

**SALIDA UNION ELEMENTARY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2005

SALIDA UNION ELEMENTARY SCHOOL DISTRICT
OF STANISLAUS COUNTY
SALIDA, CALIFORNIA
JUNE 30, 2005

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ivan Wyeth	President	2005
Steve Ernst	Clerk	2005
Dennis Thompson	Trustee	2007
Gary Dew	Trustee	2007
Mark Hughes	Trustee	2005

ADMINISTRATION

Antonio Borba	Superintendent
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SALIDA UNION ELEMENTARY SCHOOL DISTRICT

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FINANCIAL SECTION

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INDEPENDENT AUDITORS' REPORT

Board of Trustees
Salida Union Elementary School District
Salida, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Salida Union Elementary School District (the "District") as of and for the year ended June 30, 2005, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and 2004-05 *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, prescribed in the California Code of Regulations, Title 5, Section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Salida Union Elementary School District, as of June 30, 2005, and the respective changes in financial positions, 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 December 2, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 10 and budgetary comparison information on pages 46 through 47, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

The unaudited supplementary information listed in the table of contents, including the Combining Statements - Non-Major Governmental Funds, the General Fund Selected Financial Information - Unaudited and the Cafeteria Account Selected Financial Information - Unaudited, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Vannik, Tru, Day Co, LLP

Fresno, California
December 2, 2005



Salida Union School District

District Superintendent
António L. Borba, Ed.D.

Board of Trustees
Dennis Thompson
Ivan Wyeth, II
Mark Hughes
Steve Ernst
Gary Dew

This section of Salida Union School District's 2004-2005 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2005. Comparative information is presented between the fiscal years ending June 30, 2005 and 2004, respectively. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Salida Union School District (the District) and its component units using the integrated approach as prescribed by GASB Statement Number 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately. These statements include all assets of the District (including infrastructure) as well as all liabilities (including long-term debt). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

The *Fund Financial Statements* include statements for each of the three categories of activities: governmental, business-type, and fiduciary.

The *Governmental Activities* are prepared using the current financial resources measurement focus and modified accrual basis of accounting.

The Primary unit of the government is the Salida Union School District.

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities and Changes in Net Assets

The *Statement of Net Assets* and the *Statement of Activities and Changes in Net Assets* report information about the District as a whole and about its activities. These statements include *all* assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

SALIDA UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2005

These two statements report the District's *net assets* and changes in them. Net assets are the difference between assets and liabilities, one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the Board's responsibility is to provide services to our students and not to generate a profit as a commercial entity, we must consider other factors when evaluating the *overall health* of the District. The quality of the education and the safety of our schools will likely be the most important component in this evaluation.

In the *Statement of Net Assets* and the *Statement of Activities and Changes in Net Assets*, we separate the District activities as follows:

Governmental activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade eight students, the operation of child development activities, Child Nutrition, and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and local grants, as well as general obligation bonds, certificates of participation, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

The fund financial statements provide detailed information about the most significant funds - not the District as a whole. Some funds are required to be established by State law and by bond covenants. However, management establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money that it receives from the U.S. Department of Education.

Governmental funds - Most of the District's basic services are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other *financial* assets that can readily be converted to cash. The governmental fund statements provide a detailed *short-term view* of the District's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs. The differences of results in the governmental fund financial statements to those in the government-wide financial statements are explained in a reconciliation following each governmental fund financial statement.

SALIDA UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities, scholarships, employee retiree benefits and pensions. The District's fiduciary activities are reported in separate *Statements of Fiduciary Net Assets*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$43.1 million for the fiscal year ended June 30, 2005, and \$44.1 million for the fiscal year ended June 30, 2004, a decrease of \$1.0 million. Of this amount, \$1.4 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

Net Assets

(Amounts in millions)

	Governmental Activities		
	2004-05	2003-04	Net Change
Current and other assets	\$ 14.1	\$ 10.6	\$ 3.5
Capital assets	46.2	47.0	(0.8)
Total Assets	60.3	57.6	2.7
Current liabilities	6.2	2.2	4.0
Long-term debt	11.0	11.3	(0.3)
Total Liabilities	17.2	13.5	3.7
Net assets			
Invested in capital assets, net of related debt	35.2	35.6	(0.4)
Restricted	6.5	7.2	(0.7)
Unrestricted	1.4	1.3	0.1
Total Net Assets	\$ 43.1	\$ 44.1	\$ (1.0)

The \$1.4 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. It means that if we had to pay of all of our bills *today* including all of our non-capital liabilities (compensated absences as an example), we would have \$1.4 million left.

SALIDA UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities*. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

Changes in Net Assets

(Amounts in millions)

	Governmental Activities		
	2004-05	2003-04	Net Change
Revenues			
Program revenues			
Charges for services	\$ 0.5	\$ 0.6	\$ (0.1)
Operating grants and contributions	5.6	6.1	(0.5)
General revenues:			
State revenue limit sources	14.4	12.6	1.8
Property taxes	4.0	5.5	(1.5)
Other general revenues	1.9	1.0	0.9
Total Revenues	<u>26.4</u>	<u>25.8</u>	<u>0.6</u>
Expenses			
Instruction related	17.0	16.6	0.4
Student support services	2.6	2.5	0.1
Administration	1.4	1.4	-
Maintenance and operations	1.9	2.0	(0.1)
Other	4.6	4.8	(0.2)
Total Expenses	<u>27.5</u>	<u>27.3</u>	<u>0.2</u>
Change in Net Assets	<u>\$ (1.1)</u>	<u>\$ (1.5)</u>	<u>\$ 0.4</u>

Governmental Activities

As reported in the Statement of Activities on page 12 the cost of all of our governmental activities this year was \$27.5 million as compared to \$27.3 million in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$4.0 million because the cost was paid by those who benefited from the programs (\$0.5 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$5.6 million). We paid for the remaining "public benefit" portion of our governmental activities with \$4.0 million in taxes, \$16.3 million in State and Federal funds and with other revenues, like interest and general entitlements.

In Table 3, we have presented the cost of each of the District's seven (7) largest functions - regular program instruction, guidance and counseling, school administration, pupil transportation, general administration, and maintenance and operations.

SALIDA UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

Table 3

(Dollar amounts in millions)

	Total Cost of Services		
	2004-05	2003-04	Net Change
Instruction	\$ 15.2	\$ 14.3	\$ 0.9
Guidance and counseling	0.4	0.8	(0.4)
School administration	1.3	1.4	(0.1)
Pupil transportation	0.6	0.5	0.1
Administration	1.4	1.4	-
Maintenance and operations	2.0	2.0	-
Other	6.6	6.9	(0.3)
Totals	\$ 27.5	\$ 27.3	\$ 0.2

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$7.8 million, as compared to \$8.6 million in the prior year, which is a decrease of \$0.8 million.

The primary reason for this decrease is:

- a. Our Capital Projects funds decreased due to construction costs.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted on June 13, 2005, as estimated actuals. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.)

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2004, the District had \$47.0 million in a broad range of capital assets, including land, buildings, and furniture and equipment net of depreciation. At June 30, 2005, the District had \$46.2 million in a broad range of capital assets. This amount represents a net decrease (including additions, deductions and depreciation) of just over \$0.8 million or 1.8 percent, from last year.

SALIDA UNION SCHOOL DISTRICT

**MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2005**

Table 4

(Amounts in millions)

	Governmental Activities		
	2004-05	2003-04	Net Change
Land and Construction In Progress	\$ 7.0	\$ 11.8	\$ (4.8)
Buildings and improvements	38.4	34.2	4.2
Equipment	0.8	1.0	(0.2)
Totals	\$ 46.2	\$ 47.0	(0.8)

Long-Term Debt

At the end of this year, the District had \$11.0 million in debt outstanding versus \$11.3 million last year, a decrease of \$0.3 million. This debt consisted of:

Table 5

(Amounts in millions)

	Governmental Activities		
	2004-05	2003-04	Net Change
General obligation bonds	\$ 1.8	\$ 2.0	\$ (0.2)
Certificates of participation	7.2	7.3	(0.1)
QZAB	2.0	2.0	-
Totals	\$ 11.0	\$ 11.3	\$ (0.3)

The District's general obligation bond rating continues to be "AAA." The State limits the amount of general obligation debt that District's can issue to 35 percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$1.8 million is significantly below this statutorily - imposed limit.

Other obligations include certificates of participation, qualified zoning area bonds and compensated absences payable. We present more detailed information regarding our long-term liabilities in Note 10 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2004-05 ARE NOTED BELOW:

The \$4,285,185.00 million Salida Union School District Administration project increased to \$4,648,188.51. This includes leasehold improvement for our newest tenants, The Federal Bureau of Investigation and Realty Executives.

SALIDA UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2005-06 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Property tax revenues will increase, increase; there is substantial rise in assessed valuation and general growth.
2. Revenue limit income increase by 4.23 %.
3. Interest earnings decreased due to an anticipated reduction in market interest rates. We will continue to participate in TRANS issuance. This will solve the cash flow deferment imposed by State Government.
4. Developer fee collections are based on approximately new housing units to be constructed. There are currently several new slated housing project projects in planning for future construction.
5. Federal income will remain constant. We do not expect an increase to the population of qualified students.
6. State income will decrease by cuts to categorical and deficated funding. AB 825 Block Grant is changing site funding models.
7. Special Education continues to impact the General Fund late in the fiscal year. Without significant changes in SEPLA business practices towards growth, budget and expenditures ,the expenditures, the District may have to rely on other funds to offset deficit spending. Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through third	20:1	1,510
Grades four through eight	32:1	1,907

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Jim Yardy, the Director, Business Services, jyardy@salida.k12.ca.us, or Charles Oscar Garza, Supervisor Fiscal Service cogarza@salida.k12.ca.us. The Business Office is located at Salida Union School District, 4801 Sisk Road, Suite 201, Salida, California, 95356

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SALIDA UNION ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2005

	<u>Governmental Activities</u>
ASSETS	
Deposits and investments	\$ 10,452,783
Receivables	3,439,399
Prepaid expenses	203,509
Stores inventories	21,136
Nondepreciable capital assets	6,990,000
Depreciable capital assets, net of accumulated depreciation	39,230,984
Total Assets	<u>60,337,811</u>
LIABILITIES	
Accounts payable	5,087,445
Deferred revenue	1,066,950
Current portion of long-term obligations	410,000
Noncurrent portion of long-term obligations	10,611,472
Total Liabilities	<u>17,175,867</u>
NET ASSETS	
Invested in capital assets, net of related debt	35,220,984
Restricted for:	
Debt service	1,756,391
Capital projects	2,995,904
Educational programs	520,686
Other activities	1,250,085
Unrestricted	1,417,894
Total Net Assets	<u>\$ 43,161,944</u>

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2005**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 15,175,469	\$ 20,818	\$ 1,993,346	\$ 12,986
Instruction-related activities:				
Supervision of instruction	309,203	138	113,963	-
Instructional library, media and technology	181,507	-	13,422	-
School site administration	1,323,114	341	35,443	-
Pupil services:				
Home-to-school transportation	584,760	-	300,208	-
Food services	1,167,261	435,426	750,903	-
All other pupil services	838,301	1,490	141,303	-
General administration:				
Data processing	42,420	-	-	-
All other general administration	1,368,710	12,306	58,083	-
Plant services	1,963,545	6,421	133,328	-
Ancillary services	26,765	-	-	-
Community services	2,029,830	64,025	1,918,023	-
Interest on long-term debt	309,580	-	-	-
Other outgo	401,795	3,637	167,801	-
Depreciation (unallocated)	1,805,732	-	-	-
Total School District	\$ 27,527,992	\$ 544,602	\$ 5,625,823	\$ 12,986

General revenues and subventions:

- Property taxes, levied for general purposes
- Property taxes, levied for debt service
- Taxes levied for other specific purposes
- Federal and State aid not restricted to specific purposes
- Interest and investment earnings
- Miscellaneous

Subtotal, General Revenues

Excess (Deficiency) of Revenues Over Expenses

Net Assets - Beginning

Net Assets - Ending

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

**Net (Expenses)
Revenues and
Changes in
Net Assets**

**Governmental
Activities**

\$	(13,148,319)
	(195,102)
	(168,085)
	(1,287,330)
	(284,552)
	19,068
	(695,508)
	(42,420)
	(1,298,321)
	(1,823,796)
	(26,765)
	(47,782)
	(309,580)
	(230,357)
	(1,805,732)
	<u>(21,344,581)</u>
	3,585,444
	337,164
	89,929
	14,439,428
	108,130
	<u>1,670,440</u>
	<u>20,230,535</u>
	(1,114,046)
	<u>44,275,990</u>
\$	<u><u>43,161,944</u></u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2005**

	<u>General Fund</u>	<u>Cafeteria Fund</u>	<u>Special Reserve Capital Outlay Fund</u>
ASSETS			
Deposits and investments	\$ 4,687,172	\$ 501	\$ 1,469,013
Receivables	2,831,653	253,739	193,133
Due from other funds	216,866	-	-
Stores inventories	-	21,136	-
Total Assets	<u>\$ 7,735,691</u>	<u>\$ 275,376</u>	<u>\$ 1,662,146</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	4,983,188	17,369	135
Due to other funds	46,736	216,866	-
Deferred revenue	927,026	-	-
Total Liabilities	<u>5,956,950</u>	<u>234,235</u>	<u>135</u>
FUND BALANCES			
Reserved	530,686	21,136	-
Unreserved:			
Designated	1,248,055	-	-
Undesignated, reported in:			
Special revenue funds	-	20,005	-
Debt service funds	-	-	-
Capital projects funds	-	-	1,662,011
Total Fund Balance	<u>1,778,741</u>	<u>41,141</u>	<u>1,662,011</u>
Total Liabilities and Fund Balances	<u>\$ 7,735,691</u>	<u>\$ 275,376</u>	<u>\$ 1,662,146</u>

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

QZAB Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 1,104,131	\$ 3,191,966	\$ 10,452,783
-	160,874	3,439,399
-	46,736	263,602
-	-	21,136
<u>\$ 1,104,131</u>	<u>\$ 3,399,576</u>	<u>\$ 14,176,920</u>
-	23,414	5,024,106
-	-	263,602
-	139,924	1,066,950
<u>-</u>	<u>163,338</u>	<u>6,354,658</u>
-	-	551,822
-	94,334	1,342,389
-	1,155,751	1,175,756
1,104,131	652,260	1,756,391
-	1,333,893	2,995,904
<u>1,104,131</u>	<u>3,236,238</u>	<u>7,822,262</u>
<u>\$ 1,104,131</u>	<u>\$ 3,399,576</u>	<u>\$ 14,176,920</u>

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SALIDA UNION ELEMENTARY SCHOOL DISTRICT

GOVERNMENTAL FUNDS RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET ASSETS JUNE 30, 2005

Amounts Reported for Governmental Activities in the Statement of Net Assets are Different Because:

Total Fund Balance - Governmental Funds		\$ 7,822,262
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
The cost of capital assets is	\$ 63,023,749	
Accumulated depreciation is	<u>(16,802,765)</u>	
Total capital assets		46,220,984
Expenditures relating to issuance of debt of next fiscal year were recognized in modified accrual basis, but should not be recognized in accrual basis.		203,509
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		(63,339)
Long-term liabilities at year end consist of:		
General obligation bonds	(1,805,000)	
Certificates of participation	(7,195,000)	
QZAB Obligation	(2,000,000)	
Compensated absences	<u>(21,472)</u>	
Total long-term liabilities		<u>(11,021,472)</u>
Total Net Assets - Governmental Activities		<u>\$ 43,161,944</u>

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2005**

	General Fund	Cafeteria Fund	Special Reserve Capital Outlay Capital Fund
REVENUES			
Revenue limit sources	\$ 16,051,426	\$ -	\$ -
Federal sources	2,289,935	715,820	-
Other state sources	3,642,862	49,730	-
Other local sources	1,768,538	471,165	238,587
Total Revenues	<u>23,752,761</u>	<u>1,236,715</u>	<u>238,587</u>
EXPENDITURES			
Current			
Instruction	15,211,764	-	-
Instruction-related activities:			
Supervision of instruction	309,203	-	-
Instructional library, media and technology	190,244	-	-
School site administration	1,323,114	-	-
Pupil Services:			
Home-to-school transportation	584,760	-	-
Food services	188	1,174,959	-
All other pupil services	838,301	-	-
General administration:			
Data processing	42,420	-	-
All other general administration	1,329,085	32,631	-
Plant services	1,849,432	17,269	(60,927)
Facility acquisition and construction	-	-	332,330
Ancillary services	26,765	-	-
Community services	1,480,761	-	-
Other outgo	401,795	-	-
Debt service			
Principal	-	-	145,000
Interest and other	-	-	-
Total Expenditures	<u>23,587,832</u>	<u>1,224,859</u>	<u>416,403</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>164,929</u>	<u>11,856</u>	<u>(177,816)</u>
Other Financing Sources (Uses):			
Transfers in	-	-	80,000
Transfers out	(109,621)	-	(458,308)
Net Financing Sources (Uses)	<u>(109,621)</u>	<u>-</u>	<u>(378,308)</u>
NET CHANGE IN FUND BALANCES	55,308	11,856	(556,124)
Fund Balance - Beginning	1,723,433	29,285	2,218,135
Fund Balance - Ending	<u>\$ 1,778,741</u>	<u>\$ 41,141</u>	<u>\$ 1,662,011</u>

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

QZAB Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 16,051,426
-	143,322	3,149,077
-	419,904	4,112,496
63,685	558,972	3,100,947
<u>63,685</u>	<u>1,122,198</u>	<u>26,413,946</u>
-	-	15,211,764
-	-	309,203
-	-	190,244
-	-	1,323,114
-	-	584,760
-	-	1,175,147
-	-	838,301
-	-	42,420
-	-	1,361,716
-	206,786	2,012,560
-	539,917	872,247
-	-	26,765
-	549,069	2,029,830
-	-	401,795
-	110,000	255,000
-	539,754	539,754
-	<u>1,945,526</u>	<u>27,174,620</u>
<u>63,685</u>	<u>(823,328)</u>	<u>(760,674)</u>
-	487,929	567,929
-	-	(567,929)
-	<u>487,929</u>	<u>-</u>
63,685	(335,399)	(760,674)
1,040,446	3,571,637	8,582,936
<u>\$ 1,104,131</u>	<u>\$ 3,236,238</u>	<u>\$ 7,822,262</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

Total Net Change in Fund Balances - Governmental Funds **\$ (760,674)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statements of activities.

This is the amount by which depreciation expense exceed capital outlays in the period.

Depreciation expense	\$ (1,805,732)	
Capital outlays	<u>974,180</u>	(831,552)

In the statement of activities, compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than the amount paid by \$6,994. (6,994)

Governmental funds report the effect of premiums, discounts, issuance costs, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these related items:

Cost of issuance	(11,306)
------------------	----------

Repayment of debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities:

General obligation bonds	145,000
Certificates of participation	110,000

Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when it is due, and thus requires the use of current financial resources. In the statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due.

<u>241,480</u>	
Change in Net Assets of Governmental Activities	<u><u>\$ (1,114,046)</u></u>

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

FIDUCIARY FUNDS

STATEMENT OF FIDUCIARY NET ASSETS

JUNE 30, 2005

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 98,781
Total Assets	<u>\$ 98,781</u>
 LIABILITIES	
Due to student groups	98,781
Total Liabilities	<u>\$ 98,781</u>

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Salida Union School District was established in 1949 and is comprised of an area of approximately 31 square miles located in Stanislaus County. There were no changes in the boundaries of the District during the current year. The District is currently operating four elementary schools and one middle school providing instruction for kindergarten through eighth grade.

A reporting entity is comprised of the primary government and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Salida Union Elementary School District, this includes general operations, food service, and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. The District has no component units.

Other Related Entities

Joint Powers Agencies The District is associated with two joint powers agencies. These organizations do not meet the criteria for inclusion as component units of the District. Additional information is presented in Note 17 to the financial statements. These organizations are:

Central Region Schools' Insurance Group (CRSIG)
Schools Excess Liability Fund (SELF)

Basis of Presentation - Fund Accounting

The accounting system is organized and operated on a fund basis. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations. The District's funds are grouped into two broad fund categories: governmental and fiduciary.

Governmental Funds Governmental funds are those through which most governmental functions typically are financed. Governmental fund reporting focuses on the sources, uses, and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purposes for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the District's major and non-major governmental funds:

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Major Governmental Funds

General Fund The General Fund accounts for all financial resources except those required to be accounted for in another fund. The General Fund balance is available to the District for any purpose provided it is expended or transferred according to the general laws of California.

Cafeteria Fund The Cafeteria Fund is used to account for the financial transactions related to the food service operations of the District.

Special Reserve Capital Outlay Fund The Special Reserve Capital Outlay Fund is used to account for funds set aside for Board designated construction projects.

QZAB Debt Service Fund The QZAB Debt Service Fund is used to account for the accumulation of funds for and to payment of debt related to the QZAB Bonds.

Non-Major Governmental Funds

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

Child Development Fund The Child Development Fund is used to account for resources committed to child development programs maintained by the District.

Deferred Maintenance Fund The Deferred Maintenance Fund is used for the purpose of major repair or replacement of District property.

Special Reserve Fund for Other than Capital Outlay The Special Reserve Fund for Other than Capital Outlay is used to provide for the accumulation of General Fund monies for general operating purposes.

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

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

COP Debt Service Fund The COP Debt Service Fund is used to account for the interest and redemption of principal of Certificates of Participation.

Capital Projects Funds The Capital Projects Funds are used to account for the acquisition and/or construction of all major governmental general fixed assets. The District maintains the following capital projects funds:

Building Fund The Building Fund exists primarily to account separately for proceeds from sale of bonds and acquisition of major governmental capital facilities and buildings.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Mello Roos Capital Projects Fund The Mello Roos Capital Projects Fund exists primarily to account separately for proceeds from the Mello Roos District and the acquisition of major governmental capital facilities and buildings.

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

QZAB Capital Projects Fund The QZAB Capital Projects Fund is used to account for the proceeds and expenditures of the proceeds from the QZAB issuance.

County School Facilities Fund The County School Facilities Fund is used primarily to account separately for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17010.10-17076.10).

COP Capital Projects Fund The COP Capital Projects Fund is used to account for funds available for capital outlay from the proceeds of sales of Certificates of Participation.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is the agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB).

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting.

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

Net assets should be reported as restricted when constraints placed on net asset use are either externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments or imposed by law through constitutional provisions or enabling legislation. The net assets restricted for other activities result from special revenue funds and the restrictions on their net asset use.

Fund Financial Statements Fund financial statements report detailed information about the District. The focus of governmental and enterprise fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Governmental Funds All governmental funds are accounted for using a flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements therefore include reconciliation with brief explanations to better identify the relationship between the government-wide financial statements and the statements for the governmental funds on a modified accrual basis of accounting and the current financial resources measurement focus. Under this basis, revenues are recognized in the accounting period in which they become measurable and available. Expenditures are recognized in the accounting period in which the fund liability is incurred, if measurable.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting.

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 90 days of fiscal year-end.

Non-exchange transactions, in which the District receives value without directly giving equal value in return, include property taxes, certain grants, entitlements, and donations. Revenue from property taxes is recognized in the fiscal year in which the taxes are received. Revenue from certain grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include time and purpose requirements. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

Under the modified accrual basis, the following revenue sources are considered to be both measurable and available at fiscal year-end: State apportionments, interest, certain grants, and other local sources.

Deferred Revenue Deferred revenue arises when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period or when resources are received by the District prior to the incurrence of qualifying expenditures. In subsequent periods, when both revenue recognition criteria are met, or when the District has a legal claim to the resources, the liability for deferred revenue is removed from the combined balance sheet and revenue is recognized.

Certain grants received before the eligibility requirements are met are recorded as deferred revenue. On the governmental fund financial statements, receivables that will not be collected within the available period are also recorded as deferred revenue.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Expenses/Expenditures On the accrual basis of accounting, expenses are recognized at the time they are incurred. The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Principal and interest on general long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

Cash and Cash Equivalents

The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition.

Investments

Investments held at June 30, 2005, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost.

Restricted Assets

Restricted assets arise when restrictions on their use change the normal understanding of the availability of the asset. Such constraints are either imposed by creditors, contributors, grantors, or laws of other governments or imposed by enabling legislation. Restricted assets in the Governmental Funds represent cash and cash equivalents required by debt covenants and grant covenants to be set aside by the District for the purpose of satisfying certain requirements of the agreement.

Prepaid Expenditures

Prepaid expenditures (expenses) represent amounts paid in advance of receiving goods or services. The District has the option of reporting an expenditure in governmental funds for prepaid items either when purchased or during the benefiting period. The District has chosen to report the expenditures when paid.

Stores Inventory

Inventories consist of expendable food and supplies held for consumption. Inventories are stated at cost, on the first-in, first-out basis. The costs of inventory items are recorded as expenditures in the governmental type funds when used.

Capital Assets and Depreciation

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

When purchased, such assets are recorded as expenditures in the governmental funds and capitalized. The valuation basis for general capital assets are historical cost, or where historical cost is not available, estimated historical cost based on replacement cost. Donated capital assets are capitalized at estimated fair market value on the date donated.

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

Compensated Absences

Accumulated unpaid vacation benefits are accrued as a liability as the benefits are earned. The entire compensated absence liability is reported on the government-wide financial statements as long-term debt. For governmental funds, the current portion of unpaid compensated absences is recognized upon the occurrence of relevant events such as employee resignations and retirements that occur prior to year end that have not yet been paid with expendable available financial resources. These amounts are reported in the fund from which the employees who have accumulated leave are paid.

Sick leave is accumulated without limit for each employee at the rate of one day for each month worked. Leave with pay is provided when employees are absent for health reasons; however, the employees do not gain a vested right to accumulated sick leave. Employees are never paid for any sick leave balance at termination of employment or any other time. Therefore, the value of accumulated sick leave is not recognized as a liability in the District's financial statements. However, credit for unused sick leave is applicable to all classified school members who retire after January 1, 1999. At retirement, each member will receive .004 year of service credit for each day of unused sick leave.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements. In general, governmental fund payables and accrued liabilities that, once incurred, are paid in a timely manner and in full from current financial resources are reported as obligations of the governmental funds.

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the governmental fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and other long-term obligations are recognized as liabilities in the governmental fund financial statements when due.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Fund Balance Reserves and Designations

The District reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for revolving cash accounts, stores inventories, prepaid expenditures (expenses), and legally restricted grants and entitlements.

Designations of fund balances consist of that portion of the fund balance that has been designated (set aside) by the governing board to provide for specific purposes or uses. Fund equity designations have been established for economic uncertainties and other purposes.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$6,523,066 of restricted net assets, of which \$4,024,488 is restricted by enabling legislation.

Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/ expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results may differ from those estimates.

Budgetary Data

The budgetary process is prescribed by provisions of the California Education Code and requires the governing board to hold a public hearing and adopt an operating budget no later than July 1 of each year. The District governing board satisfied these requirements. The adopted budget is subject to amendment throughout the year to give consideration to unanticipated revenue and expenditures primarily resulting from events unknown at the time of budget adoption with the legal restriction that expenditures cannot exceed appropriations by major object account.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

The amounts reported as the original budgeted amounts in the budgetary statements reflect the amounts when the original appropriations were adopted. The amounts reported as the final budgeted amounts in the budgetary statements reflect the amounts after all budget amendments have been accounted for.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Stanislaus bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Changes in Accounting Principles

In March 2003, the Governmental Accounting Standards Board (GASB) issued GASBS No. 40, *Deposit and Investment Risk Disclosures an amendment of GASB Statement No. 3*. This Statement addressed common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this Statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in the Statement also should be disclosed. As such, the District has made the applicable required disclosures.

New Accounting Pronouncements

In November 2003, GASB issued GASBS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes guidance for accounting and reporting for impairment of capital assets and for insurance recoveries, whether associated with an impaired capital asset or not. This Statement is effective for periods beginning after December 31, 2004, or during the 2005-06 fiscal year. The District has implemented this pronouncement.

In July 2004, GASB issued GASBS No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. This Statement will require local governmental employers who provide other postemployment benefits (OPEB) as part of the total compensation offered to employees to recognize the expense and related liabilities (assets) in the government-wide financial statements of net assets and activities. This Statement establishes standards for the measurement, recognition, and display of OPEB expense/expenditures and related liabilities (assets), note disclosures, and, if applicable, required supplementary information (RSI) in the financial reports of State and local governmental employers.

Current financial reporting practices for OPEB generally are based on pay-as-you-go financing approaches. They fail to measure or recognize the cost of OPEB during the periods when employees render the services or to provide relevant information about OPEB obligations and the extent to which progress is being made in funding those obligations.

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2009. The District is in the process of determining the impact the implementation of this Statement will have on the government-wide statement of net assets and activities.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2005. The District has implemented this pronouncement.

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2005, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 10,452,783
Fiduciary funds	98,781
Total Deposits and Investments	<u>\$ 10,551,564</u>

Deposits and investments as of June 30, 2005, consist of the following:

Cash on hand and in banks	\$ 99,281
Cash in revolving	10,000
Investments	10,442,283
Total Deposits and Investments	<u>\$ 10,551,564</u>

Policies and Practices

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

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

Investment in the State Investment Pool - The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the pool is reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

General Authorizations

Limitations as they relate to interest rate risk, credit risk, and concentration of credit risk are indicated in the schedules below:

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Local Agency Bonds, Notes, Warrants	5 years	None	None
Registered State Bonds, Notes, Warrants	5 years	None	None
U.S. Treasury Obligations	5 years	None	None
U.S. Agency Securities	5 years	None	None
Banker's Acceptance	180 days	40%	30%
Commercial Paper	270 days	25%	10%
Negotiable Certificates of Deposit	5 years	30%	None
Repurchase Agreements	1 year	None	None
Reverse Repurchase Agreements	92 days	20% of base	None
Medium-Term Notes	5 years	30%	None
Mutual Funds	N/A	20%	10%
Money Market Mutual Funds	N/A	20%	10%
Mortgage Pass-Through Securities	5 years	20%	None
County Pooled Investment Funds	N/A	None	None
Local Agency Investment Fund (LAIF)	N/A	None	None
Joint Powers Authority Pools	N/A	None	None

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

Authorized Under Debt Agreements

Authorized Investment Type	Maximum Remaining Maturity	Maximum Percentage of Portfolio	Maximum Investment in One Issuer
Investment contract	1 year	None	None
AIG investment contract	10 years	None	None

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the County Treasury that purchases a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations.

Segmented Time Distribution

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity:

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
Held By Trustee:					
U.S. Treasuries	\$ 103,989	\$ 103,989	\$ -	\$ -	\$ -
U.S. Agencies	7,043	7,043	-	-	-
Investment Contract	4,120,000	4,120,000	-	-	-
AIG Investment Contract	1,104,131	-	-	-	1,104,131
Money Market Mutual Funds	1,384	1,384	-	-	-
County Pool	4,585,990	4,585,990	-	-	-
State Investment Pool	519,746	519,746	-	-	-
Total	<u>\$10,442,283</u>	<u>\$9,338,152</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$1,104,131</u>

Credit Risk

Credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. Presented below is the minimum rating required by the California Government Code, the District's investment policy, or debt agreements, and the actual rating as of the year-end for each investment type.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Investment Type	Fair Value	Minimum Legal Rating	Not Required to be Rated	Rating as of Year End		
				AAA	Aa	Unrated
Held by Trustee:						
U.S. Treasuries	\$ 103,989	NA	\$ 103,989	\$ -	\$ -	\$ -
U.S. Agencies	7,043	NA	7,043	-	-	-
Investment Contract	4,120,000	NA	4,120,000	-	-	-
AIG Investment Contract	1,104,131	NA	1,104,131	-	-	-
Money Market Mutual Funds	1,384	A	-	-	1,384	-
County Pool	4,585,990	NA	-	-	-	4,585,990
State Investment Pool	519,746	NA	-	-	-	519,746
Total	<u>\$ 10,442,283</u>		<u>\$5,335,163</u>	<u>\$ -</u>	<u>\$1,384</u>	<u>\$ 5,105,736</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. Investments in any one issuer that represent five percent or more of the total investments are as follows:

Issuer	Investment Type	Reported Amount
Piper Jaffray	Investment contract	\$ 4,120,000
AIG	Investment contract	1,104,131
Total		<u>\$ 5,224,131</u>

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2005, \$5,170 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in U.S. Treasuries, U.S. Agencies and investment contracts of \$5,335,163 the District has a custodial credit risk exposure of \$5,335,163 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 3 - RECEIVABLES

Receivables at June 30, 2005, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Cafeteria Fund	Special Reserve Capital Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government					
Categorical aid	\$ 711,279	\$ 222,765	\$ -	\$ -	\$ 934,044
State Government					
Apportionment	1,345,444	-	-	-	1,345,444
Categorical aid	350,718	-	-	-	350,718
Lottery	247,645	-	-	-	247,645
Other state	71,018	18,034	-	148,313	237,365
Local Government					
Interest	14,796	-	-	4	14,800
Other Local Sources	90,753	12,940	193,133	12,557	309,383
Total	<u>\$ 2,831,653</u>	<u>\$ 253,739</u>	<u>\$ 193,133</u>	<u>\$ 160,874</u>	<u>\$ 3,439,399</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005, was as follows:

	<u>Balance</u> <u>July 1, 2004</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>June 30, 2005</u>
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 6,990,000	\$ -	\$ -	\$ 6,990,000
Construction in process	4,847,708	-	4,847,708	-
Total Capital Assets Not Being Depreciated	<u>11,837,708</u>	<u>-</u>	<u>4,847,708</u>	<u>6,990,000</u>
Capital Assets Being Depreciated				
Buildings and improvements	47,345,378	5,821,888	-	53,167,266
Furniture and equipment	2,866,483	-	-	2,866,483
Total Capital Assets Being Depreciated	<u>50,211,861</u>	<u>5,821,888</u>	<u>-</u>	<u>56,033,749</u>
Less Accumulated Depreciation				
Buildings and improvements	13,128,078	1,652,759	-	14,780,837
Furniture and equipment	1,868,955	152,973	-	2,021,928
Total Accumulated Depreciation	<u>14,997,033</u>	<u>1,805,732</u>	<u>-</u>	<u>16,802,765</u>
Governmental Activities Capital Assets, Net	<u>\$47,052,536</u>	<u>\$4,016,156</u>	<u>\$4,847,708</u>	<u>\$ 46,220,984</u>

Depreciation expense was charged as follows:

Governmental Activities	
Unallocated	<u>\$ 1,805,732</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2005, are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
Funds		
General	\$ 216,866	\$ 46,736
Child Development	17,115	-
Cafeteria	-	216,866
Special Reserve - Other	29,621	-
Total	<u>\$ 263,602</u>	<u>\$ 263,602</u>

Operating Transfers

The General Fund transferred to the Special Reserve Other Than Capital Outlay Fund for two years of TRANs interest earned.	\$ 29,621
The General Fund transferred to the Special Reserve - Capital Outlay Fund for repayment of a loan.	80,000
The Special Reserve Capital Outlay Fund transferred to the COPs-Debt Service Fund for the required debt service payment.	458,308
Total	<u>\$ 567,929</u>

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2005, consisted of the following:

	<u>General Fund</u>	<u>Cafeteria Fund</u>	<u>Special Reserve Capital Outlay Fund</u>	<u>Non-Major Governmental Funds</u>	<u>Total Governmental Activities</u>
Vendor payables	\$ 165,381	\$ 2,775	\$ 135	\$ 5,279	\$ 173,570
Salaries and benefits	527,823	14,594	-	18,135	560,552
State apportionment	169,984	-	-	-	169,984
TRANs	4,120,000	-	-	-	4,120,000
Total	<u>\$ 4,983,188</u>	<u>\$ 17,369</u>	<u>\$ 135</u>	<u>\$ 23,414</u>	5,024,106
Unmatured interest					63,339
Total					<u>\$ 5,087,445</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 7 - PREPAID EXPENDITURES

Prepaid expenditures at June 30, 2005, consisted of the following:

Debt issuance costs-Government-wide financial statements	<u>\$ 203,509</u>
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NOTE 8 - DEFERRED REVENUE

Deferred revenue at June 30, 2005, consists of the following:

	General Fund	Non-major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 654,768	\$ 95,927	\$ 750,695
State categorical aid	272,258	43,997	316,255
Total	<u>\$ 927,026</u>	<u>\$ 139,924</u>	<u>\$ 1,066,950</u>

NOTE 9 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

On July 6, 2004, the District issued \$4,000,000 Tax and Revenue Anticipation Notes bearing interest at 1.6 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 6, 2005. By June 2005, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes.

Changes in the outstanding liabilities for the Tax and Revenue Anticipation Notes are as follows:

<u>Issue Date</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Outstanding July 1, 2004</u>	<u>Additions</u>	<u>Payments</u>	<u>Outstanding June 30, 2005</u>
July 6, 2004	1.60%	July 6, 2005	<u>\$ -</u>	<u>\$4,000,000</u>	<u>\$ -</u>	<u>\$ 4,000,000</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 10 - LONG-TERM LIABILITIES

Long-Term Debt Summary

The changes in the District's long-term obligations during the year consisted of the following:

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005	Due in One Year
General obligation bonds-1988B	\$ 1,260,000	\$ -	\$ 45,000	\$ 1,215,000	\$ 50,000
General obligation bonds-1996 Refunding	690,000	-	100,000	590,000	105,000
Certificates of Participation-2001	2,805,000	-	75,000	2,730,000	80,000
Certificates of Participation-2003A	2,620,000	-	35,000	2,585,000	110,000
Certificates of Participation-2003B	1,880,000	-	-	1,880,000	65,000
Qualified Zone Academy Bond	2,000,000	-	-	2,000,000	-
Accumulated vacation - net	14,478	6,994	-	21,472	-
Total	<u>\$ 11,269,478</u>	<u>\$ 6,994</u>	<u>\$ 255,000</u>	<u>\$ 11,021,472</u>	<u>\$ 410,000</u>

Payments on the Certificates of Participation are paid by the General Fund, the Debt Service Fund, and the Capital Facilities Fund. Payments on the general obligation bonds are made by the bond interest and redemption fund with local revenues. The accrued vacation will be paid by the fund for which the employee worked.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2004	Bonds Redeemed	Bonds Outstanding June 30, 2005
1988	2020	5.00-5.50%	\$ 1,500,000	\$ 1,260,000	\$ 45,000	\$ 1,215,000
1996	2009	5.00-5.25%	1,315,000	690,000	100,000	590,000
Total				<u>\$ 1,950,000</u>	<u>\$ 145,000</u>	<u>\$ 1,805,000</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

Debt Service Requirements to Maturity

General Obligation 1988 Series B Bonds:

The bonds mature through 2021 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2006	\$ 50,000	\$ 64,410	\$ 114,410
2007	50,000	61,910	111,910
2008	55,000	59,258	114,258
2009	60,000	56,295	116,295
2010	60,000	53,160	113,160
2011-2015	355,000	212,086	567,086
2016-2020	475,000	98,313	573,313
2021	110,000	3,025	113,025
Total	<u>\$ 1,215,000</u>	<u>\$ 608,457</u>	<u>\$ 1,823,457</u>

General Obligation 1996 Refunding Bonds:

The bonds mature through 2010 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2006	\$ 105,000	\$ 28,600	\$ 133,600
2007	110,000	22,950	132,950
2008	120,000	16,625	136,625
2009	125,000	10,075	135,075
2010	130,000	3,413	133,413
Total	<u>\$ 590,000</u>	<u>\$ 81,663</u>	<u>\$ 671,663</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

Total District General Obligation Bonds Outstanding:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2006	\$ 155,000	\$ 93,010	\$ 248,010
2007	160,000	228,711	388,711
2008	175,000	75,883	250,883
2009	185,000	66,370	251,370
2010	190,000	56,573	246,573
2011-2015	355,000	212,086	567,086
2016-2020	475,000	98,313	573,313
2021	110,000	3,025	113,025
Total	<u>\$ 1,805,000</u>	<u>\$ 833,971</u>	<u>\$ 2,638,971</u>

Certificates of Participation – California School Board Association Financing Corporation

On May 2, 2001 the District issued \$3,000,000 in Certificates of Participation under the California School Board Association Financing Corporation. The Certificates were issued to finance the acquisition of three new school sites. Interest is payable on the Certificates on each May 1 and November 1, commencing November 1, 2001. Principal payments on the Certificates will be due and payable each May 1, commencing on May 1, 2002. The debt payments related to this issuance are as follows:

On March 1, 2003 The District issued \$2,620,000 in 2003A Tax Exempt and \$1,880,000 in 2003B Taxable Certificates of Participation to finance the site acquisition, construction of and interior improvements for a district-wide administration building. Both series mature through 2023. The Series 2003A Tax Exempt certificates have interest rates ranging from 4.1 to 4.85 percent. Interest and principal payments are due each January 1 and July 1 commencing on July 1, 2004.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

Certificates of Participation - 2001 Issue

The certificates mature through 2029 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 80,000	\$ 137,816	\$ 217,816
2007	80,000	134,656	214,656
2008	85,000	131,376	216,376
2009	90,000	127,764	217,764
2010	100,000	123,894	223,894
2011-2015	530,000	550,809	1,080,809
2016-2020	680,000	404,885	1,084,885
2021-2025	880,000	201,832	1,081,832
2026	205,000	11,019	216,019
Total	<u>\$ 2,730,000</u>	<u>\$ 1,824,051</u>	<u>\$ 4,554,051</u>

Certificates of Participation - 2003A Issue

The certificates mature through 2023 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 110,000	\$ 102,385	\$ 212,385
2007	110,000	100,185	210,185
2008	110,000	97,710	207,710
2009	115,000	94,740	209,740
2010	120,000	91,290	211,290
2011-2015	650,000	391,126	1,041,126
2016-2020	800,000	246,890	1,046,890
2021-2023	570,000	55,800	625,800
Total	<u>\$ 2,585,000</u>	<u>\$ 1,180,126</u>	<u>\$ 3,765,126</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

Certificates of Participation - 2003B Issue

The certificates mature through 2023 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2006	\$ 65,000	\$ 104,875	\$ 169,875
2007	70,000	102,438	172,438
2008	70,000	99,813	169,813
2009	75,000	97,188	172,188
2010	80,000	93,400	173,400
2011-2015	455,000	401,916	856,916
2016-2020	605,000	253,497	858,497
2021-2023	460,000	56,568	516,568
Total	<u>\$ 1,880,000</u>	<u>\$ 1,209,694</u>	<u>\$ 3,089,694</u>

Qualified Zone Academy Bond Program

On May 9, 2001, the District issued \$2,000,000 in Qualified Zone Academy Bonds. The Bonds were issued to finance the installation of technology infrastructure and related service upgrades and to facilitate the modernization and equipping of the K-8 Magnet School Academy located at Salida Elementary School. Interest is not payable with the bonds. In lieu of receiving periodic interest payments, eligible holders of the Bonds are allowed an annual federal income tax credit equal to the credit rate times the face amount of the Bond. The tax credit rate for the Bonds is 7.08 percent. The District has deposited \$870,596 in a trustee account that has been invested in an AIG Guaranteed Investment Contract paying 6.1209 percent. The account balance as of June 30, 2005 is \$1,040,446. The interest earnings on the deposit have been projected to be sufficient to cover the entire maturing principal balance at May 23, 2015. Should the District determine at any time that the full principal amount would not be covered, the District will be liable to make payments to cover the deficiency. The published projected account balance by fiscal year held for the principal payment on May 23, 2015, is as follows:

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

Qualified Zone Academy Bond Program

Year Ending June 30,	Interest Earnings	Projected Account Balance
2005	\$ 63,685	\$ 1,104,130
2006	67,583	1,171,713
2007	71,719	1,243,432
2008	76,109	1,319,541
2009	80,767	1,400,308
2010	85,712	1,486,020
2011	90,958	1,576,978
2012	96,525	1,673,503
2013	102,434	1,775,937
2014	108,704	1,884,641
2015 ¹	115,359	2,000,000

¹ The debt payment is due on May 23, 2015, by which time the account balance is projected to be \$2,000,000.

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2005, amounted to \$21,472.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2005**

NOTE 11 - FUND BALANCES

Fund balances with reservations/designations are composed of the following elements:

	General Fund	Cafeteria Fund	Special Reserve Capital Outlay Fund	QZAB Debt Service Fund	Non-Major Funds	Total
Reserved						
Revolving cash	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ 10,000
Stores inventory	-	21,136	-	-	-	21,136
Restricted programs	520,686	-	-	-	-	520,686
Total Reserved	530,686	21,136	-	-	-	551,822
Unreserved						
Designated						
Economic uncertainties	600,553	-	-	-	94,334	694,887
Other designation	647,502	-	-	-	-	647,502
Total Designated	1,248,055	-	-	-	94,334	1,342,389
Undesignated	-	20,005	1,662,011	1,104,131	3,141,904	5,928,051
Total Unreserved	1,248,055	20,005	1,662,011	1,104,131	3,236,238	7,270,440
Total	\$ 1,778,741	\$ 41,141	\$ 1,662,011	\$ 1,104,131	\$ 3,236,238	\$ 7,822,262

NOTE 12 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2005, the following District major fund exceeded the budgeted amounts as follows:

	Expenditures		
	Budget	Actual	Excess
General Fund			
Employee benefits	\$ 3,471,412	\$ 3,473,888	\$ 2,476
Other outgo	\$ 351,770	\$ 369,164	\$ 17,394

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits as an early retirement incentive program, in accordance with District employment contracts, to all employees who retire from the District with at least 30 years of service as established by PERS or STRS. Currently, six employees meet those eligibility requirements. The District contributes a percent of the amount of premiums incurred by retirees depending on the employee's age at retirement. The percentage of benefits cost paid by the District in relation to the employees age at retirement is as follows: 56 - 100 percent, 57 - 75 percent, 58 - 50 percent, 59 - 25 percent. Expenditures for postemployment benefits are recognized as premiums are paid. During the year, expenditures of \$20,286 were recognized for retirees' health care benefits.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 14 - RISK MANAGEMENT

Property and Liability

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. During fiscal year ending , the District contracted with Central Region Schools' Insurance Group (CRSIG) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2005, the District participated in the Central Region Schools' Insurance Group (CRSIG), an insurance purchasing pool. The intent of the CRSIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the CRSIG. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the CRSIG. Each participant pays its workers ' compensation premium based on its individual rate. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." Participation in the CRSIG is limited to districts that can meet the CRSIG selection criteria.

Employee Medical Benefits

The District has contracted with the CRSIG to provide employee medical and surgical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating Districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement 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).

STRS

Plan Description

The District contributes to the California 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 and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Blvd., Sacramento, CA 95826.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Funding Policy

Active plan members are required to contribute 8.0 percent 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2004-2005 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2005, 2004, and 2003, were \$985,593, \$987,751, and \$972,708, respectively, and equal 100 percent of the required contributions for each year.

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 Laws. 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, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2004-2005 was 9.952 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2005, 2004, and 2003, were \$384,298, \$438,230, and \$122,662, respectively, and equal 100 percent of the required contributions for each year.

Social Security

As established by Federal law, all public sector employees who are not members of their employer's existing retirement system (STRS or PERS) must be covered by Social Security or an alternative plan. The District has elected to Social Security. Contributions made by the District and an employee vest immediately. The District contributes 6.2 percent of an employee's gross earnings. An employee is required to contribute 6.2 percent of his or her gross earnings to Social Security.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$534,572 (4.517 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2005. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have not been included in the budget amounts reported in the General Fund Budgetary Schedule. These amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2005.

Litigation

The District is not currently a party to any legal proceedings.

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

Construction Commitments

As of June 30, 2005, the District had no commitments with respect to the unfinished capital projects.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 17 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Central Region Schools' Insurance Group (CRSIG), and the Schools Excess Liability Fund (SELF) joint powers authorities JPA's. The District pays an annual premium to each entity for its health, workers' compensation, and property liability coverage. The relationships between the District, the pools and the JPA's are such that they are not component units of the District for financial reporting purposes.

These entities have budgeting and financial reporting requirements independent of member units and their financial statements are not presented in these financial statements; however, fund transactions between the entities and the District are included in these statements. Audited financial statements are available from the respective entities.

The District has appointed no board members to the Governing Board of CRSIG.

During the year ended June 30, 2005, the District made payment of \$1,392,373 to CRSIG for workers' compensation, health, and property and liability insurance.

The District has appointed no board members to the Governing Board of SELF.

During the year ended June 30, 2005, the District made no payments to SELF for excess liability insurance.

REQUIRED SUPPLEMENTARY INFORMATION

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SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual ¹ (GAAP Basis)	Variances -
	(GAAP Basis) ¹			Favorable
	Original	Final		(Unfavorable) Final to Actual
REVENUES				
Revenue limit sources	\$16,571,793	\$16,550,678	\$ 16,051,425	\$ (499,253)
Federal sources	3,145,634	3,331,284	2,289,935	(1,041,349)
Other state sources	3,252,634	3,379,679	3,108,291	(271,388)
Other local sources	931,619	1,738,881	1,768,538	29,657
Total Revenues	<u>23,901,680</u>	<u>25,000,522</u>	<u>23,218,189</u>	<u>(1,782,333)</u>
EXPENDITURES				
Current				
Certificated Salaries	11,950,674	11,904,382	11,904,382	-
Classified salaries	3,390,008	3,442,743	3,426,476	16,267
Employee benefits	3,538,584	3,471,412	3,473,888	(2,476)
Books and supplies	1,046,564	1,148,562	1,120,006	28,556
Services and operating expenditures	2,587,433	2,925,630	2,665,297	260,333
Other outgo	35,200	351,770	369,164	(17,394)
Capital outlay	72,515	94,047	94,047	-
Total Expenditures	<u>22,620,978</u>	<u>23,338,546</u>	<u>23,053,260</u>	<u>285,286</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>1,280,702</u>	<u>1,661,976</u>	<u>164,929</u>	<u>(1,497,047)</u>
Other Financing Sources (Uses):				
Transfers out	<u>(133,019)</u>	<u>(80,000)</u>	<u>(109,621)</u>	<u>(29,621)</u>
Net Financing Sources (Uses)	<u>(133,019)</u>	<u>(80,000)</u>	<u>(109,621)</u>	<u>(29,621)</u>
NET CHANGE IN FUND BALANCES	<u>1,147,683</u>	<u>1,581,976</u>	<u>55,308</u>	<u>(1,526,668)</u>
Fund Balance - Beginning	<u>1,723,433</u>	<u>1,723,433</u>	<u>1,723,433</u>	<u>-</u>
Fund Balance - Ending	<u>\$ 2,871,116</u>	<u>\$ 3,305,409</u>	<u>\$ 1,778,741</u>	<u>\$ (1,526,668)</u>

¹ State of California on behalf payments have been excluded from this schedule.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**CAFETERIA FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2005**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Positive
	Original	Final		(Negative)
				Final to Actual
REVENUES				
Federal sources	\$ 705,268	\$ 705,268	\$ 715,820	\$ 10,552
Other state sources	45,835	45,835	49,730	3,895
Other local sources	481,714	481,714	471,165	(10,549)
Total Revenues	<u>1,232,817</u>	<u>1,232,817</u>	<u>1,236,715</u>	<u>3,898</u>
EXPENDITURES				
Current				
Classified salaries	451,131	452,931	452,931	-
Employee benefits	102,905	106,242	106,242	-
Books and supplies	579,781	586,130	586,130	-
Services and operating expenditures	38,058	39,039	39,039	-
Other outgo	32,631	32,631	32,631	-
Capital outlay	7,886	7,886	7,886	-
Total Expenditures	<u>1,212,392</u>	<u>1,224,859</u>	<u>1,224,859</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	20,425	7,958	11,856	3,898
Fund Balance - Beginning	29,285	29,285	29,285	-
Fund Balance - Ending	<u>\$ 49,710</u>	<u>\$ 37,243</u>	<u>\$ 41,141</u>	<u>\$ 3,898</u>

SUPPLEMENTARY INFORMATION

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SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2005**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
No Child Left Behind			
Title I - Basic [1]	84.010	13797	\$ 304,017
Title I - Even Start [1]	84.213C	13700	151,757
Title I - Program Improvement	84.348	14106	12,840
Title II - Teacher Quality	84.376	14341	53,528
Title II - Education Technology	84.318	14334	16,645
Title III - LEP	84.365	10084	42,542
Title IV - Drug Free Schools	84.184	13453	5,486
Title V - Part A, Innovative Ed Strategy	84.298A	13340	13,895
21st Century After School Learning Center	84.002	13303	197,968
CELDT	84.369	14363	3,800
Special Education - State Grants			
Local Assistance [1]	84.027	13379	352,597
Total U.S. Department of Education			<u>1,155,075</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
National School Lunch [1]	10.555	13755	586,704
Basic School Breakfast Program [1]	10.553	13390	10,375
Especially Needy Breakfast [1]	10.553	13526	108,189
Meals Supplements - Snack [1]	10.555	13755	10,552
Total U.S. Department of Agriculture			<u>715,820</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Medi-Cal	93.778	10013	84,755
Child Development - Quality Improvement	93.575	13942	1,647
Child Development - School Age Resource Contracts	93.575	13941	141,675
Head Start - Basic [1]	93.600	10016	833,072
Head Start - Early Intervention [1]	93.600	10016	217,033
Total U.S. Department of Health and Human Services			<u>1,278,182</u>
Total Expenditures of Federal Awards			<u><u>\$ 3,149,077</u></u>

[1] Major program under OMB Circular A-133 guidelines.

See accompanying note to supplementary information.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2005**

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	341	344
First through third	1,057	1,063
Fourth through sixth	1,072	1,079
Seventh and eighth	702	697
Opportunity schools	-	-
Home and hospital	1	1
Special education	68	67
Total Elementary	3,241	3,251
		Hours of Attendance
SUPPLEMENTAL HOURS		
Core Instruction		20,748
Remedial Instruction		17,126
Pupils Retained/Recommended for Retention		23,536
Low STAR Score		8,192
Total Hours		69,602

See accompanying note to supplementary information.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2005**

<u>Grade Level</u>	1982-83	1986-87	2004-05	<u>Number of Days</u>		<u>Status</u>
	<u>Actual Minutes</u>	<u>Minutes Requirement</u>	<u>Actual Minutes</u>	<u>Traditional Calendar</u>	<u>Multitrack Calendar</u>	
Kindergarten	33,325	36,000	36,750	180	175	Complied
Grades 1 - 3	50,580	50,400	54,895	180	175	Complied
Grades 4 - 8	56,790	54,000	58,845	180	175	Complied

See accompanying note to supplementary information.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2005

Summarized below are the fund balance reconciliations between the Unaudited Actual Financial Report and the audited financial statements.

	<u>Long-Term Debt</u>
LONG-TERM LIABILITIES	
Total Liabilities, June 30, 2005, Unaudited Actuals	\$ 10,915,159
Adjustments	
Increase in:	
Qualified zone academy bonds	2,000,000
Accumulated vacation	1,994
Decrease in:	
Other postemployment benefits	(15,681)
Certificates of participation	<u>(1,880,000)</u>
Total Liabilities, June 30, 2005, Audited Financial Statement	<u><u>\$ 11,021,472</u></u>

See accompanying note to supplementary information.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2005**

	(Budget) 2006 ¹	2005 ³	2004 ³	2003 ³
GENERAL FUND				
Revenues	\$ 23,850,603	\$ 23,218,189	\$ 23,266,267	\$ 23,600,254
Other sources and transfers in	-	-	-	1,003,122
Total Revenues and Other Sources	23,850,603	23,218,189	23,266,267	24,603,376
Expenditures	22,864,386	23,053,260	23,933,476	25,590,231
Other uses and transfers out	123,000	109,621	-	192,883
Total Expenditures and Other Uses	22,987,386	23,162,881	23,933,476	25,783,114
INCREASE/(DECREASE) IN FUND BALANCE	\$ 863,217	\$ 55,308	\$ (667,209)	\$ (1,179,738)
ENDING FUND BALANCE	\$ 2,641,958	\$ 1,778,741	\$ 1,723,433	\$ 2,390,642
AVAILABLE RESERVES ²	\$ 1,925,859	\$ 1,437,120	\$ 721,800	\$ 1,201,259
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	8.4%	6.2%	3.0%	4.7%
LONG-TERM DEBT	Not Available	\$ 11,021,472	\$ 11,269,478	\$ 11,486,629
AVERAGE DAILY ATTENDANCE AT P-2	3,273	3,241	3,324	3,271

The General Fund balance has decreased by \$611,901 over the past two years. The fiscal year 2005-06 budget projects an increase of \$863,217 (48.5 percent). For a district this size, the State recommends available reserves of at least 3.0 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years but anticipates incurring an operating surplus during the 2005-06 fiscal year. Total long-term debt has decreased by \$465,157 over the past two years.

Average daily attendance has decreased by 30 ADA over the past two years. An increase of 32 ADA is anticipated during fiscal year 2005-06.

1 Budget 2006 is included for analytical purposes only and has not been subjected to audit.

2 Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund and Special Reserve Fund (other than capital outlay).

3 On behalf payments have been excluded from this schedule.

See accompanying note to supplementary information.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**EARLY RETIREMENT INCENTIVE PROGRAM
FOR THE YEAR ENDED JUNE 30, 2005**

The District has adopted an early retirement incentive program, pursuant to Education Code Sections 22714 and 44929, whereby the service credit to eligible employees is increased by two years. Eligible employees must have five or more years of service under the State Teachers' Retirement System and retire during a period of not more than 120 days or less than 60 days from the date of the formal action taken by the District.

Retiree Information

A total of one employee has retired in exchange for the additional two years of service credit.

<u>Position Vacated</u>	<u>Employee Age</u>	<u>Service Credit</u>	<u>Retired Employee *</u>		<u>Replacement Employee *</u> (If Applicable)	
			<u>Salary</u>	<u>Benefits</u>	<u>Salary</u>	<u>Benefits</u>
Assistant Superintendent	57	34	\$ 403,104	\$ 49,098	\$ 330,995	\$ 40,315
Total			<u>\$ 403,104</u>	<u>\$ 49,098</u>	<u>\$ 330,995</u>	<u>\$ 40,315</u>

* Four year period.

Additional Costs

As a result of this early retirement incentive program, the District expects to incur \$79,097 in additional costs. The breakdown in additional costs is presented below:

Retirement costs	\$ 70,006
Postretirement health benefit costs	8,801
Administrative costs	290
Total Additional Costs	<u>\$ 79,097</u>

See accompanying note to supplementary information.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

K-3 CLASS SIZE REDUCTION REPORTING ERROR FOR THE YEAR ENDED JUNE 30, 2005

During our audit of the District's participation in the K-3 Class Size Reduction program, we found that the District over-reported the number of eligible pupils that participated in the program during the year. The program provides incentive funding for districts that reduce the average enrollment of students to below 20 in kindergarten through third grade classes. In reviewing the daily average class sizes from the District's SASI enrollment report (ATD19) used to tally the number of classes in each grade level by class size, we noted that one second grade class was reported as having a daily average of 20 students when in fact the class actually averaged only 17. The form J-7CSR was overstated by three eligible pupils and therefore the total funding will be reduced by \$2,784 from \$1,355,808 to \$1,353,024.

See accompanying note to supplementary information.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2005

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

The District has received incentive funding for increasing instructional time as provided by the Incentives for Longer Instructional Day. This schedule presents information on the amount of instructional time offered by the District and whether the District complied with the provisions of Education Code Sections 46200 through 46206.

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Early Retirement Incentive Program

This schedule provides information required by the State Controller's Audit Guide for Local Educational Agencies K-12 for those agencies adopting an early retirement incentive program pursuant to Education Code Sections 22714 and 44929.

K-3 Class Size Reduction Reporting Error

This schedule provides information required by the State Controller's Audit Guide when an error is made in reporting enrollment information on the J-7CSR form.

SUPPLEMENTARY INFORMATION - UNAUDITED

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SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET - UNAUDITED
JUNE 30, 2005**

	Child Development Fund	Deferred Maintenance Fund	Special Reserve Non-Capital Fund	Building Fund
ASSETS				
Deposits and investments	\$ 213,129	\$ 197,975	\$ 806,946	\$ 25,923
Receivables	19,898	128,739	-	4
Due from other funds	17,115	-	29,621	-
Total Assets	<u>\$ 250,142</u>	<u>\$ 326,714</u>	<u>\$ 836,567</u>	<u>\$ 25,927</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	20,477	2,937	-	-
Deferred revenue	139,924	-	-	-
Total Liabilities	<u>160,401</u>	<u>2,937</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Unreserved:				
Designated	-	-	94,334	-
Undesignated, reported in:				
Special revenue funds	89,741	323,777	742,233	-
Debt service funds	-	-	-	-
Capital projects funds	-	-	-	25,927
Total Fund Balances	<u>89,741</u>	<u>323,777</u>	<u>836,567</u>	<u>25,927</u>
Total Liabilities and Fund Balances	<u>\$ 250,142</u>	<u>\$ 326,714</u>	<u>\$ 836,567</u>	<u>\$ 25,927</u>

See accompanying note to supplementary information - unaudited.

Capital Facilities Fund	QZAB Capital Projects Fund	County School Facilities Fund	COP Capital Project Fund	Mello Roos Capital Projects Fund	Bond Interest and Redemption Fund
\$ 217,037	\$ 21,208	\$ 586,622	\$ 271,355	\$ 199,511	\$ 312,661
-	-	12,233	-	-	-
-	-	-	-	-	-
<u>\$ 217,037</u>	<u>\$ 21,208</u>	<u>\$ 598,855</u>	<u>\$ 271,355</u>	<u>\$ 199,511</u>	<u>\$ 312,661</u>
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	312,661
217,037	21,208	598,855	271,355	199,511	-
<u>217,037</u>	<u>21,208</u>	<u>598,855</u>	<u>271,355</u>	<u>199,511</u>	<u>312,661</u>
<u>\$ 217,037</u>	<u>\$ 21,208</u>	<u>\$ 598,855</u>	<u>\$ 271,355</u>	<u>\$ 199,511</u>	<u>\$ 312,661</u>

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SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET – UNAUDITED, Continued
JUNE 30, 2005**

	COP Debt Service Fund	Total Non-Major Governmental Funds
ASSETS		
Deposits and investments	\$ 339,599	\$ 3,191,966
Receivables	-	160,874
Due from other funds	-	46,736
Total Assets	\$ 339,599	\$ 3,399,576
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	-	23,414
Deferred revenue	-	139,924
Total Liabilities	-	163,338
Fund Balances:		
Unreserved:		
Designated	-	94,334
Undesignated, reported in:		
Special revenue funds	-	1,155,751
Debt service funds	339,599	652,260
Capital projects funds	-	1,333,893
Total Fund Balances	339,599	3,236,238
Total Liabilities and Fund Balances	\$ 339,599	\$ 3,399,576

See accompanying note to supplementary information - unaudited.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2005**

	Child Development Fund	Deferred Maintenance Fund	Special Reserve Non-Capital Fund	Building Fund
REVENUES				
Federal sources	\$ 143,322	\$ -	\$ -	\$ -
Other state sources	325,941	93,963	-	-
Other local sources	79,807	3,140	16,838	557
Total Revenues	<u>549,070</u>	<u>97,103</u>	<u>16,838</u>	<u>557</u>
EXPENDITURES				
Current				
Plant services	-	150,365	-	-
Facility acquisition and construction	-	-	-	1,262
Community services	549,069	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	<u>549,069</u>	<u>150,365</u>	<u>-</u>	<u>1,262</u>
Excess (Deficiency) of				
Revenues Over Expenditures	<u>1</u>	<u>(53,262)</u>	<u>16,838</u>	<u>(705)</u>
Other Financing Sources (Uses):				
Transfers in	-	-	29,621	-
Net Financing Sources (Uses)	<u>-</u>	<u>-</u>	<u>29,621</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>1</u>	<u>(53,262)</u>	<u>46,459</u>	<u>(705)</u>
Fund Balance - Beginning	89,740	377,039	790,108	26,632
Fund Balance - Ending	<u>\$ 89,741</u>	<u>\$ 323,777</u>	<u>\$ 836,567</u>	<u>\$ 25,927</u>

See accompanying note to supplementary information - unaudited.

Capital Facilities Fund	QZAB Capital Projects Fund	County School Facilities Fund	COP Capital Project Fund	Mello Roos Capital Projects Fund	Bond Interest and Redemption Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
46,094	389	33,107	7,692	29,586	337,164
<u>46,094</u>	<u>389</u>	<u>33,107</u>	<u>7,692</u>	<u>29,586</u>	<u>337,164</u>
-	-	56,421	-	-	-
-	-	-	538,655	-	-
-	-	-	-	-	-
-	-	-	-	-	-
-	-	-	-	-	48,443
-	-	<u>56,421</u>	<u>538,655</u>	-	<u>48,443</u>
46,094	389	(23,314)	(530,963)	29,586	288,721
-	-	-	-	-	-
-	-	-	-	-	-
<u>46,094</u>	<u>389</u>	<u>(23,314)</u>	<u>(530,963)</u>	<u>29,586</u>	<u>288,721</u>
170,943	20,819	622,169	802,318	169,925	23,940
<u>\$ 217,037</u>	<u>\$ 21,208</u>	<u>\$ 598,855</u>	<u>\$ 271,355</u>	<u>\$ 199,511</u>	<u>\$ 312,661</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – UNAUDITED, Continued
FOR THE YEAR ENDED JUNE 30, 2005**

	COP Debt Service Fund	Total Non-Major Governmental Funds
REVENUES		
Federal sources	\$ -	\$ 143,322
Other state sources	-	419,904
Other local sources	4,598	558,972
Total Revenues	<u>4,598</u>	<u>1,122,198</u>
EXPENDITURES		
Current		
Plant services	-	206,786
Facility acquisition and construction	-	539,917
Community services	-	549,069
Debt service		
Principal	110,000	110,000
Interest and other	491,311	539,754
Total Expenditures	<u>601,311</u>	<u>1,945,526</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(596,713)</u>	<u>(823,328)</u>
Other Financing Sources (Uses):		
Transfers in	458,308	487,929
Net Financing Sources (Uses)	<u>458,308</u>	<u>487,929</u>
NET CHANGE IN FUND BALANCES	<u>(138,405)</u>	<u>(335,399)</u>
Fund Balance - Beginning	478,004	3,571,637
Fund Balance - Ending	<u>\$ 339,599</u>	<u>\$ 3,236,238</u>

See accompanying note to supplementary information - unaudited.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

GENERAL FUND SELECTED FINANCIAL INFORMATION THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND CHANGES OF FUND BALANCE - UNAUDITED FOR THE YEAR ENDED JUNE 30, 2005

(Amounts in thousands)	Actual Results for the Years ¹					
	2004-2005		2003-2004		2002-2003	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 2,290	9.9	\$ 3,173	13.6	\$ 3,291	13.9
State and local revenue included in revenue limit	16,051	69.1	15,385	66.1	15,359	65.1
Other state revenue	3,108	13.4	2,995	12.9	3,187	13.5
Other local revenue	1,769	7.6	1,713	7.4	1,763	7.5
Total Revenues	<u>23,218</u>	<u>100.0</u>	<u>23,266</u>	<u>100.0</u>	<u>23,600</u>	<u>100.0</u>
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	11,904	51.3	12,186	52.4	12,230	51.8
Classified salaries	3,426	14.8	3,767	16.2	3,889	16.5
Employee benefits	3,474	15.0	3,666	15.8	3,522	14.9
Total Salaries and Benefits	18,804	81.0	19,619	84.3	19,641	83.2
Books and supplies	1,120	4.8	1,236	5.3	1,829	7.8
Contracts and operating expenses	2,665	11.5	2,614	11.2	3,044	12.9
Capital outlay	94	0.4	132	0.6	684	2.9
Other outgoing	370	1.6	332	1.4	392	1.7
Total Expenditures	<u>23,053</u>	<u>99.3</u>	<u>23,933</u>	<u>102.9</u>	<u>25,590</u>	<u>108.4</u>
EXCESS OF REVENUES OVER/ (UNDER) EXPENDITURES	165	0.7	(667)	(2.9)	(1,990)	(8.4)
OTHER FINANCING SOURCES/(USES)						
Transfers out	(109)	(0.5)	-	-	(193)	(0.8)
Other Sources	-	-	-	-	1,003	4
Total Other Financing Sources (Uses)	<u>(109)</u>	<u>(0.5)</u>	<u>-</u>	<u>-</u>	<u>810</u>	<u>3.4</u>
INCREASE/(DECREASE) IN FUND BALANCE	56	<u>0.2</u>	(667)	<u>(2.9)</u>	(1,180)	<u>(5.0)</u>
FUND BALANCE, BEGINNING	<u>1,723</u>		<u>2,390</u>		<u>3,570</u>	
FUND BALANCE, ENDING	<u>\$ 1,779</u>		<u>\$ 1,723</u>		<u>\$ 2,390</u>	
BASE REVENUE LIMIT PER ADA						
Regular K-12	<u>\$ 4,575</u>		<u>\$ 4,575</u>		<u>\$ 4,490</u>	

1 State of California on behalf payments have been excluded from this schedule.

See accompanying note to supplementary information - unaudited.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**CAFETERIA ACCOUNT SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2005**

(Amounts in thousands)

	Actual Results for the Years					
	2004-2005		2003-2004		2002-2003	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal - NSLP	\$ 705	57.0	\$ 677	55.8	\$ 590	52.8
State meal program	50	4.0	44	3.6	55	4.9
Food sales	482	39.0	493	40.6	473	42.3
Total Revenues	<u>1,237</u>	<u>100.0</u>	<u>1,214</u>	<u>100.0</u>	<u>1,118</u>	<u>100.0</u>
EXPENDITURES						
Salaries and employee benefits	559	45.2	534	44.0	538	48.1
Food	586	47.4	-	-	520	46.5
Supplies	39	3.2	655	54.0	81	7.2
Capital outlay	8	0.6	-	-	-	-
Other and transfers out	33	2.7	15	1.2	78	7.0
Total Expenditures	<u>1,225</u>	<u>99.0</u>	<u>1,204</u>	<u>99.2</u>	<u>1,217</u>	<u>108.9</u>
INCREASE/(DECREASE) IN FUND BALANCE	12	<u>1.0</u>	10	<u>0.8</u>	(99)	<u>(8.9)</u>
FUND BALANCE, BEGINNING	<u>29</u>		<u>19</u>		<u>118</u>	
FUND BALANCE, ENDING	<u>\$ 41</u>		<u>\$ 29</u>		<u>\$ 19</u>	

* * * * *

TYPE 'A' LUNCH/BREAKFAST PARTICIPATION

	2004-2005		2003-2004		2002-2003	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	151,135	37.2	147,686	37.1	145,458	38.9
Reduced price	63,429	15.6	58,501	14.7	58,509	15.6
Free	192,020	47.2	192,213	48.2	170,428	45.5
Total Lunches	<u>406,584</u>	<u>100.0</u>	<u>398,400</u>	<u>100.0</u>	<u>374,395</u>	<u>100.0</u>
BREAKFAST						
Paid	14,157	16.0	11,954	12.5	13,702	15.4
Reduced price	13,386	15.2	15,063	15.8	12,960	14.6
Free	60,729	68.8	68,394	71.7	62,179	70.0
Total Breakfast	<u>88,272</u>	<u>100.0</u>	<u>95,411</u>	<u>100.0</u>	<u>88,841</u>	<u>100.0</u>

See accompanying note to supplementary information - unaudited.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2005

NOTE 1 - PURPOSE OF SCHEDULES

Non-Major Governmental Funds - Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance - Unaudited

The Non-Major Governmental Funds Combining Balance Sheet and Combining Statement of Revenues, Expenditures and Changes in Fund Balance is included to provide information regarding the individual funds that have been included in the Non-Major Governmental Funds column on the Governmental Funds Balance Sheet and Statement of Revenues, Expenditures, and Changes in Fund Balance.

General Fund Selected Financial Information - Unaudited

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the General Fund for the past three years.

Cafeteria Account Selected Financial Information - Unaudited

This schedule provides a comparison of revenues and expenditures as a percentage of total revenue for the cafeteria account for the past three years.

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INDEPENDENT AUDITORS' REPORTS

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**INDEPENDENT AUDITORS' 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
Salida Union Elementary School District
Salida, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salida Union Elementary School District as of and for the year ended June 30, 2005, which collectively comprise the Salida Union Elementary School District's basic financial statements and have issued our report thereon dated December 2, 2005. 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 Salida Union Elementary 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. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Salida Union Elementary School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Financial Statement Findings as items 2005-1 and 2005-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving the internal control over financial reporting that we have reported to the management of Salida Union Elementary School District in a separate letter dated December 2, 2005.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Salida Union Elementary 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 that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Governing Board, management, the California Department of Education, the State Controller's Office, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Vannik, Eric Day & Co., LLP

Fresno, California
December 2, 2005



**INDEPENDENT AUDITORS' 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
Salida Union Elementary School District
Salida, California

Compliance

We have audited the compliance of Salida Union Elementary 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, 2005. Salida Union Elementary School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Salida Union Elementary School District's management. Our responsibility is to express an opinion on Salida Union Elementary 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 Salida Union Elementary School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Salida Union Elementary School District's compliance with those requirements.

In our opinion, Salida Union Elementary 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, 2005.

Internal Control Over Compliance

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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with 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 consider to be material weaknesses.

This report is intended solely for the information and use of the Governing Board, management, the California Department of Education, the State Controller's Office, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Vannik, Tuni, Davy & Co., LLP

Fresno, California
December 2, 2005



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
 Salida Union Elementary School District
 Salida, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salida Union Elementary School District as of and for the year ended June 30, 2005, and have issued our report thereon dated December 2, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the 2004-05 *Standards and Procedures for Audits of California K-12 Local Educational Agencies* prescribed in the California Code of Regulations, Title 5, Section 19810 and following. 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.

Compliance with the requirements of laws, regulations, contracts, and grants listed below is the responsibility of Salida Union Elementary School District's management. In connection with the audit referred to above, we selected and tested transactions and records to determine the Salida Union Elementary School District's compliance with the State laws and regulations applicable to the following items:

	Procedures in Controller's Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	22	No (see below)
Continuation education	10	Not Applicable
Adult education	9	Not Applicable
Regional occupational centers and programs	6	Not Applicable
Instructional time and staff development reform program	7	Yes
Instructional Time:		
School districts	4	Yes
County offices of education	3	Not Applicable
Community day schools	9	Not Applicable

	Procedures in Controller's Audit Guide	Procedures Performed
Class Size Reduction Program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school servicing K-3	4	Not Applicable
Instructional Materials:		
General requirements	12	Yes
K-8 only	1	Yes
9-12 only	1	Not Applicable
Ratios of Administrative Employees to Teachers	1	Yes
Early retirement incentive	4	Yes
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	Not Applicable
School Accountability Report Card	3	No (see below)

We did not perform testing for Independent Study because the ADA from the program was below the State recommended testing level. Additionally, we did not perform testing for School Accountability Report Card (SARC) because the District completed its 2003-04 SARC prior to January 31, 2005, when form changes were implemented.

Based on our audit, we found that for the items tested, the Salida Union Elementary School District complied with the State laws and regulations referred to above, except as described in the Schedule of State Award Findings and Questioned Costs included in this report. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Salida Union Elementary School District had not complied with the laws and regulations. Our audit does not provide a legal determination on Salida Union Elementary School District's compliance with the State laws and regulations referred to above.

This report is intended solely for the information and use of the Governing Board, management, the California Department of Education, the State Controller's Office, the California Department of Finance, and Federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Vannil, Turi, Dax & Co., LLP

Fresno, California
December 2, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

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SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2005**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>No</u>
Identification of major programs:	

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>84.213C</u>	<u>Even Start</u>
<u>84.010</u>	<u>Title I - Basic</u>
<u>84.027</u>	<u>Special Education - Local Assistance</u>
<u>10.555, 10.553</u>	<u>Department of Agriculture Cluster</u>
<u>93.600</u>	<u>Head Start Cluster</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for State programs:	<u>Unqualified</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2005

The following finding represents a reportable condition related to the financial statements that are required to be reported in accordance with *Government Auditing Standards*. The finding has been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
20000	Inventory of Equipment
30000	Internal Control
60000	Miscellaneous

2005-1 30000

Second Interim Financial Report

Finding

During our audit of the District's Second Interim Financial Report, we noted the following errors/concerns in the second interim report:

1. The General Fund beginning budget was short by \$10,000. Per the Business Manager, the software is not pulling in the \$10,000 reserve for the Revolving Fund.
2. Also in the General Fund, the actuals-to-date total for Federal Revenues is negative \$107,546 despite the fact that the projected year total for Federal Revenue is \$2,732,312. The reason for this could not be explained by the District.
3. In the Child Development Fund, the actuals-to date for local revenue was at \$34,044 while projected year totals were \$190,254. The reason for this could not be explained by the District.
4. In the Cafeteria Fund, the beginning fund balance is reported at \$12,339, however, the prior year audited ending balance for the fund is \$29285. The reason for this could not be explained by the District.
5. In the First Tier Review, the undesignated fund balance of the Special Reserve-Non Capital Outlay Fund in the amount of \$798,811 was not included as part of the projected unrestricted reserves. The District was under the assumption that there was an automatic link in the software. Despite that assumption, it is something that should not have been overlooked.
6. Also in the First Tier Review, the District stated that no proposed or negotiated salary increases were budgeted, yet included an amount for salaries.

Recommendation

Care should be taken in the reporting of the District's interim financial conditions and certifications. The fund information should be reviewed for accuracy and reasonableness. The actuals-to-date information should be carefully reviewed and compared to the projected year totals as well as the board approved budgets to verify that they accurately reflect the District's expectations. First Tier Review information on projected year-end reserves should be checked for accuracy and completeness.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2005

District Response

The District will closely review the interim reports to ensure the actuals-to-date accurately reflect the District's expectations in comparison to projected year totals, as well as the board approved budget. In addition, we communicated this concern to the Stanislaus County Office of Education as the next level of financial review.

2005-2 60000

Finding

In our examination of the Salida Union School District's Claims for Reimbursement - School Nutrition Programs, we noted that the claims for January and February 2005 were incorrect. The spreadsheet on which the District calculates its meal counts contained a formula error omitting one of the District's sites. The monthly figures for the originally filed claims and the adjusted claims are summarized below:

	January	February	TOTAL
Paid Lunches:			
Submitted Claim	10,789	10,204	20,993
Revised Claim	14,407	12,992	27,399
Difference	<u>3,618</u>	<u>2,788</u>	<u>6,406</u>
Reduced Lunches:			
Submitted Claim	4,674	4,442	9,116
Revised Claim	6,158	5,516	11,674
Difference	<u>1,484</u>	<u>1,074</u>	<u>2,558</u>
Free Lunches:			
Submitted Claim	15,143	15,525	30,668
Revised Claim	17,779	18,148	35,927
Difference	<u>2,636</u>	<u>2,623</u>	<u>5,259</u>
Paid Needy Breakfast:			
Submitted Claim	1,095	1,135	2,230
Revised Claim	1,258	1,322	2,580
Difference	<u>163</u>	<u>187</u>	<u>350</u>
Reduced Needy Breakfast:			
Submitted Claim	1,015	968	1,983
Revised Claim	1,222	1,113	2,335
Difference	<u>207</u>	<u>145</u>	<u>352</u>
Free Needy Breakfast:			
Submitted Claim	4,367	4,904	9,271
Revised Claim	5,098	5,806	10,904
Difference	<u>731</u>	<u>902</u>	<u>1,633</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2005

Recommendation

The District should submit revised National School Lunch claims for January and February to the State.

District Response

The District will submit revised claims for January and February as recommended by the auditor.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

There were no findings representing reportable conditions, material weaknesses, nor instances of noncompliance including questioned costs that were required to be reported by OMB Circular A-133.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005

The following finding represents an instance of noncompliance and questioned costs relating to State program laws and regulations. The finding has been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
40000	State Compliance

2005-3 40000

K-3 Class Size Reduction

Finding

During our audit of the District's participation in the K-3 Class Size Reduction program, we found that the District over-reported the number of eligible pupils that participated in the program during the year. The program provides incentive funding for districts that reduce the average enrollment of students to below 20 in kindergarten through third grade classes. In reviewing the daily average class sizes from the SASI enrollment report ATD19 used to tally the number of classes in each grade level by class size, we noted that one second grade class was reported as having a daily average of 20 students when in fact the class actually averaged only 17. The form J-7CSR was overstated by three eligible pupils and therefore the total funding will be reduced by \$2,784 from \$1,355,808 to \$1,353,024.

Recommendation

The District should revise the J-7CSR Report to reflect the audited class and student counts, and accrue a liability for the amount of the questioned cost.

District Response

The form J-7CSR was reviewed and re-filed to correct the overstatement of three pupils.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2005

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Financial Statement Findings

2004-1 30000

Second Interim Financial Report

Finding

We found that the beginning fund balance in the General Fund as reported in the Second Interim Financial Report. The beginning fund balance reported was \$2,204,544 while the prior year unaudited actuals ending fund balance was \$2,225,242. Additionally, an amount of \$10,698 was reported as a prior year audit adjustment but was actually an audit adjustment from the 2001-02 fiscal year. The actual General Fund audit adjustment for the 2002-03 fiscal year amounted to an increased fund balance of \$165,400. The net understatement of the beginning audited fund balance was \$175,400.

We also noted that the beginning fund balance in the Cafeteria Fund was misstated by \$16,946. The beginning fund balance per the prior year unaudited actuals and the audit report totaled \$18,790 but was reported on the Second Interim Financial Report at \$1,884.

A transfer was noted in the year-to-date actuals as being made from the Special Reserve-Other Than Capital Projects to the General Fund in the amount of \$784,028, however, this amount is not reflected in the Board Approved Operating Budget or the Projected Year Totals in either fund. If the transfer is a short-term loan that is to be paid back by year-end or set up as an interfund accrual, the transfer out from the General Fund should be reflected as well in the budget.

Recommendation

Care should be taken in the reporting of the District's interim financial conditions and certifications. The fund information should be reviewed for reasonableness including the beginning fund balance information. The actuals-to-date information should be carefully reviewed to the projected end of year figures as well as the current Board approved budget figures to be sure that they accurately reflect the District's expectations and projections.

Current Status

Not implemented. See current year findings and recommendations.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2005

2004-2 30000

Account Coding – Capital Assets

Finding

We noted numerous amounts charged to the object code 6000's and/or function code 8500 that appear to be immaterial repairs rather than major repairs that would lengthen the useful life of a capitalized asset. Additionally, it is the District's policy to capitalize items over \$5,000 and therefore, unless payments less than \$5,000 are related to a project that is to be capitalized because it will total over \$5,000.

Towards the end of the fiscal year the District business office will need to ensure that the charges to the 6000 object codes as well as all 8500 function code charges balance to the fiscal year additions in the fixed asset depreciation system or to the balance of Work In Progress.

Recommendation

The District should run a detailed general ledger report of the 6000 object codes as well as the 8500 functions codes and review the detail for entries not relating to an asset to be capitalized and depreciated. These entries should be corrected before the County Office of Education closes out the general ledger.

Current Status

Implemented

2004-3 30000

District Office Cash Receipts

Finding

During our testing of cash collections at the District office, we noted that a master log to record the deposits in a sequential order and pre-numbered receipts are maintained, however, the District does not reconcile the logs and receipts to the deposits between the employee who opens the mail and logs/receipts and the deposits who prepares the deposit.

Recommendation

The District should add a column to the log that would indicate the date of deposit made to the County or the clearing account. The employee making the deposit should not have access to the actual log file but should be given a hard copy to balance with. After the deposit is made and the log entries are balanced to the deposit to ensure that all funds are accounted for and were not lost, the log should be updated with the actual deposit date of the related checks.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2005

Current Status

Implemented

State Award Findings

2004-4 40000

K-3 Class Size Reduction

Finding

During our review of the District's Form J7CSR and supporting documentation, we found the District's tally of class sizes to be incorrect. This clerical error amounted to a net reduction in eligible classes of one from 81 to 80 and a net reduction in eligible students of two from 1,550 to 1,552.

Additionally, we found that students at the elementary sites that are placed on short-term independent study are not disenrolled from the regular attendance program and enrolled in the Independent Study program, therefore, these students are counted as being enrolled in the teachers class during the independent study duration which is not allowed per State compliance guidelines. This condition further reduced the number of eligible students by four to 1,544. The District's total funding will be reduced by \$5,436 from \$1,404,300 to \$1,398,864.

Recommendation

The District should amend the Form J7CSR per the revised copy left with them by the auditors. The total classes should total to 80 from 81; total students should total to 1,544 from 1,550; the average class size per teacher should total to 19.30 from 19.14; and the total apportionment should total \$1,398,864 from \$1,404,300.

Regarding the Independent Study students, the District should either 1.) recalculate the average daily class size excluding the number of days enrolled relating the Independent Study by teacher or 2.) instruct the sites to utilize the SASI instructional program IS to track these students have entered into an Independent Study contract. The students would be disenrolled from the regular class program and enrolled in the Independent Study program on SASI. This would ensure no enrollment would be counted, as outlined by State compliance standards, for students on Independent Study.

Current Status

Implemented

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2005**

2004-5 10000

Second Period Attendance Report (P-2)

Finding

We noted that the Home & Hospital program average daily attendance (ADA) for the Dena Boer site was inadvertently excluded from the ADA as reported for Home & Hospital on Line A-8 of the P-2.

Recommendation

Line A-8 of the originally filed P-2 should be revised from .88 to 1.59 to include the .71 ADA related to the Dena Boer sites' Home & Hospital ADA. The increase of .71 ADA will net an increase in Revenue Limit funding of \$3,248.33 (.71 ADA X \$4,575.11 revenue limit funding per ADA). The District should amend the P-2 report and submit a copy to the County Office of Education, Department of Education, and to the auditors for verification.

Current Status

Implemented