



Executive Summary

The Santee School District's 2006-07 Second Interim Report includes a summary of revenue and expenditure activities reported in the District's general fund operating accounts for the period ending January 31, 2007. This report is prepared in accordance with State law and will be submitted to the San Diego County Office of Education for their review and comment.

The Second Interim Report demonstrates continued positive operating results supported by a projected unrestricted general fund increase of \$42,544 from the District's First Interim report, increasing ending fund balance reserves to \$1,656,459 before the addition of Special Fund 17

reserves. During the 2004-05 fiscal year, the District pursued a number of student attendance improvement initiatives that improved the District's attendance percentage. In 2006-07, the average attendance percentage shows a small decrease compared to prior years. This decrease is attributed to higher absences due to a strong flu season. Administration continues to monitor student attendance due to the effects on student achievement as well as Revenue Limit Funding.

The ending reserve available for Board designation increases to \$566,021 based largely on higher revenue over budgeted amounts. Current and projected cash balances remain consistent with the District's budget plan with ending cash projected to reach \$1.6 million by June 2007.

Santee School District 2006-07 Second Interim - Unrestricted/Restricted General Fund Summary

	Unrestricted Budget 2006-07	Restricted Budget 2006-07	Combined General Fund	First Interim Budget 2006-07	Difference
Revenues					
8010-8099 Revenue Limit	\$ 32,236,565	\$ 1,496,792	\$ 33,733,357	\$ 33,734,139	\$ (782)
8100-8299 Federal Revenue	266,958	2,952,202	3,219,160	3,064,710	154,450
8300-8599 State Revenue	4,620,810	4,638,818	9,259,628	8,917,025	342,603
8600-8799 Local Revenue	3,265,515	3,421,800	6,687,315	6,213,370	473,945
Total Revenue	\$ 40,389,848	\$ 12,509,612	\$ 52,899,460	\$ 51,929,244	\$ 970,216
Expenditures					
1000-1999 Certificated	\$ 20,400,797	\$ 5,553,616	\$ 25,954,413	\$ 26,048,854	\$ (94,441)
2000-2999 Classified	5,046,485	3,462,014	8,508,499	8,517,250	(8,751)
3000-3999 Employee Benefits	7,141,561	2,186,731	9,328,292	9,431,926	(103,634)
4000-4999 Books & Supplies	1,541,284	4,768,610	6,309,894	5,365,407	944,487
5000-5999 Services & Operating	2,474,656	4,644,246	7,118,902	6,958,864	160,038
6000-6599 Capital Outlay	352,994	26,066	379,060	379,060	-
7000-7499 Other Outgo	7,000	-	7,000	-	7,000
7300-7399 Indirect Costs	(391,524)	321,248	(70,276)	(64,588)	(5,688)
Total Expenses	\$ 36,573,253	\$ 20,962,531	\$ 57,535,784	\$ 56,636,773	\$ 899,011
Other Sources/(Uses)					
8910-8929 Transfers In	\$ -	\$ -	\$ -	\$ -	\$ -
7610-7629 Transfers Out	(830,719)	(28,661)	(859,380)	(830,719)	(28,661)
8800-8999 Contributions	(2,923,477)	2,923,477	-	-	-
Other Sources/Uses	\$ (3,754,196)	\$ 2,894,816	\$ (859,380)	\$ (830,719)	\$ (28,661)
Net Increase/(Decrease)	\$ 62,399	\$ (5,558,103)	\$ (5,495,704)	\$ (5,538,248)	\$ 42,544
Beginning Fund Balance	\$ 1,594,060	\$ 5,558,103	\$ 7,152,163	\$ 7,152,163	\$ -
Ending Fund Balance	\$ 1,656,459	\$ -	\$ 1,656,459	\$ 1,613,915	\$ 42,544





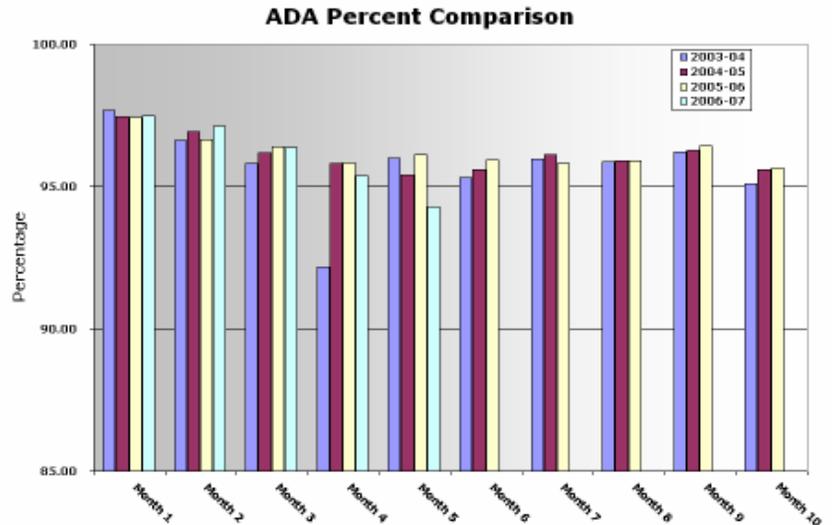
Multi-year budget projections forecasts positive operating contributions throughout the three year projection period. Conservative budget assumptions established by the San Diego County Office of Education combined with strategically planned expenditure reductions serve as the basis for the District's multi-year budget planning. The projections provide a basis for measuring the strength of the District's current and projected operating activities.

Revenue Summary

District revenues continue to perform in accordance with the District's budget plan as reflected in the 2006-07 First Interim Report. Combined General Fund revenues total \$52,899,460 after revenue revisions totaling \$970,216.

During the 2004-05 fiscal year, the District pursued a number of student attendance improvement initiatives. These initiatives resulted in significantly improved average daily attendance (ADA), the fundamental driver of education funding. Under the direction of the

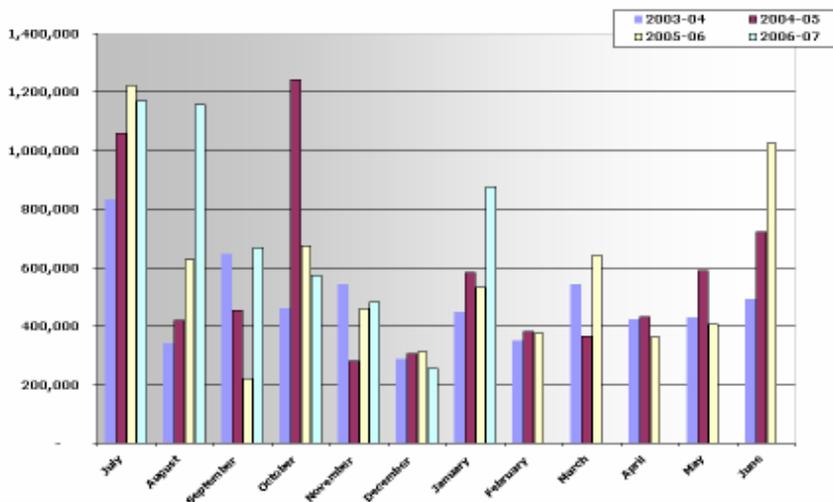
Superintendent and Board of Education, these initiatives were continued and expanded during the 2005-06 fiscal year.



The chart above graphs monthly ADA percentage changes over the last three years. For the 2006-07 year, the cumulative attendance percentage declined slightly, by .36, due to a severe flu season.

Revenues reflect an increase from the District's First Interim Report of \$970,216 due to higher allocations than estimated in Federal and State Revenues and the budgeting of additional Local Revenue received.

Commercial Warrants



Expenditure Summary

District expenditures remain within the parameters established by the 2006-07 adopted budget. Commercial warrant expenditures continue to trend well overall when compared to prior years as summarized below. Commercial





warrants show an increase over prior years, as additional one-time State revenues are spent.

Expenditure revisions since the First Interim report total \$899,011 to include expenditures for additional restricted revenue. Expenditures revisions also included reductions due to lower than anticipated increases in employee benefit accounts.

Other Sources and Uses

The second interim report includes an increase of \$28,661 over First Interim for transfers out of the restricted General Fund. This represents a pass

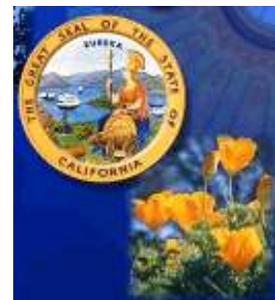
through grant that is transferred to the District's Deferred Maintenance Fund according to State regulations.

Fund Balance

The 2006-07 Second Interim fund balance available for Board designation totals \$566,021. Total available reserves of \$4,239,291 includes restrictions and designations for prepaid expenditures of \$220,154, stores inventory of \$75,000, revolving cash of \$15,000, and Senate Bill 18 transfer reserve of \$55,284.

2006-07 Second Interim - Fund Balance Summary

Unrestricted General Fund	First Interim	Second Interim
Net Increase/(Decrease) From Operations	\$ 19,855	\$ 62,399
Beginning Fund Balance	1,594,060	1,594,060
Special Reserve - Fund 17	1,655,011	2,582,832
Ending Fund Balance	\$ 3,268,926	\$ 4,239,291
Summary Fund Balance Restrictions		
State Reserve Requirement	\$ (1,655,011)	\$ (2,582,832)
Prepaid Expenditures	(220,154)	(220,154)
Restricted for SB 18 Transfer	(55,284)	(55,284)
Store Inventory Reserve	(75,000)	(75,000)
Revolving Cash	(15,000)	(15,000)
Reserve for Declining Enrollment Staffing	(725,000)	(725,000)
Total State and Federal Restricted Fund Balance	\$ (2,745,449)	\$ (3,673,270)
Fund Balance Available for Board Designation	\$ 523,477	\$ 566,021





State Budget Outlook

The following summary was published by the Legislative Analyst's Office on February 21, 2007:



PERSPECTIVES AND ISSUES

PART I—STATE FISCAL PICTURE

- The Governor's budget attempts to bridge a significant fiscal shortfall in 2007-08 through a variety of means, including a major redirection of transportation funds, significant reductions in social services, and a substantial increase in tribal gambling revenues.
- Based on our projections, we estimate that the Governor's budget plan would result in 2007-08 expenditures exceeding revenues by \$2.6 billion. This would leave the state with a \$726 million year-end deficit, compared to the Governor's January 10th estimate of a \$2.1 billion positive reserve.
- In addition, the state would face operating deficits of \$3.4 billion in 2008-09, \$2.5 billion in 2009-10, and \$1.4 billion in 2010-11.
- Thus, additional solutions will be needed to bring the budget into balance, such as budgetary savings, enhanced resources, or reduced supplemental payments toward paying off budgetary debt. It will also be important to avoid raising ongoing budget commitments without identifying alternative reductions or new revenues to pay for them.

PART II—PERSPECTIVES ON THE ECONOMY AND DEMOGRAPHICS

- Both the U.S. and California experienced continued economic expansion with modest inflation in 2006. The pace of growth varied during the year, however, being strong early-on, slowing subsequently due to a sharp decline in housing, and strengthening some at year-end.
- We forecast that California's economy will continue to expand in 2007, but at a slower pace than 2006. Growth will be weakest during the first half of the year but accelerate as the year progresses and the housing market stabilizes.
- This forecast is subject to risks, however, primarily relating to the future course of energy prices and whether the housing market stabilizes without adversely affecting the economy generally.

PART III—PERSPECTIVES ON STATE REVENUES

- Following two years of significant growth, revenues in 2006-07 appear to have slowed sharply, reflecting the more moderate economic expansion and a dip in income from capital gains.
- The budget assumes that revenue growth will revive somewhat in 2007-08.
- Budget-year revenues include nearly \$800 million from policy-related changes, including over \$500 million in additional tribal gambling revenues and about \$300 million from tax-related actions.
- We forecast that revenues and transfers will fall below the budget forecast for the current and budget years combined by about \$2 billion, primarily reflecting our weaker personal income tax projections.





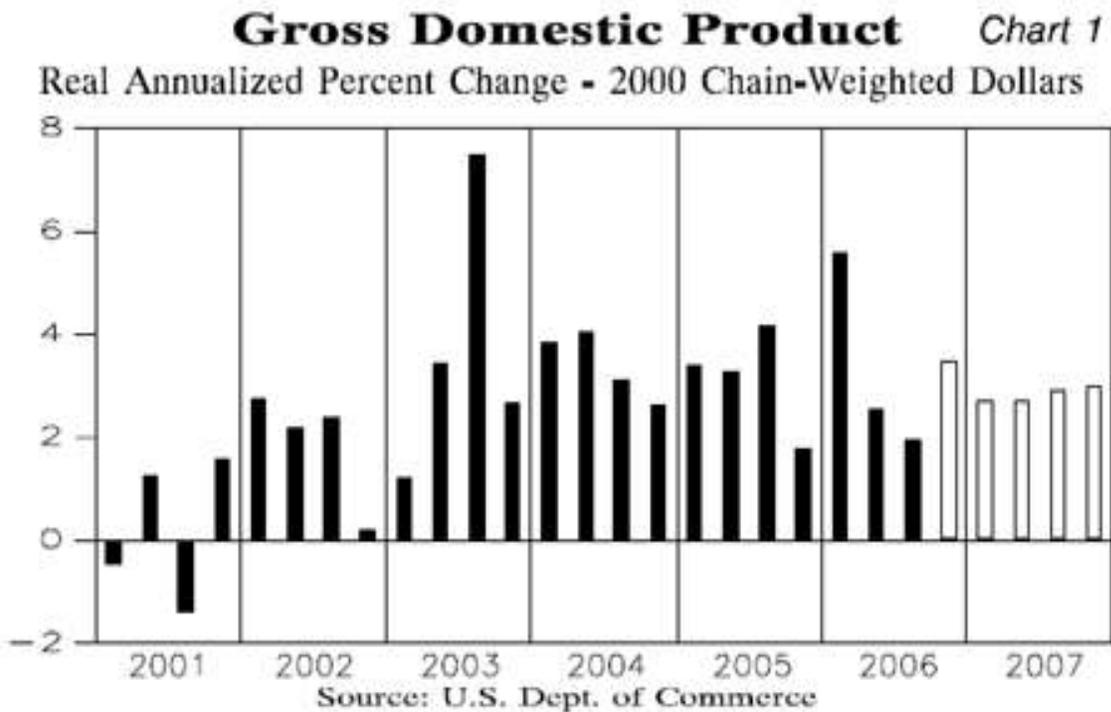
Economic Outlook

The strides made by the economy in the fourth quarter appear to be continuing in the opening period. This is not to say that growth will equal the surprisingly strong 3.5% rate posted during last year's final quarter. However, it is likely that the improvements currently being seen in non-manufacturing, employment, and consumer spending will help to keep growth in the area of 3%.

We think the economy will move forward at a moderate, but stable, pace throughout 2007. As is now the case, we expect the economy to get a boost from the consumer who continues to spend aggressively, thanks to increasing personal income, moderate growth in employment, and comparatively low interest rates. The principal restraint on the economy is likely to be housing,

which continues to weaken in certain regions of the county. We expect housing, overall, to slow a little more in the months to come, before bottoming out later this year or in 2008. Such crosscurrents suggest U.S. gross domestic product growth will average 2.5%-3% this year.

Further improvement is likely in 2008. By then, housing should be contributing to the economic well being, albeit modestly. Our sense is that a pickup in housing, a slow comeback in the domestic auto market, and modest additional gains elsewhere on the consumer side will help GDP growth reach at least 3%.





Cash Flow Analysis

General fund cash balances tend to follow the revenue collection pattern, declining to a low point in November and June of each fiscal year. However, in the current year, the District received \$1.1 million in past due Mandated Cost Claims in November, raising the cash balance to \$2,145,733 compared to a balance of \$829,561 in the prior year.

By January 2007, the cash balance was lower than prior year by approximately \$479,000. This year the District was not eligible to issue a Tax and Revenue Anticipation Note (TRANS) since it has been showing a positive cash balance, a healthy financial indicator. The January cash balance compares to prior years, not including TRANS.

GASB 45 Planning Implications

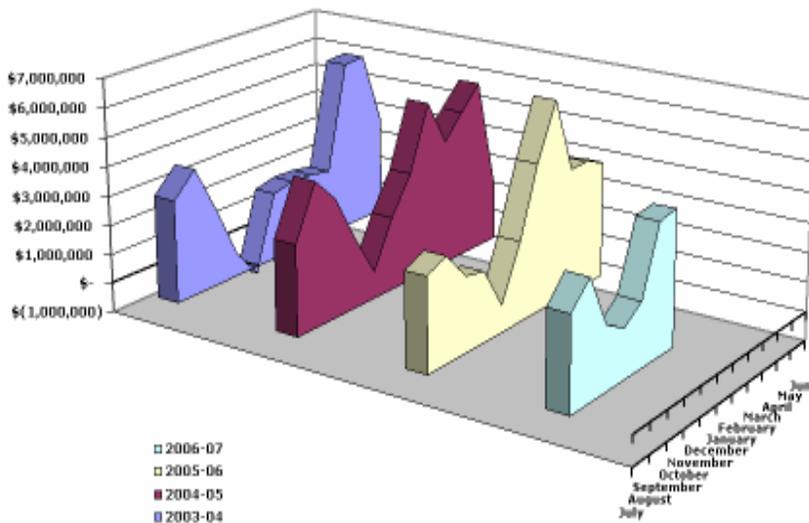
In 2004, the Governmental Accounting Standards Board (GASB) issued Statement 45, "Accounting and Financial Reporting by Employers for Post-Employment Benefits Other Than Pensions," requiring public agencies to report their costs and obligation pertaining to health and other benefits of current and future retired employees much like they now report pension plan obligations. These other post-employment benefits (OPEBs) - including such benefits as medical, dental, vision, hearing, life insurance, long-term care and long-term disability - must be recognized as a current cost during the working years of an employee. Thus, each district and county office of education must identify and disclose OPEBs as an expense and, to the extent not pre-funded, a liability on its financial statements. As a result, the annual OPEB costs for most employers will be based on

actuarially determined amounts rather than in the "pay-as-you-go" method.

At the November 14, 2006 fiscal workshop, the Board of Education requested a report on how GASB 45 would impact the Santee School District, and how the District is preparing for the GASB 45 requirements.

The Board authorized an actuarial study to determine the amount of unreported liability. The District anticipates completing the actuarial study by the end of the fiscal year, June 30, 2007. A plan to fund this liability will be developed based on the outcome of the study.

Cash Summary





Multi-Year Projection

The District's 2006-07 Second Interim multi-year projection is based on assumptions established by the San Diego County Office of Education. These assumptions are summarized in the table below.

Multi-year projections include the assumption of savings in 2008-09 due to offering an early retirement plan. Student enrollment and the related student attendance is expected to decline by 3.5

percent over the projection period. The District expects to reduce 10 and 9 certificated positions through natural attrition in the 2007-08 and 2008-09 fiscal years, respectively.

Based on the cash flow analysis and multi-year projection included with this 2006-07 Second Interim Report, the District expects to meet all financial obligations for the current and subsequent two fiscal years.

Santee Elementary				
School District Name				
Data in shaded areas are provided by SDCOE (for information only)				
DESCRIPTION	SDCOE	FY 2006-07	FY 2007-08	FY 2008-09
	Assumptions	(Base Year)	(Project YR 1)	(Project YR 2)
Statutory COLA - (SSC Dashboard)		5.92%	4.04%	2.70%
Funded COLA - (SSC Dashboard)		5.92%	4.04%	2.70%
Revenue Limit Deficit - (SSC Dashboard)		0.000%	0.000%	0.000%
California Consumer Price Index - (SSC Dashboard)		3.20%	2.60%	2.40%
Lottery Per ADA (SSC Dashboard)	Unrestricted	\$ 123.25	\$ 123.20	\$ 123.05
	Restricted	\$ 24.75	\$ 24.80	\$ 24.95
Total Equalization (if applicable)	\$0.00	\$ -	\$ -	\$ -
Current Interest Rate - (SD County Treasurer's Office)	4.50%	4.50%	4.25%	4.00%
Property Taxes (% increase)	(District Input)	2.00%	2.00%	2.00%
Average Daily Attendance (ADA) Projections	(District Input)	6,080.00	5,870.00	5,669.00
	% Change		-0.04	-0.04
Salary Step & Column Percent Increases:				
Teachers	1100	2.00%		2.00%
Certificated Pupil Support	1200	2.00%		2.00%
Certificated Supervisor & Admin	1300	2.00%		2.00%
Other Certificated	1900	0.00%		2.00%
Instructional Aides	2100	2.00%		2.00%
Classified Support	2200	2.00%		2.00%
Classified Supervisor & Admin	2300	2.00%		2.00%
Clerical, Technical, & Office Staff	2400	2.00%		2.00%
Other Classified	2900	0.00%		2.00%
Mgmt, Cert, & Classified Contract Increases:				
Management Increases		(District Input)		0.00%
Certificated Increases		(District Input)		0.00%
Classified Increases		(District Input)		0.00%
Benefits:				
STRS	3100-3102	8.25%		8.25%
PERS	3200-3202	9.124%		9.12%
OASDI/Medicare/Alternative	3300-3302	1.45%		1.45%
Health & Welfare	3400-3402	10.00%		3.00%
State Unemployment	3500-3502	0.05%		0.05%
Workers' Comp	3600-3602	(District Input)		2.29%
Retiree Benefits	3700-3702	(District Input)		0.00%
Other Employee Benefits	3900-3902	(District Input)		0.00%





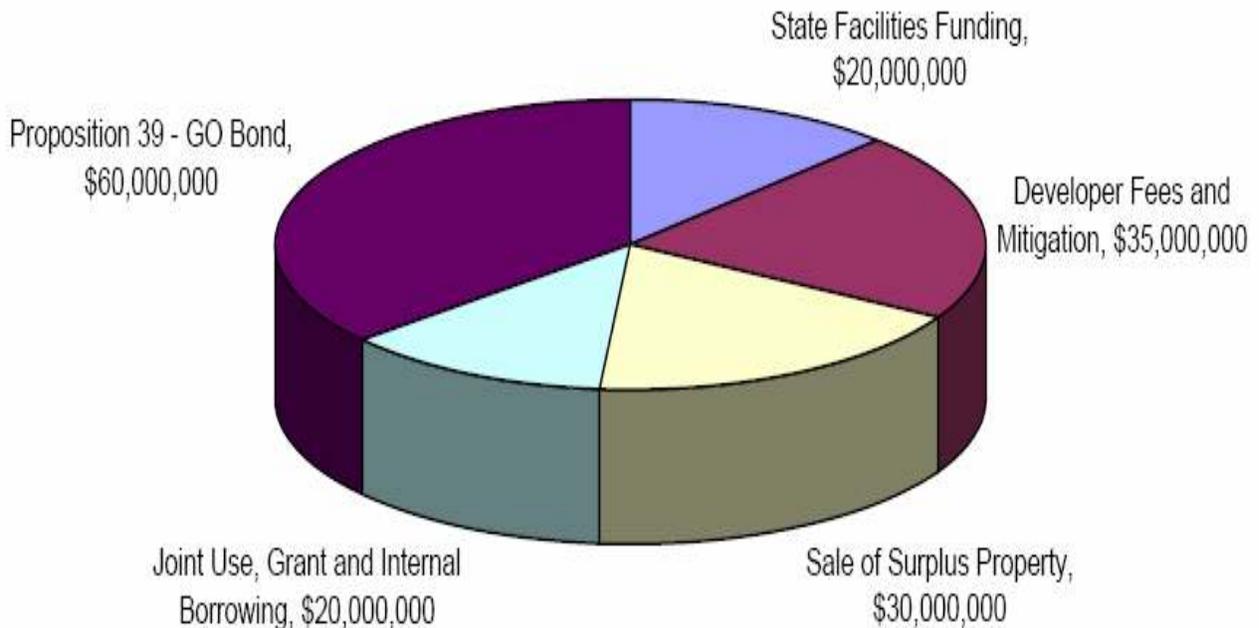
Modernization Project

On November 7, 2006, the voters living within the Santee School District approved Proposition R authorizing the District to issue 60 million dollars in general obligation bonds to modernize the District's instructional facilities. The 60 million dollar bond is part of a larger comprehensive modernization plan totaling \$165,000,000.

On January 9, 2007, the School Board provided authorization to borrow \$350,000 from the District's Special Reserve Fund (fund 17) in order to proceed with the work necessary to apply for State matching funds. This amount will come from a reserve within the Special Reserve Fund for mandated cost claim settlements. This short-term borrowing will be repaid before June 30, 2007, from modernization bond proceeds.

On February 6, 2007, the Santee School Board adopted a resolution to reimburse specified funds for capital expenditures made from the District's General Fund and/or other funds. In May 2007, the District will issue the first series of bonds, totaling approximately \$17.5 million. Once the bond proceeds are received, these expenditures will be reimbursed to the appropriate fund and the Special Reserve Fund will be repaid.

The issuance of the general obligation bond will require an additional School District fund in order to deposit the proceeds. Administration plans to request that the Santee School Board authorize the establishment of this new fund (21-39), the Prop 39 Building Fund, before the end of the fiscal year.





Other Fund Summary

The District's 2006-07 Second Interim Report includes an analysis of other funds. Based on budgeted Revenue and Expenditures in the District funds, all funds will end the year with a positive fund balance, as shown in the chart below.

The Deferred Maintenance Fund is using prior year balances to fund current projects, as planned in the 2006-07 year. The Capital Facilities Fund reflects qualified Modernization expenditures that can be moved to the bond proceeds when those funds are received. These expenditures were anticipated and planned as part of the District's Modernization Project.

Santee School District Other Funds Summary

	Child Development Fund 12	Cafeteria Fund 13	Deferred Maintenance Fund 14	Special Reserve Fund 17	Other Building Fund 21	Capital Facilities Fund 25
Revenues						
Revenue Limit	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Federal Revenue	-	590,500	-	-	-	-
State Revenue	226,168	37,100	265,000	-	-	-
Local Revenue	-	924,000	5,000	40,000	-	513,684
Total Revenue	\$ 226,168	\$ 1,551,600	\$ 270,000	\$ 40,000	\$ -	\$ 513,684
Expenditures						
Certificated Salaries	\$ 104,495	\$ -	\$ -	\$ -	\$ -	\$ -
Classified Salaries	67,418	624,442	-	-	-	-
Employee Benefits	37,016	144,259	-	-	-	-
Books and Supplies	9,000	545,500	5,000	-	-	-
Svcs., Other Operating Costs	2,963	90,525	398,265	-	-	331,171
Capital Outlay	-	60,000	-	-	-	60,000
Other Outgo	-	-	-	-	-	-
Indirect and Support Costs	5,276	65,000	-	-	-	130,120
Total Expenditures	\$ 226,168	\$ 1,529,726	\$ 403,265	\$ -	\$ -	\$ 521,291
Excess (Deficiency)	\$ -	\$ 21,874	\$ (133,265)	\$ 40,000	\$ -	\$ (7,607)
Other Financing Sources/Uses						
Interfund Transfers In	\$ -	\$ -	28,661	830,719	\$ -	\$ -
Interfund Transfers Out	-	-	-	-	-	-
Other Sources (Uses)	-	-	-	-	-	-
Total Other Sources/Uses	\$ -	\$ -	\$ 28,661	\$ 830,719	\$ -	\$ -
Net Increase/(Decrease)	\$ -	\$ 21,874	\$ (104,604)	\$ 870,719	\$ -	\$ (7,607)
Beginning Fund Balance	\$ -	\$ 448,955	\$ 638,141	\$ 1,712,113	\$ 11,383	\$ 122,842
Ending Fund Balance	\$ -	\$ 470,829	\$ 533,537	\$ 2,582,832	\$ 11,383	\$ 115,235





**Santee School District
2006-07 Second Interim - Cash Projection**

Combined General Fund	July	August	September	October	November	December	January	February	March	April	May	June
Beginning Cash	\$ 727,449	\$ 3,088,895	\$ 3,869,632	\$ 2,061,914	\$ 1,621,242	\$ 2,145,733	\$ 4,349,482	\$ 4,463,343	\$ 5,438,343	\$ 4,088,343	\$ 4,688,343	\$ 4,881,343
Revenue Limit	\$ 1,494,908	\$ 3,099,974	\$ 1,971,530	\$ 2,096,838	\$ 2,028,944	\$ 5,002,824	\$ 3,415,216	\$ 4,000,000	\$ 2,400,000	\$ 3,500,000	\$ 2,900,000	\$ 940,822
Federal Revenue	176,223	12,253	18,666	37,311	72,372	308,389	1,210	800,000	100,000	500,000	650,000	100,000
State Revenue	4,420	7,040	62,394	1,436,332	2,267,689	225,659	803,202	885,000	500,000	575,000	650,000	300,000
Local Revenue	207,045	471,834	605,101	276,932	661,911	581,703	507,542	500,000	200,000	600,000	600,000	650,000
Transfers In	-	-	-	-	-	182,797	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Total Revenue	\$ 1,882,596	\$ 3,591,101	\$ 2,657,691	\$ 3,847,413	\$ 5,030,926	\$ 6,301,372	\$ 4,727,170	\$ 6,185,000	\$ 3,200,000	\$ 5,175,000	\$ 4,800,000	\$ 1,990,822
Expenditures:												
Certificated Salaries	\$ 261,339	\$ 1,135,232	\$ 2,414,033	\$ 2,462,862	\$ 2,474,254	\$ 2,426,168	\$ 2,464,610	\$ 2,500,000	\$ 2,500,000	\$ 2,400,000	\$ 2,500,000	\$ 2,370,000
Classified Salaries	465,692	516,436	818,886	810,836	746,030	698,236	768,714	760,000	750,000	675,000	700,000	700,000
Benefits	645,608	397,213	592,368	733,137	694,376	716,686	694,708	650,000	660,000	800,000	650,000	650,000
Supplies and Services	869,196	644,753	494,756	261,758	465,487	256,533	841,344	800,000	860,000	700,000	750,000	700,000
Capital Outlay	-	72,582	159,512	28,994	17,941	-	34,420	-	-	-	-	-
Transfers Out	-	-	-	-	135,000	-	-	-	-	-	-	830,719
Other	-	-	-	-	-	-	-	-	-	-	7,000	-
Total Expenditures	\$ 2,241,835	\$ 2,766,216	\$ 4,479,555	\$ 4,297,587	\$ 4,533,088	\$ 4,097,623	\$ 4,803,796	\$ 4,710,000	\$ 4,750,000	\$ 4,575,000	\$ 4,607,000	\$ 5,250,719
Prior Year Accruals												
Accounts Receivable	\$ 3,020,362	\$ 394,723	\$ 29,882	\$ 292,237	\$ 26,663	\$ -	\$ 190,487	\$ -	\$ 200,000	\$ -	\$ -	\$ -
Current Liabilities	299,667	438,871	15,736	282,736	-	-	-	500,000	-	-	-	-
Net Increase/(Decrease)	\$ 2,361,446	\$ 780,737	\$ (1,607,718)	\$ (440,672)	\$ 524,491	\$ 2,203,749	\$ 113,661	\$ 975,000	\$ (1,350,000)	\$ 600,000	\$ 193,000	\$ (3,259,897)
Ending Cash	\$ 3,088,895	\$ 3,869,632	\$ 2,061,914	\$ 1,621,242	\$ 2,145,733	\$ 4,349,482	\$ 4,463,343	\$ 5,438,343	\$ 4,088,343	\$ 4,688,343	\$ 4,881,343	\$ 1,621,446

