

**SAN JOSE UNIFIED  
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT  
JUNE 30, 2007**

**SAN JOSE UNIFIED SCHOOL DISTRICT**  
**OF SANTA CLARA COUNTY**  
**SAN JOSE, CALIFORNIA**  
**JUNE 30, 2007**

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**GOVERNING BOARD**

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Jorge Gonzalez	President	2008
Pamela Foley	Vice President	2008
Richard Garcia	Member	2010
Leslie B. Reynolds	Member	2008
Veronica Grijalva Lewis	Member	2010

**ADMINISTRATION**

Don Iglesias	Superintendent
Ann Jones	Chief Business Officer Administrative Services
William Erlendson	Assistant Superintendent, Educational Accountability and Community Development
Rosa Molina	Assistant Superintendent, Instructional Services

# SAN JOSE UNIFIED SCHOOL DISTRICT

## TABLE OF CONTENTS

JUNE 30, 2007

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### **FINANCIAL SECTION**

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	19
Statement of Activities	20
Fund Financial Statements	
Governmental Funds - Balance Sheet	21
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	22
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	23
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the Statement of Activities	24
Proprietary Fund - Statement of Net Assets	26
Proprietary Fund - Statement of Revenues, Expenses, and Changes in Fund Net Assets	27
Proprietary Fund - Statement of Cash Flows	28
Fiduciary Funds - Statement of Net Assets	29
Notes to Financial Statements	30

### **REQUIRED SUPPLEMENTARY INFORMATION**

General Fund - Budgetary Comparison Schedule	61
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### **SUPPLEMENTARY INFORMATION**

Schedule of Expenditures of Federal Awards	63
Local Education Agency Organization Structure	65
Schedule of Average Daily Attendance	66
Schedule of Instructional Time	67
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	68
Schedule of Financial Trends and Analysis	69
Excess Sick Leave	70
Schedule of Charter Schools	71
Note to Supplementary Information	72

### **SUPPLEMENTARY INFORMATION - UNAUDITED**

Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet - Unaudited	74
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Unaudited	76
Note to Supplementary Information - Unaudited	78

### **INDEPENDENT AUDITORS' REPORTS**

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	80
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	82
Report on State Compliance	84

### **SCHEDULE OF FINDINGS AND QUESTIONED COSTS**

Summary of Auditors' Results	87
Financial Statement Findings	88
Federal Award Findings and Questioned Costs	91
State Award Findings and Questioned Costs	93
Summary Schedule of Prior Audit Findings	94

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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, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express 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 2006-07* 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, 2007, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 17, 2007, 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 18 and budgetary comparison information on page 61, is not a required part of the basic financial statements, but is 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 are presented for purposes of additional analysis and are 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.

*Uovrimak, Triney Day & Co, LLP*

Pleasanton, California  
November 17, 2007

**SAN JOSE UNIFIED SCHOOL DISTRICT**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**JUNE 30, 2007**

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***PROFILE OF THE DISTRICT***

*Organization*

San Jose Unified School 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 serves a large portion of the city of San Jose and encompasses approximately 100 square miles. As one of the largest urban school districts in California, the District currently operates 27 elementary schools, six middle schools for sixth through eighth grade, six comprehensive and one alternative high school for ninth through twelfth grade and one community day school. The student population is 29% White, 51% Hispanic, 13% Asian, 3% Black and 4% Other. San Jose Unified employs approximately 2,950 people.

*Mission and Vision*

The purpose of the San Jose Unified School 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.

*Continuous Improvement*

The District is in the eighth 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) formative/summative 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 2006-07 school year marks the third 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 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 as part of the release from Federal Court Oversight.

# SAN JOSE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

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### 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 the largest bond measure passed by a school district in northern California.

### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This management discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise 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 private-sector business. 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. 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.

# SAN JOSE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

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- 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.

### Notes to the Basic Financial Statements

Notes to the basic financial statements provide additional information that is essential to a full 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

In fiscal year 2006-07 the total net assets of the District increased \$42.08 million or 22.8%. This increase is attributed to an increase in the value of capital assets and a decrease in long-term debt. The largest component of the total net assets, \$111.92 million reflects its investment in capital assets (land, buildings, equipment, infrastructure and others), less any related debt outstanding that was needed to acquire or construct the assets.

**SAN JOSE UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

<b>San Jose Unified School District Net Assets (in millions of dollars)</b>		
<b>Governmental Activities</b>		
	<b>2007</b>	<b>2006</b>
<b>Assets</b>		
Current and other assets	\$ 322.52	\$ 376.27
Capital assets, net of depreciation	583.13	502.64
<b>Total assets</b>	<b>905.65</b>	<b>878.91</b>
<b>Liabilities</b>		
Current liabilities	85.45	82.60
Long-term debt	593.91	612.11
<b>Total liabilities</b>	<b>679.36</b>	<b>694.71</b>
<b>Net Assets:</b>		
Invested in capital assets, net of related debt	111.92	108.37
Restricted	78.50	65.95
Unrestricted	35.86	9.88
<b>Total net assets</b>	<b>\$ 226.28</b>	<b>\$ 184.20</b>

Changes in Net Assets

The District's governmental activities revenues totaled \$387.82 million in fiscal year 2006-07, an increase of 20.5% over the prior year. The District earned program revenues, and general revenues including revenues from property taxes levied for general purposes and debt service represent the primary sources of revenue. Expenses for the District during the fiscal year were \$345.72 million, approximately 10.2% higher than last year.

**SAN JOSE UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

<b>San Jose Unified School District Changes In Net Assets (in millions)</b>			
<b>Governmental Activities</b>			
	<b>2007</b>		<b>2006</b>
<b>Revenues</b>			
Program Revenues	\$ 5.62	\$	3.60
Charges for Services and Sales	117.08		101.23
Operating Grants and Contributions	0.23		0.28
<b>General Revenues</b>			
Property taxes, levied for general purposes and debt service	176.71		168.80
Federal and State aid not restricted to specific purposes	56.31		28.35
Interest and miscellaneous	30.65		15.08
Proceed from insurance due to fire loss	1.22		4.63
<b>Total revenues</b>	<b>\$ 387.82</b>	<b>\$</b>	<b>321.97</b>
<b>Expenditures</b>			
Instruction and related activities	\$ 238.85	\$	223.22
Pupil services	31.91		28.69
General administration	13.72		9.46
Plant services	29.40		29.95
Ancillary services	3.15		1.11
Interest on long-term debt	22.86		15.98
Other (outgo)	5.84		5.22
<b>Total expenditures</b>	<b>\$ 345.73</b>	<b>\$</b>	<b>313.63</b>
<b>Increase (Decrease) In Net Assets</b>	<b>\$ 42.09</b>	<b>\$</b>	<b>8.34</b>

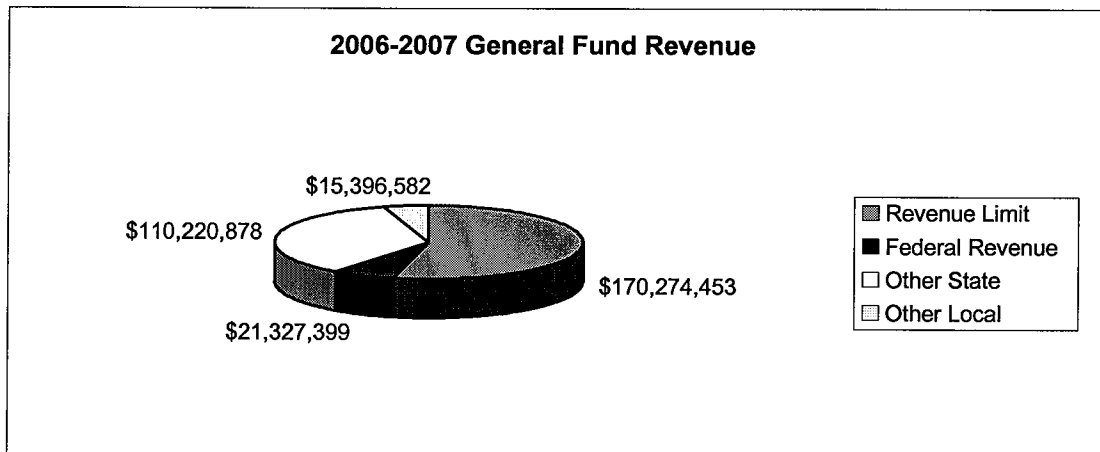
# SAN JOSE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

### GENERAL FUND

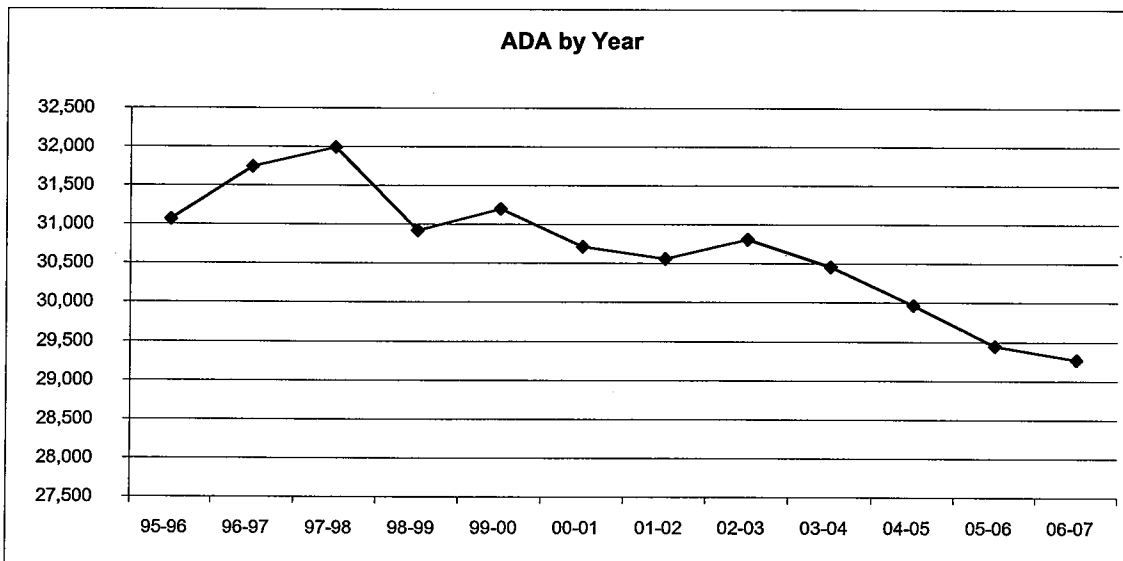
#### Revenue

Revenues of the General Fund totaled \$317.22 million in fiscal year 2006-07, an increase of 15.4% over the prior year. The following is a graphic presentation of revenues by source used to fund the District's operating activities.



#### Enrollment/ADA Trends

Average daily attendance (ADA) drives the amount of revenue received under the Revenue Limit formula, as well as many State grants. In the school year of 2006-07, the District experienced a slight enrollment decline of 0.58% in Second Period Report when compared to the prior year. There are indications that show the enrollment decline in 2007-08 is slowing.

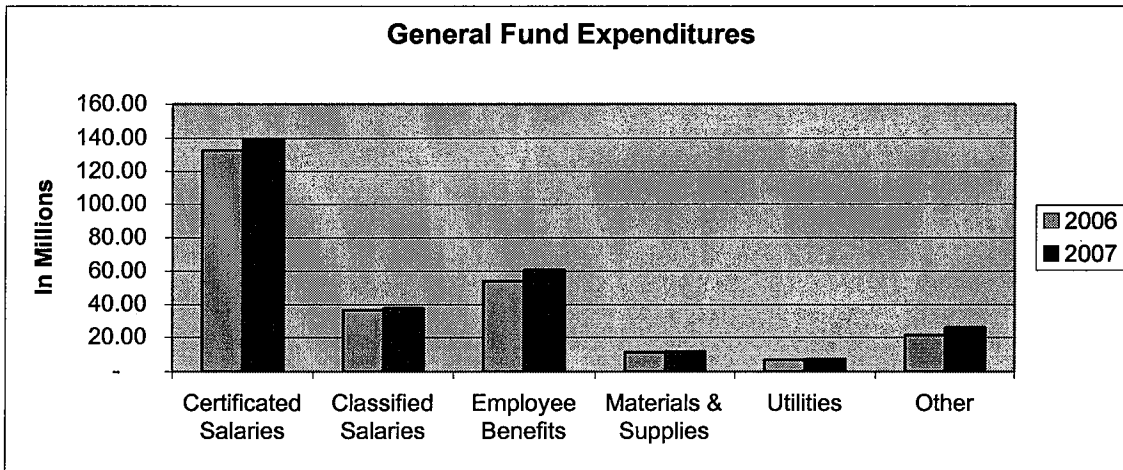


**SAN JOSE UNIFIED SCHOOL DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

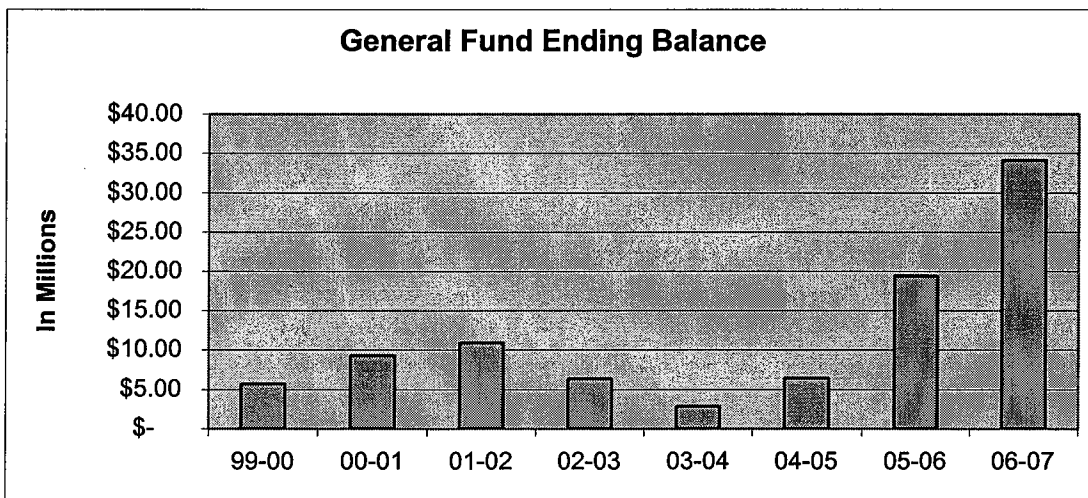
Expenditures

Salaries and benefits expenses of \$237.89 million, which represent approximately 84% of total General Fund expenses, increased by \$15.2 million or 6.8% in fiscal year 2006-07. The increase reflects the effect of pay increases for teachers and support personnel, and the associated fringe benefits. Instructional materials and supplies expenses slightly increased 2.1% to \$11.40 million, and utilities costs rose 9.0% to \$7.16 million from higher energy costs.



Results of Operation in the General Fund

The General Fund is used to account for the District’s general and administrative expenditures. At the close of the fiscal year 2006-07, the District’s General Fund reported a fund balance of \$34.14 million, an increase of \$14.79 million in comparison with the prior year. Of this fund balance, \$25.59 million was for restricted programs. The remainder of the fund balance was designated for school site programs (\$2.19 million), economic uncertainties (\$5.65 million) and other reservations (\$0.71 million).



**SAN JOSE UNIFIED SCHOOL DISTRICT**

**MANAGEMENT’S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

***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, 2007**

(Amounts in Thousands)

	Adult	Child Development	Cafeteria	Deferred Maintenance	Special Reserve	Retiree Benefit Reserve	Total
Beginning Balance	\$ -	\$ -	\$ 83	\$ 11,809	\$ 10,227	\$ 883	\$ 23,002
Revenues	5,682	1,978	8,721	1,919	1,113	27	19,440
Expenditures	5,682	2,051	9,721	1,637	-	-	19,091
Excess (deficiency) of revenue over expenditures	-	(73)	(1,000)	282	1,113	27	349
Transfers in	-	73	1,381	1,332	17,923	-	20,709
Transfers out	-	-	-	(1,587)	-	-	(1,587)
Ending Balance	-	-	\$ 464	\$ 11,836	\$ 29,263	\$ 910	\$ 42,473

**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 \$73,573 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. During fiscal year 2006-07 the General Fund contributed \$1,381,009 to the Cafeteria Fund for operation. The Cafeteria Fund ended the year with a fund balance of \$464,083, which was reserved for store inventories.

**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 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 \$11,809,548, which increased to \$11,836,011 at fiscal year end.

# SAN JOSE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

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### **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 \$10,226,471 which increased to \$29,262,564 at fiscal year end. The significant increase was mostly due to receipt of State Mandated Costs reimbursement that was transferred to the Special Reserve Fund. In anticipation of Mandated Cost payments would not occur annually, the District prudently set-aside \$18 million of the Mandated Costs back claims received for future one-time expenditures.

### **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 and COPs, comes from property tax overrides authorized by the GO Bond Issue and other 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).

In fiscal year 2006-07, the District received \$1.22 million in insurance proceeds for two school fires in November 2003 (Gardner Elementary School and Pioneer High School). Over the last three years, the District received a total sum of \$12.40 million for reconstruction of school buildings.

The District spent \$147.11 million in capital projects in 2006-07, compared with \$98.89 million during the prior year. Major funding applied to capital projects included \$96.54 million from Measure F Bond fund, \$6.61 million from Measure C Bond fund, \$5.26 million from lease revenue, with the remainder financed by debt. The Building Fund ended the year with a fund balance of \$139.46 million.

**SAN JOSE UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

**BUILDING FUND  
Balance as of June 30, 2007  
(Amounts in Thousands)**

<b>Leases</b>	<b>Child Care Facilities</b>	<b>Bond Measure C</b>	<b>Bond Measure F</b>	<b>Certificates of Participation</b>	<b>Total</b>
Beginning Balance	\$ 8	\$ 31,389	\$ 146,245	\$ 49,675	\$ 231,850
Revenues	686	1,421	5,294	2,102	14,851
Expenditures	600	6,608	96,536	38,113	147,112
expenditures	86	(5,187)	(91,242)	(36,011)	(132,261)
Other resources	-	28	12	34,136	34,260
Insurance settlement	-	-	-	-	1,218
Transfers in	-	-	1,587	2,600	5,724
Transfers out	-	-	(1,332)	-	(1,332)
Ending Balance	<u>\$ 94</u>	<u>\$ 26,230</u>	<u>\$ 55,270</u>	<u>\$ 50,400</u>	<u>\$ 139,459</u>

**SAN JOSE UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

***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, 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, 2007**

**(Amounts in Thousands)**

	<b>Capital Facilities</b>	<b>County School Facilities</b>	<b>Total</b>
Beginning Balance	\$ 4,000	\$ 5,069	\$ 9,069
Revenues	5,296	228	5,524
Expenditures	915	35	950
Excess (deficiency) of revenue over expenditures	4,381	193	4,574
Transfers in	-	-	-
Transfers out	(2,712)	(1,537)	(4,249)
Ending Balance	\$ 5,669	\$ 3,725	\$ 9,394

***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 contribution rate was 2.45% in fiscal year 2006-2007. The District continued to institute safety measures (such as injury and illness prevention programs) that minimize the cost of workers' compensation coverage.

# SAN JOSE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

The rising costs of medical and dental benefits continued to be a major area of concern. With efforts in cost reductions by implementing higher co-payments, the District has managed to contain growth in this area.

### INTERNAL SERVICE FUNDS

Balance as of June 30, 2007

(Amounts in Thousands)

	<u>Workers'</u> <u>Compensation</u>	<u>Health &amp;</u> <u>Welfare</u>	<u>Total</u>
Beginning Balance	\$ 1,542	\$ 2,040	\$ 3,582
Revenues	4,888	23,991	28,879
Expenditures	2,213	22,379	24,592
Excess (deficiency) of revenue over expenditures	<u>2,675</u>	<u>1,612</u>	<u>4,287</u>
Transfers in	-	-	-
Transfers out	-	-	-
Ending Balance	<u>\$ 4,217</u>	<u>\$ 3,652</u>	<u>\$ 7,869</u>

### ***CAPITAL ASSET AND DEBT ADMINISTRATION***

#### ***CAPITAL ASSETS***

The District had significant capital asset additions for facilities in fiscal year 2006-07. Construction in Progress capitalized during fiscal year 2006-07 totaled \$99.48 million as compared to \$34.05 million in 2005-06. Projects are capitalized when substantially completed and recognized in the appropriate capital asset categories. The details of these assets are presented below. Additional information about the Districts capital assets is presented in Note 4 to the financial statements.

**SAN JOSE UNIFIED SCHOOL DISTRICT**

**MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2007**

**San Jose Unified School District  
Capital Assets at Year-end  
(in millions of dollars)**

	<b>2007</b>	<b>Total School District 2006</b>	<b>Total Changes</b>
<b>Cost:</b>			
Land	\$ 12.62	\$ 12.62	\$ -
Construction in Progress	14.32	15.58	(1.26)
Buildings & Improvements	655.16	555.54	99.62
Furniture & Equipment	7.80	6.68	1.12
	<u>689.90</u>	<u>590.42</u>	<u>99.48</u>
<b>Accumulated Depreciation:</b>			
Buildings & Improvements	101.48	82.98	18.50
Furniture & Equipment	5.28	4.80	0.48
	<u>106.76</u>	<u>87.78</u>	<u>18.98</u>
<b>Net Book Value:</b>			
Land	12.62	12.62	-
Construction in Progress	14.32	15.58	(1.26)
Buildings & Improvements	553.68	472.56	81.12
Furniture & Equipment	2.52	1.88	0.64
	<u>\$ 583.14</u>	<u>\$ 502.64</u>	<u>\$ 80.50</u>

# SAN JOSE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

### *LONG-TERM DEBT*

The District had \$612.87 million in general obligation bonds and other long-term debt outstanding at the close of the year ended June 30, 2007. This amount represented a decrease of approximately \$18.90 million or 2.99% over the prior year. More detailed information about the District's long-term liabilities is presented in Note 8 to the financial statements.

**San Jose Unified School District  
Outstanding Long-Term Debt at Year-End  
(in millions of dollars)**

	Total School District		Total Changes
	2007	2006	
<b>Debt Outstanding:</b>			
General Obligation Bonds	\$ 477.37	\$ 490.09	\$ (12.72)
Certificates of Participation	101.66	103.92	(2.26)
Accumulated Vacation	0.61	0.57	0.04
PARS Incentive Payment	1.58	4.71	(3.13)
Capitalized Leases	0.11	0.35	(0.24)
Lease Revenue Bonds	1.54	1.75	(0.21)
Qualified Zone Academy Bonds	30.00	30.00	-
COE Cash Reconciliation Adjustment	-	0.38	(0.38)
	<u>\$ 612.87</u>	<u>\$ 631.77</u>	<u>\$ (18.90)</u>

### *FACTORS BEARING ON THE DISTRICT'S FUTURE*

- In July 2007, the District entered into a partnership with Chevron Energy Solutions (Chevron) and Bank of America (BoA) to establish the largest solar power and energy-efficient facilities program in K-12 education in the United States. Under the program, Chevron will build and maintain the solar photovoltaic arrays at the school sites, BoA will own the solar equipment and sell power to the District at rates below market utility rates.

The first phase of the program, which includes installation of two megawatts solar power at four high schools (Gunderson, Pioneer, Leland and San Jose High Academy), is expected to save the District \$15 million, or about one-third of current energy costs at the four high schools, over the 25-year life of the power system. Construction of the first phase will begin in the summer of 2007 and be completed by early 2008. The program's subsequent phases will also include energy efficiency measures that will further reduce the District's energy purchases and operating costs.

# SAN JOSE UNIFIED SCHOOL DISTRICT

## MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

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- The governmental accounting standards board (GASB) statement No. 45 requires school districts to disclose the financial obligations regarding its offering of other post-employment benefits (OPEB). Current disclosures are done on a "pay-as-you-go basis". The annual expense equals the actual cost for the year. Beginning with fiscal year 2007-08, the new accounting standard requires that districts provide periodic actuarial reports that disclose their retiree healthcare liabilities. The reported liabilities are to be included in the district's financial statement. The cost of retiree healthcare benefits is treated as current compensation and is expensed during an employee's active employment.
- Under Government Code Section 17561, eligible school districts may submit claims to the State Controller's Office (SCO) for reimbursement of costs incurred for state mandated cost programs. In 2006-07, SCO reimbursed claims of almost \$21 million to the District. Some \$2.4 million was given to schools for site programs and the balance was set-aside in the Special Reserve Fund for future one-time expenditures. Although mandated cost payments are assured by the State constitution, revenues are not guaranteed from year to year.

Of the total reimbursement of \$21 million received during 2006-07, the District received approximately \$15 million for increased costs resulting from the Increased Graduation Requirements claim. There are unsettled issues regarding this mandated program, the District has joined with seven other school districts to form the "Graduation Requirement Mandated Resolution Committee". The main objective of the Committee is to protect the money received from returning to the State for any unreasonable findings and for litigation if it becomes necessary.

- The budget challenges ahead for the District continue to focus on the declining enrollment and the impact on future Revenue Limit calculation. In preparation of the 2007-08 budget, the District has adopted conservative revenue forecast while providing sufficient resources for a safe, quality, healthy learning environment for each of our students.

### ***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, 2007**

<b>Assets</b>	<b>Governmental Activities</b>
Deposits and investments	\$ 285,595,687
Receivables	28,325,552
Prepaid expenses	643,370
Deferred charges	7,257,825
Stores inventories	603,279
Other current assets	87,200
Capital assets not depreciated	26,938,351
Capital assets, net of accumulative depreciation	556,196,732
<b>Total assets</b>	<u>905,647,996</u>
<b>Liabilities</b>	
Overdrafts	2,313,241
Accounts payable	41,762,844
Interest payable	8,705,324
Deferred revenue	3,099,278
Claim liabilities	10,609,852
Current portion of long-term obligations	18,964,792
Noncurrent portion of long-term obligations	593,908,801
<b>Total liabilities</b>	<u>679,364,132</u>
<b>Net Assets</b>	
Invested in capital assets, net of related debt	111,915,105
Restricted for:	
Legally restricted	33,161,014
Capital projects	9,394,482
Special revenues	12,300,094
Debt services	14,872,184
Self insurance	7,868,864
Retiree benefits	909,762
Unrestricted	35,862,359
<b>Total net assets</b>	<u>\$ 226,283,864</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, 2007**

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	\$ 180,841,092	\$ 218,370	\$ 48,409,014	\$ 228,064	\$ (131,985,644)
Instruction related activities:					
Supervision of instruction	33,566,958	72,861	26,446,254	-	(7,047,843)
Instructional library and technology	1,269,697	184	704,631	-	(564,882)
School site administration	23,168,016	22,083	5,729,190	-	(17,416,743)
Pupil services:					
Home-to-school transportation	8,050,461	110,308	5,002,827	-	(2,937,326)
Food services	10,195,768	2,389,798	6,027,059	-	(1,778,911)
All other pupil services	13,660,397	23,296	7,896,319	-	(5,740,782)
General administration:					
Data processing	3,034,889	-	-	-	(3,034,889)
All other general administration	10,686,619	102,396	3,421,683	-	(7,162,540)
Plant services	29,402,297	41,543	1,889,274	-	(27,471,480)
Ancillary services	3,153,548	25,435	1,652,225	-	(1,475,888)
Interest on long-term debt	22,864,887	-	-	-	(22,864,887)
Other (outgo)	5,840,602	2,613,494	9,902,587	-	6,675,479
<b>Total governmental activities</b>	<b>\$ 345,735,231</b>	<b>\$ 5,619,768</b>	<b>\$ 117,081,063</b>	<b>\$ 228,064</b>	<b>(222,806,336)</b>
General revenues and subventions:					
Property taxes, levied for general purposes					148,065,538
Property taxes, levied for debt service					28,658,337
Federal and State aid not restricted to specific purposes					56,307,196
Interest and investment earnings					3,609,112
Interagency revenues					517,338
Miscellaneous					26,516,373
					<b>Subtotal, general revenues</b>
					263,673,894
Special item: Proceeds from insurance due to fire loss					1,218,399
<b>Change in net assets</b>					<b>42,085,957</b>
Net assets - beginning					184,197,907
Net assets - ending					<b>\$ 226,283,864</b>

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

**SAN JOSE UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2007**

	<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	\$ 44,159,185	\$ 148,142,858	\$ 75,006,127	\$ 267,308,170
Receivables	19,844,971	4,937,481	2,655,210	27,437,662
Due from other funds	173,540	18,329	1,720,303	1,912,172
Prepaid expenses	53,151	590,219	-	643,370
Stores inventories	142,640	-	460,639	603,279
Other current assets	200	87,000	-	87,200
<b>Total Assets</b>	<b>\$ 64,373,687</b>	<b>\$ 153,775,887</b>	<b>\$ 79,842,279</b>	<b>\$ 297,991,853</b>
<b>LIABILITIES AND FUND BALANCES</b>				
<b>Liabilities:</b>				
Overdrafts	\$ -	\$ -	2,313,241	\$ 2,313,241
Accounts payable	25,826,972	13,830,461	1,970,573	41,628,006
Due to other funds	1,736,929	61,188	114,055	1,912,172
Deferred revenue	2,674,633	424,645	-	3,099,278
<b>Total Liabilities</b>	<b>30,238,534</b>	<b>14,316,294</b>	<b>4,397,869</b>	<b>48,952,697</b>
<b>Fund Balances:</b>				
Reserved for:				
Legally restricted balances	25,587,398	-	-	25,587,398
Other reservations	315,791	-	464,083	779,874
Unreserved:				
Designated	2,586,425	-	-	2,586,425
Undesignated, reported in:				
General Fund	5,645,539	-	-	5,645,539
Special revenue funds	-	-	42,008,337	42,008,337
Debt service funds	-	-	23,577,508	23,577,508
Capital projects funds	-	139,459,593	9,394,482	148,854,075
<b>Total Fund Balance</b>	<b>34,135,153</b>	<b>139,459,593</b>	<b>75,444,410</b>	<b>249,039,156</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 64,373,687</b>	<b>\$ 153,775,887</b>	<b>\$ 79,842,279</b>	<b>\$ 297,991,853</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, 2007**

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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>\$ 249,039,156</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	\$ 689,901,584
Accumulated depreciation is	<u>(106,766,501)</u>
Net Capital Assets	583,135,083
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.	561,853
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.	7,257,825
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.	(8,705,324)
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.	7,868,864
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	477,373,280
Capital leases payable	112,064
Certificates of participation	101,659,227
Compensated absences (vacations)	609,176
Lease revenue bonds	1,535,000
Qualified zone academy bonds	30,000,000
PARS retiree incentive payments	<u>1,584,846</u>
	<u>(612,873,593)</u>
<b>Total Net Assets - Governmental Activities</b>	<b><u>\$ 226,283,864</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, 2007**

	General Fund	Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>REVENUES</b>				
Revenue limit sources	\$ 170,274,453	\$ -	\$ 5,681,817	\$ 175,956,270
Federal sources	21,327,399	-	5,753,573	27,080,972
Other state sources	110,220,878	83,842	3,925,013	114,229,733
Other local sources	15,396,583	14,852,661	38,741,762	68,991,006
<b>Total Revenues</b>	<u>317,219,313</u>	<u>14,936,503</u>	<u>54,102,165</u>	<u>386,257,981</u>
<b>EXPENDITURES</b>				
Current				
Instruction	168,012,426	-	1,700,304	169,712,730
Instruction related activities:				
Supervision of instruction	24,961,197	-	5,926,203	30,887,400
Instructional library and technology	1,168,341	-	-	1,168,341
School site administration	21,318,577	-	-	21,318,577
Pupil Services:				
Home-to school transportation	7,407,815	-	-	7,407,815
Food services	-	-	9,381,868	9,381,868
All other pupil services	12,569,925	-	-	12,569,925
General administration:				
Data processing	2,157,688	-	-	2,157,688
All other general administration	9,590,953	-	520,585	10,111,538
Plant services	26,494,340	215,431	36,504	26,746,275
Facility acquisition and construction	-	107,462,892	2,586,911	110,049,803
Ancillary services	2,901,809	-	-	2,901,809
Other outgo	5,840,602	-	-	5,840,602
Debt service				
Principal	616,533	700,000	13,675,000	14,991,533
Interest and other	15,455	451,632	18,225,375	18,692,462
<b>Total Expenditures</b>	<u>283,055,661</u>	<u>108,829,955</u>	<u>52,052,750</u>	<u>443,938,366</u>
<b>Excess (deficiency) of revenues over expenditures</b>	<u>34,163,652</u>	<u>(93,893,452)</u>	<u>2,049,415</u>	<u>(57,680,385)</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	1,331,902	5,723,938	20,709,966	27,765,806
Other sources	-	34,435,743	-	34,435,743
Transfers out	(20,709,966)	(1,331,902)	(5,723,938)	(27,765,806)
Other uses	-	(37,325,000)	-	(37,325,000)
<b>Net Financing Sources (Uses)</b>	<u>(19,378,064)</u>	<u>1,502,779</u>	<u>14,986,028</u>	<u>(2,889,257)</u>
<b>NET CHANGE IN FUND BALANCES</b>	14,785,588	(92,390,673)	17,035,443	(60,569,642)
<b>Fund Balance - Beginning</b>	19,349,565	231,850,266	58,408,967	309,608,798
<b>Fund Balance - Ending</b>	<u>\$ 34,135,153</u>	<u>\$ 139,459,593</u>	<u>\$ 75,444,410</u>	<u>\$ 249,039,156</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 STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007**

---

**Total Net Change in Fund Balances - Governmental Funds** **\$ (60,569,641)**

**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	\$ (24,842,947)	
Capital outlays	107,580,965	
		82,738,018

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. (4,334,161)

Proceeds received from sale of refunding Certificates of Participation 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. (33,217,344)

Payment of issue costs of bonds is an expenditure in the governmental funds, in the year paid but it is recorded as deferred charges and amortized over the life of the bonds in the statement of activities. 612,345

Refunded (defeased) Certificates of Participation is an other use in the governmental funds, but it reduces the long-term obligations in the statement of net assets. 37,810,000

Deferred gain on refunding is an revenue in the governmental funds, but it increase long-term liabilities in the statement of net assets and does not affect the statement of activities. (918,288)

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:

PARS retirement incentive	3,121,539	
General obligation bond principal	13,675,000	
Capital lease principal	239,817	
Lease revenue principal	215,000	
Santa Clara County Office of Education liability	376,716	
		17,628,072

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. (33,879)

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, 2007**

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The District removed all the equipment that was below the capitalization threshold and that was no longer in service from the statement of net assets. The difference between the costs and accumulated depreciation amount is not recorded in the governmental funds.

(2,242,526)

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.

(141,384)

Premium 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 are recorded as deferred charges and the premium 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	3,199,569
Certificates of Participation premium	31,742
Debt cost of issuance	<u>(697,775)</u>

2,533,536

Defeased costs and gains are recorded 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 defeased costs and gains were as follows:

General obligation bond deferred costs for bonds defeased	(1,348,639)
Certificates of participation gain for amounts defeased	<u>85,144</u>

(1,263,495)

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.

(802,362)

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.

4,287,067

**Change in Net Assets of Governmental Activities**

**\$ 42,085,958**

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

**SAN JOSE UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUND  
STATEMENT OF NET ASSETS  
JUNE 30, 2007**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>	
<b>Current Assets</b>	
Deposits and investments	\$ 18,287,517
Receivables	326,037
<b>Total Assets</b>	<u>18,613,554</u>
<b>LIABILITIES</b>	
<b>Current Liabilities</b>	
Accounts payable	134,838
Claim liabilities	10,609,852
<b>Total Current Liabilities</b>	<u>10,744,690</u>
<b>NET ASSETS</b>	
Unrestricted	7,868,864
<b>Total Net Assets</b>	<u>\$ 7,868,864</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, 2007**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>OPERATING REVENUES</b>	
Local and intermediate sources	\$ 28,393,036
<b>OPERATING EXPENSES</b>	
Payroll costs	185,073
Supplies and materials	2,777
Other operating cost	24,404,311
<b>Total Operating Expenses</b>	<u>24,592,161</u>
<b>Operating Income</b>	3,800,875
<b>NONOPERATING REVENUES</b>	
Interest income	486,192
Change in net assets	4,287,067
<b>Total Net Assets - Beginning</b>	<u>3,581,797</u>
<b>Total Net Assets - Ending</b>	<u>\$ 7,868,864</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, 2007**

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	<b>Governmental Activities - Internal Service Fund</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	
Cash received from user charges	\$ 28,333,673
Cash received from expenditure abatement	161,613
Cash payments to employees for services	(185,073)
Cash payments for insurance claims	(24,104,642)
Cash payments to suppliers for goods and services	(3,362)
Net Cash Provided by Operating Activities	<u>4,202,209</u>
 <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>	
Interest on investments	444,710
Net increase in cash and cash equivalents	<u>4,646,919</u>
<b>CASH AND CASH EQUIVALENTS - BEGINNING</b>	13,640,598
<b>CASH AND CASH EQUIVALENTS - ENDING</b>	<u><u>\$ 18,287,517</u></u>
 <b>RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES:</b>	
Operating income	\$ 3,800,875
Changes in assets and liabilities:	
Receivables	102,250
Accrued liabilities	299,084
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u><u>\$ 4,202,209</u></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, 2007**

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	<u>Agency Funds Associated Student Body</u>
<b>ASSETS</b>	
Deposits and investments	\$ 2,993,031
Receivables	9,683
<b>Total assets</b>	<u>\$ 3,002,714</u>
<b>LIABILITIES</b>	
Accounts payable	\$ 101,273
Due to student group	2,901,441
<b>Total liabilities</b>	<u>\$ 3,002,714</u>

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

# SAN JOSE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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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 27 elementary, six middle, six high schools, one community schools 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 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, 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 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.

**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, 2007

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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 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 the 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

JUNE 30, 2007

---

**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.

**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).

**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, which includes the activity for the workers' compensation and health and welfare programs.

**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).

### **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.

# SAN JOSE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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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.

**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.

# SAN JOSE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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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.

**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 obligations, which have 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, 2007 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.

# SAN JOSE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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### **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.

### **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 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.

# SAN JOSE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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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.

### **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 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 \$111,915,105 in capital assets, net of related debt outstanding as of June 30, 2007. 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.

# SAN JOSE UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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### **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**

Transfers between governmental and business-type activities in the government-wide financial statements are reported in the same manner as general revenues.

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 and business-type activities columns of the statement of activities, except for the net residual amounts transferred between governmental and business-type 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 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.

