

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

COUNTY OF SACRAMENTO

SACRAMENTO, CALIFORNIA

FINANCIAL STATEMENTS

WITH SUPPLEMENTARY INFORMATION

FOR THE YEAR ENDED JUNE 30, 2006

AND

INDEPENDENT AUDITOR'S REPORT

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

**FINANCIAL STATEMENTS
WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2006

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SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

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SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

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WITH SUPPLEMENTARY INFORMATION**

For the Year Ended June 30, 2006

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INDEPENDENT AUDITOR'S REPORT

Board of Education
Sacramento City Unified School District
Sacramento, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Sacramento City Unified School District, as of and for the year ended June 30, 2006, which collectively comprise Sacramento City Unified School District's basic financial statements as listed in the Table of Contents. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Sacramento City Unified School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, 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 8, 2006 on our consideration of Sacramento City Unified School District's internal control over financial reporting and 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 read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis is not a required part of the basic financial statements, but is supplementary information required by 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.

INDEPENDENT AUDITOR'S REPORT
(Continued)

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

Perry-Smith LLP

Sacramento, California
November 8, 2006

Management's Discussion and Analysis

The Management's Discussion and Analysis Section of the audit report is management's overall view of the District's financial condition, and provides an opportunity to discuss important fiscal issues with the board and the public. Accounting rules require this discussion and analysis.

Financial Reports

The audit report consists of a series of financial reports. The Statement of Net Assets and Statement of Activities report the district-wide financial condition and activities of the District taken as a whole. These two financial statements start on page 9. The individual fund statements, which focus on reporting the District's operations in more detail, begin on page 11.

District-wide Financial Condition

The Statement of Net Assets is a district-wide financial statement that reports all that the District owns (assets) and owes (liabilities). Fiscal year 2001-2002 was the first year the District accounted for the value of fixed assets and included these values as part of financial statements. We display the book value of all District assets including buildings, land and equipment and related depreciation in this financial statement. The table below summarizes the value of District assets for the year ended June 30, 2006.

Beginning Net Assets	\$118,743,754
Change	\$ 75,728,820
Ending Net Assets	\$194,472,574

Land is accounted for at purchase cost, not market value, and is not depreciated. Many of our school sites have low values for today's market because the District acquired the land many decades ago. School buildings are valued at their historical construction cost less depreciation.

Comparative financial information as of June 30, from the Statement of Net Assets is summarized in the following table:

	June 30, 2006	June 30, 2005
Capital Assets	\$442,906,891	\$374,791,956
Other Assets	\$248,050,117	\$196,975,766
Total Assets	\$690,957,008	\$571,767,722

Current and Other Liabilities	\$ 65,189,273	\$ 88,790,743
Long-Term Liabilities	\$431,295,161	\$364,233,225
Total Liabilities	\$496,484,434	\$453,023,968
Net Assets Invested in Capital Assets	\$ 43,374,493	\$ 40,262,647
Restricted Net Assets	\$144,350,652	\$ 75,901,889
Unrestricted Net Assets	\$ 6,747,429	\$ 2,579,218
Total Net Assets	\$194,472,574	\$118,743,754

Total net assets increased due to an increase in capital assets for numerous capital improvement and large construction projects.

The Statement of Activities is a district-wide financial statement that reports the District's cost of instruction and other District activities, and the resources that fund individual and general activities of the District. Comparative financial information for the year ended June 30 is presented in the following table:

	June 30, 2006	June 30, 2005
Expenses		
Governmental Activities:		
Instruction	\$274,272,863	\$274,180,868
Instruction-Related Services	\$ 64,634,785	\$ 62,401,116
Pupil Services	\$ 33,002,960	\$ 34,878,737
General Administration	\$ 24,201,642	\$ 29,768,811
Plant Services	\$ 49,595,574	\$ 46,628,897
Interest on Long-Term Debt	\$ 6,279,136	\$ 14,890,965
All Other Expenses and Outgo	\$ 23,315,775	\$ 9,077,102
Total Governmental Activity Expenses	\$475,302,735	\$471,826,496
Business Type Activities:		
Food Services	\$ 15,104,149	\$ 14,720,987
All Other Business Type Activities	\$ 1,273,874	\$ 1,292,001
Total Business Type Activity Expenses	\$ 16,378,023	\$ 16,012,988
Revenues		
Charges For Services	\$ 3,387,566	\$ 3,678,011
Operating Grants and Contributions	\$169,736,646	\$169,565,907
Capital Grants and Contributions	\$ 57,855,756	\$ 32,411,135
Taxes Levied for General Purposes	\$ 61,371,969	\$ 61,274,135
Taxes Levied for Debt and Special Purposes	\$ 28,851,617	\$ 15,513,833
Unrestricted Federal and State Aid	\$209,849,022	\$203,892,402
Interest and Investment Earnings	\$ 15,858,557	\$ 5,444,601
Interagency Revenues	\$ 2,456,433	\$ 2,480,621
Miscellaneous	\$ 18,042,012	\$ 12,799,744
Total Revenues	\$567,409,578	\$507,060,389
Change in Net Assets	\$ 75,728,820	\$ 19,220,905

Sacramento City Unified School District continued to maintain its sound financial condition. District wide operations have been stable, with governmental activity expenses increasing slightly primarily due to increases in employee benefit costs, particularly health and welfare costs. General Administration had a reduction in expenses while All Other Expenses and Outgo realized an increase. Revenues increased in the area of Capital Grants and Contributions and Interest.

General Fund Financial and Budgetary Highlights

The General Fund accounts for the primary operations of the District. The District’s initial budget is adopted by July 1. Over the course of the year, the District’s budget is revised several times to take into account revised and new categorical funding appropriations and related expenditures, and to update budgets for prior year carry over amounts. The budget may also be revised to reflect mid-year changes to the State budget which affect District funding. The following table summarizes general fund budget to actual information for the year ended June 30, 2006:

	Adopted Budget	Year End Budget	Actual
Total Revenues	\$368,936,618	\$395,471,738	\$386,961,306
Total Expenditures	\$342,455,561	\$413,431,408	\$387,811,283
Total Other Sources/(Uses)	\$ 4,609,634	\$ 4,817,001	\$ 6,219,589

The net increase to the total revenue budget was \$26,535,120 due to current year budgets for categorical funds, which are budgeted as grant award documents are received. Additionally, the budgets for prior year unspent restricted and unrestricted program funds (carry over) are appropriated mid-year.

The net increase to the total expenditure budget was \$70,975,847, due to revisions to set up expenditures related to categorical program funds which are budgeted after July 1 as grant award documents are received and school site plans are approved.

The net change to the total other financing sources/uses budget changed by \$207,367 due primarily to dependent charter school service transfers.

Actual revenues were \$8,510,432 or 2.2%, below year end budget due mostly to unspent and unearned categorical revenue. Actual expenditures were \$25,620,125, or 6.2%, below year end budget due to unspent categorical revenue and unspent school site program revenue carryover.

The following table summarizes the General Fund operational fund financial statements for the year ended June 30, 2006:

Total Revenue	\$ 386,961,306
Total Expenditures	\$(387,811,283)
Other Financing Sources & Uses	\$ 6,219,589
Net Change	\$ 5,369,612

The General Fund ending balance increased due to unspent categorical programs and one time carry over funds. This sound financial condition is a result of good fiscal management by staff – evident in careful budget management and compliance oversight. Through the District’s efforts of improving attendance rates, the district should realize additional revenue maximization. Future financial performance is dependent on management’s ability to continue to control expenses and maintain revenue levels. As evidenced in previous year’s budget reductions, the Board has been proactive in making any necessary budget adjustments to maintain District fiscal integrity.

Capital Projects

The District invested \$83,356,068 in modernization and new construction of school sites from the following combined sources:

Measure E	\$ 3,047,068
Measure I	\$ 56,174,542
State school bond funds	\$ 23,118,693
Certificates of participation & other local sources	\$ <u>1,015,765</u>
Total:	\$ 83,356,068

Of this amount, approximately \$82 million represents capitalized projects. Significant modernization and construction projects are scheduled to continue for several years as we update our existing facilities, complete construction on the new South Area Elementary School and America’s Choice High School as well as facilities for small learning community high schools.

District Indebtedness

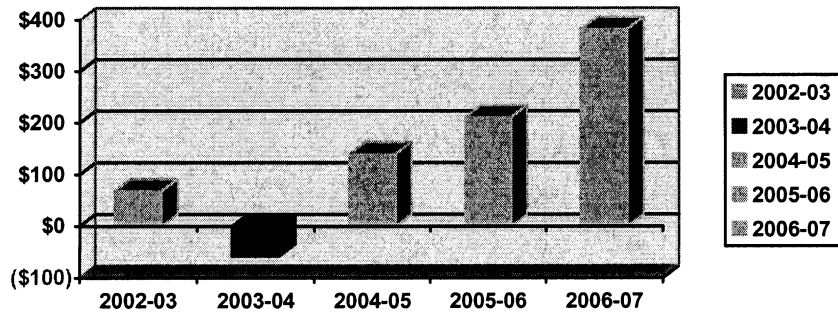
As of 6/30/06 the District has incurred \$431,295,161 of long-term liabilities. Of this amount, \$327,100,000 is General Obligation Bonds backed by property tax increases voted on by district residents in 1999 and 2002, and \$4,430,000 is a special Tax Bond, also backed by property tax increases voted on by residents.

Financial Issues

Per Pupil Funding

Over the last several years the State of California has experienced severe budget crises, causing fluctuations in available revenues. However, there was a significant increase in funding for school districts for the 2006-07 fiscal year. The table below shows a five year trend in state school funding:

Change in Per Pupil Funding

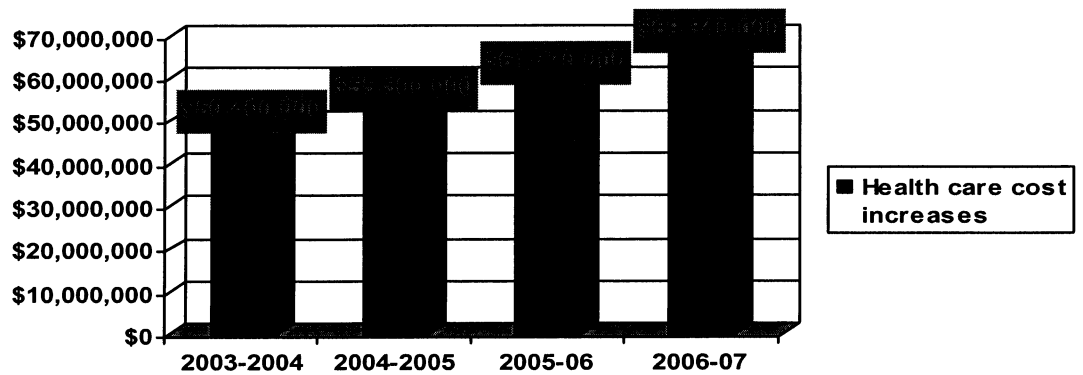


Meanwhile, the District's average daily attendance decreased by 931 over the prior year. This was primarily due to enrollment decline which is comparable to the enrollment decline being experienced state-wide. ADA for the district is projected to continue to decline in 06/07 although not as significantly as in previous years.

Health Care Cost Trends

District-Wide Health Care costs have been growing dramatically and continue to do so in this budget year. The graph below shows the trends:

Trends in District-Wide Health Care Costs



The District provides lifetime health benefits to all retired teachers and certain other employees who meet predetermined criteria. The annual actual payments for retiree benefits are included in the District-Wide health care costs. The District obtains an actuarial report every three years to determine the unfunded future liability for lifetime benefits. The actuarially determined liability is not accrued or included in the above chart. This liability has increased 66% from the last actuary report as follows:

July 2002 Liability	\$345.5 Million
July 2005 Liability	\$571.9 Million
Three Year Increase	\$226.4 Million

Categorical Funding

As school revenues increased during the boom times of the late 1990's, much of the funds came to schools with strings attached. As we continue during constrained economic times, we found these many complex program requirements make it difficult to maintain our basic programs. With the additional state funding in 2006-07, categorical program funds and requirements have once again increased.

As health care costs rise and categorical programs take a larger share of state revenue, district management must continue to closely monitor the District's limited financial resources.

Contacting the District's Financial Management

If you have questions regarding this report or need additional financial information, contact the Deputy Superintendent/CFO at (916) 643-9055.

BASIC FINANCIAL STATEMENTS

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

June 30, 2006

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
ASSETS			
Cash and investments (Note 2)	\$ 177,185,364	\$ 1,870,076	\$ 179,055,440
Accounts receivable	57,621,246	3,944,770	61,566,016
Prepaid expenditures	3,915,709		3,915,709
Due from other funds (Note 3)	2,789,954	109,190	2,899,144
Stores inventory	534,012	79,796	613,808
Capital assets, net of accumulated depreciation (Note 4)	<u>442,753,849</u>	<u>153,042</u>	<u>442,906,891</u>
Total assets	<u>684,800,134</u>	<u>6,156,874</u>	<u>690,957,008</u>
LIABILITIES			
Accounts payable	17,058,110	249,701	17,307,811
Unpaid claims and claim adjustment expenses (Note 5)	11,131,535		11,131,535
TRANS payable (Note 2)	25,000,000		25,000,000
Deferred compensation	3,907,806		3,907,806
Deferred revenue	4,942,977		4,942,977
Due to other funds (Note 3)	109,190	2,789,954	2,899,144
Long-term liabilities (Note 6):			
Due within one year	18,391,151	8,417	18,399,568
Due after one year	<u>412,895,593</u>		<u>412,895,593</u>
Total liabilities	<u>493,436,362</u>	<u>3,048,072</u>	<u>496,484,434</u>
NET ASSETS			
Invested in capital assets, net of related debt	43,229,868	144,625	43,374,493
Restricted (Note 7)	141,386,475	2,964,177	144,350,652
Unrestricted	<u>6,747,429</u>		<u>6,747,429</u>
Total net assets	<u>\$ 191,363,772</u>	<u>\$ 3,108,802</u>	<u>\$ 194,472,574</u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

	Program Revenues			Net (Expense) Revenue and Changes in Net Assets		
	Charges For Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Governmental activities (Note 4):						
Instruction	\$ 274,272,863	\$ 90,712,323	\$ 57,855,756	\$ (124,872,595)	\$	\$ (124,872,595)
Instruction-related services:						
Supervision of instruction	26,689,478	358,285	25,516,054	(815,139)		(815,139)
Instructional library, media and technology	3,140,177	(20)	1,387,095	(1,753,102)		(1,753,102)
School site administration	34,805,130	97,558	8,082,486	(26,625,086)		(26,625,086)
Pupil services:						
Home-to-school transportation	10,714,641	4,673,726		(6,040,915)		(6,040,915)
Food services	55,745	23,456		(32,271)		(32,271)
All other pupil services	22,232,574	13,542,089		(8,333,272)		(8,333,272)
General administration:						
Data processing	2,203,424			(2,203,424)		(2,203,424)
All other general administration	21,998,218	5,688,856		(16,253,167)		(16,253,167)
Plant services	49,595,574	4,915,500		(44,638,857)		(44,638,857)
Ancillary services	2,274,011	112,878		(2,160,637)		(2,160,637)
Community services	738,111	92,860		(645,251)		(645,251)
Enterprise activities	669,937			(669,937)		(669,937)
Other outgo	19,633,716	112,667		(19,633,716)		(19,633,716)
Interest on long-term liabilities	6,279,136			(6,166,469)		(6,166,469)
Business-type activities:						
Food services	15,104,149	13,880,578			\$ 134,614	134,614
Enterprise activities	186,595	9,371				
General administration	1,076,820	977,507			8,389	8,389
Plant services	10,459	9,200			45	45
Total governmental and business-type activities	\$ 491,680,758	\$ 3,387,566	\$ 169,736,646	\$ (260,843,838)	\$ 143,048	\$ (260,700,790)

General revenues:

Taxes and subventions:	
Taxes levied for general purposes	61,371,969
Taxes levied for debt service	26,702,171
Taxes levied for other specific purposes	2,149,446
Federal and State aid not restricted to specific purposes	209,849,022
Interest and investment earnings	15,858,557
Interagency revenues	2,456,433
Miscellaneous	18,042,012
	<u>336,429,610</u>

Total general revenues

Change in net assets

Net assets, July 1, 2005

Net assets, June 30, 2006

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

BALANCE SHEET

GOVERNMENTAL FUNDS

June 30, 2006

	<u>General Fund</u>	<u>Building Fund</u>	<u>County School Facilities Fund</u>	<u>All Non-Major Funds</u>	<u>Total Governmental Funds</u>
ASSETS					
Cash and investments:					
Cash in County Treasury		\$ 93,011,024		\$ 20,096,502	\$ 113,107,526
Cash in County Treasury, restricted for repayment of Tax and Revenue Anticipation Notes (TRANS)	\$ 19,321,290				19,321,290
Cash on hand and in banks		3,601			3,601
Cash in revolving fund	225,000				225,000
Cash awaiting deposit	361,794			1,259,150	1,620,944
Cash with Fiscal Agent		24,580,101		1,690,675	26,270,776
Local Agency Investment Fund (LAIF)		781,724			781,724
Deferred compensation	3,907,806				3,907,806
Accounts receivable:					
Federal government	7,611,322			2,241,613	9,852,935
State government	13,748,625			615,316	14,363,941
Local government and other	22,318,795	1,940,301		8,264,066	32,523,162
Prepaid expenditures	91,925				91,925
Due from other funds	10,377,918	190,893		7,257,352	17,826,163
Stores inventory	<u>534,012</u>				<u>534,012</u>
Total assets	<u>\$ 78,498,487</u>	<u>\$ 120,507,644</u>	<u>\$ -</u>	<u>\$ 41,424,674</u>	<u>\$ 240,430,805</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 11,067,610	\$ 2,173,923		\$ 2,960,842	\$ 16,202,375
TRANS payable	25,000,000				25,000,000
Deferred compensation	3,907,806				3,907,806
Deferred revenue	4,876,075			66,902	4,942,977
Due to other funds	<u>6,129,708</u>	<u>2,341,814</u>		<u>6,360,888</u>	<u>14,832,410</u>
Total liabilities	50,981,199	4,515,737		9,388,632	64,885,568
Fund balances	<u>27,517,288</u>	<u>115,991,907</u>		<u>32,036,042</u>	<u>175,545,237</u>
Total liabilities and fund balances	<u>\$ 78,498,487</u>	<u>\$ 120,507,644</u>	<u>\$ -</u>	<u>\$ 41,424,674</u>	<u>\$ 240,430,805</u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET -
TO THE STATEMENT OF NET ASSETS**

June 30, 2006

Total fund balances - Governmental Funds		\$ 175,545,237
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used for governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. The cost of the assets is \$704,165,508 and the accumulated depreciation is \$261,411,659 (Note 4).		
		442,753,849
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. Long-term liabilities at June 30, 2006 consisted of (Note 6):		
Special Tax Bonds	\$ (4,430,000)	
General Obligation Bonds	(327,100,000)	
Certificates of Participation	(92,650,000)	
Capitalized lease obligations	(705,806)	
Compensated absences	<u>(6,400,938)</u>	
		(431,286,744)
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Net assets of the Self-Insurance Fund are:		
		1,164,365
In the governmental funds, interest on long-term liabilities is not recognized until the period in which it matures and is paid. In the government-wide statement of activities, it is recognized in the period that it is incurred:		
		(636,719)
Costs associated with the issuance of long-term liabilities are not financial resources and, therefore, are not reported as assets in governmental funds.		
		<u>3,823,784</u>
Total net assets - governmental activities		<u>\$ 191,363,772</u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES

GOVERNMENTAL FUNDS

For the Year Ended June 30, 2006

	General Fund	Building Fund	County School Facilities Fund	All Non-Major Funds	Total Governmental Funds
Revenues:					
Revenue limit sources:					
State apportionment	\$ 175,147,982			\$ 22,743,297	\$ 197,891,279
Local sources	61,153,112				61,153,112
Total revenue limit	236,301,094			22,743,297	259,044,391
Federal sources	53,306,375			13,310,411	66,616,786
Other State sources	86,357,299		\$ 57,855,756	9,410,317	153,623,372
Other local sources	10,996,538	\$ 11,763,228		48,334,887	71,094,653
Total revenues	386,961,306	11,763,228	57,855,756	93,798,912	550,379,202
Expenditures:					
Certificated salaries	173,578,101			19,630,328	193,208,429
Classified salaries	56,837,878	456,814		9,051,719	66,346,411
Employee benefits	86,557,005	124,623		12,173,036	98,854,664
Books and supplies	14,432,179	599,664		2,414,666	17,446,509
Contract services and operating expenditures	50,267,820	8,793,161		3,498,059	62,559,040
Capital outlay	422,755	80,309,248		3,646,463	84,378,466
Other outgo	5,551,463				5,551,463
Debt service:					
Principal retirement	149,189			13,587,438	13,736,627
Interest	14,893	1,873,118		17,618,491	19,506,502
Total expenditures	387,811,283	92,156,628		81,620,200	561,588,111
(Deficiency) excess of revenues (under) over expenditures	(849,977)	(80,393,400)	57,855,756	12,178,712	(11,208,909)
Other financing sources (uses):					
Operating transfers in	5,653,790	60,121,702		1,870,044	67,645,536
Operating transfers out		(1,500,000)	(60,121,702)	(4,437,713)	(66,059,415)
Proceeds from the issuance of long-term liabilities	565,799	80,000,000			80,565,799
Total other financing sources (uses)	6,219,589	138,621,702	(60,121,702)	(2,567,669)	82,151,920
Change in fund balances	5,369,612	58,228,302	(2,265,946)	9,611,043	70,943,011
Fund balances, July 1, 2005	22,147,676	57,763,605	2,265,946	22,424,999	104,602,226
Fund balances, June 30, 2006	\$ 27,517,288	\$ 115,991,907	\$ -	\$ 32,036,042	\$ 175,545,237

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCES - GOVERNMENTAL FUNDS -
TO THE STATEMENT OF ACTIVITIES**

For the Year Ended June 30, 2006

Net change in fund balances - Total Governmental Funds		\$ 70,943,011
Amounts reported for governmental activities in the statement of activities are different because:		
Acquisition of capital assets is an expenditure in the governmental funds, but increases capital assets in the statement of net assets (Note 4).	\$ 84,378,466	
Depreciation of capital assets is an expense that is not recorded in the governmental funds (Note 4).	(16,294,095)	
Issuance of long-term liabilities is an other financing source in the governmental funds, but increases the long-term liabilities in the statement of net assets (Note 6).	(80,565,799)	
Repayment of principal on long-term liabilities is an expenditure in the governmental funds, but decreases the long-term liabilities in the statement of net assets (Note 6).	13,736,627	
Issuance costs and discounts related to the issuance of long-term liabilities is an expenditure in the governmental funds, but increases the assets in the statement of net assets.	95,826	
In governmental funds, interest on long-term liabilities is recognized in the period that it becomes due. In the government-wide statement of activities, it is recognized in the period that it is incurred.	(127,210)	
Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost recovery basis. The change in net assets for the Self-Insurance Fund was:	3,658,343	
In the statement of activities, expenses related to compensated absences are measured by the amounts earned during the year. In the governmental funds, expenditures are measured by the amount of financial resources used (Note 6).	<u>(239,397)</u>	<u>4,642,761</u>
Change in net assets of governmental activities		<u><u>\$ 75,585,772</u></u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGE IN FUND BALANCE - BUDGET (NON-GAAP) AND ACTUAL

MAJOR FUND - GENERAL FUND

For the Year Ended June 30, 2006

	<u>Budget</u>		<u>Actual</u>	<u>Variance Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
Revenues:				
Revenue limit sources:				
State apportionment	\$ 185,351,108	\$ 172,475,111	\$ 175,147,982	\$ 2,672,871
Local sources	<u>59,993,940</u>	<u>66,624,240</u>	<u>61,153,112</u>	<u>(5,471,128)</u>
Total revenue limit	<u>245,345,048</u>	<u>239,099,351</u>	<u>236,301,094</u>	<u>(2,798,257)</u>
Federal sources	44,734,303	62,909,958	53,306,375	(9,603,583)
Other State sources	71,697,779	83,828,415	86,357,299	2,528,884
Other local sources	<u>7,159,488</u>	<u>9,634,014</u>	<u>10,996,538</u>	<u>1,362,524</u>
Total revenues	<u>368,936,618</u>	<u>395,471,738</u>	<u>386,961,306</u>	<u>(8,510,432)</u>
Expenditures:				
Certificated salaries	155,149,219	176,342,779	173,578,101	2,764,678
Classified salaries	49,400,594	57,399,961	56,837,878	562,083
Employee benefits	84,132,256	89,974,980	86,557,005	3,417,975
Books and supplies	11,261,361	32,847,200	14,432,179	18,415,021
Contract services and operating expenditures	34,769,356	50,130,473	50,267,820	(137,347)
Capital outlay	259,937	643,142	422,755	220,387
Other outgo	7,357,838	5,887,101	5,551,463	335,638
Debt service:				
Principal retirement	125,000	205,772	149,189	56,583
Interest	<u> </u>	<u> </u>	<u>14,893</u>	<u>(14,893)</u>
Total expenditures	<u>342,455,561</u>	<u>413,431,408</u>	<u>387,811,283</u>	<u>25,620,125</u>
Excess (deficiency) of revenues over (under) expenditures	<u>26,481,057</u>	<u>(17,959,670)</u>	<u>(849,977)</u>	<u>17,109,693</u>
Other financing sources:				
Operating transfers in	4,609,634	4,817,001	5,653,790	836,789
Proceeds from the issuance of long-term liabilities	<u> </u>	<u> </u>	<u>565,799</u>	<u>1,402,588</u>
Total other financing sources	<u>4,609,634</u>	<u>4,817,001</u>	<u>6,219,589</u>	<u>2,239,377</u>
Change in fund balance	31,090,691	(13,142,669)	5,369,612	19,349,070
Fund balance, July 1, 2005	<u>22,147,676</u>	<u>22,147,676</u>	<u>22,147,676</u>	<u> </u>
Fund balance, June 30, 2006	<u>\$ 53,238,367</u>	<u>\$ 9,005,007</u>	<u>\$ 27,517,288</u>	<u>\$ 19,349,070</u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND
SELF-INSURANCE FUND

June 30, 2006

ASSETS

Cash and investments:	
Cash in County Treasury	\$ 11,446,697
Revolving cash fund	500,000
Accounts receivable:	
Local government and other	881,208
Due from other funds	<u>36,909</u>
 Total assets	 <u>12,864,814</u>

LIABILITIES

Accounts payable	58,785
Due to other funds	510,129
Unpaid claims and claim adjustment expenses	<u>11,131,535</u>
 Total liabilities	 <u>11,700,449</u>

NET ASSETS

Restricted	<u><u>\$ 1,164,365</u></u>
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The accompanying notes are an integral
part of these financial statements.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN
FUND NET ASSETS - PROPRIETARY FUND

SELF-INSURANCE FUND

For the Year Ended June 30, 2006

Operating revenues:	
Self-insurance premiums	<u>\$ 9,862,082</u>
Operating expenses:	
Classified salaries	39,457
Employee benefits	22,713
Books and supplies	48,505
Contract services	<u>5,914,955</u>
Total operating expenses	<u>6,025,630</u>
Operating income	3,836,452
Non-operating income:	
Interest income	331,192
Non-operating expense:	
Transfers to other funds	<u>(509,301)</u>
Change in net assets	3,658,343
Total net assets, July 1, 2005	<u>(2,493,978)</u>
Total net assets, June 30, 2006	<u>\$ 1,164,365</u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
SELF-INSURANCE FUND

For the Year Ended June 30, 2006

Cash flows from operating activities:	
Cash received from self-insurance premiums	\$ 12,142,993
Cash paid for employee benefits	(11,858,573)
Cash paid for other expenses	<u>(179,678)</u>
Net cash provided by operating activities	<u>104,742</u>
Cash flows provided by investing activities:	
Interest income received	<u>449,584</u>
Increase in cash and cash equivalents	554,326
Cash and cash equivalents, July 1, 2005	<u>11,392,371</u>
Cash and cash equivalents, June 30, 2006	<u>\$ 11,946,697</u>
Reconciliation of operating income to net cash provided by operating activities:	
Operating income	<u>\$ 3,836,452</u>
Adjustments to reconcile operating income to net cash provided by operating activities:	
Decrease in:	
Accounts receivable	2,280,911
Amount due from other funds	41,786
Unpaid claims and claim adjustment expenses	(5,943,618)
Accounts payable	(32,881)
Amount due to other funds	<u>(77,908)</u>
Total adjustments	<u>(3,731,710)</u>
Net cash provided by operating activities	<u>\$ 104,742</u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
STATEMENT OF FUND NET ASSETS - PROPRIETARY FUND
CAFETERIA FUND
June 30, 2006

ASSETS

Cash and investments:	
Cash on hand and in banks	\$ 1,862,840
Cash awaiting deposit	5,236
Cash in revolving fund	2,000
Accounts receivable:	
Federal government	3,587,802
State government	285,065
Local government and other	71,903
Due from other funds	109,190
Stores inventory	79,796
Capital assets, net of accumulated depreciation	<u>153,042</u>
 Total assets	 <u>6,156,874</u>

LIABILITIES

Accounts payable	249,701
Due to other funds	2,789,954
Long-term liabilities	<u>8,417</u>
 Total liabilities	 <u>3,048,072</u>

NET ASSETS

Invested in capital assets, net of related debt	144,625
Restricted	<u>2,964,177</u>
 Total net assets	 <u><u>\$ 3,108,802</u></u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES AND CHANGE IN
FUND NET ASSETS - PROPRIETARY FUND

CAFETERIA FUND

For the Year Ended June 30, 2006

Operating revenues:	
Food service sales	\$ 1,644,416
Other local revenues	148,016
Child Nutrition Programs:	
Federal	13,768,197
State	<u>917,161</u>
Total operating revenues	<u>16,477,790</u>
Operating expenses:	
Classified salaries	5,912,172
Employee benefits	2,861,406
Contract services and operating expenses	(3,145)
Food and supplies expenses	<u>6,530,771</u>
Total operating expenses	<u>15,301,204</u>
Operating income	1,176,586
Non-operating income:	
Interest income	43,282
Non-operating expense:	
Transfers to other funds	<u>(1,076,820)</u>
Change in net assets	143,048
Net assets, July 1, 2005	<u>2,965,754</u>
Net assets, June 30, 2006	<u><u>\$ 3,108,802</u></u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
STATEMENT OF CASH FLOWS - PROPRIETARY FUND
CAFETERIA FUND

For the Year Ended June 30, 2006

Cash flows from operating activities:	
Cash received from food sales	\$ 1,840,707
Cash received from Child Nutrition Programs	14,944,104
Cash paid for operating expenses	<u>(16,794,589)</u>
Net cash used in operating activities	<u>(9,778)</u>
Cash flows from investing activities:	
Interest income received	<u>43,282</u>
Cash flows from financing activities:	
Cash paid for capital assets	<u>(94,787)</u>
Decrease in cash	(61,283)
Cash balance, July 1, 2005	<u>1,931,359</u>
Cash balance, June 30, 2006	<u><u>\$ 1,870,076</u></u>
Reconciliation of operating income to net cash used in operating activities:	
Operating income	<u>\$ 1,176,586</u>
Adjustments to reconcile operating income to net cash used in operating activities:	
Depreciation	64,223
(Increase) decrease in:	
Accounts receivable	307,021
Due from other funds	(35,570)
Inventory	3,827
Increase (decrease) in:	
Accounts payable	(130,949)
Due to other funds	<u>(1,394,916)</u>
Total adjustments	<u>(1,186,364)</u>
Net cash used in operating activities	<u><u>\$ (9,778)</u></u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

TRUST AND AGENCY FUNDS

June 30, 2006

	Trust Funds		Agency Fund	
	Retiree Benefits Trust	Scholar- ship Trust	Student Body Funds	Total
ASSETS				
Cash and investments (Note 2):				
Cash in County Treasury	\$ 2,603,032			\$ 2,603,032
Cash on hand and in banks		\$ 373,399		2,220,573
Accounts receivable:				
Local government and other	635		31,201	31,836
Due from other funds (Note 3)	160,231			160,231
Stores inventory			122,484	122,484
Capital assets			<u>12,777</u>	<u>12,777</u>
Total assets	<u>2,763,898</u>	<u>373,399</u>	<u>2,013,636</u>	<u>5,150,933</u>
LIABILITIES				
Accounts payable	52,913		49,954	102,867
Due to student groups			<u>1,963,682</u>	<u>1,963,682</u>
Total liabilities	<u>52,913</u>		<u>2,013,636</u>	<u>2,066,549</u>
NET ASSETS				
Restricted (Note 7)	<u>\$ 2,710,985</u>	<u>\$ 373,399</u>	<u>\$ -</u>	<u>\$ 3,084,384</u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGE IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS

For the Year Ended June 30, 2006

	<u>Retiree Benefits Trust</u>	<u>Scholarship Trust</u>	<u>Total</u>
Revenues:			
Other local sources	<u>\$ 15,295,439</u>	<u>\$ 252,293</u>	<u>\$ 15,547,732</u>
Expenditures:			
Contract services and operating expenditures	<u>14,258,742</u>	<u>97,854</u>	<u>14,356,596</u>
Change in net assets	1,036,697	154,439	1,191,136
Net assets, July 1, 2005	<u>1,674,288</u>	<u>218,960</u>	<u>1,893,248</u>
Net assets, June 30, 2006	<u><u>\$ 2,710,985</u></u>	<u><u>\$ 373,399</u></u>	<u><u>\$ 3,084,384</u></u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Sacramento City Unified School District (the "District") accounts for its financial transactions in accordance with the policies and procedures of the California Department of Education's *California School Accounting Manual*. The accounting policies of the District conform to accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board and the American Institute of Certified Public Accountants. The following is a summary of the more significant policies:

Reporting Entity

The Board of Education is the level of government which has governance responsibilities over all activities related to public school education in the District. The Board is not included in any other governmental "reporting entity" as defined by the Governmental Accounting Standards Board since Board members have decision-making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

The District and Sacramento County Schools Education Facilities Financing Corporation (the "Corporation") have a financial and operational relationship which meet the reporting entity definition criteria of the GASB Statement No. 14, *The Financial Reporting Entity*, for inclusion of the Corporation as a component unit of the District. Therefore, the financial activities of the Corporation have been included in the basic financial statements of the District.

The following are those aspects of the relationship between the District and the Corporation which satisfy GASB Statement No. 14 criteria:

A - Manifestations of Oversight

1. The Corporation's Board of Directors were appointed by the District's Board of Education.
2. The Corporation has no employees. The District's Superintendent and Deputy Superintendent/Chief Financial Officer function as agents of the Corporation. Neither individual received additional compensation for work performed in this capacity.
3. The District exercises significant influence over operations of the Corporation as it is anticipated that the District will be the sole lessee of all facilities owned by the Corporation.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reporting Entity (Continued)

B - Accounting for Fiscal Matters

1. All major financing arrangements, contracts, and other transactions of the Corporation must have the consent of the District.
2. Any deficits incurred by the Corporation will be reflected in the lease payments of the District. Any surpluses of the Corporation revert to the District at the end of the lease period.
3. It is anticipated that the District's lease payments will be the sole revenue source of the Corporation.
4. The District has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the Corporation.

C - Scope of Public Service and Financial Presentation

1. The Corporation was created for the sole purpose of financially assisting the District.
2. The Corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State. The Corporation was formed to provide financing assistance to the District for construction and acquisition of major capital facilities. Upon completion the District intends to occupy all Corporation facilities. When the Corporation's Certificates of Participation have been paid with State reimbursements and the District's developer fees, title of all Corporation property will pass to the District for no additional consideration.
3. The Corporation's financial activity is presented in the financial statements as the Developer Fees Fund. Certificates of Participation issued by the Corporation are included in the government-wide financial statements.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Financial Statements

In June 1999, the Governmental Accounting Standards Board (GASB) unanimously approved Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- The basic financial statements include:
 - A Management's Discussion and Analysis (MD & A) section providing an analysis of the District's overall financial position and results of operations.
 - Financial statements prepared using full accrual accounting for all of the District's activities, including infrastructure.
- Change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying basic financial statements (including notes to basic financial statements).

Basis of Presentation - Government-Wide Financial Statements

The Statement of Net Assets and the Statement of Activities displays information about the reporting government as a whole. Fiduciary funds are not included in the government-wide financial statements. Fiduciary funds are reported only in the Statement of Fiduciary Net Assets and the Statement of Change in Fiduciary Net Assets at the fund financial statement level.

The Statement of Net Assets and the Statement of Activities are prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place. Revenues, expenses, gains, losses, assets and liabilities resulting from nonexchange transactions are recognized in accordance with the requirements of GASB Statement No. 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

Program revenues: Program revenues included in the Statement of Activities derive directly from the program itself or from parties outside the District's taxpayers or citizenry, as a whole; program revenues reduce the cost of the function to be financed from the District's general revenues.

Allocation of indirect expenses: The District reports all direct expenses by function in the Statement of Activities. Direct expenses are those that are clearly identifiable with a function. Depreciation expense is specifically identified by function and is included in the direct expense of each function. Interest on general long-term liabilities is considered an indirect expense and is reported separately on the Statement of Activities.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting

The accounts of the District are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. District resources are allocated to and accounted for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The District's accounts are organized into three broad categories which, in aggregate, include eight fund types as follows:

A - Governmental Fund Types

1. General Fund:

The General Fund is the general operating fund of the District and accounts for all revenues and expenditures of the District not encompassed within other funds. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. General operating expenditures and the capital improvement costs that are not paid through other funds are paid from the General Fund.

2. 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 specified purposes. This classification includes the Charter School, Adult Education, Child Development and Deferred Maintenance Funds.

3. 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. This classification includes the Bond Interest and Redemption and Tax Override Funds.

All records relating to the Bond Interest and Redemption Fund are maintained by the Sacramento County Auditor-Controller. The revenue for this fund is raised by school district taxes which are levied, collected, and administered by County officials. The Education Code stipulates that the tax rate levied shall be sufficient to provide monies for the payment of principal and interest as they become due on outstanding school district bonds.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting (Continued)

A - Governmental Fund Types (Continued)

4. Capital Projects Funds:

The Capital Projects Funds are used to account for resources used for the acquisition or construction of capital facilities by the District. This classification includes the Building, County School Facilities, Developer Fees, Community Facilities and South Pocket Facilities Funds.

B - Proprietary Funds

1. Self-Insurance Fund:

The Self-Insurance Fund is an internal service fund used to account for services rendered on a cost-reimbursement basis within the District. The Self-Insurance Fund is used to provide workers' compensation, dental and vision benefits to employees of the District.

2. Cafeteria Fund:

The Cafeteria Fund is an enterprise fund which accounts for food service operations that are financed and operated in a manner similar to a private business enterprise with the objective of providing food services on a continuing basis with costs partially financed or recovered through user charges.

C - Fiduciary Funds

1. Trust Funds:

Retiree Benefits Trust Fund:

The Retiree Benefits Trust Fund is a Trust Fund used to account for assets held by the District as Trustee.

Scholarship Trust Fund:

The Scholarship Trust Fund is a Trust Fund used to account for amounts held by the District as Trustee, to be used to provide scholarships to students of the District.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation - Fund Accounting (Continued)

C - Fiduciary Funds (Continued)

2. Agency Funds:

Student Body Funds:

Student Body Funds are used to account for revenues and expenditures of the various student body organizations. All cash activity, assets and liabilities of the various student bodies of the District are accounted for in Student Body Funds.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the basic financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

Accrual

Both governmental and business-type activities in the government-wide financial statements and the proprietary and fiduciary fund financial statements are presented on the accrual basis of accounting. Revenues are recognized when earned and expenses are recognized when incurred.

Modified Accrual

The governmental funds financial statements are presented on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual; i.e., both measurable and available. "Available" means collectible within the current period or within 60 days after year end. Expenditures are generally recognized under the modified accrual basis of accounting when the related liability is incurred. The exception to this general rule is that principal and interest on general obligation long-term liabilities, if any, is recognized when due.

Budgets and Budgetary Accounting

By State law, the Board of Education must adopt a final budget by July 1. A public hearing is conducted to receive comments prior to adoption. The Board of Education complied with these requirements.

The District employs budget control by major object code and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object code. The budgets are revised during the year by the Board of Education to provide for unanticipated revenues and expenditures. The originally adopted and final revised budgets for the General Fund are presented in the basic financial statements.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Stores Inventory

Inventories in the General and Cafeteria Funds are valued at average cost. Inventory recorded in the General and Cafeteria Funds consists mainly of school supplies and consumable supplies. Inventories are recorded as an expenditure at the time the individual inventory items are transferred from the warehouse to schools and offices.

Cafeteria Food Purchases

Cafeteria purchases include food purchased through the State of California Office of Surplus Property, for which the District is required to pay only a handling charge. The State does not require the Cafeteria Fund to record the fair market value of these commodities. The expenditures for these items would have been greater had the District paid fair market value for the government surplus food commodities.

Capital Assets

Capital assets purchased or acquired, with an original cost of \$5,000 or more, are recorded at historical cost or estimated historical cost. Contributed assets are reported at fair market value as of the date received. Additions, improvements and other capital outlay that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Capital assets are depreciated using the straight-line method over 4 - 30 years depending on asset types.

Compensated Absences

Compensated absences totaling \$6,400,938 are recorded as a liability of the District. The liability is for the earned but unused benefits.

Accumulated Sick Leave

Sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as a operating expenditure or expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits for certain STRS and CalPERS employees, when the employee retires.

Deferred Revenue

Revenue from Federal, State, and local special projects and programs is recognized when qualified expenditures have been incurred. Funds received but not earned are recorded as deferred revenue until earned.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Net Assets

Restrictions of the ending net assets indicate the portions of net assets not appropriate for expenditure or amounts legally segregated for a specific future use. The restrictions for revolving cash fund, prepaid expenditures and stores inventory reflect the portions of net assets represented by revolving cash fund, prepaid expenditures and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date. The restriction for unspent categorical program revenues and State programs represent programs where the revenue received is restricted for expenditures only in that particular program. The restriction for special revenues represents the portion of net assets restricted for special purposes. The restriction for debt service repayments represents the portion of net assets which the District plans to expend on debt repayment in the ensuing year. The restriction for capital projects represents the portion of net assets restricted for capital projects. The restriction for self insurance represents the portion of net assets restricted for paying insurance premiums. The restriction for cafeteria operations represents the portion of net assets restricted for future cafeteria operations. The restriction for retiree benefits represents the portion of net assets which will be used for payment of health insurance premiums for current and future retirees. The restriction for scholarships represents the portion of net assets to be used to provide financial assistance to students of the District.

Property Taxes

Secured property taxes are attached as an enforceable lien on property as of March 1. Taxes are due in two installments on or before December 10 and April 10. Unsecured property taxes are due in one installment on or before August 31. The County of Sacramento bills and collects taxes for the District. Tax revenues are recognized by the District when received.

Encumbrances

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

Eliminations and Reclassifications

In the process of aggregating data for the Statement of Net Assets and the Statement of Activities, some amounts reported as interfund activity and balances in the funds were eliminated or reclassified. Interfund receivables and payables were eliminated to minimize the "grossing up" effect on assets and liabilities within the governmental activities column.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Estimates

The preparation of basic financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Accordingly, actual results may differ from those estimates.

2. CASH AND INVESTMENTS

Cash and investments at June 30, 2006 are reported at fair value and consisted of the following:

	<u>Governmental Activities</u>			<u>Business-Type Activities</u>	<u>Fiduciary Activities</u>
	<u>Governmental Funds</u>	<u>Proprietary Fund</u>	<u>Total</u>		
Pooled Funds:					
Cash in County Treasury	\$ 132,428,816	\$ 11,446,697	\$ 143,875,513		\$ 2,603,032
Cash awaiting deposit	1,620,944		1,620,944	\$ 5,236	
Local Agency Investment Fund	<u>781,724</u>		<u>781,724</u>		
Total pooled funds	<u>134,831,484</u>	<u>11,446,697</u>	<u>146,278,181</u>	<u>5,236</u>	<u>2,603,032</u>
Deposits:					
Cash on hand and in banks	3,601		3,601	1,862,840	2,220,573
Cash in revolving fund	<u>225,000</u>	<u>500,000</u>	<u>725,000</u>	<u>2,000</u>	
Total deposits	<u>228,601</u>	<u>500,000</u>	<u>728,601</u>	<u>1,864,840</u>	<u>2,220,573</u>
Investments:					
Cash with Fiscal Agent	26,270,776		26,270,776		
Deferred compensation	<u>3,907,806</u>		<u>3,907,806</u>		
Total investments	<u>30,178,582</u>		<u>30,178,582</u>		
Total cash and investments	<u>\$ 165,238,667</u>	<u>\$ 11,946,697</u>	<u>\$ 177,185,364</u>	<u>\$ 1,870,076</u>	<u>\$ 4,823,605</u>

Pooled Funds

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the Sacramento County Treasury. The County pools these funds with those of school districts in the County and invests the cash. These pooled funds are carried at cost which approximates fair value. Interest earned is deposited monthly into participating funds. Any investment losses are proportionately shared by all funds in the pool.

Because the District's deposits are maintained in a recognized pooled investment fund under the care of a third party and the District's share of the pooled investment fund does not consist of specific, identifiable investment securities owned by the District, no disclosure of the individual deposits and investments or related custodial credit risk classifications is required.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

2. CASH AND INVESTMENTS (Continued)

Pooled Funds (Continued)

In accordance with applicable State laws, the Sacramento County Treasurer may invest in derivative securities. However, at June 30, 2006, the Sacramento County Treasurer has represented that the Treasurer's pooled investment fund contained no derivatives or other investments with similar risk profiles.

On November 15, 2005, the District issued \$25,000,000 of TRANs, maturing on December 1, 2006 with interest at 1.6% to provide for anticipated cash flow deficits from operations and to finance real property acquisitions. The TRANs are a general obligation of the District and are payable solely from tax revenues and cash receipts generated by the District during the year ended June 30, 2006. As of June 30, 2006, funds totaling \$19,321,290 held in the County Treasury were restricted for repayment of the TRANs.

Deposits - Custodial Credit Risk - Deposits

Cash balances held in banks and revolving funds are insured up to \$100,000 by the Federal Depository Insurance Corporation (FDIC). As of June 30, 2006, the carrying amount of the District's accounts were \$4,814,014, and the bank balances were \$7,445,411. Of the bank balances, \$709,986 was covered by the FDIC insurance and \$6,735,425 was uninsured. Uninsured balances are fully collateralized by the banks in accordance with applicable law.

Investments

The Cash with Fiscal Agent represents Debt proceeds that have been set aside for capital asset expenditures and the repayment of long-term liabilities. These amounts are held by a third party custodian in the District's name.

The District has established a voluntary deferred compensation plan for its employees. The agreements provide for periodic payroll deductions from the participating employees. An amount equal to the reduction in compensation is invested by the District. The employees have no preferential right, title, or claim to the earnings of the assets of the Plan except as general creditors of the District.

Interest Rate Risk

The District does not have a formal investment policy that limits cash and investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. At June 30, 2006, the District had no significant interest rate risk related to cash and investments held.

Credit Risk

The District does not have a formal investment policy that limits its investment choices other than the limitations of State law.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

2. CASH AND INVESTMENTS (Continued)

Concentration of Credit Risk

The District does not place limits on the amount it may invest in any one issuer. At June 30, 2006, the District had no concentration of credit risk.

3. INTERFUND TRANSACTIONS

Interfund Activity

Transactions between funds of the District are recorded as interfund transfers, except for the Self-Insurance Fund activity which is recorded as income and expenditures of the Self-Insurance Fund and the funds which incur payroll costs, respectively. The unpaid balances at year end, as a result of such transactions, are shown as due to and due from other funds.

Interfund Receivables/Payables

Individual interfund receivable and payable balances at June 30, 2006 were as follows:

<u>Fund</u>	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Governmental Funds:		
General	\$ 10,377,918	\$ 6,129,708
Charter School	3,825,511	2,787,687
Adult Education	1,743,016	1,056,768
Child Development	187,665	2,257,736
Deferred Maintenance	1,500,000	
Building	190,893	2,341,814
Developer Fees	1,160	258,697
Proprietary Funds:		
Self-Insurance	36,909	510,129
Enterprise Funds:		
Cafeteria	109,190	2,789,954
Fiduciary Funds:		
Retiree Benefits Trust	<u>160,231</u>	<u> </u>
Totals	<u>\$ 18,132,493</u>	<u>\$ 18,132,493</u>

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

3. INTERFUND TRANSACTIONS (Continued)

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving revenue to funds through which the resources are to be expended.

Interfund transfers for the 2005-2006 fiscal year were as follows:

Transfer from the Building Fund to the Deferred Maintenance Fund to make the deferred maintenance match.	\$ 1,500,000
Transfer from the County School Facilities Fund to the Building Fund for construction projects.	60,121,702
Transfer from the Cafeteria Fund to the General Fund for indirect support.	1,076,820
Transfer from the Self-Insurance Fund to the General Fund for indirect support.	509,301
Transfer from the Charter Schools Fund to the General Fund to transfer charter school fees and indirect support.	2,175,165
Transfer from the Adult Education Fund to the General Fund for indirect support.	755,109
Transfer from the Child Development Fund to the General Fund for indirect support.	1,137,395
Transfer from the South Pocket Facilities Fund to the County School Facilities Fund for contribution for construction projects.	<u>370,044</u>
	<u>\$ 67,645,536</u>

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

4. CAPITAL ASSETS

A schedule of changes in capital assets for the year ended June 30, 2006 is shown below:

	<u>Balance July 1, 2005</u>	<u>Transfers and Additions</u>	<u>Transfers and Deductions</u>	<u>Balance June 30, 2006</u>
<u>Governmental Activities</u>				
Land	\$ 16,263,070	\$ 3,610,180		\$ 19,873,250
Buildings	442,375,000	44,991,214		487,366,214
Equipment	86,144,396	5,317,731		91,462,127
Site Improvements	23,486,230	362,478		23,848,708
Work-in-process	<u>51,518,346</u>	<u>44,393,800</u>	\$ <u>14,296,937</u>	<u>81,615,209</u>
Totals, at cost	<u>619,787,042</u>	<u>98,675,403</u>	<u>14,296,937</u>	<u>704,165,508</u>
Less accumulated depreciation:				
Buildings	(201,270,065)	(11,035,467)		(212,305,532)
Site Improvements	(24,911,715)	(3,678,911)		(28,590,626)
Equipment	<u>(18,935,784)</u>	<u>(1,579,717)</u>		<u>(20,515,501)</u>
Total accumulated depreciation	<u>(245,117,564)</u>	<u>(16,294,095)</u>		<u>(261,411,659)</u>
Capital assets, net	<u>\$ 374,669,478</u>	<u>\$ 82,381,308</u>	<u>14,296,937</u>	<u>\$ 442,753,849</u>
<u>Business-Type Activities</u>				
Capital assets, net	<u>\$ 122,478</u>	<u>\$ 30,564</u>	<u>\$ -</u>	<u>\$ 153,042</u>

Depreciation expense was charged to governmental activities as follows:

Instruction	\$ 14,078,244
Food services	8,799
All other pupil services	468,670
All other general administration	1,373,470
Plant services	121,669
Community services	<u>243,243</u>
Total depreciation expense	<u>\$ 16,294,095</u>

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

5. SELF-INSURANCE CLAIMS

The District has established a Self-Insurance Fund to account for employee vision benefits, employee dental benefits and workers' compensation plans. The employee vision and dental plans are self insured and contract with a third party administrator for benefits processing. Until July 31, 1998 and from July 1, 2001 through June 30, 2005, the workers' compensation plan provided coverage up to \$250,000 and purchased excess insurance for claims over the retained coverage limit. Between August 1, 1998 and June 30, 2001, and after July 1, 2005, the District purchased insurance for the workers' compensation coverage.

The liability for unpaid claims and claim adjustment expenses represents the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. These claims will be paid in future years.

District management recomputes the liability annually using available updated claims data. Every three years, the District contracts with an actuary who performs an actuarial study using a variety of statistical techniques to produce current estimates that consider claim frequency and other economic factors. The liability for workers compensation is based on an actuarial study dated June 30, 2006.

The liabilities for unpaid claims and claim adjustment expenses are as follows:

	<u>June 30, 2006</u>	<u>June 30, 2005</u>
Unpaid claim and claim adjustment expenses, beginning of year	\$ 17,075,153	\$ 11,675,627
Total incurred claims and claim adjustment expenses	5,914,955	19,094,361
Total payments	<u>(11,858,573)</u>	<u>(13,694,835)</u>
Total unpaid claims and claim adjustment expenses at end of year	<u>\$ 11,131,535</u>	<u>\$ 17,075,153</u>

6. LONG-TERM LIABILITIES

Special Tax Bonds

<u>Series</u>	<u>Interest Rate</u>	<u>Balance July 1, 2005</u>	<u>Current Year Proceeds</u>	<u>Current Year Maturities</u>	<u>Balance June 30, 2006</u>
1997 C	3.7% to 5.5%	<u>\$ 4,875,000</u>	<u>\$ -</u>	<u>\$ 445,000</u>	<u>\$ 4,430,000</u>

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM LIABILITIES (Continued)

Special Tax Bonds (Continued)

Special Tax Bonds outstanding represent the unpaid portion of a bond issuance by voters to finance construction of three school facilities. All records relating to bond redemption and payments of interest are maintained by the Sacramento County Auditor/Controller.

Scheduled payments on Series 1997 C Special Tax Bond are as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 475,000	\$ 2,216,500	\$ 2,691,500
2008	490,000	197,525	687,525
2009	525,000	171,625	696,625
2010	540,000	143,800	683,800
2011	570,000	114,520	684,520
2012-2016	<u>1,830,000</u>	<u>149,385</u>	<u>1,979,385</u>
	<u>\$ 4,430,000</u>	<u>\$ 2,993,355</u>	<u>\$ 7,423,355</u>

State School Building Aid Loan

	<u>Balance July 1, 2005</u>	<u>Interest Charge</u>	<u>Repay- ment</u>	<u>Balance June 30, 2006</u>
Sacramento City Unified - Secondary Schools	<u>\$ 2,438</u>	<u>\$ -</u>	<u>\$ 2,438</u>	<u>\$ -</u>

The State School Building Aid Loan, with a weighted average interest rate of 4.82% represents unpaid portions of loans made under provisions of the State law for facilities construction. Repayments to the State School Building Aid Loan is based on a statutory formula with both repayments and interest charges being computed by the State Controller's Office. All amounts have been repaid as of June 30, 2006.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds

Refunding Bonds, Series 2001:

On October 12, 2001, the District issued General Obligation Refunding Bonds, Series 2001, totaling \$52,310,000. Bond proceeds were used to refund a portion of the Districts 1999 Series A. Repayment of the Bonds is made from special parcel tax revenues levied in connection with this bond issue. The bonds bear interest at rates ranging from 2.2% to 5.0% and are scheduled to mature through 2029 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 1,320,000	\$ 2,331,853	\$ 3,651,853
2008	1,365,000	2,290,933	3,655,933
2009	1,420,000	2,245,888	3,665,888
2010	1,475,000	2,196,188	3,671,188
2011	1,540,000	2,143,088	3,683,088
2012-2016	8,685,000	9,749,615	18,434,615
2017-2021	10,910,000	7,585,940	18,495,940
2022-2026	13,975,000	4,576,815	18,551,815
2027-2031	<u>10,155,000</u>	<u>979,689</u>	<u>11,134,689</u>
	<u>\$ 50,845,000</u>	<u>\$ 34,100,009</u>	<u>\$ 84,945,009</u>

Series B:

On March 27, 2001, the District issued 1999 General Obligation Bonds, Series B, totaling \$45,000,000. Bond proceeds are being spent to construct, repair and expand local schools. Repayment of the bonds will be made from property taxes levied by the County of Sacramento. The bonds bear interest at rates ranging from 4.0% to 5.0% and are scheduled to mature through 2030 as follows:

<u>Year Ended June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 955,000	\$ 2,017,888	\$ 2,972,888
2008	995,000	1,977,300	2,972,300
2009	1,040,000	1,932,525	2,972,525
2010	1,090,000	1,855,725	2,945,725
2011	1,135,000	1,836,675	2,971,675
2012-2016	6,525,000	8,348,150	14,873,150
2017-2021	8,295,000	6,568,750	14,863,750
2022-2026	8,595,000	4,276,000	12,871,000
2027-2031	<u>12,540,000</u>	<u>1,428,000</u>	<u>13,968,000</u>
	<u>\$ 41,170,000</u>	<u>\$ 30,241,013</u>	<u>\$ 71,411,013</u>

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

Series C:

On May 7, 2002, the District issued 1999 General Obligation Bonds, Series C, totaling \$45,000,000. Bond proceeds are being spent to construct, repair and expand local schools. Repayment of the bonds will be made from property taxes levied by the County of Sacramento. The bonds bear interest at rates ranging from 4.0% to 5.0% and are scheduled to mature through 2030 as follows:

Year Ended June 30,	Principal	Interest	Total
2007	\$ 725,000	\$ 2,161,015	\$ 2,886,015
2008	765,000	2,110,265	2,875,265
2009	800,000	2,056,715	2,856,715
2010	840,000	2,016,715	2,856,715
2011	865,000	1,983,115	2,848,115
2012-2016	4,845,000	9,330,654	14,175,654
2017-2021	6,015,000	8,031,940	14,046,940
2022-2026	7,595,000	6,379,690	13,974,690
2027-2031	<u>20,360,000</u>	<u>4,073,814</u>	<u>24,433,814</u>
	<u>\$ 42,810,000</u>	<u>\$ 38,143,923</u>	<u>\$ 80,953,923</u>

Series D:

On August 1, 2004, the District issued 1999 General Obligation Bonds, Series D, totaling \$55,000,000. Bond proceeds are being spent to construct, repair and expand local schools. Repayment of the bonds will be made from property taxes levied by the County of Sacramento. The bonds bear interest at rates ranging from 2.5% to 5.125% and are scheduled to mature through 2028 as follows:

Year Ended June 30,	Principal	Interest	Total
2007	\$ 715,000	\$ 2,560,669	\$ 3,275,669
2008	805,000	2,539,219	3,344,219
2009	900,000	2,511,044	3,411,044
2010	1,000,000	2,479,544	3,479,544
2011	1,110,000	2,439,544	3,549,544
2012-2016	7,395,000	11,436,520	18,831,520
2017-2021	11,270,000	9,523,956	20,793,956
2022-2026	16,870,000	6,088,350	22,958,350
2027-2031	<u>13,505,000</u>	<u>1,400,075</u>	<u>14,905,075</u>
	<u>\$ 53,570,000</u>	<u>\$ 40,978,921</u>	<u>\$ 94,548,921</u>

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM LIABILITIES (Continued)

General Obligation Bonds (Continued)

Series A:

On March 1, 2003, the District issued 2002 General Obligation Bonds, Series A, totaling \$80,000,000. Bond proceeds are being spent to construct, repair and expand local schools. Repayment of the bonds will be made from property taxes levied by the County of Sacramento. The bonds bear interest at rates ranging from 4.0% to 5.0% and are scheduled to mature through 2027 as follows:

Year Ended June 30,	Principal	Interest	Total
2007	\$ 5,250,000	\$ 2,606,700	\$ 7,856,700
2008	3,000,000	2,396,700	5,396,700
2009	4,300,000	2,276,700	6,576,700
2010	4,750,000	2,093,950	6,843,950
2011	400,000	1,903,950	2,303,950
2012-2016	13,040,000	8,536,150	21,576,150
2017-2021	21,590,000	5,184,731	26,774,731
2022-2026	9,820,000	1,072,750	10,892,750
2027-2031	55,000	2,750	57,750
	<u>\$ 62,205,000</u>	<u>\$ 26,074,381</u>	<u>\$ 88,279,381</u>

Series 2005:

On July 1, 2005, the District issued 2002 General Obligation Bonds, Series 2005, totaling \$80,000,000. Bond proceeds are being spent to construct, repair and expand local schools. Repayment of the bonds will be made from property taxes levied by the County of Sacramento. The bonds bear interest at rates ranging from 4.0% to 5.0% and are scheduled to mature through 2027 as follows:

Year Ended June 30,	Principal	Interest	Total
2007	\$ 100,000	\$ 3,771,300	\$ 3,871,300
2008	440,000	3,767,300	4,207,300
2009	110,000	3,749,700	3,859,700
2010	120,000	3,745,300	3,865,300
2011	2,300,000	3,740,500	6,040,500
2012-2016	7,785,000	17,690,500	25,475,500
2017-2021	14,405,000	14,126,250	28,531,250
2022-2026	23,565,000	10,667,000	34,232,000
2027-2031	27,675,000	3,600,250	31,275,250
	<u>\$ 76,500,000</u>	<u>\$ 64,858,100</u>	<u>\$ 141,358,100</u>

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM LIABILITIES (Continued)

Certificates of Participations (COPs)

On April 18, 2001, COPs of \$43,580,000 were issued with variable interest rates ranging from 4.1% to 5.0% maturing on March 1, 2022, for the advance refunding of Series 1999C COPs (with remaining obligation of \$29,590,000) and to provide additional capital for construction projects. With the payment of \$30,000,000 to the Escrow Agent to advance refund and defease the District's 1999C COPs, the 1999C COPs are considered to be defeased, and the obligations have been removed from the District's financial statements.

On July 11, 2002, the District issued \$58,000,000 of Variable Rate Demand Certificates of Participation maturing on March 1, 2031, for the advance refunding of 1998 Series A COPs (with remaining obligation of \$13,750,000) and 1999 Series D COPs (with remaining obligation of \$15,480,000) and to provide additional capital for construction projects. The interest charges on these Variable Rate Demand COPs is determined weekly by the Remarketing Agent based on prevailing financial market conditions. With the payment of \$29,230,000 to the Escrow Agent to advance refund and defease the District's 1998 Series A COPs and the 1999 Series D COPs are considered to be defeased, and the obligations have been removed from the District's financial statements.

Scheduled payments for the COPs are as follows:

<u>Year Ending June 30,</u>	<u>COPs Payments</u>
2007	\$ 4,190,158
2008	4,187,758
2009	4,288,870
2010	4,248,283
2011	4,390,995
2012-2016	22,543,435
2017-2021	24,247,325
2022-2026	26,143,750
2027-2031	<u>28,485,000</u>
Total payments	122,725,574
Less amount representing interest	<u>(30,075,574)</u>
Net present value of minimum payments	<u>\$ 92,650,000</u>

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

6. LONG-TERM LIABILITIES (Continued)

Capitalized Lease Obligations

The District leases computers, office equipment and buses under long-term lease purchase agreements. The following is a schedule of future lease payments:

<u>Year Ending June 30,</u>	<u>Lease Payments</u>
2007	\$ 195,109
2008	202,458
2009	202,456
2010	109,382
2011	<u>58,787</u>
Total payments	768,192
Less amount representing interest	<u>(62,386)</u>
Net minimum lease payments	<u>\$ 705,806</u>

Schedule of Changes in Long-Term Liabilities

A schedule of changes in long-term liabilities for the year ended June 30, 2006 is shown below:

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
Special Tax Bonds	\$ 4,875,000		\$ 445,000	\$ 4,430,000	\$ 475,000
State School Building Aid Loan	2,438		2,438		
General Obligation Bonds	258,095,000	\$ 80,000,000	10,995,000	327,100,000	9,065,000
Certificates of Participation	94,795,000		2,145,000	92,650,000	2,280,000
Capitalized lease obligations	289,196	565,799	149,189	705,806	170,213
Compensated absences	<u>6,161,541</u>	<u>3,487,773</u>	<u>3,248,376</u>	<u>6,400,938</u>	<u>6,400,938</u>
Subtotal	<u>364,218,175</u>	<u>84,053,572</u>	<u>16,985,003</u>	<u>431,286,744</u>	<u>18,391,151</u>
Business-type activities:					
Capitalized lease obligations	<u>15,050</u>		<u>6,633</u>	<u>8,417</u>	<u>8,417</u>
	<u>\$ 364,233,225</u>	<u>\$ 84,053,572</u>	<u>\$ 16,991,636</u>	<u>\$ 431,295,161</u>	<u>\$ 18,399,568</u>

Payments on the Special Tax Bonds are made from the South Pocket Facilities Fund. Payments on the State School Building Aid Loan are made from the Tax Override Fund. Payments on the General Obligation Bonds are made from the Bond Interest and Redemption Fund. Payments on the Certificates of Participation are made from the Developer Fees Fund. Payments on the capitalized lease obligations are made from the General Fund. Payments on compensated absences are made from the fund for which the related employee worked.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

7. RESTRICTED NET ASSETS

Restricted net assets consisted of the following at June 30, 2006:

	Governmental Activities	Business- Type Activities	Fiduciary Funds
Restricted for revolving cash	\$ 725,000	\$ 2,000	
Restricted for prepaid expenses	3,915,709		
Restricted for stores inventory	534,012	79,796	
Restricted for unspent categorical program revenues and State programs	12,881,265		
Restricted for special revenues	6,147,883		
Restricted for debt service	11,415,976		
Restricted for capital projects	105,102,265		
Restricted for self insurance	664,365		
Restricted for cafeteria operations		2,882,381	
Restricted for retiree benefits			\$ 2,710,985
Restricted for scholarships			373,399
	\$141,386,475	\$ 2,964,177	\$ 3,084,384
Total restricted net assets			

8. EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer defined benefit pension plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS), and classified employees are members of the California Public Employees' Retirement System (CalPERS).

Plan Description and Provisions

California Public Employees' Retirement System (CalPERS)

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the Public Employees' Retirement Law. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, California 95814.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

8. EMPLOYEE RETIREMENT SYSTEMS (Continued)

Plan Description and Provisions (Continued)

California Public Employees' Retirement System (CalPERS) (Continued)

Funding Policy

Active plan members are required to contribute 7% of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2005-2006 was 9.116% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2004, 2005 and 2006 were \$6,033,680, \$6,397,768 and \$5,962,021, respectively, and equal 100% of the required contributions for each year.

State Teachers' Retirement System (STRS)

Plan Description

The District contributes to the State Teachers' Retirement System (STRS), a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement, disability and survivor benefits to beneficiaries. Benefit provisions are established by state statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from the STRS Executive Office, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8% of their salary. The required employer contribution rate for fiscal year 2005-2006 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal years ending June 30, 2004, 2005 and 2006 were \$15,480,200, \$15,132,390 and \$13,964,156, respectively, and equal 100% of the required contributions for each year.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

9. POST-EMPLOYMENT HEALTH CARE BENEFITS

In addition to the pension benefits described in Note 8, the District provides post-employment health care benefits. The benefits differ for retirees who retired before December 31, 1974 from those who retired after January 1, 1974. There are 22 pre-1974 retirees who receive post-employment health care benefits at a flat rate of \$121 per month or the amount of their health care premium whichever is less. There are 2,960 post-1974 retirees whose health care benefits are paid 100% by the District. District teachers qualify for these benefits after attaining age 55 with at least ten years of consecutive service to the District. Other District employees qualify for benefits after attaining age 50 and meeting the requirements outlined in their respective bargaining agreements. The District obtains an actuarial report every three years to determine the unfunded future liability for lifetime benefits. The District is currently in the process of having an actuarial study performed to determine the unfunded liability. During the year ended June 30, 2006, expenditures of \$14,258,742 were recognized for post-employment health care benefits.

10. JOINT POWERS AGREEMENT

Schools Insurance Authority

The District is a member with other school districts of a Joint Powers Authority, Schools Insurance Authority (SIA), for the operation of a common risk management and insurance program for property and liability coverage. The following is a summary of financial information for SIA at June 30, 2005 (the most current information available):

Total assets	\$ 35,753,109
Total liabilities	\$ 38,674,473
Total net assets	\$ (2,921,364)
Total revenues	\$ 31,351,612
Total expenses	\$ 24,440,301
Change in net assets	\$ 6,911,311

The relationship between the District and the Joint Powers Authority is such that the Joint Powers Authority is not component unit of the District for financial reporting purposes.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

11. CALIFORNIA ADMINISTRATIVE SERVICES AUTHORITY (CASA)

Formation of CASA and Pension System

In June 2000, the District entered into a joint exercise of powers agreement with the Yolo County Office of Education to form the California Administrative Services Authority (CASA), a California "joint powers authority", in order to provide administrative services to its members and to offer an alternative retirement system to replace CalPERS and Social Security for certain electing District classified personnel. In order to participate in the CASA retirement system, District employees took a leave of absence from the District to become employed by CASA, and were contracted back to the District to work in their old positions and functions. So long as a public employer offers an acceptable alternative to, and does not participate in, CalPERS and Social Security, neither the employer nor its employees are required to contribute to those systems. By recapturing the Social Security contributions, CASA expected to be able to afford enhanced retirement benefits compared to CalPERS, and thus to attract and retain highly qualified staff for the District.

On April 1, 2004, the Board of Trustees of the District (the "Board") notified CASA that it intended to terminate the District's Operating Agreement under which CASA provided staff services to the District, effectively returning those employees to District employment as of July 1, 2004. (The Yolo County Office of Education took similar action in April 2004). The District no longer has any employees working for or through CASA.

Investigation of CASA and Potential District Liability

In March 2004, CalPERS concluded that the CASA pension system is not a valid retirement program, and demanded that the District pay approximately \$3 million in retroactive contributions for the time District employees spent working for and contributing to CASA. The District has appealed this determination, and an administrative hearing process is now underway.

In September 2003, the District engaged a national consulting firm, MGT of America ("MGT") to examine the program operations and financial assumptions of CASA. On December 16, 2003, MGT issued its report regarding the District's potential exposure as a result of its participation in CASA. In addition to the amount requested by CalPERS, MGT identified that the District could owe up to \$2.5 million to the State Department of Education to refund unearned "PERS Reduction" income received on account of District employees transferred to CASA employment, and \$3.2 million to the Social Security Administration in unpaid employer and employee contributions. The District's liability to pay enhanced retirement benefits to members of CASA, for the period of the operating agreement or thereafter, will depend on legal determinations as to the validity of the CASA plan and the benefits promised thereunder.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO BASIC FINANCIAL STATEMENTS

(Continued)

11. CALIFORNIA ADMINISTRATIVE SERVICES AUTHORITY (CASA)

Investigation of CASA and Potential District Liability (Continued)

In June 2004, the District filed suit in Los Angeles County Superior Court requesting the court to determine which of CalPERS or CASA is entitled to the pension contributions previously made on behalf of CASA employees. The court was also asked to determine proper disposition of \$5 million in net bond proceeds that were to have been loaned to the District, but were instead invested by CASA in its pension fund. The trustee of the CASA pension trust account has resigned and has surrendered the trust assets in its possession to the Court. The Yolo County Office of Education and the Yolo County Board of Education have moved to intervene as parties in the case. On October 6, 2005, the Los Angeles County Superior Court ordered the case transferred to the Sacramento County Superior Court. The Sacramento County Superior Court ordered a change of venue and on February 17, 2006, transferred the case to Contra Cost County Superior Court where the case remains pending. The District is currently waiting for responsive pleadings from the various defendants and will then begin to conduct discovery on its claims.

12. CONTINGENCIES

The District is subject to legal proceedings and claims which arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position or results of operations of the District.

The District has received Federal and State funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could result in expenditure disallowances under terms of the grants, it is management's opinion that any required reimbursements of future revenue offsets subsequently determined will not have a material effect on the District's financial position.

SUPPLEMENTARY INFORMATION

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR FUNDS

June 30, 2006

	<u>Charter School Fund</u>	<u>Adult Education Fund</u>	<u>Child Development Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Developer Fees Fund</u>	<u>Subtotal</u>
ASSETS						
Cash in County Treasury	\$ (3,335,449)	\$ (680,061)	\$ 2,485,205	\$ (359,212)	\$ 7,895,361	\$ 6,005,844
Cash awaiting deposit	79,153	114,962	806,545		258,490	1,259,150
Cash with Fiscal Agent						
Accounts receivable:						
Federal government	112,353	832,388	1,296,872			2,241,613
State government	180,905	20,931	413,480			615,316
Local government and other	3,179,446	1,739,286	961,816		230,204	6,110,752
Due from other funds	<u>3,825,511</u>	<u>1,743,016</u>	<u>187,665</u>	<u>1,500,000</u>	<u>1,160</u>	<u>7,257,352</u>
 Total assets	 <u>\$ 4,041,919</u>	 <u>\$ 3,770,522</u>	 <u>\$ 6,151,583</u>	 <u>\$ 1,140,788</u>	 <u>\$ 8,385,215</u>	 <u>\$ 23,490,027</u>
LIABILITIES AND FUND BALANCES						
Liabilities:						
Accounts payable	\$ 891,044	\$ 986,310	\$ 733,996	\$ 181,614	\$ 45,423	\$ 2,838,387
Deferred revenue	23,046		38,728			61,774
Due to other funds	<u>2,787,687</u>	<u>1,056,768</u>	<u>2,257,736</u>		<u>258,697</u>	<u>6,360,888</u>
 Total liabilities	 3,701,777	 2,043,078	 3,030,460	 181,614	 304,120	 9,261,049
 Fund balances	 <u>340,142</u>	 <u>1,727,444</u>	 <u>3,121,123</u>	 <u>959,174</u>	 <u>8,081,095</u>	 <u>14,228,978</u>
 Total liabilities and fund balances	 <u>\$ 4,041,919</u>	 <u>\$ 3,770,522</u>	 <u>\$ 6,151,583</u>	 <u>\$ 1,140,788</u>	 <u>\$ 8,385,215</u>	 <u>\$ 23,490,027</u>

(Continued)

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

ALL NON-MAJOR FUNDS
(Continued)
June 30, 2006

	<u>Community Facilities Fund</u>	<u>South Pocket Facilities Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Tax Override Fund</u>	<u>Total</u>
ASSETS					
Cash in County Treasury	\$ 4,215,835		\$ 9,711,066	\$ 163,757	\$ 20,096,502
Cash awaiting deposit					1,259,150
Cash with Fiscal Agent		\$ 1,690,675			1,690,675
Accounts receivable:					
Federal government					2,241,613
State government					615,316
Local government and other	93,147	391,431	1,668,736		8,264,066
Due from other funds					<u>7,257,352</u>
Total assets	<u>\$ 4,308,982</u>	<u>\$ 2,082,106</u>	<u>\$ 11,379,802</u>	<u>\$ 163,757</u>	<u>\$ 41,424,674</u>
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable			\$ 122,455		\$ 2,960,842
Deferred revenue			5,128		66,902
Due to other funds					<u>6,360,888</u>
Total liabilities			127,583		9,388,632
Fund balances	<u>\$ 4,308,982</u>	<u>\$ 2,082,106</u>	<u>11,252,219</u>	<u>\$ 163,757</u>	<u>32,036,042</u>
Total liabilities and fund balances	<u>\$ 4,308,982</u>	<u>\$ 2,082,106</u>	<u>\$ 11,379,802</u>	<u>\$ 163,757</u>	<u>\$ 41,424,674</u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES

ALL NON-MAJOR FUNDS

For the Year Ended June 30, 2006

	<u>Charter School Fund</u>	<u>Adult Education Fund</u>	<u>Child Development Fund</u>	<u>Deferred Maintenance Fund</u>	<u>Developer Fees Fund</u>	<u>Subtotal</u>
Revenues:						
Revenue limit sources:						
State apportionment	\$ 7,801,377	\$ 14,941,920				\$ 22,743,297
Federal sources	1,378,392	2,132,666	\$ 9,799,353			13,310,411
Other State sources	1,768,529	44,895	5,463,026	\$ 2,133,867		9,410,317
Other local sources	<u>5,718,256</u>	<u>621,675</u>	<u>2,629,090</u>	<u>(23,976)</u>	\$ 4,087,443	<u>13,032,488</u>
Total revenues	<u>16,666,554</u>	<u>17,741,156</u>	<u>17,891,469</u>	<u>2,109,891</u>	<u>4,087,443</u>	<u>58,496,513</u>
Expenditures:						
Certificated salaries	7,657,339	6,677,897	5,295,092			19,630,328
Classified salaries	1,830,396	2,582,945	4,559,388	78,990		9,051,719
Employee benefits	3,572,303	3,536,364	5,035,787	28,582		12,173,036
Books and supplies	466,962	904,592	591,072	220,072	231,968	2,414,666
Contract services and operating expenditures	1,007,685	1,479,656	723,744	231,850	55,124	3,498,059
Capital outlay	5,324	260,907	751,572	2,349,573	279,087	3,646,463
Debt service:						
Principal retirement					2,145,000	2,145,000
Interest					<u>1,505,000</u>	<u>1,505,000</u>
Total expenditures	<u>14,540,009</u>	<u>15,442,361</u>	<u>16,956,655</u>	<u>2,909,067</u>	<u>4,216,179</u>	<u>54,064,271</u>
Excess (deficiency) of revenues over (under) expenditures	<u>2,126,545</u>	<u>2,298,795</u>	<u>934,814</u>	<u>(799,176)</u>	<u>(128,736)</u>	<u>4,432,242</u>
Other financing sources (uses):						
Operating transfers in				1,500,000		1,500,000
Operating transfers out	<u>(2,175,165)</u>	<u>(755,109)</u>	<u>(1,137,395)</u>			<u>(4,067,669)</u>
Total other financing sources (uses)	<u>(2,175,165)</u>	<u>(755,109)</u>	<u>(1,137,395)</u>	<u>1,500,000</u>		<u>(2,567,669)</u>
Net change in fund balances	(48,620)	1,543,686	(202,581)	700,824	(128,736)	1,864,573
Fund balances, July 1, 2005	<u>388,762</u>	<u>183,758</u>	<u>3,323,704</u>	<u>258,350</u>	<u>8,209,831</u>	<u>12,364,405</u>
Fund balances, June 30, 2006	<u>\$ 340,142</u>	<u>\$ 1,727,444</u>	<u>\$ 3,121,123</u>	<u>\$ 959,174</u>	<u>\$ 8,081,095</u>	<u>\$ 14,228,978</u>

(Continued)

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGE IN FUND BALANCES

ALL NON-MAJOR FUNDS

(Continued)

For the Year Ended June 30, 2006

	<u>Community Facilities Fund</u>	<u>South Pocket Facilities Fund</u>	<u>Bond Interest and Redemption Fund</u>	<u>Tax Override Fund</u>	<u>Total</u>
Revenues:					
Revenue limit sources:					
State apportionment					\$ 22,743,297
Federal sources					13,310,411
Other State sources					9,410,317
Other local sources	\$ 1,052,002	\$ 930,678	\$ 33,319,719		<u>48,334,887</u>
Total revenues	<u>1,052,002</u>	<u>930,678</u>	<u>33,319,719</u>		<u>93,798,912</u>
Expenditures:					
Certificated salaries					19,630,328
Classified salaries					9,051,719
Employee benefits					12,173,036
Books and supplies					2,414,666
Contract services and operating expenditures					3,498,059
Capital outlay					3,646,463
Debt service:					
Principal retirement		445,000	10,995,000	\$ 2,438	13,587,438
Interest		<u>244,428</u>	<u>15,868,934</u>	<u>129</u>	<u>17,618,491</u>
Total expenditures		<u>689,428</u>	<u>26,863,934</u>	<u>2,567</u>	<u>81,620,200</u>
Excess (deficiency) of revenues over (under) expenditures	<u>1,052,002</u>	<u>241,250</u>	<u>6,455,785</u>	<u>(2,567)</u>	<u>12,178,712</u>
Other financing sources (uses):					
Operating transfers in	370,044				1,870,044
Operating transfers out		<u>(370,044)</u>			<u>(4,437,713)</u>
Total other financing sources (uses)	<u>370,044</u>	<u>(370,044)</u>			<u>(2,567,669)</u>
Net change in fund balances	1,422,046	(128,794)	6,455,785	(2,567)	9,611,043
Fund balances, July 1, 2005	<u>2,886,936</u>	<u>2,210,900</u>	<u>4,796,434</u>	<u>166,324</u>	<u>22,424,999</u>
Fund balances, June 30, 2006	<u>\$ 4,308,982</u>	<u>\$ 2,082,106</u>	<u>\$ 11,252,219</u>	<u>\$ 163,757</u>	<u>\$ 32,036,042</u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

ALL AGENCY FUNDS

For the Year Ended June 30, 2006

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
Student Body Funds				
<u>C.K. McClatchy High School</u>				
Assets:				
Cash on hand and in banks	\$ 444,730	\$ 508,306	\$ 445,746	\$ 507,290
Accounts receivable:				
Local governments and other				
Stores inventory	9,357		693	8,664
Capital assets				
Total assets	<u>\$ 454,087</u>	<u>\$ 508,306</u>	<u>\$ 446,439</u>	<u>\$ 515,954</u>
Liabilities:				
Accounts payable	\$ 4,359	\$ 34,104	\$ 38,105	\$ 358
Due to student groups	<u>449,728</u>	<u>474,202</u>	<u>408,334</u>	<u>515,596</u>
Total liabilities	<u>\$ 454,087</u>	<u>\$ 508,306</u>	<u>\$ 446,439</u>	<u>\$ 515,954</u>
<u>Hiram Johnson High School</u>				
Assets:				
Cash on hand and in banks	\$ 156,951	\$ 232,423	\$ 269,831	\$ 119,543
Accounts receivable:				
Local governments and other				
Stores inventory	3,500			3,500
Capital assets	<u>9,570</u>		<u>100</u>	<u>9,470</u>
Total assets	<u>\$ 170,021</u>	<u>\$ 232,423</u>	<u>\$ 269,931</u>	<u>\$ 132,513</u>
Liabilities:				
Accounts payable	\$ 5,022	\$ 5,960	\$ 13,547	\$ (2,565)
Due to student groups	<u>164,999</u>	<u>226,463</u>	<u>256,384</u>	<u>135,078</u>
Total liabilities	<u>\$ 170,021</u>	<u>\$ 232,423</u>	<u>\$ 269,931</u>	<u>\$ 132,513</u>

(Continued)

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

ALL AGENCY FUNDS

For the Year Ended June 30, 2006

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
Student Body Funds				
<u>Luther Burbank High School</u>				
Assets:				
Cash on hand and in banks	\$ 139,934	\$ 544,289	\$ 549,177	\$ 135,046
Accounts receivable:				
Local governments and other				
Stores inventory	1,804	837		2,641
Capital assets				
Total assets	<u>\$ 141,738</u>	<u>\$ 545,126</u>	<u>\$ 549,177</u>	<u>\$ 137,687</u>
Liabilities:				
Accounts payable	\$ 31,279	\$ 11,326	\$ 31,690	\$ 10,915
Due to student groups	<u>110,459</u>	<u>533,800</u>	<u>517,487</u>	<u>126,772</u>
Total liabilities	<u>\$ 141,738</u>	<u>\$ 545,126</u>	<u>\$ 549,177</u>	<u>\$ 137,687</u>
<u>John F. Kennedy High School</u>				
Assets:				
Cash on hand and in banks	\$ 381,941	\$ 573,085	\$ 631,803	\$ 323,223
Accounts receivable:				
Local governments and other				
Stores inventory				
Capital assets				
Total assets	<u>\$ 381,941</u>	<u>\$ 573,085</u>	<u>\$ 631,803</u>	<u>\$ 323,223</u>
Liabilities:				
Accounts payable	\$ 8,857	\$ 27,648	\$ 48,194	\$ (11,689)
Due to student groups	<u>373,084</u>	<u>545,437</u>	<u>583,609</u>	<u>334,912</u>
Total liabilities	<u>\$ 381,941</u>	<u>\$ 573,085</u>	<u>\$ 631,803</u>	<u>\$ 323,223</u>

(Continued)

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

ALL AGENCY FUNDS
(Continued)
For the Year Ended June 30, 2006

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
Student Body Funds (Continued)				
<u>Rosemont High School</u>				
Assets:				
Cash on hand and in banks	\$ 46,388	\$ 353,929	\$ 322,927	\$ 77,390
Accounts receivable:				
Local governments and other				
Stores inventory				
Capital assets				
Total assets	<u>\$ 46,388</u>	<u>\$ 353,929</u>	<u>\$ 322,927</u>	<u>\$ 77,390</u>
Liabilities:				
Accounts payable	\$ 46,388	\$ 353,929	\$ 322,927	\$ 77,390
Due to student groups	<u>46,388</u>	<u>353,929</u>	<u>322,927</u>	<u>77,390</u>
	<u>\$ 46,388</u>	<u>\$ 353,929</u>	<u>\$ 322,927</u>	<u>\$ 77,390</u>
<u>Hiram Johnson West Campus</u>				
Assets:				
Cash on hand and in banks	\$ 104,027	\$ 284,283	\$ 301,530	\$ 86,780
Accounts receivable:				
Local governments and other				
Stores inventory				
Capital assets				
Total assets	<u>\$ 104,027</u>	<u>\$ 284,283</u>	<u>\$ 301,530</u>	<u>\$ 86,780</u>
Liabilities:				
Accounts payable	\$ 104,027	\$ 284,283	\$ 301,530	\$ 86,780
Due to student groups	<u>104,027</u>	<u>284,283</u>	<u>301,530</u>	<u>86,780</u>
	<u>\$ 104,027</u>	<u>\$ 284,283</u>	<u>\$ 301,530</u>	<u>\$ 86,780</u>

(Continued)

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

ALL AGENCY FUNDS
(Continued)
For the Year Ended June 30, 2006

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
Student Body Funds (Continued)				
<u>Sacramento Skills Business Center</u>				
Assets:				
Cash on hand and in banks	\$ 71,165	\$ 506,567	\$ 522,672	\$ 55,060
Accounts receivable:				
Local governments and other	59,598		28,397	31,201
Stores inventory	50,569	57,110		107,679
Capital assets	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 181,332</u>	<u>\$ 563,677</u>	<u>\$ 551,069</u>	<u>\$ 193,940</u>
Liabilities:				
Accounts payable	\$ 71,408	\$ 56,540	\$ 75,013	\$ 52,935
Due to student groups	<u>109,924</u>	<u>507,137</u>	<u>476,056</u>	<u>141,005</u>
Total liabilities	<u>\$ 181,332</u>	<u>\$ 563,677</u>	<u>\$ 551,069</u>	<u>\$ 193,940</u>
<u>Fremont School for Adults</u>				
Assets:				
Cash on hand and in banks	\$ 14,934	\$ 13,343	\$ 4,919	\$ 23,358
Accounts receivable:				
Local governments and other	8,816		8,816	
Stores inventory	8,816			
Capital assets	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total assets	<u>\$ 23,750</u>	<u>\$ 13,343</u>	<u>\$ 13,735</u>	<u>\$ 23,358</u>
Liabilities:				
Accounts payable	\$ 23,750	\$ 13,343	\$ 13,735	\$ 23,358
Due to student groups	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total liabilities	<u>\$ 23,750</u>	<u>\$ 13,343</u>	<u>\$ 13,735</u>	<u>\$ 23,358</u>

(Continued)

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

ALL AGENCY FUNDS
(Continued)
For the Year Ended June 30, 2006

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Student Body Funds (Continued)				
<u>A. Warren McClaskey Adult Center</u>				
Assets:				
Cash on hand and in banks	\$ 29,776	\$ 20,698	\$ 26,567	\$ 23,907
Accounts receivable:				
Local governments and other				
Stores inventory				
Capital assets	3,307	_____	_____	3,307
Total assets	\$ 33,083	\$ 20,698	\$ 26,567	\$ 27,214
Liabilities:				
Accounts payable	\$ 33,083	\$ 20,698	\$ 26,567	\$ 27,214
Due to student groups	33,083	20,698	26,567	27,214
Total liabilities	\$ 33,083	\$ 20,698	\$ 26,567	\$ 27,214
<u>Old Marshall</u>				
Assets:				
Cash on hand and in banks	\$ 12,927	\$ 3,555	\$ 228	\$ 16,254
Accounts receivable:				
Local governments and other				
Stores inventory				
Capital assets	_____	_____	_____	_____
Total assets	\$ 12,927	\$ 3,555	\$ 228	\$ 16,254
Liabilities:				
Accounts payable	\$ 12,927	\$ 3,555	\$ 228	\$ 16,254
Due to student groups	12,927	3,555	228	16,254
Total liabilities	\$ 12,927	\$ 3,555	\$ 228	\$ 16,254

(Continued)

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
COMBINING STATEMENT OF CHANGES IN ASSETS
AND LIABILITIES

ALL AGENCY FUNDS
(Continued)
For the Year Ended June 30, 2006

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>
Student Body Funds (Continued)				
<u>Elementary and Middle Schools</u>				
Assets:				
Cash on hand and in banks	\$ 445,472	\$ 1,327,211	\$ 1,293,360	\$ 479,323
Accounts receivable:				
Local governments and other				
Stores inventory				
Capital assets				
Total assets	<u>\$ 445,472</u>	<u>\$ 1,327,211</u>	<u>\$ 1,293,360</u>	<u>\$ 479,323</u>
Liabilities:				
Accounts payable	\$ 445,472	\$ 1,327,211	\$ 1,293,360	\$ 479,323
Due to student groups	<u>445,472</u>	<u>1,327,211</u>	<u>1,293,360</u>	<u>479,323</u>
Total liabilities	<u>\$ 445,472</u>	<u>\$ 1,327,211</u>	<u>\$ 1,293,360</u>	<u>\$ 479,323</u>
<u>Total Agency Funds</u>				
Assets:				
Cash on hand and in banks	\$ 1,848,245	\$ 4,367,689	\$ 4,368,760	\$ 1,847,174
Accounts receivable:				
Local governments and other	59,598		28,397	31,201
Stores inventory	74,046	57,947	9,509	122,484
Capital assets	<u>12,877</u>		<u>100</u>	<u>12,777</u>
Total assets	<u>\$ 1,994,766</u>	<u>\$ 4,425,636</u>	<u>\$ 4,406,766</u>	<u>\$ 2,013,636</u>
Liabilities:				
Accounts payable	\$ 120,925	\$ 135,578	\$ 206,549	\$ 49,954
Due to student groups	<u>1,873,841</u>	<u>4,290,058</u>	<u>4,200,217</u>	<u>1,963,682</u>
Total liabilities	<u>\$ 1,994,766</u>	<u>\$ 4,425,636</u>	<u>\$ 4,406,766</u>	<u>\$ 2,013,636</u>

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

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

ORGANIZATION

June 30, 2006

Sacramento City Unified School District, a political subdivision of the State of California, was established on July 7, 1936. The territory covered by the District does not include certain areas of the City of Sacramento, but does include some contiguous territory located outside city boundaries, but within Sacramento County boundaries.

GOVERNING BOARD

<u>Name</u>	<u>Office</u>	<u>Term Expires</u>
Roy Grimes	President	November 2006
Manny Hernandez	Vice President	November 2008
Richard Jennings II	Second Vice President	November 2008
Jerry Houseman	Member	November 2006
Dawn McCoy	Member	November 2006
Miguel Navarrette	Member	November 2008
Karen Young	Member	November 2008
De Doan	Student Member	June 2007

ADMINISTRATION

M. Magdalena Carrillo Mejia, Ph.D.
Superintendent

Thomas S. Barentson
Deputy Superintendent/Chief Financial Officer

Arturo Flores
Associate Superintendent

Evan Lum
Associate Superintendent

Carol Mignone
Associate Superintendent

Susan Miller
Associate Superintendent

Joan Polster
Associate Superintendent

Melissa Brown
Assistant Superintendent

William T. West
Assistant Superintendent

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE

For the Year Ended June 30, 2006

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Kindergarten	3,327	3,322
First through Third	9,994	9,965
Fourth through Eighth	17,180	17,096
Home and Hospital	21	22
Special Education	1,447	1,447
Community Day School	22	27
Charter School	<u>4,209</u>	<u>4,135</u>
Total Elementary	<u>36,200</u>	<u>36,014</u>
Secondary:		
Regular Classes	10,318	10,103
Special Education	710	703
Compulsory Continuation Education	208	210
Home and Hospital	<u>16</u>	<u>17</u>
Total Secondary	<u>11,252</u>	<u>11,033</u>
Classes for Adults:		
Concurrently Enrolled	84	139
Classes for Adults	<u>4,962</u>	<u>5,565</u>
Total for Adults	<u>5,046</u>	<u>5,704</u>
	<u>52,498</u>	<u>52,751</u>
	<u>Hours of Attendance</u>	
Summer School:		
Elementary	837,328	882,329
Secondary	<u>675,575</u>	<u>717,862</u>
	<u>1,512,903</u>	<u>1,600,191</u>

See accompanying notes to
supplementary information.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME

For the Year Ended June 30, 2006

<u>Grade Level</u>	<u>1986-87 Minutes Require- ment</u>	<u>1982-83 Actual Minutes</u>	<u>2005-06 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Year-Round Calendar</u>	<u>Status</u>
DISTRICT						
Kindergarten	36,000	35,094	36,000	180	180	In Compliance
Grades 1 to 3	50,400	44,137	50,400	180	180	In Compliance
Grades 4 to 6	54,000	52,875	54,000	180	180	In Compliance
Grades 7 and 8	54,000	58,163	58,164	180	180	In Compliance
Grades 9 to 12	64,800	60,549	64,812	180	180	In Compliance
CHARTER SCHOOLS						
Kindergarten	36,000	N/A	36,000	180	N/A	In Compliance
Grades 1 to 3	50,400	N/A	51,430	180	N/A	In Compliance
Grades 4 to 6	54,000	N/A	54,004	180	N/A	In Compliance
Grades 7 and 8	54,000	N/A	54,004	180	N/A	In Compliance
Grades 9 to 12	64,800	N/A	65,880	180	N/A	In Compliance

See accompanying notes to
supplementary information.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS

For the Year Ended June 30, 2006

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass- Through Entity Identifying Number	Federal Expend- itures
<u>U.S. Department of Education</u>			
	Special Education Cluster:		
84.027	Special Ed IDEA: Basic and Local Assistance Entitlement, Part B, Sec 611 (Formerly 94-142)	13379	\$ 8,704,739
84.173	Special Education Preschool Grants	13430	285,123
84.027A	Special Ed IDEA: Preschool Local Entitlement, Part B, Sec 611 (Age 3-5)	13682	418,241
84.027A	Special Ed: Idea Local Staff Development Grants, Part B, Sec 611	13613	6,148
84.027A	Special Ed: IDEA Interpreter Certification, Part B, Sec 611	14466	7,542
84.173A	Special Ed: IDEA Preschool Staff Development, Part B, Sec 619	13431	1,928
84.181	Special Education Grants for Infants and Families with Disabilities	23761	278,840
84.027	Special Ed - Alternative Dispute Resolution, Part B, Sec 611	13007	<u>2,418</u>
	Subtotal Special Education Cluster		<u>9,704,979</u>
	Title I Cluster:		
84.010	Comprehensive School Reform Demonstration Program	14039	340,560
84.013	NCLB: Title I Local Delinquent Programs, Part D	13798	36,959
84.010	NCLB: Title I Grants to Local Educational Agencies	14329	25,415,936
84.010	NCLB: Title I, Part A, School Improvement, School Assistance and Intervention Teams (SAIT)	14417	73,442
84.010A	NCLB: Title I, Part A, School Improvement SAIT Corrective Action Plans	14579	<u>244,312</u>
	Subtotal Title I Cluster		<u>26,111,209</u>
84.002	Adult Education State Grant Program	13973	1,024,772
84.324	Special Education Research and Innovation to Improve Services and Results for Children with Disabilities	14577	128,471
84.000	Bilingual Education - Discretionary Grants	10008	300,511
84.282	Charter Schools	13150	197,456
84.196	Education for Homeless Children and Youth	14332	100,256
84.318	Education Technology Formula Grants / FF	14334	814,117
84.365	Title III Limited English Proficiency	14346	1,299,260
84.293	Foreign Language Assistance	*	138,470
84.215	Fund for the Improvement of Education	03063	730,585
84.367	NCLB: Title II, Part A, Improving Teacher Quality Local Grants	14341	4,871,595

(Continued)

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURE OF FEDERAL AWARDS
(Continued)
For the Year Ended June 30, 2006

Federal Catalog Number	Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U.S. Department of Education (Continued)</u>			
84.060	Indian Education Grants to Local Educational Agencies	10011	\$ 150,735
84.357	NCLB: Title I, Part B, Reading First Program - LEA Subgrant	14328	2,030,056
84.186	NCLB: Title IV, Safe and Drug Free Schools and Communities, Formula Grants	14347	491,687
84.298	State Grants for Innovative Programs	14354	239,282
84.287	NCLB: Title IV 21st Century Community Centers Learning Program	14349	443,533
84.048	Vocational Education Basic Grants to States	13920	838,941
84.184L	Safe and Drug Free Schools / Community	14348	2,961,294
84.369	Flexibility and Accountability	*	2,825
84.346	One Stop	*	588,282
84.330	Advanced Placement Program	13917	25,822
84.283	Comprehensive Centers	*	84,116
84.215	Teaching American History Grant	*	<u>308,899</u>
Total U.S. Department of Education			<u>53,587,153</u>
<u>U.S. Department of Health and Human Services</u>			
93.674	Chafee Foster Care Independent Living	*	146,402
93.575	Child Care and Development Block Grant	13942	51,848
93.596	Child Care Mandatory and Matching Funds of the Child Care and Development Fund	13609	327,814
93.600	Head Start	10016	9,419,689
93.576	Refugee and Entrant Assistance Discretionary Grants	13981	61,829
93.778	Medical assistance Program	10013	<u>2,528,846</u>
Total U.S. Department Health and Human Services			<u>12,536,428</u>
<u>U.S. Department of Agriculture</u>			
10.555	National School Lunch Program	13396	<u>13,768,197</u>
<u>U.S. Department of Defense</u>			
12. UKN	ROTC	*	<u>310,897</u>
<u>U.S. Department of Labor</u>			
17.259	WIA - Youth Activities	*	<u>182,308</u>
Totals			<u>\$ 80,384,983</u>

* District is unable to provide PCA numbers.

See accompanying notes to
supplementary information.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
RECONCILIATION OF UNAUDITED ACTUAL FINANCIAL REPORT
WITH AUDITED FINANCIAL STATEMENTS

For the Year Ended June 30, 2006

There were no audit adjustments proposed to any funds of the District.

See accompanying notes to
supplementary information.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS

For the Year Ended June 30, 2006

	(Budget)			
	2007	2006	2005	2004
<u>General Fund</u>				
Revenues and other financing sources	<u>\$ 380,958,511</u>	<u>\$ 392,615,096</u>	<u>\$ 388,803,438</u>	<u>\$ 376,800,530</u>
Expenditures	348,809,062	387,245,484	386,285,875	384,668,929
Other uses and transfers out	<u>566,742</u>	<u> </u>	<u>340,884</u>	<u> </u>
Total outgo	<u>349,375,804</u>	<u>387,245,484</u>	<u>386,626,759</u>	<u>384,668,929</u>
Change in fund balance	<u>\$ 31,582,707</u>	<u>\$ 5,369,612</u>	<u>\$ 2,176,679</u>	<u>\$ (7,868,399)</u>
Ending fund balance	<u>\$ 59,099,995</u>	<u>\$ 27,517,288</u>	<u>\$ 22,147,676</u>	<u>\$ 19,970,997</u>
Available reserves	<u>\$ 7,091,346</u>	<u>\$ 7,669,893</u>	<u>\$ 5,378,066</u>	<u>\$ 5,710,568</u>
Designated for economic uncertainties	<u>\$ 6,989,000</u>	<u>\$ 7,669,893</u>	<u>\$ 5,378,066</u>	<u>\$ 5,710,568</u>
Undesignated fund balance	<u>\$ 102,346</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>
Available reserves as percentages of total outgo	<u>2.0%</u>	<u>2.0%</u>	<u>1.4%</u>	<u>1.5%</u>
<u>All Funds</u>				
Total long-term liabilities	<u>\$ 412,895,593</u>	<u>\$ 431,295,161</u>	<u>\$ 364,233,225</u>	<u>\$ 322,847,729</u>
Average daily attendance at P-2, excluding Adult and Charter School	<u>42,875</u>	<u>43,243</u>	<u>44,174</u>	<u>45,754</u>

The General Fund fund balance has decreased by \$322,108 over the past three years. The District has incurred operating surpluses in two of the past three years, and anticipates incurring an operating surplus during the 2006-2007 fiscal year. The fiscal year 2006-2007 budget projects an increase of \$31,582,707. For a district this size, the State recommends available reserves of at least 2% of total General Fund expenditures, transfers out, and other uses. For the year ended June 30, 2006, the District has met this requirement. For the years ending June 30, 2005 and 2004 the State has allowed a District of this size to reduce their available reserves to 1.0%.

Total long-term liabilities have increased by \$108,447,432 over the past two years, due primarily to the issuance of General Obligation Bonds and Certificates of Participation (Note 6 to the financial statements).

Average daily attendance has decreased by 2,511 over the past two years. The District anticipates a decrease of 368 ADA for the 2006-2007 fiscal year.

See accompanying notes to
supplementary information.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF CHARTER SCHOOLS

For the Year Ended June 30, 2006

Charter Schools Chartered by District	Included in District Financial Statements, or Separate Report
America's Choice	Included as Charter School Fund
Bowling Green Elementary	Included as Charter School Fund
Capitol Heights Academy	Separate Report
Genesis	Included as Charter School Fund
Keith B. Kenny Elementary	Included as Charter School Fund
KIPP Sol Aureus College Preparatory	Separate Report
Language Academy of Sacramento	Separate Report
New Technology High School	Included as Charter School Fund
Sacramento Charter High School	Separate Report
St. HOPE Public School 7	Separate Report
The MET Sacramento	Included as Charter School Fund
Visual & Performing Arts Charter	Separate Report

See accompanying notes to
supplementary information.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

NOTES TO SUPPLEMENTARY INFORMATION

1. PURPOSE OF SCHEDULES

A - Schedule of Average Daily Attendance

Average daily attendance is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which apportionments of State funds are made to school districts. This schedule provides information regarding the attendance of students at various grade levels and in different programs.

B - Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District, and whether the District complied with the provisions of Education Code Sections 46201 through 46206.

C - Schedule of Expenditure of Federal Awards

OMB Circular A-133 requires a disclosure of the financial activities of all Federally funded programs. This schedule was prepared to comply with A-133 requirements.

D - Reconciliation of Unaudited Actual Financial Report with Audited Financial Statements

This schedule provides the information necessary to reconcile the Unaudited Actual Financial Report to the audited financial statements.

E - Schedule of Financial Trends and Analysis

This schedule provides information on the District's financial condition over the past three years and its anticipated condition for the 2006-2007 fiscal year, as required by the State Controller's Office.

F - Schedule of Charter Schools

This schedule provides information for the California Department of Education to monitor financial reporting by Charter Schools.

2. EARLY RETIREMENT INCENTIVE PROGRAM

Education Code Section 14502 requires certain disclosure in the financial statements of districts which adopt Early Retirement Incentive Programs pursuant to Education Code Sections 22714 and 44929. For the fiscal year ended June 30, 2006, the District did not adopt this program.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

Board of Education
Sacramento City Unified School District
Sacramento, California

We have audited the compliance of Sacramento City Unified School District with the types of compliance requirements described in the State of California's *Standards and Procedures for Audits of California K-12 Local Educational Agencies* (the "Audit Guide") to the State laws and regulations listed below for the year ended June 30, 2006. Compliance with the requirements of State laws and regulations is the responsibility of Sacramento City Unified School District's management. Our responsibility is to express an opinion on Sacramento City Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State of California's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the State laws and regulations listed below occurred. An audit includes examining, on a test basis, evidence about Sacramento City Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Sacramento City Unified School District's compliance with those requirements.

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	22	Yes
Continuation Education	10	Yes
Adult Education	9	Yes
Regional Occupational Center/Programs	6	No, see below
Instructional Time:		
School Districts	4	Yes
County Offices of Education	3	No, see below
Community Day Schools	9	No, see below
Class Size Reduction Program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	No, see below
Districts with only one school serving K-3	4	No, see below
Morgan Hart Class Size Reduction Program	7	Yes
Instructional Materials:		
General requirements	12	Yes
Grades K-8	1	Yes
Grades 9-12	1	Yes
Ratio of Administrative Employees to Teachers	1	Yes
Early Retirement Incentive Program	4	No, see below
Gann Limit Calculation	1	Yes

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

(Continued)

<u>Description</u>	<u>Audit Guide Procedures</u>	<u>Procedures Performed</u>
School Construction Funds:		
School District Bonds	3	No, see below
State School Facilities Funds	1	Yes
Alternative Pension Plans	2	Yes
Proposition 20 Lottery Funds	2	Yes
State Lottery Funds	2	Yes
California School Age Families Education Program	3	Yes
School Accountability Report Card	3	No, see below
Contemporaneous Records of Attendance, for charter schools	1	Yes
Nonclassroom-Based Instruction/Independent Study, for charter schools	15	No, see below
Additional Nonclassroom-Based Instruction for charter schools	1	Yes
Determination of Funding for Nonclassroom-Based Instruction, for charter schools	3	Yes
Annual Instructional Minutes - Classroom-Based, for charter schools	3	Yes

We did not perform any procedures related to Regional Occupational Center/Programs because the District does not offer this program.

We did not perform any procedures related to Instructional Time for County Offices of Education because the District is not a County Office of Education.

We did not perform any procedures related to Community Day School ADA because the ADA reported was below the level required for testing.

We did not perform any procedures related to Class Size Reduction Program - Option Two classes and Districts with only one school serving K-3 because the District does not offer Option Two, and the District has more than one school serving K-3.

We did not perform any procedures related to Early Retirement Incentive Program and Alternative Pension Plans because the District did not offer these programs in the current year.

We did not perform any procedures related to School Construction Funds - School District Bonds because the District has only Proposition 39 Bonds in the current year.

The 2005-2006 School Accountability Report Cards specified by Education Code Section 33126 are not required to be completed, nor were they completed, prior to the completion of our audit procedures for the year ended June 30, 2006. Accordingly, we could not perform the portions of audit steps (a), (b) and (c) of Section 19837 of the 2005-2006 Audit Guide relating to the comparison of tested data from the 2005-2006 fiscal year to the 2005-2006 School Accountability Report Cards.

**INDEPENDENT AUDITOR'S REPORT
ON COMPLIANCE WITH STATE LAWS AND REGULATIONS**

(Continued)

We did not perform any procedures related to Nonclassroom-Based Instruction/Independent Study for charter schools because the District's charter school has no Nonclassroom-Based/Independent Study students.

In our opinion, Sacramento City Unified School District complied with the State laws and regulations referred to above for the year ended June 30, 2006, except as described in the Schedule of Audit Findings and Questioned Costs section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that Sacramento City Unified School District had not complied with the State laws and regulations.

This report is intended solely for the information of the Board of Education, management, the State Controller's Office, the California Department of Education and the California Department of Finance, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Perry-Smith LLP

Sacramento, California
November 8, 2006

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

Board of Education
Sacramento City Unified School District
Sacramento, California

We have audited the financial statements of Sacramento City Unified School District as of and for the year ended June 30, 2006, and have issued our report thereon dated November 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Sacramento City Unified School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

This report is intended solely for the information of the Board of Education, management, the California Department of Education, the California State Controller's Office and Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Perry - Smith LLP

Sacramento, California
November 8, 2006

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE FIRST 5 SACRAMENTO COUNTY PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE
PROGRAM-SPECIFIC AUDIT OPTION UNDER OMB CIRCULAR A-133**

Board of Education
Sacramento City Unified School District
Sacramento, California

Compliance

We have audited the compliance of Sacramento City Unified School District with the types of compliance requirements described in the Program Guidelines for the First 5 Sacramento County Program that are applicable to First 5 Sacramento County Program for the year ended June 30, 2006. Compliance with the requirements of laws, regulations, contracts and grants applicable to its First 5 Sacramento County Program is the responsibility of Sacramento City Unified School District's management. Our responsibility is to express an opinion on Sacramento City Unified School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and the OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on First 5 Sacramento County Program occurred. An audit includes examining, on a test basis, evidence about Sacramento City Unified School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Sacramento City Unified School District's compliance with those requirements.

In our opinion, Sacramento City Unified School District complied, in all material respects, with the requirements referred to above that are applicable to its First 5 Sacramento County Program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Sacramento City Unified School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to its First 5 Sacramento County Program. In planning and performing our audit, we considered Sacramento City Unified School District's internal control over compliance with requirements that could have a direct and material effect on its First 5 Sacramento County Program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
APPLICABLE TO THE FIRST 5 SACRAMENTO COUNTY PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH THE
PROGRAM-SPECIFIC AUDIT OPTION UNDER OMB CIRCULAR A-133**

(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the Board of Education, management and First 5 Sacramento County and is not intended to be and should not be used by anyone other than these specified parties.

Perry-Smith LLP

Sacramento, California
November 8, 2006

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

Board of Education
Sacramento City Unified School District
Sacramento, California

Compliance

We have audited the compliance of Sacramento City Unified School District with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2006. Sacramento City Unified School District's major Federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Audit Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to each of its major Federal programs is the responsibility of Sacramento City Unified School District's management. Our responsibility is to express an opinion on Sacramento City Unified School District's compliance based on our audit.

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

In our opinion, Sacramento City Unified School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2006. However, we did note an instance of noncompliance that was determined to be immaterial to the program that is included in the Schedule of Audit Findings and Questioned Costs section of this report.

Internal Control Over Compliance

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

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

(Continued)

Internal Control Over Compliance (Continued)

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grant agreements that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information of the Board of Education, management, the California Department of Education, the California State Controller's Office and Federal awarding agencies and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.

Perry-Smith UP

Sacramento, California
November 8, 2006

FINDINGS AND RECOMMENDATIONS

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

Year Ended June 30, 2006

SECTION I - SUMMARY OF AUDITOR'S RESULTS

FINANCIAL STATEMENTS

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Reportable condition(s) identified not considered to be material weakness(es)? Yes None reported

Noncompliance material to financial statements noted? Yes No

FEDERAL AWARDS

Internal control over major programs:

Material weakness(es) identified? Yes No

Reportable condition(s) identified not considered to be material weakness(es)? Yes None reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
93.600	Head Start
84.367	NCLB: Title II, Part A, Improving Teacher Quality Local Grants
84.184L	Safe and Drug Free Schools/Community
10.555	National School Lunch Program

Dollar threshold used to distinguish between Type A and Type B programs: \$ 2,411,549

Auditee qualified as low-risk auditee? Yes No

STATE AWARDS

Internal control over State programs:

Material weakness(es) identified? Yes No

Reportable condition(s) identified not considered to be material weaknesses? Yes None reported

Type of auditor's report issued on compliance for State programs: Qualified

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2006

SECTION II - FINANCIAL STATEMENT FINDINGS

1. STUDENT BODY ACCOUNTING (30000)

Criteria

California Department of Education's "Accounting Procedures for Student Organizations Handbook".

Condition

The student body accounts at three of the six sites visited for testing had the following conditions:

- The ASB Secretary does not issue or maintain a log of receipt books issued to student clubs.
- Receipt books are not maintained and issued to each student club.
- Pre-numbered receipts are not given to individuals to acknowledge receipt of cash.
- Cash turned in to the Controller is not counted in dual custody.
- Inventory count is not reviewed by the district personnel in charge of student body accounting.
- Cash is not recorded promptly as it is only recorded when deposits are made, which can be weekly or monthly.
- Total cash receipts and receipts from individual activities are not supported by detail schedules defining number of items receipted.
- Total deposit amounts are not supported by deposited receipts.
- Purchase Order Request Forms are not consistently used for Cash Disbursements.
- Profit and Loss statements are not prepared and reviewed periodically.
- Financial statements are not submitted to the principal or other officials.
- Income from the sale of PE Clothes in the student store is counted as income for the Athletic Department.

Effect

There exists the risk of possible misappropriation of student body funds.

Cause

The site personnel have not followed the District established internal control.

Fiscal Impact

Not determinable.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2006

SECTION II - FINANCIAL STATEMENT FINDINGS
(Continued)

1. STUDENT BODY ACCOUNTING (30000) (Continued)

Recommendation

We recommend the District stress the importance of effective controls over student body accounts and that interim reviews are performed to ensure compliance with the requirements.

Corrective Action Plan

The District has a student body procedures manual that it provides to all school sites along with continuous student body training. The District will perform interim reviews to ensure compliance with the requirements. Site administration has been notified of the findings and provided with the corrective action plan. Site administration is committed to, and will be accountable for, implementing the necessary changes. District administration will monitor the process for resolution and corrective action implementation.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2006

SECTION III - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

2. FEDERAL COMPLIANCE - NATIONAL SCHOOL LUNCH PROGRAM (50000)

Criteria

OMB Circular A-133, CFDA 10.555 - To be eligible for reimbursement, meals must be served to eligible children and be supported by accurate meal counts.

Condition

The Claim for Reimbursement forms did not properly reflect the daily summary from one site.

Effect

The District is out of compliance with OMB Circular A-133 requirements.

Cause

The District is overstating the number of meals served.

Fiscal Impact

The total effect of this finding is an extrapolated overstatement of 2,079 meals, representing approximately \$4,659 in funding.

Recommendation

We recommend the Claim for Reimbursement forms be reviewed and reconciled to the daily summaries.

Corrective Action Plan

The District will review its processes and ensure that the Claim for Reimbursement forms are reviewed for accuracy and reconciled to the daily summaries.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT
SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS
(Continued)
Year Ended June 30, 2006

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

3. ATTENDANCE - KINDERGARTEN CONTINUANCE (10000)

Criteria

Education Code Section 46300(g) - Each LEA may include the attendance of pupils in kindergarten after they have completed one school year in kindergarten only if the school district has on file for each of those pupils an agreement made pursuant to Ed Code Section 48011, and signed parental consent for the pupil to continue.

Condition

Two Parental Agreement forms required to retain kindergarten students for an additional year were not properly completed.

Effect

Overstatement of ADA generated by those students.

Cause

The Parental Agreement forms associated with the retained students did not have all information fields properly completed. These incomplete information fields included the anniversary date of the students's retention and the date to which the student could be retained in kindergarten.

Fiscal Impact

The total effect of this finding is an extrapolated overstatement of 1.22 ADA, representing approximately \$6,023 in funding.

Recommendation

We recommend the District revise the Period Two and Annual Reports of Attendance to remove the disallowed ADA.

Corrective Action Plan

The District will revise the 2005-2006 Period Two and Annual Reports of Attendance to exclude the 1.22 ADA. The District will also review kindergarten retention requirements and procedures with school site and District attendance personnel to ensure that the procedures are followed and that the forms are properly completed.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

SCHEDULE OF AUDIT FINDINGS AND QUESTIONED COSTS

(Continued)

Year Ended June 30, 2006

SECTION IV - STATE AWARD FINDINGS AND QUESTIONED COSTS

(Continued)

4. INDEPENDENT STUDY - CHARTER SCHOOL (10000)

Criteria

Education Code Section 51747 requires that a complete current written agreement for each independent study pupil shall be maintained and representative samples of each student's completed work products showing the teacher's evaluations must be retained in each student's file for three years.

Education Code Section 11703 requires that records shall include, but not be limited to, a daily or hourly attendance credit register, as appropriate to the program in which the pupils are enrolled.

Condition

The MET Sacramento Charter School is currently operating a program where more than 20% of the ADA is generated through non-classroom based activities. The ADA generated through non-classroom based educational programs is required to be operated through the use of an independent study contract.

Effect

ADA is overstated by 34.97.

Cause

The Charter School was unaware of the independent study requirements.

Fiscal Impact

The extrapolated effect of the finding is an overstatement of 34.97 ADA, or \$172,000.

Recommendation

If the Charter School operates programs with non-classroom based activities, then they should utilize independent study contracts for ADA generated.

Corrective Action Plan

The District included a reduction of 34.97 ADA in its original filing of the 2005-2006 Period Two and Annual Reports of Attendance. The MET Sacramento Charter School has revised its attendance procedures. The District will use independent study contracts for non-classroom based activities that generate ADA.

**STATUS OF PRIOR YEAR
FINDINGS AND RECOMMENDATIONS**

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

Year Ended June 30, 2006

Finding/Recommendation	Current Status	District Explanation If Not Implemented
2005-1 Student Body Accounting (30000)	Partially implemented.	See current year finding.

The student body accounts at three of the six sites visited for testing had the following conditions:

- The ASB Secretary does not issue or maintain a log of receipt books issued to student clubs.
- Receipt books are not maintained and issued to each student club.
- Pre-numbered receipts are not given to individuals to acknowledge receipt of cash.
- Cash turned in to the Controller is not counted in dual custody.
- Cash is not recorded promptly as it is only recorded when deposits are made, which can be weekly or monthly.
- Expenditures are supported by an invoice, but there is no indication of receiving the goods or services.
- Total cash receipts are not supported by detail schedules defining number of items sold or receipted.
- Total deposit amounts are not supported by deposit receipts.

We recommend the District stress the importance of effective controls over student body accounts and that interim reviews are performed to ensure compliance with the requirements.

SACRAMENTO CITY UNIFIED SCHOOL DISTRICT

STATUS OF PRIOR YEAR FINDINGS AND RECOMMENDATIONS

(Continued)

Year Ended June 30, 2006

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>District Explanation If Not Implemented</u>
<p>2005-2 County School Facilities Funds (40000)</p> <p>One expenditure from the school facilities fund was made for instructional materials which are not allowable expenditures from the County School Facilities Fund. After our initial review, the District Internal Audit Department performed additional testing, which was validated by our audit procedures, that determined that a total of \$655,118 of expenditures were made for these types of expenditures.</p> <p>We recommend that the District review policies and procedures to ensure that expenditures are categorized to the most appropriate funding source.</p>	<p>Implemented.</p>	
<p>2005-3 Attendance - Continuation Education (10000)</p> <p>At the Continuation Education site there were 13 instances where students were recorded as present in the computerized attendance system, but the attendance records indicated they were actually absent and there were 11 instances where the students were marked as absent in the computerize attendance system and the attendance records indicated the student was actually present.</p> <p>We recommend that the District implement policies and procedures that require the computerized attendance system be reconciled to the supporting attendance documentation. Additionally, the District should revise and resubmit the Period Two and Annual Reports of Attendance reflecting the removal of the disallowed ADA.</p>	<p>Implemented.</p>	