

**SALIDA UNION ELEMENTARY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2003

**SALIDA UNION ELEMENTARY SCHOOL DISTRICT
OF STANISLAUS COUNTY
SALIDA, CALIFORNIA
JUNE 30, 2003**

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Mark Hughes	President	2005
Ivan Wyeth	Clerk	2005
Dennis Thompson	Trustee	2003
Steve Ernst	Trustee	2005
Gary Dew	Trustee	2003

ADMINISTRATION

Antonio Borba	Superintendent
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ORGANIZATION

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.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2003

FINANCIAL SECTION

Independent Auditors' Report	2
Management's Discussion and Analysis	4
Basic Financial Statements	
Government-Wide Financial Statements	
Statement of Net Assets	11
Statement of Activities	12
Fund Financial Statements	
Governmental Funds - Balance Sheet	13
Governmental Funds - Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	14
Governmental Funds - Statement of Revenues, Expenditures, and Changes in Fund Balance	15
Reconciliation of the Governmental Funds Statement of Revenues, Expenditures, and Changes in Fund Balances to the District-Wide Statement of Activities	16
Fiduciary Funds - Statement of Net Assets	17
Notes to Financial Statements	18

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	43
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SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	45
Schedule of Average Daily Attendance	46
Schedule of Instructional Time	47
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	48
Schedule of Financial Trends and Analysis	49
General Fund Selected Financial Information	50
Cafeteria Account Selected Financial Information	51
K-3 Class Size Reduction Reporting Error	52
Note to Supplementary Information	53

INDEPENDENT AUDITORS' REPORTS

Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	56
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	58
Report on State Compliance	60

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	63
Financial Statement Findings	64
Federal Award Findings and Questioned Costs	67
State Award Findings and Questioned Costs	68
Summary Schedule of Prior Audit Findings	70

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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 District, as of and for the year ended June 30, 2003, 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 *Standards and Procedures for Audits of California K-12 Local Educational Agencies*, prescribed by the State Controller. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Salida Union Elementary School District, as of June 30, 2003, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 1.B to the financial statements, the District recognized certain deferred state appropriations as revenue in the current fiscal year.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 14, 2003, 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 grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As discussed in the Notes to the basic financial statements, the accompanying financial statements reflect certain changes required as a result of the implementation of GASB Statement No. 34 for the year ended June 30, 2003. This results in a change to the format and content of the basic financial statements.

The required supplementary information, such as management's discussion and analysis on pages 4 through 10 and budgetary comparison information on page 43, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board (GASB). 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 other 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.

Vaurinek, Orine, Day & Co., LLP

Fresno, California
November 14, 2003



Salida Union School District

District Superintendent
António Borba

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

This section of Salida Union School District's 2002-2003 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2003. 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. These statements include all assets of the District 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 two categories of activities: governmental and fiduciary.

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

The fiduciary activities are agency funds, which only report a balance sheet and do not have a measurement focus. *Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements* is provided to explain the differences created by the integrated approach.

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

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

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, 2003**

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 profit as commercial entities do, one 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 an important component in this evaluation.

In the *Statement of Net Assets* and the *Statement of Activities and Changes in Net Assets*, the District activities are 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, 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, 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, 2003**

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 and scholarships. 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 \$45.5 million for the fiscal year ended June 30, 2003. Of this amount, \$2.9 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

(Amounts in millions)	Governmental Activities
Current and other assets	\$ 16.1
Capital assets	44.5
Total Assets	60.6
Current liabilities	3.6
Long-term debt	11.5
Total Liabilities	15.1
Net assets	
Invested in capital assets, net of related debt	32.9
Restricted	9.7
Unrelated	2.9
Total Net Assets	\$ 45.5

The \$2.9 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 off all of our bills *today* including all of our non-capital liabilities (compensated absences as an example), we would have \$2.9 million left. We will need to closely monitor our expenditures in the future and adhere strictly to the budget to increase this amount.

**SALIDA UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

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

(Amounts in millions)	<u>Governmental Activities</u>
Revenues	
Program revenues	
Charges for services	\$ 0.6
Operating grants and contributions	6.3
Capital grants and contributions	2.8
General revenues:	
State revenue limit sources	12.2
Property taxes	4.7
Other general revenues	2.9
Total Revenues	<u>29.5</u>
Expenses	
Instruction related	16.8
Student support services	2.5
Administration	1.6
Maintenance and operations	3.8
Other	3.8
Total Expenses	<u>28.5</u>
Change in Net Assets	<u>\$ 1.0</u>

Governmental Activities

As reported in the Statement of Activities on page 12, the cost of all of our governmental activities this year was \$28.5 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$4.7 million because the cost was paid by those who benefited from the programs (\$0.6 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$9.1 million). We paid for the remaining "public benefit" portion of our governmental activities with \$4.7 million in taxes, \$15.1 million in State funds and with other revenues, like interest and general entitlements.

In Table 3, we have presented the net cost of each of the District's four (4) largest functions - regular program instruction, student support services, administration, and maintenance and operations. As discussed above, net cost shows the financial burden that was placed on the District's taxpayers by each of these functions. Providing this information allows our citizens to consider the cost of each function in comparison to the benefits they believe are provided by that function.

**SALIDA UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

Table 3

(Dollar amounts in millions)	Net Cost of Services
Instruction and related services	\$ 11.1
Student support services	1.0
Administration	1.5
Maintenance and operations	3.8
Other	1.4
Totals	\$ 18.8

Salaries and fringe benefit expenditures were approximately \$998,000 thousand more than expected due to additional personnel added for the fiscal 2002-2003 year.

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$12.3 million, which is an increase of \$1.2 million from last year.

The primary reasons for this increase are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund decreased from \$3.6 million to \$2.4 million. This decrease is due to:
 1. Decreased enrollment.
 2. Decreased State revenue.
 3. Increase in special education and other encroachments, plus unfunded mandates.
- b. Our special revenue funds remained fairly stable from the prior year.
- c. The major increase in our governmental funds came from the issuance of the Certificates of Participation in the amount of \$4.5 million.

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 17, 2003, 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.)

- Budgeted expenditures have increased by \$2.8 million due to the settlement of the collective bargaining agreement.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2003, the District had \$44.5 million in a broad range of capital assets, including land, buildings, and furniture and equipment net of depreciation. This amount represents a net increase (including additions, deductions and depreciation) of just over \$3.8 million or 9.0 percent, from last year.

**SALIDA UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

Table 4

(Amounts in millions)	Governmental Activities
Land and construction in progress	\$ 7.8
Buildings and improvements	35.4
Equipment	1.3
Totals	\$ 44.5

This years equipment additions of \$322,734 included cafeteria equipment and classroom equipment such as computers. No debt was issued for these additions.

One capital project is planned for the 2003-04 year. We anticipate capital additions to be \$928,703 for the 2003-04 year. We present more detailed information about our capital assets in the Notes to the Financial Statements.

Long-Term Debt

At the end of this year, the District had \$11.5 million in outstanding debt versus \$7.2 million last year, an increase of 59.0 percent. Those debts consisted of:

Table 5

(Amounts in millions)	Governmental Activities
General obligation bonds	\$ 2.1
QZAB obligation	2.0
Certificates of participation	7.4
Totals	\$ 11.5

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 \$2.1 million is significantly below this statutorily - imposed limit.

Other obligations are compensated absences payable. We present more detailed information regarding our long-term liabilities in the Notes of the Financial Statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2002-03 ARE NOTED BELOW:

Continued the \$4,285,185.00 million Salida Union School District Administration project.

**SALIDA UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
JUNE 30, 2003**

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2003/2004 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Property tax revenues will not increase, unless there is substantial rise in assessed valuation and general growth.
2. Revenue limit income decrease by 3.002 %.
3. Interest earnings will decrease due to an anticipated reduction in market interest rates. We will not participate in TRANS issuance.
4. Developer fee collections are based on approximately new housing units to be constructed, there are currently no new slated housing project in 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.
7. Without significant reductions in expenditures, and/or significant growth, the District will 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	1,552
Grades four through eight	32:1	1,906

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 the Director, Business Services, at Salida Union School District, 4701 Sisk Road, Modesto, California, 95356, or e-mail at mthompson@Salida.k12.ca.us.

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SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**STATEMENT OF NET ASSETS
JUNE 30, 2003**

Assets	Governmental Activities
Deposits and investments	\$ 13,125,008
Receivables	2,799,474
Prepaid expenses	214,815
Stores inventories	29,598
Capital assets	
Land and construction in process	7,831,369
Other capital assets	45,900,970
Less: Accumulated depreciation	(9,281,528)
Total capital assets	<u>44,450,811</u>
Total Assets	<u><u>60,619,706</u></u>
 Liabilities	
Accounts payable	2,983,176
Deferred revenue	642,548
Long-term liabilities	
Current portion of long-term obligations	205,000
Noncurrent portion of long-term obligations	11,281,629
Total long-term liabilities	<u>11,486,629</u>
Total Liabilities	<u><u>15,112,353</u></u>
 Net Assets	
Invested in capital assets, net of related debt	32,990,811
Restricted for:	
Debt service	1,364,950
Capital projects	7,224,677
Educational programs	599,352
Other activities	438,684
Unrestricted	2,888,879
Total Net Assets	<u><u>\$ 45,507,353</u></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, 2003

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 14,399,244	\$ 177,199	\$ 2,387,462	\$ 2,812,579
Instruction-related activities:				
Supervision of instruction	750,010	4,481	190,135	-
Instructional library, media and technology	212,168	-	28,319	-
School site administration	1,434,940	4,819	85,413	-
Pupil services:				
Home-to-school transportation	515,539	46,663	360,910	-
Food services	1,193,892	108,365	835,811	-
All other pupil services	832,279	16,209	125,251	-
General administration:				
All other general administration	1,563,617	4,721	64,788	-
Plant services	3,832,181	1,371	10,599	-
Ancillary services	31,205	-	-	-
Community services	2,796,430	214,290	1,948,700	-
Interest on long-term debt	473,587	-	-	-
Other outgo	360,205	33,403	308,119	-
Depreciation (unallocated)	125,834	-	-	-
Total School District	\$ 28,521,131	\$ 611,521	\$ 6,345,507	\$ 2,812,579
General revenues and subventions:				
Property taxes, levied for general purposes				
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**

\$	(9,022,004)
	(555,394)
	(183,849)
	(1,344,708)
	(107,966)
	(249,716)
	(690,819)
	(1,494,108)
	(3,820,211)
	(31,205)
	(633,440)
	(473,587)
	(18,683)
	(125,834)
	<u>(18,751,524)</u>
	4,651,646
	68,646
	12,223,969
	72,218
	<u>2,736,391</u>
	<u>19,752,870</u>
	1,001,346
	44,506,007
\$	<u><u>45,507,353</u></u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2003**

	General Fund	Special Reserve Capital Outlay Fund	Facilities Corporation Capital Project Fund
ASSETS			
Deposits and investments	\$ 3,162,947	\$ 2,621,080	\$ 3,627,861
Receivables	2,547,724	34,599	-
Due from other funds	333,857	-	-
Stores inventories	-	-	-
Total Assets	\$ 6,044,528	\$ 2,655,679	\$ 3,627,861
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	2,949,230	1,379	-
Due to other funds	229,376	-	-
Deferred revenue	475,280	-	-
Total Liabilities	3,653,886	1,379	-
FUND BALANCES			
Reserved	609,352	-	-
Unreserved:			
Designated	1,615,890	-	-
Undesignated, reported in:			
General Fund	165,400	-	-
Special revenue funds	-	-	-
Debt service funds	-	-	-
Capital projects funds	-	2,654,300	3,627,861
Total Fund Balance	2,390,642	2,654,300	3,627,861
Total Liabilities and Fund Balances	\$ 6,044,528	\$ 2,655,679	\$ 3,627,861

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

Non-Major Governmental Funds	Total Governmental Funds
\$ 3,713,120	\$ 13,125,008
217,151	2,799,474
417,822	751,679
29,598	29,598
<u>\$ 4,377,691</u>	<u>\$ 16,705,759</u>
32,567	2,983,176
522,303	751,679
167,268	642,548
<u>722,138</u>	<u>4,377,403</u>
29,598	638,950
879,805	2,495,695
-	165,400
438,684	438,684
1,364,950	1,364,950
942,516	7,224,677
<u>3,655,553</u>	<u>12,328,356</u>
<u>\$ 4,377,691</u>	<u>\$ 16,705,759</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, 2003**

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

Total Fund Balance - Governmental Funds **\$ 12,328,356**

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	\$ 53,732,339	
Accumulated depreciation is	<u>(9,281,528)</u>	
Total capital assets		44,450,811

Expenditures relating to issuance of debt of next fiscal year were recognized in modified accrual basis, but should not be recognized in accrual basis. 214,815

Long-term liabilities at year end consist of:

General obligation bonds	(2,090,000)	
Certificates of participation	(7,370,000)	
Special tax revenue bonds	(2,000,000)	
Compensated absences	<u>(26,629)</u>	
Total long-term liabilities		<u>(11,486,629)</u>
Total Net Assets - Governmental Activities		<u>\$ 45,507,353</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, 2003**

	General Fund	Special Reserve Capital Fund	Facilities Corporation Capital Project Fund
REVENUES			
Revenue limit sources	\$15,359,228	\$ -	\$ -
Federal sources	3,291,396	-	-
Other state sources	3,186,516	-	-
Other local sources	1,763,114	87,811	6,500
Total Revenues	<u>23,600,254</u>	<u>87,811</u>	<u>6,500</u>
EXPENDITURES			
Current			
Instruction	14,399,244	-	-
Instruction-related activities:			
Supervision of instruction	750,010	-	-
Instructional library, media and technology	212,168	-	-
School site administration	1,426,703	-	-
Pupil Services:			
Home-to-school transportation	515,539	-	-
Food services	16,453	-	-
All other pupil services	832,279	-	-
General administration:			
All other general administration	1,525,596	-	-
Plant services	1,962,506	-	-
Facility acquisition and construction	1,006,698	275,753	841,369
Ancillary services	31,205	-	-
Community services	2,424,307	-	-
Other outgo	360,205	-	-
Debt service			
Principal	-	-	-
Interest and other	127,318	-	293,427
Total Expenditures	<u>25,590,231</u>	<u>275,753</u>	<u>1,134,796</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(1,989,977)</u>	<u>(187,942)</u>	<u>(1,128,296)</u>
Other Financing Sources (Uses):			
Transfers in	1,003,122	80,000	-
Other sources	-	1,101,204	4,500,000
Transfers out	(192,883)	(775,060)	-
Net Financing Sources (Uses)	<u>810,239</u>	<u>406,144</u>	<u>4,500,000</u>
NET CHANGE IN FUND BALANCES	<u>(1,179,738)</u>	<u>218,202</u>	<u>3,371,704</u>
Fund Balance - Beginning	<u>3,570,380</u>	<u>2,436,098</u>	<u>256,157</u>
Fund Balance - Ending	<u>\$ 2,390,642</u>	<u>\$ 2,654,300</u>	<u>\$ 3,627,861</u>

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

Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ 15,359,228
786,859	4,078,255
3,273,501	6,460,017
666,348	2,523,773
<u>4,726,708</u>	<u>28,421,273</u>
-	14,399,244
-	750,010
-	212,168
8,237	1,434,940
-	515,539
1,177,439	1,193,892
-	832,279
32,631	1,558,227
878,846	2,841,352
2,805,503	4,929,323
-	31,205
372,123	2,796,430
-	360,205
205,000	205,000
267,657	688,402
<u>5,747,436</u>	<u>32,748,216</u>
<u>(1,020,728)</u>	<u>(4,326,943)</u>
1,085,499	2,168,621
-	5,601,204
<u>(1,200,678)</u>	<u>(2,168,621)</u>
<u>(115,179)</u>	<u>5,601,204</u>
<u>(1,135,907)</u>	<u>1,274,261</u>
4,791,460	11,054,095
<u>\$ 3,655,553</u>	<u>\$ 12,328,356</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, 2003

Total Net Change in Fund Balances - Governmental Funds **\$ 1,274,261**
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 capital outlays exceed depreciation expense in the period.

Depreciation expense	\$(1,116,664)	
Capital outlays	<u>4,929,324</u>	3,812,660

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 amounts paid by \$5,390. (5,390)

Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities:

Sale of certificates of participation		(4,500,000)
---------------------------------------	--	-------------

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		214,815
------------------	--	---------

Repayment of bond 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		140,000
Certificates of participation		<u>65,000</u>

Change in Net Assets of Governmental Activities		<u>\$ 1,001,346</u>
--	--	----------------------------

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2003**

	Agency Funds
ASSETS	
Deposits and investments	<u>\$ 97,687</u>
Total Assets	<u><u>\$ 97,687</u></u>
 LIABILITIES	
Due to student groups	<u>97,687</u>
Total Liabilities	<u><u>\$ 97,687</u></u>

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. 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.

B. State Deferred Appropriations

As part of its plan to address the budget crisis facing the State of California, Senate Bill (SB) XI 18 (the "Bill") was signed into law during the year ended June 30, 2003. The provisions of the Bill significantly altered funding for California school districts. The Bill, among other things, shifted the appropriation for the payment of the June 2003 principal apportionment for the General Fund into the 2003-2004 fiscal year. The Bill allowed local educational agencies to recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current-year costs as a receivable in the current year. In addition, Assembly Bill 2781 deferred the 2002-2003 appropriations for the Home-to-School Transportation, School Improvement, Targeted Instructional Improvement, and Supplemental Grant programs into the 2003-2004 fiscal year. Exclusion of the apportionments would have resulted in a decrease in receivables, revenue, and available reserves of \$1,283,118.

C. Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may also 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. The District has no component units.

Joint Powers Agencies and Public Entity Risk Pools The District is associated with two joint powers agencies. These organizations do not meet the criteria for inclusion as component units of the District. Summarized audited financial information is presented in Note 15 to the financial statements. These organizations are:

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

D. 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 governmental funds:

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.

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

Facilities Corporation Building Fund The Facilities Corporation Building Fund is used to account for funds available for capital outlay from the proceeds of sales of Certificates of Participation.

Other 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.

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

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.

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

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.

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:

1998 Bond Building Fund The 1998 Bond Building Fund exists primarily to account separately for proceeds from sale of bonds 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).

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).

E. 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.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

The government-wide financial statement of activities presents a comparison between direct expenses and program revenues for each governmental program. Direct expenses are those that are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. The District does not allocate indirect expenses to functions in the Statement of Activities. Program revenues include charges paid by the recipients of 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 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. Nonmajor funds are aggregated and presented in a single column.

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.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

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 and 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.

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.

F. 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.

G. Investments

Investments held at June 30, 2003, 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.

H. 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.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

I. 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.

J. Stores Inventory

Inventories consist of expendable food and supplies held for consumption and unused donated commodities. 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.

K. 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 as a whole. 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.

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.

L. Compensated Absences

Accumulated unpaid employee 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. For governmental funds, the current portion of unpaid compensated absences is the amount that is normally expected to be paid using expendable available financial resources. The liability is reported in the government-wide financial statements as long-term debt.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

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.

M. 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 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 fund financial statements only to the extent that they are due for payment during the current year. Bonds, capital leases, and long-term loans are recognized as a liability on the government-wide financial statements as long-term debt.

N. 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.

O. 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 applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

P. 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.

Q. 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.

R. 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.

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.

S. 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.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 2 - CHANGES IN ACCOUNTING PRINCIPLES

For the fiscal year ended June 30, 2003, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 34, "Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments", GASB Statement No. 36, "Receipt Reporting for Certain Shared Nonexchange Revenues", GASB Statement No. 37, "Basic Financial Statements for State and Local Governments: Omnibus", GASB Statement No. 38, "Certain Financial Statement Note Disclosures", and GASB Statement No. 41, "Budgetary Comparison Schedules – Perspective Difference". As a result, the financial statements for the first time include 1) a Management Discussion and Analysis (MD&A) section providing an analysis of the District's overall financial position and results of operations, 2) financial statements prepared using full accrual accounting for all of the District's activities, and 3) a change in the fund financial statements to focus on the major funds. These and other changes are reflected in the accompanying financial statements, including notes to financial statements.

NOTE 3 - DEPOSITS AND INVESTMENTS

A. Policies and Practices

The District is considered to be an involuntary participant in an external investment pool since the District is required to deposit all receipts and collections of monies with their county treasurer (Education Code Section 41001). In addition, the District is authorized to maintain deposits with certain financial institutions that are federally insured up to \$100,000.

The District is also authorized 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.

B. Deposits

At year-end, the carrying amounts of the District's deposits were \$10,500 for governmental activities, \$97,687 held in fiduciary funds. The bank balances totaled \$130,048. Of the bank balances, \$ 100,000 was covered by Federal deposit insurance and \$ 30,048 was covered by pooled and/or pledged collateral, but not necessarily held in the District's name (uncollateralized, risk Category 3).

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

C. Investments

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the counterparty's trust department or agent in the District's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent but not in the District's name. Deposits with the County Treasury and investments in the State Treasurer's Investment Pool are not categorized because they do not represent securities, which exist in physical or book entry form. The Local Agency Investment Fund (LAIF) is an external investment pool sponsored by the State of California authorized under Section 16429.1, 2, and 3 of the California Government Code. The fund is a voluntary program created by statute as an investment alternative for California local governments and special districts and is administered by California State Treasurer. The deposits with county treasury and the State pool's investments are valued using the amortized cost method (which approximates fair value). The fair values were provided by the County and State treasurers for their respective pools.

The investments at June 30, 2003, are as follows:

	Category			Reported Amount	Fair Value
	1	2	3		
Categorized					
First American Treasury Obligations	\$ -	\$ -	\$ 397,615	\$ 397,615	\$ 397,615
AIG 6.12% Guaranteed Investment Contract	-	-	935,239	925,239	925,239
Total categorized	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,332,854</u>	<u>1,322,854</u>	<u>1,322,854</u>
Uncategorized					
Local Agency Investment Fund				3,476,822	3,494,554
Mutual funds				373	373
Deposits with county treasurer				8,314,459	8,360,199
Total uncategorized				<u>11,791,654</u>	<u>11,855,126</u>
Total investments				<u>\$ 13,114,508</u>	<u>\$ 13,177,980</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 4 - RECEIVABLES

Receivables at June 30, 2003, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Special Reserve Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government				
Categorical aid	\$ 162,176	\$ -	\$ 159,307	\$ 321,483
State Government				
Apportionment	905,775	-	-	905,775
Categorical aid	435,759	-	-	435,759
Lottery	80,998	-	-	80,998
Other state	535,015	-	38,161	573,176
Other Local Sources	428,001	34,599	19,683	482,283
Total	<u>\$ 2,547,724</u>	<u>\$ 34,599</u>	<u>\$ 217,151</u>	<u>\$ 2,799,474</u>

NOTE 5 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2003, was as follows:

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 6,990,000	\$ -	\$ -	\$ 6,990,000
Construction in process	-	841,369	-	841,369
Total Capital Assets Not Being Depreciated	<u>6,990,000</u>	<u>841,369</u>	<u>-</u>	<u>7,831,369</u>
Capital Assets Being Depreciated				
Buildings and improvements	39,787,333	3,765,221	-	43,552,554
Furniture and equipment	2,025,682	322,734	-	2,348,416
Total Capital Assets Being Depreciated	<u>41,813,015</u>	<u>4,087,955</u>	<u>-</u>	<u>45,900,970</u>
Less Accumulated Depreciation				
Buildings and improvements	7,256,500	990,830	-	8,247,330
Furniture and equipment	908,364	125,834	-	1,034,198
Total Accumulated Depreciation	<u>8,164,864</u>	<u>1,116,664</u>	<u>-</u>	<u>9,281,528</u>
Governmental Activities Capital Assets, Net	<u>\$40,638,151</u>	<u>\$3,812,660</u>	<u>\$ -</u>	<u>\$ 44,450,811</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Depreciation expense was charged as follows:

Governmental Activities		
Plant services		\$ 990,830
Unallocated		125,834
Total Depreciation Expenses Governmental Activities		<u>\$ 1,116,664</u>

NOTE 6 - INTERFUND TRANSACTIONS

A. Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2003, are as follows:

Funds	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General	\$ 333,857	\$ 229,376
Child Development	266	16,474
Cafeteria	-	182,288
Deferred Maintenance	220,000	125,985
Bond Interest & Redemption	197,556	-
Capital Facilities	-	197,556
Total	<u>\$ 751,679</u>	<u>\$ 751,679</u>

B. Operating Transfers

Interfund transfers for the year ended June 30, 2003, consisted of the following:

The General Fund transferred to the Deferred Maintenance Fund for the required State match.	\$ 112,883
The Special Reserve - Capital Outlay Fund transferred to the Special Reserve - Other than Capital Outlay for future capital projects.	775,060
The General Fund transferred to the Special Reserve - Capital Outlay Fund for future capital projects.	80,000
The Capital Facilities Fund transferred to the Financing Corporation-Debt Service Fund for the required debt service payment.	197,556
The QZAB Capital Projects Fund transferred to the General Fund for reimbursement of construction costs advanced from the General Fund.	1,003,122
Total	<u>\$2,168,621</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

Interfund transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) use unrestricted revenues collected in the general fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTE 7 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2003, consisted of the following:

	General Fund	Special Reserve Capital Projects Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendor payables	\$ 501,057	\$ 1,379	\$ 8,066	\$ 510,502
Payroll	560,855	-	24,501	585,356
TRANS	1,840,000	-	-	1,840,000
State apportionment	47,318	-	-	47,318
Total	<u>\$2,949,230</u>	<u>\$ 1,379</u>	<u>\$ 32,567</u>	<u>\$ 2,983,176</u>

NOTE 8 - DEFERRED REVENUE

Deferred revenue at June 30, 2003, consists of the following:

	General Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal financial assistance	\$ 177,068	\$ 14,680	\$ 191,748
State categorical aid	298,212	152,588	450,800
Total	<u>\$ 475,280</u>	<u>\$ 167,268</u>	<u>\$ 642,548</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 9 - LONG-TERM LIABILITIES

A. Long-Term Debt Summary

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

	Balance July 1, 2002	Additions	Deductions	Balance June 30, 2003	Due in One Year
General obligation bonds-1988B	\$ 1,350,000	\$ -	\$ 45,000	\$ 1,305,000	\$ 45,000
General obligation bonds-1996 Refunding	880,000	-	95,000	785,000	95,000
Certificates of Participation-2001	2,935,000	-	65,000	2,870,000	65,000
Certificates of Participation-2003A	-	2,620,000	-	2,620,000	-
Certificates of Participation-2003B	-	1,880,000	-	1,880,000	-
Qualified Zone Academy Bond Program	2,000,000	-	-	2,000,000	-
Accumulated vacation - net	21,239	5,390	-	26,629	-
Total	<u>\$7,240,135</u>	<u>\$4,505,390</u>	<u>\$ 205,000</u>	<u>\$ 11,486,629</u>	<u>\$ 205,000</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.

B. Bonded Debt

The outstanding general obligation bonded debt is as follows:

Issue Date	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding July 1, 2002	Bonds Redeemed	Bonds Outstanding June 30, 2003
1988	2020	5.00-5.50%	\$ 1,500,000	\$ 1,350,000	\$ 45,000	\$ 1,305,000
1996	2009	5.00-5.25%	1,315,000	880,000	95,000	785,000
				<u>\$ 2,230,000</u>	<u>\$ 140,000</u>	<u>\$ 2,090,000</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

Debt Service Requirements to Maturity

The bonds mature through 2021 as follows:

General Obligation 1988 Series B Bonds:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2004	\$ 45,000	\$ 69,035	\$ 114,035
2005	45,000	66,785	111,785
2006	50,000	64,410	114,410
2007	50,000	61,910	111,910
2008	55,000	59,258	114,258
2009-2013	320,000	248,409	568,409
2014-2018	425,000	147,934	572,934
2019-2021	315,000	26,538	341,538
Total	<u>\$ 1,305,000</u>	<u>\$ 744,279</u>	<u>\$ 2,049,279</u>

The bonds mature through 2010 as follows:

General Obligation 1996 Refunding Bonds:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2004	\$ 95,000	\$ 38,600	\$ 133,600
2005	100,000	33,725	133,725
2006	105,000	28,600	133,600
2007	110,000	22,950	132,950
2008	120,000	16,625	136,625
2009-2010	255,000	13,488	268,488
Total	<u>\$ 785,000</u>	<u>\$ 153,988</u>	<u>\$ 938,988</u>

Total District General Obligation Bonds Outstanding:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2004	\$ 140,000	\$ 107,635	\$ 247,635
2005	145,000	100,510	245,510
2006	155,000	93,010	248,010
2007	160,000	265,034	425,034
2008	175,000	75,883	250,883
2009-2013	575,000	261,897	836,897
2014-2018	425,000	147,934	572,934
2019-2021	315,000	26,538	341,538
Total	<u>\$ 2,090,000</u>	<u>\$ 1,078,441</u>	<u>\$ 3,168,441</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

C. 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.

The certificates mature through 2026 as follows:

Certificates of Participation - 2001 Issue

Year Ending June 30,	Principal	Interest	Total
2004	\$ 65,000	\$ 143,006	\$ 208,006
2005	75,000	140,666	215,666
2006	80,000	137,816	217,816
2007	80,000	134,656	214,656
2008	85,000	-	85,000
2009-2013	495,000	-	495,000
2014-2018	610,000	-	610,000
2019-2023	795,000	-	795,000
2024-2026	585,000	-	585,000
Total	<u>\$ 2,870,000</u>	<u>\$ 556,144</u>	<u>\$ 3,426,144</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

The certificates mature through 2023 as follows:

Certificates of Participation - 2003A Issue

Year Ending June 30,	Principal	Interest	Total
2004	\$ -	\$ -	\$ -
2005	35,000	173,813	208,813
2006	110,000	102,385	212,385
2007	110,000	100,185	210,185
2008	110,000	97,710	207,710
2009-2013	610,000	435,176	1,045,176
2014-2018	735,000	310,785	1,045,785
2019-2023	910,000	133,885	1,043,885
Total	<u>\$ 2,620,000</u>	<u>\$ 1,353,939</u>	<u>\$ 3,973,939</u>

The certificates mature through 2023 as follows:

Certificates of Participation - 2003B Issue

Year Ending June 30,	Principal	Interest	Total
2004	\$ -	\$ -	\$ -
2005	-	176,831	176,831
2006	65,000	104,875	169,875
2007	70,000	102,438	172,438
2008	70,000	99,813	169,813
2009-2013	415,000	445,791	860,791
2014-2018	535,000	320,349	855,349
2019-2023	725,000	136,429	861,429
Total	<u>\$ 1,880,000</u>	<u>\$ 1,386,526</u>	<u>\$ 3,266,526</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

D. 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, 2003 is \$923,884. 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:

Qualified Zone Academy Bond Program

Year Ending June 30,	Interest Earnings	Projected Account Balance
2003	\$ 56,550	\$ 980,434
2004	60,011	1,040,445
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
	<u>\$ 1,076,116</u>	

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

E. Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2003, amounted to \$26,629.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 10 - FUND BALANCES

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

	General Fund	Special Reserve Capital Projects Fund	Facilities Corporation- Capital Projects Fund	Non- Major Funds	Total
Reserved					
Revolving cash	\$ 10,000	\$ -	\$ -	\$ -	\$ 10,000
Stores inventory	-	-	-	29,598	29,598
Restricted programs	599,352	-	-	-	599,352
Total Reserved	609,352	-	-	29,598	638,950
Unreserved					
Designated					
Economic uncertainties	260,534	-	-	775,325	1,035,859
Other designation	1,355,356	-	-	104,480	1,459,836
Total Designated	1,615,890	-	-	879,805	2,495,695
Undesignated	165,400	2,654,300	3,627,861	2,746,150	9,193,711
Total Unreserved	1,781,290	2,654,300	3,627,861	3,625,955	11,689,406
Total	\$2,390,642	\$ 2,654,300	\$ 3,627,861	\$3,655,553	\$12,328,356

NOTE 11 - 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, five 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 \$16,000 were recognized for retirees' health care benefits.

The approximate accumulated future liability for the District at June 30, 2003, amounts to \$38,756. This amount was calculated based upon the number of retirees receiving benefits multiplied by the yearly district payment per employee in effect at June 30, 2003, multiplied by the number of years of payments remaining until the respective retirees reach age 65.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2003

NOTE 12 - RISK MANAGEMENT

A. 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.

B. Workers' Compensation

For fiscal year 2003, 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.

C. 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 13 - 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).

A. 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, 2003

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 2002-2003 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, 2003, 2002, and 2001, were \$972,708, \$813,449, and \$722,515, respectively, and equal 100 percent of the required contributions for each year.

B. 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 2002-2003 was 2.894 percent of annual payroll (decreasing to 2.771 percent of pay under a special funding situation effective with the February 2003 payroll period due to the State's direct reimbursement to CalPERS of the cost for certain legislated benefit increases in the plan). 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, 2003, 2002, and 2001, were \$122,662, \$0, and \$0, respectively, and equal 100 percent of the required contributions for each year.

C. 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, 2003

D. 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 \$551,989 (4.475 percent of salaries subject to STRS) and contributions to PERS in the amount of \$4,137 (0.092 percent of salaries subject to PERS), for the year ended June 30, 2003. 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 also have not been recorded in these financial statements.

NOTE 14 - COMMITMENTS AND CONTINGENCIES

A. 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, 2003.

B. Litigation

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2003.

C. 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.

D. Construction Commitments

As of June 30, 2003, the District had the following commitments with respect to the unfinished capital projects:

	Remaining Construction Commitment	Expected Date of Completion
CAPITAL PROJECT		
Administration Building	<u>\$ 3,435,093</u>	March 2004

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2003

NOTE 15 - 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.

A. <u>Entity</u>	Central Region Schools' Insurance Group	Schools Excess Liability Fund
B. <u>Purpose</u>	Arranges for and provides workers' compensation, health, and property and liability insurance for its members.	Arranges for excess liability insurance.
C. <u>Participants</u>	Other school districts.	Other school districts.
D. <u>Governing Board</u>	One representative from each member district.	One representative from each member district.

E. Condensed Audited Financial Information Follows

	June 30, 2002*	June 30, 2002*
Assets	\$ 15,644,043	\$ 112,124,000
Liabilities	1,847,683	64,484,000
Fund Equity	\$ 13,796,360	\$ 47,640,000
Revenues	14,123,016	25,829,000
Expenses	12,145,411	11,023,000
Net Increase in Fund Equity	\$ 1,977,605	\$ 14,806,000

*Most recent information available.

None of the JPA's had long-term debts outstanding at June 30, 2002. The District's share of year-end assets, liabilities, or fund equity has not been calculated.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2003**

NOTE 16 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2003, the following District funds exceeded the budgeted amount as follows:

	Expenditures		Excess
	Budget	Actual	
General Fund			
Employee benefits	\$ 3,393,786	\$ 3,521,740	\$ 127,954
Cafeteria Fund			
Books and supplies	\$ 587,076	\$ 600,985	\$ 13,909
Services and other operating Expenses	\$ 37,529	\$ 38,249	\$ 720

NOTE 17 - TAX AND REVENUE ANTICIPATION NOTES

At July 1, 2002, the District had outstanding Tax and Revenue Anticipation Notes in the amount of \$1,840,000, which matured on July 3m 2003. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 3, 2003. By June 30, 2003, 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. The District has recorded the cash available to make the principal and interest payments as Investments and with the corresponding liability as an accounts payable.

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REQUIRED SUPPLEMENTARY INFORMATION

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SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2003**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Favorable
	Original	Final		(Unfavorable) Final to Actual
REVENUES				
Revenue limit sources	\$14,638,082	\$15,429,308	\$ 15,359,228	\$ (70,080)
Federal sources	3,002,235	3,762,945	3,291,396	(471,549)
Other state sources	3,110,430	3,433,236	3,186,516	(246,720)
Other local sources	1,531,854	1,756,489	1,763,114	6,625
Total Revenues	22,282,601	24,381,978	23,600,254	(781,724)
EXPENDITURES				
Current				
Certificated Salaries	11,611,086	12,296,001	12,229,700	66,301
Classified salaries	3,762,263	4,172,028	3,888,946	283,082
Employee benefits	2,564,437	3,393,786	3,521,740	(127,954)
Books and supplies	1,057,882	2,047,377	1,829,709	217,668
Services and operating expenditures	3,435,027	3,718,031	3,044,788	673,243
Other outgo	290,348	352,675	319,336	33,339
Capital outlay	59,750	714,759	683,894	30,865
Debt service	12	72,132	72,118	14
Total Expenditures	22,780,805	26,766,789	25,590,231	1,176,558
Excess (Deficiency) of Revenues				
Over Expenditures	(498,204)	(2,384,811)	(1,989,977)	394,834
Other Financing Sources (Uses):				
Other sources	-	1,003,122	1,003,122	-
Transfers out	(110,000)	(195,000)	(192,883)	2,117
Net Financing Sources (Uses)	(110,000)	808,122	810,239	2,117
NET CHANGE IN FUND BALANCES	(608,204)	(1,576,689)	(1,179,738)	396,951
Fund Balance - Beginning	3,570,380	3,570,380	3,570,380	-
Fund Balance - Ending	\$ 2,962,176	\$ 1,993,691	\$ 2,390,642	\$ 396,951

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

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SUPPLEMENTARY INFORMATION

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SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2003**

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):			
21st Century After School Learning Center	84.002	03303	\$ 141,127
Even Start [1]	84.213C	13700	323,112
Title IV- Drug Free Schools	84.184	03453	43,480
Title II- Teacher Quality	84.376	14341	47,814
Elementary and Secondary Education Act			
Title I - Basic [1]	84.010	03797	306,603
Title V Part A, Innovative Ed Strategy	84.298A	03340	11,186
Special Education - State Grants			
Local Assistance	84.027	03379	339,303
Passed through the Office of Public School Construction:			
Federal School Renovation	84.325A	10013	200,174
Total U.S. Department of Education			<u>1,412,799</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
National School Lunch [1]	10.555	03755	593,362
Team Nutrition Training	10.574	01206	4,440
Total U.S. Department of Agriculture			<u>597,802</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
After School Dependent Care	93.575	03868	54,074
Medi-Cal	93.778	10013	58,659
Head Start - Basic [1]	93.600	10016	1,954,921
Total U.S. Department of Health and Human Services			<u>2,067,654</u>
Total Expenditures of Federal Awards			<u>\$ 4,078,255</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, 2003**

	<u>Second Period Report *</u>	<u>Annual Report</u>
ELEMENTARY		
Kindergarten	342	341
First through third	1,142	1,139
Fourth through sixth	1,069	1,069
Seventh and eighth	635	635
Opportunity schools	10	9
Home and hospital	1	1
Special education	72	73
Total Elementary	<u>3,271</u>	<u>3,267</u>
		<u>Hours of Attendance</u>
SUPPLEMENTAL HOURS		
Core Instruction		28,532
Pupils Retained/Recommended for Retention		8,079
Pupils at Risk of Retention		16,526
Low STAR Score		11,896
Intensive Reading Program		11,898
Intensive Algebra Instruction		<u>2,325</u>
Total Hours		<u>79,256</u>

* Amended report to be filed by District.

See accompanying note to supplementary information.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2003**

<u>Grade Level</u>	1982-83	1986-87	2002-03	<u>Number of Days</u>		<u>Status</u>
	<u>Actual</u> Minutes	<u>Minutes</u> Requirement	<u>Actual</u> Minutes	<u>Traditional</u> Calendar	<u>Multitrack</u> Calendar	
Kindergarten	33,325	36,000	36,750	180	175	Complied
Grades 1 - 3	50,580	50,400	52,015	180	175	Complied
Grades 4 - 8	56,790	54,000	58,420	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, 2003**

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

	General	Special Reserve - Capital Outlay	County School Facilities	Bond Interest & Redemption
FUND BALANCE				
Balance, June 30, 2003, Unaudited Actuals	\$ 2,225,242	\$ 2,631,703	\$ 688,913	\$ 348,044
Cash in county treasury	-	22,597	6,011	(329,944)
Accounts receivable	165,400	-	-	(2,590)
Due from other funds	-	-	-	197,556
Balance, June 30, 2003, Audited Financial Statement	\$ 2,390,642	\$ 2,654,300	\$ 694,924	\$ 213,066
				General Long- Term Debt Account Group
GENERAL LONG-TERM LIABILITIES				
Total Liabilities, June 30, 2003, Unaudited Actuals				\$ 11,720,385
Adjustments				
Increase in:				
Qualified Zone Academy bonds				2,000,000
Decrease in:				
General obligation bonds payable				(130,000)
Certificates of participation				(2,065,000)
Total Liabilities, June 30, 2003, Unaudited Actuals Audited Financial Statement				\$ 11,525,385

See accompanying note to supplementary information.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
FOR THE YEAR ENDED JUNE 30, 2003**

	(Budget) 2004 ¹	2003	2002	2001
GENERAL FUND				
Revenues	\$ 22,614,564	\$ 23,600,254	\$ 21,657,048	\$ 18,932,341
Other sources and transfers in	-	1,003,122	878,801	161,943
Total Revenues and Other Sources	<u>22,614,564</u>	<u>24,603,376</u>	<u>22,535,849</u>	<u>19,094,284</u>
Expenditures	23,631,598	25,590,231	22,098,985	18,056,311
Other uses and transfers out	115,000	192,883	606,870	190,150
Total Expenditures and Other Uses	<u>23,746,598</u>	<u>25,783,114</u>	<u>22,705,855</u>	<u>18,246,461</u>
INCREASE/(DECREASE) IN FUND BALANCE	<u>\$ (1,132,034)</u>	<u>\$ (1,179,738)</u>	<u>\$ (170,006)</u>	<u>\$ 847,823</u>
ENDING FUND BALANCE	<u>\$ 1,258,608</u>	<u>\$ 2,390,642</u>	<u>\$ 3,570,380</u>	<u>\$ 3,740,386</u>
AVAILABLE RESERVES ²	<u>\$ 871,256</u>	<u>\$ 1,201,259</u>	<u>\$ 1,309,157</u>	<u>\$ 1,667,618</u>
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	<u>3.7%</u>	<u>4.7%</u>	<u>5.8%</u>	<u>9.1%</u>
LONG-TERM DEBT	<u>Not Available</u>	<u>\$ 11,486,629</u>	<u>\$ 7,240,135</u>	<u>\$ 7,585,944</u>
AVERAGE DAILY ATTENDANCE AT P-2	<u>3,268</u>	<u>3,271</u>	<u>3,131</u>	<u>2,889</u>

The General Fund balance has decreased by \$1,349,744 over the past two years. The fiscal year 2003-04 budget projects a further decrease of \$1,132,034 (47.4 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 and anticipates incurring an operating deficit during the 2003-04 fiscal year. Total long-term debt has increased by \$3,939,441 over the past two years.

Average daily attendance has increased by 382 ADA over the past two years. A decline of 3 ADA is anticipated during fiscal year 2003-04.

¹ Budget 2004 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).

See accompanying note to supplementary information.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**GENERAL FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES AND
CHANGES OF FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2003**

(Amounts in thousands)

	Actual Results for the Years					
	2002-2003		2001-2002		2000-2001	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 3,291	13.9	\$ 2,231	10.3	\$ 1,634	8.6
State and local revenue included in revenue limit	15,359	65.1	14,404	66.5	12,587	66.5
Other state revenue	3,187	13.5	3,175	14.7	3,675	19.4
Other local revenue	1,763	7.5	367	1.7	481	2.5
Tuition and transfers	-	-	1,480	6.8	555	2.9
Total Revenues	23,600	100.0	21,657	93.2	18,932	97.1
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	12,230	51.8	10,525	48.6	9,304	49.1
Classified salaries	3,889	16.5	3,353	15.5	2,838	15.0
Employee benefits	3,522	14.9	2,577	11.9	2,455	13.0
Total Salaries and Benefits	19,641	83.2	16,455	76.0	14,597	77.1
Books and supplies	1,829	7.8	1,147	5.3	980	5.2
Contracts and operating expenses	3,044	12.9	2,783	12.9	1,419	7.5
Capital outlay	684	2.9	1,160	5.4	542	2.9
Other outgoing	392	1.7	554	2.6	518	2.7
Total Expenditures	25,590	108.4	22,099	102.0	18,056	95.4
EXCESS OF REVENUES OVER/(UNDER) EXPENDITURES	(1,990)	(8.4)	(442)	(8.9)	876	1.7
OTHER FINANCING SOURCES/(USES)						
Transfers in	-	-	879	4.1	162	0.9
Transfers out	(193)	(0.8)	(607)	(2.8)	(102)	(0.5)
Other Sources	1,003	4.3	-	-	-	-
Other uses	-	-	-	-	(88)	(0.5)
Total Other Financing Sources (Uses)	810	3.4	272	1.3	(28)	0.3
INCREASE/(DECREASE) IN FUND BALANCE	(1,180)	(5)	(170)	(8)	848	2
FUND BALANCE, BEGINNING	3,570	0.2	3,740	0.2	2,892	0.2
FUND BALANCE, ENDING	<u>\$ 2,390</u>		<u>\$ 3,570</u>		<u>\$ 3,740</u>	
ENDING FUND BALANCE TO TOTAL REVENUES		<u>0.1</u>		<u>0.2</u>		<u>0.2</u>
BASE REVENUE LIMIT PER ADA						
Regular K-12	<u>\$ 4,490</u>		<u>\$ 4,401</u>		<u>\$ 4,234</u>	

See accompanying note to supplementary information.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**CAFETERIA ACCOUNT SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2003**

(Amounts in thousands)

	Actual Results for the Years					
	2002-2003		2001-2002		2000-2001	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal - NSLP	\$ 590	52.8	\$ 527	51.4	\$ 477	52.5
State meal program	55	4.9	50	4.9	45	5.0
Food sales	473	42.3	449	43.8	387	42.6
Total Revenues	<u>1,118</u>	<u>100.0</u>	<u>1,026</u>	<u>100.0</u>	<u>909</u>	<u>100.0</u>
EXPENDITURES						
Salaries and employee benefits	538	48.1	455	44.3	416	45.8
Food	520	46.5	475	46.3	393	43.2
Supplies	81	7.2	50	4.9	44	4.8
Capital outlay	-	-	11	1.1	-	-
Other and transfers out	78	7.0	35	3.4	61	6.7
Total Expenditures	<u>1,217</u>	<u>108.9</u>	<u>1,026</u>	<u>100.0</u>	<u>914</u>	<u>100.6</u>
INCREASE/(DECREASE) IN FUND BALANCE	(99)	<u>(8.9)</u>	-	<u>-</u>	(5)	<u>(0.6)</u>
FUND BALANCE, BEGINNING	118		118		123	
FUND BALANCE, ENDING	<u>\$ 19</u>		<u>\$ 118</u>		<u>\$ 118</u>	
ENDING FUND BALANCE TO TOTAL REVENUES		<u>-</u>		<u>0.1</u>		<u>0.1</u>

* * * * *

TYPE 'A' LUNCH/BREAKFAST PARTICIPATION

	2002-2003		2001-2002		2000-2001	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	145,458	38.9	128,729	38.3	116,119	37.4
Reduced price	58,509	15.6	49,295	14.6	38,117	12.3
Free	170,428	45.5	158,492	47.1	155,956	50.3
Total Lunches	<u>374,395</u>	<u>100.0</u>	<u>336,516</u>	<u>100.0</u>	<u>310,192</u>	<u>100.0</u>
BREAKFAST						
Paid	13,702	15.4	12,657	15.3	12,356	16.1
Reduced price	12,960	14.6	11,151	13.4	8,696	11.4
Free	62,179	70.0	59,144	71.3	55,456	72.5
Total Breakfast	<u>88,841</u>	<u>100.0</u>	<u>82,952</u>	<u>100.0</u>	<u>76,508</u>	<u>100.0</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, 2003

We noted that the J-7CSR was not completed accurately. Classes in Grades Two, Three, and the Combined classes were inaccurately reported within the wrong class size category. In Grade Two, there were three classes of sixteen students instead of four. For grade Three, there were four classes of fourteen students instead of three, one class of sixteen students instead of none, and seven classes of twenty instead of eight. The combined classes were total eligible students of twenty-four instead of twenty-one. The net effect was to reduce the number of students report by three students for a total questioned cost of \$2,718.

See accompanying note to supplementary information.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2003

NOTE 1 - PURPOSE OF SCHEDULES

A. 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.

B. 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 apportionment's 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.

C. 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.

D. 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.

E. 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.

F. General Fund Selected Financial Information

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2003

G. Cafeteria Account Selected Financial Information

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

H. 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.

INDEPENDENT AUDITORS' REPORTS

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**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND ON
INTERNAL CONTROL OVER FINANCIAL REPORTING 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 Salida Union Elementary School District as of and for the year ended June 30, 2003, and have issued our report thereon dated November 14, 2003. 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.

Compliance

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 grants, 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*.

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 opinion on the financial statements and not to provide assurance 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 2003-1 through 2003-4.

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 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.

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.

Vaurinek, Urine, Day & Co., LLP

Fresno, California
November 14, 2003



**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, 2003. 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, 2003.

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 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.

Vaurinek, Orine, Day & Co., LLP

Fresno, California
November 14, 2003



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
 Salida Union Elementary School District
 Salida, California

We have audited the financial statements of the Salida Union Elementary School District as of and for the year ended June 30, 2003, and have issued our report thereon dated November 14, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial and compliance audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Controller's *Standards and Procedures for Audits of California K-12 Local Educational Agencies*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The management of Salida Union Elementary School District is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the 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	4	Yes
Kindergarten continuation	3	Yes
Independent study	13	Yes
Continuation education	11	Not Applicable
Adult education	8	Not Applicable
Regional occupational centers/programs	4	Not Applicable
Staff development days	3	Yes
Incentives for longer instructional day:		
School district	4	Yes
County Offices of Education	4	Not Applicable
GANN limit calculation	1	Yes
Early retirement incentive program	5	Not Applicable

	Procedures in Controller's Audit Guide	Procedures Performed
Community day schools	8	Not Applicable
Class size reduction program:		
Option one classes	10	Yes
Option two classes	9	Not Applicable
Option one and two classes	14	Not Applicable
Program to reduce class size in two courses in grade 9	8	Not Applicable
State Instructional Materials Fund:		
Instructional Materials Funding Realignment Program	9	Yes
Schiff-Bustamante Standards-Based Instructional Materials	9	No (see below)
Digital High School Education Technology Grant Program	5	Not Applicable
California Public School Library Act of 1998	4	Yes
Ratios of Administrative Employees to Teachers	3	Yes
Office of Criminal Justice Planning	-	Not Applicable

We did not perform step four for Schiff-Bustamante Standards-Based Instructional Materials because the District does not serve grades 9-12.

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.

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.

Vavrinek, Orune, Day & Co., LLP

Fresno, California
November 14, 2003

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, 2003**

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>10.555</u>	<u>National School Lunch Program</u>
<u>93.600</u>	<u>Head Start</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, 2003

The following findings represent reportable conditions related to the financial statements that were required to be reported in accordance with *Government Auditing Standards*. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
30000	Internal Control

2003-1 30000

Associated Student Body – Dena Boer

Cash Count Sheet

Finding

Cash deposits forwarded from teachers or advisors to the associated student body bookkeeper are not always accompanied by a cash count sheet documenting the deposit total as counted by the teacher or advisor.

Recommendation

The cash count sheet serves the same purpose as a bank deposit slip, it provides for a reconciliation process since the deposit is usually not verified with both parties present. A difference between the bookkeepers count and the teacher's or advisor's count would warrant a recount with both parties present. This procedure decreases the number of disputes arising from deposits processed incorrectly.

District Response

The District will review the findings with site personnel and implement a corrective action plan.

2003-2 30000

Cash Receipts

Finding

It appears that the site does not provide adequate controls over cash receipts. We noted during our testing that:

- Prenumbered receipts are not used consistently to account for cash collections
- For three selected deposits, the receipts did not agree to the bank deposit
- There is no reconciliation between issued receipts and bank deposits.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2003

Recommendation

Prenumbered receipts should be issued for all cash collections by teacher, advisors and the site book keeper which would include a specific description of the source of the funds. A carbon of the receipts issued by the teachers and advisors should be forwarded with the cash to the book keeper as documentation that all monies collected have been turned in. The receipts issued to teachers and advisors from the book keeper should be totalled and reconciled to the current bank deposit. Obviously, a system to mark the last receipt which corresponds to a deposit must be started in order to know which receipts are related to the current bank deposit. The basic premise of a cash receipts system is that the receipts are written at the time the cash is collected and not at the time the deposit is being made. If the receipts are written at this time, the book keeper would have no way of knowing if money is misplaced or has been stolen.

District Response

The District will review the findings with site personnel and implement a corrective action plan.

2003-3 30000

Revenue Potentials

Finding

Revenue potential forms are not being used to document and control fund-raising activities as they occur. These forms supply an element of internal controls without which it is difficult to determine the success of a fund-raiser and to track money as it is spent and received.

Recommendation

The revenue potential form is a vital internal control tool, it should be used to document revenues, expenditures, potential revenue, and actual revenue. This allows an analysis of the fund-raiser to be conducted, indicating to the staff the success or failure of the completed project. The revenue potential also indicates weak control areas in the fund-raising procedures at the site, including lost or stolen merchandise, problems with collecting all moneys due and so forth. For the fundraiser that lasts all year, we recommend that new revenue be filled out monthly, or at least quarterly, thus ensuring that the number of items purchased have been updated, and the current receipts have been documented.

District Response

The District will review the findings with site personnel and implement a corrective action plan.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2003

2003-4 30000

District Office

Cash Disbursements

Finding

Although procedures have been implemented to strengthen the controls over purchasing we still noted expenditures that appeared to be ordered or initiated prior to approvals from department heads independent of purchasing. Some appeared to be internet orders that were initiated that may not have been finalized over the internet prior to the purchase requisitions being approved however, this could not be verified as the date that appears on the order was the initiation date and not the final processing date.

Recommendation

The District should continue to monitor and implement the system designed based on the 2001-02 findings in order to ensure that no orders or purchases are placed or initiated prior to the purchase requisition being approved by all required personnel/administrators.

District Response

The District will continue to monitor and modify the system implemented to further strengthen internal controls over purchasing to ensure that the expenditures are allowable and budgeted for.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2003**

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, 2003

The following findings represent instances of noncompliance and questioned costs relating to State program laws and regulations. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
10000	Attendance
40000	State Compliance

2003-5 10000

Form J7-CSR

Finding

We noted that the J-7CSR was not completed accurately. Classes in Grades Two, Three, and the Combined classes were inaccurately reported within the wrong class size category. In Grade Two, there were three classes of sixteen students instead of four. For grade Three, there were four classes of fourteen students instead of three, one class of sixteen students instead of none, and seven classes of twenty instead of eight. The combined classes were total eligible students of twenty-four instead of twenty-one. The net effect was to reduce the number of students report by three students for a total questioned cost of \$2,718.

Recommendation

The District should file an amended J-7CSR claim.

District Response

The District will amend the Form J-7CSR.

2003-6 40000

Second Period Attendance Report (P-2)

Finding

During our examination of the P-2 we noted that the ADA on

- Line A-3 (Grade 4-6) was 1,067.82 and should be 1069.47
- Line A-4 (Grade 7-8) was 631.12 and should be 634.76
- Line A-7 (Opportunity School) was 8.85 and should be 9.88
- Line A-9 (Special Education – Special Day Class) was 71.15 and should be 71.40

Total ADA was understated by 6.57 ADA. This error was due to the spreadsheet used by the District to complete the P-2. The P-2 having the incorrect number of days taught during the P-2 period. The District used 139 instead of 138 days taught. The understatement amounts to \$29,500 in revenue limit funding.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2003

Recommendation

The District should revise the Second Period Attendance Report (P-2) as outlined above and submit the revision to the Department of Education and the County Office of Education. The District should utilize the SASI report, ATP53, Attendance Monthly Summary when completing the Second Period Attendance Report (P-2).

District Response

The District will utilize the cumulative reports available in SASI to avoid future manual errors and to complete the report more efficiently.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2003

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

2002-1 30000

INTERNAL ACCOUNTING CONTROLS

Cash Disbursements

Finding

We noted the following as they relate to purchasing:

1. The employee that places an order also codes the order and processes the payment for the order.
2. Purchase orders are frequently dated subsequently to the date of purchases. We noted several online orders for Office Depot, which were placed prior to the Purchase Order date.
3. The signatures on the purchase order requests were not dated therefore not allowing for a review of all approval dates compared to ordering or invoice dates.
4. Numerous individual orders are processed for minimal amounts including District employee purchases that must also be tracked for repayment from the employee by the Business Office. We noted individual orders of pencils for as little as \$2.69.

The issues noted above could result in purchases that were not approved as one person can place an order (including on-line/internet ordering), code and process payment without any other staff involved in the process.

The District estimated staff time at 15 to 20 minutes per order, in the case noted above, making the cost of staff processing the purchase higher than the cost of the items purchased not including the additional time required when employees wish to purchase goods through the District's procedures. We noted that the reason many orders are so small is that teachers are given a budget amount for classroom supplies. When a teacher wishes to use some of their funds the order is placed, regardless of how small, rather than accumulating orders to take advantage of bulk rates for merchandise and shipping.

Recommendation

The District should revise and document their procedures that would include separating the functions of purchasing and payments. The District should strictly enforce their policies that purchase orders are to be completed before items are ordered. Additionally, no orders should be placed related to purchase requests until all approvals are obtained including that of the District's Accounting Technician II, whose responsibility is to ensure the proper account codes are charged and those related budgets have sufficient funds to incur the expense.