinion is legally sound. If not, deliberations on adjusting for prior years should be agreed upon between the District and CDE. In addition, if the District is required to make adjustments and apply the cap, the food services fund will be negatively impact and a plan to account for this should be agreed upon.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
RELATED TO FINANCIAL STATEMENTS**

**June 30, 2006**

**FINDING 06-01 – REVENUE LIMIT CALCULATION**  
**(continued)**

**60000**

**Original Finding 05-02 and 04-16**

**District Response:** The January 1991 legal opinion upon which the District has based the exclusion of salaries of food service employees from the PERS Reduction calculation states that employer contributions to the Public Employees' Retirement System for positions supported totally by federal funds which are subject to supplanting restrictions shall be excluded from the calculation. It further finds that federal funding for the National School Lunch Program is subject to supplanting restrictions and, therefore, excludable from the PERS Reduction calculation.

Current Education Code Section 42238.12(a)(4) continues to provide that positions or portions of positions supported by federal funds that are subject to supplanting restrictions shall be excluded from the PERS Reduction calculation, and the District has acted in good faith in fully excluding positions supported by the National School Lunch Program from its PERS Reduction calculations. However, an additional provision, added subsequent to the legal opinion upon which we have relied, calls for a limitation upon the amount of the exclusion for positions supported by non-general fund federal funds.

The District has reviewed and does not agree with the limitation required under this provision. School districts are required to include in the PERS Reduction calculation positions subject to PERS which are supported by non-general funds as well as those supported by the General Fund. While the PERS Reduction is effected via the General Fund apportionment mechanism, all funds' position costs are required to be included in the calculation. We will work with legal counsel and the California Department of Education to reach mutual conclusion regarding legal interpretation and financial implications.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**FINDING 06-02 – GENERAL FUND CASH FLOWS**

**30000**

**Finding:** A cash flow statement is not prepared for the General Fund. The cash flow statement included with the Second Interim report is a projection for the unrestricted portion of the General Fund and does not agree to the cash balances in the general ledger.

**Questioned Costs:** Not applicable

**Recommendation:** At a minimum, a cash flow statement should be completed for the entire General Fund to be included with the Interim reports. The cash balances reported at Second Interim should agree to the cash balances in the general ledger.

**District Response:** The District concurs with the recommendation as stated above. We are in the process of expanding our Cash Flow Statement to incorporate the entire General Fund. In the past the Cash Flow Statement only included the unrestricted portion of the General Fund as requested by the Rating Agencies via our Financial Advisors. The District will create a single cash flow statement that will accommodate both the needs of our Audited Financial Statements and our Rating Agencies via our Financial Advisors. This expanded Cash Flow Statement is currently underway and will be completed prior to our fiscal year end.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**FINDING 06-03 – INTERNAL CONTROL –**  
**GENERAL JOURNAL ENTRIES**

**30000**

**Original management letter observation from fiscal year 2002-03, 04-08 and 05-04**

**Finding:** The District has made major improvements in the process for entering and approving journal entries. A new procedure was implemented mid-year which required management authorization on critical and significant journal entries. Our testing resulted in 2 of 37 entries that did not include the required authorized signature. We also noted that the procedures do not include a requirement to assure approvals are made for correcting journal entries.

**Recommendation:** Continue to assure compliance with these procedures. In addition, we recommend that the policy be revised to require authorization for corrections over a desired threshold (perhaps \$100,000). As mentioned in the prior year, we also believe it would be an excellent control to have internal audit perform random audits of journal entries throughout the year.

**District Response:** The District concurs with the auditors recommendations as discussed above. One of the two entries noted as an exception, a “Correcting” entry, was not previously address in the District’s “General Ledger Journal Entries Process” procedures. “Correcting” entries over \$100,000 will be added to the section requiring a Peer Review. The other entry noted as an exception involved a “reversing” entry and does require a peer review if over \$50,000. The Financial Accountant has been instructed on the proper procedure for reversing and correcting entries.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**FINDING 06-04 – CAPITAL ASSET TRACKING**

**20000**

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

- There is approximately \$7.7 million of capital outlay expenditures charged to departments 5610 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 \$16.8 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.
- 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 51 items that accounting identified as equipment additions (items greater than \$5,000) in 2005-06, Material Control had identified only 30.
- Equipment purchased of items under \$5,000 is being recorded to object 6400 and function 8500. The California School Accounting Manual states that only equipment that has both an estimated useful life over one year and an acquisition cost equal to or greater than the capitalization threshold established by the LEA should be recorded in object 6400. These items should be recorded to object 4400, Noncapitalized Equipment. This resulted in the overstatement of expenditures in object 6400 and an understatement of expenditures in object 4400 and created a reconciling item between the additions reported on the fixed asset listing and the expenditures reported on the general ledger for object 6400.

**Questioned costs:** Not applicable

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**FINDING 06-04 – CAPITAL ASSET TRACKING**

**20000**

**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.
- At the end of the fiscal year, the District should review all expenditures charged to both objects 4400 and 6400 to ensure that expenditures are properly classified with respect to the capitalization threshold. Any expenses that were incorrectly classified should be moved to the appropriate object as needed. This process will ensure that what is capitalized agrees with expenditures incurred the current year.

**District Response:** The District will continue to train staff at departments and school sites in the proper use of function 8500 and account 6400. Due to staff turnover, this training will be done annually.

At year end District staff reviews all expenditures charged to both objects 4400 and 6400 for proper classification. This review process brought this findings to light.

The District will capitalize, in year one, projects estimated to exceed the \$100,000 capitalization threshold. All other projects will be capitalized once they reach the capitalization threshold.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
RELATED TO FINANCIAL STATEMENTS**

**June 30, 2006**

**FINDING 06-05 – CHILD DEVELOPMENT REVENUES**

**60000**

**Finding:** We could not reconcile revenues and expenses as reported in the general ledger to the amounts reported on the Final Earnings Calculation from the California Department of Education:

- Total accounts receivable recorded in the general ledger is different from the total reported by the California Department of Education recalculation by \$995,294. This was due to differences in the reported days of enrollment and revenues being recorded based on total days of enrollment when the Maximum Reimbursable Amount per the contract was less. This negative adjustment to total revenue resulted in a deficit ending fund balance for the Child Development fund of \$990,967.
- Based on district-provided worksheets, total accounts receivable of \$1.4 million was booked to resource 6060 and, based on the worksheet, it appears as if it should have been spread across four resources.
- The total revenue earned per the California Department of Education recalculation that is based on the final attendance and expenditure reports is less than the amount in current year revenue by \$689,000. This appears to be the result of prior year corrections totaling \$847,000.
- Total expenses reported on the Final Earnings Calculation from the California Department of Education do not agree to the expenses recorded in the general ledger. The State Preschool Grant reports expenditures of \$6,629,346 and actual expenditures in the general ledger are \$6,571,732. The General Child Care Grant reports expenditures of \$13,996,042 and actual expenditures in the general ledger are \$13,718,827. The total over reported expenditures for both child care grants is \$334,829.

**Questioned Costs:** Not applicable

**Recommendation:** The District should review the final attendance and expenditure reports submitted to the California Department of Education and revise if needed. During the closing process, a reconciliation should be completed for each program that considers total days of enrollment, the maximum reimbursable amount stated in the contract and total costs. Revenue should only be recorded to the lowest amount determined.

**District Response:** The District reviewed the findings and concurs with the auditors. The receivable amount booked at year end was based on preliminary calculations prior to the receipt of the final numbers from CDE. The ledger will be adjusted for the final amounts.

The revenue is lower by \$689,000 due to the reversal of the prior year accruals for both the Pre-School and Child Development Center programs. No adjustment is needed.

The expenditures reported by CDE vary from the expenditures in the general ledger due to year end adjustments that occurred after the report was sent to CDE. A revised claim has been submitted with the updated expenditure amounts.

The District will thoroughly reconcile to the CDE reports and make adjustments at year end to ensure accuracy of entries.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
RELATED TO FINANCIAL STATEMENTS**

**June 30, 2006**

**FINDING 06-06 – ADULT EDUCATION FUND REVENUE LIMIT      60000**

**Finding:** The Adult Education fund revenue limit could not be reconciled to actual ADA. Based on actual annual ADA, the revenue amount recorded in the general ledger appears to be overstated by \$372,124. This resulted in an adjustment to the Adult Ed fund balance to reflect a payable to the state.

**Questioned Costs:** Not applicable

**Recommendation:** During the year end closing process, the revenue limit paid by the state should be reconciled to total annual ADA to determine if a payable or receivable is needed to properly reflect the revenue earned.

**District Response:** Effective 2005-06, minor students, ages 16 and 17, were no longer accepted in the Adult Education Program in lieu of continuation school, resulting in a corresponding decline in Adult Education ADA. Funding received through June 30, however, was based on prior year annual ADA pursuant to the State's funding allocation formula. (The State adjusts funding to reflect current year ADA in the following fiscal year.) We concur that a reconciliation of revenue received to revenue earned should have been performed at year end with a reduction recorded based on current year ADA.

Established procedure requires all revenues received under grants, entitlements, and other formula-based programs to be reconciled to earnings during the year end closing process. Staff will be reminded of proper procedure for determining revenue recognition.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**FINDING 06-07 – DEFERRED MAINTENANCE FUND** **60000**

**Finding:** There was one expenditure for HVAC upgrades at Doyle Elementary School for \$231,068 that was not listed on the approved 5-year deferred maintenance plan. The 5-year deferred maintenance plan should be revised to reflect additional sites as project plans are changed. Additionally, the deferred maintenance fund should be reimbursed for this expense.

**Questioned Costs:** \$231,068

**Recommendation:** The 5-year deferred maintenance plan should be revised to reflect additional sites as project needs change. Additionally, the deferred maintenance fund should be reimbursed for this expense.

**District Response:** The District will update the Deferred Maintenance 5 year plan to include the additional projects. The deferred Maintenance fund will be reimbursed \$231,068.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
RELATED TO FINANCIAL STATEMENTS**

**June 30, 2006**

**FINDING 06-08 – CATEGORICAL ACCOUNTING**

**60000**

**Finding:** The following was noted with respect to our review of the categorical program accounting worksheet:

- Cash received as reported on the categorical program accounting worksheet did not agree to the amounts recorded in the general ledger. This resulted in incorrect amounts of accounts receivable and deferred revenue being recorded.
- Grant letters to support the total entitlement amount for 12 resources were not provided.
- Prior year carryover amounts were not consistently carried forward to the current year tracking form. Amounts were adjusted between fiscal years and the changes could not be supported.
- The current year award was not recorded on the tracking form for resources 4045 and 4050. We verified that awards existed for the 2005-06 fiscal year and budgets were properly created in the general ledger, however, the tracking report did not reflect this.

**Questioned Costs:** Not applicable

**Recommendation:** The Access database used to compile the categorical reporting information should be updated to ensure the financial information is properly reflected. The District may also consider providing additional training on categorical accounting to key district staff and requiring a supervisor review of the categorical reports before accruals are posted.

**District Response:** The Senior Financial Accountant assigned to Categorical Accounting and developer of the Access Database used to track Categorical Revenue recently left the district and the Access Database has become outdated. The District is in the process of hiring a replacement for this position. Fortunately, the district cross trained several individuals on categorical accounting and these individuals are filling in until the position can be filled. The District is also revisiting the methodology for tracking categorical revenue and expect to have a plan for implementing a new methodology in January 2007.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
RELATED TO FINANCIAL STATEMENTS**

**June 30, 2006**

**FINDING 06-9 – PEOPLESOFT PAYROLL ACCESS CONTROLS 30000**

**Finding:** Access to issue payroll checks and change pay rates is not limited to the appropriate personnel:

- Deficiencies identified through inquiry with Payroll Supervisor:
  - 10 of 54 employees had an inappropriate access level to issue payroll warrants.
  - 6 of 30 employees had an inappropriate access level to make changes to pay rates.
- Additional observations noted:
  - There are two employees in payroll/benefit departments that have access to change pay rates. For optimum segregation of duties, the payroll department should not have access to change pay rates.
  - There are three developer roles that have access to issue checks and change pay rates. Developers should not have access to production in an information technology system.

**Questioned Costs:** Not applicable

**Recommendation:** The District should review the roles and permissions related to payroll and consider removing or changing access to further limit the amount of individuals with the ability to issue payroll checks or change pay rates. For better internal controls, the District should consider reducing the amount of employees with this type of access below the amounts identified in the finding.

**District Response:** The District's internal auditor for Information Systems will perform an audit of our systems which will include system access operations and audit testing. The audit is scheduled to begin on December 1, 2006. As a result of the audit findings, the district will implement corrective measures and address identified exposures.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**FINDING 06-10 – CASH IN COUNTY AND**  
**PREPAID RECONCILIATION**

**60000**

**Finding:** The cash balance on the PeopleSoft general ledger contained reconciling items from 2003-04 and 2004-05 totaling \$2,765,957. District staff was unable to determine the continuing validity of these reconciling items. Additionally, the prepaid account has not been reconciled and may contain amounts that should have been reported as a current year expense.

**Questioned Costs:** Not applicable

**Recommendation:** The cash in county and prepaid accounts should be reconciled and any differences should be researched and written off if necessary.

**District Response:** The District reconciles cash in county on a monthly basis and concurs that any differences that can't be substantiated should be written off. These differences will be written off prior to year end. The District reconciles the prepaid account on a regular bases but a system limitation within the PeopleSoft Expense module prevents a timely reversal of expenses related to travel that are prepaid. A workflow analysis will be performed during the PeopleSoft 8.9 upgrade to help speed up the timely reversal of prepaid expenses once the travel event has occurred.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**FINDING 06-11 – COMMUNITY DAY SCHOOL**

**10000**

**Original Finding 05-14**

**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 10 students tested. This resulted in 15 hours over reported by the Community Day School.

**Questioned Costs:** Annual ADA for 5<sup>th</sup> and 6<sup>th</sup> hour is 229.16 or \$543,577

**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.
- Monthly summaries should be compared 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 P-2 Attendance Report revised and resubmitted.

**District Response:** The ongoing non-compliance with proper attendance reporting is not acceptable and WILL lead to disciplinary measures. The District will provide proper training and support, as well as attendance instruments that should alleviate this problem. The instructional staff is expected to consistently and fully report Community Day School attendance. The monthly summaries will be corrected and the Annual Attendance Report will be resubmitted.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**FINDING 06-12 – MORGAN-HART CLASS SIZE REDUCTION**                      **40000**

**Finding:** The Full-Year Equivalent Enrollment (FYEE) on the Form J-9MH-A was overstated by approximately \$1,344 due to minor clerical and mathematical errors for three sites.

- Patrick Henry High School – FYEE was overstated by 1.91 due to a clerical error of incorrectly entering data from the wrong line from the supporting enrollment report.
- La Jolla High School – FYEE was overstated by 6.83 due to a qualifying class being duplicated.
- University City High School – FYEE was understated by 0.95 due to a mathematical error.

**Questioned Costs:** \$1,344 (See next page)

**Recommendation:** The remaining sites on the report should be reviewed for accuracy and the Form J-9MH-A should be revised and resubmitted as needed.

**District Response:** The District concurs with the above noted Finding and will re-submit the corrected Form J-9 MH-A showing the corrected totals. All remaining sites on the original report will be reviewed for accuracy of reporting.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINDING AND QUESTION COSTS**

**Morgan Hart - Class Size Reduction Program**

**Schedule of Noncompliant Classes**

**June 30, 2006**

Grade Level	Course Title	(a)		(b)	(c)			(d)
		Full-Year Equivalent Enrollment	Class Size Grade 10,11,12		English	Math	Science	
9	English	60		4	6		6	
9	Math	43		3		2	2	
9	English	60		3	(1)		(1)	
Total Pupils Overclaimed					5	2	7	
Funding Rate Per Pupil					\$ 192	\$ 192	\$ 192	
Total Funding Overclaimed					\$ 960	\$ 384	\$ 1,344	

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**FINDING 06-13 – P-2 ATTENDANCE REPORTING**

**10000**

**Original Finding 05-16**

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

- Amounts reported on the P-2 Attendance Report generated from the SIS mainframe cannot be reconciled to the attendance reported in Zangle. The cumulative difference for the 15 sites tested was 9 ADA or approximately \$46,300 by the end of attendance month 7.
- Home and Hospital ADA has decreased significantly with the implementation of Zangle. Fiscal year 2003-04 P-2 ADA was 67.21 elementary and 58.75 high school and 2005-06 is 30.74 elementary and 13.71 high school. This change is 81.51 ADA for the current year or approximately \$420,000. This change in ADA should be researched and Zangle reconfigured as needed. If changes in ADA are identified, the attendance reports should be rerun and submitted to the California Department of Education as a revision.
- Special Ed - System priorities were not set correctly for Special Ed students (i.e. if a student was both a resource student and Special Day student, Zangle will pick up the resource designation and not the special ed designation). Additionally, many teachers did not enter hourly attendance consistently and Zangle was not able to identify these teachers. There are no questioned costs associated with this finding.

**Questioned Costs:** See amounts quantified above.

**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:** The District is working with pupil accounting and C-innovations (vendor and implementator of Zangle) to ensure that calculations for alternative attendance types are processing attendance accurately. The work includes addressing the issues with: Home and Hospital, Hourly Intersession programs, as well as, Special Education priorities. The P-2 report will be revised as appropriate.

The District has implemented an On-Site Support Team (16 staff members) which includes a System Analyst, to help identify and correct clerical errors, missing data elements, and inappropriate attendance taking practices, as well as, ensure that staff is trained appropriately.

The On-Site support team provides support to schools when they need it, via phone, email, chat, and face-to-face interaction. They work with the school sites to improve the quality of data in Zangle, refine users' skills, and increase the level of knowledge of Zangle throughout the district.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
RELATED TO FINANCIAL STATEMENTS**

**June 30, 2006**

**FINDING 06-14 – SUPPLEMENTAL HOURLY PROGRAMS**

**10000**

**Original Finding 05-17**

**Finding:** While reviewing the District's records for hourly programs we noted that attendance was not taken hourly at 1 of 8 sites tested. This resulted in the site claiming three hours more per student, per day than the attendance rosters support. The site was using manual rosters instead of entering attendance online in the Zangle system. Additionally, clerical errors were noted in the reporting of hours for two sites that resulted in a net understatement of 4,448 hours.

**Questioned Costs:**

- Attendance not taken hourly - \$30,774 over reported
- Clerical errors - \$16,369 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 District has implemented an On-Site Support Team (16 staff members) which includes a System Analyst, to help identify and correct clerical errors, missing data elements, and inappropriate attendance taking practices, as well as, ensure that staff is trained appropriately.

The On-Site support team provides support to schools when they need it, via phone, email, chat, and face-to-face interaction. They work with the school sites to improve the quality of data in Zangle, refine users' skills, and increase the level of knowledge of Zangle throughout the district.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**FINDING 06-15 – CALIFORNIA SCHOOL AGE FAMILIES EDUCATION**  
**(CAL-SAFE) PROGRAM**

**40000**

**Finding:** There was not a clear audit trail from the District's attendance system to the ADA reported on the Report of Attendance for Pupils Enrolled in District Cal-SAFE Programs, Form B. We attempted to verify the ADA reported for individual students and, it appears that the District may be under reporting Cal-SAFE ADA. Although this error only affects the two continuation sites, these two sites comprise more than half the total Cal-SAFE ADA. District staff believes the discrepancies may be related to the backfilling of attendance hours and the dynamic nature of the attendance system.

**Questioned Costs:** Unknown

**Recommendation:** The discrepancies between the District's attendance system and the amounts reported on the Cal-SAFE attendance report should be researched and the report revised if necessary. Any reports used to complete the attendance report, including a detailed student listing, should be maintained and available for audit.

**District Response:** The District concurs with the above noted finding and will research the Cal-SAFE attendance data. Back-up documentation will be maintained for audit compliance. The District will work with the Cal-SAFE representative to ensure reporting accuracy and consistency.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**FINDING 06-16 – DIRECT COSTS TRANSFERS**

**60000**

**Original Finding 05-11**

**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.

**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.

**District Response:** The District will implement the recommended changes to the job cost charge back procedures by directly charging contracted services and whenever possible, materials used in the project to the paying fund or resource.

SAN DIEGO UNIFIED SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
RELATED TO FINANCIAL STATEMENTS

June 30, 2006

**FINDING 06-17 – SELF-INSURANCE – WORKERS’ COMPENSATION 60000**

**Original Finding 05-19 and 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 2005-06 fiscal year with a negative ending balance of over \$10 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 year two of 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 concurs with the recommendation as stated above and will continue with the five year plan to fund the estimated liability as projected by the annual actuarial review.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**RELATED TO FINANCIAL STATEMENTS**  
**June 30, 2006**

**FINDING 06-18 – CAFETERIA ACCOUNTING AND BUDGETING**      **30000**

**Finding:** The District did not reconcile the detailed listing of accounts payable at year end to the final accounts payable reported on the SACs report for the Cafeteria Fund. The difference was approximately \$1 million. Upon researching this matter, it became apparent that an accounting entry was incorrectly made to the accounts payable account. The under accrual caused the Cafeteria Fund to understate expenses and overstate fund balance. It should be noted that this adjustment reduces the fund balance to an extremely low reserve.

**Recommendation:** The District must assure that staff is trained to reconcile accounts payable detail records to the final general ledger control accounts used for SACs reporting.

The District must closely review the budgetary practices in place to assure the financial solvency of this fund. This analysis should include ways to absorb allowable cost reimbursements to the general fund for indirect costs and PERS reduction expenses.

**District Response:** The District concurs with the auditor's recommendation as stated above. The District meets on a monthly basis with the Director of Food Services to discuss ways to make this fund solvent.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
RELATED TO FEDERAL AWARDS**

**June 30, 2006**

**FINDING 06-19 – HIGHLY QUALIFIED TEACHERS**

**50000**

**Original Finding 05-23**

**Program:** Title I

**CFDA Number:** 84.010

**Total Program Expenditures:** \$55,937,434

**Finding:** To report on the status of the prior year finding, we reviewed an additional sample of teachers to test the District's compliance with No Child Left Behind requirements. These requirements state that all 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:** There are no questioned costs related to Federal programs as no salary expenses for either teacher were charged to a Federal resource.

**Recommendation:** The District should continue its efforts to ensure 100% compliance with No Child Left Behind requirements.

**District Response:** There were two teachers tested; Robert Ellingson and Vicki Alba. Since the initial request for information, Robert Ellingson is now NCLB compliant in his new assignment of prep time science teacher. The District is going through a concentrated effort to evaluate all the non-highly qualified teachers and determine a specific plan for each. A number of retired administrators were hired and assigned to meet with each non-highly qualified teacher. As the High Objective Uniform State Standards of Evaluation (HOUSSE ) process is appropriate for the particular teacher, this is done. Otherwise, a plan is developed to bring the teacher to highly qualified status.

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

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**June 30, 2006**

**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 organization's 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.

**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.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**June 30, 2006**

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

**30000**

**Original Finding 04-01**

**Recommendation: (continued)**

- 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.

**Current Status:** Implemented.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**June 30, 2006**

**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**

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

**June 30, 2006**

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

**60000**

**(continued)**

**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.

**Current Status:** Partially implemented. See current year finding 06-01.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS**  
**June 30, 2006**

**FINDING 05-03 – FINANCIAL REPORTING**  
**AND BUDGETING PROCESS**

**30000**

**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.

**Current Status:** Implemented.

**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.

**Current Status:** Not implemented. See current year finding 06-03.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**June 30, 2006**

**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.

**Current Status:** Implemented.

**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.

**Current Status:** Implemented.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2006

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

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**June 30, 2006**

**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.

**Current Status:** Partially implemented. See current year finding 06-04.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**June 30, 2006**

**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.

**Current Status:** Implemented.

**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.

**Current Status:** Implemented.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**June 30, 2006**

**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 tacking system (Maximo) and the financial accounting system (PeopleSoft). The District should consider the feasibility of integrating a project tracking system with PeopleSoft.

**Current Status:** Implemented.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**June 30, 2006**

**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."

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.

**Current Status:** Not implemented. See current year finding 06-16.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**June 30, 2006**

**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.

**Current Status:** Implemented.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**June 30, 2006**

**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.

**Current Status:** Implemented.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**June 30, 2006**

**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.

**Current Status:** Not implemented. See current year finding 06-11.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**June 30, 2006**

**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.

**Current Status:** Implemented.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**June 30, 2006**

**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.

**Current Status:** Not implemented. See current year finding 06-13.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**June 30, 2006**

**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.

**Current Status:** Not implemented. See current year finding 06-14.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**June 30, 2006**

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

**40000**

**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.

**Current Status:** Implemented.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2006

**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 \$26 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.

**Current Status:** In process. See current year finding 06-17.



**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS  
June 30, 2006**

**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.

**Current Status:** Implemented.

**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.

**Current Status:** Implemented.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**June 30, 2006**

**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.

**Current Status:** A legal opinion was obtained supporting the District's practice, which was verbally accepted by OPSC to District representatives.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**June 30, 2006**

**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.

**Current Status:** Not implemented. See current year finding 06-19.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**June 30, 2006**

**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.

**Current Status:** Implemented.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**

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

**June 30, 2006**

**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.

**Current Status:** Implemented.

**CONTINUING DISCLOSURE INFORMATION**

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**CONTINUING DISCLOSURE INFORMATION (UNAUDITED)**  
**June 30, 2006**

Assessed valuation for fiscal year 2005-06	\$101,999,266,818	(1)
Secured tax levies for fiscal year 2005-06	\$ 423,858,426	(1)
Secured tax delinquencies for fiscal year 2005-06	\$ 0	(1)
Secured tax collections for fiscal year 2005-06	\$ 422,583,538	(1)

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

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**CONTINUING DISCLOSURE INFORMATION (UNAUDITED)**  
**June 30, 2006**

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

	<u>Audit Report Page(s)</u>
1. General fund budget and actual results	64
2. Assessed valuations	130,132
3. Outstanding indebtedness	33-45
4. Balance in the Debt Service Funds	3,56
5. Balance in the Improvement Fund (Building Fund)	3
6. Tax Levy Under Teeter Plan	132
7. Largest local secured taxpayers	133



**SAN DIEGO UNIFIED SCHOOL DISTRICT**

**CONTINUING DISCLOSURE INFORMATION (UNAUDITED)**

**June 30, 2006**

**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>
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
2005-06	108,123,995,636

**Tax Levy Under Teeter Plan**

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

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**CONTINUING DISCLOSURE INFORMATION (UNAUDITED)**  
**June 30, 2006**

The largest non-utility taxpayers in the District and their assessed valuations for 2005-06 are listed below.

**SAN DIEGO UNIFIED SCHOOL DISTRICT**  
**Largest Non-Utility Taxpayers**  
**2005-06**

	<u>Property Owner</u>	<u>Primary Use</u>	<u>2005-06 Assessed Valuation</u>	<u>% of Total <sup>(1)</sup></u>
1.	Qualcomm Inc.	Industrial	\$ 595,232,286	0.58%
2.	Pfizer Inc.	Industrial	470,143,422	0.46
3.	Fashion Valley Mall LLC	Shopping Center/Mall	427,448,134	0.42
4.	Irvine Company	Industrial and Commercial	415,255,283	0.41
5.	San Diego Family Housing LLC	Apartments	409,400,495	0.40
6.	Arden Realty Finance LLC	Office Building	394,009,846	0.39
7.	Sea World Inc.	Theme Park	358,828,030	0.35
8.	Manchester Resorts LP	Hotel	341,092,931	0.33
9.	Kilroy Realty LP	Industrial	302,457,918	0.30
10.	H.G. Fenton Co.	Apartments	294,516,031	0.29
11.	Costa Verde Developers LLC	Apartments	273,760,102	0.27
12.	Pacific Gateway Ltd.	Hotel	269,594,616	0.26
13.	BRE Properties Inc.	Apartments	268,880,991	0.26
14.	Solar Turbines Inc.	Industrial	253,819,082	0.25
15.	ERP Operating LP	Apartments	238,671,837	0.23
16.	Broadway 101 & 225 Sorrento Holdings LLC	Office Building	216,061,000	0.21
17.	Archstone Communities LP	Apartments	208,571,832	0.20
18.	University Towne Centre LLC	Shopping Center/Mall	205,155,544	0.20
19.	Reef America REIT Corp.	Industrial	204,908,108	0.20
20.	Horton Plaza LP	Shopping Center/Mall	<u>195,416,748</u>	<u>0.19</u>
			<u>\$6,343,224,236</u>	<u>6.20%</u>

<sup>(1)</sup>2005-06 Local Secured Assessed Valuation: \$ 7,372,840,982.

Source: California Municipal Statistics, Inc.