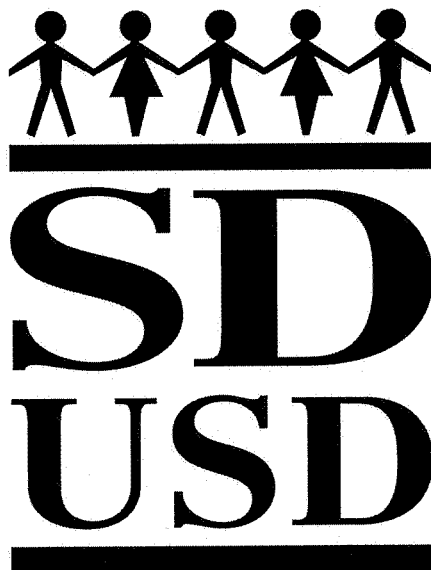


SAN DIEGO UNIFIED SCHOOL DISTRICT

SAN DIEGO COUNTY

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

June 30, 2007



SAN DIEGO UNIFIED SCHOOL DISTRICT

AUDIT REPORT

June 30, 2007

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SAN DIEGO UNIFIED SCHOOL DISTRICT

**AUDIT REPORT
June 30, 2007**

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San Diego Unified School District

EUGENE BRUCKER EDUCATION CENTER
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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, 2007, 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 \$124,505,467.

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 2006/07 also include financial statements in the format required under the Governmental 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 some material internal control weaknesses which stem, in part, from the application of the new Statement on Auditing Standards (SAS112). These findings involve capital asset tracking, closing procedures, direct cost transfers, and overpayments.

The staff is proceeding with corrective action. Case in point, the District has just implemented a PeopleSoft 8.9 upgrade that included the installation of a new asset management module. This tool will greatly enhance capital asset visibility and management. Regarding the year-end closing procedures, the District has carefully reviewed and validated the closing process to ensure timely recording of transactions in the appropriate fiscal year. The matter of direct cost transfers involves the alignment to the applicable funds. The District will continue to streamline the affected process and consult with the California Department of Education. Finally, in the case of overpayments, the District is developing performance indicators to mitigate overpayment activities and dollars.

Overall, the audit reflects a positive trend of refined financial operations and a reduction in findings. Of note, the vast majority of prior year findings have been fully resolved. We are committed to continuous process improvement characterized by adherence to the highest fiduciary standards.

November 28, 2007



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, 2007, 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, proprietary funds, fiduciary funds and the aggregate remaining fund information of the San Diego Unified School District as of June 30, 2007, 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.

In accordance with Government Auditing Standards, we have also issued our report dated November 26, 2007 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.

Board of Education
San Diego Unified School District

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 them.

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 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

November 26, 2007

SAN DIEGO UNIFIED SCHOOL DISTRICT
MANAGEMENT’S DISCUSSION AND ANALYSIS (UNAUDITED)
Year ended June 30, 2007

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, 2007. 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 \$909.3 million at June 30, 2007.
- During the year, the District’s expenses were \$220.0 million less, before the extraordinary item, than the \$1,593.6 million generated in taxes and other revenues for governmental activities.
- The General Fund reported a fund balance this year of \$124.5 million.
- The District issued approximately \$266.8 million in refunding bonds during fiscal year 2007.

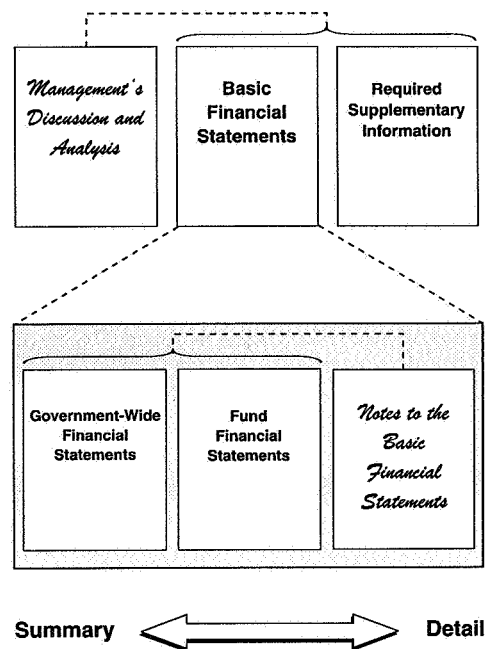
Overview of the Basic Financial Statements

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 depict how *general government services* were financed in the *short-term* as well as what remains for future spending.
 - *Proprietary fund* statements highlight *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, 2007

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 applied 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"> • Statement of net assets • Statement of activities 	<ul style="list-style-type: none"> • Balance sheet • Statement of revenues, expenditures and changes in fund balances 	<ul style="list-style-type: none"> • Statement of net assets • Statement of revenues, expenses, and changes in net assets • Statement of cash flows 	<ul style="list-style-type: none"> • Statement of fiduciary net assets • Statement of changes in fiduciary net assets
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, one needs to consider additional nonfinancial factors such as changes in the District's tax base and/or in the 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, 2007

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 one 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 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, 2007

Financial Analysis of the District as a Whole

Net Assets. The District's net assets were approximately \$909.3 million at June 30, 2007 (See Table A-1).

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

	Governmental activities		Percentage change
	2007	2006*	
Current and other assets	\$ 876.8	\$ 872.4	0.5%
Capital and noncurrent assets	1,845.5	1,629.5	13.3%
Total assets	<u>2,722.3</u>	<u>2,501.9</u>	8.8%
Current liabilities	248.7	235.0	5.8%
Long-term liabilities	1,564.3	1,607.1	(2.7)%
Total liabilities	<u>1,813.0</u>	<u>1,842.1</u>	(1.6)%
Net assets:			
Invested in capital assets net of related debt	302.2	250.5	20.6%
Restricted	551.5	412.3	33.8%
Unrestricted	55.6	(3.0)	(1953.3)%
Total net assets	<u>\$ 909.3</u>	<u>\$ 659.8</u>	37.8%

* Net asset balances for 2006 have been reclassified to conform with current year presentation.

Capital and noncurrent assets increased by \$216.0 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 \$42.8 million decrease in long-term liabilities were the combination of a \$22.3 million decrease in general obligation bonds payable, a \$14.7 million decrease in the Supplemental Early Retirement Plan (SERP) payable and a \$4.2 million decrease in deferred bond premium payable. The \$51.7 million increase in net assets invested in capital assets was due to a reduction in debt related to these assets as a result of the refunding of Series F and G bonds. The \$139.2 million increase in restricted net assets was primarily from a combination of an increased fund balance in the County School Facilities Fund of \$90.7 million and the final \$28.4 million proceeds from the Copley land sale. The most significant cause of the \$58.6 million increase in unrestricted net assets was the receipt of \$45.9 million in one-time Mandated Cost Reimbursements.

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 \$55.6 million balance at the end of 2007.

**SAN DIEGO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year ended June 30, 2007**

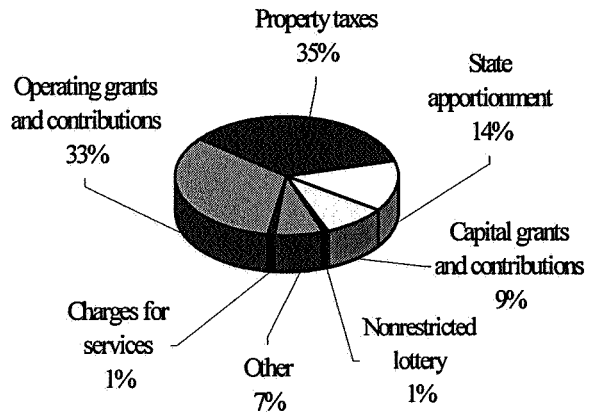
Changes in Net Assets. The District's total revenues were \$1,593.6 million. The largest component of the District's revenue (35%) comes from property taxes (See Figure A-3). Another significant portion, 33%, is received from operating grants and contributions. About 14% comes from state apportionment. The remainder of the revenues consist of 9% from capital grants and contributions, 1% from nonrestricted lottery apportionment, 7% from other revenues, while only 1% relates to charges for services.

The total cost of all programs and services was \$1,373.6 million; 77% of these costs are for instructional and student services.

Governmental Activities

- The District sold capital refunding bonds of \$266.8 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 154 schools. These projects included work in the following categories:
 - Ceiling tile repair/replacement
 - Roofing repair/replacement
 - Plumbing repair
 - Door and window replacements
 - ADA compliance upgrades
 - Electrical system repair/replacement
 - New/upgraded science classrooms
 - HVAC repair
 - Flooring replacements
 - Upgrade of fire security and alarm systems
 - Asphalt/paving
 - Lunch court shelter construction
 - Interior and exterior painting
 - New/expanded libraries

Figure A-3. District Sources of Revenue for Fiscal Year 2007



Construction was continuing on the following new schools: the future Thurgood Marshall Middle School, Lincoln High School, Luther Burbank Elementary, Mary Lanyon Fay Elementary, Florence Griffith-Joyner Elementary, and Laura Rodriguez Elementary. All except Mary Lanyon Fay Elementary were scheduled to and did open in September 2007. This school is scheduled to open in the fall of 2008. There are currently less than 10 active sites and it is anticipated that all Bond spending will be completed by the end of June 2008.

**SAN DIEGO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Year ended June 30, 2007

	<u>Governmental activities</u>		<u>Percentage</u>
	<u>2007</u>	<u>2006</u>	<u>change</u>
Revenues:			
Program revenues:			
Charges for services	\$ 13.0	\$ 13.0	0.0%
Operating grants and contributions	532.8	498.6	6.9%
Capital grants and contributions	142.7	59.4	140.2%
General revenues:			
Property taxes	554.1	554.5	(0.1)%
State apportionment	225.6	187.3	20.4%
Lottery apportionment – nonrestricted	13.5	15.1	(10.6)%
Mandated cost reimbursement	45.9	1.2	3725.0%
Other	66.0	69.4	(4.9)%
Total revenues	<u>1,593.6</u>	<u>1,398.5</u>	14.0%
Expenses:			
Instruction	711.4	671.2	6.0%
Instruction related services	167.7	170.2	(1.5)%
Pupil services	174.4	155.1	12.4%
Ancillary services	1.9	2.7	(29.6)%
Community services	0.3	0.3	0.0%
Enterprise	4.1	1.5	173.3%
General administration	53.8	42.5	26.6%
Plant services	129.3	150.3	(14.0)%
Other outgo	58.2	51.8	12.4%
Interest expense	72.5	70.0	3.6%
Total expenses	<u>1,373.6</u>	<u>1,315.6</u>	4.4%
Increase in net assets before extraordinary item	220.0	82.9	165.4%
Extraordinary item - gain on sale of land	<u>11.5</u>	<u>-</u>	100.0%
Increase in net assets	231.5	82.9	179.3%
Beginning net assets (1)	<u>677.8</u>	<u>576.9</u>	17.5%
Ending net assets	<u>\$ 909.3</u>	<u>\$ 659.8</u>	37.8%

(1) Beginning net assets does not match ending net assets from previous year due to the following restatements: an increase of \$18.8 million to reflect the addition of property purchased in 2001 and not recorded in the District's fixed asset accounting records, and a decrease of \$0.8 million to record amendments for the 2004-05 and 2005-06 PERS Reduction for Cafeteria salaries.

SAN DIEGO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year ended June 30, 2007

District revenues saw the following material changes in 2006-07. The increase in capital grants and contributions was primarily due to a \$75.5 million increase in State School Facilities revenues. State apportionment revenues were up mainly because of a \$34.4 million increase in the General Fund Revenue Limit. Mandated cost reimbursement increased dramatically as a result of an unexpected one-time \$45.9 million in receipts from the State.

District expenses saw the following material changes in 2006-07. Pupil Services increased by \$15.7 million in the General Fund due mainly to an increase of \$5.1 million in pupil transportation, \$3.9 million in counseling services, \$3.1 million in health services, and \$2.5 million in psychological services. Enterprise expenses were higher due to increased costs in the Self-Insurance and Cafeteria Funds. General administration expenses increased mainly due to \$10.6 million of cost increases for the General Fund. Plant services expenses were down as a result of more of these expenses being capitalized as assets in 2006-07 than in 2005-06.

The \$11.5 million extraordinary item for gain on sale of land in 2006-07 was from the Copley land sale that was completed on August 10, 2006.

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 \$1,373.6 million.
- However, the amount that our taxpayers paid for these activities through property taxes was \$554.1 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 (\$675.5 million).

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

	<u>Total cost of services</u>		Percentage change	<u>Net cost of services</u>		Percentage change
	2007	2006		2007	2006	
Instruction	\$ 711.4	\$ 671.2	6.0%	\$ 418.3	\$ 401.3	4.2%
Instruction related services	167.7	170.2	(1.5)%	98.9	102.1	(3.1)%
Pupil services	174.4	155.1	12.4%	90.9	81.2	11.9%
Plant services	129.3	150.3	(14.0)%	(65.2)	30.7	(312.4)%
Other	190.8	168.8	13.0%	142.2	129.3	10.0%
Total	<u>\$ 1,373.6</u>	<u>\$ 1,315.6</u>	4.4%	<u>\$ 685.1</u>	<u>\$ 744.6</u>	(8.0)%

SAN DIEGO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year ended June 30, 2007

Financial Analysis of the District's Funds

Revenues from governmental fund types totaled \$1,577.6 million, while expenditures were \$1,906.2 million. When combined with the \$311.6 million in net other financing sources, the governmental funds experienced a \$17.0 million decrease in fund balance during the year. This decrease was primarily attributed to the following:

- The fund balance of the Capital Projects – Building Fund (Proposition MM) decreased by \$186.2 million primarily due to the winding down of Proposition MM activity. This fund is scheduled to complete operations in late 2008.
- The fund balance of the County School Facilities Fund increased by \$90.7 million mostly due to the combination of an increase in revenues of 135.66% and an increase in expenditures of only 46.01%.
- The fund balance of the Other Governmental Funds increased by \$56.1 million mainly from the combination of an increase in the Special Reserve Fund for Capital Outlay Projects of \$30.6 million primarily from the Copley land sale proceeds, an increase in the Special Reserve Fund for Other Than Capital Outlay Projects of \$28.7 million from Mandated Cost Reimbursements transferred in from the General Fund and a decrease in the Tax Override Fund of \$6.6 million resulting from the transfer of funds to the General Fund to close this fund.
- The fund balance of the General Fund increased by \$17.0 million primarily due to an increase of \$16.8 million received for Mandated Cost Reimbursements.

General Fund Budgetary Highlights

Over the course of the year, the District amended 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 – Revenue Limit Sources of \$7.2 million, Federal grants and special projects of \$27.8 million, State grants and special projects of \$119.5 million, and Local grants and special projects of \$45.2 million.
- Expenditures that were appropriated during the year that were not included in the originally adopted budget – salaries and benefits of \$90.5 million, books and supplies of \$58.0 million, services and other operating expenses of \$58.9 million, capital outlay of \$1.1 million, and other outgo of \$39.8 million.

Even with these adjustments, actual expenditures and other financing uses were \$121.2 million below final budget amounts. The most significant positive variances resulted from:

- Salaries and benefits were \$13.6 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.

**SAN DIEGO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)**

Year ended June 30, 2007

- Books and supplies were \$80.1 million below final budget amounts. This variance can be attributed to the following: \$21.6 million in the master plan for instructional materials that was budgeted but not spent (a textbook adoption will occur in 07/08 and 08/09); \$8.9 million in a one-time Arts, Music, PE Grant that was budgeted but not spent because funds came very late in the year; \$9.2 million in unrestricted resources at school sites that was carried over in the following year; \$4.4 million in restricted lottery revenue carried over into 07/08; \$4.1 million in TIIBG resources carried over in the following year; \$1.9 million of an ongoing Arts and Music Block Grant; \$1.9 million in the School Discretionary Block Grant; \$1.9 million in instructional materials and educational technology grants; \$1.7 million in EIA funds which were unspent because of a late-year state allocation; and \$25.0 million in other restricted resources unspent at school sites and carried over into the following year.
- Services and other operating expenses were \$27.4 million below final budget amounts. This variance can be attributed to the following: \$12.0 million in unspent ASES Transitional Grant (the District assumed oversight of the program from the City of San Diego in the middle of the year); \$2.9 million increase in job cost projects charged to other funds; and \$5.6 million in Title I and \$7.1 million in other restricted resources which were unspent and carried over by school sites into 07/08.

Actual resources available were \$78.9 million below the final budgeted amount. The most significant negative variances resulted from:

- Other state and local revenues were \$38.5 million below final budget amounts. Targeted Instructional Improvement Block Grant (TIIBG) was \$10.9 million below appropriations, Special Education Master Plan was \$7.0 million below appropriations, Mandated Cost Reimbursements was \$6.2 million above appropriations, School Based Coordination Program was \$5.0 million below appropriations and various other State grants were \$13.6 million below appropriations. This largely represents grant money that has been received but not spent by June 30, 2007. Interest income was \$5.3 million above appropriations and various other Local grants were \$15.9 million below appropriations.
- Federal revenues were \$23.6 million below final budget amounts. NCLB/IASA grants were \$9.9 million below appropriations, Maintenance and Operations was \$1.7 million below appropriations, ROTC was \$1.6 million below appropriations and various other Federal grants were \$10.4 million below appropriations. This largely represents grant money that has been received but not spent by June 30, 2007.

SAN DIEGO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year ended June 30, 2007

Capital Assets and Debt Administration

Capital Assets

At the end of 2007, the District had invested \$1,845.5 million in a broad range of capital assets, including land, equipment, buildings, and vehicles (See Table A-4).

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

	Governmental activities		Percentage change
	2007	2006	
Land	\$ 273.2	\$ 259.6	5.2%
Land improvements	141.5	134.4	5.3%
Buildings	450.9	427.7	5.4%
Building improvements	570.0	534.6	6.6%
Personal property and equipment	170.5	182.4	(6.5)%
Work in progress	701.5	530.9	32.1%
Totals at historical cost	2,307.6	2,069.6	11.5%
Total accumulated depreciation	(462.1)	(440.1)	5.0%
Net capital assets	\$ 1,845.5	\$ 1,629.5	13.3%

Net capital assets increased by \$216.0 million in 2006-07 because of additional work on modernization projects and new schools sites. The increases in land, land improvements, buildings, and building improvements resulted from the completion of two new school sites and fifty-six modernized schools projects completed. Increases to work in progress occurred as contractors/vendors worked to complete five new schools sites for August of 2007.

The District's fiscal year 2008 capital budget projects spending another \$109.7 million for capital projects, principally for school construction and capital improvements. This spending will primarily be financed by the unspent proceeds from the bonds issued in previous years and interest earnings. 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 \$1,506.4 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."

SAN DIEGO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year ended June 30, 2007

	Governmental activities		Percentage change
	2007	2006	
Bonds payable	\$ 1,506.4	\$ 1,526.0	(1.3)%

The decrease in bonds payable is primarily due to payment of principal and bond refunding.

Short-Term Debt

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 2006-07). The notes matured on July 24, 2007 and yielded 3.70% 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 \$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.

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 2007-08 State Budget focuses on not spending more than it received in 2007-08. The budget plan projects revenues of \$102.3 billion (an increase of 6.5 percent from 2006-07) and the plan authorizes expenditures of an equal amount (an increase of 0.6 percent). The budget projects an ending balance of \$4.8 billion made up of a \$2.6 billion reserve for economic uncertainties, \$1.5 billion as a Budget Stabilization Account and \$745 million for encumbrances. The Legislative Analyst's Office is projecting the current year budget will end with a deficit of \$1.8 billion, rather than the \$4.1 billion reserve projected in the State budget.

The 2007-08 Budget Act includes \$66.8 billion (\$41.4 billion General Fund and \$25.4 billion other funds) for K-12 education programs in 2007-08. This reflects an increase of \$3.5 billion (\$1.6 billion General Fund and \$1.9 billion other funds) over the 2006-07 revised budget.

The items in the State Budget that had a major impact on the District's 2007-08 budgets are the following:

- **Revenue Limit Growth:** The State saved \$11.0 million as a result of a statewide attendance decline of 0.48 percent. The District's budget reflects an enrollment decline of 2,763 students, which results in a revenue decline of \$12.6 million or 2.1 percent.
- **COLA:** The 2007-08 State Budget includes \$2.1 billion to fund a 4.53 percent COLA. The District's 2007-08 budget includes \$26.3 million for revenue limit COLA.

SAN DIEGO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year ended June 30, 2007

The State Budget has provided for \$1.8 billion in new on-going funding in 2007-08. The following are some of the major items included in the State Budget (amounts in millions):

○ COLA	\$2,122.8
○ Child Care Shift	269.0
○ School Meals	24.9
○ State median income adjustment	5.0
○ Early Mental Health Initiative	5.0
○ Preschool wrap-around care	5.0
○ Other/baseline adjustments	57.5
○ Growth	(11.0)
○ High Priority Schools Grant Program	(100.0)
○ Ongoing shortfall	<u>(566.6)</u>
Total Changes	<u>\$1,811.6</u>

The State Budget has provided for \$700 million in one-time K-12 education funds. The following are some of the major uses of the one-time funds (amounts in millions):

One-time Funds used for Ongoing Purposes

○ Home to School Transportation backfill	\$349.1
○ Deferred maintenance backfill	115.5
○ High Priority Schools Grant Program backfill	<u>102.0</u>
Total Ongoing Purposes	<u>\$566.6</u>

One-time Funds used for One-Time Purposes

○ Emergency Repair Program	\$100.0
○ Charter school facilities grant	18.0
○ Teacher Credentialing Block Grant	8.8
○ Community Day School deficiency	4.1
○ High-Speed Network technology refresh	1.9
○ Reviews of state-administered districts	<u>0.4</u>
Total One-Time Purposes	<u>\$133.2</u>
Grand Total – One-Time/Special Fund Spending	<u>\$699.8</u>

As noted above, the majority of One-Time funds are being used to backfill ongoing Proposition 98 expenditures. The use of one-time funds to backfill ongoing expenditures creates a large hole in the 2008-09 ongoing K-12 budget.

SAN DIEGO UNIFIED SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS (UNAUDITED)
Year ended June 30, 2007

- Assessed valuation used for the 2008 budget preparation was up \$8.3 billion, or 7.7% from 2007.
- The District's 2008 second period average daily attendance (excluding charter schools and adult education) is budgeted at 109,302, down 0.9%.

These indicators were taken into account when adopting the General Fund budget for 2008. Amounts available for appropriation in the General Fund budget are \$1,259.8 million, a decrease of 11.3% over the final 2007 budget of \$1,420.3 million. The 2007-08 Budget includes increases for Revenue Limit COLA of \$26.3 million and other net revenue limit increases of \$8.1 million. These increases are offset by a declining enrollment decrease of \$12.6 million. In 2006-07 one-time Mandated Cost funding was received and budgeted. This funding will not be repeated in 2007-08, resulting in a \$39.8 million decrease. A significant change in SACS accounting treatment for In Lieu Property Tax Transfers to Charter Schools is responsible for a decrease of \$49.2 million. This transfer was previously required to be treated as an expenditure item. Remaining decreases of approximately \$20.3 million in Federal, \$59.5 million in State, and \$13.5 million in Local restricted program revenues are largely due to funding the amount of which was not known at the time of original 2007-08 budget adoption which will be incorporated into the District's budget during 2007-08. Property taxes are budgeted to increase due to an increase in assessed valuation.

Expenditures and other financing uses are budgeted to fall 13.0%, from \$1,338.1 million to \$1,164.3 million in 2008. 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 October 2007, the District has adopted \$51.3 million in restricted and unrestricted resources which were appropriated to salaries and benefits (\$13.5 million); books and supplies (\$26.9 million); services and other operating expenditures (\$8.4 million); capital outlay (\$0.1 million), and other outgo (\$2.4 million).

The District added two major new programs to the 2008 budget. One is a \$5.3 million program for the Microsoft Settlement that will be used to supplement District educational technology purchases. The other is a \$3.5 million grant from the United States Department of Education for a Magnet School program which will help the District create more school choices for parents, bring diverse groups of children together and help create innovative educational programs.

If these estimates are realized, the District's budgetary General Fund balance is expected to decrease by the close of 2008.

Contacting the District's Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, investors, and creditors with a general overview and understanding of the District's finances. Further, it demonstrates the District's financial stewardship, the ability to properly account for all public funds received and expended by the San Diego Unified School District. 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, 2007

	Governmental Activities
<u>Assets</u>	
Cash	\$ 622,393,658
Investments	94,661,090
Accounts receivable:	
Federal and state governments	97,035,828
Local government	21,306,839
Miscellaneous	38,504,437
Inventories	1,636,235
Prepaid expenditures	1,238,840
Land	273,273,866
Work in progress	701,488,211
Depreciable assets, net	870,764,386
Total Assets	2,722,303,390
<u>Liabilities</u>	
Accounts payable and other current liabilities	154,892,828
Deferred revenue	11,355,283
Current portion of long-term liabilities:	
Claims and judgments payable	13,594,491
Compensated absences	17,748,570
General obligation bonds	34,330,000
Deferred bond premium, refunding charges and issue costs	2,053,397
Supplemental Early Retirement Plan	14,685,783
Non-current portion of long-term liabilities:	
Claims and judgments payable	40,783,509
Compensated absences	3,738,803
General obligation bonds	1,472,063,018
Deferred bond premium, refunding charges and issue costs	40,231,234
Arbitrage liability payable	210,113
Supplemental Early Retirement Plan	7,289,605
Total Liabilities	1,812,976,634
<u>Net Assets</u>	
Invested in capital assets, net of related debt	302,225,546
Restricted for:	
Categorical Programs	74,150,812
Capital projects	436,047,577
Debt service	41,282,425
Unrestricted	55,620,396
Total Net Assets	\$ 909,326,756

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2007**

Functions	Expenses	Program Revenues			Net (Expense) Revenue and Changes in Net Assets
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities					
Instruction	\$ 711,403,717	\$ 1,075,722	\$ 292,036,345	\$	\$ (418,291,650)
Instruction - related services	167,711,994		68,846,981		(98,865,013)
Pupil services	174,437,438	11,905,376	71,607,824		(90,924,238)
Ancillary services	1,871,871		768,417		(1,103,454)
Community services	267,943		109,993		(157,950)
Enterprise activities	4,138,988		1,699,084		(2,439,904)
General administration	53,751,482		22,065,370		(31,686,112)
Plant services	129,257,996		51,798,968	142,663,691	65,204,663
Other outgoing	58,195,656		23,889,736		(34,305,920)
Debt service - interest	72,533,788				(72,533,788)
Total School District	\$ 1,373,570,873	\$ 12,981,098	\$ 532,822,718	\$ 142,663,691	(685,103,366)

General Revenues

Property taxes levied for	
General purposes	454,154,959
Debt service	94,043,631
Other specific purposes	5,897,439
Revenue Limit - State Aid	186,182,210
Federal aid not restricted to specific purposes	11,892,583
Class size reduction	38,091,014
State Lottery - non-restricted	13,514,772
Mandated costs	45,932,607
Other state	1,256,145
Other local	37,620,101
Interest and investment earnings - realized and unrealized	16,488,486
Extraordinary item - gain on sale of land	11,520,705
Total general revenues and extraordinary item	916,594,652
Change in net assets	231,491,286
Net Assets - Beginning of year, as originally stated	659,832,376
Adjustment for restatement (see Note 14)	18,003,094
Net Assets - Beginning of year, as restated	677,835,470
Net Assets - End of Year	\$ 909,326,756

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

June 30, 2007

	General Fund	Building Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
Assets						
Cash in county treasury	\$ 41,236,487	\$ 3,142,418	\$ 278,188,396	\$ 106,448,526	\$ 138,334,705	\$ 567,350,532
Cash on hand and in banks	66,675				734,087	800,762
Cash in revolving fund	37,898				500	38,398
Investments		94,661,090				94,661,090
Accounts receivable:						
Federal and state governments	51,718,132		28,494,640		16,823,056	97,035,828
Local government	21,306,839					21,306,839
Miscellaneous	25,790,717	4,324,159	3,366,433	1,294,142	2,898,597	37,674,048
Due from other funds	49,306,480		41,601,615		803,058	91,711,153
Inventories	1,081,369				554,866	1,636,235
Prepaid expenditures	1,229,554	2,427			2,821	1,234,802
Total Assets	\$ 191,774,151	\$ 102,130,094	\$ 351,651,084	\$ 107,742,668	\$ 160,151,690	\$ 913,449,687
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 56,377,500	\$ 24,881,823	\$ 3,509,932	\$ 66,460,243	\$ 3,514,442	\$ 154,743,940
Due to other funds		71,661,426			33,105,688	104,767,114
Deferred revenue	10,891,184				464,099	11,355,283
Total Liabilities	67,268,684	96,543,249	3,509,932	66,460,243	37,084,229	270,866,337
Fund Balances						
Reserved for special purposes	2,348,821	2,427			558,187	2,909,435
Restricted for special purposes	74,150,812					74,150,812
Restricted for debt service				41,282,425		41,282,425
Designated	48,005,834	5,584,418	348,141,152		122,509,274	524,240,678
Total Fund Balances	124,505,467	5,586,845	348,141,152	41,282,425	123,067,461	642,583,350
Total Liabilities and Fund Balances	\$ 191,774,151	\$ 102,130,094	\$ 351,651,084	\$ 107,742,668	\$ 160,151,690	\$ 913,449,687

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, 2007

Total fund balances – governmental funds	\$ 642,583,350
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.	1,845,526,463
Certain bond premiums, issue costs and deferred charges are not recorded at fund level.	(42,284,631)
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.	13,567,466
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	(1,506,393,018)
Supplemental Early Retirement Plan	(21,975,388)
Arbitrage Liability	(210,113)
Accrued compensated absences	(21,487,373)
Total net assets – governmental activities	<u>\$ 909,326,756</u>

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCE - GOVERNMENTAL FUNDS
For the Fiscal Year Ended June 30, 2007

	General Fund	Building Fund	County School Facilities Fund	Bond Interest and Redemption Fund	Other Governmental Funds	Total Governmental Funds
Revenues						
Revenue limit sources:						
State apportionments	\$ 216,707,387	\$ -	\$ 126,163,582	\$ -	\$ 979,366	\$ 343,850,335
Local sources	454,154,958	-	126,163,582	-	979,366	454,154,958
Total revenue limit sources	670,862,345	-	252,327,164	-	1,958,732	798,005,293
Federal sources	112,080,281	-	-	815,561	31,396,200	143,476,481
Other state sources	364,326,367	-	-	96,965,910	29,553,084	394,695,012
Other local sources	75,937,380	9,069,249	14,594,054	97,781,471	44,853,814	241,420,407
Total Revenues	1,223,206,373	9,069,249	140,757,636	97,781,471	106,782,464	1,577,597,193
Expenditures						
Instruction	680,102,725	-	-	-	20,917,453	701,020,178
Instruction - related services	164,181,186	-	-	-	3,974,185	168,155,371
Pupil services	126,075,939	-	-	-	46,583,114	172,659,053
Ancillary services	1,871,871	-	-	-	-	1,871,871
Community services	267,943	-	-	-	267,943	267,943
Enterprise	-	-	-	-	816,010	816,010
General administration	60,111,639	-	-	-	1,255,024	61,366,663
Plant services	85,839,802	193,278,372	50,054,346	-	32,321,391	363,493,911
Other outgo	58,186,654	-	-	-	-	58,186,654
Debt service	-	-	-	378,325,954	-	378,325,954
Total Expenditures	1,176,637,759	193,278,372	50,054,346	378,325,954	105,867,177	1,906,163,608
Excess (deficiency) of revenues over expenditures	46,568,614	(186,209,123)	90,703,290	(280,544,483)	915,287	(328,566,415)
Other Financing Sources (Uses)						
Interfund transfers in	10,712,840	-	-	-	64,458,074	75,170,914
Proceeds from sale of land	-	-	-	-	30,455,308	30,455,308
Proceeds from sale of bonds	-	-	-	285,892,853	-	285,892,853
Interfund transfers out	(40,254,605)	-	-	-	(39,712,840)	(79,967,445)
Total Other Financing Sources (Uses)	(29,541,765)	-	-	285,892,853	55,200,542	311,551,630
Net changes in fund balances	17,026,849	(186,209,123)	90,703,290	5,348,370	56,115,829	(17,014,785)
Fund Balances - Beginning of Year, as originally stated	107,478,618	191,795,968	257,437,862	35,934,055	67,784,399	660,430,902
Adjustment for restatement (see Note 14)	-	-	-	-	(832,767)	(832,767)
Fund Balances - Beginning of Year, as restated	107,478,618	191,795,968	257,437,862	35,934,055	66,951,632	659,598,135
Fund Balances - End of Year	\$ 124,505,467	\$ 5,586,845	\$ 348,141,152	\$ 41,282,425	\$ 123,067,461	\$ 642,583,350

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, 2007

Net change in fund balances – total governmental funds \$ (17,014,785)

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	256,359,548
Depreciation Expense	<u>(40,202,151)</u>

Excess of capital outlay over depreciation expense 216,157,397

Bond proceeds, bond premium and other long-term debt activity provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal, bond premium and other long-term debt obligations 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. 21,851,871

Proceeds from sale of land and equipment are reported as revenues in the governmental funds but are offset by the historical cost on the statement of activities. (18,934,603)

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. 17,406,334

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	14,685,783
Net increase in compensated absences	<u>(2,660,711)</u>

Change in net assets of governmental activities \$231,491,286

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATEMENT OF FUND NET ASSETS
 PROPRIETARY FUNDS

June 30, 2007

	Liability Fund	Property Fund	Workers' Compensation Fund	Dental Fund	Vision Fund	Total
Assets						
Cash in county treasury	\$ 3,885,895	\$ 2,384,532	\$ 44,962,335	\$ 1,095,289	\$ 350,915	\$ 52,678,966
Cash in revolving fund	300,000					300,000
Cash with fiscal agent			700,000	525,000		1,225,000
Accounts receivable:						
Miscellaneous	63,336	21,498	594,030	145,812	5,713	830,389
Due from other funds			12,629,972	1,881,360	170,498	14,681,830
Prepaid expenditures			4,038			4,038
Total Assets	<u>4,249,231</u>	<u>2,406,030</u>	<u>58,890,375</u>	<u>3,647,461</u>	<u>527,126</u>	<u>69,720,223</u>
Liabilities						
Accounts payable		500	148,388			148,888
Claims and judgments (see Note 10)	3,467,000		50,911,000			54,378,000
Due to other funds	696,318	929,551				1,625,869
Total Liabilities	<u>4,163,318</u>	<u>930,051</u>	<u>51,059,388</u>	<u>-</u>	<u>-</u>	<u>56,152,757</u>
Net Assets						
Reserved for special purposes			704,038	525,000		1,229,038
Undesignated	85,913	1,475,979	7,126,949	3,122,461	527,126	12,338,428
Total Net Assets	<u>\$ 85,913</u>	<u>\$ 1,475,979</u>	<u>\$ 7,830,987</u>	<u>\$ 3,647,461</u>	<u>\$ 527,126</u>	<u>\$ 13,567,466</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, 2007

	Liability Fund	Property Fund	Workers' Compensation Fund	Dental Fund	Vision Fund	Total
Operating Revenues						
Self-insurance premiums	\$ 229,033	\$ 1,517,845	\$ 28,346,634	\$ 10,155,211	\$ 1,643,005	\$ 41,891,728
Total Operating Revenues	229,033	1,517,845	28,346,634	10,155,211	1,643,005	41,891,728
Operating Expenditures						
Salaries	227,167	144,682	221,673			593,522
Benefits	86,332	51,896	85,314			223,542
Other supplies	22	73	11,903	3,245		15,243
Payments for claims	5,134,707	2,070,158	11,625,403	10,395,398	1,515,458	30,741,124
Total Operating Expenditures	5,448,228	2,266,809	11,944,293	10,398,643	1,515,458	31,573,431
Operating income (loss)	(5,219,195)	(748,964)	16,402,341	(243,432)	127,547	10,318,297
Non-Operating Revenues						
Interest income	226,750	71,354	1,912,136	66,913	14,353	2,291,506
Net income (loss) before operating transfers	(4,992,445)	(677,610)	18,314,477	(176,519)	141,900	12,609,803
OPERATING TRANSFERS FROM OTHER FUNDS						
Operating transfers in	3,741,000	2,055,531				5,796,531
Operating transfers out	(1,000,000)					(1,000,000)
TOTAL OPERATING TRANSFERS FROM OTHER FUNDS	2,741,000	2,055,531	-	-	-	4,796,531
Change in net assets	(2,251,445)	1,377,921	18,314,477	(176,519)	141,900	17,406,334
Net Assets at Beginning of Year	2,337,358	98,058	(10,483,490)	3,823,980	385,226	(3,838,868)
Net Assets at End of Year	\$ 85,913	\$ 1,475,979	\$ 7,830,987	\$ 3,647,461	\$ 527,126	\$ 13,567,466

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

**STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 INCREASE (DECREASE) IN CASH
 For the Fiscal Year Ended June 30, 2007**

	Governmental Activities
	Self Insurance Funds
Cash Flows from Operating Activities	
Cash received from premiums and other revenues	\$ 40,337,246
Cash paid for claims and operating expenses	<u>(34,335,464)</u>
Net cash provided by operating activities	6,001,782
Cash Flows from Investing Activities	
Interest income	<u>2,007,902</u>
Cash Flows from Financing Activities	
Cash received for operating transfer in	5,796,531
Cash paid for operating transfer out	<u>(1,000,000)</u>
Net increase in cash and cash equivalents	12,806,215
Cash and cash equivalents - July 1, 2006	<u>41,397,751</u>
Cash and cash equivalents - June 30, 2007	<u><u>\$ 54,203,966</u></u>
Adjustments to Reconcile Operating Income to Net Cash Provided by Operating Activities	
Operating Income	\$ 10,318,297
Adjustments to reconcile operating income to net cash provided by operating activities:	
Increase in accounts receivable	(127,596)
Increase in due from other funds	(1,554,482)
Increase in prepaid expense	(909)
Decrease in accounts payable	(455,396)
Decrease in claims and judgments	(2,817,000)
Increase in due to other funds	<u>638,868</u>
Total adjustments	<u>(4,316,515)</u>
Net Cash Provided by Operating Activities	<u><u>\$ 6,001,782</u></u>
Cash balances at June 30, 2007 consisted of the following:	
Cash in county treasury	\$ 52,678,966
Cash in revolving fund and with fiscal agent	300,000
Cash with fiscal agent	<u>1,225,000</u>
Total cash balances at June 30, 2007	<u><u>\$ 54,203,966</u></u>

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATEMENT OF FUND NET ASSETS - FIDUCIARY FUNDS

June 30, 2007

	Associated Student Body Funds
<u>Assets</u>	
Cash on hand and in banks:	
Checking	\$ 5,469,576
Savings	2,333,046
Accounts receivable:	
Miscellaneous	82,512
Prepaid expense	9,550
Stores inventory	330,488
Total Assets	\$ 8,225,172
<u>Liabilities</u>	
Funds held in trust	\$ 8,225,172
Total Liabilities	\$ 8,225,172

See the accompanying notes to the financial statements.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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, 2007

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. Depreciation has been allocated to specific functions while interest expense has not been allocated.

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.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

A. BASIS OF PRESENTATION: (continued)

2. Fund Financial Statements: (continued)

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

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, 2007

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 Statement of Revenue, Expenditures and Changes in Fund Balance is a statement 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 start-up costs of the facilities projects. All state monies are deposited into the County School Facilities Fund and remaining funds beyond those used for the approved 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 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.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

B. FUND ACCOUNTING: (continued)

GOVERNMENTAL FUNDS – MAJOR (continued)

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

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. This fund was closed during this fiscal year.

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. Special Reserve for Other than Capital Outlay Projects Fund – used to accumulate mandated cost reimbursements to the District or for funds from other sources not required to be used for capital outlay purposes.
7. 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, 2007

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 for Capital Outlay Projects Fund – used to hold capital project reserves.
5. Special Reserve Property Management Fund – used to account for revenues received from the rental and lease of facilities and land.
6. Special Reserve Prop O Preconstruction Fund – used to account for reimbursements and expenditures related to the Federal Renovation Program.
7. Special Reserve Energy Efficiency Fund – used to receive excess amounts sufficient to pay certain Public School Building Corporation unpaid bond obligations.
8. 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, 2007

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 claims; Property Fund - used to account for resources committed to the District's self-insurance program for property claims; 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 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-one 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. Revenues in governmental fund financial statements are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the District considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

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, 2007

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, 2007, the inventory for supplies is \$1,081,369. The inventory for food is \$554,866.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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, 2007, 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, 2007

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 accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Sick leave benefits are accumulated without limit for each employee. The employees do not gain a vested right to accumulated sick leave. Accumulated employee sick leave benefits are not recognized as a liability of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

8. Long Term Obligations

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

9. Fund Balance Reservations and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriable for expenditure. Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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.

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 receivable 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, 2007

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 \$10,915,000 for STRS.

14. 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.

15. Classification of Revenues – Proprietary Funds

Proprietary funds distinguish operating revenues from nonoperating revenues. Operating revenues include activities that have the characteristics of exchange transactions, such as food service sales, Federal and most State and local grants and contracts, and self-insurance premiums. Nonoperating revenues include activities that have the characteristics of nonexchange transactions that are defined as nonoperating revenues by GASB No. 9, Reporting Cash Flows of Proprietary and Nonexpendable Trust Funds and Governmental Entities that use Proprietary Fund Accounting, and GASB No. 33, such as investment income.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

C. BASIS OF ACCOUNTING: (continued)

16. 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.

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.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

D. REPORTING ENTITY: (continued)

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.

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 34 charter schools which operate within the District's boundaries. These charter schools receive their funding directly from other government agencies; and have a separate governing board. Each charter school has an independent audit performed annually. The financial information has been grouped by business type, i.e., not for profit or governmental. The condensed unaudited financial information for June 30, 2007 is presented below.

	Total Not for Profit	Total Governmental	Total Charter Schools
Total assets	\$ 39,606,298	\$ 5,751,699	\$ 45,357,997
Total liabilities	8,417,272	3,077,904	11,495,176
Total net assets	\$ 31,189,026	\$ 2,673,795	\$ 33,862,821
Total revenue	\$ 87,490,843	19,721,194	107,212,037
Total expenses	81,337,136	19,357,901	100,695,037
Change in net assets	\$ 6,153,707	\$ 363,293	\$ 6,517,000

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

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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, 2007, \$10,166,782 of the District's bank balance of \$11,058,744 was exposed to credit risk as follows:

Uninsured and uncollateralized	\$10,166,782
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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, 2007, as provided by the pool sponsor, was \$619,471,471, which is 99.91% of historical cost.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 2006-07 fiscal year, nor were they involved in any reverse repurchase agreements during 2006-07.

Investments totaling \$94,661,090 at June 30, 2007 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, 2007

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, 2007 are temporary loans and are detailed as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Major Funds:		
General Fund	\$ 49,306,480	\$
Building Fund		71,661,426
County School Facilities Fund	41,601,615	
Non-Major Funds:		
Special Revenue Funds:		
Adult Education Fund	201,700	
Child Development Fund		11,929,200
Cafeteria Fund		12,967,763
Deferred Maintenance Fund		5,326,662
Special Reserve Fund for Other than Capital Outlay Projects	601,358	
Capital Projects Funds:		
Capital Facilities Fund		1,151,645
Redevelopment Agencies' Fund		995,766
Special Reserve Fund – Property Management		712,439
Special Reserve Fund – Prop O Preconstruction		38
Mesa College Construction Fund		22,175
Internal Service Funds:		
Liability Fund		696,318
Property Fund		929,551
Worker's Compensation Fund	12,629,972	
Dental Fund	1,881,360	
Vision Fund	170,498	
Totals	<u>\$106,392,983</u>	<u>\$106,392,983</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 2006-07 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	\$ 740,590
Transfer from the General Fund to the Postemployment Benefits Fund for annual contribution for retirees' medical benefits per union contract	391,272
Transfer from the Special Reserve Property Management Fund to the General Fund for School Transition budgets	149,671
Transfer from the General Fund to the Postemployment Benefits Fund per Administrator's Association agreement	261,492
Transfer from the Capital Facilities Redevelopment Agencies' Fund to the General Fund for reimbursement of redevelopment expenditures	2,081,858
Transfer from the General Fund to the Special Reserve Fund for Capital Outlay for Mandated Costs revenue to be held until the new Special Reserve for Other Than Capital Outlay Fund was established	30,000,000
Net transfer from the Special Reserve Fund to the Special Reserve for Other Than Capital Outlay Fund for Mandated Cost revenue to be held as a reserve	27,922,140
Transfer from General Fund to Pupil Transportation Fund for bus replacement	2,500,000
Transfer from the Liability Fund to the General Fund due to a reduction in expenses for premiums and insurance costs	1,000,000

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 4 - INTERFUND TRANSACTIONS: (continued)

B. Interfund Transfers (continued)

Transfer from General Fund to Child Development Fund to cover negative fund balance	1,892,915
Transfer from General Fund to Cafeteria Fund to cover negative fund balance	533,766
Transfer from General Fund to Cafeteria Fund to allocate commission revenues from the Coca Cola contract	956,489
Transfer from the Tax Override Fund to the General Fund to transfer remaining fund balance to close the fund	6,554,884
Transfer from the Special Reserve Property Management Fund to the General Fund's Over Capacity Transportation Program for financial assistance for transportation expenditures to relieve over crowded schools	185,837
Transfer from the General Fund to the Liability and Property Funds for premiums and insurance costs	<u>5,796,531</u>
Total	<u>\$80,967,445</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>
Cash in revolving fund	\$ 37,898	\$	\$ 500	\$ 38,398
Inventory	1,081,369		554,866	1,636,235
Prepaid Expenditures	<u>1,229,554</u>	<u>2,427</u>	<u>2,821</u>	<u>1,234,802</u>
Total	<u>\$ 2,348,821</u>	<u>\$ 2,427</u>	<u>\$ 558,187</u>	<u>\$ 2,909,435</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

The following ending balances were legally restricted as to use:

Major Funds:

General Fund:	
Medi-Cal Billing Option	\$ 1,448,743
FEMA Public Assistance Funds	3,969
Cal-SAFE Academic and Supportive Services	1,014
Cal-SAFE Child Care and Development Services	216,296
School Facilities Needs Assessment Grant Program	9,908
English Language Acquisition Program	2,497,191
Calif. Public School Library Act of 1998	29,166
Lottery: Instructional Materials	4,468,108
Career Technical Education Equipment and Supplies	631,046
School Safety & Violence Prevention, Grades 8-12	1,228,010
Arts and Music Block Grant	1,917,331
Arts, Music, and Physical Education Supplies and Equipment	9,383,395
CAHSEE Intensive Instruction and Services	200,308
CAHSEE Individual Intervention Materials	97,135
Supplemental School Counseling Program	2,310,249
Economic Impact Aid: Limited English Proficiency (LEP)	6,650,972
Education Technology: Staff Development	39,966
Gifted & Talented Education (GATE)	100,907
Instructional Materials Realignment, IMFRP (AB 1781)	21,645,830
Instructional Materials: English Language Learners	9,080
School Based Coordination Program (SBCP)	3,550,768
California Peer Assistance & Review Program for Teacher (CPARP)	968,048
Staff Development: Mathematics and Reading (AB 466)	859,903
Staff Development: Administrator Training	26,650
Pupil Retention Block Grant	638,037
Teacher Credentialing Block Grant	460,548
Professional Development Block Grant	11
Targeted Instructional Improvement Block Grant	8,830,423
School and Library Improvement Block Grant	371,872
Discretionary Block Grant - School Site	3,672,222
Instructional Materials, Library Materials and Education Technology	<u>1,883,706</u>
Restricted Resources	<u>\$74,150,812</u>
Bond Interest and Redemption Fund:	
Restricted for Debt Service	<u>\$41,282,425</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

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

Major Funds:

General Fund:	
Economic Uncertainties	\$ 24,318,718
Contingencies	<u>23,687,116</u>
Total General Fund	48,005,834
 Building Fund:	
Bond Projects	5,584,418
 County School Facilities Fund:	
Capital Facilities Projects	<u>348,141,152</u>
 Total Designated Major Funds	<u>\$401,731,404</u>

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	\$ 1,051,011
Child Development	554,337
Cafeteria	(186,647)
Deferred Maintenance	82,510
Pupil Transportation	3,125,554
Post Employment Benefits	1,246,155
Special Reserve for Other Than Capital Outlay Projects	28,734,658

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

Capital Facilities Funds	36,476,972
Special Reserve for Capital Outlay Projects Funds	<u>51,424,724</u>
 Total Designated Non-Major Funds	<u>\$122,509,274</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 6 - 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 2006-07). The notes matured on July 24, 2007 and yielded 3.70% 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 \$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.

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.

NOTE 7 – 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.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 – GENERAL OBLIGATION BONDS: (continued)

The outstanding general obligation bonded debt of San Diego Unified School District at June 30, 2007 is:

	<u>Date of Issue</u>	<u>Interest Rate %</u>	<u>Maturity Date</u>	<u>Amount of Original Issue</u>	<u>Outstanding July 1, 2006</u>	<u>Issued Current Year</u>	<u>Redeemed Current Year</u>	<u>Outstanding June 30, 2007</u>
Series A	5/27/1999	4.20 - 5.34	2023	\$ 139,995,085	\$ 118,278,339	\$	\$ 8,009,364	\$ 110,268,975
					49,644,961	8,510,364	3,400,636	54,754,689
Series B	12/14/2000	4.40 - 5.35	2025	149,999,084	138,445,407		1,799,764	136,645,643
					20,250,308	1,621,798	2,060,236	19,811,870
Series C	11/21/2001	2.95 - 5.00	2026	199,995,712	185,866,995		1,873,230	183,993,765
					9,522,462	720,687	1,506,770	8,736,379
Series D	9/12/2002	2.10 - 5.25	2027	274,995,346	257,841,851		1,957,714	255,884,137
					2,613,776	244,686	962,286	1,896,176
Series E	8/19/2003	1.90 - 5.25	2028	349,993,599	337,755,338		4,431,621	333,323,717
					15,758,851	1,491,206	2,263,379	14,986,678
Series F	9/2/2004	1.95 - 5.00	2029	199,996,373	194,771,906		147,515,613	47,256,293
					256,283	3,187,800	309,387	3,134,696
Series G	9/8/2005	3.00 - 5.00	2030	195,024,802	195,024,802		121,989,802	73,035,000
Refunding	11/13/2006	4.00 - 5.25	2030	266,820,000		266,820,000	4,155,000	262,665,000
				<u>\$ 1,776,820,001</u>	<u>\$ 1,526,031,279</u>	<u>\$ 282,596,541</u>	<u>\$ 302,234,802</u>	<u>\$ 1,506,393,018</u>
							Deferred charge on refunding	(6,998,820)
							Premium and issue costs	49,283,451
							Total	<u>\$ 1,548,677,649</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 – GENERAL OBLIGATION BONDS: (continued)

The annual requirements to amortize all bonds payable, outstanding as of June 30, 2007, are as follows:

Series A

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Accreted Interest Component</u>	<u>Total</u>
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	7,344,741	6,535,259	13,880,000
2013-2017	34,633,267	43,561,733	78,195,000
2018-2022	31,420,762	63,724,238	95,145,000
2023	6,002,619	15,367,381	21,370,000
	<u>\$ 110,268,975</u>	<u>\$ 148,711,025</u>	<u>\$ 258,980,000</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 \$54,754,689 has been reflected in the long-term debt balance.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 – 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>
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	1,301,800	3,698,200	6,549,296	11,549,296
2013-2017	18,490,188	14,179,812	32,398,233	65,068,233
2018-2022	55,805,000		23,353,197	79,158,197
2023-2025	55,605,000		5,871,250	61,476,250
	<u>\$ 136,645,643</u>	<u>\$ 28,164,357</u>	<u>\$ 94,369,160</u>	<u>\$ 259,179,160</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 \$19,811,870 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 44-45.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 – GENERAL OBLIGATION BONDS: (continued)

Series C

Year Ended June 30	Principal	Accreted Interest Component	Current Interest Component	Total
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	1,490,307	3,059,693	8,681,763	13,231,763
2013-2017	32,980,000		40,988,039	73,968,039
2018-2022	58,165,000		30,734,500	88,899,500
2023-2026	85,630,000		11,646,500	97,276,500
	<u>\$ 183,993,766</u>	<u>\$ 10,916,234</u>	<u>\$ 126,777,852</u>	<u>\$ 321,687,852</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 2006-07 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 2006-07 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 \$8,736,378 has been reflected in the long-term debt balance.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 – 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 44-45.

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>
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	4,740,000		12,323,750	17,063,750
2013-2017	35,900,000		58,111,688	94,011,688
2018-2022	63,455,000		46,820,276	110,275,276
2023-2027	141,255,000		24,671,186	165,926,186
	<u>\$ 255,884,137</u>	<u>\$ 2,160,863</u>	<u>\$ 192,274,500</u>	<u>\$ 450,319,500</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 2006-07 year.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 – 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 2006-07 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 \$1,896,176 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 44-45.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 – 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>
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	2,665,336	4,199,664	16,016,930	22,881,930
2013-2017	39,049,622	4,775,378	77,732,610	121,557,610
2018-2022	69,550,000		64,489,025	134,039,025
2023-2027	156,215,000		40,828,075	197,043,075
2028	54,025,000		2,701,250	56,726,250
	<u>\$ 333,323,717</u>	<u>\$ 20,476,282</u>	<u>\$ 265,835,610</u>	<u>\$ 619,635,609</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 2006-07 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 2006-07 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 accreting through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$14,986,678 has been reflected in the long-term debt balance.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 – 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 44-45.

Series F

<u>Year Ended June 30</u>	<u>Principal</u>	<u>Accreted Interest Component</u>	<u>Interest Component</u>	<u>Total</u>
2008	\$ 2,507,166	\$ 1,037,834	\$ 1,612,023	\$ 5,157,023
2009	2,393,763	1,311,237	1,612,022	5,317,022
2010	2,160,242	1,499,758	1,612,023	5,272,023
2011	1,943,816	1,661,184	1,612,023	5,217,023
2012	1,741,306	1,793,694	1,612,023	5,147,023
2013-2017	17,475,000		6,710,190	24,185,190
2018-2022	13,910,000		2,838,437	16,748,437
2023-2027	2,295,000		901,235	3,196,235
2028-2029	2,830,000		268,848	3,098,848
	<u>\$ 47,256,293</u>	<u>\$ 7,303,707</u>	<u>\$ 18,778,824</u>	<u>\$ 73,338,824</u>

Proceeds received in excess of debt are added to the maturity amount and amortized to interest expense over the life of the liability. The amount of premium remaining after the 2006 refunding is \$2,153,823. This amount is amortized using the straight-line method. Amortization of \$63,255 was recognized during the 2006-07 year.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 – GENERAL OBLIGATION BONDS: (continued)

Series F (continued)

In addition, the remaining 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 \$442,063 are amortized using the straight-line method. Amortization of \$12,983 was recognized during the 2006-07 year.

Capital appreciation bonds were issued as part of the Series F issuance with maturity dates from July 1, 2006 through 2012. Prior to their applicable maturity dates, each capital appreciation bond will accrete interest on the principal component, with all interest accruing through the applicable maturity date and payable only upon maturity or prior payment of the principal component. Accreted interest accrued of \$3,134,696 has been reflected in the long-term debt balance.

Series G

Year Ended			
June 30	Principal	Current Interest	Total
2008	\$ 5,000,000	\$ 3,046,581	\$ 8,046,581
2009	5,170,000	2,896,581	8,066,581
2010	5,075,000	2,741,481	7,816,481
2011	5,120,000	2,487,731	7,607,731
2012	5,080,000	2,282,931	7,362,931
2013-2017	23,775,000	8,470,805	32,245,805
2018-2022	18,895,000	3,763,996	22,658,996
2023-2027	3,175,000	564,884	3,739,884
2028-2030	1,745,000	152,688	1,897,688
	<u>\$ 73,035,000</u>	<u>\$ 26,407,678</u>	<u>\$ 99,442,678</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 – 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 amount of premium remaining after the 2006 refunding is \$3,911,207. This amount is amortized using the straight-line method. Amortization of \$114,867 was recognized during the 2006-07 year.

In addition, the remaining 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 \$712,568 are amortized using the straight-line method. Amortization of \$20,927 was recognized during the 2006-07 year.

Refunding Bonds

On November 13, 2006, the District issued 2006 General Obligation Refunding Bonds Series F-1 and Series G-1 of \$266,820,000 of current interest bonds. Interest rates range from 4.0% to 5.25% payable semiannually on January 1 and July 1.

The proceeds were issued to pay off portions of the 1998 Election, Series F and Series G general obligation bonds. The proceeds were placed into an irrevocable escrow account and will be used to fund the future required principal and interest payments of the refunded bonds. The refunded portions of the bonds are considered in-substance defeased and are not recorded on the financial statements. The difference in cash flow requirements related to this refunding is a savings of cash outflow of approximating \$19,240,000. The present value of the economic gain to the District amounts to approximately \$12,000,000. The net carrying value of the bonds refunded was \$7,210,585 less than the amount paid into the escrow account. This amount has been netted against the new debt and amortized over the life of the new debt which is the same as the life of the old debt. The amount of debt that remains outstanding at June 30, 2007 for the original Series F issuance is \$47,256,293 and for Series G issuance is \$73,035,000. The amount of refunding debt outstanding at June 30, 2007 for Series F is \$147,355,000 and for Series G is \$119,465,000.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 – GENERAL OBLIGATION BONDS: (continued)

Refunding Bonds (continued)

The debt service requirements for the Refunding Bonds outstanding as of June 30, 2007 is as follows:

<u>June 30</u>	<u>Principal</u>	<u>Current Interest Component</u>	<u>Total</u>
2008	\$	\$ 12,617,542	\$ 12,617,542
2009		12,617,542	12,617,542
2010		12,617,542	12,617,542
2011		12,617,542	12,617,542
2012		12,617,542	12,617,542
2013-2017		63,087,710	63,087,710
2018-2022	3,240,000	63,087,710	66,327,710
2023-2027	70,910,000	58,878,640	129,788,640
2028-2029	<u>188,515,000</u>	<u>14,014,726</u>	<u>202,529,726</u>
	<u>\$ 262,665,000</u>	<u>\$ 262,156,496</u>	<u>\$ 524,821,496</u>

Proceeds received in excess of debt and the difference between the reacquisition cost of the new debt and the carrying value of the old debt are netted against the carrying amount of the debt and amortized to interest expense over the life of the liability. The bonds included a premium of \$19,072,853 and a deferred charge on refunding of \$7,210,585. These amounts were amortized using the straight-line method. Premium amortization of \$560,143 and deferred charge amortization of \$211,765, for a net amortization of \$348,378 was recognized during the 2006-07 year.

Associated issuance costs are netted against the premium on the statement of net assets and are amortized to interest expense over the life of the liability. Issuance costs of \$1,868,157 were amortized using the straight-line method. Amortization of \$54,865 was recognized during the 2006-07 year.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 – GENERAL OBLIGATION BONDS: (continued)

Crossover 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>	

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.

SAN DIEGO UNIFIED SCHOOL DISTRICT
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

NOTE 7 – GENERAL OBLIGATION BONDS: (continued)

Crossover Refunding Bonds (continued)

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>

At the time of refunding, the net present value of the economic gain to the District 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>

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 7 – GENERAL OBLIGATION BONDS: (continued)

STATE SCHOOL BUILDING LOANS

State school building loans outstanding at June 30, 2007 are as follows:

<u>Year Disbursed</u>	<u>Interest Rate</u>	<u>Balance July 1, 2006</u>	<u>Interest Charge</u>	<u>Repayment Current Year</u>	<u>Outstanding June 30, 2007</u>	<u>Amount Due in One Year</u>
1990	4.5%-5.5%	\$ <u>8,825</u>	-	\$ <u>8,825</u>	-	-

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.

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

A schedule of changes in long-term debt for the year ended June 30, 2007 is shown below.

	<u>Balance July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>	<u>Amount Due in One Year</u>
Compensated absences	\$ 18,826,662	\$ 2,660,711	\$ -	\$ 21,487,373	\$ 17,748,570
Arbitrage liability	220,363	-	10,250	210,113	-
Bonded debt	1,526,031,279	282,596,541	302,234,802	1,506,393,018	34,330,000
Deferred bond premium and issue cost*	44,479,166	9,994,111	12,188,646	42,284,631	2,053,397
State school building loans	8,825	-	8,825	-	-
Supplemental Early Retirement Program	<u>36,661,171</u>	-	<u>14,685,783</u>	<u>21,975,388</u>	<u>14,685,783</u>
	<u>\$ 1,626,227,466</u>	<u>\$ 295,251,363</u>	<u>\$ 329,128,306</u>	<u>\$ 1,592,350,523</u>	<u>\$ 68,817,750</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.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

Capital asset activity for the year ended June 30, 2007 is shown below.

	<u>Balance July 1, 2006</u>	<u>Adjustments*</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance June 30, 2007</u>
Land	\$ 259,604,365	\$ 18,835,861	\$ 13,669,501	\$ 18,835,861	\$ 273,273,866
Work In Progress	530,914,589		249,468,996	78,895,374	701,488,211
Land Improvements	134,343,814		7,165,655		141,509,469
Buildings and Improvements	962,328,155		58,547,306		1,020,875,461
Machinery and Equipment	<u>182,376,018</u>		<u>6,403,464</u>	<u>18,260,686</u>	<u>170,518,796</u>
Total at historical cost	<u>2,069,566,941</u>	<u>18,835,861</u>	<u>335,254,922</u>	<u>115,991,921</u>	<u>2,307,665,803</u>
Less accumulated depreciation for:					
Land Improvements	65,028,734		6,687,545		71,716,279
Buildings and Improvements	226,865,292		20,096,408		246,961,700
Machinery and Equipment	<u>148,205,107</u>		<u>13,418,198</u>	<u>18,161,944</u>	<u>143,461,361</u>
Total accumulated depreciation	<u>440,099,133</u>	<u>-</u>	<u>40,202,151</u>	<u>18,161,944</u>	<u>462,139,340</u>
Governmental activities capital assets, net	<u>\$1,629,467,808</u>	<u>\$ 18,835,861</u>	<u>\$295,052,771</u>	<u>\$ 97,829,977</u>	<u>\$1,845,526,463</u>

* Capital assets were adjusted as of July 1, 2006 to record a purchase of land that was not previously reported. See finding 07-01.

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.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 10 – INTERNAL SERVICE FUNDS: (continued)

At June 30, 2007, the District accrued the claims liability in accordance with GASB Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated. The amount of liability is estimated at \$54,378,000. Changes in the reported liability are shown below:

	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Liability	\$ 2,331,000	\$ 3,288,094	\$ 2,152,094	\$ 3,467,000
Workers' Compensation	<u>54,864,000</u>	<u>7,773,927</u>	<u>11,726,927</u>	<u>50,911,000</u>
	<u>\$57,195,000</u>	<u>\$11,062,021</u>	<u>\$13,879,021</u>	<u>\$54,378,000</u>

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.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 11 - EMPLOYEE RETIREMENT PLANS: (continued)

State Teachers' Retirement System (STRS) (continued)

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 2006-07 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.

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 2006-07 was 9.124% of annual payroll. The contribution requirements of the plan members are established and may be amended by State statute.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 11 - EMPLOYEE RETIREMENT PLANS: (continued)

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
2005	\$40,915,726	100%	\$18,743,950	100%
2006	41,573,229	100%	18,085,855	100%
2007	44,644,997	100%	20,579,989	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.

Currently, 1,310 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 \$740,590 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 \$2,957,161 and the total budgeted for 2007-08 is \$2,763,335.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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

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.

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 1,434 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 2006-07 fiscal year, the District paid \$14,685,783. The remaining payments are due as follows and are included as long term liabilities on the Statement of Net Assets:

2007-08	\$14,685,783
2008-09	<u>7,289,605</u>
Total	<u>\$21,975,388</u>

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

**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, 2007 is \$3,219,610. This deposit is considered full payment over the term of the \$5 million debt. There is no liability included in these financial statements because the debt is considered in-substance defeased.

NOTE 14 – RESTATEMENT TO BEGINNING NET ASSETS AND FUND BALANCE:

The beginning net assets for governmental funds on the government-wide financial statement has been restated \$18,835,861 to reflect the addition of property purchased in 2001 and not recorded in the District's fixed asset accounting records.

The beginning fund balance for the Special Revenue Cafeteria Fund has been restated \$(832,767) to record amendments for the 2004-05 and 2005-06 PERS reduction for Cafeteria salaries.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

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 any litigation is unknown at the present time. Any estimated possible judgment(s) against the District are either immaterial or unknown and are not reflected in these financial statements.

C. State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes, including reimbursement of mandated costs, that are subject to review and audit by the grantor agencies. Audits of this nature could result in adjustments of funding.

D. State School Building and County School Facilities Funds

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

E. Purchase Commitments

As of June 30, 2007, the District was committed under various capital expenditure purchase agreements for construction and modernization projects totaling approximately \$23,042,000. Projects will be funded through Bond Proceeds, State School Building Grants, State Deferred Maintenance Allocations, Capital Facilities Funds and the General Fund.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE 15 - COMMITMENTS AND CONTINGENCIES: (continued)

F. Supplemental Early Retirement – Title I

The District has allocated a portion of the costs associated with their Supplemental Retirement Plan offered to employees to Title I. The amount allocated to Title I is approximately \$1.9 million, and will be applied over the payment period of five years. For 2005-06, the amount applied was \$511,125. Due to an advisory letter from the California Department of Education dated December 15, 2006, the District did not allocate costs associated with their Supplemental Early Retirement Plan to Title I and all other federal programs for the years 2006-07 and 2007-08.

NOTE 16- SUBSEQUENT EVENTS:

A. Tax Revenue Anticipation Notes

The District issued \$210,000,000 of Tax Revenue Anticipation Notes dated July 2, 2007 through the California School Boards Association Finance Corporation's Cash Reserve Program (Series A). The notes mature on July 22, 2008 and yield 3.66% 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, 2008 and that \$210,000,000 principal plus \$551,250 interest be paid by July 22, 2008.

B. 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 will 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.

SUPPLEMENTARY INFORMATION SECTION

SAN DIEGO UNIFIED SCHOOL DISTRICT

HISTORY AND ORGANIZATION

June 30, 2007

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 eighty-five education facilities, including one-hundred sixteen elementary schools, twenty-four middle/junior high schools, twenty-four high schools, twenty-nine high schools, and sixteen alternative program sites.

The Board of Education and the District Administrators for the fiscal year ended June 30, 2007 were as follows:

BOARD OF EDUCATION

<u>Member</u>	<u>Office</u>	<u>Term Expires</u>
Luis Acle	President	December 2008
Shelia Jackson	Vice President	December 2008
Mitz Lee	Member	December 2008
John de Beck	Member	December 2010
Katherine Nakamura	Member	December 2010

DISTRICT ADMINISTRATORS

Dr. Carl Cohn*	Superintendent
Geno Flores	Deputy Superintendent
Jose Betancourt**	Chief Administrative Officer
Jodi Smith	Chief of Staff
William Kowba	Chief Financial Officer

*Resigned effective December 31, 2007

**Resigned effective August 2007

SAN DIEGO UNIFIED SCHOOL DISTRICT

NON-MAJOR DEBT SERVICE FUND

BALANCE SHEET

June 30, 2007

	Tax Override Fund
<u>ASSETS</u>	
Cash in county treasury	\$ _____
TOTAL ASSETS	\$ _____ -
<u>FUND BALANCE</u>	
FUND BALANCE	
Restricted for debt service	\$ _____
TOTAL FUND BALANCE	_____ -
TOTAL LIABILITIES AND FUND BALANCE	\$ _____ -

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, 2007**

	Tax Override Fund
	<u> </u>
TOTAL REVENUES	\$ <u> </u> -
Other Financing Uses	
Interfund transfers out	<u> </u> (6,554,884)
Deficiency of revenues over other uses	(6,554,884)
Fund Balances at beginning of year	<u> </u> 6,554,884
Fund Balances at end of year	<u><u> </u></u> \$ <u> </u> -

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NON-MAJOR SPECIAL REVENUE FUNDS
COMBINING BALANCE SHEET

June 30, 2007

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Pupil Transportation Equipment Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Post Employment Benefits Fund	Total (Memorandum Only)
ASSETS								
Cash on county treasury	\$ 1,409,741	\$ 7,267,164	6,080,659	\$ 536,614	\$ 3,085,252	\$ 27,731,976	\$ 1,227,987	\$ 47,339,393
Cash on hand and in banks			734,087					734,087
Cash in revolving fund		500						500
Accounts receivable:								
Federal and state governments	1,753	5,298,156	6,723,147	4,800,000				16,823,056
Miscellaneous	13,648	113,721	417,805	72,558	40,302	401,324	18,168	1,077,526
Due from other funds	201,700					601,358		803,058
Inventories			554,866					554,866
Prepaid expenditures		519						519
TOTAL ASSETS	\$ 1,626,842	\$ 12,680,060	\$ 14,510,564	\$ 5,409,172	\$ 3,125,554	\$ 28,734,658	\$ 1,246,155	\$ 67,333,005
LIABILITIES AND FUND BALANCE								
LIABILITIES								
Accounts payable	\$ 448,479	\$ 195,504	\$ 1,174,582	\$	\$	\$	\$	\$ 1,818,565
Due to other funds		11,929,200	12,967,763	5,326,662				30,223,625
Deferred revenue	127,352							127,352
TOTAL LIABILITIES	575,831	12,124,704	14,142,345	5,326,662	-	-	-	32,169,542
FUND BALANCE								
Reserved for special purposes		1,019	554,866					555,885
Designated for special purpose	1,051,011	554,337	(186,647)	82,510	3,125,554	28,734,658	1,246,155	34,607,578
TOTAL FUND BALANCE	1,051,011	555,356	368,219	82,510	3,125,554	28,734,658	1,246,155	35,163,463
TOTAL LIABILITIES AND FUND BALANCE	\$ 1,626,842	\$ 12,680,060	\$ 14,510,564	\$ 5,409,172	\$ 3,125,554	\$ 28,734,658	\$ 1,246,155	\$ 67,333,005

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, 2007

	Adult Education Fund	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund	Pupil Transportation Equipment Fund	Special Reserve Fund for Other Than Capital Outlay Projects	Post Employment Benefits Fund	Total Memorandum Only)
REVENUES								
Revenue from revenue limit sources:								
State apportionment	\$ 979,366	\$ 715,034	\$ 30,681,166	\$ 4,645,274	\$ 115,197	\$ 812,518	\$ 74,361	\$ 979,366
Revenue from federal sources	1,128,026	20,537,509	3,242,275	102,908	115,197	812,518	74,361	31,396,200
Revenue from other state sources	52,169	4,277,546	12,396,948	4,748,182	115,197	812,518	74,361	29,553,084
Revenue from local sources	2,159,561	25,530,089	46,320,389	4,748,182	115,197	812,518	74,361	17,831,647
TOTAL REVENUES								79,760,297
EXPENDITURES								
Instruction	1,021,777	19,895,676						20,917,453
Instruction-related services	755,721	3,218,464						3,974,185
Pupil services	64,351	664,495	43,708,141		2,146,127			46,583,114
Enterprise			816,010					816,010
General administration	27,350	824,112	390,387	4,926,103				1,241,849
Plant services	94,423	1,273,934	1,874,416	4,926,103				8,168,876
TOTAL EXPENDITURES	1,963,622	25,876,681	46,788,954	4,926,103	2,146,127			81,701,487
Excess (deficiency) of revenues over expenditures	195,939	(346,592)	(468,565)	(177,921)	(2,030,930)	812,518	74,361	(1,941,190)
OTHER FINANCING SOURCES (USES)								
Interfund transfers in		1,892,915	1,490,255		2,500,000	27,922,140	652,764	34,458,074
Interfund transfers out		(1,892,915)	(1,490,255)		(2,500,000)	(27,922,140)	(740,590)	(740,590)
TOTAL OTHER FINANCING SOURCES (USES)								33,717,484
Excess (deficiency) of revenues over expenditures and other sources (uses)	195,939	1,546,323	1,021,690	(177,921)	469,070	28,734,658	(13,465)	31,776,294
Fund Balances at beginning of year, as originally stated	855,072	(990,967)	179,296	260,431	2,656,484		1,259,620	4,219,936
Adjustment for restatement (see Note 14)			(832,767)					(832,767)
Fund Balances at beginning of year, as stated	855,072	(990,967)	(653,471)	260,431	2,656,484		1,259,620	3,387,169
Fund Balances at end of year	1,051,011	555,356	368,219	82,510	3,125,554	28,734,658	1,246,155	35,163,463

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NON-MAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET

June 30, 2007

	<u>Capital Facilities Fund</u>	<u>Redevelopment Agencies' Fund</u>	<u>Special Reserve Balboa Stadium Fund</u>	<u>Special Reserve Fund for Capital Outlay Projects</u>
<u>ASSETS</u>				
Cash in county treasury	\$ 26,834,599	\$ 12,725,414	\$ 6,376	\$
Accounts receivable:				
Miscellaneous	425,560	263,452	96	
Prepaid expenditures				
TOTAL ASSETS	<u>\$ 27,260,159</u>	<u>\$ 12,988,866</u>	<u>\$ 6,472</u>	<u>\$ -</u>
<u>LIABILITIES AND FUND BALANCE</u>				
<u>LIABILITIES</u>				
Accounts payable	\$ 1,624,642	\$	\$	\$
Due to other funds	1,151,645	995,766		
Deferred revenue				
TOTAL LIABILITIES	<u>2,776,287</u>	<u>995,766</u>	<u>-</u>	<u>-</u>
FUND BALANCE				
Reserved for special purposes				
Designated for special purposes	24,483,872	11,993,100	6,472	
TOTAL FUND BALANCE	<u>24,483,872</u>	<u>11,993,100</u>	<u>6,472</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 27,260,159</u>	<u>\$ 12,988,866</u>	<u>\$ 6,472</u>	<u>\$ -</u>

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT

NON-MAJOR CAPITAL PROJECTS FUNDS
COMBINING BALANCE SHEET

June 30, 2007

	Special Reserve Property Management Fund	Special Reserve Prop O Preconstruction Fund	Special Reserve Energy Efficiency Fund	Special Reserve Mesa College Construction Fund	Total (Memorandum Only)
<u>ASSETS</u>					
Cash in county treasury	\$ 5,106,549	\$ 33,455,300	\$	\$ 12,867,074	\$ 90,995,312
Accounts receivable:					
Miscellaneous	512,538	445,415		174,010	1,821,071
Prepaid expenditures	<u>2,302</u>				<u>2,302</u>
TOTAL ASSETS	\$ 5,621,389	\$ 33,900,715	\$ -	\$ 13,041,084	\$ 92,818,685
<u>LIABILITIES AND FUND BALANCE</u>					
LIABILITIES					
Accounts payable	\$ 62,951	\$ 8,284	\$	\$	\$ 1,695,877
Due to other funds	712,439	38		22,175	2,882,063
Deferred revenue	<u>336,747</u>				<u>336,747</u>
TOTAL LIABILITIES	1,112,137	8,322	-	22,175	4,914,687
FUND BALANCE					
Reserved for special purposes	2,302				2,302
Designated for special purposes	<u>4,506,950</u>	<u>33,892,393</u>		<u>13,018,909</u>	<u>87,901,696</u>
TOTAL FUND BALANCE	4,509,252	33,892,393	-	13,018,909	87,903,998
TOTAL LIABILITIES AND FUND BALANCE	\$ 5,621,389	\$ 33,900,715	\$ -	\$ 13,041,084	\$ 92,818,685

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, 2007

	<u>Capital Facilities Fund</u>	<u>Redevelopment Agencies' Fund</u>	<u>Special Reserve Balboa Stadium Fund</u>	<u>Special Reserve Fund for Capital Outlay Projects</u>
REVENUES				
Revenue from local sources	\$ 11,896,309	\$ 6,392,887	\$ 416	\$
TOTAL REVENUES	<u>11,896,309</u>	<u>6,392,887</u>	<u>416</u>	<u>-</u>
EXPENDITURES				
General administration		13,175		
Plant services	14,777,169	1,172,440	3,176	
TOTAL EXPENDITURES	<u>14,777,169</u>	<u>1,185,615</u>	<u>3,176</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures	<u>(2,880,860)</u>	<u>5,207,272</u>	<u>(2,760)</u>	<u>-</u>
OTHER FINANCING SOURCES (USES)				
Interfund transfers in				30,000,000
Interfund transfers out		(2,081,858)		(30,000,000)
TOTAL OTHER FINANCING SOURCES (USES)	<u>-</u>	<u>(2,081,858)</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>(2,880,860)</u>	<u>3,125,414</u>	<u>(2,760)</u>	<u>-</u>
Fund Balances at beginning of year	<u>27,364,732</u>	<u>8,867,686</u>	<u>9,232</u>	<u>-</u>
Fund Balances at end of year	<u>\$ 24,483,872</u>	<u>\$ 11,993,100</u>	<u>\$ 6,472</u>	<u>\$ -</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, 2007

	Special Reserve Property Management Fund	Special Reserve Prop O Preconstruction Fund	Special Reserve Energy Efficiency Fund	Special Reserve Mesa College Construction Fund	Total (Memorandum Only)
REVENUES					
Revenue from local sources	\$ 6,585,199	\$ 1,497,398	\$ -	\$ 649,958	\$ 27,022,167
TOTAL REVENUES	<u>6,585,199</u>	<u>1,497,398</u>	<u>-</u>	<u>649,958</u>	<u>27,022,167</u>
EXPENDITURES					
General administration					13,175
Plant services	7,433,937	173,813		591,980	24,152,515
TOTAL EXPENDITURES	<u>7,433,937</u>	<u>173,813</u>	<u>-</u>	<u>591,980</u>	<u>24,165,690</u>
Excess (deficiency) of revenues over expenditures	<u>(848,738)</u>	<u>1,323,585</u>	<u>-</u>	<u>57,978</u>	<u>2,856,477</u>
OTHER FINANCING SOURCES (USES)					
Interfund transfers in					30,000,000
Proceeds from sale of land		30,455,308			30,455,308
Interfund transfers out	(335,508)				(32,417,366)
TOTAL OTHER FINANCING SOURCES (USES)	<u>(335,508)</u>	<u>30,455,308</u>	<u>-</u>	<u>-</u>	<u>28,037,942</u>
Excess (deficiency) of revenues over expenditures and other sources (uses)	<u>(1,184,246)</u>	<u>31,778,893</u>		<u>57,978</u>	<u>30,894,419</u>
Fund Balances at beginning of year	<u>5,693,498</u>	<u>2,113,500</u>	<u>-</u>	<u>12,960,931</u>	<u>57,009,579</u>
Fund Balances at end of year	<u>\$ 4,509,252</u>	<u>\$ 33,892,393</u>	<u>\$ -</u>	<u>\$ 13,018,909</u>	<u>\$ 87,903,998</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, 2007**

	<u>Budgeted Amounts</u>			Variance with Final Budget to Actual Favorable (Unfavorable)
	<u>Original</u>	<u>Final</u>	<u>Actual</u>	
Revenues:				
Revenue Limit Sources	\$ 670,401,526	\$ 677,608,131	\$ 670,862,345	\$ (6,745,786)
Federal Sources	107,914,938	135,686,836	112,080,281	(23,606,555)
Other State Sources	274,060,139	393,599,400	364,326,367	(29,273,033)
Other Local Sources	39,996,063	85,152,172	75,937,380	(9,214,792)
Interfund Contributions		9,934,510		(9,934,510)
Total Revenues	<u>1,092,372,666</u>	<u>1,301,981,049</u>	<u>1,223,206,373</u>	<u>(78,774,676)</u>
Expenditures:				
Certificated Salaries	494,342,984	551,801,185	543,594,505	8,206,680
Classified Salaries	181,409,553	199,361,599	197,531,369	1,830,230
Employee Benefits	238,827,937	253,953,217	250,422,776	3,530,441
Books & Supplies	73,552,820	131,613,183	51,489,915	80,123,268
Services, Other Operating Expenses	54,604,057	113,522,360	86,076,528	27,445,832
Capital Outlay	293,364	1,373,069	741,607	631,462
Other Outgo	41,156,279	54,900,650	46,781,059	8,119,591
Total Expenditures	<u>1,084,186,994</u>	<u>1,306,525,263</u>	<u>1,176,637,759</u>	<u>129,887,504</u>
Excess (Deficiency) of Revenues over Expenditures	8,185,672	(4,544,214)	46,568,614	51,112,828
Other financing sources (uses):				
Transfer In	1,096,600	10,882,297	10,712,840	(169,457)
Transfer out	(7,430,367)	(31,599,663)	(40,254,605)	(8,654,942)
Net change in fund balances	<u>\$ 1,851,905</u>	<u>\$ (25,261,580)</u>	<u>17,026,849</u>	<u>\$ 42,288,429</u>
Fund Balance at Beginning of Year			<u>107,478,618</u>	
Fund Balance - June 30, 2007			<u>\$ 124,505,467</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, 2007**

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, 2007 are as follows:

	<u>Second Period</u>	<u>Annual</u>
Elementary:		
Kindergarten	8,926	8,925
First through third grade	26,467	26,435
Fourth through eighth grade	39,770	39,638
Opportunity schools	3	3
Home or hospital - temporary physical disabilities	33	34
Special education	2,756	2,907
Special Education – nonpublic, nonsectarian schools	169	169
Extended year special education – mandated	129	167
Extended year programs - nonpublic, nonsectarian schools	21	21
Community day schools	<u>34</u>	<u>42</u>
Total elementary ADA	<u>78,308</u>	<u>78,341</u>
Secondary:		
Regular classes	29,480	29,083
Continuation education	635	633
Opportunity school	0	0
Home or hospital - temporary physical disabilities	10	12
Special education	1,408	1,372
Special education – nonpublic, nonsectarian schools	250	250
Extended year special education – mandated	107	114
Extended year programs - nonpublic, nonsectarian schools	37	37
Community day schools	<u>31</u>	<u>35</u>
Total secondary ADA	<u>31,958</u>	<u>31,536</u>
Classes for Adults:		
Concurrently enrolled	85	133
Not concurrently enrolled	<u>212</u>	<u>265</u>
Total classes for adults	<u>297</u>	<u>398</u>
Total ADA	<u>110,563</u>	<u>110,275</u>

<u>Hourly Programs</u>	<u>Hours of Attendance</u>
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Elementary	1,330,935
Secondary	805,567

See the accompanying notes to supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

For the Fiscal Year Ended June 30, 2007

<u>Grade Level</u>	<u>1986-87</u> Minutes <u>Requirement</u>	<u>1982-83</u> Actual <u>Minutes</u>	<u>2006-07</u> Actual <u>Minutes</u>	<u>Number of Days</u>		<u>Status</u>
				<u>Traditional</u>	<u>Calendar</u>	
Kindergarten	36,000	35,400	55,345	180	180	In compliance
Grade 1	50,400	50,445	54,030	180	180	In compliance
Grade 2	50,400	50,445	54,030	180	180	In compliance
Grade 3	50,400	53,985	54,030	180	180	In compliance
Grade 4	50,400	53,985	54,030	180	180	In compliance
Grade 5	50,400	53,985	54,030	180	180	In compliance
Grade 6	50,400	53,985	54,030	180	180	In compliance
Grade 7	54,000	62,835	62,995	180	180	In compliance
Grade 8	54,000	62,835	62,995	180	180	In compliance
Grade 9	64,800	62,835	64,802	180	180	In compliance
Grade 10	64,800	62,835	64,802	180	180	In compliance
Grade 11	64,800	62,835	64,802	180	180	In compliance
Grade 12	64,800	62,835	64,802	180	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, 2007

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Categorical Aid Programs:			
U.S. Department of Education:			
Indian Education	84.060	10011	\$ 87,964
Other Federal: Safe School Healthy	84.184L	(1)	530,922
Other Federal: Reduce Alcohol Abuse	84.184A	(1)	539,380
Elementary Secondary School Counseling	84.215E	(1)	650,083
Smaller Learning Community	84.215	14307	1,054,133
Emergency Response and Crisis Management	84.184E	(1)	179,890
Striving Readers	84.371A	(1)	2,244,526
Advanced Placement Incentive Program Grant	84.330C	(1)	349,268
Unrestricted: Federal Impact Aid-Unrestricted	(1)	(1)	<u>10,550,657</u>
Subtotal: Direct programs			<u>16,186,823</u>
Pass-Through Programs From			
California Department of Education:			
Title I, Part A, Basic Grants Low-Income and Neglected	84.010	13797	45,812,696
Title I, Part D, Local Delinquent Program	84.013	13798	26,177
Title I, Part A, Non-Program Improvement LEAs with Program Improvement Schools	84.010	14796	599,999
Title I, Part F, Comprehensive School Reform Demonstration	84.010	14325	222,343
Title I, School Assistance Intervention	84.010A	14417	116,336
Title I, School Assistance Intervention Implementation	84.010A	14579	176,098
Title II, Part A, Improving Teacher Quality	84.367	14341	8,814,277
Title II, Part B, Math and Science	84.366	14512	580,199
Title II, Part D, Enhancing Education Through Technology	84.318	14334	982,139
Title II, Part D, Enhancing Education Through Technology Competitive	84.318	14368	764,876
Title III, Immigrant Education Program	84.365	14346	168,619
Title III, Limited English Proficient Student Program	84.365	10084	4,744,990
Title VI, Part A Drug-Free Schools	84.186	14347	1,169,501
Title V Innovative Education Strategies	84.298A	13340	42,183
Even Start Family Literacy	84.213	3700	537,992
Special Education: IDEA Preschool Grants, Part B, Sec 619	84.173	13430	894,048
Pre-School Desired Results	(1)	(1)	75,144
Special Education: IDEA Preschool Entitlement, Part B, Sec 611	84.027A	13682	1,197,725
Special Education: IDEA Preschool Local Staff Development, Part B, Sec 611	84.027A	13613	49,402
Special Education: IDEA Preschool Local Staff Development, Part B, Sec 619	84.173A	13431	4,012
Special Education: IDEA Basic Local Assistance Entitlement, Part B, Sec 611	84.027	13379	21,988,929
Special Education: IDEA Early Intervention	84.181	23761	297,053
Special Education: Rehab for External Situational Assessment	(1)	(1)	83,918
Vocational and Applied Technology Education	84.048	13924	1,243,208
21st Century Learning	84.287	14349	269,831
Federal Impact Aid	84.041	10015	1,356,999
Unrestricted: Army Reserve Officer Training Corps (JROTC)	(1)	(1)	940,189
Transition to Teaching	(1)	(1)	<u>12,045</u>
			<u>93,170,928</u>
Pass-Through Programs From			
California Department of Rehabilitation:			
Workability II, Transitions Partnership	84.158	1006	<u>156,599</u>
Subtotal: Pass-Through Programs			<u>93,327,527</u>
Total: U.S. Department of Education			<u>109,514,350</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, 2007

Program Name	Federal Catalog Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Emergency Management Agency			
Pass-Through Program From			
California Department of Education:			
Federal Emergency Management Act (FEMA)	83.544	10014	<u>191,272</u>
Total: Federal Emergency Management Agency			<u>191,272</u>
Department of Health and Human Services:			
AIDS Education	93.938	01982	269,803
CCDF-Center Child Care	93.575	03879	715,034
Adolescent Family Life Program	93.995	(1)	37,035
Pass-Through Programs From			
California Department of Education:			
Medi-Cal	93.773	10013	<u>143,920</u>
Total: Department of Health and Human Services			<u>1,165,792</u>
Department of Labor:			
Pass-Through Program From			
California Department of Education:			
Workforce Investment Act	17.255	10055	<u>41,001</u>
Total: Department of Labor			<u>41,001</u>
Department of National Science Foundation:			
Urban Systematic Program	47.076	(1)	<u>1,221,410</u>
Department of Agriculture:			
National School Lunch Program	10.555	3523	24,351,440
Especially Needy Breakfast	10.553	3526	4,826,470
Basic School Breakfast	10.553	3525	381,120
Federal Snack Program	(1)	(1)	<u>1,122,136</u>
Total: Department of Agriculture			<u>30,681,166</u>
National Aeronautics & Space Administration			
Pass-Through Programs From			
National Science Teacher's Association			
NASA Explorer School Program	(1)	(1)	<u>6,765</u>
Total: National Aeronautics & Space Administration			<u>6,765</u>
Reconciliation to Federal Revenues:			
Total Federal Program Expenditures			142,821,756
Revenue (expenses) in excess of expenditure (revenues) related to Federal Entitlements:			
Medi-Cal			463,063
Unrestricted: Other Federal Revenue			401,738
AIDS Education			(18,804)
FEMA			<u>(191,272)</u>
Total Federal Revenue			<u>\$ 143,476,481</u>

(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,**

	(Budget) 2008		2007		2006		2005	
	Amount	%	Amount	%	Amount	%	Amount	%
GENERAL FUND:								
Revenue								
Revenue Limit Sources	\$ 638,448,404	54.8	\$ 670,862,345	55.1	\$ 637,498,162	57.1	\$ 626,585,890	59.8
Federal	111,925,354	9.6	112,080,281	9.2	130,160,732	11.7	113,508,245	10.8
State	300,981,945	25.9	364,326,367	29.9	285,914,932	25.6	279,273,974	26.7
County and Local	73,777,631	6.3	75,937,380	6.2	58,540,829	5.2	41,195,076	3.9
Other Sources	6,801,734	0.6	10,712,840	0.9	1,322,387	0.1	1,424,261	0.1
Total Revenue	<u>1,131,935,068</u>	<u>97.2</u>	<u>1,233,919,213</u>	<u>101.3</u>	<u>1,113,437,042</u>	<u>99.7</u>	<u>1,061,987,446</u>	<u>101.3</u>
Expenditures								
Certificated Salaries	534,559,303	45.9	543,594,505	44.7	510,045,890	45.7	500,308,627	47.7
Classified Salaries	203,714,877	17.5	197,531,369	16.2	177,287,603	15.9	164,727,471	15.7
Employee Benefits	253,604,819	21.7	250,422,776	20.6	239,001,397	21.4	226,521,236	21.7
Books and Supplies	81,090,288	7.0	51,489,915	4.2	88,522,826	7.9	79,742,618	7.6
Services and Other Operating Expen:	84,137,942	7.2	86,076,528	7.1	52,793,723	4.8	41,105,282	3.9
Capital Outlay	597,499	0.1	741,607	0.1	154,537	0.0	345,097	0.0
Other Transfers Out	503,600	0.0	48,022,909	3.9	42,841,461	3.8	30,223,581	2.9
Direct Support/Indirect Costs	(1,492,180)	(0.1)	(1,241,850)	(0.1)	(1,327,518)	(0.1)	(1,130,426)	(0.1)
Interfund Transfers Out	7,577,795	0.7	40,254,605	3.3	6,535,735	0.6	6,040,110	0.6
Total Expenditures	<u>1,164,293,943</u>	<u>100.0</u>	<u>1,216,892,364</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>
Change in Fund Balance	\$ (32,358,875)	(2.8)	\$ 17,026,849	1.4	\$ (2,418,612)	(0.2)	\$ 14,103,850	1.3
Adjustment for Restatement							\$ (8,140,382)	(0.8)
Ending Fund Balance	<u>\$ 92,146,592</u>	<u>7.9</u>	<u>\$ 124,505,467</u>	<u>10.2</u>	<u>\$ 107,478,618</u>	<u>9.6</u>	<u>\$ 109,897,230</u>	<u>10.5</u>
Available Reserve	<u>\$ 23,300,000</u>	<u>2.0</u>	<u>\$ 24,318,718</u>	<u>2.0</u>	<u>\$ 22,261,794</u>	<u>2.0</u>	<u>\$ 16,550,673</u>	<u>1.6</u>
Recommended Reserve Percentage		<u>2.0</u>		<u>2.0</u>		<u>2.0</u>		<u>2.0</u>
Average Daily Attendance	<u>109,302</u>		<u>110,266</u>		<u>112,743</u>		<u>117,469</u>	
Total Long-Term Debt	<u>\$ 1,523,532,773</u>		<u>\$ 1,592,350,523</u>		<u>\$ 1,626,277,466</u>		<u>\$ 1,464,969,742</u>	

IMPORTANT NOTES:

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

Fiscal year 2008 original budget, as reflected in the 2007 Unaudited Actuals.

All percentages are of total expenditures.

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

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

See the accompanying notes to supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS For the Fiscal Year Ended June 30, 2007

<u>Charter School</u>	<u>Included in District Audit Report</u>
Albert Einstein Middle Charter School (6-8)	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
Iptin Charter School (K-8)	No
Keiller Middle (6-8)	No
King/Chavez Arts Academy (3-5)	No
King/Chavez Athletics Academy (3-5)	No
King/Chavez Charter School (K-8)	No
King/Chavez Primary (K-2)	No
King/Chavez Preparatory Academy (K-5)	No
KIPP Adelante 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, 2007

	General Fund	Building Fund	Child Development Fund	Cafeteria Fund	Liability Fund	Workers' Compensation Fund
June 30, 2007 Annual Financial Budget Report Fund Balances	\$ 127,038,434	\$ 11,813,528	\$ 4,476	\$ 555,204	\$ 1,221,878	\$ 3,877,987
Adjustments and Reclassifications:						
Increasing (Decreasing) the Fund Balance:						
Accounts Receivable	(1,576,478)	1,576,478	550,880			
Accounts Payable		(7,803,161)		(1,143,474)	(1,135,965)	3,953,000
Due from Other Fund				956,489		
Due to Other Fund	(956,489)					
Net Adjustments and Reclassifications	(2,532,967)	(6,226,683)	550,880	(186,985)	(1,135,965)	3,953,000
June 30, 2007 Audited Financial Statement Fund Balances	\$ 124,505,467	\$ 5,586,845	\$ 555,356	\$ 368,219	\$ 85,913	\$ 7,830,987

See the accompanying notes to the supplementary information.

SAN DIEGO UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2007

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.

E. Schedule of Expenditures of Federal Awards

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

SAN DIEGO UNIFIED SCHOOL DISTRICT
NOTES TO SUPPLEMENTARY INFORMATION
For the Fiscal Year Ended June 30, 2007

NOTE 1 - PURPOSE OF SCHEDULES: (continued)

F. Schedule of Financial Trends and Analysis

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

G. Schedule of Charter Schools

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

H. Reconciliation Between District's Annual Financial Report and Audited Financial Statements

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

NOTE 2 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS:

There was an excess of expenditures over appropriations as follows:

Major Fund:

General Fund:	
Interfund Transfers Out	\$8,654,942

NOTE 3 - EXCESS SICK LEAVE:

Section 19833.5(a)(3) or (a)(3)(b) disclosure

San Diego Unified School District does not provide more than 12 sick leave days in a school year to any CalSTRS member.



**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

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, 2007 which collectively comprise the District's basic financial statements, and have issued our report thereon dated November 26, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

**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 control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or a combination of control deficiencies, that adversely affect the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs to be significant deficiencies in internal control over financial reporting. See findings 07-01, 07-03, 07-04, 07-05, 07-06, 07-11, 07-12, and 07-13.

A material weakness is a significant deficiency, or a combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we consider items 07-01, 07-03, 07-04, 07-06, 07-11 and 07-13 to be 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 no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items 07-02, 07-07, 07-08, 07-9, 07-10 and 07-14.

San Diego Unified School District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

**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**

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

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

November 26, 2007



**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

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, 2007. The 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 the District's management. Our responsibility is to express an opinion on the 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 the District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of the District's compliance with those requirements.

In our opinion, the 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, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 07-14.

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

Internal Control Over Compliance

The management of the 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 the 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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the District's internal control over compliance.

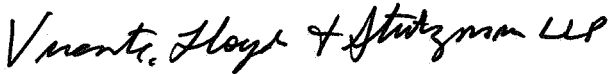
A *control deficiency* in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a federal program on a timely basis. A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected by the entity's internal control.

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

The District's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the audit committee, Board, the San Diego County Office of Education, 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

November 26, 2007



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, 2007, and have issued our report thereon dated November 26, 2007.

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 2006-07 Standards and Procedures for Audits of California K-12 Local Educational Agencies published by the Education Audit Appeals Panel. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

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

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Attendance accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Yes
Continuation education	10	Yes
Adult education	9	Yes
Regional occupational centers and programs	6	Not applicable

REPORT ON STATE COMPLIANCE

<u>Description</u>	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Instructional time:		
School Districts	6	Yes
County Offices of Education	3	Not applicable
Community day schools	9	Yes
Class size reduction program (including charter schools):		
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
Excess sick leave	2	Yes
Notice of right to elect California State Teachers Retirement		
System (CalSTRS) membership	1	Yes
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
Mode of instruction	1	No
Nonclassroom-based instructional/independent study	15	No
Determination of funding for nonclassroom-based instruction	3	No
Annual instructional minutes – classroom based	3	No

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 management, the audit committee, Board, the San Diego County Office of Education, the California Department of Education, the State Controller's Office and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

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

November 26, 2007

SAN DIEGO UNIFIED SCHOOL DISTRICT

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

June 30, 2007

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? X Yes No

Significant deficiencies(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

Significant deficiencies(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

CFDA Number(s)

Name of Federal Program or Cluster

84.367	Title II, Part A, Improving Teacher Quality
84.027, 84.173	Special Education
84.010	Title I, Part A, Basic Grants Low-Income and Neglected
84.041	Federal Impact Aid
84.215E	Elementary Secondary School Counseling
84.371A	Striving Readers

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, 2007

All audit findings must be identified as one or more of the following ten categories:

<u>Five Digit Code</u>	<u>Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
41000	CalSTRS
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, 2007

FINDING 07-01 – CAPITAL ASSET TRACKING

20000

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

- 8 of 10 items tested, totaling \$1,805,892, could not be traced to the fixed asset module as additions. These items were recorded in the financial system as equipment charged to account 6491 and, upon review, were determined to be building improvements that should have been recorded in account 6207 and thus capitalized as work in progress. This resulted in the understatement of additions. It was later determined that \$4,728,014 of equipment additions should have been recorded as work in progress and an adjustment to the government-wide statements was recorded.
- A complete detailed listing by project for amounts capitalized as part of work in progress, buildings, site improvements and equipment was not available for audit. The District is currently in process of a system conversion and there was only a partial listing of work in progress available. The amounts reported on the ASSET form with the 2006-07 unaudited actuals were generated mostly from the asset module of the accounting system but did not reconcile to the actual activity that could be validated by District personnel. Upon further investigation, it was determined that the amounts reported on the ASSET form were misstated due to programming or input errors as detailed below:
 - Building additions of \$4,517,776 for a completed project were loaded into the system as land improvements.
 - A programming error caused \$3,332,744 of site improvements to be recorded as equipment additions.
 - Playground improvements of \$1,167,763 were recorded as equipment.

There was no net effect on the balance of total capital assets; however, all amounts on the ASSET form were adjusted to reflect the corrected ending balances by asset category.

- The original cost of a parcel of land purchased in 2001 and the subsequent sale in 2006 were not recorded in the asset tracking module. This resulted in an \$18,835,861 restatement to net assets and revision of the ASSET form.
- A training entry for \$15,355,991 was not identified and was reported as both an addition and deletion to buildings on the ASSET form.

Questioned costs: Not applicable

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2007

FINDING 07-01 – CAPITAL ASSET TRACKING
(continued)

20000

Recommendation:

- We recommend that a detailed listing of all capital assets be prepared including a listing by project for all amounts in work in progress. These amounts should be reconciled to the asset module and adjustments made as necessary. Additionally, procedures should be implemented that include a reconciliation between actual expenses reported for object 6XXX or function 8500 and the amounts reported as additions in the asset module.
- Develop a procedure for asset retirements that includes a clear process for communication between all district departments. A final, “high-level” review of the additions and deletions reported in the asset module, should also be considered to assist in identifying significant transactions that have been overlooked.

District Response:

- The District agrees with the recommendation and will use the detailed listing of all capital assets generated by the new Asset Management module and reconcile to the General Ledger. The District will also reconcile object 6XXX with an 8500 program along with additional account reconciliations for object 6XXX and 8500 programs.
- As part of the upgrade to PeopleSoft’s 8.9, only a limited number of employees have access to add and retire assets. Two additional queries have been written to find assets that are added without PPO (Purchasing) and PAP (Accounts Payable) information. This will enable Financial Accounting to research and verify added assets. All retired, sold, or destroyed assets will be listed on the Asset Status Report that is reviewed monthly by Material Control and/or Financial Accounting.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2007

FINDING 07-02 – INDEPENDENT STUDY

10000

Finding: The following was noted during our review of the independent study program at the Metropolitan Regional Career and Technical High School:

- While reviewing the Master Agreement for 10 students, we noted that the Master Agreements did not contain all the required elements and, for fall semester, were not signed prior to the commencement of independent study. Pursuant to Ed Code Sec. 51747 (c), the independent study Master Agreement must include the following elements:
 - The manner, time, frequency, and place for submitting a pupil's or adult education student's assignments and for reporting his or her progress.
 - A statement of the number of course credits or, for the elementary grades, other measures of academic accomplishment appropriate to the agreement, to be earned by the pupil/adult education student upon completion.
 - The signatures, affixed prior to the commencement of independent study, of the (1) pupil, (2) the parent/guardian (if minor student), (3) certificated teacher, and (4) other persons directly responsible for providing assistance to the pupil. If no other people involved, the school can notate "N/A" on the signature line.
- There was not a complete audit trail from student work samples to the teacher attendance records and the attendance reported in Zangle. When reviewing the student work samples, we were not able to trace the days of attendance for the student's work sample to the days of apportionment reported in Zangle.
- Pursuant to CCR 5 11703(b)(3), a representative sample of original work for each student bearing signed or initialed and dated notations by the supervising teacher indicating he/she has evaluated the work should be maintained by the site and available for audit. We were not provided a work sample for one student.

Questioned Costs: 129.52 P-2 ADA amounting to \$724,344

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2007

FINDING 07-02 – INDEPENDENT STUDY
(continued)

10000

Recommendation:

- Revise the Master Agreement immediately to include all the required elements pursuant to Ed Code Sec. 51747 (c) and develop procedures for training and monitoring to ensure that all the necessary signatures are obtained prior to the commencement of independent study. The District should revise P-2 to exclude any ADA reported for this site.
- The District should continue to provide training and monitoring of the long-term independent study programs. We advise sites to keep a representative work sample sufficient enough to enable the auditor to verify the direct correlation between the work completed and the days of attendance reported. We believe this may be indicative of a systemic problem and we advise the District to complete a more in-depth review of the documentation maintained at the site and revise procedures as necessary.

District Response: A District committee has revised the Independent Study contract procedure, Master Agreement and Subsidiary forms. VLS has reviewed and approved these documents. The procedure is going to the Board for approval in 2008. Training will be provided subsequent to Board Approval. Pupil Accounting will continue to review contracts during site audits. The District will revise P2 ADA, reducing it by 129.52 ADA. The District will also decrease Annual ADA by 131.19 ADA. The full-time, long-term independent study sites will retain work samples for each 20-day period to ensure that there is a viable audit trail.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2007

FINDING 07-03 – CLOSING PROCEDURES

30000

Finding: The following observations were noted related to the closing procedures:

- The state revenues and accounts receivable reported for the General Child Care and State Preschool program were understated by \$550,880. The Final Earnings Calculation from the California Department of Education was not available and the estimated calculation used for closing was not available for audit. See detailed finding 07-05.
- Entries totaling \$9,913.81 were recorded to the prepaid account after the final date on the District closing calendar. This resulted in the preparation of an incorrect listing of prepaids,
- Write-offs of accounts receivable totaling \$1,166,534 were entered into the general ledger and not entered into the subsidiary ledger. As of the date of our audit, there is still an unreconciled balance of \$315,843. This was the result of entries made during the closing process.
- 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 during the closing process. The under-accrual caused the Cafeteria Fund to understate expenses and overstate fund balance. See detailed finding 07-06.
- There was \$9,132,283 of unrecorded accounts payable that resulted in an audit adjustment in the Building Fund for \$7,803,161. This is the result of vendor invoices received after the accounts payable cutoff date. See detailed finding 07-04.

Recommendation: The District should review the established closing procedures. Emphasis should be placed on a review of entries and final trial balances by an appropriate level of supervisor. Additionally, the closing calendar should be reviewed and revised if needed. The calendar and predetermined target dates should be monitored throughout the closing process. Access to make entries after the final date should be very limited so activity can be monitored.

SAN DIEGO UNIFIED SCHOOL DISTRICT

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

June 30, 2007

FINDING 07-03 – CLOSING PROCEDURES
(continued)

30000

District Response: Long-established procedures supported by good checks and balances are in place to complete the year end closing and produce the associated financial reports. Procedures include appropriate reviews and approvals at peer and supervisory levels and careful monitoring of closing calendar target dates. In 2006-07, the closing calendar target dates were determined based on the lead time necessary to accomplish all tasks and verify the final results prior to Board briefing and approval of the Unaudited Actuals SACS Report. Staff worked diligently to achieve a timely, accurate closing in the face of a very tight timeline.

Of the five items noted above, two are directly related to closing calendar target dates. First, the materiality of the accounts receivable write-off amount, which became known after the write-off target date had passed, was sufficient to require recording on the 2006-07 general ledger. This was done with the full understanding that the general ledger entry would be reversed in 2007-08 and recorded via the subsidiary ledger. Second, relative to unrecorded accounts payable, as noted in the response to finding 07-04, closing target dates excluded 2006-07 expenditures related to invoices received and processed after mid-July. Closing calendar accounts payable target dates will be revisited prior to establishing closing dates for 2007-08.

The prepaid item was the result of a management decision at the end of the year to transfer Early Childhood Education (First Five) Program activities from the General Fund to the Child Development Fund, necessitating a prepaid entry after the closing target date for final prepaid items had passed. This transfer accomplished the reporting of First Five activities in the more appropriate fund.

For the General Child Care and State Preschool accounts receivable/revenue item, as well as the Cafeteria Fund accounts payable item, closing account analyses and reviews were performed and procedures were followed. Understatement of these items was not the result of the non-application of closing procedures. For further explanation, see responses to findings 07-05 and 07-06.

SAN DIEGO UNIFIED SCHOOL DISTRICT

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

June 30, 2007

FINDING 07-04 – UNRECORDED ACCOUNTS PAYABLE

30000

Finding: An important aspect of the year end closing process is the accrual of liabilities related to services or goods received prior to June 30th. We found that there were several obligations mostly related to construction projects that were not properly accrued at year end for services performed prior to June 30, 2007. Most of these obligations should have been included as 2006-07 expenditures in the Building Fund, and an audit adjustment of \$7.8 million was recorded for unrecorded expenditures noted in our subsequent payments testing. There was an additional \$1.3 million of unrecorded payables in the general fund that were not recorded due to materiality. This was the result of invoices received after the accounts payable cutoff date.

Questioned Costs: \$9,132,283 (timing difference only)

Recommendation: A process should be in place to assure that facilities forwards information to the accounts payable department to allow for proper cut-off procedures in recognizing expenditures at year end. Facilities should review all existing contracts and work performed as of year end to ensure a liability for uninvoiced work is recorded when necessary.

District Response: The year end closing schedule called for all accounts payable accruals to be accomplished by mid-July. This date, as well as the overall closing schedule was determined based on the lead time necessary to complete the final financial review and secure the required Board approval of the audited actuals SACS Report. Given the tight closing timeline, costs incurred prior to June 30, 2007 for which invoices were not received and processed by Accounts Payable by mid-July were not recorded as expenditures in 2006-07.

The District will work closely with Facilities Department and other district staff, and all vendors, to ensure that all possible costs are either invoiced and processed, or otherwise scheduled for accrual in the appropriate fiscal year. We will review the year end closing schedule to ascertain whether timeline adjustments are feasible. The audit adjustments will be recorded as recommended above.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2007

FINDING 07-05 – CHILD DEVELOPMENT REVENUES

30000

Finding: The state revenues and accounts receivable reported for the General Child Care and State Preschool programs were understated by \$550,880. The Final Earnings Calculation from the California Department of Education was not available and the estimates completed did not use a similar format which includes a calculation to compare total days of enrollment, the maximum reimbursable amount stated in the contract and total costs. This resulted in an adjustment to fund balance.

Questioned Costs: Not applicable

Recommendation: 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 be booked to the lowest amount calculated and this reconciliation should be available for audit purposes. We also recommend that the District contact the California Department of Education and obtain copies of the Final Earnings Calculation to support the amount of revenue reported.

District Response: During the closing process, a reconciliation was completed for each program and the amount calculated for revenue recognition was determined to be the maximum reimbursable contract amount for both the General Child Care and State Preschool contracts. This is in agreement with calculation performed by the auditors. A hand-written District reconciliation was shown to the auditors during audit field work, however, a smooth copy was not provided to them at that time pending formalization into spreadsheet format. This was later accomplished and the reconciliation has since been provided to the auditors.

Also during the closing process, a query was run to identify State funding received during the year in order to determine and compare the difference between the amount received and the remaining amount due under each program contract. Upon review of this audit finding, it was discovered that the query utilized did not separately identify, as prior year activity, receipts in the total amount of \$435,004 received in 2006-07 which were related to the 2005-06 fiscal year. For purposes of calculating the remaining balance due from the State for 2006-07, these receipts should have been excluded but were not, which is materially responsible for the resultant understatement of accounts receivable and current year revenue.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2007

FINDING 07-06 – CAFETERIA ACCOUNTING AND BUDGETING **30000**

Original Finding 06-18

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 \$1.1 million and was the result of an entry recorded during the closing process. 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.

District Response: The District closely reviews and monitors budgetary and operational activities of the Cafeteria Fund throughout the year. The Finance and Cafeteria staffs meet monthly to review the budgetary activities of the District's Food Service Operations. Additionally, Accounts Payables were reviewed and analyzed at year end. The entry which resulted in this discrepancy is the result of a misinterpretation of the appropriate year end composition of the Accounts Payable balance at 6/30/07. The tracking of inventory purchases through a clearing account has been discontinued and actual physical inventories are taken each month at each of the kitchens to properly reflect the true inventory levels at month end. Upon learning of the discrepancy, the District proposed and has recorded the necessary adjusting entry to appropriately reflect the 2006-07 Cafeteria Fund balance.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2007

FINDING 07-07 – SUPPLEMENTAL HOURLY PROGRAMS **10000**

Original Finding 05-76 and 06-14

Finding:

- While reviewing the District's records for hourly programs, we noted that attendance was not taken hourly by 27 teachers at Hancock Elementary School for both Winter and Spring Intersession. This was the result of visiting teachers, who do not have access to Zangle, recording attendance on manual rosters once per day. The total hours will be reduced by 11,549.
- We noted 3 teachers at Emerson/Bandini E.S and 1 teacher at Porter E.S., that did not take hourly attendance. Total hours will be reduced by 1,458 for Emerson and 482.25 for Porter.

Questioned Costs: Estimated at \$52,600

Recommendation: The District should continue to provide training for all sites on the importance of taking hourly attendance for supplemental programs. Manual attendance registers configured for hourly attendance reporting should be available at all sites for use by visiting teachers or substitutes. The Annual Attendance Report should be revised to reflect the above changes.

District Response: Zangle Trainers hold classes prior to Winter/Spring Intersession on the method of taking attendance. The Zangle User Guide also contains attendance reporting instructions for Intersession.

At Hancock, there were two visiting sites for Intersession that did not receive online access for recording hourly attendance. The visiting teachers used a substitute roster to post attendance only once per day, instead of the required hourly attendance. The Teachers Summary of Attendance report was configured to post hourly attendance correctly.

Hancock was informed of the prior year audit finding and the correct procedures to use in person, by telephone and via multiple memorandums. All of the schools are contacted in regards to correctly posting attendance for hourly programs. Pupil Accounting will remind the site Principals of their responsibility to ensure that all teachers take attendance hourly. Annual hours will be reduced by 13,489.25 hours.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2007

FINDING 07-08 – KINDERGARTEN HOLDOVER FORMS **10000**

Finding: Education Code 46300(g) allows school districts to claim ADA for kindergarten students who have previously completed one school year in kindergarten only if the school district has on file for each pupil, an agreement approved in form and content by the State Department of Education and signed by the Student's parent or guardian near the students anniversary date. During our review of the kindergarten holdover forms, we noted the following:

- One form showed that the parent's signature authorizing holdover was obtained one year in advance.
- One form was missing the anniversary date, the signature of school official approving for District, the last day to hold the student and the date that the parent signed the form.

Questioned Costs: .92 ADA amounting to \$6,681

Recommendation: District should continue to provide training for all sites on the importance of using the state-approved form for kindergarten holdover authorizations and completing the form timely and in its entirety. Any ADA reported for these students beyond their anniversary date should be excluded from a revised P-2 attendance report.

District Response: The District agrees with the audit finding. The Kindergarten Holdover forms were not completed correctly. The state form is required to be on file in order for the District to claim ADA for a student who is attending Kindergarten for a second year. Pupil accounting updated the instructions for the Kindergarten Retention form and sent the information to all elementary Principals. In addition, the information is available on the District's website.

For one student at Dailard, we lose the full ADA because the child was enrolled for two full years of Kindergarten. At P2, we lose .86 ADA and at Annual we lose .89 ADA. For one student at Freese, we only lose partial ADA because the anniversary date was March 14, 2007. The ADA loss is .06 at P2 and .32 at Annual. The total loss is .92 ADA at P2 and 1.21 ADA at Annual.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2007

FINDING 07-09 – CALIFORNIA SCHOOL AGE FAMILIES EDUCATION
(CAL-SAFE) PROGRAM **40000**

Finding: A signed “Teacher Summary of Attendance” from Garfield High School was not provided for audit; therefore, we could not verify the accuracy of ADA generated by two students.

Questioned Costs: 1.83 ADA amounting to \$10,214

Recommendation: Provide signed copies of the “Teacher Summary of Attendance” for the two identified students. The site may consider a review of its current processes to ensure that every effort is made to collect and retain these signed attendance sheets. Because the signed attendance sheets are the original source document for the ADA reported, the ADA for this time period for these students should be excluded from a revised P-2 attendance report.

District Response: Pupil Accounting will follow up with Garfield Continuation and reinforce the importance of teachers signatures on “Teacher Summary of Attendance” reports. Cal-Safe ADA will be reduced 1.85 ADA at P2 and 1.83 ADA at Annual.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2007

FINDING 07-10 – INSTRUCTIONAL MATERIALS FUNDING **40000**
REALIGNMENT PROGRAM

Finding: The District must hold a public hearing or hearings required by the provisions of Education Code Section 60119 on or before the end of the eighth week from the first day pupils attended school for that year, or, in a school district having schools that operate on a multi-track, year round calendar, on or before the end of the eighth week from the first day pupils attended school for that year on any track that began in August or September. The resolution must also state that the instructional materials or textbooks are consistent with the content and cycles of the curriculum framework adopted by the State Board of Education. During our review of the Instructional Materials Funding Realignment Program (IMFRP), we noted that the required public hearing was held ten weeks after the first day pupils attended school for 2006-07; school started September 5, 2006 and the Board Meeting was held on November 14, 2006.

Questioned Costs: \$7,103,643

Recommendation: Prior to the 2004-05 fiscal year, a waiver was available for minor oversights regarding the public hearing requirement for instructional materials. Effective September 29, 2004, Senate Bill (SB) 550 (Chapter 9, Statutes of 2004), added EC 41344.4 as a part of the Williams Case lawsuit settlement that effectively eliminated the waiver process for LEAs. The new text is as follows:

EC 41344.4. Notwithstanding any other provision of law, a local educational agency is not required to repay an apportionment based on a significant audit exception related to the requirements specified in paragraphs (1), (2), and (3) of subdivision (b) of Section 14501 if the county superintendent of schools certifies to the Superintendent of Public Instruction and the Controller that the audit exception was corrected by the local educational agency or that an acceptable plan of correction was submitted to the county superintendent of schools pursuant to subdivision (k) of Section 41020. With respect to textbooks and instructional materials, the plan shall be consistent with the requirements of subparagraph (A) of paragraph (2) of subdivision (a) of Section 60119.

We strongly recommend that the District work with the County Office of Education to develop an acceptable corrective action plan or obtain a waiver for this minor oversight. If a corrective action plan can be agreed-upon, the District may avoid repaying the reported questioned costs. Additionally, the District should develop procedures to ensure that this public hearing is scheduled within the required timeline each academic year.

SAN DIEGO UNIFIED SCHOOL DISTRICT

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

June 30, 2007

FINDING 07-10 – INSTRUCTIONAL MATERIALS FUNDING 40000
REALIGNMENT PROGRAM
(continued)

District Response: Upon receipt of the draft textbook adequacy certification finding, the district immediately contacted the San Diego County Office of Education (SDCOE) in July 2007 to address corrective action. The SDCOE staff relayed that the problem would be viewed as corrected based upon SDUSD action taking action to submit the sufficiency certification in full compliance (within the first eight weeks of the school year) this fall for the 2007/08 cycle. This compelling action and a clear-cut plan/process that safeguards compliance for the foreseeable future is the only way the County will support SDUSD retention of the 2006/07 instructional materials funds. The district proceeded with the development of a Board instructional material sufficiency resolution that would meet the deadline by submission and consideration at the October 23, 2007 meeting of the Board of Education. The San Diego County-wide fire disaster that started on October 22, 2007 caused the immediate cancellation of the Board meeting. On October 23, 2007, the district Chief Financial Officer consulted with the SDCOE staff to safeguard compliance and provided the resolution documentation to validate the district's intent to obtain Board textbook adequacy certification within the first eight weeks of the 2007/08 school year. The SDCOE staff recognized the extraordinary circumstances that precluded certification on October 23, 2007 and supported re-submission of the adequacy certification at the next Board meeting. The resolution was submitted and approved at the November 13, 2007 Board session. This action meets SDCOE compliance requirements and will justify their endorsement of retention of instructional materials funds by the district. In the future, the Deputy Superintendent and the Curriculum and Instruction staff will adhere to a schedule that ensures that the district submits the adequacy certification within the first eight weeks as prescribed by the Education Code.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2007

FINDING 07-11 – DIRECT COSTS TRANSFERS

60000

Original Finding 05-11 and 06-16

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 by outside contractors. 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 object code 5853, Professional/Consulting Services when a 6100 or 6200 object code would be more appropriate. We believe that by reporting contractor payments to this account code, the State SACS financial reports are misleading.

Questioned Costs: Not applicable

Recommendation: Although the District has made modifications to the procedures in plan for direct cost transfers, we believe further review is still warranted. We suggest that the District discuss and obtain the approval of the California Department of Education regarding the procedures agreed to. Additionally, contracted services for construction should be charged directly to the appropriate fund.

District Response: The District discussed the direct cost transfer process with the auditors and had made modifications to the process as a result of the consultation. The District will directly charge costs to the other funds when feasible. The appropriate account codes will be used instead of object code 5853. The District will continue to streamline the process and will consult with the California Department of Education again regarding this procedure.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2007

FINDING 07-12 – SEGREGATION OF DUTIES

30000

Finding: For better internal controls, there should be segregation of duties within the cash receipting process. More than one individual should be performing the various tasks from opening mail, preparing a listing of remittances, preparing the deposit, and inputting the receipt information into PeopleSoft. Based on the responses to the internal control questionnaire and our review of the cash receipting process, it is our understanding that the cashier is performing all of the following functions:

- Opens mail
- Prepares list of remittances
- Prepares deposits
- Compares remittance lists with bank deposits
- Maintains cash receipt journals

Questioned Costs: Not applicable

Recommendation: The objective of internal control over cash receipts is to obtain control over amounts received at the time of receipt. Separating these closely related functions in the cash receipts system will result in much greater internal control in this particular area. To achieve this control, certain duties involving receipts should be handled by more than one employee. The following procedures should be enacted to ensure efficient internal control:

- One employee should open the mail, make a control list of all receipts, and restrictively endorse all items received as “for deposit only.” This would prevent any unauthorized endorsement should the checks be misplaced or lost before being deposited.
- The receipts should then go to another employee for further processing and deposit to the bank on a timely basis.
- Then, someone who does not otherwise handle receipts should compare the deposit slips to the list of receipts to ensure that all funds reflected on the receipts were deposited.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2007

FINDING 07-12 – SEGREGATION OF DUTIES
(continued)

30000

District Response: The District concurs with the above recommendation and has implemented the following procedures effective July 11, 2007.

The following duties are now segregated:

- Accept cash payments
- Count, reconcile cash, and prepare deposit slip
- Input receipts to GL
- Reconcile Bank Accounts

To foster the segregation of duties and properly track the activity by staff member, the district installed a cash register. The cash register has a separate identifier for each Fiscal Control Employee and a separate cash receipt type (also known as a Dept Number in Cash Register lingo).

At the end of each day, a cash register tape with the day's totals will be generated. The daily sales report will be placed in the cash drawer and then placed in the safe overnight. The following morning two employees will count the cash and reconcile the receipts to the tape. Separate cash deposit slips for the County General fund, the Retiree/COBRA account and the Cafeteria bank accounts will be prepared. An employee will then reset the beginning cash balance in the cash drawer to \$300 and reconcile the sales to the receipts.

A separate Fiscal Control Employee who has not received the cash nor prepared the cash deposits, will post the data into PeopleSoft.

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2007

FINDING 07-13 – PAYROLL OVERPAYMENTS

30000

Finding: Through inquiry and analysis performed during our payroll testing, we noted that payroll overpayments have been a lingering issue for the last several years. The reasons include but are not limited to the following:

- Advance payments to certificated 10/12 schedule employees
- Poor workflow timing
- Data entry errors
- Late detection
- Timekeeper error
- Error during Personnel Action Request
- Absences never reported into the system
- Large volume of transactions

The total value of overpayments processed over the prior three fiscal years is approximately \$2.7 million with only \$917,000 collected.

Questioned Costs: Not applicable

Recommendation: The District should continue to make this a priority and inform the school sites and Human Resources Department the importance of communicating an employees' status to the Payroll Department in a timely manner. The District may also consider reconfiguring the notification process in PeopleSoft. It may be possible to notify payroll that a termination or status change has been requested by the site immediately. Additionally, we strongly urge the District to reconsider the practice of making advance payments to 10 month employees. The conventional method for paying a 10 month employee over a 12 month period is to pay out the salary over the period of September through the following August. Using this timeline ensures that the employee has already earned the salary being paid.

SAN DIEGO UNIFIED SCHOOL DISTRICT

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

June 30, 2007

FINDING 07-13 – PAYROLL OVERPAYMENTS

30000

(continued)

District Response:

Prioritize and Communication - The District will continue to prioritize all efforts to reduce overpayments. The District has implemented regular communication with the Human Resources (HR) staff, field personnel responsible for timekeeping, and with employees in general. Monthly correspondence is sent to field personnel regarding the importance of timely reporting of employee status to the Payroll Department in an online memorandum. We engage and strongly encourage our timekeepers to report status changes to their payroll technicians immediately upon notification by an employee or supervisor of an impending adjustment. The District will expand collaboration with the HR management staff to focus on improving data input. The District will present this finding to HR management and require that specific measures be reported to the Chief Financial Officer that will be undertaken to improve data input, tracking of employee changes, and notification to the Payroll Department.

PeopleSoft Notification - PeopleSoft personnel actions are managed by the Personnel Action Request (PAR) process. Local offices must prepare a PAR for each action taken on behalf of employees (i.e. hiring, termination, transfer, promotion, leave of absence, etc.). These action requests are subject to an approval process that requires action by departments (i.e. Budget, HR Credentials, HR Input, HR Benefits, Payroll, etc.). There isn't a formal notification such as an e-mail or pop-up that goes out to those responsible for "working" a PAR. In most cases, a notification such as this would not be feasible as staff must work hundreds of PARs at any given time. District staff currently uses a PeopleSoft on-line query tool to identify the PARs requiring their attention. The District will review the PeopleSoft approval hierarchy for appropriateness and make revisions as necessary.

Key Performance Indicators (KPIs) - The Payroll Department has developed Key Performance Indicators that will serve as a mechanism for assessing process improvement in this area. Three KPIs will specifically target overpayment discovery and preparation, overpayment recovery, and cost of overpayments as compared to total district budget (KPIs are attached). The Payroll Department has and will continue to do a trend analysis on the year to year preparation of overpayments. The last four years have also been a time of significant change in business processes and applications. The conversion to PeopleSoft created process challenges and learning curves. These are being mitigated by the staff as we gain experience and understanding of the peopleSoft modules

SAN DIEGO UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
RELATED TO FINANCIAL STATEMENTS
June 30, 2007

FINDING 07-13 – PAYROLL OVERPAYMENTS
(continued)

30000

District Response: (continued)

12 Pays for 10-Month Teachers - Further study is needed on the issue of twelve pays for ten-month teachers to determine if in fact this condition is creating a disproportionate number of overpayments as compared to the other reasons noted in the finding. This option for teachers is specifically identified in the SDEA Collective Bargaining Agreement and would have to be renegotiated during a future full contract opening. Employees who elect to participate must sign an agreement with the District for direct deposit and authorization to withdraw any overpayments from their account if one does occur.

Finally, it must be noted that the collected amount of \$917,000 included in the finding only comprises the amount collected through the Payroll Department. These collections are done either with immediate payment by the employee or through a monthly payroll deduction as agreed between employer and employee. Where there are monthly payments occurring the District is still collecting on the overpayment figure included in the finding. There are additional collections managed by the District's Fiscal Control Department through an outside collection agency that are not included in this figure. Overpayments that Payroll is unable to collect within a specified period of time are turned over to Fiscal Control for pursuit by the collection agency.

SAN DIEGO UNIFIED SCHOOL DISTRICT

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

June 30, 2007

FINDING 07-14 – EQUIPMENT INVENTORY

50000

Program: Striving Readers

CFDA Number: 84.371A

Federal Agency: Department of Education

Pass-through Agency: Not applicable – Direct award

Federal Award Number and Year: S371A60022 and year 2, 2007

Finding: OMB Circular A-133 requires that Local governments and Indian tribes follow the A-102 Common Rule for equipment acquired under Federal awards received directly from a Federal awarding agency. The A-102 Common Rule requires that equipment records be maintained and a physical inventory of equipment be taken at least once every two years and reconciled to the equipment records. Our documentation indicates that the last physical inventory of federally purchased equipment was performed during the 2004-05 fiscal year and an inventory was not completed during the 2006-07 fiscal year.

Questions Costs: Not applicable

Recommendation: A physical inventory of all federally purchased equipment should be conducted as soon as possible. Once completed, the inventory should be compared to the existing equipment inventory records and any discrepancies should be researched.

District Response: On October 9, 2007, the Board of Education approved an agreement with American Appraisal Associates, Inc. to obtain a valuation of assets in compliance with the requirements of Generally Accepted Accounting Principals (GAAP), Government Accounting Standards Board (GASB) Statement No. 34, and Governmental Accounting, Auditing, and Financial Reporting (GAAFR), and to provide data whereby the District can monitor its assets. This engagement will include a physical inventory of all federally purchased equipment and will provide the required data to perform a reconciliation with existing inventory records and identify any discrepancies between the physical inventory and the existing inventory records. This reconciliation is expected to be completed by June 30, 2008.

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2007

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.

Current Status: Implemented.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2007

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.

Current Status: Implemented.

**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.

Current Status: Implemented.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2007

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

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2007

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.

Current Status: See current year finding 07-01.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2007

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.

Current Status: Partially implemented. See current year finding 07-05.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2007

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.

Current Status: Implemented.

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.

Current Status: Implemented.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2007

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.

Current Status: Implemented.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2007

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.

Current Status: Implemented.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2007

**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.

Current Status: Implemented.

SAN DIEGO UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2007

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 5th and 6th 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.

Current Status: Implemented.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2007

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.

Current Status: Implemented.

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)		Number of Classes	(c)			(d) Total Pupils Over/ (Underclaimed) All Courses Sum (c)
		Full-Year Equivalent Enrollment Grade 9	Class Size Grade 10,11,12		Total Pupils Over/(Underclaimed) English	Math (a * b)	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	\$ 192
Total Funding Overclaimed					\$ 960	\$ 384	\$ -	\$ 1,344

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2007

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.

Current Status: Implemented.

SAN DIEGO UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2007

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.

Current Status: Not implemented. See current year finding 07-07.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2007

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.

Current Status: Implemented.

SAN DIEGO UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2007

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.

Current Status: Improvement noted. See current year finding 07-11.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2007

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.

Current Status: Implemented.

SAN DIEGO UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS

June 30, 2007

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.

Current Status: Not implemented. See current year finding 07-06.

SAN DIEGO UNIFIED SCHOOL DISTRICT
STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS
June 30, 2007

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.

Current Status: Implemented.

CONTINUING DISCLOSURE INFORMATION

SAN DIEGO UNIFIED SCHOOL DISTRICT
CONTINUING DISCLOSURE INFORMATION (UNAUDITED)
June 30, 2007

Assessed valuation for fiscal year 2006-07	\$113,493,623,335	(1)
Secured tax levies for fiscal year 2006-07	\$ 463,176,266	(1)
Secured tax delinquencies for fiscal year 2006-07	\$ 0	(1)
Secured tax collections for fiscal year 2006-07	\$ 463,459,118	(1)

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

SAN DIEGO UNIFIED SCHOOL DISTRICT
CONTINUING DISCLOSURE INFORMATION (UNAUDITED)
June 30, 2007

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	124
3. Outstanding indebtedness	32-46
4. Balance in the Debt Service Fund	3
5. Balance in the Improvement Fund (Building Fund)	3
6. Tax Levy Under Teeter Plan	126
7. Largest local secured taxpayers	127

SAN DIEGO UNIFIED SCHOOL DISTRICT
CONTINUING DISCLOSURE INFORMATION (UNAUDITED)
June 30, 2007

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>
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
2006-07	120,172,905,029

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, 2007

The largest non-utility taxpayers in the District and their assessed valuations for 2006-07 are listed below.

SAN DIEGO UNIFIED SCHOOL DISTRICT
Largest Non-Utility Taxpayers
2006-07

	<u>Property Owner</u>	<u>Primary Use</u>	<u>2006-07 Assessed Valuation</u>	<u>% of Total</u> ⁽¹⁾
1.	Qualcomm Inc.	Industrial	\$ 652,332,724	0.57%
2.	Irvine Company	Office Building	626,138,409	0.55
3.	Maguire Properties	Office Building	516,514,932	0.46
4.	Arden Realty Finance LLC	Office Building	487,875,814	0.43
5.	H.G. Fenton Co.	Apartments	447,143,161	0.39
6.	Fashion Valley Mall LLC	Shopping Center/Mall	445,615,261	0.39
7.	Pfizer Inc.	Industrial	420,566,395	0.37
8.	San Diego Family Housing LLC	Apartments	416,402,649	0.37
9.	Sea World Inc.	Theme Park	373,446,873	0.33
10.	Reef America REIT Corp.	Office Building	363,534,224	0.32
11.	Manchester Resorts LP	Hotel	348,460,827	0.31
12.	Kilroy Realty LP	Industrial	311,795,406	0.27
13.	Irvine Apartment Communities LP	Apartments	244,737,648	0.22
14.	San Diego Ballpark Funding LLC	Stadium	242,861,374	0.21
15.	ERP Operating LP	Apartments	216,024,565	0.19
16.	LHO Mission Bay Hotel LP	Hotel	214,364,832	0.19
17.	Archstone Communities LP	Apartments	212,600,661	0.19
18.	UTC Venture LLC	Office Building	209,258,653	0.18
19.	Horton Plaza LP	Office Building	199,325,079	0.18
20.	Solar Turbines Inc.	Industrial	<u>195,839,306</u>	<u>0.17</u>
			<u>\$7,144,838,793</u>	<u>6.29%</u>

⁽¹⁾2006-07 Local Secured Assessed Valuation: \$113,493,623,335.
Source: California Municipal Statistics, Inc.