

**SAN JOSE UNIFIED  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT  
JUNE 30, 2005**

**SAN JOSE UNIFIED SCHOOL DISTRICT**

**OF SANTA CLARA COUNTY**

**SAN JOSE, CALIFORNIA**

**JUNE 30, 2005**

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**GOVERNING BOARD**

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mrs. Veronica Grijalva Lewis	President	2006
Mr. Richard Garcia	Vice President	2006
Mr. Jorge Gonzales	Member	2008
Ms. Pamela Foley	Member	2008
Ms. Leslie B. Reynolds	Member	2008

**ADMINISTRATION**

Mr. Don Iglesias	Superintendent
Ms. Rosa Molina	Assistant Superintendent
Dr. William Erlendson	Assistant Superintendent
Ms. Ann Jones	Chief Business Officer

# SAN JOSE UNIFIED SCHOOL DISTRICT

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITORS' 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, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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 2004-05 *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, prescribed in the California Code of Regulations, Title 5, Section 19810 and following. 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, 2005, and the respective changes in financial positions and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 16, 2005, 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 on pages 4 through 16 and budgetary comparison information on page 56, 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*, are presented for purposes of additional analysis and are 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, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The unaudited supplementary information listed in the table of contents, including the Combining Statements - Non-Major Governmental Funds is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

*Lavrinek, Trine, Day & Co, LLP*

Pleasanton, California  
November 16, 2005

# SAN JOSE UNIFIED SCHOOL DISTRICT

## Management Discussion and Analysis

### PROFILE OF THE DISTRICT

#### Organization

San Jose Unified School District (District) is a large urban school district serving about 31,000 students from kindergarten through grade twelve. Located fifty miles south of San Francisco, in the heart of the Silicon Valley, the District is the largest of 33 districts in Santa Clara County. Embracing the major portion of the city of San Jose, the boundaries of San Jose Unified include a geographic area of over fifty square miles. As one of the largest urban school districts in California, San Jose Unified has twenty-nine elementary schools, seven middle schools, and seven high schools. The student population is 30% White, 50% Hispanic, 13% Asian, 3% Black, and 4% Other.

#### Mission and Vision

The purpose of the District is to prepare students from a diverse community with the attitudes, knowledge, and skills required to learn and to become productive and responsible citizens who value themselves and others; think critically and creatively, and solve problems individually and collaboratively using multiple technologies; determine personal goals necessary for lifelong learning, productive employment, and competition in a global economy; and demonstrate personal and recognized achievement.

The District is a learning community that inspires students to be the best they can be, equipping them with world class skills, a commitment to lifelong learning, active citizenship in a diverse society, and respect for self and others.

#### Continuous Improvement

The District is in the sixth year of implementing a system wide Continuous Improvement (CI) program to ensure that resources are focused on core strategic plan goals. The Continuous Improvement process is divided into three elements: (1) long range planning; (2) annual work plans; and (3) annual reporting and evaluation. The CI process is directed not only at students, but at all other stakeholders including teachers, site administrators, district office staff, parents and community. The commitment to CI is articulated in the District vision and mission statements as well as its supportive values.

#### Desegregation/Voluntary Integration

The 2004-05 school year was the District's seventeenth year of the desegregation of all of its schools in accordance with a Federal Court Order signed on December 31, 1985 on behalf of the Hispanic student population. The distribution of student demographic populations within the district is due, in part, to the odd geographical configuration of district boundaries. The 1985 Federal Court ordered the District to follow a plan which is based primarily on parents making choices of the schools they wish their children to attend. The court order was modified in 1998 to allow elementary age students to attend their neighborhood schools. In order to integrate schools, the District offers parents and students a wide variety of middle and high school program and school choices. In May 2003, San Jose Unified School District adopted a voluntary integration plan and was released from Federal Court Oversight.

#### 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 bond, Measure F, to bring all facilities up to standard. This was the largest bond measure passed by a school district in northern California.

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## OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of three parts – management’s discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include two kinds of statements that present different views of the District.

### District-wide Statements

District-wide financial statements provide both short-term and long-term information about the District’s overall financial status. The district-wide statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The statement of net assets includes all of the District’s assets and liabilities. All of the current year’s revenues and expenses are accounted for in the statement of activities regardless of when cash is received or paid.

Two district-wide statements report the District’s net assets and how they have changed. Net assets – the difference between the District’s assets and liabilities – are one way to measure the District’s financial health or position.

### Fund Financial Statements

The fund financial statements provide more detailed information about the District’s most significant funds – not the District as a whole. Funds are accounting devices 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. The District establishes other funds to control and manage money for particular purposes or to show that it is properly using certain revenues.

Fund financial statements focus on individual parts of the District, reporting the District’s operations in more detail than the district-wide statements.

- Governmental funds statements tell 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.

The financial statements also include notes that explain some of the information in the statements and provide more detailed data. The notes to the financial statements are followed by a section of required supplementary information that further explain and support 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

Net assets represent the difference between assets and liabilities and are displayed in three components – invested in capital assets, net of related debt; restricted; and unrestricted. Net capital assets are calculated as follows: from total assets invested in capital projects, subtract accumulated depreciation and related debt (outstanding balances of any borrowings used for the acquisition, construction or improvement in capital assets). 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 applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

The District's combined net assets were \$175.86 million for the fiscal year ended June 30, 2005. The net increase was \$6.27 million compared to prior year. The increase was mainly due to an increase in capital project funds. Restricted net assets were reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis focuses on the net assets of the governmental activities.

<b>San Jose Unified School District</b>		
<b>Net Assets</b>		
<b>(in millions of dollars)</b>		
	<b>Governmental Activities</b>	
	<b>2005</b>	<b>2004</b>
<b>Assets</b>		
Current and other assets	\$ 278.70	\$ 280.89
Capital assets, net of depreciation	445.53	380.02
<b>Total assets</b>	<u>724.23</u>	<u>660.91</u>
<b>Liabilities</b>		
Current liabilities	96.96	104.35
Long-term debt	451.41	386.97
<b>Total liabilities</b>	<u>548.37</u>	<u>491.32</u>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	128.95	123.41
Restricted	44.19	51.07
Unrestricted	2.72	(4.89)
<b>Total net assets</b>	<u>\$ 175.86</u>	<u>\$ 169.59</u>

Changes in Net Assets

The District's total revenues were \$315.02 million. This was the sum of all federal, state and local revenues. The net increase was \$10.50 million compared to prior year.

The total expenditures were \$308.74 million, a net decrease of \$3.43 million from prior year. The decrease was primarily due to the decrease in plant services, enterprise services and other miscellaneous expenses when compared to prior year.

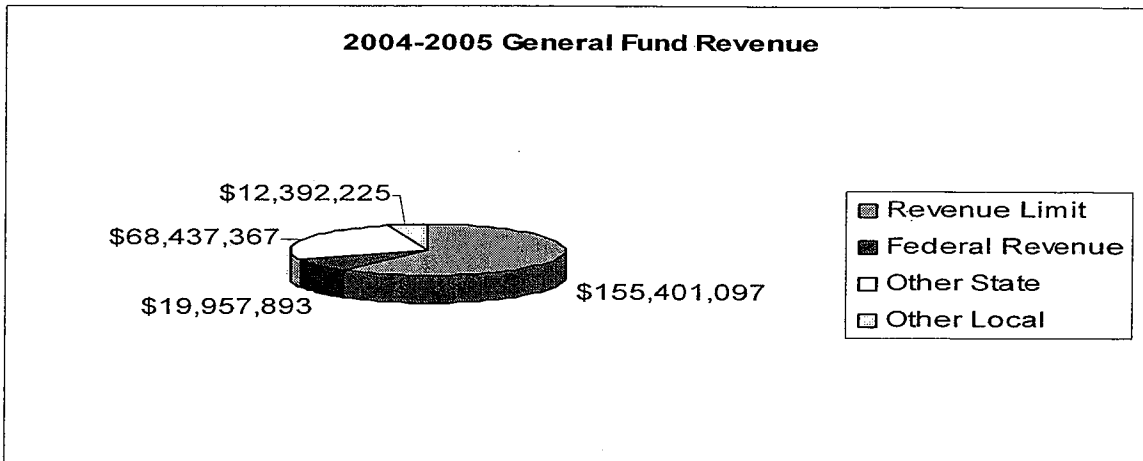
	Governmental Activities	
	2005	2004
<b>Revenues</b>		
Program Revenues		
Changes for Services and Sales	\$ 3.96	\$ 3.87
Operating Grants and Contributions	90.09	88.35
Capital Grants and Contributions	(0.84)	(0.02)
General Revenues		
Property taxes, levied for general purposes and debt service	147.50	172.12
Federal and State aid not restricted to specific purposes	40.41	17.02
Interest and miscellaneous	33.90	23.18
<b>Total revenues</b>	<u>315.02</u>	<u>304.52</u>
<b>Expenditures</b>		
Instruction and related activities	218.41	217.63
Pupil services	28.29	28.57
General administration	17.84	12.81
Plant services	20.82	22.05
Ancillary services	1.17	0.96
Community services	-	0.08
Enterprise services	3.43	5.45
Interest on long-term debt	13.78	11.29
Other miscellaneous expenses	5.00	13.33
<b>Total expenditures</b>	<u>308.74</u>	<u>312.17</u>
<b>Increase (Decrease) In Net Assets</b>	<u>\$ 6.28</u>	<u>\$ (7.65)</u>

## GENERAL FUND

### Revenue

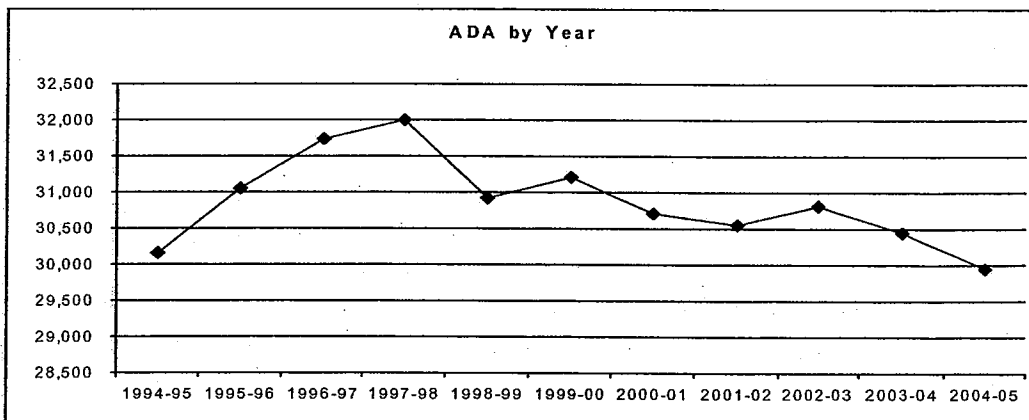
Revenue Limit was the largest component of the District's revenue budget. In 2004-05 the District received a basic allocation per unit of average daily attendance (ADA) of \$4,948.07, which included a cost of living adjustment (COLA) of \$117 and equalization of \$19.98. The State imposed a deficit factor of 2.14%, leaving net per student funding only at \$4,842.03. Projected revenue limit COLA's are 4.23% in 2005-06, 3.2% in 2006-07 and 2.7% in 2007-08.

State-controlled revenue (Revenue Limit plus other state revenue) represents over 87.1% of the District's General Fund income. In the unrestricted portion of the General Fund, state-controlled revenue represents 97.9% of total revenue. This reliance on state funds, typical for a California school district, means that the District is heavily impacted by trends at the state level.



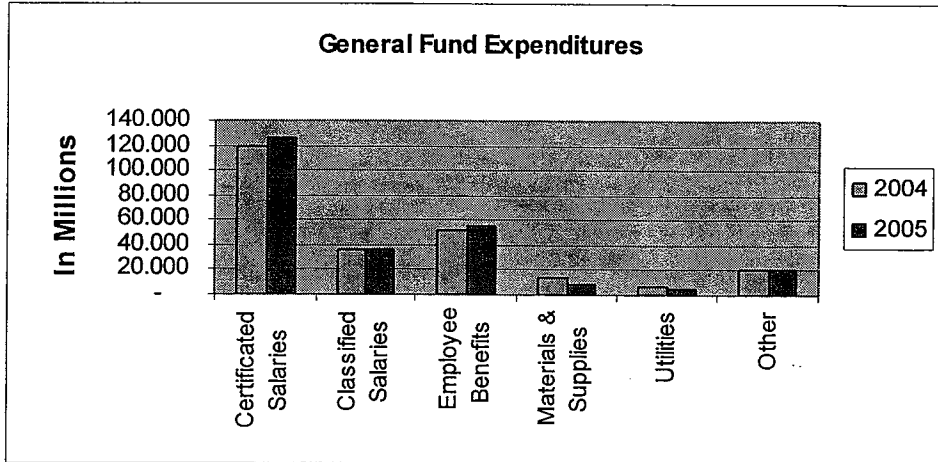
### Enrollment / ADA Trends

Average daily attendance (ADA) drives the amount of revenue received under the Revenue Limit formula, as well as many state grants. Declining enrollment has a significant impact on the District's revenue. In the 2004-05 school year the District experienced an enrollment decline of 1.70% in Second Period Report and 1.67% in Annual Report as compared to prior year. Demographic analysis indicates that the District will experience further declines in future years.



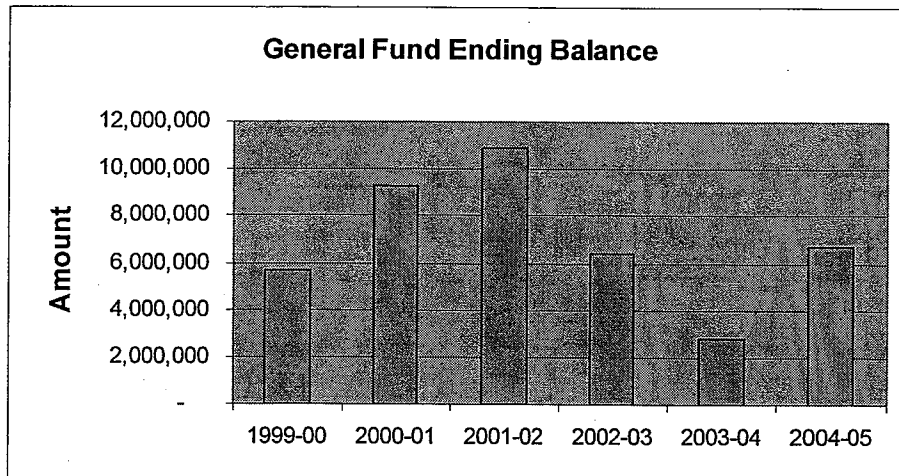
Expenditures

General funds were expended primarily for the salaries and benefits of teachers and support personnel. In fiscal year 2004-05, salaries and benefits represented over 87.5% of total General Fund expenditures of \$252.75 million. In the unrestricted portion of the General Fund, salaries and benefits accounted for 93.9% of expenditures. The District recorded \$8.92 million of material and supplies expenses, a 34% reduction as compared to prior year. The District's Utilities costs were \$5.49 million, a decrease of 20.7% compared to the same period last year. The main reason for the decrease was that the prior year had one time expense for Enron.



Results of Operation in the General Fund

During the year, the District continued with its planned cost-saving programs to reduce its recurrent commitment base in anticipation of the reduction in General Fund. Efforts were also made to build up reserve as much as possible to meet the State's 3% reserve requirement. Support for Class Size Reduction from the Targeted Instructional Improvement Program (TIIG) was increased, made possible by unexpended funds in that program. The TIIG program was also able to relieve the unrestricted General Fund by supporting Special Education Transportation and Community Day School, thereby reducing encroachment. The District's General Fund ended with a balance of \$6.47 million at year-end. Of this amount, \$0.14 million was reserved for stores inventories, \$5.38 million for other reservations, leaving \$0.95 million for designations and undesignated amounts.



## 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 Non-major Governmental Funds.

SPECIAL REVENUE FUNDS							
Balance as of June 30, 2005							
(Amounts in Thousands)							
	Adult	Child Development	Cafeteria	Deferred Maintenance	Special Reserve	Retiree Benefits	Total
Beginning Balance	\$ -	\$ -	\$ 35	\$ 6,079	\$ 4,771	\$ 58	\$ 10,943
Revenues	4,793	2,326	8,815	1,457	103	6,858	24,352
Expenditures	4,793	2,538	8,688	3	-	6,033	22,055
<b>Excess (deficiency) of revenue over expenditures</b>	-	(212)	127	1,454	103	825	2,297
Transfers in	-	212	-	1,322	5,000	-	6,534
Transfers out	-	-	(83)	-	-	-	(83)
Ending Balance	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 79</u>	<u>\$ 8,855</u>	<u>\$ 9,874</u>	<u>\$ 883</u>	<u>\$ 19,691</u>

#### Adult Education Fund

Adult Education programs are conducted by the Metropolitan Education Joint Powers Agency (Metro Ed), of which San Jose Unified School District is a member. SJUSD passes through revenue to Metro Ed.

#### Child Development Fund

The Child Development Fund is used to account separately for federal, state, and local revenues to operate child development programs. The General Fund contributed \$211,804 to the Child Development Fund in the form of an interfund transfer, to bring the fund balance to \$0.

#### 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 began the year with a fund balance of \$34,954, which increased to \$79,217 at fiscal year end.

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### **Deferred Maintenance Fund**

The Deferred Maintenance Fund may be used to repair or replace qualifying district property that has exceeded its useful life. The District's five-year plan focuses these funds on paving and roofing that are in conjunction with Measure F projects. Under the Deferred Maintenance program, the State would match funds deposited by the District. 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 \$6,078,817, which increased to \$8,855,486 at fiscal year-end.

### **Special Reserve Fund**

The District is required to maintain a 3% reserve for economic uncertainty. The Special Reserve Fund began the year with a fund balance of \$4,770,924, which increased to \$9,873,447 at fiscal year end. Together with the undesignated unrestricted General Fund ending balance of \$75,783 the district maintained a reserve of 4%.

### **Retiree Benefits Fund**

The Board of Education has approved several retirement incentives to eligible employees in prior years. The provisions of the various early retirement plans specify guaranteed payments of annuities and medical benefits to age 65. The establishment of the Retiree Benefit fund has allowed the District to account separately for expenditures associated with these plans.

## **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. Repayment of bond debt comes from property tax overrides authorized by the GO Bond Issue.

### **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).

In 2004-05, the District received \$3,226,273 in insurance proceeds for two school fires (Gardner Elementary School and Pioneer High School). Of this amount, \$697,957 was spent in General Fund for items such as site clean-up, replacement of books and supplies as well as student transportation to interim housing. The remaining insurance proceeds of \$2,528,316 were transferred into the Building Fund for reconstruction of school buildings.

Total revenues of the Building Fund were \$6.77 million, of which \$1.83 million was received from local sources for joint construction projects, \$2.02 million for rental & leases of District property and \$2.92 million for interest. Total expenditures of \$78.42 million included \$76.98 million in construction projects and other capital outlay as well as \$1.44 million in debt service payment. The fund balance increased from \$119.10 million at the beginning of the fiscal year to \$141.26 million at fiscal year end.

BUILDING FUND						
Balance as of June 30, 2005						
(Amounts in Thousands)						
	Leases	Child Care Facilities	Bond Measure C	Bond Measure F	Certificates of Participation	Total
Beginning Balance	\$ 2,779	\$ 410	\$ 15,426	\$ 55,038	\$ 45,442	\$ 119,095
Revenues	2,376	498	268	973	2,659	6,774
Expenditures	4,807	907	3,239	64,898	4,564	78,415
Excess (deficiency) of revenue over Expenditures	(2,431)	(409)	(2,971)	(63,925)	(1,905)	(71,641)
Bond Proceeds	-	-	-	91,000	-	91,000
Insurance Settlement	2,166	-	-	-	-	2,166
Transfers in	362	-	-	-	3,600	3,962
Transfers out	-	-	-	(1,322)	(2,000)	(3,322)
Ending Balance	\$ 2,876	\$ 1	\$ 12,455	\$ 80,791	\$ 45,137	\$ 141,260

#### Other Capital Projects Funds

The District maintained additional capital projects funds that are considered "Non-Major Fund". These are the Capital Facilities Fund, which records resources received from Developer Fees, State School Building Lease-Purchase Fund, which accounts for state modernization funds, and County Schools Facilities Fund, which accounted for state modernization funds received in accordance with the School Facilities Act of 1998.

OTHER CAPITAL PROJECTS FUNDS				
Balance as of June 30, 2005				
(Amounts in Thousands)				
	Capital Facilities	State School Building	County School Facilities	Total
Beginning Balance	\$ 382	\$ -	\$ 15,990	\$ 16,372
Revenues	4,167	4,338	(840)	7,665
Expenditures	204	4,338	7,182	11,724
Excess (deficiency) of revenue over expenditures	3,963	-	(8,022)	(4,059)
Transfers in	-	-	-	-
Transfers out	(3,600)	-	-	(3,600)
Ending Balance	\$ 745	\$ -	\$ 7,968	\$ 8,713

## INTERNAL SERVICE FUNDS

The District maintains two self-insurance funds: the Workers' Compensation Fund and the Health and Welfare Fund. The Workers' Compensation Fund is funded by an assessment on all salaries and wages paid by the District. The rate increased from 1.7% to 2.45% in 2002-03 and remained unchanged at 2.45% in 2003-04 and 2004-05. The District's contributions to medical and dental benefits have risen at a rate higher than inflation for several years. The Health and Welfare Fund incurred an operating deficit in recent years. This deficit has been addressed through higher contribution rates.

INTERNAL SERVICE FUNDS			
Balance as of June 30, 2005			
(Amounts in Thousands)			
	Workers'	Health & Welfare	
	Compensation	Purchase	Total
Beginning Balance	\$ 5,894	\$ (579)	\$ 5,315
Revenues	4,225	23,037	27,262
Expenditures	7,538	21,232	28,770
Excess (deficiency) of revenue over expenditures	(3,313)	1,805	(1,508)
Transfers in	-	-	-
Transfers out	(3,000)	-	(3,000)
Ending Balance	\$ (419)	\$ 1,226	\$ 807

## AGENCY FUNDS

### Charter School Fund

The Charter School Fund accounts separately for activities of charter schools. There is one charter school in the District, Downtown College Preparatory Charter High School (DCP). The mission of DCP is to prepare underachieving students who will be the first in their family to go to college and thrive at four-year universities. DCP students enter high school significantly below grade level at core skills in reading and math. In order to close the achievement gap and accelerate students' academic progress DCP has created a rigorous academic program. DCP serves approximately 400 students in grades 9-12. Nearly 70% qualify for free or reduced-price lunch, and 90% are Hispanic.

The Charter School Fund has two major sources of revenue: state funding that is passed through San Jose Unified School District, and significant local funding raised through the Across the Bridge Foundation. The fund balance in the Charter Schools Fund decreased from \$391,047 at the beginning of the year to \$212,299 at year-end.

For 2005-06 the Charter School has elected to be directly funded. This means that revenue and expense will no longer flow through the District and the Charter School Fund will be closed. The District has appointed one board member to the governing board of Across the Bridge Foundation Board (Downtown College Preparatory Charter School).

## CAPITAL ASSET AND DEBT ADMINISTRATION

### Capital Assets

At the close of the year ended June 30, 2005, the District had invested over \$556.37 million in a wide range of capital assets, including school buildings, athletic facilities, computer and audio-visual equipment and vehicles (see Table). This amount represented a net increase of \$77.71 million or over 16.2% from the prior year. Net book value (the amount of total assets after applying depreciation) also increased \$65.51 million or over 17.2% from the prior year.

<b>San Jose Unified School District</b>			
<b>Capital Assets at Year-end</b>			
<b>(in millions of dollars)</b>			
	Total School District		Total Changes
	2005	2004	
<b>Cost:</b>			
Land	\$ 12.62	\$ 12.62	\$ -
Construction in Progress	43.07	12.50	30.57
Buildings & Improvements	439.03	389.92	49.11
Furniture & Equipment	61.65	63.62	(1.97)
	<u>556.37</u>	<u>478.66</u>	<u>77.71</u>
<b>Accumulated Depreciation:</b>			
Buildings & Improvements	62.94	45.16	17.78
Furniture & Equipment	47.90	53.48	(5.58)
	<u>110.84</u>	<u>98.64</u>	<u>12.20</u>
<b>Net Book Value:</b>			
Land	12.62	12.62	-
Construction in Progress	43.07	12.50	30.57
Buildings & Improvements	376.09	344.76	31.33
Furniture & Equipment	13.75	10.14	3.61
	<u>\$ 445.53</u>	<u>\$ 380.02</u>	<u>\$ 65.51</u>

## Long-Term Debt

At the close of the year ended June 30, 2005, the District had \$466.69 million in general obligation bonds and other long-term debt outstanding. This amount represented an increase of approximately \$79.73 million or 20.6% over the prior year. More detailed information about the District's long-term liabilities is presented in Note 8 to the financial statements.

<b>San Jose Unified School District</b>				
<b>Outstanding Long-Term Debt at Year-End</b>				
(in millions of dollars)				
	Total School District		Total Changes	
	2005	2004		
<b>Debt Outstanding:</b>				
General Obligation Bonds	\$ 322.94	\$ 240.66	\$	82.28
Certificates of Participation	102.94	102.01		0.93
Accumulated Vacation	0.54	0.49		0.05
PARS Incentive Payment	7.68	10.76		(3.08)
Capitalized Leases	0.63	0.88		(0.25)
Lease Revenue Bonds	1.96	2.16		(0.20)
Qualified Zone Academy Bonds	30.00	30.00		-
	<u>\$ 466.69</u>	<u>\$ 386.96</u>	<u>\$</u>	<u>79.73</u>

## FACTORS BEARING ON THE DISTRICT'S FUTURE

The District's unrestricted General Fund revenue was mainly derived from state-controlled sources through the Revenue Limit, which included property taxes, and state aid. Due to District efforts to increase in other revenue sources such as mandated costs and MediCal administrative activities (MAA), the Revenue Limit provided 90% of unrestricted General Fund revenue in fiscal year 2004-05, as compared to 98.2% in 2003-04. State Revenue Limit sources are dependent on student enrollment. Like other large urban districts, San Jose Unified School District is facing continued enrollment declines and will need to seek other revenue sources to minimize program reductions.

The District has implemented a series of budget cut measures since fiscal year 2001-02. During the year under audit, the District continued with its planned cost-saving programs to reduce its recurrent expenditures by closing three elementary schools, as well as reducing a number of management and supporting staff positions through natural attrition and reorganization. With the conscious efforts of the District in implementing cost-saving measures to prepare for funding cuts, the unrestricted General Fund ended with an undesignated surplus balance of \$75,783. This balance will be carried forward to future periods in anticipation of a shrinking General Fund budget due to declining enrollment. Efforts were also made to build up 3% reserve for economic uncertainties as required by the state. In 2005-06, cost-cutting strategies included the closure of two elementary schools and one middle school, along with further reductions in management and other staffing. Based on a declining student enrollment trend, further cuts are being developed for subsequent fiscal years to balance the budget.

Despite financial challenges, the District continues its course of success. San Jose Unified School District is on a steady course of continuous improvement in academic achievement, closing the achievement gap, improving its facilities, and meeting the priorities of the Board to serve the community.

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## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide 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, 2005

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	<b>Governmental Activities</b>
<b>Assets</b>	
Deposits and investments	\$ 240,726,962
Receivables	29,627,340
Prepaid expenses	2,788,987
Deferred charges	4,797,805
Stores inventories	752,639
Other current assets	8,932
Capital assets not depreciated	55,684,745
Capital assets, net of accumulative depreciation	389,849,770
<b>Total assets</b>	<u>724,237,180</u>
<b>Liabilities</b>	
Overdrafts	3,202,047
Accounts payable	34,106,671
Interest payable	3,931,609
Deferred revenue	7,323,209
Claim liabilities	10,120,052
Current loans	23,000,000
Current portion of long-term obligations	15,241,627
Noncurrent portion of long-term obligations	451,448,819
<b>Total liabilities</b>	<u>548,374,034</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	128,950,625
Restricted for:	
Legally restricted	10,320,817
Capital projects	8,712,512
Special revenues	8,934,704
Debt services	14,432,939
Self insurance	902,326
Retiree benefits	882,531
Unrestricted	2,726,692
<b>Total net assets</b>	<u>\$ 175,863,146</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, 2005**

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	
<b>Governmental activities:</b>					
Instruction	\$ 166,648,039	\$ 238,486	\$ 32,390,472	\$ (836,154)	\$ (134,855,235)
Instruction related activities:					
Supervision of instruction	28,099,271	67,738	21,410,854	-	(6,620,679)
Instructional library and technology	1,554,594	821	760,876	-	(792,897)
School site administration	22,109,406	82,204	5,234,125	-	(16,793,077)
Pupil services:					
Home-to-school transportation	7,891,266	-	5,936,051	-	(1,955,215)
Food services	8,868,440	2,634,589	5,648,183	-	(585,668)
All other pupil services	11,534,155	26,616	5,904,544	-	(5,602,995)
General administration:					
Data processing	2,213,864	-	351,567	-	(1,862,297)
All other general administration	15,618,674	167,125	6,468,061	-	(8,983,488)
Plant services	20,824,728	39,791	2,062,972	-	(18,721,965)
Ancillary services	1,165,203	25,820	44,374	-	(1,095,009)
Enterprise services	3,426,115	-	-	-	(3,426,115)
Interest on long-term debt	13,785,235	-	-	-	(13,785,235)
Other (outgo)	5,006,706	681,194	3,882,566	-	(442,946)
<b>Total governmental activities</b>	<u>\$ 308,745,696</u>	<u>\$ 3,964,384</u>	<u>\$ 90,094,645</u>	<u>\$ (836,154)</u>	<u>(215,522,821)</u>
General revenues and subventions:					
					129,865,458
					17,631,840
					40,409,977
					1,582,622
					5,499,489
					26,811,066
			<b>Subtotal, general revenues</b>		<u>221,800,452</u>
<b>Change in net assets</b>					6,277,631
Net assets - beginning					169,585,515
Net assets - ending					<u>\$ 175,863,146</u>

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

**SAN JOSE UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2005**

	<b>General Fund</b>	<b>Building Fund</b>	<b>Non Major Governmental Funds</b>	<b>Total Governmental Funds</b>
<b>ASSETS</b>				
Deposits and investments	\$ 33,841,103	\$ 152,428,768	\$ 40,654,610	\$ 226,924,481
Receivables	21,320,407	4,159,411	3,047,307	28,527,125
Due from other funds	450,566	-	5,148,382	5,598,948
Prepaid expenses	96,127	432,894	2,259,966	2,788,987
Stores inventories	144,973	-	607,666	752,639
Other current assets	-	8,932	-	8,932
<b>Total assets</b>	<b>\$ 55,853,176</b>	<b>\$ 157,030,005</b>	<b>\$ 51,717,931</b>	<b>\$ 264,601,112</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Overdrafts	\$ -	\$ -	\$ 3,202,047	\$ 3,202,047
Accounts payable	18,823,453	13,598,558	1,468,834	33,890,845
Due to other funds	232,939	2,171,257	279,309	2,683,505
Current loan	23,000,000	-	-	23,000,000
Deferred revenue	7,323,209	-	-	7,323,209
<b>Total liabilities</b>	<b>49,379,601</b>	<b>15,769,815</b>	<b>4,950,190</b>	<b>70,099,606</b>
<b>Fund Balances:</b>				
Reserved for:				
Stores inventories	144,973	-	607,666	752,639
Other reservations	5,378,039	-	3,400	5,381,439
Unreserved:				
Designated	874,780	-	-	874,780
Undesignated, reported in:				
General fund	75,783	-	-	75,783
Special revenue funds	-	-	18,197,084	18,197,084
Debt service funds	-	-	18,364,548	18,364,548
Capital projects funds	-	141,260,190	9,595,043	150,855,233
<b>Total fund balance</b>	<b>6,473,575</b>	<b>141,260,190</b>	<b>46,767,741</b>	<b>194,501,506</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 55,853,176</b>	<b>\$ 157,030,005</b>	<b>\$ 51,717,931</b>	<b>\$ 264,601,112</b>

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

**SAN JOSE UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2005**

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

<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 194,501,506</b>
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	\$ 556,363,089
Accumulated depreciation is	<u>(110,828,574)</u>
Net Capital Assets	445,534,515
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.	844,621
Deferred charges relating to issuance of debt is 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.	4,797,805
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.	(3,931,609)
An internal service fund is used by the District's management to charge the costs of the workers' 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.	806,754
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:	
Bonds payable	322,942,213
Capital leases payable	630,449
Certificates of participation	102,941,867
Compensated absences (vacations)	537,872
Lease revenue bonds	1,960,000
Qualified zone academy bonds	30,000,000
PARS retiree incentive payments	<u>7,678,045</u>
	<u>(466,690,446)</u>
<b>Total Net Assets - Governmental Activities</b>	<b><u><u>\$ 175,863,146</u></u></b>

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, 2005**

	General Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Revenue limit sources	\$ 155,401,097	\$ -	\$ 4,793,368	\$ 160,194,465
Federal sources	19,957,893	-	5,483,828	25,441,721
Other state sources	68,368,161	-	4,147,010	72,515,171
Other local sources	12,392,225	6,774,054	31,788,359	50,954,638
<b>Total Revenues</b>	<u>256,119,376</u>	<u>6,774,054</u>	<u>46,212,565</u>	<u>309,105,995</u>
<b>EXPENDITURES</b>				
Current				
Instruction	153,229,401	-	1,525,364	154,754,765
Instruction related activities:				
Supervision of instruction	20,666,386	-	5,368,208	26,034,594
Instructional library and technology	1,440,366	-	-	1,440,366
School site administration	20,484,416	-	436	20,484,852
Pupil Services:				
Home-to school transportation	7,311,432	-	-	7,311,432
Food services	(23,969)	-	8,240,774	8,216,805
All other pupil services	10,686,649	-	-	10,686,649
General administration:				
Data processing	2,051,194	-	-	2,051,194
All other general administration	9,476,961	-	595,943	10,072,904
Plant services	21,086,366	63,382	289,000	21,438,748
Facility acquisition and construction	-	76,912,416	7,289,446	84,201,862
Ancillary services	1,079,586	-	-	1,079,586
Other outgo	5,006,706	-	-	5,006,706
Enterprise services	-	-	6,032,863	6,032,863
Debt service				
Principal	216,284	650,000	15,393,221	16,259,505
Interest and other	38,988	789,387	10,078,755	10,907,130
<b>Total Expenditures</b>	<u>252,750,766</u>	<u>78,415,185</u>	<u>54,814,010</u>	<u>385,979,961</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>3,368,610</u>	<u>(71,641,131)</u>	<u>(8,601,445)</u>	<u>(76,873,966)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	83,035	3,962,280	6,534,158	10,579,473
Other sources	768,145	93,166,036	4,443,499	98,377,680
Transfers out	(574,084)	(3,322,354)	(3,683,035)	(7,579,473)
<b>Net Financing Sources (Uses)</b>	<u>277,096</u>	<u>93,805,962</u>	<u>7,294,622</u>	<u>101,377,680</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>3,645,706</u>	<u>22,164,831</u>	<u>(1,306,823)</u>	<u>24,503,714</u>
<b>Fund Balance - Beginning</b>	<u>2,827,869</u>	<u>119,095,359</u>	<u>48,074,564</u>	<u>169,997,792</u>
<b>Fund Balance - Ending</b>	<u>\$ 6,473,575</u>	<u>\$ 141,260,190</u>	<u>\$ 46,767,741</u>	<u>\$ 194,501,506</u>

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 GOVERNMENT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005**

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**Total Net Change in Fund Balances - Governmental Funds** **\$ 24,503,714**  
**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 capital outlays exceed depreciation in the period.		
Depreciation expense	\$ (19,301,264)	
Capital outlays	<u>84,815,882</u>	
Net Expense Adjustment		65,514,618
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.		(3,878,786)
PARS retirement incentive payment is an expenditure in the governmental funds, but it decreases the long-term liabilities in the statement of net assets and is not reflected in the statement of activities.		3,085,133
Proceeds received from Sale of Bonds is a revenue in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities.		(95,443,499)
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the Governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.		(70,188)
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 by \$43,533.		(43,533)
In the governmental funds, the receipt of the special education mandate 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.		(141,385)
Payment of issue costs of bonds is an expenditure in the governmental funds, in the year paid but it is recorded as prepaid expense and amortized over the life of the bonds in the statement of activities.		405,939

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 DISTRICT-WIDE STATEMENT OF ACTIVITIES, CONTINUED FOR THE YEAR ENDED JUNE 30, 2005**

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Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	15,295,000
Repayment of Certificates of Participation is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	450,000
Repayment of capital lease principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	314,505
Repayment of lease revenue bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities.	200,000
Amortization of bond premium is not recorded in the governmental funds, but is amortized over the life of the bond in the statement of activities.	365,935
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.	228,808
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.	<u>(4,508,630)</u>
<b>Change in Net Assets of Governmental Activities</b>	<b><u>\$ 6,277,631</u></b>

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  
JUNE 30, 2005**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 13,802,481
Receivables	255,594
Due from other funds	84,557
<b>Total Current Assets</b>	<u>14,142,632</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	215,826
Due to other funds	3,000,000
Claim Liabilities	10,120,052
<b>Total Current Liabilities</b>	<u>13,335,878</u>
<b>NET ASSETS</b>	
Unrestricted	806,754
<b>Total Net Assets</b>	<u>\$ 806,754</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, 2005**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Local and intermediate sources	\$ 27,066,879
<b>OPERATING EXPENSES</b>	
Payroll costs	168,119
Supplies and materials	4,142
Other operating cost	28,597,971
<b>Total Operating Expenses</b>	<u>28,770,232</u>
<b>Operating Loss</b>	<u>(1,703,353)</u>
<b>NONOPERATING REVENUES</b>	
Interest income	194,723
<b>Total Nonoperating Revenues</b>	<u>194,723</u>
<b>Income (Loss) Before Transfers Out</b>	<u>(1,508,630)</u>
Transfers out	<u>(3,000,000)</u>
Change in net assets	<u>(4,508,630)</u>
<b>Total Net Assets - Beginning</b>	5,315,384
<b>Total Net Assets - Ending</b>	<u>\$ 806,754</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 CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2005**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from user charges	\$ 27,259,748
Cash received from expenditure abatement	55,000
Cash payments to employees for services	(168,119)
Cash payments for insurance claims	(24,455,231)
Cash payments to suppliers for goods and services	(4,992)
Net Cash Provided for Operating Activities	<u>2,686,406</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	157,006
Net increase in cash and cash equivalents	<u>2,843,412</u>
Cash and cash equivalents - Beginning	10,959,069
Cash and cash equivalents - Ending	<u>\$ 13,802,481</u>
 <b>RECONCILIATION OF OPERATING (LOSS) TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating loss	(1,703,353)
Changes in assets and liabilities:	
Receivables	76,832
Due from other fund	(84,557)
Accounts payable	(12,095)
Claims liability	4,589,630
Due to other fund	(180,051)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ 2,686,406</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, 2005

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	Agency Funds	
	Associated Student Body	Charter School
<b>ASSETS</b>		
Deposits and investments	\$ 2,215,810	\$ 605,981
Receivables	-	368,242
Other assets	-	1,393
Fixed assets	-	38,734
<b>Total assets</b>	<b>\$ 2,215,810</b>	<b>\$ 1,014,350</b>
<b>LIABILITIES</b>		
Overdraft	\$ -	\$ 165,638
Accounts payable	-	11,413
Long term liabilities due in one year	-	55,000
Long term liabilities due after one year	-	570,000
Due to student group	2,215,810	-
Due to charter school	-	212,299
<b>Total liabilities</b>	<b>\$ 2,215,810</b>	<b>\$ 1,014,350</b>

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

# SAN JOSE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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### 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 29 elementary, seven middle, seven high schools and maintains a 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 in complete or misleading. For financial reporting purposes, the component unit discussed below is reported in the District's financial statements because of the significance of its relationship with the District. The component unit, although a legally separate entity, is reported in the financial statements 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 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. Certificates of participation issued by the Corporation are included as long-term liabilities 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 pursuant to Education Code Section 47605. The Charter School is not operated by the District, and does not meet the criteria for inclusion as component unit. The financial activities are presented in the Charter School agency fund.

**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, 2005

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### **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 major governmental funds:

### **Major Governmental Funds**

**General Fund** The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

**Building Fund** The Building Fund exists primarily to account for proceeds from sale of bonds and the acquisition of major governmental capital facilities and buildings. The Fund is also used to account for the interest and redemption of principal of Certificates of Participation.

### **Non-Major Governmental Funds**

**Special Revenue Funds** The Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes or have been set aside for specific purposes. The district maintains the following special revenue funds:

**Adult Education Fund** The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

**Child Development Fund** The Child Development Fund is used to account for resources committed to child development programs maintained by the District.

**Cafeteria Fund** The Cafeteria Fund is used to account for the financial transactions related to the food service operations of the District.

**Deferred Maintenance Fund** The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

**Special Reserve Fund for Other than Capital Outlay** The Special Reserve Fund for Other than Capital Outlay is used to provide for the accumulation of General Fund monies for general operating purposes.

**Retiree Benefits Fund** The Retiree Benefits Fund is used for accumulating general fund moneys for retiree benefits purposes.

# SAN JOSE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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**Debt Service Funds** The Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs. The District maintains the following debt service funds:

**Bond Interest and Redemption Fund** The Bond Interest and Redemption Fund is used to account for the accumulation of resources for, and the repayment of, district bonds, interest, and related costs.

**Tax Override Fund** The Tax Override Fund is used for the repayment of voted indebtedness tax levies to be financed from ad valorem tax levies.

**Capital Projects Funds** The Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains the following capital projects funds:

**Capital Facilities Fund** The Capital Facilities Fund is used to account for resources received from developer impact fees assessed under provisions of the California Environmental Quality Act (CEQA).

**State School Building Lease-Purchase Fund** The State School Building Lease-Purchase Fund is used primarily to account for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17070-17080).

**County School Facilities Fund** The County School Facilities Fund is used primarily to account separately for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17010.10-17076.10).

**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 goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a Self-Insurance Fund that is accounted for in an internal service fund.

**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. The District's agency funds account for student body activities (ASB) and charter school activities.

### **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.

# SAN JOSE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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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.

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 enterprise 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.

**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. For the District, available means expected to be received within 60 days of fiscal year-end.

# SAN JOSE UNIFIED SCHOOL DISTRICT

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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.

Under the modified accrual basis, 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.

**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. Principal and interest on general long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

### **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, 2005 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.

### **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.

# SAN JOSE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

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### **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.

### **Compensated Absences**

Accumulated unpaid employee vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements. 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.

### **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.

# SAN JOSE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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### **Current Loans**

Current loans consist of amounts outstanding at June 30, 2005, for Tax Revenue and Anticipation Notes. The notes were issued as short-term obligations to provide cash flow needs. This liability is offset with cash deposits in the County Treasurer, which have been set aside to repay the notes.

### **Fund Balance Reserves and Designations**

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity, which is available for appropriation in future periods. Fund equity reserves have been established for revolving cash accounts, stores inventories, prepaid expenditures (expenses), and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund equity designations have been established for economic uncertainties, unrealized gains on investments and other purposes.

### **Net Assets**

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The District has \$128,950,625 in capital assets, net of related debt outstanding as of June 30, 2005. 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.

### **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 on the financial statements.

# SAN JOSE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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### 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 purposes of the budget, 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.

### Changes in Accounting Principles

In March 2003, the Governmental Accounting Standards Board (GASB) issued GASBS No. 40, *Deposit and Investment Risk Disclosures an Amendment of GASB Statement No. 3*. This Statement addressed common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in the Statement also should be disclosed. As such, the District has made the applicable required disclosures.

In November 2003, GASB issued GASBS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes guidance for accounting and reporting for impairment of capital assets and for insurance recoveries, whether associated with an impaired capital asset or not. This Statement is effective for periods beginning after December 31, 2004, or during the 2005-06 fiscal year. The District has implemented this pronouncement.

### New Accounting Pronouncements

In July 2004, GASB issued GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and

# SAN JOSE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2008. The District is in the process of determining the impact the implementation of this Statement will have on the government-wide statement of net assets and activities.

In December 2004, GASB issued GASBS No. 46, *Net Assets Restricted by Enabling Legislation*. This Statement clarifies that a legally enforceable enabling legislation restriction is one that a party external to a government, such as citizens, public interest groups, or the judiciary, can compel a government to honor. The Statement states that the legal enforceability of an enabling legislation restriction should be reevaluated if any of the resources raised by the enabling legislation are used for a purpose not specified by the enabling legislation or if a government has other cause for reconsideration. Although the determination that a particular restriction is not legally enforceable may cause a government to review the enforceability of other restrictions, it should not necessarily lead a government to the same conclusion for all enabling legislation restrictions.

This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2005. The District does not anticipate any significant impact to the financial statements when this statement is implemented.

### NOTE 2 – DEPOSITS AND INVESTMENTS

#### Summary of Deposits and Investments

Deposits and investments as of June 30, 2005, are classified in the accompanying financial statements as follows:

Governmental activities		
Deposits and investments	\$ 240,726,962	
Less: Overdrafts	3,202,047	
Total governmental activities		\$ 237,524,915
Fiduciary funds		
Deposits and investments	2,821,791	
Less: Overdrafts	165,638	
Total Fiduciary funds		2,656,153
Total Deposits and Investments		<u>\$ 240,181,068</u>

# SAN JOSE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

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Deposits and investments as of June 30, 2005, consist of the following:

Cash on hand and in banks		\$ 7,818,333
Investments	\$ 235,730,420	
Less: Overdrafts	<u>3,367,685</u>	
Total Investments		<u>232,362,735</u>
Total Deposits and Investments		<u>\$ 240,181,068</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 accounting financial statements at amounts based upon the District's pro-rata share of the fair value provided by the County Treasurer for the entire portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by the County Treasurer, which is recorded on the amortized cost basis.

