

PROPOSITION S BOND BUILDING FUND OF
SAN DIEGO UNIFIED SCHOOL DISTRICT

FINANCIAL AUDIT REPORT

For the Fiscal Year Ended
June 30, 2012



**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Table of Contents
June 30, 2012**

	<u>Page</u>
Introduction and Independent Citizens' Oversight Committee Member Listing	1
Independent Auditors' Report.....	3

FINANCIAL SECTION

Balance Sheet.....	5
Statement of Revenues, Expenditures and Changes in Fund Balance	6
Notes to Financial Statements.....	7

SUPPLEMENTARY INFORMATION SECTION

Budgetary Comparison Schedule – Proposition S Bond Building Fund.....	29
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	30

OTHER INDEPENDENT AUDITORS' REPORT

Independent Auditors' Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	31
---	----

AUDIT FINDINGS AND MANAGEMENT'S RESPONSES SECTION

Schedule of Audit Findings and Management's Responses.....	33
Summary Schedule of Prior Audit Findings.....	35

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Introduction and Independent Citizens' Oversight Committee Member Listing
June 30, 2012**

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

In November 2008, the voters of San Diego County approved by more than the required 55% favorable vote, Proposition S, authorizing the issuance and sale of general obligation bonds, not to exceed \$2,100,000,000. The passage of Proposition 39 in November 2000 amended the California Constitution to include accountability provisions. Specifically, the District must conduct an annual independent performance audit to ensure that funds have been expended only on the specific projects listed as well as an annual, independent financial audit of the proceeds from the sale of the bonds until all of the proceeds have been expended for facilities projects.

The Proposition 39 bonds were issued by the District, through the County of San Diego. On May 7, 2009, Election of 2008, Series A of the Proposition S bond authorization was issued, which consisted of current interest and capital appreciation bonds with an initial par amount of \$131,157,581 with yields to maturity of 2.52% to 6.19% and maturing through July 1, 2033. On May 7, 2009, Election of 2008, Series B of the Proposition S bond authorization was issued, which consisted of tax credit bonds with an initial par amount of \$38,840,000, a tax credit rate of 7.87%, and maturing through March 15, 2023.

On August 5, 2010, Election of 2008, Series C of the Proposition S bond authorization was issued, which consisted of current interest and capital appreciation bonds with an initial par amount of \$163,869,783 with yields to maturity of 6.10% to 6.80% and maturing through July 1, 2050. On August 5, 2010, Election of 2008, Series D-1 and D-2 of the Proposition S bond authorization was issued, which consisted of tax credit bonds with an initial par amount of \$16,130,000 and \$20,000,000, a tax credit rate of 5.26%, and maturing through July 1, 2027. As of June 30, 2012, the principal balance, including outstanding accreted interest, on the Election of 2008, Series A, B, C, D-1 and D-2 bonds was \$379,809,052.

Upon passage of Proposition 39, an accompanying piece of legislation, AB 1908 (Chapter 44, Statutes of 2000), was also enacted, which amended the Education Code to establish additional procedures which must be followed if a District seeks approval of a bond measure pursuant to the 55% majority authorized in Proposition S including formation, composition and purpose of the Independent Citizens' Oversight Committee, and authorization for injunctive relief against the improper expenditure of bond revenues.

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT**

**Introduction and Independent Citizens' Oversight Committee Member Listing, continued
June 30, 2012**

The Independent Citizens' Oversight Committee had the following members as of June 30, 2012, all of whom were appointed by the District's Board of Education with two year terms:

<u>Name</u>	<u>Representation</u>	<u>Education Code Section</u>
Mr. Andrew Berg	Active in a Business Organization	15282(a)(1)
Mr. John Gordon	At Large	15282(a)
Mr. Vince Hall	Parent of Child Enrolled in District and Active in a Parent-Teacher Organization	15282(a)(5)
Ms. Michelle Huffaker	At Large	15282(a)
Mr. Gil Johnson	Active in a Business Organization	15282(a)(1)
Mr. Leonard Pinson	At Large	15282(a)
Mr. Brian Pollard	Active in a Senior Citizens' Organization	15282(a)(2)
Ms. Kim Schoettle	Parent of Child Enrolled in District	15282(a)(4)
Ms. Deanna Spehn	Active in a Bona Fide Taxpayers' Organization	15282(a)(3)

INDEPENDENT AUDITORS' REPORT

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

SAN DIEGO

2727 Camino Del Rio South
Suite 219
San Diego, CA 92108

RANCHO CUCAMONGA

8686 Haven Avenue
Suite 250
Rancho Cucamonga, CA 91730

ALAMEDA

1050 Marina Village Parkway
Suite 201
Alameda, CA 94501

tel: 619.270.8222

fax: 619.260.9085

www.cwacpa.com

*Licensed by the California
State Board of Accountancy*

Governing Board Members and
Proposition S Independent Citizens' Oversight Committee of
San Diego Unified School District
San Diego, California

We have audited the accompanying balance sheet of the Proposition S Bond Building Fund of San Diego Unified School District (the "District") as of June 30, 2012, and the related statement of revenues, expenditures and changes in fund balance for the fiscal year ended June 30, 2012. 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 financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1A, the financial statements present only the individual Proposition S Bond Building Fund, consisting of the construction proceeds of Proposition S general obligation bonds as issued by the District, through the County of San Diego, and are not intended to present fairly the financial position of the District in conformity with generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Proposition S Bond Building Fund of San Diego Unified School District as of June 30, 2012, and the results of its operations for the fiscal year ended June 30, 2012, 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 20, 2012 on our consideration of San Diego Unified School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal controls 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.

In accordance with the requirements of Proposition 39, as incorporated in California Constitution Article 13A, we have also issued our performance audit report dated November 20, 2012 on our consideration of San Diego Unified School District's compliance with the requirements of Proposition 39. That report is an integral part of our audit of the Proposition S Bond Building Fund for the fiscal year ended June 30, 2012 and should be considered in assessing the results of our financial audit.

Christy White Associates

San Diego, California
November 20, 2012

FINANCIAL SECTION

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Balance Sheet
June 30, 2012**

ASSETS

Cash in county treasury (Note 2)	\$	179,219,990
Accounts receivable (Note 3)		102,498
Due from other funds (Note 7)		3,334,772
Total assets	\$	<u>182,657,260</u>

LIABILITIES AND FUND BALANCE

LIABILITIES

Accounts payable	\$	11,646,210
Due to other funds (Note 7)		820,076
Total liabilities		<u>12,466,286</u>

FUND BALANCE

Restricted for Proposition S capital projects		170,190,974
Total liabilities and fund balance	\$	<u>182,657,260</u>

The accompanying notes to financial statements are an integral part of this statement.

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures and Changes in Fund Balance
For the Fiscal Year Ended June 30, 2012**

REVENUES	
Interest income (Note 2)	\$ 538,900
Other local income	40,256
Total revenues	<u>579,156</u>
EXPENDITURES	
Facilities acquisition and construction (Notes 8, 9 and 10)	<u>130,526,400</u>
Total expenditures	<u>130,526,400</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(129,947,244)</u>
OTHER FINANCING SOURCES AND USES	
Proceeds from long-term debt (Note 5)	150,875,186
Other Financing Uses (Note 6)	<u>(526,856)</u>
Total Other Financing Sources	<u>150,348,330</u>
Net Change in Fund Balance	20,401,086
Fund Balance, July 1, 2011	<u>149,789,888</u>
Fund Balance, June 30, 2012	<u>\$ 170,190,974</u>

The accompanying notes to financial statements are an integral part of this statement.

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2012**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

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

On November 4, 2008 the District voters authorized \$2.1 billion in general obligation bonds (Proposition S) to improve every neighborhood school by repairing outdated student restrooms, deteriorated plumbing and roofs, upgrading career/vocational classrooms and labs, providing up-to-date classroom technology, improving school safety/security, replacing dilapidated portable classrooms, upgrading fire alarms, and removing hazardous substances.

An oversight committee to the District’s Governing Board and Superintendent, called the Independent Citizens Oversight Committee (ICOC), was established pursuant to the requirements of state law and the provisions of the Proposition S bond. The ICOC is required by state law to actively review and report on the proper expenditure of taxpayers’ money for school construction. The ICOC provides oversight and advises the public whether the District is spending the Proposition S Bond funds for school capital improvements within the scope of projects outlined in the Proposition S Bond project list. In fulfilling its duties, the ICOC reviews, among other things, the District’s annual performance and financial audits of Proposition S activity.

The statements presented are for the individual Proposition S Bond Building Fund of the District, consisting of the net construction proceeds of Election of 2008, Series A, B, C, D-1 and D-2 general obligation bonds as issued by the District, through the County of San Diego, and are not intended to be a complete presentation of the District’s financial position or results of operations. There are no related parties or component units included in this financial statement presentation.

B. Accounting Policies

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

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Accounting

Basis of accounting refers to when revenues and expenditures 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.

The financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. “Available” means collectible within the current period or within 60 days after year-end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred.

D. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid.

E. Deposits and Investments

In accordance with Education Code Sections 15357 and 41001, the District maintains a portion of its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

F. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 1 – SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Budgets and Budgetary Accounting

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for all government funds. By state law, the District's governing board must adopt a budget no later than July 1. A public hearing must be conducted to receive comments prior to adoption. The District's governing board satisfied these requirements.

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

H. Fund Balance

Fund Balance is divided into five classifications based primarily on the extent to which the District is bound to observe constraints imposed upon the use of the resources in the governmental funds. The five classifications are *Nonspendable, Restricted, Committed, Assigned and Unassigned*. The category applicable to Proposition 39 bonds is the *Restricted* classification. The restricted fund balance classification reflects amounts subject to externally imposed and legally enforceable constraints. Such constraints may be imposed by creditors, grantors, contributors, or laws or regulations of other governments, or may be imposed by law through constitutional provisions or enabling legislation.

NOTE 2 – CASH AND INVESTMENTS

Summary of Cash and Investments

Cash and investments as of June 30, 2012 are classified in the accompanying financial statements as cash in county treasury for \$179,219,991.

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 2 – CASH AND INVESTMENTS (continued)

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered state warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations. Investments of debt proceeds held by trustees are governed by the provisions of debt agreements rather than the general provisions of the California Government Code. These provisions allow for the acquisition of investment agreements with maturities up to 30 years.

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

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 2 – CASH AND INVESTMENTS (continued)

General Authorizations

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

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

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 2 – CASH AND INVESTMENTS (continued)

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are described below:

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury. The District maintains an investment with the San Diego County Investment Pool with a fair value of approximately \$179,739,729 and an amortized book value of \$179,219,990. The weighted average maturity for this pool as of June 30, 2012 was 425 days.

Credit Risk

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

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government Code. District investments that are greater than 5 percent of total investments are in either an external investment pool or mutual funds and are therefore exempt.

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable amounting to \$102,498 as of June 30, 2012 consists of interest earned on the District's investment in the County Treasury.

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 4 – CONSTRUCTION COMMITMENTS

The Proposition S Bond Building Fund had construction commitments of \$54.0 million as of June 30, 2012.

Capital Projects	Remaining Construction Commitment
Clairemont HS Stadium ADA Phase 2	\$ 195,725
Data Center at Serra HS, #04-111426	9,168,000
Encanto ES New Classroom ORG	5,440,321
Hoover HS Athletic Facilities	1,170,903
Knox ES Modernization Prj	17,266,029
Madison HS - Provide New Bleachers	3,014
Mira Mesa HS - Broadcast Journalism	2,470,500
Mira Mesa HS-Srn Print & Graphic Dsg	794,600
Morse HS Child Develop Program	9,614
Point Loma HS - Motion Picture Indus	168,239
Point Loma HS - Motion Picture Indus	45,190
Point Loma HS - Weight Room	1,460
Point Loma HS Music Rm Conversion	31,302
Scripps Ranch HS Sustain Tech Bldg	231,326
UCHS Lighting & Scoreboard	55,425
Zamorano ES ORG Project	8,618,740
Eulcid ES ORG Project	6,999,999
Point Loma HS Track and Field	1,326,091
Total	\$ 53,996,478

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 5 – PROPOSITION S GENERAL OBLIGATION BONDS

As of June 30, 2012, the principal balance outstanding on the District’s Proposition S general obligation bonds, including accreted interest to date is:

Series	Date of Issue	Interest Rate %	Maturity Date	Amount of Original Issue	Outstanding July 1, 2011	Current Year Additions *	Redeemed Current Year	Outstanding June 30, 2012
Election of 2008, Series A	5/7/2009	2.52% - 6.19%	7/1/2033	\$ 131,157,581	\$ 138,842,398	\$ 3,903,172	\$ 1,150,555	\$ 141,595,015
Election of 2008, Series B	5/7/2009	7.87%*	7/1/2023	38,840,000	38,840,000	-	-	38,840,000
Election of 2008, Series C	8/5/2010	6.10% - 6.80%	7/1/2050	163,869,783	166,140,030	61,021,133	51,321,508	175,839,655
Election of 2008, Series D	8/5/2010	5.69%-5.78%	7/1/2027	36,130,000	36,130,000	-	-	36,130,000
Election of 2008, Series E	5/24/2012	4.89% - 5.48%	7/1/2051	149,998,825	-	149,998,825	-	149,998,825
Total				\$ 519,996,189	\$ 379,952,428	\$ 214,923,130	\$ 52,472,063	\$ 542,403,495

*\$8,054,475 in additions to general obligation bonds are to recognize current period accreted interest on the capital appreciation bonds

The issued series consist of the various debt instruments as detailed below:

Series	Date of Issue	% Yield	Maturity Date	Amount of Original Issue
Election of 2008, Series A	5/7/2009			
Capital Appreciation Bond		2.52% - 6.19%	7/1/2031	\$ 57,988,744
Convertible CAB		6.00%	7/1/2033	73,168,837
Total Election of 2008, Series A				131,157,581
Election of 2008, Series B	5/7/2009			
Qualified School Construction Bond		7.87%*	7/1/2023	38,840,000
Total Election of 2008, Series B				38,840,000
Election of 2008, Series C	8/5/2010			
Capital Appreciation Bond		6.10% - 6.80%	7/1/2047	88,870,485
Convertible CAB		6.63%	7/1/2050	74,999,298
Total Election of 2008, Series C				163,869,783
Election of 2008, Series D	8/5/2010			
Qualified School Construction Bond		5.79%**	7/1/2027	16,130,000
Qualified School Construction Bond		5.69%**	7/1/2027	20,000,000
Total Election of 2008, Series D				36,130,000
Election of 2008, Series E	5/24/2012			
Capital Appreciation Bond		4.89%-5.17%	7/1/2036	23,027,017
Capital Appreciation Term Bond		5.40%-5.48%	7/1/2051	35,585,544
Convertible Term CAB		5.25%-5.38%	7/1/2047	91,386,264
Total Election of 2008, Series D				149,998,825
Total				\$ 519,996,189

*Tax Credit Bonds do not bear interest to be paid by the District.

**Interest payments are expected to be paid from Subsidy Payments from the US Department of the Treasury.

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 5 – PROPOSITION S GENERAL OBLIGATION BONDS (continued)

Election of 2008, Series A

On May 7, 2009, Series A bonds of the Proposition S bond authorization were issued, which consisted of current interest and capital appreciation bonds with an initial par amount of \$131,157,581 with stated interest rates of 2.52% to 6.19% and maturing through July 1, 2033.

The annual requirements to amortize Series A Proposition S general obligation bonds payable outstanding as of June 30, 2012, are as follows:

Year Ended				
June 30	Principal*	Current Interest	Accreted Interest	
2013	\$ 1,336,515	\$ -	\$ 163,485	
2014	1,305,735	-	234,265	
2015	1,085,319	-	264,681	
2016	1,004,269	-	315,731	
2017	848,543	-	336,457	
2018-2022	5,747,681	23,999,400	3,442,319	
2023-2027	22,853,991	39,999,000	36,971,009	
2028-2032	68,385,973	75,429,263	67,183,864	
2033-2037	27,439,000	25,561,000	-	
Total	\$ 130,007,026	\$ 164,988,663	\$ 108,911,811	

* Does not include accreted interest of \$11,587,989

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 5 – PROPOSITION S GENERAL OBLIGATION BONDS (continued)

Election of 2008, Series B

On May 7, 2009, Series B bonds of the Proposition S bond authorization were issued, which consisted of tax credit bonds with an initial par amount of \$38,840,000 with a tax credit rate of 7.87% and maturing through March 15, 2023. The QSCBs are tax credit bonds within the meaning of Section 54F of the Internal Revenue Code (the Code), and accordingly the QSCBs do not bear interest to be paid by the District. The bondholder investors will be allowed a credit under the Code against their federal income tax liability. Proceeds from the sale of QSCBs are restricted to the uses prescribed for bonds designated as QSCBs under Section 54F of the Code.

The annual requirements to amortize Series B Proposition S general obligation bonds payable outstanding as of June 30, 2012, are as follows:

Year Ended June 30	Principal Amount	Tax Credit Amount	Total
2013	\$ -	\$ 3,056,708	\$ 3,056,708
2014	-	3,056,708	3,056,708
2015	-	3,056,708	3,056,708
2016	-	3,056,708	3,056,708
2017	-	3,056,708	3,056,708
2018-2022	29,340,000	12,227,462	41,567,462
2023-2027	9,500,000	5,349,239	14,849,239
Total	\$ 38,840,000	\$ 32,860,241	\$ 71,700,241

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 5 – PROPOSITION S GENERAL OBLIGATION BONDS (continued)

Election of 2008, Series C

On August 5, 2010, Election of 2008, Series C of the Proposition S bond authorization was issued, which consisted of current interest and capital appreciation bonds with an initial par amount of \$163,869,784 with yields to maturity of 6.10% to 6.80% and maturing through July 1, 2050.

The annual requirements to amortize Series C Proposition S general obligation bonds payable outstanding as of June 30, 2012, are as follows:

Year Ended June 30,	Principal*	Current Interest	Accreted Interest	Acceted Conv. CAB Value	Total
2013	\$ -	\$ -	\$ -	\$ -	\$ -
2014	-	-	-	-	-
2015	-	-	-	-	-
2016	-	-	-	-	-
2017	-	-	-	-	-
2018-2022	-	-	-	-	-
2023-2027	-	-	-	-	-
2028-2032	15,463,959	23,868,550	38,266,041	-	77,598,550
2033-2037	24,443,911	90,706,188	97,261,089	-	212,411,188
2038-2042	86,647,793	214,598,646	175,127,037	-	476,373,476
2043-2047	28,631,118	28,636,563	255,918,883	-	313,186,564
2048-2052	14,231,324	3,674,889	-	37,728,676	55,634,889
Total	\$ 169,418,105	\$ 361,484,836	\$ 566,573,050	\$ 37,728,676	\$ 1,135,204,667

* Does not include accreted interest of \$6,421,550

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 5 – PROPOSITION S GENERAL OBLIGATION BONDS (continued)

Election of 2008, Series D-1 and D-2

On August 5, 2010, Election of 2008, Series D-1 and D-2 of the Proposition S bond authorization was issued, which consisted of tax credit bonds with an initial par amount of \$16,130,000 and \$20,000,000, a tax credit rate of 5.26%, and maturing through July 1, 2027. The QSCBs are tax credit bonds within the meaning of Section 54F of the Internal Revenue Code (the Code), and accordingly the QSCBs do not bear interest to be paid by the District. The bondholder investors will be allowed a credit under the Code against their federal income tax liability. Proceeds from the sale of QSCBs are restricted to the uses prescribed for bonds designated as QSCBs under Section 54F of the Code.

The annual requirements to amortize Series D Proposition S general obligation bonds payable outstanding as of June 30, 2012, are as follows:

Year Ended	Principal	Current Interest	Total
June 30,			
2013	\$ -	\$ 1,900,438	\$ 1,900,438
2014	-	1,900,438	1,900,438
2015	-	1,900,438	1,900,438
2016	-	1,900,438	1,900,438
2017	-	1,900,438	1,900,438
2018-2022	-	9,502,190	9,502,190
2023-2027	25,000,000	9,502,190	34,502,190
2028-2032	11,130,000	1,900,438	13,030,438
2033-2037	-	-	-
2038-2042	-	-	-
2043-2047	-	-	-
2048-2052	-	-	-
Total	\$ 36,130,000	\$ 30,407,008	\$ 66,537,008

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 5 – PROPOSITION S GENERAL OBLIGATION BONDS (continued)

Election of 2008, Series E

On May 24, Election of 2008, Series E of the Proposition S bond authorization was issued, which consisted of current interest and capital appreciation bonds with an initial par amount of \$149,998,825 with yields to maturity of 4.89% to 5.48% and maturing through July 1, 2051.

The annual requirements to amortize Series E Proposition S general obligation bonds payable outstanding as of June 30, 2012, are as follows:

Year Ended June 30,	Principal	Current Interest	Accreted Interest	Accreted Conv. CAB Value	Total
2013	\$ -	\$ -	\$ -	\$ -	\$ -
2014	-	-	-	-	-
2015	-	-	-	-	-
2016	-	-	-	-	-
2017	-	-	-	-	-
2018-2022	-	-	-	-	-
2023-2027	-	-	-	-	-
2028-2032	7,798,224	-	15,141,776	-	22,940,000
2033-2037	20,595,186	70,319,938	32,321,207	9,843,608	133,079,939
2038-2042	22,388,193	59,520,425	-	41,066,807	122,975,425
2043-2047	63,631,678	31,945,238	-	121,188,322	216,765,238
2048-2052	35,585,544	-	232,666,146	-	268,251,690
Total	\$ 149,998,825	\$ 161,785,601	\$ 280,129,129	\$ 172,098,737	\$ 764,012,292

NOTE 6 – OTHER FINANCING USES

Other financing uses amounting to \$526,856 as of June 30, 2012 consists of issuance costs on the District's issuance of Election 2008 Series E and the District's refunding of Election 2008 Series C general obligation bonds.

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 7 – INTERFUND ACTIVITIES

Interfund activity is reported as loans, services provided reimbursements, or transfers. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers.

Due From/Due To Other Funds

Interfund receivable and payable balances as of June 30, 2012 are as follows:

<u>Due To Other Funds</u>	Due From Other Funds			Total
	General Fund	Building Fund	Other Governmental Funds	
Building Fund	\$ 785,610	\$ -	\$ 34,467	\$ 820,077
County School Facilities Fund	-	3,332,230	-	3,332,230
Other Governmental Funds	-	2,542	-	2,542
	<u>\$ 785,610</u>	<u>\$ 3,334,772</u>	<u>\$ 34,467</u>	<u>\$ 4,154,849</u>

Prop S Building Fund due to General Fund for reimbursement of job cost, expenses, and for salary and employee benefits.	\$ 785,610
Prop S Building Bond due to County School Facilities Fund for expenditure transfers.	34,467
County School Facilities Fund due to Prop S Building Bond for reimbursement of expenses.	338,830
Prop S State Facility Matching Funds from County School Facilities Fund due to Prop S Building Fund.	2,993,400
Facilities Master Plan / Prop O due to Proposition S Building Fund for reimbursement of expenses.	2,542
	<u>\$ 4,154,849</u>

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 8 – PROPOSITION S EXPENDITURES BY MAJOR OBJECT

The following table presents the expenditure amounts by major object for the fiscal year ended June 30, 2012:

Expenditures by Object	Amount	Percent
Capital outlay	\$ 90,367,791	69.2%
Services and other operating	29,033,852	22.2%
Classified salaries	5,162,233	4.0%
Books and supplies	3,807,495	2.9%
Employee benefits	2,155,029	1.7%

NOTE 9 – EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The District's Proposition S Bond Building Fund had \$354,676 in expenditures over appropriations for books and supplies for the fiscal year ended June 30, 2012 which was ultimately Board Approved.

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 10 – PROPOSITION 5 EXPENDITURES BY SITE LOCATION

The following table presents the expenditure amounts by project for the fiscal year ended June 30, 2012:

School Site	Amount	Percent
School Site Expenditures		
Hoover High School	\$ 11,448,091	8.8%
Downtown Library School	10,499,629	8.0%
Morse High School	8,350,039	6.4%
University City High School	5,280,085	4.0%
Clairemont High School	4,945,574	3.8%
Point Loma High School	4,592,389	3.5%
Henry High School	3,696,500	2.8%
Scripps Ranch High School	3,476,060	2.7%
Jefferson Elementary School	2,520,470	1.9%
Serra High School	2,345,701	1.8%
San Diego High Educational Complex	2,341,471	1.8%
Chollas/Mead Elementary School	1,843,885	1.4%
Kearny High Educational Complex	1,832,417	1.4%
Sessions Elementary School	1,685,051	1.3%
Gompers Charter School	1,454,969	1.1%
Education Center (Data Center)	1,346,517	1.0%
O'Farrell Community Middle School	1,242,602	1.0%
Memorial Preparatory for Scholars and Athletes	1,163,626	0.9%
Roosevelt Middle School	1,144,439	0.9%
Marshall Elementary School	897,604	0.7%
MacDowell Middle School	889,187	0.7%
Dana Middle School	800,700	0.6%
Knox Middle School	748,624	0.6%
Encanto Elementary School	716,512	0.5%
Lewis Middle School	689,698	0.5%
Hamilton Elementary School	649,811	0.5%
Normal Heights Elementary School	592,929	0.5%
Clark Middle School	574,396	0.4%
Pershing Middle School	534,402	0.4%
Mann Middle School	509,071	0.4%
Correia Middle School	467,757	0.4%

Continued on next page

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 10 – PROPOSITION 5 EXPENDITURES BY SITE LOCATION (continued)

School Site	Amount	Percent
Madison High School	466,694	0.4%
Bell Middle School	456,015	0.3%
Mira Mesa High School	440,974	0.3%
Mission Bay High School	438,755	0.3%
School of Creative and Performing Arts (SCPA)	422,450	0.3%
De Portola Middle School	421,656	0.3%
Bethune Elementary School	404,645	0.3%
Challenger Middle School	401,162	0.3%
Miller Elementary School	398,298	0.3%
Emerson Elementary School	396,897	0.3%
Language Academy	387,457	0.3%
Wangenheim Middle School	379,240	0.3%
La Jolla High School	376,423	0.3%
Marston Middle School	369,456	0.3%
Muirlands Middle School	365,984	0.3%
Crawford High Education Complex	364,287	0.3%
Wilson Middle School	343,408	0.3%
Logan Elementary School	336,362	0.3%
Kroc Institute of Peace and Justice	310,477	0.2%
Euclid Elementary School	309,749	0.2%
Riley K-9 Special Education	296,458	0.2%
Central Elementary School	287,830	0.2%
Porter Elementary School	287,220	0.2%
Marshall Middle School	286,644	0.2%
Mason Elementary School	272,203	0.2%
Lincoln High School	269,993	0.2%
Cherokee Point Elementary School	258,170	0.2%
Zamarano Elementary School	249,623	0.2%
Montgomery Middle School	236,946	0.2%
Anderson Elementary School	229,560	0.2%

Continued on next page

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 10 – PROPOSITION 5 EXPENDITURES BY SITE LOCATION (continued)

School Site	Amount	Percent
Oak Park Elementary School	228,299	0.2%
Standley Middle School	222,084	0.2%
Keiller Leadership Academy	216,958	0.2%
Taft Middle School	212,770	0.2%
Spreckels Elementary School	209,219	0.2%
Rosa Parks Elementary School	207,587	0.2%
Penn Elementary School	207,313	0.2%
Dingeman Elementary School	203,527	0.2%
Linda Vista Elementary School	202,736	0.2%
Edison Elementary School	200,794	0.2%
Lee Elementary School	200,445	0.2%
Audubon Elementary School	197,729	0.2%
Pacific Beach Middle School	197,427	0.2%
Valencia Park Elementary School	192,617	0.1%
Franklin Elementary School	191,150	0.1%
Carson Elementary School	189,875	0.1%
Ericson Elementary School	188,005	0.1%
Farb Middle School	185,486	0.1%
PPO FPC Transfer	184,449	0.1%
Freese Elementary School	181,483	0.1%
Miramar Ranch Elementary School	181,219	0.1%
Johnson Elementary School	173,272	0.1%
Joyner Elementary School	173,138	0.1%
Lindbergh Schweitzer Elementary School	170,137	0.1%
Horton Elementary School	166,727	0.1%
Ibarra Elementary School	165,921	0.1%
Longfellow Elementary School	163,968	0.1%
Foster Elementary School	159,799	0.1%
Sandburg Elementary School	159,646	0.1%
E.B. Scripps Elementary School	159,379	0.1%
Hancock Elementary School	159,130	0.1%

Continued on next page

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 10 – PROPOSITION 5 EXPENDITURES BY SITE LOCATION (continued)

School Site	Amount	Percent
Baker Elementary School	157,692	0.1%
Doyle Elementary School	155,481	0.1%
Chavez Elementary School	155,425	0.1%
Perry Elementary School	151,620	0.1%
King/Chavez Charter School	150,171	0.1%
Balboa Elementary School	149,896	0.1%
Fulton Elementary School	149,510	0.1%
Jerabek Elementary School	148,944	0.1%
Whitman Elementary School	147,170	0.1%
Carver Elementary School	143,576	0.1%
Rodriguez Elementary School	143,008	0.1%
Jackson Preschool	142,474	0.1%
Angier Elementary School	142,303	0.1%
Paradise Hills Elementary Schools	140,612	0.1%
Green Elementary School	139,087	0.1%
Walker Elementary School	135,882	0.1%
Fay Elementary School	132,800	0.1%
Brooklyn Child Development Center	130,799	0.1%
Bay Park Elementary School	130,632	0.1%
McKinley Elementary School	124,938	0.1%
Perkins Elementary School	118,389	0.1%
Florence Elementary School	116,380	0.1%
Darnall Charter School	114,699	0.1%
Garfield Elementary School	109,458	0.1%
Kimbrough Elementary School	108,313	0.1%
Hage Elementary School	107,641	0.1%
Hickman Elementary School	106,260	0.1%
Juarez Elementary School	104,372	0.1%
Hardy Elementary School	103,680	0.1%
Chesterton Elementary School	103,195	0.1%

Continued on next page

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 10 – PROPOSITION 5 EXPENDITURES BY SITE LOCATION (continued)

School Site	Amount	Percent
Alcott Elementary School	102,349	0.1%
Sherman Elementary School	101,127	0.1%
Birney Elementary School	99,556	0.1%
Ross Elementary School	99,067	0.1%
Clay Elementary School	98,298	0.1%
Twain High School	96,090	0.1%
Gage Elementary School	96,035	0.1%
Ocean Beach Elementary School	94,843	0.1%
Boone Elementary School	94,335	0.1%
Whittier Elementary School	92,248	0.1%
Rolando Park Elementary School	89,789	0.1%
Golden Hill Elementary School	87,413	0.1%
Lafayette Elementary School	84,507	0.1%
Jones Elementary School	83,944	0.1%
Toler Elementary School	83,339	0.1%
Bayview Terrace Elementary School	81,466	0.1%
Bird Rock Elementary School	80,414	0.1%
Dailard Elementary School	79,515	0.1%
La Jolla Elementary School	79,470	0.1%
Field Elementary School	77,968	0.1%
Benchley/Weinberger Elementary School	74,780	0.1%
Pacific Beach Elementary Schools	74,426	0.1%
Cubberly Elementary School	71,651	0.1%
Harriet Tubman Charter School	71,207	0.1%
Nye Elementary School	70,560	0.1%
Barnard Elementary School	68,379	0.1%
Curie Elementary School	67,770	0.1%
Wiggins Elementary School	67,015	0.1%
Grant Elementary School	66,726	0.1%
Hearst Elementary School	61,306	0.0%

Continued on next page

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 10– PROPOSITION 5 EXPENDITURES BY SITE LOCATION (continued)

School Site	Amount	Percent
Tierrasanta Elementary School	59,994	0.0%
Fletcher Elementary School	58,461	0.0%
Torrey Pines Elementary School	57,428	0.0%
Sequoia Elementary School	57,081	0.0%
Vista Grande Elementary School	55,076	0.0%
North Park Elementary School	52,822	0.0%
Silver Gate Elementary School	52,474	0.0%
Crown Point Elementary School	51,368	0.0%
Wegeforth Elementary School	51,319	0.0%
Kumeyaay Elementary School	51,242	0.0%
Holmes Elementary School	51,094	0.0%
Adams Elementary School	45,918	0.0%
Loma Portal Elementary School	44,266	0.0%
Miramar Area New Twin Schools	43,968	0.0%
Hawthorne Elementary School	41,634	0.0%
Webster Elementary School	40,769	0.0%
Garfield High School	39,881	0.0%
Nubia Leadership Academy	39,754	0.0%
Marvin Elementary School	39,600	0.0%
Dewey Elementary School	37,982	0.0%
Cadman Elementary School	37,349	0.0%
Rowan Elementary School	36,597	0.0%
Cabrillo Elementary School	34,521	0.0%
Burbank Elementary School	31,930	0.0%
Museum Charter School	24,096	0.0%
Washington Elementary School	23,811	0.0%
High Tech High International Charter School	20,694	0.0%
Distribution Services Section	20,033	0.0%
Early / Middle College	18,066	0.0%
Sunset View Elementary School	17,494	0.0%
Cleveland Elementary School	10,902	0.0%

Continued on next page

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Notes to Financial Statements, continued
June 30, 2012**

NOTE 10 – PROPOSITION S EXPENDITURES BY SITE LOCATION (continued)

School Site	Amount	Percent
John Muir School	7,436	0.0%
TRACE Services	7,243	0.0%
Twain at Morse High School	3,318	0.0%
Madison High School	731	0.0%
Euclid Elementary School	262	0.0%
Accounts Payable - Multiple Projects	4,563,813	3.5%
Other Project Related Costs	510,842	0.4%
Total School Site Expenditures	108,398,800	
Program expenditures		
Facilities Planning & Construction	20,478,873	15.7%
Strategic Sourcing Department	477,867	0.4%
Debt Services	349,506	0.3%
Legal Services	222,469	0.2%
PPO Support Services	145,742	0.1%
Communications	124,074	0.1%
Information & Technology Support Services	85,794	0.1%
Office of Chief Financial Officer	81,306	0.1%
Educational Technology	76,580	0.1%
Financial Support Services	72,190	0.1%
Internal Audit	13,199	0.0%
Total Program Expenditures	22,127,600	
Total	\$ 130,526,400	100.0%

NOTE 11 – PROPOSITION S EXPENDITURES BY CATEGORY

The following table presents the expenditure amounts by facility type category for the fiscal year ended June 30, 2012:

Expenditures by category:		
Category	Amount	Percent
High schools	\$ 61,305,105	47.0%
Program expenditures	22,127,600	17.0%
Elementary schools	23,809,855	18.2%
Middle schools	11,679,154	8.9%
Other District sites	11,604,686	8.9%
Total	\$ 130,526,400	100.0%

SUPPLEMENTARY INFORMATION SECTION

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – Proposition S Bond Building Fund
For the Fiscal Year Ended June 30, 2012**

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with
	Original	Final		Final Budget - Pos (Neg)
REVENUES				
Other local	\$ 1,400,000	\$ 913,000	\$ 579,156	(333,844)
Total revenues	1,400,000	913,000	579,156	(333,844)
EXPENDITURES				
Classified salaries	6,964,760	5,565,162	5,162,233	402,929
Employee benefits	2,955,460	2,298,304	2,155,029	143,275
Books and supplies	324,320	3,452,819	3,807,495	(354,676)
Services and other operating expenditures	19,844,168	29,358,260	29,033,852	324,408
Capital outlay	140,000,000	102,971,448	90,367,791	12,603,657
Total expenditures	170,088,708	143,645,993	130,526,400	13,119,593
Excess (deficiency) of revenues over (under) expenditures	(168,688,708)	(142,732,993)	(129,947,244)	12,785,749
OTHER FINANCING SOURCES AND USES				
Other sources	140,000,000	90,000,000	150,875,186	60,875,186
Other uses	-	-	(526,856)	(526,856)
Total other financing sources and uses	140,000,000	90,000,000	150,348,330	60,348,330
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(28,688,708)	(52,732,993)	20,401,086	73,134,079
Fund balances, July 1, 2011	149,789,888	149,789,888	149,789,888	-
Fund balances, June 30, 2012	\$ 121,101,180	\$ 97,056,895	\$ 170,190,974	\$ 73,134,079

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements
June 30, 2012**

	Building Fund
June 30, 2012, annual financial and budget report fund balance	\$ 174,651,704
Adjustments and reclassifications:	
Increase (decrease) in total fund balances:	
Accounts payable adjustment	(4,460,730)
June 30, 2012, audited financial statement fund balance	<u>\$ 170,190,974</u>

OTHER INDEPENDENT AUDITORS' REPORT

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

Christy White, CPA

Eric J. Hart

Michael Ash, CPA

Erin Sacco Pineda, CPA

Governing Board Members and
Proposition S Independent Citizens' Oversight Committee of
San Diego Unified School District
San Diego, California

We have audited the financial statements of the Proposition S Bond Building Fund of San Diego Unified School District as of and for the fiscal year ended June 30, 2012, and have issued our report thereon dated November 20, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and standards applicable to financial audits contained in *Government Audit Standards*, issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

Management of the Proposition S Bond Building Fund of San Diego Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Proposition S Bond Building Fund of San Diego Unified School District's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the the Proposition S Bond Building Fund of San Diego Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the the Proposition S Bond Building Fund of San Diego Unified School 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying Schedule of Audit Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

SAN DIEGO

2727 Camino Del Rio South
Suite 219
San Diego, CA 92108

RANCHO CUCAMONGA

8686 Haven Avenue
Suite 250
Rancho Cucamonga, CA 91730

ALAMEDA

1050 Marina Village Parkway
Suite 201
Alameda, CA 94501

tel: 619.270.8222

fax: 619.260.9085

www.cwacpa.com

*Licensed by the California
State Board of Accountancy*

A *deficiency* in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Audit Findings and Questioned Costs to be material weaknesses, refer to Finding #2012-01.

Compliance and Other Matters

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

San Diego Unified School District management's responses to the findings identified in our audit are described in the accompanying schedule of audit findings and management's responses. We did not audit management's responses and, accordingly, we express no opinion on them.

This report is intended solely for the information and use of the District's Governing Board, the Proposition S Independent Citizens' Oversight Committee, management, others within the entity, and the taxpayers of San Diego Unified School District and is not intended to be and should not be used by anyone other than these specified parties.

Christy White Associates

San Diego, California
November 20, 2012

**AUDIT FINDINGS AND MANAGEMENT'S
RESPONSE SECTION**

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Management's Responses
For the Fiscal Year Ended June 30, 2012**

FINDING #2012-01: ACCOUNTS PAYABLE ACCRUAL

Criteria: Internal controls should be implemented to ensure that accounting transactions are recorded in the proper period.

Condition: During our accounts payable testing, we found that 22 out of 141 subsequent expenditure transactions were improperly recorded. All 22 of these transactions should have been accrued liabilities for the 2012-2012 year, but were instead expensed in the 2012-2013 school year. Upon further follow up with the appropriate department, it appears that District accrual procedures were followed and one accrual document provided by facilities department was not included in the accounts payable accrual, resulting in \$4,460,730 understatement of accounts payable.

Cause: A lack of internal control procedures that would insure AP is recognized was the cause of this misstatement. There needs to be additional checks to verify that the accrual provided to the accounts payable department was posted appropriately to the general ledger.

Effect or Potential Effect: Transactions are not recorded in the proper period and could lead to material financial misstatements.

Recommendation: We recommend that the District implement sufficient and appropriate internal control procedures to ensure that transactions are recorded in the proper accounting period.

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Management's Responses, continued
For the Fiscal Year Ended June 30, 2012**

FINDING #2012-01: ACCOUNTS PAYABLE ACCRUAL (continued)

District Response: We understand and concur with audit finding #2012-01. We are implementing additional controls beginning with fiscal year 2012-13 processing that will eliminate the possibility of a recurrence.

1. A checklist will be prepared showing names of all responsible parties from which accruals are expected to be received via e-mailed enclosures.
2. Files received will be recorded on the checklist including name of sender, date received, date transferred to our shared hard drive and by whom. The shared hard drive is the source from which accrual journals are compiled and formatted prior to uploading to the general ledger. The naming convention of the files always includes the senders' last names.
3. Follow-up will be performed by the A/P manager or A/P lead to contact all parties for which files have not been received by the established deadline date (typically the first week of July). Comments and initials of person following up will be noted on the checklist.
4. Verification between the checklist and the files on the shared hard drive will be performed on the established due date. The date and initials of the person conducting the verification will be noted on the checklist.
5. The checklist will be stored on the shared hard drive where the accrual files are stored and will be retained until after the annual external audit is completed.

**PROPOSITION 5 BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings
For the Fiscal Year Ended June 30, 2012**

Finding #2011-1 Financial Audit Finding: Post Award Contracts Payment Process

Audit Finding: We noted that opportunities continue to exist for improving the process for executing Professional Service Vendor payments in the District's post-award contracts area. Our testing of 789 payments made in July 2010 to June 2011 indicated an average time to payment of 37 days. It is important to note that in the second half of the 2010-11 fiscal year, however, processing time dropped from approximately 60 days to payment to 15 days to payment. Good internal control dictates processing vendor payments within 30 days.

In response to the delays in payment noted previously, the District has hired two additional post-award contracts employees to assist in processing payments to professional services vendors. The District has also improved the approval process by eliminating the back and forth communications between the PM and the contracts assistant. To further streamline and improve the PM approval process, there is a proposed plan to convert the paper-based approval system to an electronic invoice approval system using Sharepoint.

Audit Recommendations: The District should seek to automate the invoice approval process in order to provide for better tracking and efficiency of invoice approvals by PMs. Evidence of approval by all required parties should be maintained for audit and vendor payment purposes. Given the complexity of the two systems involved, and the multi-department nature of the payment process (involving facilities, strategic sourcing/contracts, and finance departments), the District may be advised to enlist the assistance of a third-party information technology consultant to assist in the design and implementation of further system improvements.

Management's Response: District concurs. Currently the District has procured the services of a consultant firm that specializes in automating invoicing, payment and integration of the enterprise database systems that the District uses for both financial and project management. The payment invoice, request and approval system that is under production will include an on-line utility that the vendor will access and make request for payment. The system includes checks and balances that prevents the overbilling of services and automates the approval and payment process. Approvals are still required by District managers and Accounts Payable as with the current paper system. The goal is to have the system placed in service first for professional services contracts by February 2011. This should further improve the payment process to allow real-time tracking of invoice and payments to vendors.

Status: Implemented

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings, continued
For the Fiscal Year Ended June 30, 2012**

Finding: #2011-2 Financial Audit Finding: Internal Audit Involvement

Audit Finding: We noted that the District's internal audit department is currently in the process of requesting a position of internal auditor over Proposition S. However, as of the date of this report, the hiring process is not complete. To address this repeat finding, the internal audit department has put together Internal Audit Objectives for the audit of Proposition S funds but currently there are no regular internal audit services provided to the facilities/construction area. Despite the setbacks, as of June 30, 2011, the Internal Audit department randomly selected a school site to audit and is reportedly in the gathering of information stage.

Audit Recommendations: We recommend that internal audit resources be dedicated to the audit of Proposition S projects as part of a robust internal control system. The benefits of internal audit over Proposition S include helping to ensure adherence to district policies and procedures; and, identification of potential waste, abuse and errors.

District Response: Internal Audit began the process of filling the .40 FTE position on 4/20/2011 and on 8/23/2011 reached the point where publication for the position took place. The recruitment process using the District's Human Resources process for filling vacant positions had twice presented the position. The results of these efforts produced no viable candidates for the interview process. This office has now submitted to Human Resources and the Budget Department, the information needed to search for a candidate by a paid posting on the Institute of Internal Auditors' (IIA) website.

The Office of Internal Audit, initially projected at being staffed for 2011/2012 with six positions, is now staffed at five positions; a vacant position now not being filled due to the financial constraints facing the District. A staff member had been assigned to audit at 40% of the position's time but the staff member was pulled to conduct a special investigation. Following the completion of the special investigative assignment, the intent is to have this staff member resume relegating 40% of staff time to Prop S for two months, pending filling of the vacancy.

Status: Implemented

**PROPOSITION S BOND BUILDING FUND
SAN DIEGO UNIFIED SCHOOL DISTRICT
Summary Schedule of Prior Audit Findings, continued
For the Fiscal Year Ended June 30, 2012**

Finding: #2011-3 Financial Audit Finding: Unallowable Expenditures Posted to Proposition S

Audit Finding: The District posted expenses to Proposition S bond funds for projects and activities not on the approved list. The District published a list of intended projects that were to be funded through Proposition S bond proceeds. Based on our initial audit of sample transactions, we identified minor instances in which bond funds were used on projects that were not on the list approved by the voters (e.g.; routine classroom supplies and materials). Upon further inquiry, the facilities department was aware of the charges and made journal entries to reclassify the expenses to another funding source before the close of the fiscal year. Although the expenditures were reclassified as of June 30, 2012 resulting in no questioned costs, the District should have controls in place to ensure that the items are not charged to the fund initially.

Audit Recommendations: Upon further inquiry it appears that some requisitions, especially revisions to earlier preliminary requisitions are not relayed to program controls for detail review. Budgeting opens the account and the budget is determined at the request level. Thus program controls and budget see the account code after the item has been coded. We recommend that program controls and budget approve the account codes at the request level and that a policy be put in place to ensure that all requisitions are provided to program controls for review.

District Response: Facilities Planning and Construction (FPC) takes very seriously the prevention and correction of unallowable expenditures to Proposition S. Reviews of expenditures are made on a monthly basis to identify any potential unallowable expenditure. Each item is reviewed and verified to ensure that expenditures are permissible for Proposition S. When items are discovered that should not have been charged to Proposition S, journal vouchers are processed and submitted to the finance budget department for correction.

When the expenditure approval process was reviewed for all purchases, FPC management determined that the current process was inadequate. The revised process now includes a thorough review by program controls to make sure that items that are purchased are allowable prior to the requisition being made. The budget analyst must fund the budget for the purchase prior to the order being made. Prior to the actual approval of the purchase order a final review is made by program controls and by the final approver to make sure that only the items that were on the approved listing are ordered. The process has been formalized as a departmental process and procedure and is now in effect.

Status: Implemented