

OCEANSIDE UNIFIED SCHOOL DISTRICT

COUNTY OF SAN DIEGO

AUDIT REPORT

June 30, 2006

OCEANSIDE UNIFIED SCHOOL DISTRICT
AUDIT REPORT
June 30, 2006

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**OCEANSIDE UNIFIED SCHOOL DISTRICT
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June 30, 2006**

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INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Oceanside Unified School District, as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements, as listed in the table of contents. These financial statements are the responsibility of the Oceanside Unified School District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Oceanside 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 September 15, 2006 on our consideration of the Oceanside 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 considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 13 and budgetary comparison information on page 48 is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Oceanside Unified School District's, basic financial statements. The accompanying financial and statistical information listed in the table of contents, including the Schedule of Expenditures of Federal Awards, which is required by U.S. Office of Management and Budget Circular A-133, *Audits of 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. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

A handwritten signature in black ink that reads "Nigro Nigro & White, PC". The signature is written in a cursive, flowing style.

San Diego, California
September 15, 2006

Management's Discussion and Analysis



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MANAGEMENT DISCUSSION AND ANALYSIS (MD&A)

June 30, 2006

This section of the Oceanside Unified School District's annual financial report presents our discussion and analysis of the district's financial performance during the fiscal year that ended June 30, 2006.

FINANCIAL HIGHLIGHTS

- General Fund revenues exceeded expenditures by \$4.7 million in 2005-06, leaving an ending balance of \$25.06 million.
- The district continued to maintain ample reserves, with \$12.4 million designated for economic uncertainties at year-end. This represents 7.9% of total budget, compared to the 3% minimum required by the state.
- Student enrollment continued to decline with a drop of more than 800 ADA over the prior year.
- New construction was completed at Jefferson Middle School with the addition of 16 new classrooms and new boys and girls shower/locker rooms. Modernization projects were completed at South Oceanside Elementary School and Oceanside High School including modernization of the gymnasium with the addition of new boys and girls shower and locker facilities and 4 additional classrooms. Construction continued on the new Cesar Chavez Middle School, and began for the new Louise Foussat Elementary projected to open in the 2007-08 school year. Total capital outlay for facility construction came to \$38.8 million for the 2005-06 fiscal year.
- District long-term liabilities increased to \$99.4 million, the majority of this debt being the repayment of general obligation bonds for facility construction.
- Overall, net assets increased by \$21.1 million for the district.

OVERVIEW OF THE FINANCIAL STATEMENTS

Management Discussion and Analysis

The Management Discussion and Analysis (MD&A) is an element of the new reporting model adopted by the Governmental Accounting Standards Board (GASB) in their Statement No. 34 Basic Financial Statements and Management Discussion and Analysis – for State and Local Government, issued in 1999. The MD&A provides a narrative introduction and a comparative analysis of the financial statements for the current and prior years.

District-Wide Financial Statements

The district-wide statements report information about the district as a whole, providing both short-term and long-term information about the district's overall financial status using accounting methods similar to those used by private-sector companies. The statement of net assets includes all district assets and liabilities, such as land, buildings and long-term debt. All current year revenues and expenses are accounted for in the statements, regardless of when cash is received or paid (full accrual).

The district-wide statements report the district's *net assets* and how they have changed. Net assets – the difference between the district's assets and liabilities – are one measure of the district's financial health. Over time, increases or decreases in net assets are an indicator of whether the district's financial position is improving or deteriorating.

District-wide financial statements distinguish between *governmental activities* and *business-type activities*. Since Oceanside Unified School District has no business-type activities, all district operations are reported within the category of governmental activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the component funds that jointly comprise the district budget. Funds are accounting devices used to track specific sources of funding and spending for particular programs. Some funds are required by state law; others are established to control and manage money for particular purposes (e.g., repaying long-term debt), or to show that certain revenues are properly used.

The governmental fund financial statements tell how district operations were financed, as well as what remains for future spending. They provide a detailed view of the *short-term* financial position of the district, without consideration of long-term assets and liabilities.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2006

FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE

Net Assets

Table 1 shows that district assets totaled \$243.6 million as of June 30, 2006. Cash deposits with the County Treasury represent a significant component of district assets at \$54.3 million. Facilities represent the largest component, with buildings valued at \$131.7 million, plus an additional \$49.1 million for facilities under construction (work in progress). Land plus site improvements are valued at \$23.3 million and equipment at \$13.2 million. It should be noted that all capital assets are valued at *historical cost less depreciation, not market value*. The current market value for land owned by the district is considerably larger than reported here.

Liabilities totaled \$114 million on June 30, 2006. General obligation bond debt issued for facility construction and modernization constitutes the majority. Of the \$125 million in GO bonds authorized by voters in 2000, all but \$25 million has been issued to date. Other long-term liabilities include \$1.7 million in outstanding obligations for Certificates of Participation (COPs) and capital leases

Table 1 -- Net Assets			
		June 30, 2005	June 30, 2006
Assets			
Current Assets:			
Cash		\$46,756,127	54,327,049
Other		11,684,258	13,483,567
Capital Assets:			
Land		16,835,264	16,904,564
Improvement of Sites		6,257,426	6,396,559
Buildings		108,056,730	131,746,875
Equipment		13,681,310	13,193,234
Work in Progress		32,861,593	49,101,236
Less Accumulated Depreciation		(38,544,423)	(41,529,993)
Total Assets		\$197,588,285	243,623,091
Liabilities			
Current Liabilities			
		13,138,030	14,672,811
Long-Term Liabilities			
		75,676,435	99,374,557
Total Liabilities		\$88,814,465	114,047,368
Net Assets		\$108,773,820	129,575,723

Overall, net assets of the Oceanside Unified School District were determined to be \$129,575,723 on June 30, 2006. This represents an *increase* of \$21.1 million over the course of the year (Table 2). The increase in net assets is a reflection of bond proceeds and the construction and modernization of facilities within the district.

Table 2 -- Change in Net Assets		
	2004-05	2005-06
Beginning Net Assets	\$106,424,422	\$108,523,820
Ending Net Assets	<u>108,773,820</u>	<u>129,575,723</u>
Change in Net Assets	\$2,349,398	\$21,051,903

OCEANSIDE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2006

Governmental Activities

Overall, the district expended \$172.5 million in 2005-06, whereas revenues totaled \$179.3 million. This represents a \$1,012,218 decrease in expenditures from the prior year.

Table 3 shows that expense related to educating and caring for children account for 82% of total district expenditures. Facilities-related costs account for 11%, while purely administrative costs account for less than 5% of total expense.

Total revenue for 2005-06 was \$179.3 million, an increase of \$3.5 million over the prior year. Users of district programs contributed a portion of this revenue, primarily from cafeteria food sales. The federal and state governments supported certain programs with grants and contributions totaling \$44.1 million. Interest and investment earnings generated \$1.4 million. State and local taxpayers, however, paid most of the cost.

Table 3 -- Governmental Activities		
	2004-05	2005-06
Expenditures		
Instruction	\$106,701,190	\$104,479,195
Instruction-Related Services	17,264,048	16,975,839
Student Support Services	17,209,141	17,969,007
Maintenance and Operations	17,911,124	18,113,105
Administration	8,471,891	7,489,888
Interest on Long-Term Debt	3,908,393	5,359,619
Miscellaneous	<u>2,052,278</u>	<u>2,119,194</u>
Total Expenditures	\$173,518,065	\$172,505,847
Revenues		
Program Revenues:		
Charges for Services	\$3,371,230	\$3,265,357
Grants and Contributions	43,175,709	44,061,223
General Revenues:		
Taxes Levied for General Purposes	37,063,723	41,861,001
Taxes Levied for Debt Services	5,466,815	6,412,850
State and Federal Unrestricted Aid	83,479,978	78,704,051
Interest and Investment Earnings	1,288,551	1,366,153
Miscellaneous	<u>2,021,457</u>	<u>3,673,324</u>
Total Revenues	\$175,867,463	\$179,343,959

OCEANSIDE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2006

FINANCIAL ANALYSIS OF DISTRICT FUNDS

District accounts are organized into various funds, each of which is considered a separate accounting identity. The operations of each fund are accounted for with a separate set of self-balancing accounts. Governmental resources allocated to individual funds are recorded for the purpose of specific activities in accordance with laws, regulations and other requirements. The General Fund serves as the general operating fund for the district. It is used to account for all financial resources of the district except those required to be accounted for in a Special Revenue Fund, Capital Project Fund, Debt Service Fund, Proprietary Fund, or Fiduciary Fund.

General Fund

General Fund revenues totaled nearly \$161 million for 2005-06, an increase of 3.3% from the prior year. General Fund expenditures plus transfers totaled \$156.3 million, a decrease of 3.6%. Employee salaries and benefits jointly comprise the largest share of expenditures at 84.9%, and are the most rapidly growing component.

The \$25.1 million ending balance at June 30, 2006, included \$12.4 million reserves designated for economic uncertainty, representing more than double the minimum reserves required for California school districts of this size.

Special Revenue Funds

- The *Child Development Fund* is used to account separately for federal, state and local revenue to operate child development programs for preschool students. State preschool programs operate at several schools serving students from low-income families.
- The *Adult Education Fund* is used to account separately for state and local revenues for adult education programs. The district operates a small adult education program with a total budget slightly over \$100,000.
- The *Deferred Maintenance Fund* is used to account separately for state apportionments and district contributions for deferred maintenance purposes. The district completed projects totaling \$1.8 million for painting, heating and ventilation, asphalt repair, and roofing, and ended the year with a balance of \$3.1 million.
- The *Cafeteria Fund* is used to account separately for federal, state and local resources to operate the Child Nutrition program. The program continued to operate on a self-supporting basis by increasing a la carte food sales and reimbursement revenues to offset rising personnel costs.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2006

Capital Projects Funds

- The *Building Fund* accounts for the construction of capital facilities and buildings from the sale of bond proceeds. General Obligation bonds of \$25 million were issued during the year, and along with a carryover balance of \$10 million from the previous year plus interest of \$763,307 provided funding for projects at South Oceanside Elementary, Jefferson Middle School, and Oceanside High School, as well as construction of a new elementary and middle school. Expenditures for facility construction totaled \$26 million for the year, in accordance with the Facility Master Plan adopted in 2000.
- The *State School Building Lease-Purchase Fund* was previously used to account for state apportionments provided for construction and reconstruction of school facilities. This fund had a zero balance as of June 30, 2005.
- The *Capital Facilities Fund* is used to account for resources received from developer impact fees. This year local construction activity generated fee revenue of \$2.9 million, which is earmarked for facilities to accommodate enrollment growth. Nearly \$1.5 million was expended this year, primarily for leasing modular classrooms.
- The *County School Facilities Fund* was established to receive apportionments from the State School Facilities Fund for new facility construction and modernization projects. Due to California voter approval of the statewide school facilities bond in November 2002, the district received \$2.5 million for construction projects this year at South Oceanside Elementary School and \$11.3 million for construction of the new middle school.

Debt Service Funds

- The *Bond Interest and Redemption Fund* is used to account for the accumulation of resources for the repayment of district general obligation bonds.
- The *Tax Override Fund* is used to account for the accumulation of resources from *ad valorem* tax levies for the repayment of State School Building Fund apportionments.

Proprietary Funds

- The *Self-Insurance Fund* is used to separate monies associated with the self-insurance activities of the district. Ending balance reserves of \$965,276 are sufficient to cover district liabilities.

Fiduciary Funds

- *Student Body Funds* are used to account for the activities of student groups. The district serves as fiscal agent for these student funds.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2006

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

During 2005-2006 the district invested \$39 million in capital assets, mostly for facility construction and modernization funded from local and state bond proceeds. New construction was completed at Jefferson Middle School with the addition of 16 new classrooms and new boys and girls shower/locker rooms. Modernization projects were completed at South Oceanside Elementary School and Oceanside High School including modernization of the gymnasium with the addition of new boys and girls shower and locker facilities and four additional classrooms. Construction continued on the new Cesar Chavez Middle School, and began for the new Louise Foussat Elementary both scheduled to open in the 2007-08 school year.

Long-term Debt

The district paid \$5.7 million in debt service during the year for repayment of COP obligations, bond redemptions and capital leases. New bonds of \$25 million were issued during the year for the construction of capital facilities and buildings. On net, total debt increased \$19.3 million during 2005-06.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2006

FACTORS BEARING ON THE DISTRICT'S FINANCIAL FUTURE

The Oceanside Unified School District remains in a stronger financial position than many California school districts. General Fund reserves of \$12.4 million provide a buffer against economic uncertainty. General obligation bonds approved by local voters provide resources to address facility needs and to match state bond funds. Still, several factors are cause for caution.

From the mid-1990s through 2000-01, revenue exceeded expenditures due to a booming state economy and ambitious programs to reduce class size and expand accountability.

Oceanside Unified School District realized a substantial increase in total revenues and per-student revenues during this period. Total revenues per ADA increased from \$5,746 in 1998-99 to \$7,480 in 2001-02, an increase of nearly 28%. District expenditures increased correspondingly -- as class sizes were reduced, teacher salaries were improved, and added funding was invested in strengthening instructional programs and new initiatives to ensure that all students learn. These efforts translated into substantial gains in the API scores.

The economy took a downturn after 2001-02 that translated into funding cuts for California schools during the first half of the decade. Budget problems were compounded for the district when student enrollment began to decline in 2002-03. In response, Oceanside Unified judiciously drew down reserves and made \$21 million in budget cuts. Through fiscal restraint the district succeeded in restoring a balanced budget in 2005-06.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2006

Figure 1

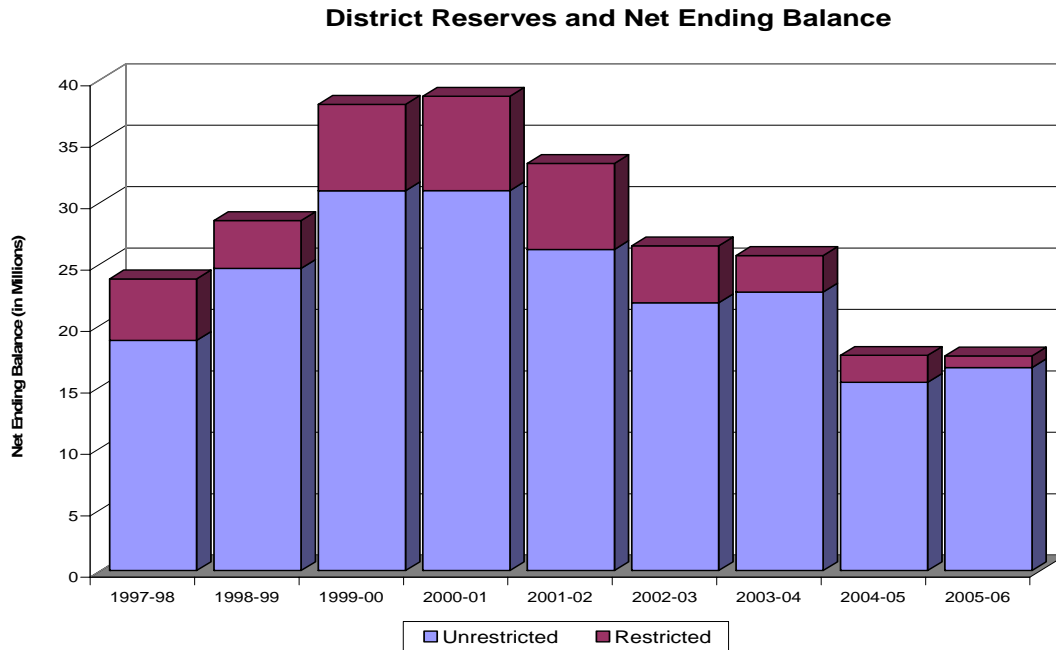
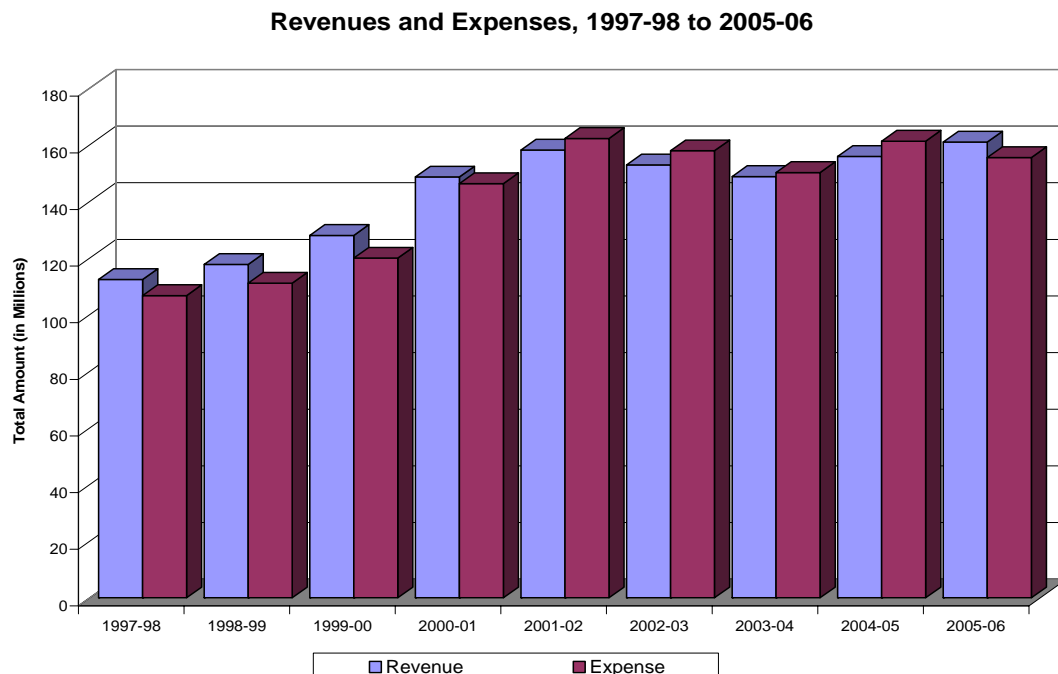
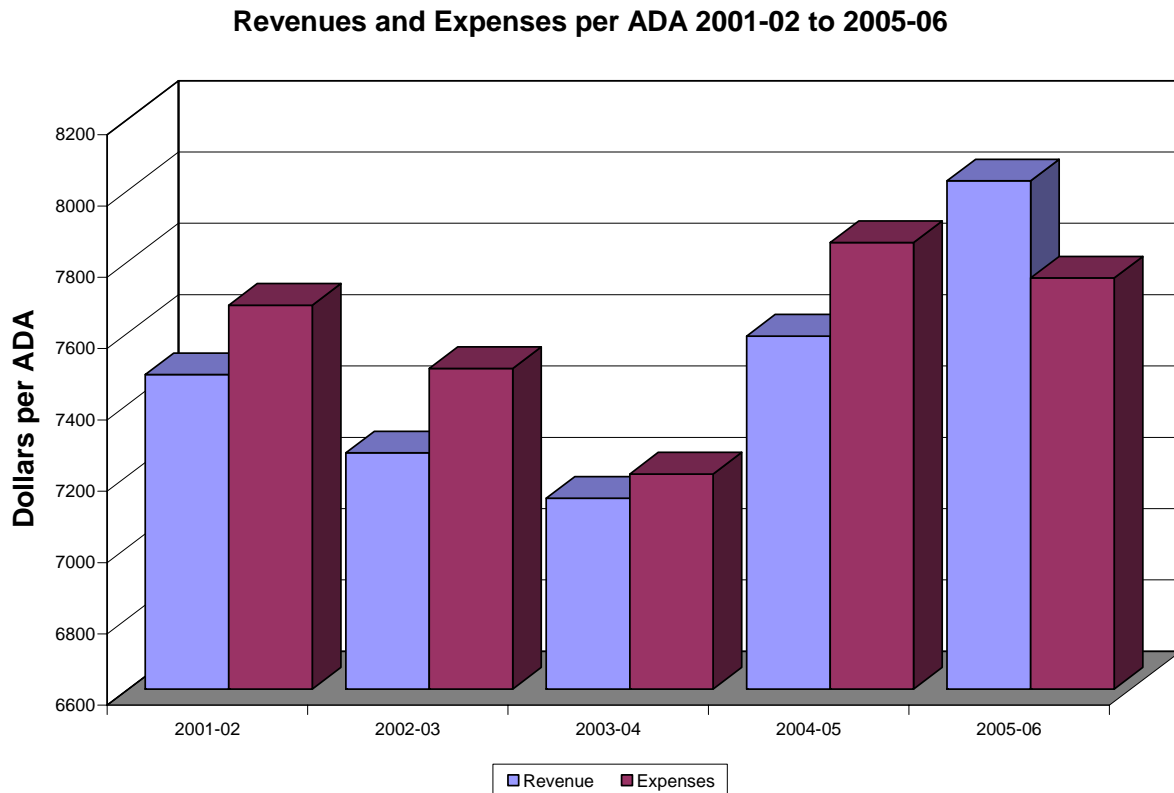


Figure 2



OCEANSIDE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2006

Figure 3



State funding for K-12 schools improved substantially for 2006-07, thereby allowing the district to restore some of the cuts made over the past five years. The adopted budget for 2006-07 anticipates deficit spending of \$5.6 million, reflecting one-time expense to equip and open two schools, and to launch new academic recovery programs at the high schools. Ongoing expenses are balanced with ongoing revenue.

Looking to the future, the Oceanside Unified School District faces the financial challenge of covering the cost of employee salaries and benefits and other fixed costs that are outpacing state funding increases, and absorbing the cost of opening two new schools in the context of continued enrollment loss. However, the leadership team and governing board remain committed to maintaining the fiscal health of the district.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Management's Discussion and Analysis (Unaudited)
June 30, 2006

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have any questions about this report or need additional financial information, please contact the District Business Office at 2111 Mission Ave., Oceanside, California 92054-2326.

Financial Section

OCEANSIDE UNIFIED SCHOOL DISTRICT
Statement of Net Assets
June 30, 2006

	Total Governmental Activities
ASSETS	
Cash	\$ 54,327,049
Accounts receivable	12,267,113
Stores	299,652
Prepaid expenses	916,802
Capital assets:	
Land	16,904,564
Improvement of sites	6,396,559
Buildings	131,746,875
Furniture and equipment	13,193,234
Work in progress	49,101,236
Less accumulated depreciation	(41,529,993)
Total capital assets, net of depreciation	175,812,475
Total assets	\$ 243,623,091
LIABILITIES	
Accounts payable and current liabilities	\$ 13,715,701
Deferred revenues	957,110
Long-term liabilities:	
Portion due or payable within one year:	
General obligation bonds payable	1,725,000
Certificates of participation payable	250,000
Capital leases payable	46,428
Compensated absences payable	645,557
Portion due or payable after one year:	
General obligation bonds payable	95,195,000
Certificates of participation payable	1,455,000
Capital leases payable	57,572
Total liabilities	114,047,368
NET ASSETS	
Invested in capital assets, net of related debt	86,850,650
Restricted for:	
Capital projects	9,333,620
Debt service	4,962,110
Educational programs	8,541,003
Unrestricted	19,888,340
Total Net Assets	\$ 129,575,723

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

OCEANSIDE UNIFIED SCHOOL DISTRICT
Statement of Activities
For the Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues			Net (Expense)
		Charges for	Operating	Capital	Revenue and
		Services	Grants and	Grants and	Changes in
			Contributions	Contributions	Net Assets
					Governmental
					Activities
Instructional Services:					
Instruction	\$ 104,479,195	\$ 79,263	\$ 23,697,393	\$ 14,213,791	\$ (66,488,748)
Instruction-Related Services:					
Supervision of instruction	3,518,806	27,549	2,623,446	-	(867,811)
Instructional library, media and technology	1,631,073	-	99,980	-	(1,531,093)
School site administration	11,825,960	3,425	3,815,434	-	(8,007,101)
Pupil Support Services:					
Home-to-school transportation	5,693,761	1,002	2,945,760	-	(2,746,999)
Food services	5,586,669	1,758,340	3,917,171	-	88,842
All other pupil services	6,688,577	2,249	675,334	-	(6,010,994)
General Administration Services:					
Data processing services	755,994	-	-	-	(755,994)
Other general administration	6,733,894	95,905	879,862	-	(5,758,127)
Plant services	18,113,105	4,198	1,179,377	-	(16,929,530)
Community services	240,762	-	197,345	-	(43,417)
Ancillary services	169,521	-	-	-	(169,521)
Interest on long-term debt	5,359,619	-	-	-	(5,359,619)
Other outgo	1,598,601	1,293,426	4,030,121	-	3,724,946
Depreciation (unallocated)	110,310	-	-	-	(110,310)
Total Governmental Activities	<u>\$ 172,505,847</u>	<u>\$ 3,265,357</u>	<u>\$ 44,061,223</u>	<u>\$ 14,213,791</u>	<u>\$ (110,965,476)</u>
General Revenues:					
Taxes:					
Property taxes, levied for general purposes					41,861,001
Property taxes, for debt services					6,412,850
Federal and state aid not restricted					
to specific purpose					78,704,051
Interest and investment earnings					1,366,153
Miscellaneous					3,673,324
Total general revenues					<u>132,017,379</u>
Change in net assets					21,051,903
Net assets - July 1, 2005					<u>108,773,820</u>
Adjustments for restatement					<u>(250,000)</u>
Net assets - July 1, 2005, as restated					<u>108,523,820</u>
Net assets - June 30, 2006					<u>\$ 129,575,723</u>

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

OCEANSIDE UNIFIED SCHOOL DISTRICT
Balance Sheet – Governmental Funds
June 30, 2006

	General Fund	Building Fund	County School Facilities Fund	All Non-Major Funds	Total Governmental Funds
ASSETS					
Cash	\$ 21,436,866	\$ 13,243,859	\$ 6,442,364	\$ 12,310,637	\$ 53,433,726
Stores inventory	74,580	-	-	225,072	299,652
Accounts receivable	10,439,085	184,289	87,704	1,547,997	12,259,075
Due from other funds	137,557	11,113	-	938,204	1,086,874
Total Assets	<u>\$ 32,088,088</u>	<u>\$ 13,439,261</u>	<u>\$ 6,530,068</u>	<u>\$ 15,021,910</u>	<u>\$ 67,079,327</u>
LIABILITIES AND FUND BALANCES					
LIABILITIES					
Accounts payable and accrued liabilities	\$ 5,165,027	\$ 3,669,885	\$ 1,811,660	\$ 404,719	\$ 11,051,291
Due to other funds	902,555	2,198	-	153,721	1,058,474
Deferred revenue	957,110	-	-	-	957,110
Total Liabilities	<u>7,024,692</u>	<u>3,672,083</u>	<u>1,811,660</u>	<u>558,440</u>	<u>13,066,875</u>
Fund Balances					
Reserved for:					
Revolving cash	80,000	-	-	10,000	90,000
Inventories	74,580	-	-	225,072	299,652
Categorical programs	8,541,003	-	-	225,000	8,766,003
Debt service	-	-	-	4,962,110	4,962,110
Unreserved, reported in:					
General Fund	16,367,813	-	-	-	16,367,813
Capital projects funds	-	9,767,178	4,718,408	4,615,212	19,100,798
Special revenue funds	-	-	-	4,426,076	4,426,076
Total Fund Balances	<u>25,063,396</u>	<u>9,767,178</u>	<u>4,718,408</u>	<u>14,463,470</u>	<u>54,012,452</u>
Total Liabilities and Fund Balances	<u>\$ 32,088,088</u>	<u>\$ 13,439,261</u>	<u>\$ 6,530,068</u>	<u>\$ 15,021,910</u>	<u>\$ 67,079,327</u>

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

OCEANSIDE UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets
June 30, 2006

Total fund balances - governmental funds \$ 54,012,452

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 \$217,342,468 and the accumulated depreciation is \$41,529,993. 175,812,475

In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are: 714,119

In governmental funds, interest on long-term debt 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. The additional liability for unmatured interest owing at the end of the period was: (2,504,627)

Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:

General obligations payable	96,920,000	
Compensated absences	645,557	
Certificates of participation payable	1,705,000	
Capital leases payable	<u>104,000</u>	(99,374,557)

Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are:

915,861

Total net assets - governmental activities \$ 129,575,723

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

OCEANSIDE UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenditures, and Changes 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					
General Revenues:					
Property taxes	\$ 41,861,000	\$ -	\$ -	\$ 6,412,850	\$ 48,273,850
Federal and state aid not restricted to specific purpose	78,704,051	-	-	-	78,704,051
Earnings on investments	979,180	-	-	386,974	1,366,154
Miscellaneous	867,301	-	-	2,809,393	3,676,694
Program Revenues:					
Charges for services	1,413,944	-	-	1,853,466	3,267,410
Operating grants and contributions	37,161,208	763,307	-	6,136,707	44,061,222
Capital grants and contributions	-	-	14,213,791	-	14,213,791
Total revenues	160,986,684	763,307	14,213,791	17,599,390	193,563,172
EXPENDITURES					
Instructional Services:					
Instruction	\$ 101,397,686	-	-	991,386	102,389,072
Instruction-Related Services:					
Supervision of instruction	3,437,220	-	-	106,805	3,544,025
Instructional library, media and technology	1,608,771	-	-	-	1,608,771
School site administration	11,725,113	-	-	-	11,725,113
Pupil Support Services:					
Home-to-school transportation	5,565,567	-	-	-	5,565,567
Food services	944	-	-	5,570,341	5,571,285
All other pupil services	6,672,011	-	-	4,607	6,676,618
General Administration Services:					
Data processing services	714,403	-	-	-	714,403
Other general administration	6,259,663	-	-	368,448	6,628,111
Plant services	15,315,306	-	-	2,805,231	18,120,537
Facility acquisition and construction	120,260	25,882,776	12,747,807	442,937	39,193,780
Ancillary services	169,521	-	-	-	169,521
Community services	240,762	-	-	-	240,762
Other outgo:					
Transfers between agencies	1,931,340	-	-	-	1,931,340
Debt service - principal	266,000	-	-	1,040,000	1,306,000
Debt service - interest	91,301	-	-	4,314,759	4,406,060
Debt Service - issuance costs and discounts	1,351	134,718	-	-	136,069
Total Expenditures	155,517,219	26,017,494	12,747,807	15,644,514	209,927,034
Excess (Deficiency) of Revenues Over (Under) Expenditures	5,469,465	(25,254,187)	1,465,984	1,954,876	(16,363,862)
OTHER FINANCING SOURCES (USES)					
Interfund transfers in	-	-	-	740,713	740,713
Interfund transfers out	(740,713)	-	-	-	(740,713)
Proceeds from long-term debt	-	25,255,000	-	-	25,255,000
Total Other Financing Sources and Uses	(740,713)	25,255,000	-	740,713	25,255,000
Net Change in Fund Balances	4,728,752	813	1,465,984	2,695,589	8,891,138
Fund Balances, July 1, 2005, as originally stated	20,334,644	9,766,365	3,252,424	12,017,881	45,371,314
Adjustments for restatement	-	-	-	(250,000)	(250,000)
Fund Balance, July 1, 2005, as restated	20,334,644	9,766,365	3,252,424	11,767,881	45,121,314
Fund Balances, June 30, 2006	\$ 25,063,396	\$ 9,767,178	\$ 4,718,408	\$ 14,463,470	\$ 54,012,452

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

OCEANSIDE UNIFIED SCHOOL DISTRICT
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and
Changes in Fund Balances to the Statement of Activities
For the Year Ended June 30, 2006

Total net change in fund balances - governmental funds \$ 8,891,138

Amounts reported for governmental *activities* in the statement of activities are different because:

Capital outlays are reported in governmental funds as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives as depreciation expense. This is the amount by which capital outlays \$39,650,145 exceed depreciation expense (\$2,985,570) in the period. 36,664,575

Debt service: In governmental funds, repayments of long-term debt are reported as expenditures. In the government-wide statements, repayments of long term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 1,306,000

Debt proceeds: In governmental funds, proceeds from debt are recognized as other financing sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt, net of issue premium or discount, were: (25,255,000)

Debt issue costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is: 468,808

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt 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. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period, was: (927,104)

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: (4,122)

Amortization of debt issue premium or discount: In governmental funds, if debt is issued at a premium or at a discount, the premium or discount is recognized as an other financing source or an other financing use in the period it is incurred. In the government-wide statements, the premium or discount is amortized as interest over the life of the debt. Amortization of premium or discount for the period is: (26,455)

Internal Service Funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net decrease in internal service funds was: (65,937)

Change in net assets of governmental activities \$ 21,051,903

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

OCEANSIDE UNIFIED SCHOOL DISTRICT
Statement of Fund Assets – Proprietary Funds
June 30, 2006

	Governmental Activities: Self-Insurance Fund
ASSETS	
Cash	\$ 893,323
Accounts receivable	8,038
Prepaid expenses	202,681
Total Assets	\$ 1,104,042
LIABILITIES	
Claims payable	159,782
Due to other funds	28,399
Total Liabilities	188,181
NET ASSETS	
Unrestricted	915,861
Total Net Assets	\$ 915,861

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

OCEANSIDE UNIFIED SCHOOL DISTRICT
Statement of Revenues, Expenses, and Changes in Fund Net Assets – Proprietary Funds
For the Year Ended June 30, 2006

	Governmental Activities: Self-Insurance Fund
	<hr/>
OPERATING REVENUES	
Contributions from other funds	\$ 1,675,798
	<hr/>
Total Operating Revenues	1,675,798
	<hr/>
OPERATING EXPENSES	
Insurance expense	1,767,224
	<hr/>
Total Operating Expenses	1,767,224
	<hr/>
Operating Income (Loss)	(91,426)
	<hr/>
NON-OPERATING REVENUES	
Interest income	25,489
	<hr/>
Total Non-Operating Revenues	25,489
	<hr/>
Change in net assets	(65,937)
	<hr/>
Net Assets, July 1, 2005	981,798
	<hr/>
Net Assets, June 30, 2006	\$ 915,861
	<hr/> <hr/>

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

OCEANSIDE UNIFIED SCHOOL DISTRICT
Statement of Cash Flows – Proprietary Funds
For the Year Ended June 30, 2006

	Governmental Activities: Self-Insurance Fund
CASH FLOWS FROM OPERATING ACTIVITIES	
Cash received from assessments made to other funds	\$ 1,672,173
Cash payments for insurance expenses	(1,719,647)
Net cash used by operating activities	(47,474)
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest income	25,489
Net cash provided by investing activities	25,489
Net decrease in cash	(21,985)
Cash, July 1, 2005	915,308
Cash, June 30, 2006	\$ 893,323
Reconciliation of operating income to net cash used by operating activities:	
Operating income	(91,426)
Adjustments to reconcile operating income to net cash provided by operating activities:	
Changes in assets and liabilities:	
Increase in internal activity	24,774
Decrease in prepaid expenses	49,416
Decrease in accounts payable	(15,912)
Decrease in claims payable	(14,326)
Net cash used by operating activities	\$ (47,474)

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

OCEANSIDE UNIFIED SCHOOL DISTRICT
Statement of Fiduciary Net Assets – Agency Funds
As of June 30, 2006

	Student Body Funds
Assets	
Deposits and Investments	\$ 532,394
Accounts Receivable	20,285
Inventory	<u>37,459</u>
Total Assets	<u><u>\$ 590,138</u></u>
Liabilities	
Accounts Payable	\$ 126,339
Due to Student Groups	<u>463,799</u>
Total Liabilities	<u><u>\$ 590,138</u></u>

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

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

The Oceanside Unified School District and the Oceanside Unified School Facilities Corporation have a financial and operational relationship that meets the reporting entity definition criteria of GASB Statement No. 14, as amended by GASB 39, *Determining Whether Certain Organizations are Component Units*, for inclusion of the corporation as a component unit of the District. Accordingly, the financial activities of the component unit will be included in the financial statements of the District.

The following are those aspects of the relationship between the District and the corporation that satisfy GASB Statement No. 14 criteria.

Accountability:

1. The District's Board of Trustees appointed the corporation's board of directors.
2. The District is able to impose its will upon the corporation, based on the following:
 - a. All major financing arrangements, contracts, and other transactions of the corporation must have the consent of the District.
 - b. The District exercises significant influence over operations of the corporation, as the District is the sole lessee of all facilities owned by the corporation. Likewise, the District's lease payments are the major revenue source of the corporation.
3. The corporation provides specific financial benefits or imposes specific financial burdens on the District, based on the following:
 - a. Any deficits incurred by the corporation will be reflected in the lease payments of the District.
 - b. Any surpluses of the corporation revert to the District at the end of the lease period.
 - c. The District has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the corporations.

Scope of Public Service:

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 for the sole purpose of providing financial assistance to the District for the financing of construction and acquisition of major capital facilities and modernization of existing school sites. The District will lease certain school facilities from the corporation under a lease-purchase agreement.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (Continued)

A. Reporting Entity (continued)

Financial Presentation:

For financial presentation purposes, the corporation's financial activity will be blended, or combined, with the financial data of the District. The financial statements will present the corporation's financial activity within the General Fund. Certificates of Participation issued by the corporation will be included in the Statement of Net Assets.

B. Accounting Policies

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

C. Basis of Presentation

Government-wide Financial Statements:

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the non-fiduciary activities of the district.

The government-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the fiduciary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements, therefore, include reconciliation with brief explanations to better identify the relationship between the government-wide statements and the statements for the governmental funds.

Certain eliminations have been made as prescribed by GASB Statement No. 34 in regards to interfund activities, payables, and receivables. All internal balances in the Statement of Net Assets and Statement of Activities have been eliminated, including due to/from other funds and transfers in/out.

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

The government-wide statement of activities presents a comparison between direct expenses and program revenues for each function or program of the District's governmental activities. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the statement of activities. Program revenues include charges paid by the recipients of goods or services offered by a program, as well as grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues which are not classified as program revenues are presented as general revenues of the district, with certain exceptions. The comparison of direct expenses with program revenues identifies the extent to which each governmental function is self-financing or draws from the general revenues of the District.

Fund Financial Statements:

Fund financial statements report detailed information about the district. The focus of governmental fund financial statements is on major funds rather than reporting funds by type. Each major governmental fund is presented in a separate column, and all non-major funds are aggregated into one column. Fiduciary funds are reported by fund type.

The accounting and financial treatment applied to a fund is determined by its measurement focus. All government funds are accounted for using a flow of current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The Statement of Revenues, Expenditures, and Changes in Fund Balances for these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

All proprietary fund types are accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the proprietary fund's Statement of Fund Net Assets. The Statement of Revenues, Expenses, and Changes in Fund Net Assets for proprietary funds present increases (i.e., revenues) and decreases (i.e., expenditures) in net total assets. The statement of cash flows provides information about how the district finances and meets the cash flow needs of its proprietary activities.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Basis of Presentation (continued)

Proprietary funds distinguish operating revenues and expenses from non operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the internal service fund are charges to other fund for self insurance costs. Operating expenses for internal service funds include the costs of insurance premiums and claims related to self-insurance.

The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board (FASB) pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

Fiduciary funds are reported using the economic resources measurement focus.

D. Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. Government-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Fiduciary funds use the accrual basis of accounting.

Revenues — exchange and non-exchange transactions:

Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded under the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available.

"Available" means the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, "available" means collective within the current period or within 60 days after year end.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

D. Basis of Accounting (continued)

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, grants, and entitlements. Under the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants and entitlements is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are to be used or the fiscal year when use is first permitted; matching requirements, in which the district must provide local resources to be used for a specific purpose; and expenditure requirements, in which the resources are provided to the district on a reimbursement basis. Under the modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Deferred revenue:

Deferred revenue arises when assets are received before revenue recognition criteria have been satisfied. Grants and entitlements received before eligibility requirements are met are recorded as deferred revenue. On governmental fund financial statements, receivables associated with non-exchange transactions that will not be collected within the availability period have also been recorded as deferred revenue.

Expenses / expenditures:

On the accrual basis of accounting, expenses are recognized at the time a liability is incurred. On the modified accrual basis of accounting, expenditures are generally recognized in the accounting period in which the related fund liability is incurred, as under the accrual basis of accounting. However, under the modified accrual basis of accounting, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due. Allocations of cost, such as depreciation and amortization, are not recognized in the governmental funds.

When both restricted and unrestricted resources are available for use, it is the District's policy to use restricted resources first, then unrestricted resources as they are needed.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting

The accounts of the District are organized on the basis of funds or account groups, 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 major, non-major, and fiduciary funds as follows:

Major Governmental Funds:

The *General Fund* is the general operating fund of the District. It is used to account for all financial resources except those required to be accounted for in another fund.

The *Building Fund* is used to account for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.

The *County School Facilities Fund* is used to account for state apportionments provided for modernization of school facilities under SB50.

Non-Major Governmental Funds:

Special Revenue Funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes. The District maintains four non-major special revenue funds:

1. The *Adult Education Fund* is used to account for resources committed to adult education programs maintained by the District.
2. The *Cafeteria Fund* is used to account for revenues received and expenditures made to operate the District's food service operations.
3. The *Deferred Maintenance Fund* is used for the purpose of major repair or replacement of District property.
4. The *Child Development Fund* is used to account separately for federal, state and local revenue to operate child development programs for preschool students. State preschool programs operate at several schools serving students from low income families.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

E. Fund Accounting (continued)

Capital Projects Funds are used to account for the acquisition and/or construction of major governmental general fixed assets. The District maintains one non-major capital projects fund:

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

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

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

Proprietary Funds:

Internal Service Funds are used to account for services rendered on a cost-reimbursement basis within the District. The District maintains one internal service fund, the Self-Insurance Fund.

Fiduciary Funds:

Agency Funds are used to account for assets of others for which the District acts as an agent. The District maintains two agency funds, one for each school that operates a student body fund. The amounts reported for student body funds represent the combined totals of all schools within the District.

F. 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. All encumbrances are liquidated as of June 30.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Budgets and Budgetary Accounting

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

These budgets are revised by the District's governing board during the year to give consideration to unanticipated income and expenditures. It is the original and final revised budget that is presented for the General Fund in the financial statements.

Formal budgetary integration was employed as a management control device during the year for all budgeted funds. The District employs budget control by minor object and by individual appropriation accounts. Expenditures cannot legally exceed appropriations by major object account.

H. Assets, Liabilities, and Equity

1. Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition. Cash held in the county treasury is recorded at cost, which approximates fair value, in accordance with GASB Statement No. 31.

2. Stores Inventories

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time the individual inventory items are requisitioned. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

3. Capital Assets

The accounting and reporting treatment applied to the capital assets associated with a fund is determined by its measurement focus. Capital assets are reported in the governmental activities column of the government-wide statement of net assets, but are not reported in the fund financial statements.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

3. Capital Assets (continued)

Capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The District maintains a capitalization threshold of \$5,000. The District does not own any infrastructure as defined in GASB No. 34. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized.

All reported capital assets, except for land and construction in progress, are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Lives</u>
Buildings and Improvements	25-50 years
Furniture and Equipment	15-20 years
Vehicles	8 years

4. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceed qualified expenditures.

5. Compensated Absences

All vacation pay plus related payroll taxes is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in the governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken because 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 when the employee retires.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Assets, Liabilities, and Equity (continued)

6. Long-Term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the Statement of Net Assets. Bond premiums and discounts as well as issuance costs are deferred and amortized over the life of the bonds using the effective-interest method. Bonds payable are reported net of applicable bond premium or discount. Bond issuance costs are reported as prepaid expenditures and amortized over the term of the related debt. In the fund financial statements, governmental funds recognize bond premiums and discounts as well as bond issuance costs, during the current period. The face amount of the debt issued, premiums, or discounts is reported as other financing sources/uses.

7. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of the fund balance not appropriable for expenditure or amounts legally segregated for a specific future use.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

8. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvements of those assets. Net assets are reported as restricted when there are limitations imposed on their use through external restrictions imposed by donors, grantors, or laws or regulations of other governments.

I. Revenue Limit/Property Tax

The District's revenue limit is received from a combination of local property taxes, state apportionments, and other local sources.

The county is responsible for assessing, collecting, and apportioning property taxes. Taxes are levied for each fiscal year on taxable real and personal property in the county. The levy is based on the assessed values as of the preceding March 1, which is also the lien date. Property taxes on the secured roll are due on November 1 and February 1, and taxes become delinquent after December 10 and April 10, respectively. Property taxes on the unsecured roll are due on the lien date (March 1), and become delinquent if unpaid by August 31.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

I. Revenue Limit/Property Tax (continued)

Secured property taxes are recorded as revenue when apportioned, in the fiscal year of the levy. The county apportions secured property tax revenue in accordance with the alternative method of distribution prescribed by Section 4705 of the California Revenue and Taxation Code. This alternate method provides for crediting each applicable fund with its total secured taxes upon completion of the secured tax roll – approximately October 1 of each year.

The County Auditor reports the amount of the District's allocated property tax revenue to the California Department of Education. Property taxes are recorded as local revenue limit sources by the District.

The California Department of Education reduces the District's entitlement by the District's local property tax revenue. Because the District's local property tax revenue exceeds its total base revenue limit, the District receives from the state General Fund only an amount known as "basic aid". The basic aid entitlement is equal to amounts for various other supplemental instructional programs.

J. Use of Estimates

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

K. New GASB Pronouncements

The Governmental Accounting Standards Board (GASB) has issued the following statements which became effective in the 2005-06 fiscal year.

In November 2003, GASB issued Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes guidance for accounting and reporting for impairment of capital assets and for insurance recoveries, whether associated with an impaired capital asset or not.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 1 - SIGNIFICANT ACCOUNTING POLICIES (continued)

K. New GASB Pronouncements (continued)

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

This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if the legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation.

In June 2005, GASB issued Statement No. 47, *Accounting for Termination Benefits*. The Statement requires employers to recognize a liability and expense for voluntary termination benefits (for example, early retirement incentives) when the offer is accepted and the amount can be estimated. It also requires certain financial statement disclosures describing the termination benefit arrangement, the cost, and methods of assumptions used to determine the liabilities.

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2006 are classified in the accompanying financial statements as follows:

Governmental activities	\$ 54,327,049
Fiduciary funds	532,394
Total deposits and investments	<u>\$ 54,859,443</u>

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Deposits and investments as of June 30, 2006 consist of the following:

Cash in county treasury	\$	53,747,733
Cash on hand and in banks		673,421
Cash in revolving fund		90,000
Investments		348,289
		<hr/>
Total deposits and investments	\$	54,859,443
		<hr/>

Policies and Practices

The District is authorized under California Government Code to make direct investments in local agency bonds, notes, or warrants within the State; U.S. Treasury instruments; registered State warrants or treasury notes; securities of the U.S. Government, or its agencies; bankers acceptances; commercial paper; certificates of deposit placed with commercial banks and/or savings and loan companies; repurchase or reverse repurchase agreements; medium term corporate notes; shares of beneficial interest issued by diversified management companies, certificates of participation, obligations with first priority security; and collateralized mortgage obligations.

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury and in Money Market Mutual Fund U.S. Treasury Fund obligations. The District maintains an investment with the San Diego County Investment Pool with a fair value of approximately \$53,328,502 and an amortized book value of \$53,747,733. The average weighted maturity for this pool is 177 days. In addition, the District maintains investments in JP Morgan money market funds with an amortized cost of \$348,289. Fair value for this investment approximates amortized cost. The average weighted maturity for this pool is 177 days.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 2 – DEPOSITS AND INVESTMENTS (continued)

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The investment with the San Diego County Investment Pool is rated AAf/S1 by Moody's Investor Service. The investment with JP Morgan money market funds is rated Aaa by Moody's Investor Service.

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government code requires that a financial institution secure deposits made by State or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under State law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2006, \$573,421 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agency, but not in the name of the District.

Concentration of Credit Risk

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

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 3 – ACCOUNTS RECEIVABLE

Accounts receivable as of June 30, 2006 consist of the following:

	General Fund	Building Fund	County School Facilities Fund	Non-Major Governmental Funds	Proprietary Funds	Totals
Federal Government:						
Federal programs	\$ 1,622,386	\$ -	\$ -	\$ 1,080,563	\$ -	\$ 2,702,949
State Government:						
Revenue limit	2,131,086	-	-	28,870	-	2,159,956
State programs	3,981,717	-	-	9,711	-	3,991,428
Categorical programs	1,714,515	-	-	20,212	-	1,734,727
Lottery	830,742	-	-	-	-	830,742
Local:						
Other	-	-	-	201,304	-	201,304
Interest	158,639	184,289	87,704	207,337	8,038	646,007
Totals	<u>\$ 10,439,085</u>	<u>\$ 184,289</u>	<u>\$ 87,704</u>	<u>\$ 1,547,997</u>	<u>\$ 8,038</u>	<u>\$ 12,267,113</u>

NOTE 4 – CAPITAL ASSETS AND DEPRECIATION

Capital asset activity for the year ended June 30, 2006 is shown below:

	Beginning Balance July 1, 2005	Additions	Disposals	Ending Balance June 30, 2006
Land	\$ 16,835,264	\$ 69,300	\$ -	\$ 16,904,564
Land improvements	6,257,426	139,133	-	6,396,559
Buildings and improvements	108,056,730	23,690,146	-	131,746,876
Furniture and equipment	13,681,310	469,935	958,011	13,193,234
Work in progress	32,861,593	38,036,338	21,796,695	49,101,236
Total at historical cost	<u>177,692,323</u>	<u>62,404,852</u>	<u>22,754,706</u>	<u>217,342,469</u>
Less accumulated depreciation:				
Site improvements	3,457,985	223,063	-	3,681,048
Buildings and improvements	24,559,052	2,764,991	(55,155)	27,379,198
Furniture and equipment	10,527,386	1,042,080	1,099,718	10,469,748
Total accumulated depreciation	<u>38,544,423</u>	<u>4,030,134</u>	<u>1,044,563</u>	<u>41,529,994</u>
Governmental activities capital assets, net	<u>\$ 139,147,900</u>	<u>\$ 58,374,718</u>	<u>\$ 21,710,143</u>	<u>\$ 175,812,475</u>

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 5 - INTERFUND ACTIVITIES

Interfund activity is reported as loans, services provided reimbursements, or transfers. Loans are reported as interfund receivables and payables, as appropriate, and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures/expenses. Reimbursements are when one fund incurs a cost, charges the appropriate benefiting fund, and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers among governmental or proprietary funds are netted as part of the reconciliation to the government-wide financial statements.

Due From/Due To Other Funds

Individual fund interfund receivable and payable balances as of June 30, 2006 are as follows:

	Due From Other Funds			
	General Fund	Building Fund	Other Funds	Total
General Fund	\$ 57,255		\$ 845,300	\$ 902,555
Building Fund			2,198	2,198
Other Funds	80,302	11,113	62,306	153,721
Self-Insurance Fund			28,400	28,400
	<u>\$ 137,557</u>	<u>\$ 11,113</u>	<u>\$ 938,204</u>	<u>\$ 1,086,874</u>

The Child Dev Fund is owed from the General Fund for adjustment to indirect charges	\$ 5,101
The Adult Ed Fund is owed from the General Fund for incorrect posting entry	9,059
The Child Nutrition Fund is owed from the Child Dev Fund for cafeteria sales	18,363
The Child Nutrition Fund is owed from the General Fund for cafeteria sales	31,982
The Building Fund is owed from the General Fund for clerical expenses attributed to General fund	11,113
The Self-Insurance Fund owes the Capital Facilities Fund for incorrect posting of funds	28,399
The General Fund owes the Deferred Maintenance Fund the state required match	845,300
The General Fund owes the Child Nutrition Fund for cafeteria sales	31,982
The General Fund owes the Building Fund clerical expenses attributed to the General Fund	11,113
The General Fund owes to the Adult Ed Fund for incorrect posting entry	9,059
The General Fund owes to the Child Dev Fund for adjustment to indirect charges	5,101
The Child Dev Fund owes the General Fund for rent	46,656
The Child Nutrition and Adult Ed Funds owe the General Fund for publication costs	2,093
The Capital Facilities Fund owes the General Fund for Admin Fees	31,553
Total	<u>\$ 1,086,874</u>

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 5 - INTERFUND ACTIVITIES (Continued)

Interfund Transfers

Interfund transfers consist of operating transfers from funds receiving resources to funds through which the resources are to be expended. Interfund transfers for the 2005-06 fiscal year are as follows:

	Interfund Transfers Out	
	General	
	Fund	Total
Other Funds	740,713	740,713
	<u>\$ 740,713</u>	<u>\$ 740,713</u>
Transfer from the General Fund to the Deferred Maintenance		
Fund for the state match		<u>\$ 740,713</u>
Total		<u>\$ 740,713</u>

NOTE 6 – GENERAL LONG-TERM DEBT

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

	Balance	Additions	Deletions	Balance	Due Within
	June 30, 2005			June 30, 2006	One Year
General obligation bonds	\$ 72,960,000	\$ 25,000,000	\$ 1,040,000	\$ 96,920,000	\$ 1,725,000
Capital leases	130,000	-	26,000	104,000	46,428
Certificates of participation	1,945,000	-	240,000	1,705,000	250,000
Compensated absences	641,435	4,122	-	645,557	645,557
Totals	<u>\$ 75,676,435</u>	<u>\$ 25,004,122</u>	<u>\$ 1,306,000</u>	<u>\$ 99,374,557</u>	<u>\$ 2,666,985</u>

A. General Obligation Bonds

The outstanding bonded debt of Oceanside Unified School District at June 30, 2006 is:

Issue Date	Maturity Date	Interest Rate	Original Issue	Beginning Balance	Issued	Redeemed	Ending Balance
06/15/00	08/01/30	5.0-8.0%	\$ 9,500,000	\$ 9,045,000	\$ -	\$ 155,000	\$ 8,890,000
05/17/01	08/01/31	4.0-7.0%	20,000,000	19,255,000	-	345,000	18,910,000
03/21/02	08/01/32	4.1-7.0%	20,000,000	19,660,000	-	345,000	19,315,000
05/05/04	08/01/33	3.0-5.0%	25,000,000	25,000,000	-	195,000	24,805,000
06/22/05	08/01/34	3.625-5.0%	25,000,000	-	25,000,000	-	25,000,000
			<u>\$ 99,500,000</u>	<u>\$ 72,960,000</u>	<u>\$ 25,000,000</u>	<u>\$ 1,040,000</u>	<u>\$ 96,920,000</u>

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 6 – GENERAL LONG-TERM DEBT (Continued)

The annual requirements to amortize all general obligation bonds payable, outstanding as of June 30, 2006, are as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	\$ 1,725,000	\$ 4,700,334	\$ 6,425,334
2007-2008	1,900,000	4,611,634	6,511,634
2008-2009	1,985,000	4,512,246	6,497,246
2009-2010	2,080,000	4,402,471	6,482,471
2010-2011	2,185,000	4,290,776	6,475,776
2011-2016	12,540,000	19,800,436	32,340,436
2016-2021	15,755,000	16,503,844	32,258,844
2021-2026	19,940,000	12,157,880	32,097,880
2026-2031	25,255,000	6,570,784	31,825,784
2031-2035	13,555,000	993,878	14,548,878
Total	<u>\$ 96,920,000</u>	<u>\$ 78,544,284</u>	<u>\$ 175,464,284</u>

B. Capital Leases

The District leases equipment under agreements that provide for title to pass upon expiration of the lease period. Future minimum lease payments are as follows:

<u>Fiscal Year</u>	<u>Payment</u>
2006-2007	\$ 26,000
2007-2008	26,000
2008-2009	26,000
2009-2010	26,000
Total	<u>104,000</u>
Present Value of Net Minimum Lease Payments	<u>\$ 104,000</u>

The District will receive no sublease rental revenues nor pay any contingent rentals for the equipment.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 6 – GENERAL LONG-TERM DEBT (Continued)

C. Certificates of Participation

On September 9, 1997 the Oceanside Unified School District issued certificates of participation in the amount of \$4,500,000 for the construction of certain improvements through the Oceanside Unified School Facilities Corporation and having stated interest rates ranging from 4.1% to 5.0%. At June 30, 2006 the principal balance outstanding on the certificates was \$1,705,000.

The certificates mature through 2012 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006-2007	\$ 250,000	\$ 80,309	\$ 330,309
2007-2008	265,000	68,378	333,378
2008-2009	275,000	55,671	330,671
2009-2010	290,000	42,053	332,053
2010-2012	625,000	39,500	664,500
Totals	<u>\$ 1,705,000</u>	<u>\$ 285,911</u>	<u>\$ 1,990,911</u>

NOTE 7 - COMMITMENTS AND CONTINGENCIES

A. State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to review and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

B. Litigation

The District is the defendant in a number of lawsuits arising principally in the normal course of operations. In the opinion of the administration, the outcome of these lawsuits will not have a materially adverse effect on the accompanying combined financial statements and accordingly, no provision for losses has been recorded.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 7 - COMMITMENTS AND CONTINGENCIES (Continued)

C. Construction Commitments

As of June 30, 2006, there was \$22,115,750 million in outstanding construction commitments to construction, engineering and architectural firms related to the new construction and modernization of various school sites.

NOTE 8 – JOINT VENTURES (Joint Powers Agreement)

The Oceanside Unified School District participates in joint ventures under joint powers agreements (JPA) with the San Diego County Schools Fringe Benefits Consortium (FBC) and San Diego County Schools Risk Management JPA (RM). The relationships between the Oceanside Unified School District and the JPAs are such that the JPAs are not a component unit of the District for financial reporting purposes.

The JPAs provide for health and welfare, medical, workers' compensation, property and liability insurance for member districts. The JPAs are governed by a board consisting of a representative from each member district. The governing board controls the operations of its JPAs independent of any influence by the member districts beyond their representation on the governing board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionately to its participation in the JPAs. Condensed audited financial information for the year ended June 30, 2005 is as follows:

	<u>FBC</u>	<u>RM</u>
Total Assets	\$ 12,561,074	\$ 58,476,912
Total Liabilities	<u>6,823,148</u>	<u>42,046,944</u>
Fund Equity	<u>\$ 5,737,926</u>	<u>\$ 16,429,968</u>
Total Revenue	\$ 49,632,326	\$ 55,883,003
Total Expenditures	<u>47,780,563</u>	<u>46,992,137</u>
Net Income	<u>\$ 1,851,763</u>	<u>\$ 8,890,866</u>

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 9 - EMPLOYEE RETIREMENT PLANS

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 Public Employees' Retirement System (PERS).

Plan Description and Provisions

Public Employees' Retirement System (PERS)

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.

Funding Policy

Active plan members are required to contribute 7.0% 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 2005-06 was 9.116%. The contribution requirements of the plan members are established by State statute. The District made \$2,172,482 in contributions to CalPERS for the fiscal year ending June 30, 2006, \$2,389,410 in contributions to CalPERS for the fiscal year ending June 30, 2005, and \$1,648,090 in contributions to CalPERS for the fiscal year ending June 30, 2004, which represents 100% of the required contributions for each fiscal year.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 9 - EMPLOYEE RETIREMENT PLANS (continued)

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 STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8.0% of their salary. The required employer contribution rate for fiscal year 2005-06 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, 2006, 2005, and 2004, were \$6,578,447, \$6,929,239, and \$6,504,168, respectively, and equal 100% of the required contributions for each year.

On-Behalf Payments

The District was the recipient of on-behalf payments made by the State of California to STRS for K-12 education. These payments consist of state general fund contributions of \$3,601,799 to STRS (4.517% of salaries subject to STRS).

NOTE 10- RISK MANAGEMENT

The District is exposed to various risks of loss related to torts, thefts, damage to District assets, errors and omissions, employee injuries and natural disasters. The District participates in a public entity risk pool, as described in Note 8, is self-insured for dental and vision benefits and purchases commercial insurance coverage for other types of risk. There have been no significant reductions in insurance coverage from the prior year. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

The General Fund makes payments to the Self-Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current claims and establish a liability for incurred but not reported (IBNR) claims. The District has adjusted the outstanding claims payable based on information provided by their claim administrator relating to claims liabilities to bring the total liability for insurance claims at June 30, 2006 to \$159,782.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 10- RISK MANAGEMENT (Continued)

Changes in the claims payable in fiscal year 2006 and 2005 were as follows:

	2006	2005
Claims payable at beginning of year	\$ 174,108	\$ 159,828
Current year claims and changes in estimates	1,703,481	1,627,386
Claims payments	<u>(1,717,807)</u>	<u>(1,613,106)</u>
Claims payable at end of year	<u>\$ 159,782</u>	<u>\$ 174,108</u>

NOTE 11 – FUND BALANCES

The following amounts were designated by the Board of Education as follows:

	<u>General Fund</u>
Restricted:	
Stores, Revolving Cash	\$ 154,580
Restricted Reserves	8,085,887
Designated for:	
Band uniforms	25,000
H/W excess premium carry-over	72,734
Retiree benefits liability	845,118
ITFS set-aside	179,500
COP reserve	348,289
Erate rebate	338,609
Lottery reserve for opening/closing schools	2,026,646
Site carry-over	588,262
Reserve for economic uncertainties	<u>12,398,771</u>
	<u>\$ 25,063,396</u>

OCEANSIDE UNIFIED SCHOOL DISTRICT
Notes to Financial Statements
June 30, 2006

NOTE 12 –GASB STATEMENT NO. 45

In June 2004, the Governmental Accounting Standards Board (GASB) issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The pronouncement will require employers providing postemployment benefits, commonly referred to as other postemployment benefits, or OPEB, to recognize and account for the costs of providing these benefits on an accrual basis and provide footnote disclosure on the progress toward funding the benefits. The implementation date for this pronouncement will be phased in over three years based upon the entity's revenues. GASB Statement No. 45 will be effective for the Oceanside Unified School District beginning in the 2007-08 fiscal year. The effect of this pronouncement on the financial condition of the District has not been determined.

NOTE 13 – ADJUSTMENTS FOR RESTATEMENT

The beginning net asset and fund balance was restated by \$250,000 as shown below:

To correct the Bond Interest & Redemption Fund balance	<u><u>\$ 250,000</u></u>
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NOTE 14 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

As of June 30, 2006, expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
General Fund:	
Other outgo	\$ 206,247
Total	<u><u>\$ 206,247</u></u>

Required Supplementary Information

OCEANSIDE UNIFIED SCHOOL DISTRICT
Budgetary Comparison Schedule – General Fund
June 30, 2006

	Budgeted Amounts		Actual (Budgetary Basis)	Variance with Final Budget - Pos (Neg)
	Original	Final		
Revenues				
Revenue Limit Sources	\$ 105,264,672	\$ 105,403,298	\$ 105,421,665	\$ 18,367
Federal	18,967,385	20,281,091	18,436,474	(1,844,617)
Other State	21,025,111	25,425,457	25,018,360	(407,097)
Other Local	9,420,907	12,294,997	12,110,185	(184,812)
Total Revenues	154,678,075	163,404,843	160,986,684	(2,418,159)
Expenditures				
Certificated Salaries	83,454,812	82,216,330	80,550,983	1,665,347
Classified Salaries	24,357,115	24,720,155	24,003,745	716,410
Employee Benefits	30,539,589	28,879,659	28,057,736	821,923
Books and Supplies	6,331,785	10,726,576	9,059,165	1,667,411
Services and Other Operating Expenditures	10,802,392	12,370,773	11,372,770	998,003
Capital Outlay	244,899	522,293	520,840	1,453
Other Outgo	1,947,645	2,082,393	2,288,640	(206,247)
Direct Support/Indirect Costs	(333,092)	(297,086)	(336,660)	39,574
Total Expenditures	157,345,145	161,221,093	155,517,219	5,703,874
Excess (Deficiency) of Revenues Over (Under) Expenditures	(2,667,070)	2,183,750	5,469,465	3,285,715
Other Financing Sources and Uses				
Interfund transfers out	(845,300)	(740,713)	(740,713)	-
Total Other Financing Sources and Uses	(845,300)	(740,713)	(740,713)	-
Excess (Deficiency) of Revenues and Other Financing Sources Over (Under) Expenditures and Other Financing Uses	(3,512,370)	1,443,037	4,728,752	3,285,715
Fund Balances, July 1, 2005	20,334,644	20,334,644	20,334,644	-
Fund Balances, June 30, 2006	\$ 16,822,274	\$ 21,777,681	\$ 25,063,396	\$ 3,285,715

Supplementary Information Section

OCEANSIDE UNIFIED SCHOOL DISTRICT

History and Organization

June 30, 2006

The Oceanside Unified School District was established in 1970. The district boundaries encompass the city of Oceanside, as well as part of Marine Corps Base-Camp Pendleton. There were no changes in the boundaries of the district during the current year. The district provides primary and secondary education for all students within the district boundaries. The district is currently operating twenty-four schools: Challenges Community Day School/Clair W. Burgener Academy, Del Rio Elementary, Ditmar Elementary, El Camino High, Garrison Elementary, Ivey Ranch Elementary, Jefferson Middle, King Middle, Laurel Elementary, Libby Elementary, Lincoln Middle, McAuliffe Elementary, Mission Elementary, Nichols Elementary, North Terrace Elementary, Ocean Shores High, Oceanside High, Pacifica Elementary, Palmquist Elementary, Reynolds Elementary, San Luis Rey Elementary, Santa Margarita Elementary, South Oceanside Elementary, and Stuart Mesa Elementary.

GOVERNING BOARD

Member	Office	Term Expires
Emily Ortiz Wichmann	President	December, 2006
Lillian V. Adams	Vice President	December, 2006
Janet Bledsoe Lacy	Clerk	December, 2006
Adrienne Hakes	Member	December, 2008
Roy Youngblood	Member	December, 2008

DISTRICT ADMINISTRATORS

Kenneth A. Noonan
Superintendent

Larry Perondi, Deputy Superintendent
Deputy Superintendent

Dr. Robyn Phillips
Associate Superintendent, Business Services

Jose Banda
Associate Superintendent, Human Resources

Brian Sullivan
Associate Superintendent, School Services

Karen Huddleston
Controller

OCEANSIDE UNIFIED SCHOOL DISTRICT
Schedule of Average Daily Attendance
Year Ended June 30, 2006

	Second Period Report	Annual Report
Elementary:		
Kindergarten	1,538	1538
Grades 1 through 3	4,817	4802
Grades 4 through 6	4,647	4628
Grades 7 and 8	2,766	2748
Home and Hospital	3	3
Special Education	447	452
Total Elementary	14,218	14,171
Secondary:		
Grades 9 Through 12, regular classes	4,604	4,539
Continuation Education	188	186
Home and Hospital	8	8
Special Education	237	231
Opportunity Schools	109	105
Total Secondary	5,146	5,069
Classes for Adults:		
Not Concurrently Enrolled	57	54
Total Adult Classes	57	54
Total Average Daily Attendance	19,421	19,294
	Hours of Attendance	
<u>Supplemental Instruction Hours</u>		
Elementary	43,920	
Secondary	210,322	

The note to the supplementary information is an integral part of this statement.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Schedule of Instructional Time
Year Ended June 30, 2006

Grade Level	1982-83	1986-87	2005-2006	Number of Days	Status
	Actual Minutes	Minutes Requirement		Traditional Calendar	
Kindergarten	36,000	36,000	36,000	180	Complied
Grades 1 through 3	45,000	50,400	55,360	180	Complied
Grades 4 through 6	50,000	54,000	55,360	180	Complied
Grades 7 through 8	55,000	54,000	65,960	180	Complied
Grades 9 through 12	61,300	64,800	72,695	180	Complied

The note to the supplementary information is an integral part of this statement.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Schedule of Financial Trends and Analysis
Year Ended June 30, 2006

General Fund	(Budget) 2007***	2006	2005	2004
Revenues and other financing sources	\$ 158,513,278	\$ 160,986,684	\$ 155,915,977	\$ 148,796,087
Expenditures, other uses and transfers out	164,116,609	156,257,932	162,145,899	151,056,983
Change in fund balance (deficit)	(5,603,331)	4,728,752	(6,229,922)	(2,260,896)
Ending fund balance	\$ 19,460,065	\$ 25,063,396	\$ 20,334,644	\$ 26,564,566
Available reserves*	\$ 10,223,817	\$ 12,398,770	\$ 11,915,145	\$ 23,020,770
Available reserves as a percentage of total outgo	6.2%	7.9%	7.3%	15.2%
Total long-term debt	\$ 96,707,572	\$ 99,374,557	\$ 75,676,435	\$ 82,043,663
Average daily attendance at P-2**	19,364	19,364	20,176	20,671

The General Fund balance has decreased by \$1,501,170 over the past two years. The fiscal year 2006-07 adopted budget projects a decrease of \$5,603,331. For a district of this size, the state recommends available reserves of at least 3% of total general fund expenditures, transfers out, and other uses (total outgo).

The District incurred operating deficits in two of the last three years. Long-term debt has increased by \$17,330,894. ADA has decreased by 1,307 over the past three years.

* Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty in the General Fund or Special Reserve Fund (Other than Capital Outlay).

**Excludes Adult Education ADA.

*** Adopted September 2006.

The note to the supplementary information is an integral part of this statement.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Schedule of Expenditures of Federal Awards
Year Ended June 30, 2006

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Federal Programs:			
U.S.Department of Agriculture:			
Passed through California Dept. of Education (CDE):			
Needy School Breakfast	10.553	13526	\$ 698,195
National School Lunch	10.555	13523	2,997,219
Summer Food Service	10.559	13004	64,860
Total U.S.Department of Agriculture			<u>3,760,274</u>
U.S. Department of Education:			
Impact Aid - P.L. 81.874	84.041	n/a	\$ 6,123,471
Passed through California Dept. of Education (CDE):			
No Child Left Behind Act (NCLB)			
Title I - Grants to Local Educational Agencies, Part A	84.010	13797	5,626,167
Title I - Part A Corrective Action	84.010A		203,920
Title II - Enhancing Education Through Technology	84.318	14334	201,691
Title II - Part A Impr Teacher Quality	84.367	14341	885,351
Title III - Immigrant Ed	84.365	14346	129,241
Title III - Limited English Proficiency	84.365	10084	442,532
Title IV - Safe and Drug Free Schools	84.186	14347	161,059
Title V - Part A, Innovative Education Strategies	84.298	14354	77,576
Vocational Education	84.048	13924	169,886
Migrant Education	84.011	13239	134,012
School Based Student Drug Testing	84.011		209,375
MEES	84.214		45,000
Adult Basic Education Act:			
English Literacy and Civics Education	84.002A	14109	29,250
21st Century Community Learning	84.287	14349	485,620
Individuals with Disabilities Education Act (IDEA):			
Preschool Grants	84.173	13430	347,571
Preschool Staff Development	84.173	13431	1,079
Basic Local Assistance Entitlement	84.027	13379	3,214,909
Low incidence	84.027		4,101
Local Staff Development	84.027	13613	7,757
Total U.S.Department of Education			<u>18,499,568</u>
U.S. Department of Health & Human Services:			
Passed through California Dept of Health Services:			
Medi-Cal Billing Options	93.778	10013	71,930
Child Dev Quality Improvement	93.575	14130	7,943
CDD Infant/Toddler CC Research	93.575	13942	7,155
Total U.S. Department of Health & Human Services			<u>76,188</u>
Total Expenditures of Federal Awards			<u>\$ 22,336,030</u>

The note to the supplementary information is an integral part of this statement.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Reconciliation of Annual Financial and Budget Report With Audited Financial Statements
Year Ended June 30, 2006

This Schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance as reported on the Unaudited Actuals to the audited financial statements.

	Self-Insurance Fund
	<hr/>
June 30, 2006, annual financial and budget report (SACS) fund balances	\$ 965,276
Adjustments and reclassifications:	
Increasing (decreasing) the fund balance:	
Overstatement of prepaid expenses	<hr/> (49,417)
Net adjustments and reclassifications	<hr/> (49,417)
June 30, 2006, audited financial statement fund balances	<hr/> <hr/> \$ 915,859

The note to the supplementary information is an integral part of this statement.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Schedule of Charter Schools
Year Ended June 30, 2006

The following charter schools are chartered by the Oceanside Unified School District:

<u>Charter Schools</u>	<u>Included</u>
Pacific View Charter School	No
School of Business and Technology Charter School	No
Coastal Academy Charter School	No

The note to the supplementary information is an integral part of this statement.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Note to the Supplementary Information
June 30, 2006

NOTE 1 – PURPOSE OF SCHEDULES

Schedule of Average Daily Attendance (ADA)

Average daily attendance (ADA) is a measurement of the number of pupils attending classes of the District. The purpose of attendance accounting from a fiscal standpoint is to provide the basis on which 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.

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 46200 through 46206.

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

Schedule of Financial Trends and Analysis

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

Schedule of Expenditures of Federal Awards

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

Subrecipients

Of the Federal expenditures presented in the schedule, the District provided no Federal awards to subrecipients.

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Charter Schools

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

Other Independent Auditors' Reports

NIGRO NIGRO & WHITE, PC

A PROFESSIONAL ACCOUNTANCY CORPORATION

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Elizabeth Nigro, CPA
Christy White, CPA

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of CPAs

California
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California
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State Board of
Accountancy

Board of Trustees
Oceanside Unified School District
Oceanside, California

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*

We have audited the financial statements of Oceanside Unified School District as of and for the year ended June 30, 2006, and have issued our report thereon dated September 15, 2006. We conducted our audit in accordance with generally accepted auditing standards 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 Oceanside 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 an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Oceanside Unified School District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Section II of the accompanying schedule of Findings and Questioned Costs.

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 caused by error or fraud 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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be materials weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Oceanside 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 non-compliance and other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Board, management, the California Department of Education, the 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.

A handwritten signature in black ink that reads "Nigro Nigro & White, PC". The signature is written in a cursive, flowing style.

San Diego, California
September 15, 2006

NIGRO NIGRO & WHITE, PC

A PROFESSIONAL ACCOUNTANCY CORPORATION

Jeff Nigro, CPA
Elizabeth Nigro, CPA
Christy White, CPA

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Board of Trustees
Oceanside Unified School District
Oceanside, California

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

Compliance

We have audited the compliance of Oceanside 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. Oceanside Unified School District's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of Oceanside Unified School District's management. Our responsibility is to express an opinion on Oceanside 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 Oceanside 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 Oceanside Unified School District's compliance with those requirements.

In our opinion, Oceanside 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.

Internal Control Over Compliance

The management of Oceanside 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 Oceanside 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.

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 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 caused by error or fraud 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 to 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, management, the California Department of Education, the 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.

A handwritten signature in black ink that reads "Nigro Nigro & White, PC". The signature is written in a cursive, flowing style.

San Diego, California
September 15, 2006

NIGRO NIGRO & WHITE, PC

A PROFESSIONAL ACCOUNTANCY CORPORATION

Jeff Nigro, CPA
Elizabeth Nigro, CPA
Christy White, CPA

Board of Trustees
Oceanside Unified School District
Oceanside, California

AUDITORS' REPORT ON STATE COMPLIANCE

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San Diego, CA 92108
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Fax: 619.260.9085

We have audited the basic financial statements of the Oceanside Unified School District, as of and for the year ended June 30, 2006, and have issued our report thereon dated September 15, 2006. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2005-06*, published by the Education Audit Appeals Panel. 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.

The District's management is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the District's compliance with the laws and regulations applicable to the following items:

Members of:

American
Institute
of CPAs

California
Society of
CPAs

California
Association
of School
Business
Officials

Community
Associations
Institute

Licensed by
the California
State Board of
Accountancy

Description	Procedures in Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	22	No (see below)
Continuation Education	10	Yes
Adult Education	9	No (see below)
Regional Occupational Centers and Programs	6	Not applicable
Instructional Time:		
School Districts	4	Yes
County Offices of Education	3	Not applicable
Community Day Schools	9	No (see below)
Morgan-Hart Class Size Reduction Program	7	Yes
Instructional Materials:		
General Requirements	12	Yes
K-8 only	1	Yes
Grades 9-12 only	1	Yes

Description	Procedures in Audit Guide	Procedures Performed
Ratios of Administrative Employees to Teachers	1	Yes
Early Retirement Incentive Program	4	Not applicable
Gann Limit Calculation	1	Yes
School Construction Funds:		
School District Bonds	3	Yes
State School Facilities Funds	1	Yes
Alternative Pension Plans	2	Not applicable
Proposition 20 Lottery Funds	2	Yes
State Lottery Funds	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not applicable
School Accountability Report Card	3	Yes
Class Size Reduction Program:		
General Requirements	7	Yes
Option One	3	Yes
Option Two	4	Not applicable
Districts with only one school serving K-3	4	Not applicable
Charter Schools:		
Contemporaneous Records of Attendance	1	Not applicable
Nonclassroom-Based Instruction/Independent Study	15	Not applicable
Additional Nonclassroom-Based Instruction	1	Not applicable
Determination of Funding for Nonclassroom-Based Instruction	3	Not applicable
Annual Instructional Minutes – Classroom Based	3	Not applicable

We did not perform tests of Independent Study, Community Day School and Adult Education because the ADA reported was immaterial.

Based on our audit, we found that, for the items tested, the Oceanside Unified School District complied with the state laws and regulations referred to above. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Oceanside Unified School District had not complied with the state laws and regulations.

This report is intended solely for the information and use of the Board, management, the California Department of Education, the 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.

Rigto Rigto & White, PC

San Diego, California
September 15, 2006

Findings and Questioned Costs Section

OCEANSIDE 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	<u>Unqualified</u>
Internal control over financial reporting:	
Material weakness(es) identified?	<u>No</u>
Reporting condition(s) identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

Federal Awards

Internal control over major programs:	
Material weakness(es) identified?	<u>No</u>
Reporting condition(s) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>

Identification of major programs:

<u><i>CFDA Numbers</i></u>	<u><i>Name of Federal Program or Cluster</i></u>
<u>84.027</u>	<u>IDEA Basic Local Assistance Entitlement</u>
<u>10.555</u>	<u>Child Nutrition Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 676,315</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

State Awards

Internal control over state programs:	
Material weakness(es) identified?	<u>No</u>
Reporting condition(s) identified not considered to be material weaknesses?	<u>No</u>
Type of auditor's report issued on compliance for state programs:	<u>Unqualified</u>

OCEANSIDE UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2006

Section II – Financial Statement Findings

This section identifies the reportable conditions, material weaknesses, and instances of noncompliance related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. Pursuant to Assembly Bill (AB) 3627, all audit findings must be identified as one or more of the following six categories:

<u>Five Digit Code</u>	<u>AB 3627 Finding Types</u>
10000	Attendance
20000	Inventory of Equipment
30000	Internal Control
40000	State Compliance
50000	Federal Compliance
60000	Miscellaneous
70000	Instructional Materials
71000	Teacher Misassignments
72000	School Accountability Report Card

Finding #2006-1: Cafeteria Bank Reconciliation (30000)

The cafeteria bank account was not reconciled as of June 30, 2006 and reconciliations for prior months were not on file and available for audit. In effect, we were unable to verify that the bank account had been reconciled during 2005-06.

Recommendation: Ensure that the cafeteria bank account is reconciled monthly on a timely basis.

District Response: The cafeteria bank account has now been reconciled through June 30, 2006, and a procedure is in place to ensure that bank reconciliations are done regularly and presented to the Controller for verification by the 20th of the succeeding month.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2006

Section III – Federal Award Findings and Questioned Costs

This section identifies the audit findings required to be reported by Circular A-133, Section .510(a) (e.g., reportable conditions, material weaknesses, and instances of noncompliance, including questioned costs).

There were no audit findings and questioned costs related to federal awards during 2005-06.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Schedule of Audit Findings and Questioned Costs
Year Ended June 30, 2006

Section IV – State Award Findings and Questioned Costs

This section identifies the audit findings pertaining to noncompliance with state program rules and regulations.

There were no audit findings and questioned costs related to state awards during 2005-06.

OCEANSIDE UNIFIED SCHOOL DISTRICT
Schedule of Prior Year Audit Findings and Questioned Costs
Year Ended June 30, 2006

There were no prior year audit findings or questioned costs.