

Annual Report

Poway Unified School District
Series 2003 Special Tax Bonds of
Community Facilities District No. 1

January 31, 2007

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Exhibits

Exhibit A: Poway Unified School District Audited Financial Statements

Exhibit B: Detailed Direct and Overlapping Debt Report

Exhibit C: Report to the California Debt and Investment Advisory Commission

Introduction

This Annual Report ("Report") has been prepared pursuant to the Continuing Disclosure Agreement ("Disclosure Agreement") executed in connection with the issuance of Series 2003 Special Tax Bonds ("Bonds") by Community Facilities District ("CFD") No. 1 of the Poway Unified School District ("School District") in the amount of \$5,815,835.10. The Bonds were issued pursuant to a Bond Indenture dated January 1, 1998 ("Master Bond Indenture"), by and between the District and Zions First National Bank, successor to First Trust of California, N.A., as fiscal agent ("Fiscal Agent") as supplemented by a First Supplemental Bond Indenture dated January 1, 2003, by and between the CFD and the Fiscal Agent ("Supplemental Bond Indenture" together with the Master Bond Indenture, the "Bond Indentures"). The Bonds were issued (i) to finance the acquisition and construction of certain school facilities ("School Facilities"), (ii) to acquire a Debt Service Reserve Fund Surety Bond in an amount equal to the Reserve Requirement for the Bonds, (iii) to pay interest on the Bonds through October 1, 2003 and (iv) to pay the costs of issuing the 2003 Bonds.

I. Audited Financial Statements

A copy of the School District's annual audited financial statements is included as Exhibit A.

II. Principal Amount of Series 1998 and Series 2003 Bonds Outstanding

As if January 1, 2007 the outstanding principal amount of the Series 1998 and Series 2003 Bonds was \$56,450,000 and \$5,790,835.10, respectively.

III. Bond Fund Balance

As of January 1, 2007, the balance in the Bond Fund was \$0.00.

IV. Reserve Fund Balance

A Debt Service Reserve Fund Surety Bond has been acquired and is currently being held by the MBIA insurance company in an amount equal to the Reserve Requirement for the Bonds. The Reserve Requirement, is an amount equal to the lesser of (i) ten percent (10%) of the original proceeds of the Bonds (ii) one hundred percent (100%) of the remaining maximum annual debt service on the Bonds (iii) one hundred and twenty-five percent (125%) of the average annual debt service on the Bonds. As of January 1, 2007, the Reserve Requirement of the Bonds was \$581,583.51.

V. Fund and Account Balances

The balance in each fund account and subaccount of the Bonds as of January 1, 2007, is listed in Table 1.

Table 1
Fund, Account, and Subaccount Balances (As of 1/01/07)

Fund, Account, or Subaccount	Balance
Special Tax Fund	\$4,004,895.58
Series 2003 Administrative Expense Fund	\$119,087.60
Improvement Fund	\$0.00
Series 2003 Cost of Issuance Account of the Improvement Fund	\$0.00
Series 2003 Improvement Account of the Improvement Fund	\$12.22
Bond Fund	\$0.00
Series 2003 Principal Account of the Bond Fund	\$0.00
Series 2003 Interest Account of the Bond Fund	\$0.00
Redemption Fund	\$0.00
Series 2003 Optional Redemption Account of the Redemption Fund	\$0.00
Series 2003 Sinking Fund Redemption Account of the Redemption Fund	\$0.00
Series 2003 Reserve Fund [1]	\$2.00
Rebate Fund	\$0.00
Series 2003 Rebate Account of the Rebate Fund	\$0.00
Special Revenue Fund	\$174.13
[1] Reserve Requirement for the Bonds is satisfied in full by a Debt Service Surety Bond held by MBIA insurance company. The \$2.00 held in the Series 2003 Reserve Fund represents the cost to hold the Debt Service Surety Bond and the MBIA insurance policy.	

VI. Total Assessed Value and Value-to-Lien of Parcels within CFD No. 1

Table 2 shows total assessed value, total direct and overlapping debt, and total value-to-lien ratio for all parcels within CFD No. 1 as of January 1, 2007.

Table 2
Assessed Value to Lien

Unit Type/ Land Use	Building Square Footage	Fiscal Year 2006/2007 Assessed Value [1]	Total Direct and Overlapping Debt [2]	Assessed Value-to-Lien
Single Family Detached	>2,100	\$1,697,059,109.00	\$32,399,436.01	52.38:1
Single Family Detached	1,901 – 2,100	\$391,699,250.00	\$8,002,868.73	48.94:1
Single Family Detached	1,701 – 1,900	\$342,070,567.00	\$6,837,449.97	50.03:1
Single Family Detached	1,401 – 1,700	\$192,898,001.00	\$3,818,916.82	50.51:1
Single Family Detached	1,251 – 1,400	\$28,111,785.00	\$505,228.28	55.64:1
Single Family Detached	≤1,250	\$8,425,699.00	\$173,968.40	48.43:1
Single Family Attached	>1,400	\$167,200,623.00	\$2,818,025.91	59.33:1
Single Family Attached	1,251 – 1,400	\$85,906,556.00	\$1,581,236.93	54.33:1
Single Family Attached	1,101 – 1,250	\$49,275,681.00	\$859,528.56	57.33:1
Single Family Attached	901 – 1,100	\$213,922,421.00	\$4,208,662.85	50.83:1
Single Family Attached	751 – 900	\$25,222,326.00	\$535,147.42	47.13:1
Single Family Attached	≤750	\$24,858,783.00	\$622,226.63	39.95:1
Apartments/Mobile	>900	\$411,536,611.00	\$6,364,691.75	64.66:1
Apartments/Mobile	751 - 900	\$0.00	\$0.00	NA
Apartments/Mobile	≤750	\$0.00	\$0.00	NA
Undeveloped Property [3]	NA	\$801,359,791.00	\$1,428,750.74	560.88:1
Exempt Property [4]	NA	\$0.00	\$0.00	NA
Total [5]	NA	\$4,439,547,203.00	\$70,156,139.00	63.28:1

[1] Total Assessed value reported on the County of San Diego Fiscal Year 2006/2007 equalized tax roll.

[2] Source: Detailed Direct and Overlapping Debt Report, National Tax Data, Inc. dated January 9, 2007 (attached as Exhibit A).

[3] There were no Special Taxes levied on Undeveloped Property within CFD No. 1 for Fiscal Year 2006/2007.

[4] This Property has been exempted from the CFD No. 1 Special Tax, however, may be subject to ad valorem taxes.

[5] Numbers may not reflect the total amounts listed on the Detailed Direct and Overlapping Debt Report provided by California Tax Data, Inc. due to rounding.

VII. Fiscal Year 2005/2006 Special Tax Levy and Delinquencies

There were one hundred and forty-six (146) parcels delinquent in the payment of their Fiscal Year 2005/2006 Special Taxes in an amount of \$86,360.66. The total Special Taxes levied by CFD No. 1 in Fiscal Year 2005/2006 was \$7,553,849.22. Therefore, the delinquency rate within CFD No. 1 for Fiscal Year 2005/2006 was 1.14%.

VIII. Foreclosure Proceedings

Since no parcel is delinquent in the payment of Special Taxes in an amount greater than \$10,000 and the overall delinquency rate within CFD No. 1 for Fiscal Year 2005/2006 did not exceed five percent (5.00%), CFD No. 1 has not initiated any foreclosure proceedings to date.

IX. Major Taxpayers

"Major Taxpayers" are those property owners responsible for more than five percent (5.00%) of the Special Tax levy in a given Fiscal Year. There are no Major Taxpayers in CFD No. 1 for Fiscal Year 2006/2007.

X. Report to the California Debt and Investment Advisory Commission

A copy of the report prepared and filed with the California Debt and Investment Advisory Commission pursuant to Section 53359.5(b) of the Act is included as Exhibit C.

XI. Changes to the Rate and Method of Apportionment for CFD No. 1

No changes have been made to the Rate and Method of Apportionment for CFD No. 1 as of the date of the Annual Report.

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Exhibit A

**Poway Unified School District's
Audited Financial Statements**

**POWAY UNIFIED SCHOOL DISTRICT
COUNTY OF SAN DIEGO
POWAY, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2006

**WILKINSON HADLEY & CO., LLP
250 E. Douglas Ave., Suite 200
El Cajon, CA 92020
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Introductory Section

Poway Unified School District
 Audit Report
 For The Year Ended June 30, 2006

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Poway Unified School District
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Financial Section

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Independent Auditor's Report on Financial Statements

Board of Trustees
Poway Unified School District
Poway, California 92064-2098

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Poway 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 Poway 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. 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, the business-type activities, each major fund, and the aggregate remaining fund information of Poway Unified School District as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 8, 2006, on our consideration of Poway Unified School District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements which collectively comprise the Poway Unified School District's basic financial statements. The accompanying schedule of expenditures of federal awards required by U. S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations* and the combining financial statements and supporting schedules listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Wilkinson Hadley & Co., LLP

Wilkinson Hadley & Co., LLP
September 8, 2006

**Poway Unified School District
Management's Discussion and Analysis
Fiscal Year 2005-06**

Profile of the District

Poway Unified School District (District) was formed in 1962 and serves the children of Poway, Rancho Bernardo, Rancho Penasquitos, Carmel Mountain Ranch, Sabre Springs, Black Mountain Ranch, Torrey Highlands, 4S Ranch and Santa Fe Valley. It is the 3rd largest district in San Diego County and the 26th largest district in the state of California. The district covers nearly 100 square miles in northeast San Diego County housing 32,621 students in 33 schools. The 34th school, which is Monterey Ridge Elementary School, will open in the 2006-07 school year.

Management's Discussion and Analysis

This section of Poway Unified School District's annual financial report presents Management's Discussion and Analysis (MD&A) of the District's financial performance during the year ending June 30, 2006. The MD&A is required as an element of the reporting model established by the Governmental Accounting Standards Board (GASB) in Statement Number 34. The District implemented GASB 34 in 2001-02. Please read the MD&A in conjunction with the District's financial statements, which follow this section.

Comparisons to the Previous Fiscal Year 2004-05

- The District's financial status continued to improve.
- In 2005-06 assets exceeded liabilities by \$229.8 million compared to \$206 million in 2004-05.
- In 2005-06, overall revenues were \$347 million and expenses were \$320 million. Revenue exceeded expenses by \$27 million in 2005-06. In 2004-05 the district's overall revenues were \$291.9 million and expenses were \$271 million. Revenue exceeded expenses by \$20.9 million.
- The District enrollment in October 2005 was 32,645. This is a decrease of 270 students from October 2004 when the enrollment was at 32,915.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements comprise three components: 1) government-wide financial statements; 2) fund financial statements; and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide Financial Statements

The *government-wide financial statements* are designed to provide readers with a broad overview of the District's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the assets and liabilities of the District, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating.

The *statement of activities* presents information showing how the net assets of the District changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave). The government-wide financial statements can be found on pages 13-15 of this report.

Fund Financial Statements

A *fund* is a group of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

All of the funds of the District can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

- **Governmental funds:** Governmental funds are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements; however, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating the government's near-term financing requirements. Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The District maintains thirteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the General Fund, the Capital Projects Fund for Blended Component Units, the Building Fund, the County School Facilities Fund, and the enterprise fund, Extended School Services (ESS), each of which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual data for each of these non-major funds is provided in the form of combining statements elsewhere in this report.

The District adopts an annual appropriated budget for its general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget on page 42 of this report.

- **Proprietary Funds:** The District maintains two proprietary fund types; internal service funds and one enterprise fund.

Internal service funds are an accounting device used to accumulate and allocate costs internally among the District's various functions. The District uses three internal service funds to account for services provided to all the other funds of the District: workers' compensation, employee benefits, and property and liability insurance.

The internal service funds have been included within *governmental activities* in the government-wide financial statements. The three internal service funds are combined into a single, aggregated presentation in the proprietary fund financial statements.

Enterprise funds are operated in a manner similar to private business where the determination of revenues earned, costs incurred and net income is necessary for management accountability. The District uses one enterprise fund to account for business activities of the Extended Student Services and Preschool programs.

The basic proprietary fund financial statements can be found on pages 23-25 of this report.

- **Fiduciary Funds:** Fiduciary funds are used to account for resources held for the benefit of parties outside the governmental entity. The District maintains an agency fund for associated student body funds. The basic agency fund financial statements can be found on pages 26-27 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential for a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 28-41 of this report.

Other Information

The combining statements referred to earlier in connection with non-major governmental funds is presented on pages 43-52 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's stability and financial position. The district's assets exceeded liabilities by \$229.8 million at the close of 2005-06.

POWAY UNIFIED SCHOOL DISTRICT
2005-06 NET ASSETS
(In Millions of Dollars)

	Governmental Activities	Business Activities	Total District	Total Percentage
Current and Other Assets	\$ 390.0	\$ 0.1	\$ 390.1	47.2%
Capital Assets	433.0	3.6	436.6	52.8%
Total Assets	\$ 823.0	\$ 3.7	\$ 826.7	100.0%
Long Term Debt Outstanding	\$ 548.9	\$ -	\$ 548.9	92.5%
Other Liabilities	44.3	0.3	44.6	7.5%
Total Liabilities	\$ 593.2	\$ 0.3	\$ 593.5	100.0%
Net Assets				
Invested in Capital Assets, Net of Related Debt	\$ 65.2	\$ -	65.2	28.0%
Restricted	164.6	-	164.6	70.6%
Unrestricted	-	3.4	3.4	1.4%
Total Net Assets	\$ 229.8	\$ 3.4	\$ 233.2	100.0%

- A portion of the District's net assets (28%) reflects its investment in capital assets (e.g., land, buildings and improvements, and furniture and equipment net of accumulated depreciation), less any related debt (bonds payable and obligations under capital leases less unspent bond proceeds) used to acquire those assets that is still outstanding. The District uses these capital assets to provide services to students; consequently, these assets are *not* available for future spending. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.
- An additional portion of the District's net assets (70.6%) represents resources that are subject to external restrictions on how they may be used. The majority of the restricted balance is for categorical programs.

At the end of the 2005-06 fiscal year, the District is able to report positive balances in both categories of net assets.

Governmental Activities. The key elements of the District's net assets for the year ended June 30, 2006 are as follows:

POWAY UNIFIED SCHOOL DISTRICT		
GOVERNMENT-WIDE STATEMENT OF ACTIVITIES		
<u>Revenues</u>	<u>2005-06</u>	<u>% of Total</u>
Program revenues		
Charges for services	\$ 9,867,913	2.84%
Operating grants and contributions	51,021,327	14.69%
Capital grants and contributions	39,313,027	11.32%
General revenues		
Property taxes	128,902,882	37.11%
Federal and state aid not restricted to specific purposes	86,789,761	24.98%
Interest and investment earnings	5,517,197	1.59%
Interagency revenues	762,239	0.22%
Miscellaneous	25,199,309	7.25%
Special and extraordinary items	4,864	0.00%
Total revenues	\$ 347,378,519	100.00%
<u>Expenditures by Function</u>		
Governmental activities		
Instruction	\$ 178,877,350	55.86%
Pupil services	25,759,066	8.04%
General administration	11,925,849	3.72%
Plant services	67,485,679	21.07%
Ancillary services	3,346,523	1.05%
Community services	381,769	0.12%
Enterprise Activities	853,886	0.27%
Interest on long-term debt	18,813,827	5.88%
Other outgo	1,734,151	0.54%
Business-type activities		
Enterprise activities	11,058,003	3.45%
	\$ 320,236,103	100.00%
Increase (decrease) in net assets	\$ 27,142,416	
Net Assets - beginning	\$ 206,020,118	
Net Assets - ending	\$ 233,162,534	

- The district's total revenue increased 19 percent to \$347.3 million when compared to the last fiscal year.
- State aid COLA (cost of living adjustment) in 2005-06 increased by 4.3 percent. State aid is based primarily on average daily attendance (ADA) and other appropriations. If a student is in attendance for 180 days, the state awards the District one ADA. The state guarantees that if local taxes do not provide money equal to the base revenue limit guarantee it will make up the difference with state funding.
- The value of the base revenue limit during the year ended June 30, 2006 is \$5,125.22.
- More than 63.9 percent of the district's expenses are related to educating and caring for students (See Figure A-2).
- The administrative activities of the district accounted for 3.72 percent of total costs.

POWAY UNIFIED SCHOOL DISTRICT				
7 YEAR REVENUE LIMIT TABLE				
	Poway	% Increase	State Average	Difference
1999-00	4,275	1.42%	4,347	(72)
2000-01	4,413	3.23%	4,486	(73)
2001-02	4,597	4.19%	4,660	(63)
2002-03	4,680	1.79%	4,753	(73)
2003-04	4,768	1.88%	4,841	(73)
2004-05	4,914	3.07%	4,958	(44)
2005-06	5,125	4.30%	5,195	(70)

Figure A-1

2005-06 Revenue by Source
Government-wide Activities

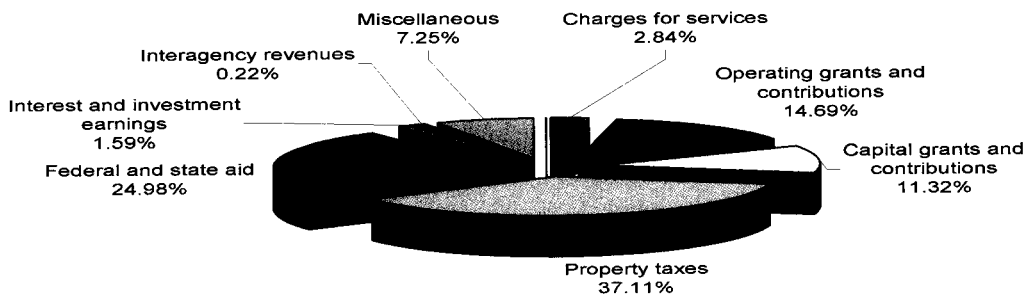
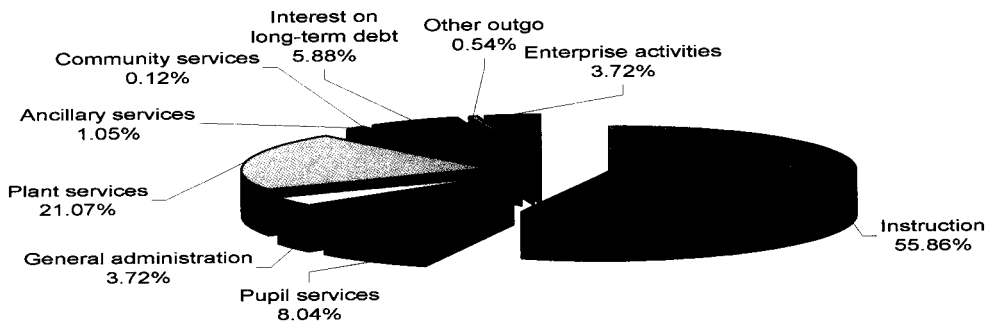


Figure A-2

2005-06 Expenditures by Function
Government-wide Activities



Financial Analysis of the District's Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental Funds. The focus of the District's *governmental funds* is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing the District's financing requirements. As the District completed the year, its governmental funds reported a combined fund balance of \$229.8 million, \$26.9 million more than last year's fund balance. In addition, the following fund balances should be noted:

Governmental funds report the differences between their assets and liabilities as fund balance, which is divided into reserved and unreserved portions. Reservations indicate the portion of the District's fund balances that are not available for appropriation. The unreserved fund balance is, in turn, subdivided between designated and undesignated portions.

Designations reflect limitations on the use of otherwise available expendable financial resources in governmental funds. The limitations include federal, state, donor-authorized and District self-imposed. Fund balances of debt service, capital projects, and other governmental funds are restricted by state law to be spent for the purpose of the fund and are not available for spending at the District's discretion. The \$18.6 million fund balance of the general fund is primarily designated for the following purposes:

Designation for economic uncertainty reserve: As required by state law, the District has established an undistributed reserve within the general fund. This reserve is required to be at least 2% of general fund expenditures set aside for contingencies or possible reductions in state funding and is not to be used in the negotiation or settlement of contract salaries. As of June 2006, the \$4.9 million held in reserve meets the 2% requirement. The maintenance of a sufficient reserve is a key credit consideration in garnering excellent short-term and long-term bond ratings.

Restricted reserve for revolving cash fund: The District maintains a \$75,000 revolving cash fund for expediting emergency and small purchase reimbursement to employees.

Restricted reserve for stores inventories: Three departments maintain perpetual inventories to expedite and reduce cost through volume purchasing. The valuation as of June 30, 2006 in the general fund inventory was \$240,266.

Designations for restricted balance: State, federal and donor authorized funding restrictions mandate that carryover balances of funds are restricted for those purposes in the next fiscal year. There was \$5.8 million in restricted balances as of June 30, 2006.

General Fund Budgetary Highlights

During the year, the Board revised the District’s budget. Budget amendments were to reflect changes in programs and related funding. The difference between the original budget and the final amended budget was an increase of \$19.6 million or 8.7 % in total general fund expenditures.

- During the year, final budgeted revenues exceeded original budgetary estimates by \$12.2 million or 5.51 %, to account for increases in federal and state aid and local donations.
- Even with these adjustments, actual expenditures were \$16.3 million below final budgeted amounts.
- Variances primarily result from expenditure-driven federal and state grants that are included in the budgets at their full amounts. Such grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met; unspent grant amounts are carried forward and included in the succeeding year’s budget. Therefore, actual grant revenues and expenditures are normally less than the amounts budgeted.
- For comparative purposes, the following table is presented to show General Fund actuals by Standardized Account Code Structure (SACS) functions and changes from fiscal year 2004-05 to 2005-06.

POWAY UNIFIED SCHOOL DISTRICT GENERAL FUND - MAJOR FUND					
<u>Expenditures by Function</u>	<u>% of Total</u>	<u>2005-06</u>	<u>Change</u>	<u>%</u>	<u>2004-05</u>
General Education-Grades K-12	50.57%	\$116,891,773	\$4,206,679	3.7%	\$112,685,094
Special Education	12.45%	\$28,772,732	\$2,326,712	8.8%	\$26,446,020
Instruction-Related Services	5.31%	\$12,267,060	(\$370,526)	-2.9%	\$12,637,586
School Administration	5.97%	\$13,799,478	\$1,468,969	11.9%	\$12,330,509
Pupil Services	4.23%	\$9,788,682	\$957,973	10.8%	\$8,830,709
Transportation	3.59%	\$8,294,500	\$697,192	9.2%	\$7,597,308
Ancillary, Co-curricular & Athletics	1.44%	\$3,337,477	(\$241,483)	-6.7%	\$3,578,960
Community Services	0.17%	\$383,005	\$32,090	9.1%	\$350,915
General Administration	4.02%	\$9,293,471	\$1,642,966	21.5%	\$7,650,505
Central Data Processing	0.78%	\$1,791,968	(\$788,108)	-30.5%	\$2,580,076
Maintenance & Operations	9.35%	\$21,608,174	\$1,396,376	6.9%	\$20,211,798
Facility Acquisition & Construction	0.01%	\$19,071	\$19,071	100.0%	\$0
Facility Rents and Leases	0.20%	\$467,666	\$23,711	5.3%	\$443,955
Other Outgo	1.93%	\$4,450,931	\$1,000,047	29.0%	\$3,450,884
Total	100.00%	\$231,165,988	\$12,371,669		\$218,794,319
Final October CBEDS Enrollment		32,645	(270)		32,915
Expenditures per student =		\$7,081.21	\$434	6.5%	\$6,647.25

Note: Expenses for Cafeteria, Adult Ed., Construction, Preschool and child care services are recorded in separate funds. They are not included in the above figures.

- The expenditure per student rose 6.5%.

Capital Asset and Debt Administration

Capital Assets. The County School Facilities Fund is used to account for the costs incurred in acquiring and improving sites, constructing and remodeling facilities, and procuring equipment necessary for providing educational programs for all students within the District. The proceeds of the General Obligation Bond are used for the renovation and modernization of 24 older schools. The construction of new middle school, Oak Valley Middle School at 4S Ranch was completed at the beginning of fiscal year 2005-06. Monterey Ridge is another elementary school, which is anticipated to be completed in the beginning of fiscal year 2006-07.

The District has a total inventory of relocatable and modular buildings of approximately 308 classrooms representing approximately 300,000 square feet. These relocatable buildings were initially required for class size reduction in grades K-3 and for growth in the west side of the District. Capital assets at June 30, 2006 and 2005 are outlined below:

CAPITAL ASSETS (NET OF DEPRECIATION)			
Governmental Activities			
	June 30, 2006	June 30, 2005	Total Change
Land	\$ 58,641,598	\$ 39,569,499	\$ 19,072,099
Improvement of Sites	15,432,828	8,965,510	6,467,318
Buildings	207,169,870	166,105,210	41,064,660
Equipment	9,574,316	10,140,122	(565,806)
Work in Progress	142,145,674	84,303,165	57,842,509
Total Capital Assets	\$ 432,964,286	\$ 309,083,506	\$ 123,880,780

Additional information on the District’s capital assets can be found in Note E to the basic financial statements.

Debt Administration. The District has a General Obligation Bond outstanding (Bond of November 2002). This is a voter-approved \$198 million bond specifically for the purpose of renovating 24 of the District’s older schools.

In May 2004, the District’s Board of Education approved a plan to accelerate the completion of Proposition U building projects from the year 2015 to a date as early as 2009. This plan provides an interim financing program that will be paid back from the final Proposition U Bond sales scheduled for 2009 and 2013. This interim financing will bridge the gap between the bond sales date and the accelerated construction program.

The District has formed various CFDs to secure school facilities for students that will be generated from new housing developments. These bonds are not obligations of the general fund of the District and are secured by taxes generated by homeowners and developers. There are eighteen bonds under the Community Facilities Districts (CFD) as of June 30, 2006.

CFD #1 issued \$80 million in debt in February of 1998 for construction of school facilities. CFD #10 issued \$16.045 million in October of 2001 with the District as the lead agency for capital infrastructure improvement areas A and B. There were six bonds issued by the CFD in 2002-03. CFD # 1 issued \$5.82 million, CFD #6 issued \$25 million, CFD #10E issued \$5.75 million, CFD# 10D issued \$5.12 million, CFD #6A issued \$18 million, and the Public Financing Authority (PFA) issued \$21.335 million. In addition, there were three bonds issued by the CFD in 2003-04. CFD #10 1A issued Series C bonds for \$3 million; CFD #11 Zone 1 issued bonds for \$9 million and CFD #11 1A issued Series A bonds for \$11 million.

Two additional bonds were issued in 2004-05 fiscal year: CFD #11 Improvement Area B for \$9 million and CFD #11 Improvement Area C for \$13.5 million.

In 2005-06, two bonds were issued by CFD #6 (4s Ranch): Special Tax Bonds, Series 2005 for \$44.3 million and Improvement Area B, 2005 Special Tax Bonds for \$30 million.

During the year, a new CFD was formed CFD #14 (Del Sur). CFD #14 issued two bonds in 2005-06. 2006 Special Tax Bonds for \$51.5 million and Improvement Area A 2006 Special Tax Bonds for \$51.5 million.

Additional information on the District's long-term debt can be found in Note H to the basic financial statements.

Changing Enrollment within the District

The demographics of the District reflect an increasing trend in the high school population and a decreasing trend in the elementary and middle school population. Experience shows that the east side of the District is nearly built out and the west and south areas are busy with developments and new families. California voters approved Proposition 13 that not only limits the tax rate on property, but also gives an incentive for owners to occupy longer resulting in slower turnover of homes to new families. This impacts the east side with declining enrollment. The District however has offsetting growth on the west side.

POWAY UNIFIED SCHOOL DISTRICT					
Changes in CBEDS from Year to Year					
<u>Grade</u>	<u>Oct 2003</u>	<u>Chg</u>	<u>Oct 2004</u>	<u>Chg</u>	<u>Oct 2005</u>
K	2,377	(11)	2,366	(98)	2,268
1	2,311	(6)	2,305	46	2,351
2	2,407	(81)	2,326	17	2,343
3	2,391	28	2,419	(97)	2,322
4	2,452	(18)	2,434	(2)	2,432
5	2,543	(65)	2,478	(54)	2,424
6	2,624	(73)	2,551	(70)	2,481
7	2,564	92	2,656	(99)	2,557
8	2,749	(185)	2,564	112	2,676
9	2,779	20	2,799	(186)	2,613
10	2,620	188	2,808	(13)	2,795
11	2,531	68	2,599	156	2,755
12	2,703	(93)	2,610	18	2,628
TOTAL	33,051	(136)	32,915	(270)	32,645
	2003-04	Chg	2004-05	Chg	2005-06
Elementary K-5	14,481	(153)	14,328	(188)	14,140
Middle 6-8	7,937	(166)	7,771	(57)	7,714
High 9-12	10,633	183	10,816	(25)	10,791
TOTAL	33,051	(136)	32,915	(270)	32,645

Requests for Information

This financial report is designed to provide a general overview of the Poway Unified School District's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Office of the Chief Financial Officer, Business Support Services, Poway Unified School District, 13626 Twin Peaks Road, Poway, CA 92064.

Basic Financial Statements

POWAY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
ASSETS:			
Cash in County Treasury	\$ 113,814,999	\$ 437,556	\$ 114,252,555
Cash on Hand and in Banks	1,032,936	38,667	1,071,603
Cash in Revolving Fund	75,810	-	75,810
Cash with a Fiscal Agent/Trustee	244,073,724	-	244,073,724
Accounts Receivable	19,262,426	27,509	19,289,935
Internal Balances	421,042	(421,042)	-
Stores Inventories	432,990	-	432,990
Prepaid Expenses	10,966,561	2,340	10,968,901
Capital Assets:			
Land	58,641,598	-	58,641,598
Land Improvements	26,747,874	4,583	26,752,457
Buildings	258,765,598	4,767,384	263,532,982
Equipment	27,533,212	56,507	27,589,719
Work in Progress	142,145,673	-	142,145,673
Less Accumulated Depreciation	(80,869,669)	(1,271,835)	(82,141,504)
Total Assets	<u>823,044,774</u>	<u>3,641,669</u>	<u>826,686,443</u>
LIABILITIES:			
Accounts Payable	29,133,943	251,111	29,385,054
Current Loans	15,000,000	-	15,000,000
Deferred Revenues	154,301	44,487	198,788
Long-Term Liabilities:			
Due within One Year	13,850,131	-	13,850,131
Due in More Than One Year	535,089,936	-	535,089,936
Total Liabilities	<u>593,228,311</u>	<u>295,598</u>	<u>593,523,909</u>
NET ASSETS:			
Invested in Capital Assets, net of Related Debt	65,207,731	-	65,207,731
Restricted For:			
Capital Projects	151,479,594	-	151,479,594
Debt Service	7,084,614	-	7,084,614
Educational Programs	6,044,524	-	6,044,524
Unrestricted	-	3,346,071	3,346,071
Total Net Assets	<u>\$ 229,816,463</u>	<u>\$ 3,346,071</u>	<u>\$ 233,162,534</u>

The accompanying notes are an integral part of this statement.

POWAY UNIFIED SCHOOL DISTRICT

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2006

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
PRIMARY GOVERNMENT:				
Government Activities:				
<i>Instruction</i>	\$ 151,672,672	\$ 179,725	\$ 27,865,841	\$ 39,313,027
<i>Instruction-Related Services</i>	27,204,678	587,688	7,302,993	-
<i>Pupil Services</i>	25,759,066	6,881,141	4,764,185	-
<i>General Administration</i>	11,925,849	239,293	712,520	-
<i>Plant Services</i>	67,485,679	110,536	6,434,865	-
<i>Ancillary Services</i>	3,346,523	1,869,530	126,799	-
<i>Community Services</i>	381,769	-	109,383	-
<i>Enterprise</i>	853,886	-	-	-
<i>Interest on Long-Term Debt</i>	18,813,827	-	-	-
<i>Other Outgo</i>	1,734,151	-	3,704,741	-
Total Governmental Activities	<u>309,178,100</u>	<u>9,867,913</u>	<u>51,021,327</u>	<u>39,313,027</u>
Business-type Activities:				
Enterprising Activities	11,058,003	-	-	-
Total Primary Government	<u>\$ 320,236,103</u>	<u>\$ 9,867,913</u>	<u>\$ 51,021,327</u>	<u>\$ 39,313,027</u>

General Revenues:

- Taxes and Subventions*
- Federal and State Revenues*
- Interest and Investment Earnings*
- Interagency Revenues*
- Miscellaneous*
- Special and Extra Ordinary Items*
- Total General Revenues
- Change in Net Assets
- Net Assets - Beginning
- Net Assets - Ending

The accompanying notes are an integral part of this statement.

Net (Expense) Revenue and Changes in Net Assets

<u>Governmental Activities</u>	<u>Business-type Activities</u>	<u>Total</u>
\$ (84,314,079)		\$ (84,314,079)
(19,313,997)		(19,313,997)
(14,113,740)		(14,113,740)
(10,974,036)		(10,974,036)
(60,940,278)		(60,940,278)
(1,350,194)		(1,350,194)
(272,386)		(272,386)
(853,886)		(853,886)
(18,813,827)		(18,813,827)
1,970,590		1,970,590
<u>(208,975,833)</u>		<u>(208,975,833)</u>
-	\$ (11,058,003)	(11,058,003)
<u>(208,975,833)</u>	<u>(11,058,003)</u>	<u>(220,033,836)</u>
128,902,882	-	128,902,882
86,789,761	-	86,789,761
5,492,587	24,610	5,517,197
762,239	-	762,239
14,005,760	11,193,549	25,199,309
4,864	-	4,864
<u>235,958,093</u>	<u>11,218,159</u>	<u>247,176,252</u>
26,982,260	160,156	27,142,416
202,834,203	3,185,915	206,020,118
<u>\$ 229,816,463</u>	<u>\$ 3,346,071</u>	<u>\$ 233,162,534</u>

POWAY UNIFIED SCHOOL DISTRICT

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2006

	<u>General Fund</u>	<u>Building Fund</u>
ASSETS:		
<i>Cash in County Treasury</i>	\$ 8,300,659	\$ 48,186,761
<i>Cash on Hand and in Banks</i>	302,310	-
<i>Cash in Revolving Fund</i>	75,000	-
<i>Cash with a Fiscal Agent/Trustee</i>	15,150,375	18,685,341
<i>Accounts Receivable</i>	17,457,806	511,326
<i>Due from Other Funds</i>	1,109,100	5,369,503
<i>Stores Inventories</i>	240,266	-
<i>Prepaid Expenditures</i>	67,053	-
Total Assets	<u>\$ 42,702,569</u>	<u>\$ 72,752,931</u>
 LIABILITIES AND FUND BALANCE:		
Liabilities:		
<i>Accounts Payable</i>	\$ 6,974,133	\$ 13,471,357
<i>Due to Other Funds</i>	1,568,437	1,081,905
<i>Current Loans</i>	15,000,000	-
<i>Unearned Revenue</i>	527,171	-
Total Liabilities	<u>24,069,741</u>	<u>14,553,262</u>
 Fund Balance:		
Reserved Fund Balances:		
<i>Reserve for Revolving Cash</i>	75,000	-
<i>Reserve for Stores Inventories</i>	240,266	-
<i>Reserve for Prepaid Items</i>	67,053	-
Designated Fund Balances:		
<i>Designated for Economic Uncertainties</i>	4,900,000	-
<i>Other Designated</i>	-	-
Unreserved	13,350,509	58,199,669
Unreserved, reported in nonmajor:		
<i>Special Revenue Funds</i>	-	-
<i>Debt Service Funds</i>	-	-
<i>Capital Projects Funds</i>	-	-
Total Fund Balance	<u>18,632,828</u>	<u>58,199,669</u>
 Total Liabilities and Fund Balances	 <u>\$ 42,702,569</u>	 <u>\$ 72,752,931</u>

The accompanying notes are an integral part of this statement.

County School Facilities Fund	Capital Project Fund Blended Component Units	Other Governmental Funds	Total Governmental Funds
\$ 13,413,550	\$ -	\$ 36,947,402	\$ 106,848,372
-	-	276,288	578,598
-	-	810	75,810
-	209,865,836	-	243,701,552
431,699	-	774,489	19,175,320
-	-	1,187,435	7,666,038
-	-	192,724	432,990
-	-	-	67,053
<u>\$ 13,845,249</u>	<u>\$ 209,865,836</u>	<u>\$ 39,379,148</u>	<u>\$ 378,545,733</u>
\$ 11,997	\$ -	\$ 705,254	\$ 21,162,741
4,119,503	-	1,758,241	8,528,086
-	-	-	15,000,000
-	-	35,725	562,896
<u>4,131,500</u>	<u>-</u>	<u>2,499,220</u>	<u>45,253,723</u>
-	-	810	75,810
-	-	192,724	432,990
-	-	-	67,053
-	-	-	4,900,000
-	-	9,000,000	9,000,000
9,713,749	209,865,836	-	291,129,763
-	-	6,485,124	6,485,124
-	-	7,084,614	7,084,614
-	-	14,116,656	14,116,656
<u>9,713,749</u>	<u>209,865,836</u>	<u>36,879,928</u>	<u>333,292,010</u>
<u>\$ 13,845,249</u>	<u>\$ 209,865,836</u>	<u>\$ 39,379,148</u>	<u>\$ 378,545,733</u>

POWAY UNIFIED SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006

Total fund balances - governmental funds balance sheet	\$ 333,292,010
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds, net of accumulated depreciation.	432,943,499
Unamortized costs: 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:	10,899,507
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owing at the end of the period was:	(5,368,025)
Deferred recognition of earned but unavailable revenues: In governmental funds, revenue is recognized only to the extent that it is "available" meaning it will be collected soon enough after the end of the period to finance expenditures of that period. Receivables for revenues that are earned but unavailable are deferred until the period in which the revenues become available. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of unavailable revenues that were deferred as a liability in governmental funds, but are recognized in the government-wide statement, is:	408,595
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consisted of:	(548,940,067)
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 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:	<u>6,580,944</u>
Net assets of governmental activities - statement of net assets	\$ <u><u>229,816,463</u></u>

The accompanying notes are an integral part of this statement.

POWAY UNIFIED SCHOOL DISTRICT

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	<u>General Fund</u>	<u>Building Fund</u>
Revenues:		
Revenue Limit Sources:		
State Apportionments	\$ 70,969,899	\$ -
Local Sources	94,234,657	-
Federal Revenue	9,334,363	-
Other State Revenue	45,239,944	-
Other Local Revenue	<u>11,932,089</u>	<u>2,890,932</u>
Total Revenues	<u>231,710,952</u>	<u>2,890,932</u>
Expenditures:		
Instruction	145,664,507	-
Instruction - Related Services	26,066,537	-
Pupil Services	18,083,180	-
Ancillary Services	3,337,477	-
Community Services	383,005	-
Enterprise	101	-
General Administration	11,085,339	-
Plant Services	22,094,912	58,262,909
Other Outgo	1,366,706	-
Debt Service:		
Principal	49,614	7,906
Interest	<u>18,353</u>	<u>2,942,004</u>
Total Expenditures	<u>228,149,731</u>	<u>61,212,819</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>3,561,221</u>	<u>(58,321,887)</u>
Other Financing Sources (Uses):		
Transfers In	1,685,703	10,591,155
Transfers Out	(3,016,257)	(1,250,000)
Proceeds From Sale of Bonds	-	-
Other Sources	<u>-</u>	<u>4,864</u>
Total Other Financing Sources (Uses)	<u>(1,330,554)</u>	<u>9,346,019</u>
Net Change in Fund Balance	2,230,667	(48,975,868)
Fund Balance, July 1	<u>16,402,161</u>	<u>107,175,537</u>
Fund Balance, June 30	<u>\$ 18,632,828</u>	<u>\$ 58,199,669</u>

The accompanying notes are an integral part of this statement.

County School Facilities Fund	Capital Project Fund Blended Component Units	Other Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 665,502	\$ 71,635,401
-	-	-	94,234,657
-	-	1,444,572	10,778,935
37,368,251	-	2,769,146	85,377,341
1,034,464	34,832,531	23,538,812	74,228,828
<u>38,402,715</u>	<u>34,832,531</u>	<u>28,418,032</u>	<u>336,255,162</u>
-	-	914,419	146,578,926
-	-	339,217	26,405,754
-	-	6,927,463	25,010,643
-	-	-	3,337,477
-	-	-	383,005
-	-	-	101
-	-	266,471	11,351,810
45,000,046	66,325,887	6,778,789	198,462,543
-	3,234,297	-	4,601,003
-	-	9,468,864	9,526,384
-	-	14,606,668	17,567,025
<u>45,000,046</u>	<u>69,560,184</u>	<u>39,301,891</u>	<u>443,224,671</u>
<u>(6,597,331)</u>	<u>(34,727,653)</u>	<u>(10,883,859)</u>	<u>(106,969,509)</u>
-	926,615	16,442,614	29,646,087
(26,607)	(25,669,430)	(1,190,906)	(31,153,200)
-	177,315,000	-	177,315,000
-	-	990,992	995,856
<u>(26,607)</u>	<u>152,572,185</u>	<u>16,242,700</u>	<u>176,803,743</u>
(6,623,938)	117,844,532	5,358,841	69,834,234
16,337,687	92,021,304	31,521,087	263,457,776
<u>\$ 9,713,749</u>	<u>\$ 209,865,836</u>	<u>\$ 36,879,928</u>	<u>\$ 333,292,010</u>

POWAY UNIFIED SCHOOL DISTRICT

*RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006*

Net change in fund balances - total governmental funds \$ 69,834,234

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

Capital Outlay: In governmental funds, the cost of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	131,716,069	
Depreciation expense	<u>(7,726,559)</u>	
Net		123,989,510

Debt service: In governmental funds, repayment 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:

9,526,382

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 were:

(178,305,992)

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:

Issue costs incurred during the period	3,234,296	
Issue costs amortized for the period	<u>(367,444)</u>	
		2,866,852

Earned but unavailable revenues: In governmental funds, revenue is recognized only to the extent that it is "available," meaning it will be collected soon enough after the end of the period to finance expenditures of that period. In the government-wide statements, revenue is recognized when earned, regardless of availability. The amount of earned but unavailable revenues relating to the current period less revenues that became available in the current period but related to a prior period is:

(110,418)

Gain or loss from disposal of capital assets: In governmental funds, the entire proceeds from disposal of capital assets are reported as revenue. In the statement of activities, only the resulting gain or loss is reported. The difference between the proceeds from disposal of capital assets and the resulting gain or loss is:

(109,568)

Donated capital assets: In governmental funds, donated capital assets are not reported because they do not affect current financial resources. In the government-wide statements, donated capital assets are reported as revenue and as increase to capital assets, at their fair market value on the date of donation. The fair market value of capital assets donated was:

10,751

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:

(1,246,802)

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:

(170,003)

Cost write-off for canceled capital projects: If a planned capital project is canceled and will not be completed, costs previously capitalized as Work in Progress must be written off to expense. Costs written off for canceled projects were:

(3,972)

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 increase or decrease in internal service funds was:

701,286

Change in net assets of governmental activities - statement of activities

\$ 26,982,260

The accompanying notes are an integral part of this statement.

POWAY UNIFIED SCHOOL DISTRICT

STATEMENT OF NET ASSETS

PROPRIETARY FUNDS

JUNE 30, 2006

	Nonmajor Enterprise Fund	Nonmajor Internal Service Fund
	Enterprise Fund	Self-Insurance Fund
ASSETS:		
Current Assets:		
Cash in County Treasury	\$ 437,556	\$ 6,966,627
Cash on Hand and in Banks	38,667	454,338
Cash with a Fiscal Agent/Trustee	-	372,172
Accounts Receivable	27,509	87,106
Due from Other Funds	21,464	1,507,303
Prepaid Expenditures	2,340	-
Total Current Assets	<u>527,536</u>	<u>9,387,546</u>
Noncurrent Assets:		
Fixed Assets-		
Improvement of Sites	4,583	-
Accumulated Depreciation - Sites	(4,583)	-
Buildings and Improvements	4,767,384	-
Accumulated Depreciation - Buildings	(1,218,331)	-
Equipment	56,507	29,696
Accumulated Depreciation - Equipment	(48,921)	(8,909)
Total Noncurrent Assets	<u>3,556,639</u>	<u>20,787</u>
Total Assets	<u>\$ 4,084,175</u>	<u>\$ 9,408,333</u>
LIABILITIES:		
Current Liabilities:		
Accounts Payable	\$ 251,111	\$ 2,603,177
Due to Other Funds	442,506	224,212
Unearned Revenue	44,487	-
Total Current Liabilities	<u>738,104</u>	<u>2,827,389</u>
Total Liabilities	<u>738,104</u>	<u>2,827,389</u>
NET ASSETS:		
Unrestricted Net Assets	<u>3,346,071</u>	<u>6,580,944</u>
Total Net Assets	<u>\$ 3,346,071</u>	<u>\$ 6,580,944</u>

The accompanying notes are an integral part of this statement.

	Enterprise Fund	Self-Insurance Fund
Operating Revenues:		
<i>Local Revenue</i>	\$ 11,218,159	\$ 8,969,490
Total Revenues	<u>11,218,159</u>	<u>8,969,490</u>
Operating Expenses:		
<i>Certificated Personnel Salaries</i>	996,549	21,995
<i>Classified Personnel Salaries</i>	5,872,606	155,294
<i>Employee Benefits</i>	1,737,478	811,683
<i>Books and Supplies</i>	980,644	8,827
<i>Services and Other Operating Expenses</i>	1,364,201	8,771,579
<i>Depreciation Expense</i>	106,525	5,939
Total Expenses	<u>11,058,003</u>	<u>9,775,317</u>
Income (Loss) before Contributions and Transfers	160,156	(805,827)
<i>Interfund Transfers In</i>	-	1,725,303
<i>Interfund Transfers Out</i>	-	(218,190)
Change in Net Assets	<u>160,156</u>	<u>701,286</u>
Total Net Assets - Beginning	<u>3,185,915</u>	<u>5,879,658</u>
Total Net Assets - Ending	<u>\$ 3,346,071</u>	<u>\$ 6,580,944</u>

The accompanying notes are an integral part of this statement.

POWAY UNIFIED SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

	Nonmajor Enterprise Fund	Nonmajor Internal Service Fund
	Enterprise Fund	Self Insurance Fund
Cash Flows from Operating Activities:		
<i>Cash Received from Customers</i>	\$ 11,193,549	\$ 8,726,374
<i>Cash Payments to Other Suppliers for Goods and Services</i>	(11,101,011)	(11,389,444)
Net Cash Provided (Used) by Operating Activities	<u>92,538</u>	<u>(2,663,070)</u>
Cash Flows from Non-capital Financing Activities:		
<i>Transfers From (To) Primary Government</i>	-	1,507,113
Net Cash Provided (Used) by Non-capital Financing Activities	<u>-</u>	<u>1,507,113</u>
Cash Flows from Investing Activities:		
<i>Interest and Dividends on Investments</i>	24,610	243,116
Net Cash Provided (Used) for Investing Activities	<u>24,610</u>	<u>243,116</u>
Net Increase (Decrease) in Cash and Cash Equivalents	117,148	(912,841)
Cash and Cash Equivalents at Beginning of Year	359,075	8,705,978
Cash and Cash Equivalents at End of Year	<u>\$ 476,223</u>	<u>\$ 7,793,137</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:		
Operating Income (Loss)	\$ 160,156	\$ (805,827)
Change in Assets and Liabilities:		
<i>Decrease (Increase) in Receivables</i>	182,311	396,635
<i>Decrease (Increase) in Fixed Assets</i>	(8,170)	-
<i>Increase (Decrease) in Accounts Payable</i>	29,937	(1,760,721)
<i>Increase (Decrease) in Interfund Payables</i>	(266,313)	1,257,072
<i>Increase (Decrease) in Unearned Revenue</i>	19,227	-
Total Adjustments	<u>(43,008)</u>	<u>(107,014)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ 117,148</u>	<u>\$ (912,841)</u>

The accompanying notes are an integral part of this statement.

POWAY UNIFIED SCHOOL DISTRICT

STATEMENT OF FIDUCIARY NET ASSETS

FIDUCIARY FUNDS

JUNE 30, 2006

	Private-Purpose Trust Fund	Agency Fund
	Foundation Private-Purpose Trust Fund	Student Body Fund
ASSETS:		
<i>Cash in County Treasury</i>	\$ 497,703	\$ -
<i>Cash on Hand and in Banks</i>	-	2,929,723
<i>Accounts Receivable</i>	216,751	-
Total Assets	<u>\$ 714,454</u>	<u>\$ 2,929,723</u>
LIABILITIES:		
<i>Due to Student Groups</i>	\$ -	\$ 2,929,723
Total Liabilities	<u>-</u>	<u>2,929,723</u>
NET ASSETS:		
<i>Held in Trust</i>	714,454	-
Total Net Assets	<u>\$ 714,454</u>	<u>\$ -</u>

The accompanying notes are an integral part of this statement.

POWAY UNIFIED SCHOOL DISTRICT
STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Private-Purpose Trust Fund
	Foundation Private-Purpose Trust Fund
Additions:	
Investment Income	\$ 506,907
Total Additions	<u>506,907</u>
Deductions:	
Administrative Expenses	4,668
Total Deductions	<u>4,668</u>
Change in Net Assets	502,239
Net Assets-Beginning of the Year	212,215
Net Assets-End of the Year	<u>\$ 714,454</u>

The accompanying notes are an integral part of this statement.

POWAY UNIFIED SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

A. Summary of Significant Accounting Policies

Poway Unified School District (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 accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

1. Reporting Entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

The District also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District.

Based on these criteria, the District has two component units, the Community Facilities Districts (CFD) and the Public Financing Authority. In addition, the District is not a component unit of any other reporting entity as defined by the GASB statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. These statements distinguish between the governmental and business-type activities of the District. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between direct expenses and program revenues for the different business-type activities of the District and for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues.

POWAY UNIFIED SCHOOL DISTRICT

NOTES TO THE FINANCIAL STATEMENTS

YEAR ENDED JUNE 30, 2006

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

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

Capital Project Fund for Blended Component Units. This fund is used to account for the transactions that are associated with the capital projects of the District's Community Facilities Districts (CFD) and the Public Financing Authority.

County School Facilities Fund. This fund was established to receive apportionments from the State School Facilities Fund authorized by the State Allocation Board for new school facility construction, modernization projects, and facility hardship grants.

In addition, the District reports the following fund types:

Special Revenue Funds: These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Capital Projects Funds: These funds account for the acquisition and/or construction of all major governmental general fixed assets.

Debt Service Funds. These funds account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Private-Purpose Trust Funds: These funds are used to report trust arrangements under which principal and income benefit individuals, private organizations, or other governments not reported in other fiduciary fund types.

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

POWAY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

b. Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen to apply future FASB standards.

3. 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.

4. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized. For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

POWAY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds, except for the Tax Override Funds, in which interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with San Diego County Treasury was not available.

b. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. 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.

The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditure when incurred.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

d. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

POWAY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

e. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year end.

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 since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

f. 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 exceeds qualified expenditures.

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. 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 or expenses. Reimbursements occur 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 In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

h. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

i. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventory reflect the portions of fund balance represented by revolving fund cash and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date.

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

j. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

POWAY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

B. Compliance and Accountability

1. **Finance-Related Legal and Contractual Provisions**

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. **Deficit Fund Balance or Fund Net Assets of Individual Funds**

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

C. 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	\$ 643,959
Interest	18,353

D. Cash and Investments

1. **Cash in County Treasury:**

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool (\$114,750,258 as of June 30, 2006). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$114,750,258. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer.

2. **Cash on Hand, in Banks, and in Revolving Fund**

Cash balances on hand and in banks (\$4,001,326 as of June 30, 2006) and in the revolving fund (\$75,810) are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

3. **Investments:**

The District's investments at June 30, 2006 are shown below.

<u>Investment or Investment Type</u>	<u>Fair Value</u>
Dreyfus treasury notes	\$ 141,873,842
FHLMC disc notes	62,946,403
Guaranteed investment contracts	38,881,307
Cash and cash equivalents	372,172
Total Investments	\$ 244,073,724

POWAY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

4. Analysis of Specific Deposit and Investment Risks

GASB Statement No. 40 requires a determination as to whether the District was exposed to the following specific investment risks at year end and if so, the reporting of certain related disclosures:

a. Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest only in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements. The ratings of securities by nationally recognized rating agencies are designed to give an indication of credit risk. At year end, the District was not exposed to credit risk.

b. Custodial Credit Risk

Deposits are exposed to custodial credit risk if they are not covered by depository insurance and the deposits are uncollateralized, collateralized with securities held by the pledging financial institution, or collateralized with securities held by the pledging financial institution's trust department or agent but not in the District's name.

Investment securities are exposed to custodial credit risk if the securities are uninsured, are not registered in the name of the government, and are held by either the counterparty or the counterparty's trust department or agent but not in the District's name.

At year end, the District was not exposed to custodial credit risk.

c. Concentration of Credit Risk

This risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. At year end, the District was not exposed to concentration of credit risk.

d. Interest Rate Risk

This is the risk that changes in interest rates will adversely affect the fair value of an investment. At year end, the District was not exposed to interest rate risk.

e. Foreign Currency Risk

This is the risk that exchange rates will adversely affect the fair value of an investment. At year end, the District was not exposed to foreign currency risk.

Investment Accounting Policy

The District is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

POWAY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

The District's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

E. Capital Assets

Capital asset activity for the year ended June 30, 2006 was as follows:

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 39,569,499	\$ 19,072,099	\$ -	\$ 58,641,598
Work in progress	84,303,165	111,631,746	53,789,238	142,145,673
Total capital assets not being depreciated	<u>123,872,664</u>	<u>130,703,845</u>	<u>53,789,238</u>	<u>200,787,271</u>
<i>Capital assets being depreciated:</i>				
Buildings	212,751,581	46,357,717	343,700	258,765,598
Land improvements	19,320,324	7,427,550	-	26,747,874
Equipment	26,650,738	1,022,974	140,500	27,533,212
Total capital assets being depreciated	<u>258,722,643</u>	<u>54,808,241</u>	<u>484,200</u>	<u>313,046,684</u>
Less accumulated depreciation for:				
Buildings	(46,646,372)	(5,187,345)	(237,989)	(51,595,728)
Land improvements	(10,354,813)	(960,233)	-	(11,315,046)
Equipment	(16,510,617)	(1,584,921)	(136,643)	(17,958,895)
Total accumulated depreciation	<u>(73,511,802)</u>	<u>(7,732,499)</u>	<u>(374,632)</u>	<u>(80,869,669)</u>
Total capital assets being depreciated, net	<u>185,210,841</u>	<u>47,075,742</u>	<u>109,568</u>	<u>232,177,015</u>
Governmental activities capital assets, net	<u>\$ 309,083,505</u>	<u>\$ 177,779,587</u>	<u>\$ 53,898,806</u>	<u>\$ 432,964,286</u>
	Beginning Balances	Increases	Decreases	Ending Balances
Business-type activities:				
<i>Capital assets being depreciated:</i>				
Buildings	4,767,384	-	-	4,767,384
Land improvements	4,583	-	-	4,583
Equipment	48,337	8,170	-	56,507
Total capital assets being depreciated	<u>4,820,304</u>	<u>8,170</u>	<u>-</u>	<u>4,828,474</u>
Less accumulated depreciation for:				
Buildings	(1,112,390)	(105,942)	-	(1,218,332)
Land improvements	(4,583)	-	-	(4,583)
Equipment	(48,337)	(583)	-	(48,920)
Total accumulated depreciation	<u>(1,165,310)</u>	<u>(106,525)</u>	<u>-</u>	<u>(1,271,835)</u>
Total capital assets being depreciated, net	<u>3,654,994</u>	<u>(98,355)</u>	<u>-</u>	<u>3,556,639</u>
Business-type activities capital assets, net	<u>\$ 3,654,994</u>	<u>\$ (98,355)</u>	<u>\$ -</u>	<u>\$ 3,556,639</u>

POWAY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

Depreciation was charged to functions as follows:

Instruction	\$ 5,186,654
Instruction-Related Services	914,526
Pupil Services	662,420
Ancillary Services	3,010
Enterprise	6,144
General Administration	809,396
Plant Services	144,409
Business Type Activities	106,525
	<u>\$ 7,833,084</u>

F. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2006 consisted of the following:

<u>Due To Fund</u>	<u>Due From Fund</u>	<u>Amount</u>
General Fund	Adult Education Fund	83,054
General Fund	Child Development Fund	504
General Fund	Cafeteria Fund	378,649
General Fund	Building Fund	12,599
General Fund	Capital Facilities Fund	43,232
General Fund	Enterprise Fund	366,414
General Fund	Self Insurance Fund	224,212
Adult Education Fund	General Fund	40,954
Child Development Fund	General Fund	373
Cafeteria Fund	General Fund	14
Cafeteria Fund	Child Development Fund	670
Cafeteria Fund	Enterprise Fund	76,091
Special Reserve Fund	Building Fund	1,069,260
Building Fund	County School Facilities Fund	4,119,503
Building Fund	Deferred Maintenance Fund	1,250,000
Capital Facilities Fund	General Fund	25
Capital Facilities Fund	Building Fund	46
Enterprise Fund	General Fund	19,767
Enterprise Fund	Child Development Fund	2,133
Self Insurance Fund	General Fund	1,507,303
	Total	<u>\$ 9,194,803</u>

All amounts due are scheduled to be repaid within one year.

POWAY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2006 consisted of the following:

<u>Transfers From</u>	<u>Transfers To</u>	<u>Amount</u>
Special Reserve Fund	General Fund	\$ 190,906
County School Facilities Fund	General Fund	26,607
General Fund	Adult Education Fund	40,954
Building Fund	General Fund	1,250,000
General Fund	Self Insurance Fund	1,725,303
General Fund	Deferred Maintenance Fund	1,250,000
Component Units Fund	Component Units Fund	16,078,275
State School Building Fund	Building Fund	1,000,000
Component Units Fund	Building Fund	9,591,155
Self Insurance Fund	General Fund	218,190
	Total	<u>\$ 31,371,390</u>

G. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

<u>Description</u>	<u>Beginning Balance</u>	<u>Issued</u>	<u>Redeemed</u>	<u>Ending Balance</u>
Tax anticipation notes	\$ 10,825,000	\$ 15,000,000	\$ 10,825,000	\$ 15,000,000

H. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the year ended June 30, 2006 are as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>	<u>Amounts Due Within One Year</u>
Governmental activities:					
General obligation bonds	\$ 68,600,000	\$ -	\$ 4,435,000	\$ 64,165,000	\$ 4,785,000
Capital leases	2,722,833	990,992	1,471,383	2,242,442	1,418,341
Certificates of participation	100,000,000	-	-	100,000,000	-
Special tax bonds	205,345,835	177,315,000	3,620,000	379,040,835	4,155,000
Compensated absences *	3,321,786	170,004	-	3,491,790	3,491,790
Total governmental activities	<u>\$ 379,990,454</u>	<u>\$ 178,475,996</u>	<u>\$ 9,526,383</u>	<u>\$ 548,940,067</u>	<u>\$ 13,850,131</u>

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

<u>Liability</u>	<u>Activity Type</u>	<u>Fund</u>
Compensated absences	Governmental	General

POWAY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

2. Debt Service Requirements

Debt service requirements on long-term debt, net of certificates of participation, at June 30, 2006 are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2007	\$ 13,850,131	\$ 20,232,372	\$ 34,082,503
2008	5,640,996	21,976,782	27,617,778
2009	6,527,770	21,706,477	28,234,247
2010	7,427,390	21,402,146	28,829,536
2011	8,222,945	21,050,216	29,273,161
2012-2016	53,320,000	98,611,956	151,931,956
2017-2021	63,330,000	84,854,305	148,184,305
2022-2026	83,810,835	66,332,894	150,143,729
2027-2031	96,495,000	41,530,906	138,025,906
2032-2036	98,460,000	15,987,443	114,447,443
2037-2041	11,855,000	309,540	12,164,540
Totals	<u>\$ 448,940,067</u>	<u>\$ 413,995,037</u>	<u>\$ 862,935,104</u>

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of June 30, 2006 are as follows:

Year Ending June 30:	
2007	\$ 1,505,194
2008	365,646
2009	225,608
2010	220,892
2011	73,631
Total Minimum Lease Payments	2,390,971
Less Amount Representing Interest	(148,529)
Present Value of Net Minimum Lease Payments	<u>\$ 2,242,442</u>

4. Certificates of Participation

Future commitments for certificates of participation as of June 30, 2006 are as follows:

Year Ending June 30,	Principal
2007	\$ -
2008	-
2009	-
2010	-
2011	-
2012-2016	5,670,000
2017-2021	11,890,000
2022-2026	15,910,000
2027-2031	21,300,000
2032-2036	28,500,000
2037-2041	16,730,000
Totals	<u>\$ 100,000,000</u>

POWAY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

I. Joint Ventures (Joint Powers Agreements)

The District participates in one joint powers agreement (JPA) entity, the San Diego County Schools Risk Management (SDCSR). The relationship between the District and the JPA is such that the JPA is not a component unit of the District.

The JPA arranges for and provides for various types of insurances for its member districts as requested. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

Combined condensed unaudited financial information of the District's share of the JPA for the year ended June 30, 2006 is as follows:

Total Assets	\$	100,115
Total Liabilities		-
Total Fund Balance		100,115
Total Cash Receipts		1,577
Total Cash Disbursements		22,377
Net Change in Fund Balance		(20,800)

J. Employee Retirement Systems

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

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% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), 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 9.12% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2006, 2005 and 2004 were \$4,867,201, \$4,856,272 and \$4,822,739, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$0.

POWAY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

STRS:

Plan Description

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

Funding Policy

Active plan members are required to contribute 8% 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 STRS Teachers' Retirement Board. 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 year ending June 30, 2006, 2005 and 2004 were \$10,013,458, \$9,450,619 and \$9,263,916, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$5,482,474.

K. Postemployment Benefits Other Than Pension Benefits

The District provides postretirement health care benefits, as established by board policy, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service.

The District pays health insurance premiums on behalf of qualified pre-Medicare retirees at a rate ranging from 50% to 100% of the cost, depending on length of service and other factors. During the year ended June 30 2006, expenditures of \$624,817 were recognized for postretirement health care. These costs were funded on a pay-as-you-go basis. The District does not recognize a liability for future postemployment health care benefits because the amount cannot be reasonably determined.

L. Commitments and Contingencies

Litigation

The District is involved in various litigation. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial statements.

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to view 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.

M. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has one self-insurance fund (Internal Service Fund) to account for and finance its uninsured risks of loss. The Internal Service Fund provides dental and vision coverage to employees.

POWAY UNIFIED SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006

All funds of the District participate in the program, but only the General Fund makes payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a liability for open claims and Incurred But Not Reported (IBNR) claims. The claims and liability of \$2,305,152 is included in the liabilities under accounts payable and is reported in accordance with Financial Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated at the end of the fiscal year. Changes in the Internal Service Fund's claim liability in the fiscal year ended June 30, 2006 are indicated below:

Internal Service Fund:	Beginning Fiscal Year Liability	Current Year Claims and Changes in Estimates	Claim Payments	Ending Fiscal Year Liability
Year 2005-06	\$ <u>4,139,198</u>	\$ <u>1,514,471</u>	\$ <u>3,348,517</u>	\$ <u>2,305,152</u>

N. Subsequent Events

The district issued \$10,000,000 of Tax Revenue Anticipation Notes (TRANS) with an interest rate of 4.50% dated July 3, 2006. This TRANS was sold to supplement the district's cash flow and matures on July 27, 2007. Repayment requirements are that 50% of principal and interest be repaid on January 31, 2007 and on April 30, 2007.

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

POWAY UNIFIED SCHOOL DISTRICT

EXHIBIT B-1

*GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006*

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue Limit Sources:				
State Apportionments	\$ 71,025,372	\$ 70,969,902	\$ 70,969,899	\$ (3)
Local Sources	94,223,043	94,400,674	94,234,657	(166,017)
Federal Revenue	8,383,489	10,401,471	9,334,363	(1,067,108)
Other State Revenue	41,513,764	45,645,564	45,239,944	(405,620)
Other Local Revenue	6,383,772	12,319,647	11,932,089	(387,558)
Total Revenues	<u>221,529,440</u>	<u>233,737,258</u>	<u>231,710,952</u>	<u>(2,026,306)</u>
Expenditures:				
Instruction	145,966,440	156,811,703	145,664,507	11,147,196
Instruction - Related Services	23,533,089	29,220,474	26,066,537	3,153,937
Pupil Services	17,779,661	18,147,558	18,083,180	64,378
Ancillary Services	2,729,999	3,686,534	3,337,477	349,057
Community Services	352,415	384,919	383,005	1,914
Enterprise	41,772	41,873	101	41,772
General Administration	10,361,149	11,261,061	11,085,339	175,722
Plant Services	23,779,040	24,112,185	22,094,912	2,017,273
Other Outgo	321,525	722,747	1,366,706	(643,959)
Debt Service:				
Principal	-	80,784	49,614	31,170
Interest	-	-	18,353	(18,353)
Total Expenditures	<u>224,865,090</u>	<u>244,469,838</u>	<u>228,149,731</u>	<u>16,320,107</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(3,335,650)</u>	<u>(10,732,580)</u>	<u>3,561,221</u>	<u>14,293,801</u>
Other Financing Sources (Uses):				
Transfers In	218,190	2,685,703	1,685,703	(1,000,000)
Transfers Out	<u>(848,402)</u>	<u>(3,326,376)</u>	<u>(3,016,257)</u>	<u>310,119</u>
Total Other Financing Sources (Uses)	<u>(630,212)</u>	<u>(640,673)</u>	<u>(1,330,554)</u>	<u>(689,881)</u>
Net Change in Fund Balance	(3,965,862)	(11,373,253)	2,230,667	13,603,920
Fund Balance, July 1	<u>16,402,161</u>	<u>16,402,161</u>	<u>16,402,161</u>	<u>-</u>
Fund Balance, June 30	<u>\$ 12,436,299</u>	<u>\$ 5,028,908</u>	<u>\$ 18,632,828</u>	<u>\$ 13,603,920</u>

*Combining Statements and Budget Comparisons
as Supplementary Information*

This supplementary information includes financial statements and schedules not required by the Governmental Accounting Standards Board, nor a part of the basic financial statements, but are presented for purposes of additional analysis.

POWAY UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR GOVERNMENTAL FUNDS

JUNE 30, 2006

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-3)
ASSETS:				
<i>Cash in County Treasury</i>	\$ 7,703,181	\$ 7,084,614	\$ 22,159,607	\$ 36,947,402
<i>Cash on Hand and in Banks</i>	276,288	-	-	276,288
<i>Cash in Revolving Fund</i>	810	-	-	810
<i>Accounts Receivable</i>	541,149	-	233,340	774,489
<i>Due from Other Funds</i>	118,103	-	1,069,332	1,187,435
<i>Stores Inventories</i>	192,724	-	-	192,724
Total Assets	<u>\$ 8,832,255</u>	<u>\$ 7,084,614</u>	<u>\$ 23,462,279</u>	<u>\$ 39,379,148</u>
LIABILITIES AND FUND BALANCE:				
Liabilities:				
<i>Accounts Payable</i>	\$ 402,863	\$ -	\$ 302,391	\$ 705,254
<i>Due to Other Funds</i>	1,715,009	-	43,232	1,758,241
<i>Unearned Revenue</i>	35,725	-	-	35,725
Total Liabilities	<u>2,153,597</u>	<u>-</u>	<u>345,623</u>	<u>2,499,220</u>
Fund Balance:				
Reserved Fund Balances:				
<i>Reserve for Revolving Cash</i>	810	-	-	810
<i>Reserve for Stores Inventories</i>	192,724	-	-	192,724
Designated Fund Balances:				
<i>Other Designated</i>	-	-	9,000,000	9,000,000
Unreserved, reported in nonmajor:				
<i>Special Revenue Funds</i>	6,485,124	-	-	6,485,124
<i>Debt Service Funds</i>	-	7,084,614	-	7,084,614
<i>Capital Projects Funds</i>	-	-	14,116,656	14,116,656
Total Fund Balance	<u>6,678,658</u>	<u>7,084,614</u>	<u>23,116,656</u>	<u>36,879,928</u>
Total Liabilities and Fund Balances	<u>\$ 8,832,255</u>	<u>\$ 7,084,614</u>	<u>\$ 23,462,279</u>	<u>\$ 39,379,148</u>

POWAY UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Special Revenue Funds	Debt Service Funds	Capital Projects Funds	Total Nonmajor Governmental Funds (See Exhibit A-5)
Revenues:				
Revenue Limit Sources:				
State Apportionments	\$ 665,502	\$ -	\$ -	\$ 665,502
Federal Revenue	1,444,572	-	-	1,444,572
Other State Revenue	1,765,861	92,974	910,311	2,769,146
Other Local Revenue	6,089,607	7,694,386	9,754,819	23,538,812
Total Revenues	<u>9,965,542</u>	<u>7,787,360</u>	<u>10,665,130</u>	<u>28,418,032</u>
Expenditures:				
Instruction	914,419	-	-	914,419
Instruction - Related Services	339,217	-	-	339,217
Pupil Services	6,927,463	-	-	6,927,463
General Administration	228,470	-	38,001	266,471
Plant Services	2,479,740	-	4,299,049	6,778,789
Debt Service:				
Principal	-	8,055,000	1,413,864	9,468,864
Interest	-	14,492,260	114,408	14,606,668
Total Expenditures	<u>10,889,309</u>	<u>22,547,260</u>	<u>5,865,322</u>	<u>39,301,891</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(923,767)</u>	<u>(14,759,900)</u>	<u>4,799,808</u>	<u>(10,883,859)</u>
Other Financing Sources (Uses):				
Transfers In	1,290,954	15,151,660	-	16,442,614
Transfers Out	(190,906)	-	(1,000,000)	(1,190,906)
Other Sources	-	-	990,992	990,992
Total Other Financing Sources (Uses)	<u>1,100,048</u>	<u>15,151,660</u>	<u>(9,008)</u>	<u>16,242,700</u>
Net Change in Fund Balance	176,281	391,760	4,790,800	5,358,841
Fund Balance, July 1	6,502,377	6,692,854	18,325,856	31,521,087
Fund Balance, June 30	<u>\$ 6,678,658</u>	<u>\$ 7,084,614</u>	<u>\$ 23,116,656</u>	<u>\$ 36,879,928</u>

POWAY UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR SPECIAL REVENUE FUNDS

JUNE 30, 2006

	Adult Education Fund	Child Development Fund
	<u> </u>	<u> </u>
ASSETS:		
<i>Cash in County Treasury</i>	\$ 357,378	\$ 35,605
<i>Cash on Hand and in Banks</i>	35,107	-
<i>Cash in Revolving Fund</i>	-	-
<i>Accounts Receivable</i>	217,193	7,131
<i>Due from Other Funds</i>	40,955	373
<i>Stores Inventories</i>	-	-
Total Assets	<u><u>\$ 650,633</u></u>	<u><u>\$ 43,109</u></u>
LIABILITIES AND FUND BALANCE:		
Liabilities:		
<i>Accounts Payable</i>	\$ 123,981	\$ 3,637
<i>Due to Other Funds</i>	83,053	3,307
<i>Unearned Revenue</i>	35,725	-
Total Liabilities	<u><u>242,759</u></u>	<u><u>6,944</u></u>
Fund Balance:		
Reserved Fund Balances:		
<i>Reserve for Revolving Cash</i>	-	-
<i>Reserve for Stores Inventories</i>	-	-
Unreserved, reported in nonmajor:		
<i>Special Revenue Funds</i>	407,874	36,165
Total Fund Balance	<u><u>407,874</u></u>	<u><u>36,165</u></u>
Total Liabilities and Fund Balances	<u><u>\$ 650,633</u></u>	<u><u>\$ 43,109</u></u>

Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-1)
\$ 2,355,754	\$ 3,855,460	\$ 1,098,984	\$ 7,703,181
241,181	-	-	276,288
810	-	-	810
264,194	40,434	12,197	541,149
76,775	-	-	118,103
192,724	-	-	192,724
<u>\$ 3,131,438</u>	<u>\$ 3,895,894</u>	<u>\$ 1,111,181</u>	<u>\$ 8,832,255</u>
\$ 228,380	\$ 46,865	\$ -	\$ 402,863
378,649	1,250,000	-	1,715,009
-	-	-	35,725
<u>607,029</u>	<u>1,296,865</u>	<u>-</u>	<u>2,153,597</u>
810	-	-	810
192,724	-	-	192,724
<u>2,330,875</u>	<u>2,599,029</u>	<u>1,111,181</u>	<u>6,485,124</u>
<u>2,524,409</u>	<u>2,599,029</u>	<u>1,111,181</u>	<u>6,678,658</u>
<u>\$ 3,131,438</u>	<u>\$ 3,895,894</u>	<u>\$ 1,111,181</u>	<u>\$ 8,832,255</u>

POWAY UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR SPECIAL REVENUE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Adult Education Fund	Child Development Fund
Revenues:		
Revenue Limit Sources:		
<i>State Apportionments</i>	\$ 665,502	\$ -
<i>Federal Revenue</i>	90,900	-
<i>Other State Revenue</i>	143,840	312,038
<i>Other Local Revenue</i>	377,970	1,925
Total Revenues	<u>1,278,212</u>	<u>313,963</u>
Expenditures:		
<i>Instruction</i>	622,535	291,884
<i>Instruction - Related Services</i>	339,217	-
<i>Pupil Services</i>	28,466	-
<i>General Administration</i>	37,471	14,973
<i>Plant Services</i>	-	-
Total Expenditures	<u>1,027,689</u>	<u>306,857</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>250,523</u>	<u>7,106</u>
Other Financing Sources (Uses):		
<i>Transfers In</i>	40,954	-
<i>Transfers Out</i>	-	-
Total Other Financing Sources (Uses)	<u>40,954</u>	<u>-</u>
Net Change in Fund Balance	291,477	7,106
Fund Balance, July 1	116,397	29,059
Fund Balance, June 30	<u>\$ 407,874</u>	<u>\$ 36,165</u>

EXHIBIT C-4

Cafeteria Fund	Deferred Maintenance Fund	Special Reserve Fund	Total Nonmajor Special Revenue Funds (See Exhibit C-2)
\$ -	\$ -	\$ -	\$ 665,502
1,353,672	-	-	1,444,572
60,042	1,249,941	-	1,765,861
<u>5,594,112</u>	<u>103,404</u>	<u>12,196</u>	<u>6,089,607</u>
<u>7,007,826</u>	<u>1,353,345</u>	<u>12,196</u>	<u>9,965,542</u>
-	-	-	914,419
-	-	-	339,217
6,898,997	-	-	6,927,463
176,026	-	-	228,470
<u>137,978</u>	<u>2,341,762</u>	<u>-</u>	<u>2,479,740</u>
<u>7,213,001</u>	<u>2,341,762</u>	<u>-</u>	<u>10,889,309</u>
<u>(205,175)</u>	<u>(988,417)</u>	<u>12,196</u>	<u>(923,767)</u>
-	1,250,000	-	1,290,954
-	-	(190,906)	(190,906)
<u>-</u>	<u>1,250,000</u>	<u>(190,906)</u>	<u>1,100,048</u>
(205,175)	261,583	(178,710)	176,281
<u>2,729,584</u>	<u>2,337,446</u>	<u>1,289,891</u>	<u>6,502,377</u>
<u>\$ 2,524,409</u>	<u>\$ 2,599,029</u>	<u>\$ 1,111,181</u>	<u>\$ 6,678,658</u>

POWAY UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR DEBT SERVICE FUNDS

JUNE 30, 2006

	Bond Interest & Redemption	Total Nonmajor Debt Service Funds (See Exhibit C-1)
ASSETS:		
<i>Cash in County Treasury</i>	\$ 7,084,614	\$ 7,084,614
Total Assets	<u>\$ 7,084,614</u>	<u>\$ 7,084,614</u>
LIABILITIES AND FUND BALANCE:		
Liabilities:		
Total Liabilities	-	-
Fund Balance:		
Unreserved, reported in nonmajor:		
<i>Debt Service Funds</i>	\$ 7,084,614	\$ 7,084,614
Total Fund Balance	<u>7,084,614</u>	<u>7,084,614</u>
Total Liabilities and Fund Balances	<u>\$ 7,084,614</u>	<u>\$ 7,084,614</u>

POWAY UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR DEBT SERVICE FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Bond Interest & Redemption	Debt Service Fund For Blended Component Units	Total Nonmajor Debt Service Funds (See Exhibit C-2)
Revenues:			
<i>Other State Revenue</i>	\$ 92,974	\$ -	\$ 92,974
<i>Other Local Revenue</i>	<u>7,694,386</u>	<u>-</u>	<u>7,694,386</u>
Total Revenues	<u>7,787,360</u>	<u>-</u>	<u>7,787,360</u>
Expenditures:			
Debt Service:			
<i>Principal</i>	4,435,000	3,620,000	8,055,000
<i>Interest</i>	<u>2,960,600</u>	<u>11,531,660</u>	<u>14,492,260</u>
Total Expenditures	<u>7,395,600</u>	<u>15,151,660</u>	<u>22,547,260</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>391,760</u>	<u>(15,151,660)</u>	<u>(14,759,900)</u>
Other Financing Sources (Uses):			
<i>Transfers In</i>	<u>-</u>	<u>15,151,660</u>	<u>15,151,660</u>
Total Other Financing Sources (Uses)	<u>-</u>	<u>15,151,660</u>	<u>15,151,660</u>
Net Change in Fund Balance	391,760	-	391,760
Fund Balance, July 1	<u>6,692,854</u>	<u>-</u>	<u>6,692,854</u>
Fund Balance, June 30	<u>\$ 7,084,614</u>	<u>\$ -</u>	<u>\$ 7,084,614</u>

POWAY UNIFIED SCHOOL DISTRICT

COMBINING BALANCE SHEET

NONMAJOR CAPITAL PROJECTS FUNDS

JUNE 30, 2006

	Capital Facilities Fund	Special Reserve Fund	Total Nonmajor Capital Projects Funds (See Exhibit C-1)
ASSETS:			
<i>Cash in County Treasury</i>	\$ 5,514,844	\$ 16,644,763	\$ 22,159,607
<i>Accounts Receivable</i>	57,171	176,169	233,340
<i>Due from Other Funds</i>	72	1,069,260	1,069,332
Total Assets	<u>\$ 5,572,087</u>	<u>\$ 17,890,192</u>	<u>\$ 23,462,279</u>
LIABILITIES AND FUND BALANCE:			
Liabilities:			
<i>Accounts Payable</i>	\$ 27,161	\$ 275,230	\$ 302,391
<i>Due to Other Funds</i>	43,232	-	43,232
Total Liabilities	<u>70,393</u>	<u>275,230</u>	<u>345,623</u>
Fund Balance:			
Designated Fund Balances:			
<i>Other Designated</i>	-	9,000,000	9,000,000
Unreserved, reported in nonmajor:			
<i>Capital Projects Funds</i>	5,501,694	8,614,962	14,116,656
Total Fund Balance	<u>5,501,694</u>	<u>17,614,962</u>	<u>23,116,656</u>
Total Liabilities and Fund Balances	<u>\$ 5,572,087</u>	<u>\$ 17,890,192</u>	<u>\$ 23,462,279</u>

POWAY UNIFIED SCHOOL DISTRICT

COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCES
NONMAJOR CAPITAL PROJECTS FUNDS
FOR THE YEAR ENDED JUNE 30, 2006

	Capital Facilities Fund	State School Building Fund	Special Reserve Fund	Total Nonmajor Capital Projects Funds (See Exhibit C-2)
Revenues:				
<i>Other State Revenue</i>	\$ -	\$ 910,311	\$ -	\$ 910,311
<i>Other Local Revenue</i>	1,266,702	-	8,488,117	9,754,819
Total Revenues	<u>1,266,702</u>	<u>910,311</u>	<u>8,488,117</u>	<u>10,665,130</u>
Expenditures:				
<i>General Administration</i>	38,001	-	-	38,001
<i>Plant Services</i>	800,766	910,311	2,587,972	4,299,049
Debt Service:				
<i>Principal</i>	-	-	1,413,864	1,413,864
<i>Interest</i>	-	-	114,408	114,408
Total Expenditures	<u>838,767</u>	<u>910,311</u>	<u>4,116,244</u>	<u>5,865,322</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>427,935</u>	<u>-</u>	<u>4,371,873</u>	<u>4,799,808</u>
Other Financing Sources (Uses):				
<i>Transfers Out</i>	-	(1,000,000)	-	(1,000,000)
<i>Other Sources</i>	-	-	990,992	990,992
Total Other Financing Sources (Uses)	<u>-</u>	<u>(1,000,000)</u>	<u>990,992</u>	<u>(9,008)</u>
Net Change in Fund Balance	427,935	(1,000,000)	5,362,865	4,790,800
Fund Balance, July 1	5,073,759	1,000,000	12,252,097	18,325,856
Fund Balance, June 30	<u>\$ 5,501,694</u>	<u>\$ -</u>	<u>\$ 17,614,962</u>	<u>\$ 23,116,656</u>

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

Supplementary Information Section

POWAY UNIFIED SCHOOL DISTRICT
 SCHEDULE OF AVERAGE DAILY ATTENDANCE
 YEAR ENDED JUNE 30, 2006

TABLE D-1

	<u>Revised Second Period Report</u>	<u>Revised Annual Report</u>
Elementary:		
Kindergarten	2,152.47	2,153.25
Grades 1 through 3	6,691.95	6,694.90
Grades 4 through 8	11,906.33	11,910.08
Home and Hospital	1.28	1.99
Special education	<u>482.74</u>	<u>486.85</u>
Elementary totals	<u>21,234.77</u>	<u>21,247.07</u>
High School:		
Grades 9 through 12, regular classes	9,785.17	9,724.88
Special education	307.16	309.26
Continuation education	252.34	265.84
Home and Hospital	2.19	3.59
High school totals	<u>10,346.86</u>	<u>10,303.57</u>
Classes for adults:		
Concurrently enrolled	7.71	16.57
Not concurrently enrolled	<u>145.65</u>	<u>207.32</u>
ADA totals	<u>31,734.99</u>	<u>31,774.53</u>
	<u>Hours of Attendance</u>	
<u>Summer School</u>		
Elementary	134,099	
High School	245,420	

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

POWAY UNIFIED SCHOOL DISTRICT

TABLE D-2

SCHEDULE OF INSTRUCTIONAL TIME
YEAR ENDED JUNE 30, 2006

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2005-06 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	31,680	36,000	36,000	180	-	Complied
Grades 1 through 3	47,149	50,400	52,850	180	-	Complied
Grades 4 through 5	49,684	54,000	54,505	180	-	Complied
Grades 6 through 8	60,703	54,000	61,705	180	-	Complied
Grades 9 through 12	54,441	64,800	66,785	180	-	Complied

Districts, including basic aid districts, must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201. This schedule is required of all districts, including basic aid districts.

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 instruction time offered by the district and whether the district complied with the provisions of Education Code Sections 46200 through 46206.

POWAY UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
YEAR ENDED JUNE 30, 2006

TABLE D-3

General Fund	(Budget) 2007	2006	2005	2004
Revenues and other financial sources	\$ 237,360,441	\$ 233,396,655	\$ 220,440,166	\$ 212,496,548
Expenditures, other uses and transfers out	<u>240,877,482</u>	<u>231,165,988</u>	<u>218,794,319</u>	<u>210,282,357</u>
Change in fund balance (deficit)	<u>(3,517,041)</u>	<u>2,230,667</u>	<u>1,645,847</u>	<u>2,214,191</u>
Ending fund balance	<u>\$ 15,115,787</u>	<u>\$ 18,632,828</u>	<u>\$ 16,402,161</u>	<u>\$ 14,756,314</u>
Available reserves	<u>\$ 14,686,021</u>	<u>\$ 18,250,509</u>	<u>\$ 15,964,449</u>	<u>\$ 14,114,623</u>
Available reserves as a percentage of total outgo	<u>6.1%</u>	<u>7.9%</u>	<u>7.3%</u>	<u>6.7%</u>
Total long-term debt	<u>\$ 535,089,936</u>	<u>\$ 548,940,067</u>	<u>\$ 379,990,454</u>	<u>\$ 268,919,696</u>
Average daily attendance at P-2	<u>31,677</u>	<u>31,735</u>	<u>31,975</u>	<u>31,959</u>

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.

The district's general fund balance has increased by \$6,090,705 over the past three years. The fiscal year 2006-07 budget projects a decrease of \$3,517,041. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures, other uses and transfers out.

Long-term debt has increased by \$289,053,216 over the past three years.

Average daily attendance (ADA) has increased by 61 over the past three years.

POWAY UNIFIED SCHOOL DISTRICT
*RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2006*

TABLE D-4

The fund balances for all funds as reported in the district's unaudited financial statements are in agreement with the fund balances reported in the accompanying audited financial statements.

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented.

POWAY UNIFIED SCHOOL DISTRICT

*SCHEDULE OF CHARTER SCHOOLS
YEAR ENDED JUNE 30, 2006*

TABLE D-5

No charter schools are chartered by Poway Unified School District.

<u>Charter Schools</u>	<u>Included In Audit?</u>
None	N/A

POWAY UNIFIED SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2006

TABLE D-6

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U. S. DEPARTMENT OF THE INTERIOR</u>			
Direct Program:			
Wildlife Restoration *	15.611	-	\$ <u>619</u>
Total U. S. Department of the Interior			<u>619</u>
<u>U. S. DEPARTMENT OF HOMELAND SECURITY</u>			
Passed Through State Department of Education:			
FEMA	97.036	056560	<u>1,761</u>
Total U. S. Department of Homeland Security			<u>1,761</u>
<u>U. S. DEPARTMENT OF EDUCATION</u>			
Direct Programs:			
Alcohol Abuse Reduction	84.184A	-	378,235
Character Education	84.215S	-	373,876
Elementary and Secondary Counseling	84.215E	-	387,997
Project Assert	84.184E	-	123,061
Safe and Drug Free Schools	84.184L	-	250,227
Impact Aid - P.L. 81.874	84.041	-	<u>133,322</u>
Total Direct Programs			<u>1,646,718</u>
Passed Through State Department of Education:			
Adult Education	84.002	03925	90,900
Title I	84.010	03064	955,584
Special Education *	84.027	03379	4,455,090
Vocational Education	84.048	03922	150,765
Transitional Partnership	84.158	03410	132,786
Preschool *	84.173	03430	413,084
Title IV Drug Free	84.186	03453	90,548
Title I Even Start	84.213	03105	253,720
21st Century Learning	84.287	04124	165,216
Title V Innovative Education	84.298	04110	65,105
Title II Technology	84.318	04045	30,000
Title III Immigrant Education	84.365	04201	122,781
Title III LEP	84.365	04203	214,924
Title II Teacher Quality	84.367	04305	632,109
Advanced Placement	84.369	04363	<u>3,554</u>
Total Passed Through State Department of Education			<u>7,776,166</u>
Total U. S. Department of Education			<u>9,422,884</u>
<u>U. S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through State Department of Education:			
National School Lunch Program *	10.555	03396	<u>1,353,671</u>
Total U. S. Department of Agriculture			<u>1,353,671</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>10,778,935</u>

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

POWAY UNIFIED SCHOOL DISTRICT

**NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Poway Unified School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB 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 general purpose financial statements.

2. Subrecipients

Of the federal expenditures presented in the schedule, Poway Unified School District provided federal awards to subrecipients as follows:

<u>Program Title</u>	<u>Federal CFDA Number</u>	<u>Amount Provided to Subrecipients</u>
Title II Teacher Quality	84.367	\$ 263
Title V Innovative	84.298	<u>2,338</u>
Total Provided to Subrecipients		<u>\$ 2,601</u>

Other Independent Auditor's Reports

WILKINSON HADLEY & CO., LLP
250 E. Douglas Ave., Suite 200
El Cajon, CA 92020
Tel (619) 447-6700 Fax (619) 447-6707

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with Government Auditing Standards

Board of Trustees
Poway Unified School District
Poway, California 92064-2098

Members of the Board of Trustees:

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Poway Unified School District as of and for the year ended June 30, 2006, which collectively comprise the Poway Unified School District's basic financial statements and have issued our report thereon dated September 8, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Poway Unified School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses; however, we noted certain other matters that we have reported on in the Schedule of Findings and Questioned Costs.

Compliance and Other Matters

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

This report is intended solely for the information and use of management, others within the organization, the Board of Trustees, 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.

Wilkinson Hadley & Co., LLP

Wilkinson Hadley & Co., LLP
September 8, 2006

WILKINSON HADLEY & CO., LLP
250 E. Douglas Ave., Suite 200
El Cajon, CA 92020
Tel (619) 447-6700 Fax (619) 447-6707

Report on Compliance with Requirements Applicable
To each Major Program and Internal Control over Compliance
In Accordance With OMB Circular A-133

Board of Trustees
Poway Unified School District
Poway, California 92064-2098

Members of the Board of Trustees:

Compliance

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

In our opinion, Poway 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 Poway 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 Poway 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 the 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 reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and 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 no matters involving the internal control over compliance and its operation that we considered to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the Board of Trustees, 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.

Wilkinson Hadley & Co., LLP

Wilkinson Hadley & Co., LLP
September 8, 2006

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Auditor's Report on State Compliance

Board of Trustees
 Poway Unified School District
 Poway, California 92064-2098

Members of the Board of Trustees:

We have audited the basic financial statements of the Poway Unified School District ("District") as of and for the year ended June 30, 2006, and have issued our report thereon dated September 8, 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 the State's audit guide, *Standards and Procedures for Audits of California K-12 Local Education 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 state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures In Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	8	Yes
Kindergarten Continuance	3	Yes
Independent Study	22	Yes
Continuation Education	10	Yes
Adult Education	9	Yes
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	Not Applicable
Morgan-Hart Class Size Reduction Program	7	Yes
Instructional Materials:		
General Requirements	12	Yes
Grades K-8 Only	1	Yes
Grades 9-12 Only	1	Yes
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 (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	No
School Accountability Report Card	3	Yes
Class Size Reduction Program (Including In Charter Schools):		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Not Applicable
Only One School Serving Grades K-3	4	Not Applicable
Contemporaneous Records of Attendance, For Charter Schools	1	Not Applicable
Nonclassroom-Based Instruction/Independent Study, For Charter Schools	15	Not Applicable
Additional Nonclassroom-Based Instruction, For Charter Schools	1	Not Applicable
Determination of Funding for Nonclassroom-Based Instruction, For Charter Schools	3	Not Applicable
Annual Instructional Minutes - Classroom Based, For Charter Schools	3	Not Applicable

We did not apply the audit procedures for the California School Age Families Education program because the District did not offer the program during the current fiscal year.

Based on our audit, we found that, for the items tested, Poway 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 Poway 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 of Trustees, management, State Controller's Office, Department of Finance, Department of Education, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Wilkinson Hadley & Co., LLP

Wilkinson Hadley & Co., LLP
September 8, 2006

Findings and Recommendations Section

POWAY UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Reportable condition(s) identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Reportable condition(s) identified that are not considered to be material weaknesses? Yes None Reported

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

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

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
84.367	Title II Teacher Quality
10.555	National School Lunch

Dollar threshold used to distinguish between type A and type B programs: \$300,000

Auditee qualified as low-risk auditee? Yes No

POWAY UNIFIED SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006

3. State Awards

Internal control over state programs:

Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Reportable condition(s) identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported

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

B. Financial Statement Findings

Finding 2006-1 (30000)
 Compensated Absences

Criteria or Specific Requirement

Determine the amount established as compensated absences is materially correct and all employees are within the district's policy for carryover.

Condition

In our review of compensated absences, we noted 21 employees exceeded the maximum carryover of vacation accrual allowed. A written request and justification for exceeding the carryover must be submitted to District management per policy guidelines; however, this procedure was not completed for the employees that exceeded the maximum carryover.

Questioned Costs

None

Recommendation

We recommend procedures be implemented that will reduce the amount of vacation carryover for the employees that have exceeded the maximum amount allowed. Require all employees that exceed the maximum amount allowed to have written justification from District management for the excess as stated in the District policy.

LEA's Response

The Chief Financial Officer will work with the Assistant Superintendent of Personnel to implement a procedure whereby employees with excess vacation on the books will provide written justification. These documents, once signed and approved by the immediate supervisors, will be filed in the Personnel Department.

C. Federal Award Findings and Questioned Costs

None

D. State Award Findings and Questioned Costs

None

POWAY UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Finding 2005-1 Compensated Absences</p> <p>In review of compensated absences, several employees exceeded the maximum carryover of vacation accrual allowed with no justification or approval from District management.</p> <p>Reduce the amount of vacation carryover for employees that exceed the maximum amount allowed or require written justification and approval from District management for the excess over the stated policy amount.</p>	<p>Being Implemented</p>	<p>See Current Year Finding</p>
<p>Finding 2005-2 Student Body Funds</p> <p>In review of student body funds, cash transmittal forms were not completed or signed properly at the middle school and high school tested. In addition, there was not sufficient documentation for expenditures and deposits, invoices were not stamped paid, and deposits were not timely at the elementary site tested.</p> <p>Require all cash transmittal forms to be signed and completed properly at the middle school and high school. Provide sufficient support for all expenditures and deposits, stamp and deface all invoices, and deposit all revenues on a timely basis at the elementary school.</p>	<p>Implemented</p>	
<p>Finding 2005-3 Cash Clearing Account</p> <p>In review of cash clearing accounts, actual reconciled balances were not properly disclosed in the financial statements. As a result, audit adjustments were required to reconcile the cash in the financial statements to the actual reconciled bank balances.</p> <p>Implement procedures to ensure clearing account balances in the financial statements agree to the reconciled bank balances at year end.</p>	<p>Implemented</p>	

POWAY UNIFIED SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Finding 2005-4 K-3 Class Size Reduction</p> <p>In review of Form J-7CSR, a clerical error caused the District to understate the number of students eligible for class size reduction in kindergarten by one student.</p> <p>File an amended Form J-7CSR and report the correct number of students in kindergarten. Establish a method to ensure all class size averages are mathematically correct as listed on Form J-7CSR for future reporting periods.</p>	<p>Implemented</p>	

Exhibit B

Detailed Direct and Overlapping Debt Report

POWAY UNIFIED SCHOOL DISTRICT
Community Facilities District No. 1
Special Tax Bonds

Detailed Direct and Overlapping Debt

Report Date: 01/09/2007

Report Time: 12:00:00 PM

I. Assessed Value

2006-2007 Secured Roll Assessed Value

\$4,439,547,203

II. Secured Property Taxes

Description on Tax Bill	Type	Total Parcels	Total Levy	% Applicable	Parcels	Levy
Basic Levy	PROPI3	936,149	3319441070	1.32049%	8,846	\$43,832,939.75
Voter Approved Debt	VOTER	926,227	211399574.7	0.28034%	8,846	\$592,647.14
City of Poway Fire Protection	FIRE	14,505	590777.56	0.14256%	28	\$842.22
City of Poway Landscape Maintenance District No. 83-1	LLMD	1,398	165635.04	0.14306%	2	\$236.96
City of Poway Landscape Maintenance District No. 83-1C	LMD	26	12900.16	100.00000%	26	\$12,900.16
City of Poway Roadway Lighting District, Zone A	LLMD	11,634	331870.08	0.11752%	26	\$390.00
City of Poway Roadway Lighting District, Zone B	LLMD	3,035	12804.66	0.02936%	2	\$3.76
City of Poway Roadway Lighting District, Zone C	LLMD	14,670	346755.78	0.10575%	28	\$366.68
City of San Diego Carmel Mountain Ranch Maintenance District	LMD	3,870	273411.72	81.69292%	2,648	\$223,358.02
City of San Diego Miramar Ranch North Maintenance District	LMD	4,358	1029256.4	1.93138%	11	\$19,878.90
City of San Diego Park Village Maintenance District	LMD	3,114	237492.78	65.03225%	1,624	\$154,446.90
City of San Diego Penasquitos East Maintenance District	LMD	10,158	246383.46	8.47893%	1,441	\$20,890.68
City of San Diego Rancho Bernardo Maintenance District	LMD	12,510	346231.04	3.87487%	614	\$13,416.00
City of San Diego Sabre Spring Maintenance District	LMD	3,244	87522.26	80.70621%	2,347	\$70,635.90
County of San Diego Mosquito / Disease Control	VECTOR	923,027	5553287.52	1.01773%	8,848	\$56,517.64
County of San Diego Service Area Zone F (Radio Equipment)	CSA	14,403	\$134,307.04	0.15844%	28	\$212.80
County of San Diego Vector Control, Zone A	VECTOR	519,414	\$1,411,012.72	1.37720%	8,523	\$19,432.44
County of San Diego Vector Control, Zone B	VECTOR	349,291	\$729,043.12	0.10164%	325	\$741.00
Metropolitan Water District of Southern California Standby Charge	STANDBY	14,640	\$288,479.28	0.12348%	28	\$356.20
Metropolitan Water District of Southern California Standby Charge	STANDBY	345,709	\$4,277,808.96	2.50766%	8,816	\$107,272.96
Palomar Pomerado Health Debt Service	GOB	184,909	\$9,862,559.98	6.07168%	6,319	\$598,823.24
Poway Unified School District CFD No. 1	CFD	9,148	\$7,712,333.30	100.00000%	9,148	\$7,712,333.30
Poway Unified School District SFID No. 2002-1 Debt Service	GOB	42,823	\$2,306,398.63	0.14544%	32	\$3,354.33
Poway Unified School District, General Obligation Bonds 2002, Series B	GOB	42,824	\$5,741,968.62	0.14543%	32	\$8,350.66
San Diego County Water Authority Standby Charge	STANDBY	353,015	\$3,758,810.14	2.48429%	8,822	\$93,379.80
San Diego County Water Authority Standby Charge	STANDBY	15,535	\$275,995.30	0.11221%	28	\$309.70

\$53,544,037.14

TOTAL PROPERTY TAX LIABILITY AS A PERCENTAGE OF 2005-2006 ASSESSED VALUATION

1.21%

III. Land Secured Bond Indebtedness

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels	Amount
Poway Unified School District CFD No. 1	CFD	\$85,815,835	\$62,240,835	100.00000%	9,148	\$62,240,835

TOTAL LAND SECURED BOND INDEBTEDNESS (1)

\$62,240,835

TOTAL OUTSTANDING LAND SECURED BOND INDEBTEDNESS (1)

\$62,240,835

IV. General Obligation Bond Indebtedness

Outstanding Direct and Overlapping Bonded Debt	Type	Issued	Outstanding	% Applicable	Parcels	Amount
City of San Diego Open Space Park Facilities District No. 1	GOB	\$35,000,000	\$13,500,000	2.93641%	9,116	\$396,415
City of San Diego Public Safety Communication System Debt Service	GOB	\$25,500,000	\$9,905,000	2.93641%	9,116	\$290,851
Metropolitan Water District of Southern California Debt Service	GOB	\$850,000,000	\$389,600,000	0.24134%	9,144	\$940,261
Palomar Pomerado Health Debt Service	GOB	\$80,000,000	\$73,815,000	6.02925%	6,569	\$4,450,491
Poway Municipal Water District Improvement Area Debt Service	GOB	\$6,300,000	\$0	0.20657%	28	\$0
Poway Unified School District SFID No. 2002-1 Debt Service	GOB	\$194,300,766	\$178,680,766	0.07217%	37	\$128,954
San Diego Community College District Debt Service	GOB	\$349,999,901	\$306,234,901	0.55785%	1,595	\$1,708,331

TOTAL GENERAL OBLIGATION BOND INDEBTEDNESS (1)

\$7,915,304

TOTAL OUTSTANDING GENERAL OBLIGATION BOND INDEBTEDNESS (1)

\$7,915,304

**TOTAL OF ALL OUTSTANDING AND OVERLAPPING BONDED DEBT
 VALUE TO ALL OUTSTANDING DIRECT AND OVERLAPPING BONDED DEBT**

**\$70,156,139
 63.28:1**

(1) Additional bonded indebtedness or available bond authorization may exist but are not shown because a tax was not levied for the referenced fiscal year.

Exhibit C

**Report to the California Debt and Investment
Advisory Commission**

**STATE OF CALIFORNIA
MELLO ROOS/MARKS ROOS
YEARLY STATUS FISCAL REPORT
FOR LOCAL OBLIGATORS**

California Debt and Investment Advisory Commission
915 Capitol Mall, Room 400, Sacramento, CA 95814
P.O. Box 942809, Sacramento, CA 94209-001
(916) 653-3269 FAX (916) 654-7440

For Office Use Only	
CDIAC #	_____
Fiscal Year	_____

I. General Information

This issue is subject to the Mello-Roos Fiscal Status Reporting Requirements only Yes No
 This issue is subject to the Marks-Roos Yearly Fiscal Status Reporting Requirements for local obligation/loan issues only Yes No
 This issue is subject to both Marks/Mello-Roos Yearly Fiscal Status Reporting Requirements Yes

A. Issuer Poway Unified School District
 B. Community Facilities District Number (Mello-Roos only) Community Facilities District No. 1
 C. Name/Title/Series of Bond Issue Series 2003 Special Tax Bonds
 D. Indicate Credit Rating Rating Agency Moody's, S&P Rating Aaa, AAA Not Rated
 E. Date of Bond Issue February 13, 2003
 F. Original Principal Amount of Bonds \$ 5,815,835.10
 G. Reserve Fund Minimum Balance Required Yes Amount \$ 555,357.07 No
 Percent of Authority Reserve Fund (Marks-Roos only) Yes % of Reserve Fund _____
 H. Name of Authority that purchased debt (Marks-Roos only) _____
 Was this a Senior/Subordinate Authority Bond? Yes No (If yes, list Senior and Subordinate below)

(Senior Authority bond issue)

(Subordinate Authority bond issue)

I. Date of Authority Bond(s) Issuance _____ (Marks-Roos only)

II. FUND BALANCE FISCAL STATUS

Balances Reported as of fiscal year ending June 30, 2006 (Year)
 A. Principal Amount of bonds Outstanding \$ 5,805,835.10
 B. Bond Reserve Fund \$ 0.00 [1]
 C. Capitalized Interest Fund \$ 0.00
 D. Construction Fund(s) (Mello-Roos only) \$ 11.93

III. ASSESSED VALUE OF ALL PARCELS IN CFD SUBJECT TO SPECIAL TAX (Mello-Roos only)

A. Assessed Value Reported as of: Fiscal Year 2006-2007 (Date) (Check one)
 (Most recent tax roll) From Tax Roll
 From Appraisal of Property
 (Use only in first year or before annual tax roll billing commences)
 B. Total Assessed Value of All Parcels \$ 4,439,547,203.00

IV. TAX COLLECTION INFORMATION

Reported as of fiscal year ending of: June 30, 2006 (Year)
 A. Total Amount of Taxes Due \$ 7,553,849.22
 B. Total Amount of Unpaid Taxes \$ 86,360.66
 C. Taxes are Paid Under the County's Teeter Plan Yes No

V. DELINQUENT REPORTING INFORMATION

Delinquent Parcel Information Reported as of the current Tax Roll of June 30, 2006 (Date)
 A. Total Number of Delinquent Parcels 146
 B. Total Amount of Taxes Due on Delinquent Parcels \$ 99,804.60
 C. Percent of Delinquency Rate 1.14%
 (Percent)

**STATE OF CALIFORNIA
YEARLY STATUS FISCAL REPORT**

(Continued)

VI. FORECLOSURE INFORMATION FOR FISCAL YEAR *(Mello-Roos only)*

(Aggregate totals, if foreclosure commenced on the same date)

<i>Date Foreclosure Commenced</i>	<i>Total Number of Foreclosure Parcels</i>	<i>Total Amount of Tax Due on Foreclosure Parcels</i>
N/A	N/A	\$ N/A
		\$
		\$
		\$
		\$
		\$
		\$

(Attach additional sheets if necessary)

VII. ISSUE RETIRED

This issue is retired and no longer subject to the Yearly Fiscal Status filing requirements. *(Indicate reason for retirement.)*

- A. Matured: Yes No If yes, indicate final maturity date: _____
- B. Refunded Entirely: Yes No If yes, state refunding bond title: _____
and issue date: _____
- C. Other: _____

VIII. NAME OF PARTY COMPLETING THIS FORM

Name: Benjamin Dolinka
 Title: President
 Firm/Agency: Dolinka Group, Inc.
 Address: 1301 Dove Street, Suite 700
 City/State/Zip: Newport Beach, CA 92660
 Phone No.: (949) 250-8300 Date of Report: October 30, 2006

Completion and submittal of this form to the California Debt and Investment Advisory Commission will assure your compliance with California State law. Section 53359.5 of the California Government code requires that all agencies issuing Mello-Roos Community Facilities bonds after January 1, 1993 to report specific information to the Commission by October 30th of each year.

Section 6599.1 of the California Government Code requires that all issuers selling Mark-Roos bonds, which is part of the Mark-Roos Local Bond Pooling Act of 1985, after January 1, 1996 are required to report specific information to the Commission by October 30th of the current year and each year thereafter.