

SAN JOSE UNIFIED SCHOOL DISTRICT
ANNUAL FINANCIAL REPORT
JUNE 30, 2011

SAN JOSE UNIFIED SCHOOL DISTRICT

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FINANCIAL SECTION



INDEPENDENT AUDITOR'S REPORT

Governing Board
San Jose Unified School District
San Jose, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the San Jose Unified School District (the "District") as of and for the year ended June 30, 2011, 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 opinions 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; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11*, issued by the California Education Audit Appeals Panel as regulations. 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 opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the San Jose Unified School District, as of June 30, 2011, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 54 for the year ended June 30, 2011. These changes required a restatement to the beginning fund balance of the General Fund and the Nonmajor Governmental Funds, as discussed in Note 16.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 11, 2011, on our consideration of the 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 conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis, budgetary comparison and other postemployment information, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the Schedule of Expenditures of Federal Awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Vawrinck Trime Day + Co. LLP

Palo Alto, California
October 11, 2011

SAN JOSE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2011

PROFILE OF THE DISTRICT

Organization

San José Unified School District (the “District”) is one of the largest urban school districts in California serving approximately 32,400 students from kindergarten through grade twelve. Located 50 miles south of San Francisco, in the heart of the Silicon Valley, the District serves a large portion of the city of San Jose and encompasses approximately 100 square miles. The number of schools operated during the 2010-11 school year is as follows:

School Type	Number
Elementary (K-5)	25
K-8	2
Middle Schools (6-8)	6
Comprehensive High Schools (9-12)	6
Continuation High School	1
Community Day School	1

The student population is 26.7% White, 51.5% Hispanic/Latino, 13% Asian, 3.4% African American, 1.9% Filipino and 3.5% Other. San Jose Unified employs approximately 3,500 people.

The District had two Charter Schools in 2010-11, Downtown College Preparatory and Bachrodt Elementary School (a conversion charter). A new charter school, Sunrise Middle School, was approved by the District in March 2011. Sunrise, a small alternative school, commenced operations in the 2011-2012 school year. Downtown College Preparatory and Sunrise Middle School are direct-funded charter schools that receive their allocation of state funds directly from State. Their financial activities are not reflected in the District's books. Bachrodt is a conversion charter school and its activities are included in the district's books.

Mission and Vision

On September 1, 2011 the San Jose Unified School District Board of Education voted to adopt the new vision and mission statements for San Jose Unified School District.

Vision Statement: “All San Jose Unified School District students are inspired and prepared to succeed in a global society.”

Mission Statement: “San Jose Unified School District's mission is to eliminate the opportunity gap and provide every student with the finest 21st century education.”

SAN JOSE UNIFIED SCHOOL DISTRICT

Management's Discussion and Analysis

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The Board of Education laid an excellent foundation for the future vision and mission of the District, the rationale for the change of the vision and mission statements were to:

Vision:

- Make the focus of the vision on students, not the District.
- Make the outcome of our efforts to be students who are inspired and prepared for success.
- Add the word “all” before students, emphasizing our achievement gap.
- Change “global economy” to “global society” to ensure we can include responsible citizenship, 21st century skills and knowledge.
- Drop the words “commits to,” since the focus is on students, not the District and “commit” is not as action oriented as “inspire” and “prepare.”
- The statement is short and helps us visualize the students of the future.

Mission:

- Our number one imperative is to provide a quality education for each and every student and we have not yet been successful in closing the achievement gap between Whites, Asians, and Latinos.
- We need to narrow our focus, take responsibility and finally commit to ensuring equity in opportunity and outcomes for all students.
- “The finest 21st century education” needs to be defined. We want it to lead us from “good” to “great.” It needs to be inclusive of: safe environments, world-class skills, 21st century skills, responsible citizenship, and respect for self, others and the environment.
- The statement is short, easy to remember and focuses the work of our employees and the District.

Continuous Improvement

The District's Continuous Improvement (CI) System is based upon deployment of the Vision, Mission, and Strategic Plan which are validated through performance reviews. The CI process is directed not only at students, but at all other stakeholders including teachers, site administrators, central office staff, parents and community. The District is in the process of revisiting the District's Strategic Plan. The reset of the Strategic Plan will identify the necessary objectives and strategies that will be followed to close the opportunity gap and prepare all students to succeed in the 21st century.

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Desegregation/Voluntary Integration

The 2010-2011 school year marks the eighth year of the District's release from a Federal Desegregation Court Order signed on December 31, 1985 on behalf of the Hispanic student population. The original Federal Court Order addressed school choice and programs to support closing the achievement gap between Latino and White students. In May 2003, the District was awarded unitary status and adopted a Voluntary Integration Plan as part of the release from Federal Court oversight. The components of the plan include:

- Student Assignment
- Primary Language Instruction
- Parent Training and Involvement
- Integration
- Drop Out Intervention
- Special Education
- Student Discipline, and
- Cross-cultural Goals for Staff.

As part of the agreement with the Court, a Standing Advisory Voluntary Integration Plan Committee is appointed by the Board to ensure the plan is being followed. The Committee is made up of parents, central office and school staff and meets five times annually.

In May 2010, San Jose Unified School District adopted an Equity Board Policy (0210) supporting the Voluntary Integration Plan and the District's mission in closing the opportunity gap. The policy identifies measurable outcomes for students and addresses how curriculum, professional development, community involvement, financial resources and employment practices will take a targeted approach in pursuit of equal opportunities for all students and employees.

Community Support for Bonds

In 1997, the District passed by a 75% margin, a \$165 million bond measure, Measure C, to renovate school facilities, which were on the average over 30 years old. In 2002, the District successfully passed by a 68% margin, a \$429 million Measure F bond to bring all facilities up to standard. This was one of the largest bond measures passed by a school district in northern California.

SAN JOSE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis
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OVERVIEW OF THE FINANCIAL STATEMENTS

This management discussion and analysis is intended to serve as an introduction to the District's basic financial statements, which are comprised of three components: (1) District-wide statements, (2) fund financial statements, and (3) notes to the basic financial statements. In addition to the basic financial statements this report also provides required and other supplementary information.

District-wide Statements

District-wide financial statements provide both short-term and long-term information about the District's overall financial status, in a manner similar to a business in the private sector. The statement of net assets, reports all financial and capital resources of the District, which may serve over time as useful indicator of the District's financial position. The statement of activities reports the District's net assets and how they have changed. All of the District's revenues are recognized in the accounting period in which they become available and measurable, and expenditures are recognized in the accounting period in which the fund liability occurred regardless of the timing of related cash flow.

Fund Financial Statements

The fund financial statements are designed to report information about the District's most significant funds. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs. Some funds are required by State law and by bond covenants.

Fund financial statements adopt a focus on specific parts of the District, reporting the District's operations in more detail than the district-wide statements.

- Governmental funds statements explain how basic services such as instruction and pupil services were financed in the short term as well as what remains for future spending. Most of the District's basic services are included in governmental funds. Because this information does not encompass the additional long-term focus of the district-wide statements, we provide additional information in the reconciliation statements that explains the relationship (or differences) between them.
- Proprietary fund statements offer financial information about the activities the district operates on a cost reimbursement basis, such as the self-insurance fund. Proprietary funds are reported in the same way as the district-wide statements. The District currently has two internal service funds – the self-insurance fund for workers' compensation and the self-insurance fund for health and welfare.
- Fiduciary funds 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 belong. The District is responsible for ensuring that the assets reported in these funds are used only for their intended purposes. All of the District's fiduciary activities are reported in a separate statement of fiduciary net assets and a statement of changes in fiduciary net assets. We exclude these activities from the district-wide financial statements because the District cannot use these assets to finance its operations.

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Notes to the Basic Financial Statements

Notes to the basic financial statements provide additional information that is essential for a complete understanding of the data provided in district-wide and fund financial statements. The notes to the financial statements are followed by a section of required supplementary information that further explains and supports the financial statements with a comparison of the District's General Fund budget, both the adopted and final version, with year end actuals.

FINANCIAL HIGHLIGHTS

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

The statement of net assets compares assets to liabilities to give an overall view of the District's financial position. The District's net assets totaled \$202.71 million on June 30, 2011. A large portion of the District's net assets, \$65.72 million or 32.4%, is invested in capital assets (i.e. land, buildings, and equipment). Restricted net assets in the amount of \$58.23 million or 28.7% represents resources that are subject to external restrictions on how they may be used. The \$78.76 million or 38.9% in unrestricted net assets represents are not otherwise legally restricted or invested in fixed assets. It should be noted that a significant portion of this unrestricted amount has been otherwise committed or assigned to both fund specific District programs and future District funding requirements.

San Jose Unified School District		
Net Assets		
(in millions of dollars)		
	Governmental Activities	
	2011	2010
Assets		
Current and other assets	\$ 259.64	\$ 265.33
Capital assets, net of depreciation	664.39	677.56
Total assets	924.03	942.89
Liabilities		
Current liabilities	88.46	75.16
Long-term debt	632.86	657.17
Total liabilities	721.32	732.33
Net Assets:		
Invested in capital assets, net of related debt	65.72	70.08
Restricted for:		
Legally restricted	16.19	24.38
Capital projects	10.90	21.27
Debt service	21.26	18.06
Self insurance and other	9.88	10.91
Unrestricted	78.76	65.86
Total net assets	\$ 202.71	\$ 210.56

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Changes in Net Assets

The Statement of Activities provides a record of the revenue received by the District and spent during the year. Overall, net assets decreased by \$7.85 million or 3.7% as of June 30, 2011. Total revenue grew \$18.06 million or 5.2% while total expenditures grew \$3.62 million or 1% compared to the prior year. The growth in revenues was primarily from insurance proceeds collected for the arson fire at Trace Elementary School in July 2010. The proceeds of \$11.19 million covered the costs of school construction as well as the replacement of instructional supplies and materials.

San Jose Unified School District		
Changes In Net Assets		
(in millions)		
	Governmental Activities	
	2011	2010
Revenues		
Program Revenues		
Charges for services and sales	\$ 5.44	\$ 3.04
Operating grants and contributions	57.65	66.79
Capital grants and contributions		
General Revenues	196.81	196.16
Property taxes, levied for general purposes and debt service	77.08	59.17
Federal and state aid not restricted to specific purposes	11.19	-
Interest and miscellaneous	16.52	21.47
Total revenues	\$ 364.69	\$ 346.63
Expenditures		
Instruction and related activities	\$ 247.95	\$ 248.20
Pupil services	35.35	35.03
General administration	21.32	16.73
Plant services	31.79	31.35
Ancillary services	4.76	4.25
Interest on long-term debt	30.27	31.17
Other (outgo)	1.10	2.19
Total expenditures	\$ 372.54	\$ 368.92
Increase (Decrease) In Net Assets	\$ (7.85)	\$ (22.29)

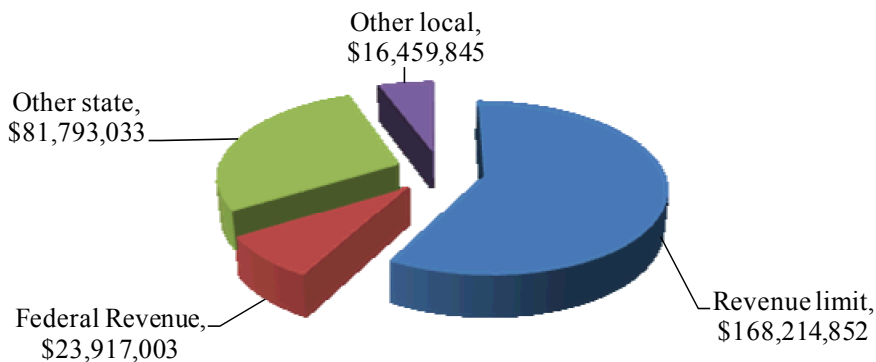
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GENERAL FUND

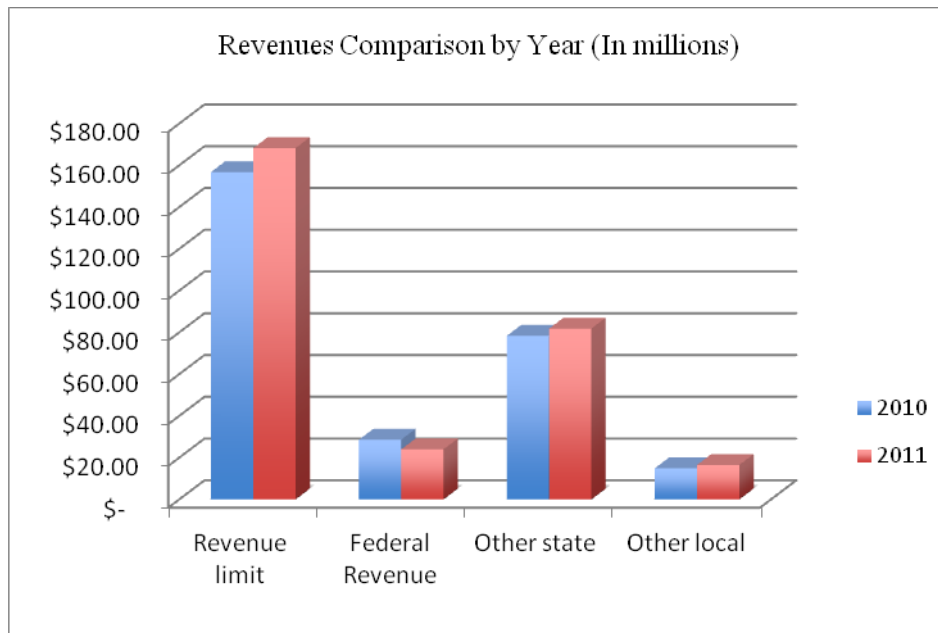
Revenue

The General Fund is the operating fund of the District. For fiscal year 2010-11, the District received \$290.4 million in total revenue from federal, state and local sources. State-controlled revenue (revenue limit plus other state revenue) represents over 86.1% of the District's General Fund income. The following is a graphic presentation of revenues by source used to fund the District's operating activities.

2010-2011 General Fund Revenue
 Total Revenue \$290,384,733



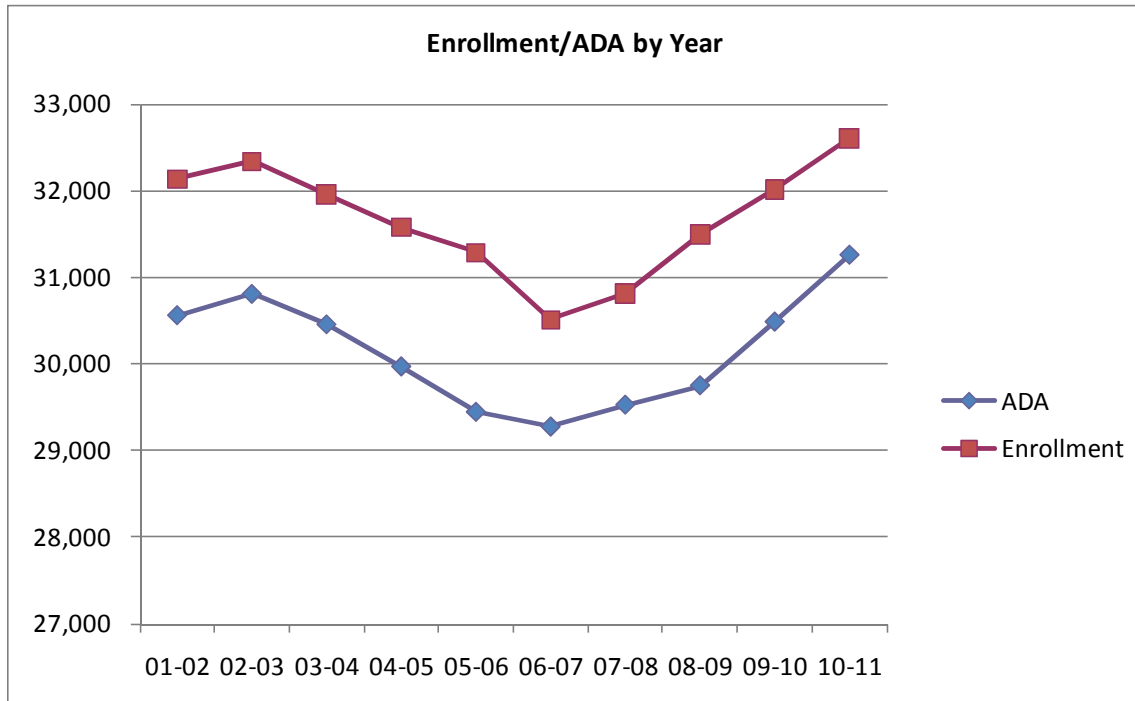
The District's General Fund revenues increased \$11.84 million (4.1%) compared to the prior year. The increase is primarily the result of improved ADA coupled with improved per ADA State funding, as well as increases in other revenue categories including \$1.7 million in Mandated Cost revenue received in 2010-11 versus \$0 in 2009-2010.



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Enrollment/ADA Trends

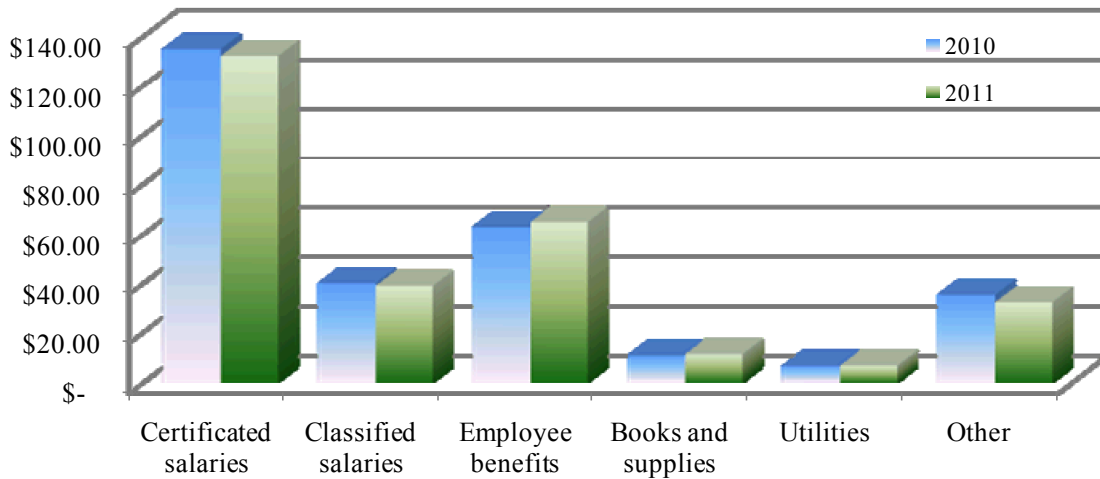
Average daily attendance (ADA) drives the amount of revenue received under the Revenue Limit formula, as well as many State grants. The District experienced steady enrollment growth over the last four years after a period of decline between 2003-04 and 2006-07. Enrollment is projected to continue to increase over the next few years through 2015.



Expenditures

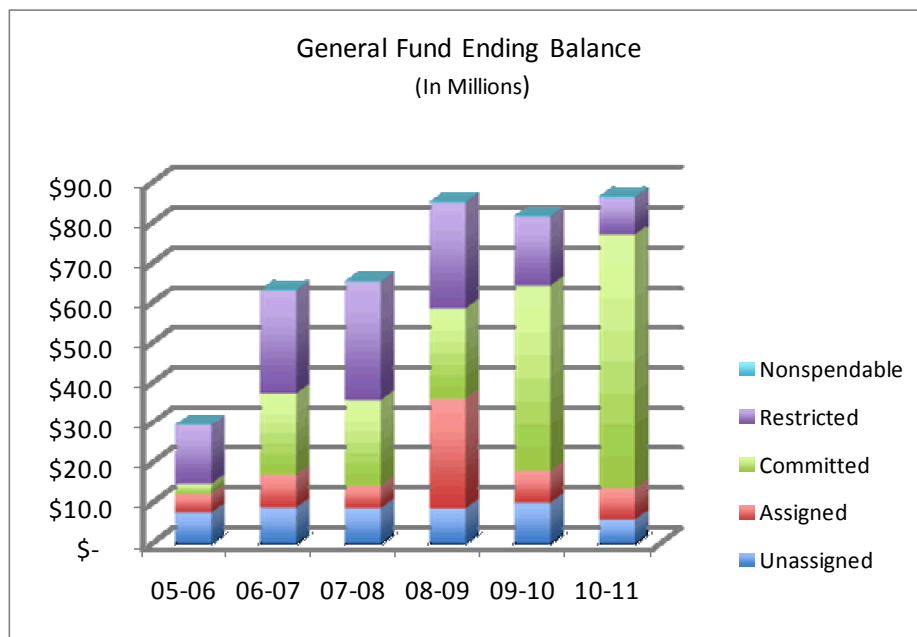
Salaries and employee benefits comprised approximately 82.4% of the total expenditures for the General Fund. While total salaries decreased by \$3.77 million or 2.2%, employee benefits increased by \$2.01 million or 3.2% from the prior year. The salary reduction was due to increases in class sizes and a five-day furlough. Instructional materials and supplies expenses increased 5.6% to \$0.60 million. Utilities costs were \$6.78 million, a slight increase of 1.2% compared to the same period last year.

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Results of Operation in the General Fund

The General Fund is used to account for the District's general and administrative expenditures. The General Fund had \$290.4 million in revenues and \$286.7 million in expenditures. This excess of revenues over expenditures and other financing uses resulted in a fund surplus of \$3.91 million thus increasing the fund balance from prior year's \$82.6 million to \$86.5 million (Non-spendable: \$0.3 million, Restricted: \$9.1 million, Committed: \$63.5 million, Assigned: \$7.8 million and Unassigned: \$5.8 million) at year end. This is the first year the District is adopting Government Accounting Standards Board (GASB) Statement No. 54. Past year fund-balance categories have been regrouped in order for them to be comparative under the new standards.



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RESULTS OF OPERATION IN OTHER FUNDS

SPECIAL REVENUE FUNDS

None of the Special Revenue funds is considered a “Major Governmental Fund” in the annual financial report. The financial results of the following funds are reported together as part of the Nonmajor Governmental Funds.

SPECIAL REVENUE FUNDS				
For The Year Ended June 30, 2011				
(Amounts in Thousands)				
	Child Development	Cafeteria	Deferred Maintenance	Total
Beginning Balance	\$ -	\$ 549	\$ 1,449	\$ 1,998
Revenues	2,052	10,779	12	12,843
Expenditures	2,052	10,112	138	12,302
Excess (deficiency) of revenue over expenditures	-	667	(126)	541
Transfers in	-	-	265	265
Ending Balance	\$ -	\$ 1,216	\$ 1,588	\$ 2,804

Child Development Fund

The Child Development Fund is used to account separately for federal, state, and local revenues to operate child development programs.

Cafeteria Fund

The Cafeteria Fund is used to account separately for federal, state and local revenues to operate the District’s child nutrition services. The Cafeteria Fund balance for the year ending June 30, 2011 was \$1.22 million, a \$0.67 million increase from the year prior of \$0.55 million. The increase was attributable to increased participation and cost control.

Deferred Maintenance Fund

The Deferred Maintenance Fund is used to repair or replace qualifying district property that has exceeded its useful life, as established by the District’s five-year plan. Under the Deferred Maintenance program, the State usually matches funds deposited by the District. For the period 2008-2009 through 2013-2014 the State has unrestricted deferred maintenance funding and this amount is now received in the unrestricted General Fund. This was done as a way to partially offset severe funding reductions in the General Fund. The District made its contribution from the Building Fund (Measure F bond proceeds), in the form of an interfund transfer. The Deferred Maintenance Fund began the year with a fund balance of \$1.45 million, which increased slightly to \$1.59 million at fiscal year end.

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CAPITAL PROJECTS FUNDS

The District has an active construction program financed from state modernization assistance, General Obligation (GO) Bonds, and proceeds from Certificates of Participation (COPs). Repayment of GO bonds comes from property tax overrides authorized by the GO Bond Issue. Repayment of COPs comes from specified revenue sources (i.e. lease revenue) respectively.

Building Fund

The Building Fund is considered a “Major Governmental Fund,” and as such is reported separately in the financial statements. The Building Fund consists of several sub-funds that account separately for Lease Income, Measure C bond proceeds, Measure F bond proceeds, and proceeds from Certificates of Participation, including two Qualified Zone Academy Bonds (QZAB’s).

The District spent \$34.89 million in capital projects in 2010-11, compared with \$41.03 during the prior year. Major funding applied to capital projects included \$10.29 million from Measure F Bond fund, \$3.84 million from Measure C Bond fund, with the remainder financed by debt. The Building Fund ended the year with a fund balance of \$64.39 million.

BUILDING FUND					
For The Year Ended June 30, 2011					
(Amounts in Thousands)					
	Leases	Bond Measure C	Bond Measure F	Certificates of Participation	Total
Beginning Balance	\$ 6,700	\$ 12,114	\$ 6,840	\$ 44,609	\$ 70,263
Revenues	5,084	54	41	2,004	7,183
Expenditures	14,073	3,835	10,290	6,696	34,894
Excess (deficiency) of revenue over expenditures	(8,989)	(3,781)	(10,249)	(4,692)	(27,711)
Other sources	9,776	-	-	29	9,805
Transfers in	10,778	11	8,503	2,500	21,792
Transfers out	(904)	(7,140)	(467)	(1,250)	(9,761)
Ending Balance	<u>\$ 17,361</u>	<u>\$ 1,204</u>	<u>\$ 4,627</u>	<u>\$ 41,196</u>	<u>\$ 64,388</u>

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OTHER CAPITAL PROJECTS FUNDS

The District maintains additional capital projects funds that are considered “Nonmajor Funds.” These are the Capital Facilities Funds, which accounts resources received from developer fees, and the County Schools Facilities Fund, which accounts for state modernization funds received in accordance with the School Facilities Act of 1998.

OTHER CAPITAL PROJECTS FUNDS			
For The Year Ended June 30, 2011			
(Amounts in Thousands)			
	Capital Facilities	County School Facilities	Total
Beginning Balance	\$ 5,116	\$ 16,155	\$ 21,271
Revenues	1,216	743	1,959
Expenditures	36	-	36
Excess (deficiency) of revenue over expenditures	1,180	743	1,923
Transfers out	(2,500)	(9,795)	(12,295)
Ending Balance	<u>\$ 3,796</u>	<u>\$ 7,103</u>	<u>\$ 10,899</u>

INTERNAL SERVICE FUNDS

The District maintains two self-insurance funds: the Worker’s Compensation Fund and the Health and Welfare Fund. The Worker’s Compensation Fund is funded by an assessment on all salaries and wages paid by the District. The contribution rate was 1.25% in fiscal year 2010-2011. The District works to provide and maintain a safe work environment for all employees. Periodic safety trainings for preventing work-related injury and disease are conducted. As a result of the District’s continuous effort, workers’ compensation claims have dropped steadily over past years.

The rising costs of medical and dental benefits continue to be a major area of concern. In 2010-2011 we experienced premium rate increases as follows: Foundation 10%, Kaiser 7.47% and Dental 0%. The District instituted a cap on its contributions to the cost of employees’ medical benefits and implemented the plan to reduce expenditures since fiscal year 2007-08. This included increased co-pays for prescriptions and medical visits. With continued efforts in monitoring, the District has managed to contain health care costs.

INTERNAL SERVICE FUNDS			
For The Year Ended June 30, 2011			
(Amounts in Thousands)			
	Worker's compensation	Health & Welfare	Total
Beginning Balance	\$ 6,926	\$ 3,048	\$ 9,974
Revenues	2,361	24,563	26,924
Expenditures	2,415	24,606	27,021
Excess (deficiency) of revenue over expenditures	(54)	(43)	(97)
Ending Balance	<u>\$ 6,872</u>	<u>\$ 3,005</u>	<u>\$ 9,877</u>

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CAPITAL ASSET AND DEBT ADMINISTRATION

CAPITAL ASSETS

The District's investment in capital assets net of accumulated depreciation for its governmental activities as of June 30, 2011, amounted to \$664.39 million. This included land, site improvements, buildings and furniture and equipment. The District's capital assets are recorded in the district-wide financial statements at historical cost and are being depreciated using the straight-line method over the estimated useful life. Many construction projects were either completed or in various progress stages of completion. The detail of these assets is presented below. Additional information about the District's capital assets is presented in Note 4 to the financial statements.

San Jose Unified School District			
Capital Assets at Year-end			
(In millions)			
	2011	2010	Total Changes
Cost:			
Land	\$ 12.62	\$ 12.62	\$ -
Construction in Progress	5.83	24.82	(18.99)
Buildings & Improvements	855.71	829.00	26.71
Furniture & Equipment	21.06	9.16	11.90
	<u>895.22</u>	<u>875.60</u>	<u>19.62</u>
Accumulated Depreciation:			
Buildings & Improvements	221.76	190.78	30.98
Furniture & Equipment	9.07	7.26	1.81
	<u>230.83</u>	<u>198.04</u>	<u>32.79</u>
Net Book Value:			
Land	12.62	12.62	-
Construction in Progress	5.83	24.82	(18.99)
Buildings & Improvements	633.95	638.22	(4.27)
Furniture & Equipment	11.99	1.90	10.09
	<u>\$ 664.39</u>	<u>\$ 677.56</u>	<u>\$ (13.17)</u>

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LONG-TERM DEBT

At the end of 2010-11, the District had \$663.38 million in long-term obligations. The District used the debt proceeds to fund its school modernization projects which include new school buildings, and major school building improvements. More detailed information about the District's long-term obligations is presented in Note 8 to the financial statements.

San Jose Unified School District			
Long-Term Debt at Year-end			
(In millions)			
	2011	2010	Total Changes
Debt Outstanding:			
General Obligation Bonds	\$ 540.91	\$ 553.39	\$ (12.48)
Certificates of Participation	90.37	92.57	(2.20)
Accumulated Vacation	0.62	0.60	0.02
Arbitrage Liability	0.72	0.72	-
Capitalized Leases	0.20	0.24	(0.04)
Lease Revenue Bonds	0.56	0.82	(0.26)
Qualified Zone Academy Bonds	30.00	30.00	-
	<u>\$ 663.38</u>	<u>\$ 678.34</u>	<u>\$ (14.96)</u>

SAN JOSE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis
June 30, 2011

FACTORS BEARING ON THE DISTRICT'S FUTURE

- In August 2011, the District took advantage of low interest rates to refinance its outstanding Election of 2002, Series A Bonds and 2001 Refunding Bonds in August 2011. The bond amount of \$62,330,000 was sold on a day when the ten-year U.S. Treasury rate reached its lowest level in 60 years at 1.99%. The bonds were well received by the market with the District's strong credit ratings of "Aa2" and "AA" by Moody's and Standard & Poor's, respectively. Refinancing of bonds has generated \$14 million in savings for property owners of the District. The exact amount on property owner's future property tax savings depends on the assessed value of real property.
- The State enacted budget approved in June 2011 allocated more funds for public education and extended the following flexibility options to school districts for an additional two years: categorical program flexibility, routine and deferred maintenance expenditure requirements, class size requirements, instructional time requirements, sale of surplus property, instructional materials purchase requirements and local budget reserve requirement. However, the State budget contains a trigger mechanism. If State revenues do not materialize, cuts will be triggered for school districts. The District maintains \$69.28 million or 21.95% in the Special Reserve for economic uncertainties and will continue monitoring the budget prudently.
- The District will receive approximately \$6 million from the Federal Jobs bill. The money can be used to hire, rehire or retain teachers, counselors, librarians, nurses, administrators and other school employees, as well as restore furlough days. \$4 million of this one-time money will be spent on teacher salaries and \$2 million on site classified salaries. The District has until September 2012 to spend the Federal money.
- Enrollment has been increasing for the District over the last few years and is projected to continue to increase through 2014-15. The District's enrollment was 33,129 in October 2011, an increase of 523 students from last year's count of 32,606. Overall, high schools experienced the most growth, followed by elementary schools and middle schools.

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the District's finances and to assist interested parties in understanding the District's sources and uses of resources. If you have questions about this report or need additional financial information, please contact:

Ann Jones, Chief Business Officer
San Jose Unified School District
855 Lenzen Avenue
San Jose, CA 95126

SAN JOSE UNIFIED SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30, 2011**

	Governmental Activities
ASSETS	
Deposits and investments	\$ 223,659,116
Receivables	29,263,144
Prepaid expenses	1,061,051
Deferred charges	5,268,331
Stores inventories and other current assets	394,704
Capital assets not depreciated	18,450,384
Capital assets, net of accumulated depreciation	<u>645,936,500</u>
Total Assets	<u>924,033,230</u>
LIABILITIES	
Accounts payable	28,704,042
Interest payable	9,591,098
Deferred revenue	9,016,458
Claim Liability	10,632,970
Current portion of long-term obligations	30,513,558
Noncurrent portion of long-term obligations	<u>632,863,191</u>
Total Liabilities	<u>721,321,317</u>
NET ASSETS	
Invested in capital assets, net of related debt	65,719,493
Restricted for:	
Legally restricted	16,195,877
Capital projects	10,899,898
Debt service	21,257,199
Self insurance	9,877,160
Unrestricted	<u>78,762,286</u>
Total Net Assets	<u><u>\$ 202,711,913</u></u>

The accompanying notes are an integral part of these financial statements.

SAN JOSE UNIFIED SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2011**

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 191,016,598	\$ 293,472	\$ 23,258,936	\$ 743,222	\$ (166,720,968)
Instruction-related activities:					
Supervision of instruction	30,087,521	109,371	9,815,386	-	(20,162,764)
Instructional library, media, and technology	1,680,290	1,685	158,303	-	(1,520,302)
School site administration	25,163,542	88,080	1,701,285	-	(23,374,177)
Pupil services:					
Home-to-school transportation	7,893,484	55,450	2,608,792	-	(5,229,242)
Food services	9,742,512	2,267,579	8,100,332	-	625,399
All other pupil services	17,713,821	84,770	3,198,225	-	(14,430,826)
Administration:					
Data processing	2,814,647	-	88,788	-	(2,725,859)
All other administration	18,518,986	100,060	2,067,197	-	(16,351,729)
Plant services	31,791,504	(14,304)	420,671	-	(31,385,137)
Ancillary services	4,758,200	106,130	2,339,183	-	(2,312,887)
Enterprise services	782	182	651	-	51
Interest on long-term obligations	30,268,163	-	-	-	(30,268,163)
Other outgo	1,098,231	2,345,617	3,153,435	-	4,400,821
Total Governmental Activities	\$ 372,548,281	\$ 5,438,092	\$ 56,911,184	\$ 743,222	(309,455,783)
General revenues and subventions:					
					155,802,378
					41,008,661
					77,084,158
					767,378
					26,941,156
					301,603,731
					(7,852,052)
Change in Net Assets					210,563,965
Net Assets - Beginning					210,563,965
Net Assets - Ending					\$ 202,711,913

The accompanying notes are an integral part of these financial statements.

SAN JOSE UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2011**

	General Fund	Building Fund	Bond Interest and Redemption Fund
ASSETS			
Deposits and investments	\$ 94,359,927	\$ 64,297,647	\$ 30,825,521
Receivables	25,050,605	1,971,154	22,776
Due from other funds	592,345	108,951	-
Prepaid expenditures	47,477	302,300	-
Stores inventories	200,471	-	-
Other current assets	200	-	-
Total Assets	\$ 120,251,025	\$ 66,680,052	\$ 30,848,297
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 25,676,667	\$ 2,292,212	\$ -
Due to other funds	108,921	-	-
Deferred revenue	7,969,044	-	-
Total Liabilities	33,754,632	2,292,212	-
Fund Balances:			
Nonspendable	322,948	302,300	-
Restricted	9,086,548	64,085,540	30,848,297
Committed	63,526,627	-	-
Assigned	7,803,047	-	-
Unassigned	5,757,223	-	-
Total Fund Balances	86,496,393	64,387,840	30,848,297
Total Liabilities and Fund Balances	\$ 120,251,025	\$ 66,680,052	\$ 30,848,297

The accompanying notes are an integral part of these financial statements.

Non Major Governmental Funds	Total Governmental Funds
\$ 12,887,449	\$ 202,370,544
1,545,688	28,590,223
-	701,296
-	349,777
194,033	394,504
-	200
<u>\$ 14,627,170</u>	<u>\$ 232,406,544</u>

\$ 331,228	\$ 28,300,107
592,361	701,282
-	7,969,044
<u>923,589</u>	<u>36,970,433</u>

196,598	821,846
11,919,050	115,939,435
1,587,933	65,114,560
-	7,803,047
-	5,757,223
<u>13,703,581</u>	<u>195,436,111</u>

<u>\$ 14,627,170</u>	<u>\$ 232,406,544</u>
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SAN JOSE UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2011**

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:

Total Fund Balance - Governmental Funds	\$ 195,436,111
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.	
The cost of capital assets is	\$ 895,216,302
Accumulated depreciation is	<u>(230,829,418)</u>
Net Capital Assets	664,386,884
Deferred charges relating to issuance of debt are deferred as a prepaid expense and expensed over the life of the debt on the government-wide financial statements, but were recorded as an expenditure in the governmental fund statements when the debt was issued.	
	5,268,331
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is paid. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.	
	(9,591,098)
An internal service fund is used by the District's management to charge the costs of the worker's compensation and health and welfare insurance programs to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities in the statement of activities.	
	9,877,160
The excess contribution over the OPEB annual required contribution (ARC) is not recorded in the governmental funds, but is recognized as an asset in the Government-wide statement of net assets.	
	711,274
Liabilities of a long-term nature are not recorded in the governmental funds, but are reflected in the statement of net assets. Long-term liabilities at year end consist of:	
Arbitrage liability	717,615
Bonds payable	540,906,864
Capital leases payable	194,618
Certificates of participation	90,373,834
Compensated absences (vacations)	623,818
Lease revenue bonds	560,000
Qualified zone academy bonds	<u>30,000,000</u>
	<u>(663,376,749)</u>
Total Net Assets - Governmental Activities	<u><u>\$ 202,711,913</u></u>

The accompanying notes are an integral part of these financial statements.

SAN JOSE UNIFIED SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2011**

	General Fund	Building Fund	Bond Interest and Redemption Fund
REVENUES			
Revenue limit sources	\$ 168,214,852	\$ -	\$ -
Federal sources	23,917,003	-	-
Other State sources	81,793,033	-	323,758
Other local sources	16,459,845	7,183,077	40,778,143
Total Revenues	290,384,733	7,183,077	41,101,901
EXPENDITURES			
Current			
Instruction	169,010,458	-	-
Instruction-related activities:			
Supervision of instruction	26,360,507	-	-
Instructional library, media and technology	1,492,163	-	-
School site administration	22,325,950	-	-
Pupil services:			
Home-to-school transportation	7,009,723	-	-
Food services	14,468	-	-
All other pupil services	15,667,825	-	-
Administration:			
Data processing	2,499,517	-	-
All other administration	10,078,923	-	-
Plant services	27,339,575	223,960	-
Facility acquisition and construction	663,995	28,040,131	-
Ancillary services	4,225,468	-	-
Enterprise services	-	-	-
Other outgo	1,098,231	-	-
Debt service			
Principal	46,638	3,920,000	15,950,000
Interest and other	27,696	2,709,868	22,311,013
Total Expenditures	287,861,137	34,893,959	38,261,013
Excess (Deficiency) of Revenues Over Expenditures	2,523,596	(27,710,882)	2,840,888
Other Financing Sources (Uses)			
Transfers in	-	12,294,992	-
Other sources	1,384,835	9,805,038	-
Transfers out	-	(264,434)	-
Net Financing Sources (Uses)	1,384,835	21,835,596	-
NET CHANGE IN FUND BALANCES	3,908,431	(5,875,286)	2,840,888
Fund Balance - Beginning ¹	82,587,962	70,263,126	28,007,409
Fund Balance - Ending	\$ 86,496,393	\$ 64,387,840	\$ 30,848,297

¹ General Fund beginning fund balance and Nonmajor Fund beginning fund balance has been restated to conform with GASB 54.
See Note 1 and Note 16.

The accompanying notes are an integral part of these financial statements.

Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ 168,214,852
7,657,313	31,574,316
3,372,638	85,489,429
3,772,989	68,194,054
<u>14,802,940</u>	<u>353,472,651</u>
1,404,072	170,414,530
403,576	26,764,083
-	1,492,163
111	22,326,061
-	7,009,723
9,726,220	9,740,688
70,653	15,738,478
-	2,499,517
459,466	10,538,389
83,673	27,647,208
188,832	28,892,958
-	4,225,468
782	782
-	1,098,231
-	19,916,638
-	25,048,577
<u>12,337,385</u>	<u>373,353,494</u>
<u>2,465,555</u>	<u>(19,880,843)</u>
264,434	12,559,426
-	11,189,873
<u>(12,294,992)</u>	<u>(12,559,426)</u>
<u>(12,030,558)</u>	<u>11,189,873</u>
(9,565,003)	(8,690,970)
23,268,584	204,127,081
<u>\$ 13,703,581</u>	<u>\$ 195,436,111</u>

SAN JOSE UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2011

Total Net Change in Fund Balances - Governmental Funds		\$ (8,690,970)
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statements of activities. This is the amount by which depreciation exceed capital outlays in the period.		
Depreciation expense	\$ (35,354,788)	
Capital outlays	<u>28,195,537</u>	
Net Expense Adjustment		(7,159,251)
Loss on disposal of capital assets is reported in the government-wide statement of activities, but is not recorded in the governmental funds.		(6,015,666)
Accreted interest is not an expenditure in the governmental funds, but it increases the long-term liabilities in the statement of net assets and is reflected as additional interest expense in the statement of activities.		(6,680,552)
Payments made on long-term obligations are recorded in the governmental funds as expenditures, but the payment decreases the liability on the statement of net assets. Payments on long-term obligations were as follows:		
General obligation bond principal	15,950,000	
Capital lease principal	46,638	
Lease revenue principal	260,000	
Certificates of participation	<u>3,660,000</u>	
		19,916,638
In the statement of activities, compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount actually paid. This year, vacation used was less than the amounts earned.		(22,706)
The unfunded OPEB annual required contribution (ARC) is not recorded in the governmental funds, but is recognized in the Government-wide statement of activities as an expense.		(426,312)
In the governmental funds, the receipt of the special education mandated settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as a receivable and payment received in the current year reduces the receivable amount.		(137,701)

The accompanying notes are an integral part of these financial statements.

SAN JOSE UNIFIED SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES, CONTINUED FOR THE YEAR ENDED JUNE 30, 2011

Premiums received and costs paid related to debt issuance are recorded in the governmental funds at the time of debt issuance. However, the cost of issuance is recorded as a deferred charge and the premium received increases the liability of the related debt on the statement of net assets. The premium and deferred charges are then amortized over the life of the debt.

Amortization of premium and issuance costs were as follows:

General obligation bond premium	2,674,235	
Certificates of Participation premium	27,943	
Cost of issuance	<u>(643,919)</u>	
		2,058,259

Defeasance costs and gains are not recorded in the governmental funds. However, these amounts increase or decrease the liability on the statement of net assets and are amortized over the life of the refunding debt. Amortization of defeasance costs and gains were as follows:

General obligation bond deferred costs for bonds defeased	(1,020,419)	
Certificates of participation gain for amounts defeased	<u>71,775</u>	
		(948,644)

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The additional interest reported in the statement of activities is the net result of these factors

351,351

An internal service fund is used by the District's management to charge the costs of the unemployment compensation and health and welfare insurance program to the individual funds. The net revenue of the internal service fund is reported with governmental activities.

(96,498)

Change in Net Assets of Governmental Activities

\$ (7,852,052)

The accompanying notes are an integral part of these financial statements.

SAN JOSE UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 21,288,572
Receivables	<u>672,921</u>
Total Current Assets	21,961,493
 LIABILITIES	
Current Liabilities	
Accounts payable	403,935
Due to other funds	14
Deferred revenue	1,047,414
Claim liabilities	<u>10,632,970</u>
Total Current Liabilities	12,084,333
 NET ASSETS	
Restricted	<u>9,877,160</u>
Total Net Assets	<u>\$ 9,877,160</u>

The accompanying notes are an integral part of these financial statements.

SAN JOSE UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF REVENUES, EXPENSES AND CHANGES
IN FUND NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2011**

	Governmental Activities - Internal Service Fund
OPERATING REVENUES	
Contributions	<u>\$ 26,752,557</u>
OPERATING EXPENSES	
Payroll costs	180,214
Supplies and materials	4,162
Claims and operating costs	26,836,085
Total Operating Expenses	<u>27,020,461</u>
Operating Income (Loss)	(267,904)
NONOPERATING REVENUES	
Interest income	<u>171,406</u>
Change in Net Assets	(96,498)
Total Net Assets - Beginning	<u>9,973,658</u>
Total Net Assets - Ending	<u><u>\$ 9,877,160</u></u>

The accompanying notes are an integral part of these financial statements.

SAN JOSE UNIFIED SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2011**

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from user charges	\$ 26,369,679
Cash payments for insurance claims	(26,802,071)
Cash payments to suppliers for goods and services	(186,190)
Net Cash Used By Operating Activities	<u>(618,582)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	176,923
Net (decrease) in cash and cash equivalents	(441,659)
Cash and cash equivalents - Beginning	21,730,229
Cash and cash equivalents - Ending	<u>\$ 21,288,570</u>
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES:	
Operating income (loss)	\$ (267,904)
Changes in assets and liabilities:	
Receivables	(330,611)
Accrued liabilities	32,200
Due to other fund	(235)
Deferred revenue	(52,029)
NET CASH USED BY OPERATING ACTIVITIES	<u>\$ (618,579)</u>

The accompanying notes are an integral part of these financial statements.

SAN JOSE UNIFIED SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2011**

	<u>Agency Fund</u>
ASSETS	
Deposits and investments	\$ 2,783,674
Receivables	2,407
Prepaid expenses	218
Total Assets	<u><u>\$ 2,786,299</u></u>
 LIABILITIES	
Accounts payable	\$ 180,518
Due to other funds	2,605,781
Total Liabilities	<u><u>\$ 2,786,299</u></u>

The accompanying notes are an integral part of these financial statements.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The San Jose Unified School District was unified on August 3, 1936 under the laws of the State of California. The District operates under a locally-elected five-member Board form of government and provides educational services to grades K - 12 as mandated by the State and Federal agencies. The District operates 27 elementary, six middle, six high schools, one community school and one continuation high school.

A reporting entity is comprised of the primary government, component units, and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For San Jose Unified School District, this includes general operations, food service, and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be incomplete or misleading. For financial reporting purposes, the component unit described below has a financial and operational relationship which meets the reporting entity definition criteria of the Governmental Accounting Standards Board (GASB) Statement No. 14, The Financial Reporting Entity, and thus is included in the financial statements of the District. The component unit, although a legally separate entity, is reported in the financial statements using the blended presentation method as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the direct benefit of the District.

The San Jose Unified School District Financing Corporation (the Corporation) The Corporation's financial activity is presented in the financial statements as the COP's Capital Projects Fund, which is included in the Building Fund. Certificates of participation issued by the Corporation are included as long-term obligations in the government-wide financial statements. Individual financial statements are not prepared for San Jose Unified School District Financing Corporation.

Other Related Entities

Charter School The District has approved a Charter for Downtown College Preparatory Charter School (DCP) and Walter L. Bachrodt, pursuant to Education Code Section 47605. DCP is not operated by the District, and does not meet the criteria for inclusion as a component unit.

Joint Powers Agencies and Public Entity Risk Pools The District is associated with two joint powers agencies. The organizations do not meet the criteria for inclusion as component units of the District. More detailed information is presented in Note 15 to the financial statements. The organizations are:

Metropolitan Education District
CSAC Excess Insurance Authority

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into three broad fund categories: governmental, proprietary, and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's governmental funds:

Major Governmental Funds

General Fund The General Fund is the chief operating fund for all Districts. It is used to account for and report all financial resources not accounted for and reported in another fund.

Two funds currently defined as special revenue funds in the California School Accounting Manual (CSAM) do not meet the GASB Statement No. 54 special revenue fund definition. Specifically, Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits, are not substantially composed of restricted or committed revenue sources. While these funds are authorized by statute and will remain open for internal reporting purposes, these funds function effectively as extensions of the General Fund, and accordingly have been combined with the General Fund for presentation in these audited financial statements.

In addition, under the flexibility provisions of current statute that allow certain formerly restricted revenues to be used for any educational purpose, the uncommitted portion of Fund 14, Deferred Maintenance Fund does not currently meet the special revenue fund definition. Thus, this portion has been combined with the General Fund for financial statement presentation purposes. The remaining committed portion of Fund 14 is being shown in the special revenue fund category.

Building Fund The Building Fund exists primarily to account separately for proceeds from the sale of bonds (*Education Code* Section 15146) and may not be used for any purposes other than those for which the bonds were issued. This Fund is also used to account for the interest and redemption of principal of Certificates of Participation.

Bond Interest and Redemption Fund The Bond Interest and Redemption Fund is used for the repayment of bonds issued for a District (*Education Code* Sections 15125-15262).

Nonmajor Governmental Funds

Special Revenue Funds The Special Revenue Funds are established to account for the proceeds of specific revenue sources that are restricted to expenditures for the specific purpose (other than debt service or capital projects) of the individual funds.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Child Development Fund The Child Development Fund is used to account separately for Federal, State, and local revenues to operate child development programs and is to be used only for expenditures for the operation of child development programs.

Cafeteria Fund The Cafeteria Fund is used to account separately for Federal, State, and local resources to operate the food service program (*Education Code* Sections 38090-38093) and is used only for those expenditures authorized by the governing board as necessary for the operation of the District's food service program (*Education Code* Sections 38091 and 38100).

Deferred Maintenance Fund The Deferred Maintenance Fund is used to account separately for State apportionments and the District's contributions for deferred maintenance purposes (*Education Code* Sections 17582-17587) and for items of maintenance approved by the State Allocation Board, except for State apportionments which, as a result of Senate Bill 4 of the 2009-10 Third Extraordinary Session (SBX3 4), may be used for any educational purpose. Only the committed portion of Deferred Maintenance resources is reflected in this fund.

Capital Projects Funds The Capital Project funds are used to account for and report financial resources that are restricted, committed, or assigned to expenditures for capital outlays, including the acquisition or construction of capital facilities and other capital assets (other than those financed by proprietary funds and trust funds).

Capital Facilities Fund The Capital Facilities Fund is used primarily to account separately for monies received from fees levied on developers or other agencies as a condition of approving a development (*Education Code* sections 17620-17626. Expenditures are restricted to the purposes specified in *Government Code* sections 65970-65981 or to the items specified in agreements with the developer (*Government Code* Section 66006).

County School Facilities Fund The County School Facilities Fund is established pursuant to *Education Code* Section 17070.43 to receive apportionments from the 1998 State School Facilities Fund (Proposition 1A), the 2002 State School Facilities Fund (Proposition 47), or the 2004 State School Facilities Fund (Proposition 55) authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants, as provided in the Leroy F. Greene School Facilities Act of 1998 (*Education Code* Section 17070 et seq.).

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary fund:

Internal Service Fund Internal service funds may be used to account for any activity for which services are provided to other funds of the District on a cost-reimbursement basis. The District operates a Self-Insurance Fund that is accounted for in an internal service fund, which includes the activity for the worker's compensation and health and welfare programs.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category includes only agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Such funds have no equity accounts since all assets are due to individuals or entities at some future time. The District's agency funds account for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-wide Financial Statements The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of the goods or services offered by the programs and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues. The comparison of program revenues and expenses identifies the extent to which each program or business segment is self-financing or draws from the general revenues of the District. Eliminations have been made to minimize the double counting of internal activities.

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column.

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting, and the governmental fund financial statements, prepared using the flow of current financial resources measurement focus and the modified accrual basis of accounting.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Proprietary Funds Proprietary funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter, to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. The following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred Revenue Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable, and typically paid within 90 days. Principal and interest on general long-term obligations, which have not matured, are recognized when paid in the governmental funds as expenditures. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds but are recognized in the government-wide statements.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

Investments

Investments held at June 30, 2011 with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when incurred.

Stores Inventory

Inventories consist of expendable food and supplies held for consumption and unused donated commodities. Inventories are stated at cost, on weighted average basis. The costs of inventory items are recorded as expenditures in the governmental type funds and expenses in the proprietary type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$25,000 for equipment and \$50,000 for facilities. The District does not possess any infrastructure. 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, but are expensed as incurred.

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities column of the statement of net assets.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Compensated Absences

Compensated absences are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide statement of net assets. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid. These amounts are recorded in the accounts payable in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave. Credit for unused sick leave is applicable to all certificated employees and is determined by dividing the number of unused sick days by the number of base service days required to complete the last school year, if employed full-time.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as a liability on the fund financial statements when due.

Deferred Issuance Costs, Premiums and Discounts

In the government-wide financial statements and in the proprietary fund type financial statements, long-term debt obligations and other long-term obligations are reported as liabilities in the applicable governmental activities, or proprietary fund statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method.

Fund Balances - Governmental Funds

As of June 30, 2011, fund balances of the governmental funds are classified as follows:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Committed - amounts that can be used only for specific purposes determined by a formal action of the governing board. The governing board is the highest level of decision-making authority for the District. Commitments may be established, modified, or rescinded only through resolutions or other action as approved by the governing board.

Assigned - amounts that do not meet the criteria to be classified as restricted or committed but that are intended to be used for specific purposes. Under the District's adopted policy, only the governing board or chief business officer/assistant superintendent of business services may assign amounts for specific purposes.

Unassigned - all other spendable amounts.

Spending Order Policy

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the District considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless the governing board has provided otherwise in its commitment or assignment actions.

Minimum Fund Balance Policy

In fiscal year 2010-2011, the governing board adopted a minimum fund balance policy for the General Fund in order to protect the district against revenue shortfalls or unpredicted on-time expenditures. The policy requires a Reserve for Economic Uncertainties consisting of unassigned amounts equal to no less than 2 percent of General Fund expenditures and other financing uses.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are interfund insurance premiums. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented in the financial statements. Interfund transfers are eliminated in the governmental activities.

Estimates

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

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for. For budget purposes, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Santa Clara bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncements

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus-an amendment of GASB Statements No. 14 and No. 34*. The objective of this Statement is to improve financial reporting for a governmental financial reporting entity. The requirements of Statement No. 14, *The Financial Reporting Entity*, and the related financial reporting requirements of Statement No. 34, *Basic Financial Statements-and Management's Discussion and Analysis-for State and Local Governments*, were amended to better meet user needs and to address reporting entity issues that have arisen since the issuance of those Statements.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

This Statement modifies certain requirements for inclusion of component units in the financial reporting entity. For organizations that previously were required to be included as component units by meeting the fiscal dependency criterion, a financial benefit or burden relationship also would need to be present between the primary government and that organization for it to be included in the reporting entity as a component unit. Further, for organizations that do not meet the financial accountability criteria for inclusion as component units but that, nevertheless, should be included because the primary government's management determines that it would be misleading to exclude them, this Statement clarifies the manner in which that determination should be made and the types of relationships that generally should be considered in making the determination.

This Statement also amends the criteria for reporting component units as if they were part of the primary government (that is, blending) in certain circumstances. For component units that currently are blended based on the "substantively the same governing body" criterion, it additionally requires that (1) the primary government and the component unit have a financial benefit or burden relationship or (2) management (below the level of the elected officials) of the primary government have operational responsibility (as defined in paragraph 8a) for the activities of the component unit. New criteria also are added to require blending of component units whose total debt outstanding is expected to be repaid entirely or almost entirely with resources of the primary government. The blending provisions are amended to clarify that funds of a blended component unit have the same financial reporting requirements as a fund of the primary government. Lastly, additional reporting guidance is provided for blending a component unit if the primary government is a business-type activity that uses a single column presentation for financial reporting.

This Statement also clarifies the reporting of equity interests in legally separate organizations. It requires a primary government to report its equity interest in a component unit as an asset. The provisions of this Statement are effective for financial statements for periods beginning after June 15, 2012. Early implementation is encouraged.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2011, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 202,370,546
Proprietary fund	21,288,572
Fiduciary fund	2,783,674
Total Deposits and Investments	<u>\$ 226,442,792</u>

Deposits and investments as of June 30, 2011, consist of the following:

Cash on hand and in banks	\$ 9,366,388
Investments	217,076,404
Total Deposits and Investments	<u>\$ 226,442,792</u>

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.

Investment 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 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.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

<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	180 days	25%	10%
Negotiable Certificates of Deposit	1 years	30%	None
Repurchase Agreements	1 year	20%	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

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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 having the Pool purchase a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. The District monitors the interest rate risk inherent in its portfolio by measuring the weighted average maturity of its portfolio. Information about the weighted average maturity of the District's portfolio is presented in the following schedule:

Investment Type	Book Value	Fair Value	Weighted Average Maturity
U.S. Treasury Obligations	\$ 4,281,558	\$ 4,281,558	More than 1 year
Fidelity Treasury Money Market	3,235,255	3,235,255	Less than 1 year
Commercial Paper	4,482,014	4,482,014	Less than 1 year
Local Agency Investment Fund (LAIF)	1,530,835	1,530,835	Less than 1 year
Federal Home Loan Bank	21,003,580	21,003,580	Less than 1 year
Investment Agreement*	3,142,309	3,142,609	More than 1 year
Money Market Mutual Funds	240,637	240,637	Less than 1 year
County Pooled Investment Funds	179,160,216	179,783,692	Less than 1 year
	\$ 217,076,404	\$ 217,700,180	

* Exceeds maximum remaining maturity of five years.

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. Investments issued by or explicitly guaranteed by the U.S. government are exempt from this disclosure. Presented below is information about the ratings of the District's investments.

Investment Type	Issuer	Fair Value	Rating as of Year End
Money Market Mutual Funds	Blackrock Institutional Fund	\$ 240,637	AAA
Money Market Treasury Obligations	Fidelity Treasury	3,235,255	AAA
Local Agency Investment Fund (LAIF)	State	1,530,835	Unrated
U.S. Treasury Obligations	Federal	4,281,558	AAA
Federal Home Loan Bank	Federal	21,003,580	AAA
Commercial Paper	Intesa FDG LIG	4,482,014	A-1
Investment Agreement	Transamerica Life Insurance	3,142,609	AA-
County Pooled Investment Funds	State	179,783,692	Unrated
Total		\$ 217,700,180	

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

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. Investments in any one issuer that represent five percent (5%) or more of the total investments are as follows:

<u>Investment Type</u>	<u>Issuer</u>	<u>Portion of Total Portfolio</u>	<u>Reported Amount</u>
Federal Home Loan Bank	Federal	9.65%	\$ 21,003,580
County Pooled Investment Funds	State	82.30%	179,160,216
			<u>\$ 200,163,796</u>

Custodial Credit Risk – Deposits

This 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 policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agency. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2011, District bank balances of \$8,668,663 were exposed to custodial credit risk because they were uninsured but were collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk – Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the total investment, the District has a custodial credit risk exposure of \$7,865,260 because the related securities are uninsured, unregistered, and held by the brokerage firm which is also the counterparty for these securities.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 3 - RECEIVABLES

Receivables at June 30, 2011, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Building Fund	Bond Interest and Redemption Fund	Non-Major Governmental Funds	Total Governmental Funds	Proprietary Funds	Fiduciary Funds
Federal Government							
Categorical aid	\$ 2,963,983	\$ -	\$ -	\$ 1,050,883	\$ 4,014,866	\$ -	\$ -
State Government							
Apportionment	8,873,463	-	-	-	8,873,463	-	-
Categorical aid	9,364,578	-	-	440,929	9,805,507	-	-
Lottery	2,339,924	-	-	-	2,339,924	-	-
Local Government							
Interest	175,216	48,666	22,776	23,875	270,533	26,120	2,407
Other Local Sources	1,333,441	1,922,488	-	30,002	3,285,931	646,801	-
Total	<u>\$25,050,605</u>	<u>\$ 1,971,154</u>	<u>\$ 22,776</u>	<u>\$ 1,545,689</u>	<u>\$28,590,224</u>	<u>\$ 672,921</u>	<u>\$ 2,407</u>

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2011, was as follows:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$ 12,615,531	\$ -	\$ -	\$ 12,615,531
Construction in Progress	24,818,185	5,834,853	24,818,185	5,834,853
Total Capital Assets not being depreciated	37,433,716	5,834,853	24,818,185	18,450,384
Capital Assets being depreciated:				
Buildings and Improvements	829,009,011	35,281,537	8,582,926	855,707,622
Furniture and Equipment	9,160,964	11,897,332	-	21,058,296
Total Capital Assets being depreciated	838,169,975	47,178,869	8,582,926	876,765,918
Total Capital Assets	875,603,691	53,013,722	33,401,111	895,216,302
Less Accumulated Depreciation:				
Buildings and Improvements	190,780,631	33,543,008	2,567,260	221,756,379
Furniture and Equipment	7,261,259	1,811,780	-	9,073,039
Total Accumulated Depreciation	198,041,890	35,354,788	2,567,260	230,829,418
Governmental Activities Capital Assets, Net	<u>\$ 677,561,801</u>	<u>\$ 17,658,934</u>	<u>\$ 30,833,851</u>	<u>\$ 664,386,884</u>

Depreciation expense charged as a direct expense to governmental functions was as follows:

Governmental Activities	
Instruction	\$ 20,602,068
Supervision of instruction	3,323,438
Instructional library, media, and technology	188,127
School site administration	2,814,775
Pupil transportation	883,761
Food services	1,824
All other pupil services	1,975,343
Ancillary services	532,732
All other general administration	1,270,715
Data processing services	315,130
Plant maintenance and operations	3,446,875
Total Depreciation Expense Governmental Activities	<u>\$ 35,354,788</u>

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances arise from interfund transaction and are recorded by all funds affected in the period in which transactions are executed. Interfund receivable and payable balances at June 30, 2011, between major and Nonmajor governmental funds, internal service funds, and fiduciary funds are as follows:

Due From	Due To			Total
	General	Nonmajor Governmental	Self Insurance	
General	\$ -	\$ 592,331	\$ 14	\$ 592,345
Building	108,921	30	-	108,951
Total	<u>\$ 108,921</u>	<u>\$ 592,361</u>	<u>\$ 14</u>	<u>\$ 701,296</u>

All balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transaction are recorded in the accounting system, and (3) payments between funds are made.

Operating Transfers

Interfund transfers for the year ended June 30, 2011, consisted of the following:

Transfer Out	Transfer In		Total
	Building	Nonmajor Governmental	
Building	\$ -	\$ 264,434	\$ 264,434
Nonmajor governmental	12,294,992	-	12,294,992
Total	<u>\$ 12,294,992</u>	<u>\$ 264,434</u>	<u>\$ 12,559,426</u>

The County School Facilities Fund transferred excess equity to the Building Fund as construction projects are closed. \$ 9,794,992

The Capital Facility fund transferred to the Building fund to reimburse for payment of long term debt in the Building fund related to school construction. 2,500,000

The Building Fund transferred to the General Fund for capital reimbursements. 264,434

\$ 12,559,426

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 6 – ACCOUNTS PAYABLE

Accounts payable at June 30, 2011, consisted of the following:

	General Fund	Building Fund	Nonmajor Governmental Fund	Total Governmental Funds	Proprietary Fund	Fiduciary Fund
Vendor payables	\$ 16,522,834	\$ 2,290,297	\$ 205,492	\$ 19,018,623	\$ 402,472	\$ 180,518
State apportionment	773,134	-	-	773,134	-	-
Salaries and benefits	8,380,699	1,915	29,886	8,412,500	1,463	-
Other significant payables	-	-	95,850	95,850	-	-
Total	<u>\$ 25,676,667</u>	<u>\$ 2,292,212</u>	<u>\$ 331,228</u>	<u>\$ 28,300,107</u>	<u>\$ 403,935</u>	<u>\$ 180,518</u>

NOTE 7 – DEFERRED REVENUE

Deferred revenue at June 30, 2011, consisted of the following:

	General Fund	Proprietary Fund
Federal financial assistance	\$ 5,670,719	\$ -
Other local	2,298,325	1,047,414
Total	<u>\$ 7,969,044</u>	<u>\$ 1,047,414</u>

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 8 – LONG-TERM OBLIGATIONS

Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2010	Additions	Deductions	Balance June 30, 2011	Due in One Year
General obligation bonds					
Current interest bonds	\$ 464,470,000	\$ -	\$ 15,950,000	\$ 448,520,000	\$ 18,180,000
Capital appreciation bonds	74,948,822	5,119,226	-	80,068,048	-
Premium on issuance of bond	18,234,034	-	2,674,235	15,559,799	2,674,235
Bond refunding costs	(4,261,402)	-	(1,020,419)	(3,240,983)	(1,020,419)
Certificates of participation (COP)					
Current interest COP	61,770,000	-	1,960,000	59,810,000	7,040,000
Refunding COP	30,016,648	1,561,326	1,700,000	29,877,974	1,111,200
Premium on issuance of COP	219,044	-	27,943	191,101	27,943
COP refunding gain (loss)	566,534	-	71,775	494,759	71,775
Accumulated vacation - net	601,112	22,706	-	623,818	-
Capital leases	241,256	-	46,638	194,618	53,824
Lease revenue bonds	820,000	-	260,000	560,000	275,000
Qualified zone academy bonds	30,000,000	-	-	30,000,000	2,100,000
Arbitrage liability	717,615	-	-	717,615	-
	<u>\$ 678,343,663</u>	<u>\$ 6,703,258</u>	<u>\$ 21,670,172</u>	<u>\$ 663,376,749</u>	<u>\$ 30,513,558</u>

The Bond Interest and Redemption fund is used to collect assessed property taxes which are used to repay the general obligation bonds. The Building fund is used to repay the certificates of participation and lease revenue bonds.

Bonded Debt

Defeased Bonded Debt

In prior years, the District has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U. S. government securities and placed in trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or matures. For financial reporting purposes, the debt has been considered defeased and therefore, removed as a liability from the District's Long-Term Obligations. As of June 30, 2011, the amount of defeased debt outstanding but removed from the Long-Term Obligations amounted to \$106,118,655.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

The outstanding general obligation bonded debt is as follows:

Current Interest Bonds

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2011
				Outstanding July 1, 2010	Issued	Redeemed	
2001	2025	4.30-5.10%	\$21,490,000	\$ 18,525,000	\$ -	\$ 620,000	\$ 17,905,000
2002	2028	2.25-5.375%	84,000,000	52,620,000	-	450,000	52,170,000
2005	2029	3.00-5.00%	91,000,000	82,210,000	-	225,000	81,985,000
2005	2019	4.00-5.00%	137,120,000	110,705,000	-	12,610,000	98,095,000
2006	2025	4.00-5.00%	103,680,000	96,410,000	-	2,045,000	94,365,000
2008	2033	4.00-5.00%	104,000,000	104,000,000	-	-	104,000,000
				<u>\$ 464,470,000</u>	<u>\$ -</u>	<u>\$ 15,950,000</u>	<u>\$ 448,520,000</u>

Capital Appreciation Bonds

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds			Bonds Outstanding June 30, 2011
				Outstanding July 1, 2010	Accretion	Redeemed	
2005	2016	4.33-4.42%	\$11,028,961	\$ 18,614,638	\$ 2,300,917	\$ -	\$ 20,915,555
2006	2030	4.86-4.98%	46,319,026	56,334,184	2,818,309	-	59,152,493
				<u>\$ 74,948,822</u>	<u>\$ 5,119,226</u>	<u>\$ -</u>	<u>\$ 80,068,048</u>

Debt Service Requirements to Maturity

Fiscal Year	Principal	Interest to Maturity	Accretion	Total
2012	\$ 18,180,000	\$ 21,498,698	\$ -	\$ 39,678,698
2013	20,580,000	20,601,134	-	41,181,134
2014	23,135,000	19,599,408	-	42,734,408
2015	25,890,000	18,436,240	-	44,326,240
2016	14,480,000	17,468,113	-	31,948,113
2017-2021	107,483,961	73,714,305	25,011,039	206,209,305
2022-2026	114,020,000	47,737,564	-	161,757,564
2027-2031	112,589,010	22,098,267	39,640,991	174,328,268
2032-2033	69,510,016	2,752,875	53,189,984	125,452,875
Total	<u>505,867,987</u>	<u>\$ 243,906,604</u>	<u>\$ 117,842,014</u>	<u>\$ 867,616,605</u>
Accretion to date	22,720,061			
Unamortized Premium	15,559,799			
Unamortized Defeased Costs	(3,240,983)			
Total	<u>\$ 540,906,864</u>			

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Certificates of Participation

In August 2001, the San Jose Unified School District Financing Corporation issued certificates of participation in the amount of \$16,620,000 with interest rates ranging from 4.0 to 5.0 percent. At June 30, 2011, the principal balance outstanding was \$12,500,000. The certificates mature through 2023 as follow:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 4,790,000	\$ 607,980	\$ 5,397,980
2013	615,000	372,906	987,906
2014	645,000	345,230	990,230
2015	675,000	316,205	991,205
2016	705,000	285,155	990,155
2017-2021	4,075,000	878,020	4,953,020
2022-2023	995,000	52,500	1,047,500
Total	<u>\$ 12,500,000</u>	<u>\$ 2,857,996</u>	<u>\$ 15,357,996</u>

In October 2002, the San Jose Unified School District Financing Corporation issued \$24,754,371 in refunding Certificates of Participation which were used to defease a portion of previously outstanding 1997 and 1999 Certificates of Participation. The 2002 Refunding Certificates carry yields to maturity at rates ranging from 3.65% to 5.66%. At June 30, 2011, the principal balance outstanding was \$29,877,974. The certificates mature through 2029 as follows:

Year Ending June 30,	Principal	Accretion	Total
2012	\$ 1,111,200	\$ 543,800	\$ 1,655,000
2013	1,017,617	592,373	1,609,990
2014	927,106	637,894	1,565,000
2015	842,219	672,781	1,515,000
2016	763,177	701,823	1,465,000
2017-2021	2,828,380	3,726,620	6,555,000
2022-2026	6,569,146	15,425,854	21,995,000
2027-2029	5,254,149	16,060,853	21,315,002
Total	<u>19,312,994</u>	<u>\$ 38,361,998</u>	<u>\$ 57,674,992</u>
Accretions to date	<u>10,564,980</u>		
Total	<u>\$ 29,877,974</u>		

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Refunding Certificates of Participation

In August 2006, the District issued \$32,875,000 in Certificates of Participation to advance refund 1999 Certificates of Participation. As of June 30, 2011, the amount of defeased debt outstanding but removed from the Obligations amounted to \$32,065,000.

The certificates mature through June 1, 2024 as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 1,490,000	\$ 1,320,528	\$ 2,810,528
2013	1,590,000	1,255,340	2,845,340
2014	1,695,000	1,178,340	2,873,340
2015	1,815,000	1,098,590	2,913,590
2016	1,930,000	1,016,916	2,946,916
2017-2021	11,630,000	3,631,868	15,261,868
2022-2024	8,790,000	805,726	9,595,726
Total	<u>\$ 28,940,000</u>	<u>\$ 10,307,308</u>	<u>\$ 39,247,308</u>

In February 2010, the District issued \$18,370,000 in Certificates of Participation to advance refund 1997 Certificates of Participation. As of June 30, 2011, the amount of defeased debt outstanding but removed from the Long-Term Obligations amounted to \$17,675,000.

The certificates mature through June 1, 2022 as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 760,000	\$ 654,863	\$ 1,414,863
2013	1,445,000	635,862	2,080,862
2014	1,495,000	599,738	2,094,738
2015	1,570,000	539,938	2,109,938
2016	1,645,000	477,136	2,122,136
2017-2021	9,320,000	1,534,876	10,854,876
2022	2,135,000	85,400	2,220,400
Total	<u>\$ 18,370,000</u>	<u>\$ 4,527,813</u>	<u>\$ 22,897,813</u>

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2011, amounted to \$623,818.

Capital Leases

The District has entered into agreements to lease various equipment. Such agreements are, in substance, purchases (capital leases) and are reported as capital lease obligations. The District's liability on lease agreements with options to purchase is summarized below:

	Copiers	Printers	Total
Balance, July 1, 2010	\$ 284,946	\$ 19,071	\$ 304,017
Payments	68,387	5,868	74,255
Balance, June 30, 2011	<u>\$ 216,559</u>	<u>\$ 13,203</u>	<u>\$ 229,762</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2012	\$ 74,255
2013	74,255
2014	69,854
2015	11,398
Total	<u>229,762</u>
Less: Amount Representing Interest	35,144
Present Value of Minimum Lease Payments	<u>\$ 194,618</u>

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

City of San Jose Lease Revenue Bonds

The District has entered into a long-term agreement with the City of San Jose (the “City”) for the use of childcare facilities. The City issued lease revenue bonds in the total amount of \$9,805,000, the proceeds of which have been used to purchase portable school buildings and other items. The District’s allocation of the bond proceeds was \$2,880,000. The District pays back the City in the form of annual lease payments equal to their proportional share of the annual debt service on the bonds. The lease payments are due annually in principal amounts ranging from \$275,000 to \$285,000, plus interest at approximately 4.6 percent per annum. The final payment is due July 1, 2012.

Future debt service requirements on the lease revenue bonds, including interest, are as follows:

Year Ending June 30,	Principal	Interest	Total
2012	\$ 275,000	\$ 27,300	\$ 302,300
2013	285,000	13,894	298,894
Total	<u>\$ 560,000</u>	<u>\$ 41,194</u>	<u>\$ 601,194</u>

Qualified Zone Academy Bonds (QZAB)

In January 2001, the District issued a QZAB in the amount of \$24,000,000. The loan is interest free. The loan requires debt service payments to be deposited with the fiscal agent annually until the loan matures. The loan repayment through 2013 is as follows:

Year Ending June 30,	Total
2012	\$ 2,100,000
2013	2,000,000
Total	<u>4,100,000</u>
Principal paid to the fiscal agent	19,900,000
Total	<u>\$ 24,000,000</u>

In December 2002, the District issued a QZAB in the amount of \$6,000,000. The loan is interest free. The loan does not require debt service payments until the loan matures on December 20, 2016. The District draws down the proceeds from the loan to make payments under a lease agreement entered into for the purchase of computer equipment at various school sites.

Arbitrage Rebate Liability

This liability represents the excess interest income earned by the District from the proceeds of its general obligation bond issues over those currently allowed by IRS regulations. The short-term excess interest earned must be paid back to the government within one year. The long-term excess interest earned will be paid back to the government no later than 3 years. Additional calculations will be required in subsequent years to update the actual amount of the liability due. As of June 30, 2011, there is no short-term liability due within one year. At June 30, 2011, the amount of long term arbitrage rebate liability was \$717,615.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 9 – FUND BALANCES

Fund balances are composed of the following elements:

	General Fund	Building Fund	Bond Interest and Redemption Fund	Nonmajor Governmental Fund	Total
Nonspendable					
Revolving cash	\$ 75,000	\$ -	\$ -	\$ 2,565	\$ 77,565
Stores inventories	200,471	-	-	194,033	394,504
Prepaid expenditures	47,477	302,300	-	-	349,777
Total Nonspendable	<u>322,948</u>	<u>302,300</u>	<u>-</u>	<u>196,598</u>	<u>821,846</u>
Restricted					
Legally restricted programs	9,086,548	-	-	11,919,050	21,005,598
Capital projects	-	64,085,540	-	-	64,085,540
Debt services	-	-	30,848,297	-	30,848,297
Total Restricted	<u>9,086,548</u>	<u>64,085,540</u>	<u>30,848,297</u>	<u>11,919,050</u>	<u>115,939,435</u>
Committed					
Revenue stabilization	63,526,627	-	-	-	63,526,627
Deferred maintenance	-	-	-	1,587,933	1,587,933
Total Committed	<u>63,526,627</u>	<u>-</u>	<u>-</u>	<u>1,587,933</u>	<u>65,114,560</u>
Assigned					
School Carryover	2,114,377	-	-	-	2,114,377
Trace Fire - Books	360,057	-	-	-	360,057
Election Expense	475,000	-	-	-	475,000
Textbooks	4,853,613	-	-	-	4,853,613
Total Assigned	<u>7,803,047</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>7,803,047</u>
Unassigned					
Unassigned	5,757,223	-	-	-	5,757,223
Total	<u>\$ 86,496,393</u>	<u>\$ 64,387,840</u>	<u>\$ 30,848,297</u>	<u>\$ 13,703,581</u>	<u>\$ 131,909,484</u>

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 10 - LEASE REVENUES

Lease agreements have been entered into with various lessees for terms that exceed one year. None of the agreements contain purchase options. All of the agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessees, but it is unlikely that the District will cancel any of the agreements prior to their expiration date. The future minimum lease payments expected to be received under these agreements are as follows:

Year Ending June 30,	Lease Revenues
2012	\$ 4,208,182
2013	4,221,040
2014	4,307,242
2015	3,850,530
2016	2,690,643
2017-21	5,278,181
2022-26	4,147,700
Total	<u>\$ 28,703,518</u>

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 11 – POSTEMPLOYMENT HEALTH CARE PLAN AND OTHER POSTEMPLOYMENT BENEFITS (OPEB) OBLIGATION

Plan Description

The Postemployment Benefit Plan (the "Plan") is a single-employer defined benefit healthcare plan administered by the San Jose Unified School District. The Plan provides medical and dental insurance benefits to eligible retirees and their spouses. Membership of the Plan consists of 759 retirees currently receiving benefits, and 3,062 active plan members.

Contribution Information

The contribution requirements of plan members and the District are established and may be amended by the District, the District's bargaining units and unrepresented groups. The required contribution is based on projected pay-as-you-go financing requirements, with an additional amount to prefund benefits as determined annually through the agreements between the District, the District's bargaining units and the unrepresented groups. For fiscal year 2010-11, the District contributed \$1,311,502 to the plan, all of which was used for current premiums, including an implicit subsidy of \$393,662 which has been credited to the active employee accrual for the year. Plan members are paid a monthly amount equal to \$80 per month for the person at least 55 years but under 65 years and \$35 per month for the person over 65 years old. In addition, if a PERS member retires from age 50-55, retiree pays full premium until age of 55.

Annual OPEB Cost and Net OPEB Asset

The District's annual other postemployment benefit (OPEB) cost (expense) is calculated based on the annual required contribution of the employer (ARC), an amount actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial accrued liabilities (UAAL) (or funding excess) over a period not to exceed thirty years. The following table shows the components of the District's annual OPEB cost for the year, the amount actually contributed to the plan, and changes in the District's net OPEB asset:

Annual required contribution	\$ 1,720,691
Interest on net OPEB (Asset)	(56,879)
Adjustment to annual required contribution	74,002
Annual OPEB costs	<u>1,737,814</u>
Employer contribution	<u>(1,311,502)</u>
Decrease in net OPEB asset	426,312
Net OPEB (Asset) beginning of year	<u>(1,137,586)</u>
Net OPEB (Asset) end of year	<u><u>\$ (711,274)</u></u>

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

The annual OPEB cost, the percentage of annual OPEB cost contributed to the Plan, and the net OPEB (Asset) for 2011 was as follows:

Year Ended	Annual Required Contribution	Percentage Contributed	Net OPEB Asset	Amount Contributed
June 30, 2009	\$ 1,714,152	142%	\$ (1,156,722)	\$ 2,427,784
June 30, 2010	1,714,152	100%	(1,137,586)	1,712,426
June 30, 2011	1,720,691	76%	(711,274)	1,311,502

Funded Status and Funding Progress

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits. The schedule of funding progress as of the most recent actuarial valuation is as follows:

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b - a) / c)
July 1, 2010	\$ -	\$ 17,908,760	\$ 17,908,760	0%	\$ 176,263,917	10.16%

Actuarial Methods and Assumptions

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and the plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

In the July 1, 2010 actuarial valuation, the Projected Unit Credit Cost Method was used. The actuarial assumptions included 5 percent investment rate of return (net of administrative expenses). Healthcare cost trend rates ranged from an initial percent to an ultimate rate of 5 percent. The cost trend rate used for the Dental and Vision programs was 4 percent. The UAAL is being amortized at a level dollar method. The remaining amortization period at July 1, 2010, was 30 years.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 12 - RISK MANAGEMENT

Description

The District’s risk management activities are recorded in the General and Self-Insurance Funds. The District is exposed to various types of loss related to torts; theft of, damage to and destruction of assets, errors and omissions; natural disaster and employee injuries and illnesses for which the District is self-insured. The District has formal self-insurance plans for worker’s compensation, property and liability, employee dental, employee medical and employee income protection. For workers’ compensation and property/liability coverage, the District purchases excess insurance protection that attaches at \$500,000 and \$100,000, respectively. Premiums are paid into the self-insured fund by the General Fund and are available to pay claims, fund claim reserves and administrative costs of the program.

The following is a summary of the insurance policies carried by the District as of June 30, 2011.

Insurance Program / Company Name	Type of Coverage	Limits
Insurance Corporation of Hannover	Workers' Compensation	\$25,000,000 limits on Workers' Compensation and \$1,000,000 limits on Employers Liability, subject to \$500,000 Self-Insured Retention
<u>School Package Policy</u>		
CSAC Excess Insurance Authority VIA California Public Entity Insurance Authority	Property	\$602,500,000 limits, subject to \$100,000 Self-insured Retention
CSAC Excess Insurance Authority VIA California Public Entity Insurance Authority	Liability	\$4,900,000 limits, subject to \$100,000 Self-insured Retention
School Excess Liability Fund (SELF)	Excess Liability to CSAC	\$24,900,000 limits, subject to \$5,000,000 Self-insured Retention
National Union Fire Insurance Company of Pittsburgh, PA	CrimeSHILD Policy	\$1,000,000 limits, subject to \$5,000 Self-Insured Retention

Employee Medical Benefits

The District has contracted with Kaiser Permanente to provide employee health benefits. The District also participates in a Self Funded program administered through UAS. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made. Claims are paid for all participants regardless of claims flow.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Claims Liabilities

The District records an estimated liability for indemnity torts and other claims against the District. Claims liabilities are based on estimates of the ultimate cost of reported claims (including future claim adjustment expenses) and an estimate for claims incurred, but not reported based on historical experience.

Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from July 1, 2009 to June 30, 2011:

	Self Insurance
Liability Balance, July 1, 2009	\$ 11,928,265
Claims and changes in estimates	27,557,396
Claims payments	(28,736,091)
Liability Balance, June 30, 2010	10,749,570
Claims and changes in estimates	5,183,599
Claims payments	(26,566,139)
Liability Balance, June 30, 2011	\$ 10,632,970
Assets available to pay claims at June 30, 2011	\$ 20,510,130

NOTE 13 – EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the California State Teachers' Retirement System (CalSTRS) and classified employees are members of the California Public Employees' Retirement System (CalPERS).

CalSTRS

Plan Description

The District contributes to the California State Teacher's Retirement System (CalSTRS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalSTRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. CalSTRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalSTRS annual financial report may be obtained from CalSTRS, 7919 Folsom Blvd., Sacramento, CA 95826.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

Funding Policy

Active plan members are required to contribute 8.0 percent 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 CalSTRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2010-2011 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalSTRS for the fiscal years ending June 30, 2011, 2010, and 2009, were \$10,825,326, \$11,151,337, and \$11,078,527, respectively, and equal 100 percent of the required contributions for each year.

CalPERS

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 survivor benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95811.

Funding Policy

Active plan members are required to contribute 7.0 percent 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 CalPERS Board of Administration. The required employer contribution rate for fiscal year 2010-2011 was 10.707 percent of covered payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2011, 2010, and 2009, were \$4,237,489, \$3,965,007, and \$4,070,008 respectively, and equal 100 percent of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (CalSTRS or CalPERS) must be covered by social security or an alternative plan. The District has elected to use social security. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to the pension plan.

On Behalf Payments

The State of California makes contributions to CalSTRS on behalf of the District. These payments consist of State General Fund contributions to CalSTRS in the amount of \$5,601,064 (4.267 percent of annual payroll). Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures. Accordingly, these amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves, and have not been included in the budget amounts reported in the General fund Budgetary Comparison Schedule.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 14 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2011.

Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2011.

Construction Commitments

As of June 30, 2011, the District had the following commitments with respect to the unfinished capital projects:

<u>Capital Project</u>	<u>Remaining Construction Commitment</u>	<u>Expected Date of Completion</u>
Broadway High School	\$ 1,604,853	06/30/12
Technology	1,706,387	06/30/12
Trace Elementary School	7,820,407	06/30/12
Modernization Projects at Various Sites	1,562,909	06/30/12
	<u>\$ 12,694,556</u>	

NOTE 15 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

The District is a member of the Metropolitan Education District “Metro ED” and the CSAC Excess Insurance Authority. The relationships between the District, Metro ED, and the CSAC Excess Insurance Authority are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are generally available from the respective entities.

The District has appointed one board member to the Governing Board of Metro ED and one board member to the Governing Board of CSAC Excess Insurance Authority.

During the year ended June 30, 2011, the District made payments of \$5,476,236 and \$524,073 to Metro ED and CSAC Excess Insurance Authority, respectively.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2011

NOTE 16 - RESTATEMENT OF PRIOR YEAR FUND BALANCES

The District's prior year ending fund balances for the General Fund, Special Reserve Fund for Other than Capital Outlay Projects and Nonmajor Governmental Funds have been restated as of July 1, 2010 to conform to GASB Statement No. 54's definition of governmental funds. Under GASB 54, Fund 17 and Fund 20 no longer meet the definition of a fund, thus they are now reported as a component of the General Fund. Accordingly, the beginning fund balance for Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits, previously presented either as a separate governmental fund opinion unit or as a component of the other Nonmajor governmental fund opinion unit, are reported as a component of the General Fund. The restatement does not change the total fund balance amounts reported in the District's audited financial statements for the year ended June 30, 2011.

These changes required a restatement to the beginning fund balance of the General Fund, the Special Reserve Non Capital Fund, and Nonmajor Governmental Funds, as follows:

General Fund

Fund Balance - Beginning	\$ 25,204,568
Change in accounting principle to conform to GASB Statement No. 54	<u>57,383,394</u>
Fund Balance - Beginning as Restated	<u><u>\$ 82,587,962</u></u>

Special Reserve Non-Capital Fund

Fund Balance - Beginning	\$ 56,443,604
Change in accounting principle to conform to GASB Statement No. 54	<u>(56,443,604)</u>
Fund Balance - Beginning as Restated	<u><u>\$ -</u></u>

Non-Major Governmental Funds

Fund Balance - Beginning	\$ 24,208,374
Change in accounting principle to conform to GASB Statement No. 54	<u>(939,790)</u>
Fund Balance - Beginning as Restated	<u><u>\$ 23,268,584</u></u>

REQUIRED SUPPLEMENTARY INFORMATION

SAN JOSE UNIFIED SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2011**

	Budgeted Amounts		Actual (GAAP Basis)	Variances - Favorable (Unfavorable)
	Original	Final		Final to Actual
REVENUES				
Revenue limit sources	\$ 157,485,109	\$ 167,801,442	\$ 168,214,852	\$ 413,410
Federal sources	18,243,762	31,373,398	23,917,003	(7,456,395)
Other State sources	73,607,277	73,087,607	81,793,033	8,705,426
Other local sources	13,087,609	16,847,644	16,459,845	(387,799)
Total Revenues ¹	262,423,757	289,110,091	290,384,733	1,274,642
EXPENDITURES				
Current				
Certificated salaries	129,463,227	132,164,046	132,192,097	(28,051)
Classified salaries	38,983,094	39,183,227	39,053,497	129,730
Employee benefits	60,311,607	60,563,465	64,937,074	(4,373,609)
Books and supplies	10,443,356	24,005,842	11,385,200	12,620,642
Services and operating expenditures	37,085,925	39,395,490	38,709,642	685,848
Capital outlay	-	720,207	870,528	(150,321)
Other outgo	2,222,666	2,193,590	638,765	1,554,825
Debt service - principal	77,073	77,073	27,696	49,377
Debt service - interest	1,110	1,110	46,638	(45,528)
Total Expenditures ¹	278,588,058	298,304,050	287,861,137	10,442,913
Excess (Deficiency) of Revenues Over Expenditures	(16,164,301)	(9,193,959)	2,523,596	11,717,555
Other Financing Sources (Uses)				
Transfers in	21,616,699	10,660,637	-	(10,660,637)
Other sources	-	1,001,025	1,384,835	383,810
Transfers out	(22,013,080)	(10,660,637)	-	10,660,637
Net Financing Sources (Uses)	(396,381)	1,001,025	1,384,835	383,810
NET CHANGE IN FUND BALANCES	(16,560,682)	(8,192,934)	3,908,431	12,101,365
Fund Balance - Beginning	82,587,962	82,587,962	82,587,962	-
Fund Balance - Ending	\$ 66,027,280	\$ 74,395,028	\$ 86,496,393	\$ 12,101,365

¹ On-behalf payments of \$5,601,064 for CalSTRS were included in Other State Revenue and Instructional Expenditures in the Actual column, but the amounts are excluded in the budget columns. In addition, due to the consolidation of Fund 17, Special Reserve Fund for Other Than Capital Outlay Projects, and Fund 20, Special Reserve Fund for Postemployment Benefits for reporting purposes into the General Fund, additional revenues and expenditures pertaining to these other funds are included in the Actual (GAAP Basis) revenues and expenditures, and also are included in the original and final General Fund budgets.

SAN JOSE UNIFIED SCHOOL DISTRICT

**SCHEDULES OF OTHER POSTEMPLOYMENT BENEFITS (OPEB) FUNDING
 PROGRESS AND EMPLOYER CONTRIBUTION
 FOR THE YEAR ENDED JUNE 30, 2011**

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) - Unprojected Unit Credit (b)	Unfunded AAL (UAAL) (b - a)	Funded Ratio (a / b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ([b - a] / c)
July 1, 2005	\$ -	\$ 17,526,606	\$ 17,526,606	0%	\$ 188,531,947	9.30%
July 1, 2008	-	18,342,443	18,342,443	0%	182,352,401	10.06%
July 1, 2010	-	17,908,760	17,908,760	0%	176,263,917	10.16%

SUPPLEMENTARY INFORMATION

SAN JOSE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	2011 Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Advance Placement Test Fees	84.330	14981	\$ 19,876
ARRA - State Fiscal Stabilization Fund	84.394	25008	11,788,162
California Preschool Instructional Network (CPIN)	84.173	14530	3,904
Carol M. White Physical Education Grant	84.215F	²	638,298
Technology Secondary II C, Section 131	84.048	13924	183,221
Improve Mental Health Grant	84.215M	²	150,698
Improve Education Grant	84.215K	²	130,720
No Child Left Behind			
Title I, Basic Grants Low-Income and Neglected	84.010	14981	6,166,100
ARRA - Title I, Basic Grants Low Income and Neglected	84.389	15005	650,491
Title I, School Improvement	84.377	14971	805,022
ARRA - Title I, School Improvement	84.388	15020	140,433
Title I, Part B, Reading First Program-LEA Sub Grant	84.357	14328	147,827
Title I, Reading First Program Teacher Development Pilot	84.357	14911	264,312
Title I, Migrant Education (Regular and Summer Program)	84.011	14326	781,282
Title I, Even Start Migrant Education (MEES)	84.011	14768	112,680
Title II, Enhancing Education Through Technology, Formula	84.318	14334	42,002
ARRA - Title II, Part D, Education Technology, Formula	84.386	15019	75,252
ARRA - Title II, Part D, Education Technology, Competitive	84.386	12126	456,504
Title II, Part A, Teacher Quality	84.367	14341	1,136,595
Title III, Limited English Proficiency (LEP) Student Program	84.365	10084	1,154,973
Title V, Innovative Education Strategies	84.298A	14354	13,160
Title V, Magnet School Assistance Program	84.165A	²	623,885
Title X, McKinney-Vento Homeless Assistance Grants	84.196	14332	41,096
ARRA - Title X, McKinney-Vento Homeless Assistance	84.387	15007	40,014
Special Education Clusters (IDEA)			
Basic Local Assistance Entitlement	84.027	13379	5,482,805
Local Assistance, Private School	84.027	10115	36,443
Preschool Grants	84.173	13430	118,112
Preschool Local Entitlement	84.027A	13682	275,012
Preschool Staff Development	84.173A	13431	3,094
Total U.S. Department of Education			31,481,973

See accompanying note to supplementary information.

SAN JOSE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS, CONTINUED
FOR THE YEAR ENDED JUNE 30, 2011**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF AGRICULTURE			
Passed through California Department of Education (CDE):			
Child Nutrition Clusters			
National School Lunch Program	10.555	13391	5,711,375
Meal Supplements and Basic School Breakfast	10.556	13568	181,620
Especially Needy Breakfast	10.553	13526	1,759,759
Fair Value of Commodities ¹	10.565	13391	409,069
Total U.S. Department of Agriculture			<u>8,061,823</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through California Department of Education (CDE):			
Medi-Cal Administrative Activities (MAA)	93.778	10060	605,652
Medi-Cal Billing	93.778	10013	299,756
ARRA - Quality Improvement Activities	93.713	15010	655
Total U.S. Department of Health and Human Services			<u>906,063</u>
Total Federal Grants			<u>\$ 40,449,859</u>

¹ Amount not included in financial statements

² Pass-through entity identifying number is not available

See accompanying note to supplementary information.

SAN JOSE UNIFIED SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2011

ORGANIZATION

The San Jose Unified School District was unified on August 3, 1936 and consists of an area comprising approximately 100 square miles. The District operates twenty-seven elementary, six middle, six high schools, one community day school and one continuation high school.

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Richard Garcia	President	2014
Jorge Gonzalez	Vice President	2012
Veronica Grijalva Lewis	Member	2014
Leslie B. Reynolds	Member	2012
Pamela Foley	Member	2012

ADMINISTRATION

Dr. Vincent Matthews	Superintendent
Ann Jones	Chief Business Officer Administrative Services
Chris Funk	Assistant Superintendent, Instructional Services
Jason Willis	Assistant Superintendent, Educational Accountability and Community Development

See accompanying note to supplementary information.

SAN JOSE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2011**

	Amended Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	2,389	2,382
First through third	7,242	7,245
Fourth through sixth	6,934	6,929
Seventh and eighth	4,400	4,395
Community day school	17	20
Home and hospital	1	1
Special education	471	477
Total Elementary	21,454	21,449
SECONDARY		
Regular classes	8,440	8,397
Continuation education	419	414
Community day school	22	25
Home and hospital	-	1
Special education	349	350
Total Secondary	9,230	9,187
Total K-12	30,684	30,636
CHARTER SCHOOL		
Kindergarten	117	117
First through third	309	309
Fourth through sixth	153	154
Total	579	580

¹ There is no non-classroom based instruction.

See accompanying note to supplementary information.

SAN JOSE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2011**

Grade Level	1982-83	Reduced	1986-87	Reduced	2010-11	Number of Days		Status
	Actual	1982-83	Minutes	1986-87		Traditional	Reduced	
	Minutes	Actual	Requirement	Minutes	Actual	Calendar	Calendar	
Kindergarten	35,024	34,051	36,000	35,000	49,002	180	175	Complied
Grades 1 - 3	46,992	45,687	50,400	49,000				
Grade 1					49,002	180	175	Complied
Grade 2					49,002	180	175	Complied
Grade 3					49,002	180	175	Complied
Grades 4 - 6	45,360	44,100	50,400	49,000				
Grade 4					52,502	180	175	Complied
Grade 5					52,502	180	175	Complied
Grade 6					58,175	180	175	Complied
Grades 7 - 8	48,960	47,600	54,000	52,500				
Grade 7					58,175	180	175	Complied
Grade 8					58,175	180	175	Complied
Grades 9 - 12	56,145	54,585	64,800	63,000				
Grade 9					63,160	180	175	Complied
Grade 10					63,160	180	175	Complied
Grade 11					63,160	180	175	Complied
Grade 12					63,160	180	175	Complied

See accompanying note to supplementary information.

SAN JOSE UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2011**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2011.

See accompanying note to supplementary information.

SAN JOSE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2011**

	(Budget)			
	2012 ¹	2011	2010	2009
GENERAL FUND ⁴				
Revenues	\$ 278,289,688	\$ 290,384,733	\$ 278,892,180	\$ 311,829,922
Other sources and transfers in	300,000	1,384,835	8,370,743	2,735,217
Total Revenues and Other Sources	<u>278,589,688</u>	<u>291,769,568</u>	<u>287,262,923</u>	<u>314,565,139</u>
Total Expenditures and Other Uses	<u>283,850,053</u>	<u>287,861,137</u>	<u>290,755,422</u>	<u>294,917,754</u>
INCREASE (DECREASE)				
IN FUND BALANCE	<u>\$ (5,260,365)</u>	<u>\$ 3,908,431</u>	<u>\$ (3,492,499)</u>	<u>\$ 19,647,385</u>
ENDING FUND BALANCE	<u>\$ 81,236,028</u>	<u>\$ 86,496,393</u>	<u>\$ 82,587,962</u>	<u>\$ 86,080,461</u>
AVAILABLE RESERVES ^{2,3}	<u>\$ 63,762,366</u>	<u>\$ 69,283,850</u>	<u>\$ 57,862,239</u>	<u>\$ 53,581,511</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	<u>22.46%</u>	<u>24.55%</u>	<u>20.30%</u>	<u>18.55%</u>
LONG-TERM DEBT	<u>\$ 634,970,377</u>	<u>\$ 663,376,749</u>	<u>\$ 678,343,663</u>	<u>\$ 691,403,996</u>
K-12 AVERAGE DAILY ATTENDANCE AT P-2	<u>31,205</u>	<u>30,684</u>	<u>30,008</u>	<u>29,749</u>

The General Fund balance has increased by \$415,932 the past two years. The fiscal year 2011-2012 budget projects a decrease of \$5,260,365 (6.08 percent). For a district this size, the State recommends available reserves of at least 2 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred an operating surplus over the previous two years, but anticipates incurring an operating deficit during the 2011-2012 fiscal year. Total long-term obligations have decreased by \$28,027,247 over the past two years.

Average daily attendance has increased by 935 over the past two years. An increase of 521 ADA is anticipated during fiscal year 2011-2012.

¹ Budget 2012 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all unassigned fund balances including all amounts reserved for economic uncertainties contained with the General Fund, plus the committed fund balance for revenue stabilization.

³ On-behalf payments of \$5,601,064, \$5,684,437 and \$6,064,823 have been excluded from the calculation of available reserves for fiscal years ending June 30, 2011, 2010 and 2009, respectively.

⁴ The 2011 General Fund amounts include activity related to the consolidation of the Special Reserve Fund for Other Than Capital Outlay Projects Fund, and Special Reserve Fund for Postemployment Benefits Fund, as required by GASB Statement No. 54.

See accompanying note to supplementary information.

SAN JOSE UNIFIED SCHOOL DISTRICT

**SCHEDULE OF CHARTER SCHOOLS
FOR THE YEAR ENDED JUNE 30, 2011**

<u>Name of Charter School</u>	<u>Included in District Audit</u>
Downtown College Preparatory	No
Walter L. Bachrodt Charter Academy	Yes

See accompanying note to supplementary information.

SAN JOSE UNIFIED SCHOOL DISTRICT

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET
JUNE 30, 2011**

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
ASSETS			
Deposits and investments	\$ 29,342	\$ 381,155	\$ 1,595,968
Receivables	350,049	1,173,938	2,787
Stores inventories	-	194,033	-
Total Assets	\$ 379,391	\$ 1,749,126	\$ 1,598,755
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ 114,526	\$ 205,880	\$ 10,822
Due to other funds	264,865	327,496	-
Total Liabilities	379,391	533,376	10,822
Fund Balances			
Nonspendable	-	196,598	-
Restricted	-	1,019,152	-
Committed	-	-	1,587,933
Total Fund Balances	-	1,215,750	1,587,933
Total Liabilities and Fund Balances	\$ 379,391	\$ 1,749,126	\$ 1,598,755

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Total Nonmajor Governmental Funds
\$ 3,789,950	\$ 7,091,034	\$ 12,887,449
6,533	12,381	1,545,688
-	-	194,033
<u>\$ 3,796,483</u>	<u>\$ 7,103,415</u>	<u>\$ 14,627,170</u>
\$ -	\$ -	\$ 331,228
-	-	592,361
-	-	923,589
-	-	196,598
3,796,483	7,103,415	11,919,050
-	-	1,587,933
<u>3,796,483</u>	<u>7,103,415</u>	<u>13,703,581</u>
<u>\$ 3,796,483</u>	<u>\$ 7,103,415</u>	<u>\$ 14,627,170</u>

SAN JOSE UNIFIED SCHOOL DISTRICT

**NONMAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2011**

	Child Development Fund	Cafeteria Fund	Deferred Maintenance Fund
REVENUES			
Federal sources	\$ 4,559	\$ 7,652,754	\$ -
Other State sources	2,043,974	669,521	-
Other local sources	3,122	2,457,040	12,264
Total Revenues	<u>2,051,655</u>	<u>10,779,315</u>	<u>12,264</u>
EXPENDITURES			
Current			
Instruction	1,404,072	-	-
Instruction-related activities:			
Supervision of instruction	403,576	-	-
School site administration	111	-	-
Pupil services:			
Food services	-	9,726,220	-
All other pupil services	70,653	-	-
Administration:			
All other administration	74,307	385,159	-
Plant services	83,673	-	-
Facility acquisition and construction	15,263	-	138,031
Enterprise services	-	782	-
Total Expenditures	<u>2,051,655</u>	<u>10,112,161</u>	<u>138,031</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>-</u>	<u>667,154</u>	<u>(125,767)</u>
Other Financing Sources (Uses)			
Transfers in	-	-	264,434
Transfers out	-	-	-
Net Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>264,434</u>
NET CHANGE IN FUND BALANCES	<u>-</u>	<u>667,154</u>	<u>138,667</u>
Fund Balance - Beginning	<u>-</u>	<u>548,596</u>	<u>1,449,266</u>
Fund Balance - Ending	<u>\$ -</u>	<u>\$ 1,215,750</u>	<u>\$ 1,587,933</u>

See accompanying note to supplementary information.

Capital Facilities Fund	County School Facilities Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ 7,657,313
-	659,143	3,372,638
1,216,384	84,179	3,772,989
<u>1,216,384</u>	<u>743,322</u>	<u>14,802,940</u>
-	-	1,404,072
-	-	403,576
-	-	111
-	-	9,726,220
-	-	70,653
-	-	459,466
-	-	83,673
35,538	-	188,832
-	-	782
<u>35,538</u>	<u>-</u>	<u>12,337,385</u>
<u>1,180,846</u>	<u>743,322</u>	<u>2,465,555</u>
-	-	264,434
<u>(2,500,000)</u>	<u>(9,794,992)</u>	<u>(12,294,992)</u>
<u>(2,500,000)</u>	<u>(9,794,992)</u>	<u>(12,030,558)</u>
<u>(1,319,154)</u>	<u>(9,051,670)</u>	<u>(9,565,003)</u>
<u>5,115,637</u>	<u>16,155,085</u>	<u>23,268,584</u>
<u>\$ 3,796,483</u>	<u>\$ 7,103,415</u>	<u>\$ 13,703,581</u>

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

The accompanying schedule of expenditures of Federal awards includes the Federal grant activity of the District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of the United States Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

The following schedule provides reconciliation between revenues reported on the Statement of Revenues, Expenditures and Changes in Fund Balance, and the related expenditures reported on the Schedule of Expenditures of Federal Awards. The reconciling amounts consist primarily of Stimulus funds that in the previous period were recorded as revenues but were unspent. These unspent balances have been expended in the current period. In addition, Stimulus funds have been recorded in the current period as revenues that have not been expended as of June 30, 2011. These unspent balances are reported as legally restricted ending balances within the General Fund.

Description	CFDA Number	Amount
Federal revenues reported in the Statement of Revenues, Expenditures and Changes in Fund Balance:		\$ 31,574,316
Grants that were received in the prior year and have been spent in the current year.	84.394	8,466,474
Commodities are not recorded on the financial statement.	10.555	409,069
Total Schedule of Expenditures of Federal Awards:		<u>\$ 40,449,859</u>

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) 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 apportionment's 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.

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. The 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.

Districts must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirement, whichever is greater, as required by Education Code Section 46201.

SAN JOSE UNIFIED SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2011

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the fund balance of all funds reported on the Unaudited Actual Financial Report, to the audited financial statements.

Schedule of Financial Trends and Analysis

This schedule discloses the District's financial trends by displaying past years' data along with current year budget information. These financial trend disclosures are used to evaluate the District's ability to continue as a going concern for a reasonable period of time.

Schedule of Charter Schools

This schedule lists the Charter School chartered by the School District and displays information for the Charter School on whether or not the Charter School is included in the School District audit.

Nonmajor Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance

The Nonmajor Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance is included to provide information regarding the individual funds that have been included in the Nonmajor Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.

INDEPENDENT AUDITOR'S REPORTS



**INDEPENDENT AUDITOR'S 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***

Governing Board
San Jose Unified School District
San Jose, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of San Jose Unified School District as of and for the year ended June 30, 2011, which collectively comprise San Jose Unified School District's basic financial statements and have issued our report thereon dated October 11, 2011. 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

The management of San Jose Unified School District is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered San Jose 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 San Jose Unified School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the San Jose Unified School District's internal control over financial reporting.

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.

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether San Jose 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*.

This report is intended solely for the information and use of the governing board, audit committee, management, the California Department of Education, the State Controller's Office, 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.

Vawrinck Trine Day + Co. LLP

Palo Alto, California
October 11, 2011



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH
REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL
EFFECT ON EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Governing Board
San Jose Unified School District
San Jose, California

Compliance

We have audited San Jose Unified School District's compliance with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that could have a direct and material effect on each of San Jose Unified School District's major Federal programs for the year ended June 30, 2011. San Jose Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of San Jose Unified School District's management. Our responsibility is to express an opinion on San Jose Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about San Jose Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of San Jose Unified School District's compliance with those requirements.

In our opinion, San Jose Unified School District complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major Federal programs for the year ended June 30, 2011.

Internal Control Over Compliance

The management of San Jose Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered San Jose Unified School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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 San Jose Unified School District's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a Federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a Federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be deficiencies, 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.

This report is intended solely for the information and use of the governing board, audit committee, management, the California Department of Education, the State Controller's Office, 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.

Vawrinck Trime Day + Co. LLP

Palo Alto, California
October 11, 2011



INDEPENDENT AUDITOR'S REPORT ON STATE COMPLIANCE

Governing Board
San Jose Unified School District
San Jose, California

We have audited San Jose Unified School District's compliance with the requirements as identified in the *Standards and Procedures for Audit of California K-12 Local Educational Agencies 2010-11* applicable to San Jose Unified School District's government programs as noted below for the year ended June 30, 2011. Compliance with the requirements referred to above is the responsibility of San Jose Unified School District's management. Our responsibility is to express an opinion on San Jose Unified School District's compliance based on our audit.

We conducted our audit 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 the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2010-11* require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the compliance requirements referred to above that could have a material effect on the applicable government programs noted below. An audit includes examining, on a test basis, evidence about San Jose Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of San Jose Unified School District's compliance with those requirements.

In our opinion, San Jose Unified School District complied, in all material respects, with the compliance requirements referred to above that are applicable to the government programs noted below that were audited for the year ended June 30, 2011.

In connection with the audit referred to above, we selected and tested transactions and records to determine the San Jose Unified School District's compliance with the State laws and regulations applicable to the following items:

	<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
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Instructional Materials:		
General requirements	8	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Classroom Teacher Salaries	1	Yes
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Accountability Report Card	3	Yes
Public hearing requirement - receipt of funds	1	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
After School Education and Safety Program:		
General requirements	4	Yes
After school	4	Yes
Before school	5	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Yes
Mode of instruction	1	Yes
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Yes

This report is intended solely for the information and use of the governing board, audit committee, management, the California Department of Education, the State Controller's Office, the California Department of Finance, 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.

Vawrinck Time Day + Co. LLP

Palo Alto, California
October 11, 2011

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SAN JOSE UNIFIED SCHOOL DISTRICT

**SUMMARY OF AUDITOR’S RESULTS
FOR THE YEAR ENDED JUNE 30, 2011**

FINANCIAL STATEMENTS

Type of auditor's report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Significant deficiency(ies) identified	<u>None reported</u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with of OMB Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.365</u>	<u>Title III, Limited English Proficiency (LEP)</u>
<u>84.394 (ARRA)</u>	<u>ARRA - State Fiscal Stabilization Fund</u>
	<u>Title II, Part D, Enhancing Education</u>
<u>84.318, 84.386 (ARRA)</u>	<u>Through Technology (including ARRA)</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 1,213,496</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Type of auditor's report issued on compliance for State programs:	
Unqualified for all programs?	<u>Yes</u>

SAN JOSE UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

None Reported

SAN JOSE UNIFIED SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

None Reported

SAN JOSE UNIFIED SCHOOL DISTRICT

**STATE AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2011**

None Reported

SAN JOSE UNIFIED SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2011**

None Reported