

**JEFFERSON ELEMENTARY
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2005**



JOHN CHIANG
California State Controller

August 24, 2007

Jefferson Elementary
7500 West Linne Road
Tracy, CA 95376-9157

Dear Superintendent:

The State Controller's Office (SCO) has completed its desk review of your annual audit report for the fiscal year ended June 30, 2006. As a result of the review, the SCO certifies that the audit report conforms to the reporting standards contained in the audit guide, *2005-06 Standards and Procedures for Audits of California K-12 Local Educational Agencies*, prescribed in the *California Code of Regulations*, Title 5, Section 19810 and following. In addition, the SCO determined that the report generally meets the requirements of the United States Office of Management and Budget (OMB) Circular A-133.

You may now release the portion of the audit fee withheld under the provisions of *Education Code* Section 14505.

If you have questions regarding your annual audit, please call me at (916) 322-5342.

Sincerely,

A handwritten signature in cursive script, reading "Audrey M. Traina".

AUDREY M. TRAINA, Audit Manager
Financial Audits Bureau
Division of Audits

JEFFERSON ELEMENTARY SCHOOL DISTRICT
OF SAN JOAQUIN COUNTY
TRACY, CALIFORNIA
JUNE 30, 2005

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Todd Wetherell	President	2006
Michelle Mercer	Vice President	2006
Debbie Wingo	Clerk	2008
Pete Carlson	Member	2008
Dan Wells	Member	2006

ADMINISTRATION

Ed Quinn	Superintendent
Dana Taylor	Business Manager

JEFFERSON ELEMENTARY SCHOOL DISTRICT

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FINANCIAL SECTION





INDEPENDENT AUDITORS' REPORT

Governing Board
Jefferson Elementary School District
Tracy, California

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Jefferson Elementary School District, as of June 30, 2005, and the respective changes in financial positions and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 3 through 10 and budgetary comparison information on page 42, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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.

The unaudited supplementary information listed in the table of contents, including the Combining Statements-Non-Major Governmental Funds is presented for purposes of additional analysis and is not a required part of the audit of the basic financial statements and, accordingly, we express no opinion on them.

Vaurine K. Trine, Day & Co LLP
Pleasanton, California
September 15, 2005



MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2005

This section of Jefferson Elementary School District's 2004-2005 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2005. 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 Jefferson Elementary 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.

A *Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements* is provided on Page 14 to explain the differences created by the integrated approach.

The Primary unit of the government is the Jefferson Elementary School District. The District does have a Mello Roos Capital Facilities District component unit.



MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

This section of Jefferson Elementary School District's 2005-2006 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2006. Please read it in conjunction with the District's financial statements, which immediately follow this section. A comparative analysis has been included in this financial statement in accordance with the Governmental Accounting Standards Board Statement (GASB) No. 34.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Jefferson Elementary 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).

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

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.

A *Reconciliation of the Fund Financial Statements to the Government-Wide Financial Statements* is provided on Page 16 to explain the differences created by the integrated approach.

The Primary unit of the government is the Jefferson Elementary School District. The District does not have any component units.



FINANCIAL HIGHLIGHTS OF THE PAST YEAR

Total revenue and income received for 2005-06 was \$14.7million (14% more than 2004-05). Jefferson School District receives 76% of its revenue from the State based on the Revenue Limit. The remaining 24% comes from Lottery, State and Federal grants, and interest income.

Jefferson School District surpassed its goal and reported a final ADA of 2,217.60. Budget adoption ADA was 2,157, an increase of 60 ADA.

All Certificated, Classified and Administrative employees received a two years agreement during school year 04-05, which was 4% increase to salaries for 04-05, and 2% effective July 2005 for school year 2005-06.

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.

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*, we include the District activities as follows:

Governmental activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade eight students, the operation of child development activities, and the ongoing 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 certificates of participation, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

Proprietary funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Fund Net Assets*. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities - such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

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. 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 \$44 million for the fiscal year ended June 30, 2006. Of this amount, \$3.9 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 A-1) and change in net assets (Table A-2) of the District's governmental activities.

Table A-1

(Amounts in millions)

	2006	2005
Current and other assets	\$ 12.3	\$ 14.8
Capital assets	36.6	27.8
Total Assets	48.9	42.6
Current liabilities	0.7	3.1
Long-term debt	4.2	4.1
Total Liabilities	4.9	7.2
Net assets		
Invested in capital assets, net of related debt	32.1	22.8
Restricted	8.0	9.7
Unrestricted	3.9	2.9
Total Net Assets	\$ 44.0	\$ 35.4

The \$3.9 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 \$3.9 million left.

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on pages 13 and 14. 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 A-2

(Amounts in millions)

	2006	2005
Revenues		
Program revenues:		
Charges for services	\$ 0.5	\$ 0.5
Operating grants and contributions	1.8	1.7
Capital grants and contributions	6.4	4.1
General revenues:		
Federal and state aid not restricted	9.4	8.2
Property taxes	3.2	2.9
Other general revenues	2.2	3.9
Total Revenues	23.5	21.3
Expenses		
Instruction related	10.8	10.3
Pupil services	1.2	1.1
Administration	1.4	1.1
Maintenance and operations	1.5	1.2
Other	0.1	0.3
Total Expenses	15.0	14.0
Change in Net Assets	\$ 8.5	\$ 7.3

Governmental Activities

As reported in the Statement of Activities on pages 13 and 14, the cost of all of our governmental activities this year was \$15.0 million. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$3.2 million because the cost was paid by those who benefited from the programs (\$0.5 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$1.8 million). We paid for the remaining "public benefit" portion of our governmental activities with \$9.4 million in state revenue limit sources, and \$2.2 million in State funds and with other revenues, like interest and general entitlements.

In Table A-3, we have presented the cost of each of the District's five largest functions - instruction, school administration, pupil services, maintenance and operations, and other services as well as each program's *net* cost (total cost less revenues generated by the activities). 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.

Table A-3

(Dollar amounts in millions)

	2006	2005
Instruction	\$ 3.1	\$ 5.0
Pupil services	0.3	0.2
Administration	1.3	1.1
Maintenance and operations	1.5	1.1
Other	0.1	0.3
Totals	6.3	7.7

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$14.7 million, which is an increase of \$1.8 million from last year.

The primary reasons for these changes are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$1.35 million to \$4.4 million. This increase is due to:
 1. Increased enrollment
 2. Increased State revenue
- b. Our special revenue funds remained stable from the prior year.

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 September 12, 2006. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 42).

The District originally projected revenues of approximately \$13.9 million. The revised budget projected revenues of \$14.7 million, an increase of approximately \$0.8 million.

- Approximately \$0.3 million of the increase in revenue is from revenue limit sources due to updated enrollment data. In addition, the other state sources increased due to prior year carryover of categorical funds.
- Salaries and fringe benefit expenditures were included in the original adopted budget to accommodate for additional student growth.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2006, the District had \$36.6 million in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net increase (including additions, deductions and depreciation) of 0.94 million dollars

Table A-4

(Amounts in millions)

	Governmental Activities	
	2006	2005
Land	\$ 5.8	\$ 5.8
Construction in Progress	14.2	6.9
Buildings and improvements	15.7	13.7
Equipment	0.9	0.8
Totals	\$ 36.6	\$ 27.2

This year's major additions included (in millions):

Traina School Phase I	\$ -	\$ -
Traina School Phase II - Construction in Progress	8.6	3.9
Hawkins Wings	1.9	1.3

This years additions of \$2.0 million included classroom equipment and building improvements as noted above. We issued \$12.9 million in Guaranteed Maximum Price Lease Agreement to pay for Phase II of the Traina construction costs.

There was one major capital projects completed during the 2005-06 year, it is the expansion of the 7th & 8th grade classroom wings at Tom Hawkins School. There was one other on-going major capital project remaining, which is the Anthony Traina Phase II construction. More detailed information about our capital assets is presented in Note 5 to the financial statements.

Long-Term Debt

As of June 30, 2006, the District had \$4.1 million in certificates of participation outstanding. The Certificates of Participation were issued during the prior year. The District's long term debt consisted of the following:

Table A-5

(Amounts in millions)

	<u>2006</u>	<u>2005</u>
	<u>Governmental</u>	<u>Governmental</u>
	<u>Activities</u>	<u>Activities</u>
Certificates of participation	\$ 4.1	\$ 4.3
Capitalized lease obligations	0.1	0.1
Other	0.1	(0.1)
Totals	\$ 4.3	\$ 4.3

Other obligations include compensated absences payable, and other long-term debt, which are the Guaranteed Maximum Price (GMP) contracts for the construction of Traina Phase I. We present more detailed information regarding our long-term liabilities in Note 9 of the financial statements.

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2005-06 ARE NOTED BELOW:

- Construction of Anthony Traina Elementary School Phase II continued with completion anticipated in August 2006.
- Construction of Tom Hawkins School 7th & 8th grade wings began in April 2005 and was completed in Septemeber, 2005.
- Academic Performance Index (API) Scores:

<u>School</u>	<u>2006 API</u>	<u>2005 API</u>
Tom Hawkins Elementary School	813	817
Monticello Elementary School	834	821
Jefferson Elementary School	795	810
Anthony Traina Elementary School	820	813
Overall	812	813

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2006/2007 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Revenue limit income.
2. Federal income will decrease slightly due to the elimination of prior year carryover funds.
3. State income will increase by 5.92 percent cost of living adjustments.
4. Charges to other funds are projected to be positive
5. Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through third	20:1	1107
Grades four through eight	28:1	1310

The key assumptions in our expenditure forecasts are:

1. Additional certificated and classified staff for 3.9% growth.
2. Step and column movement projected at 2.0%.
3. Decreases for unemployment and workers compensation rates.
4. Health and welfare budgeted at \$8,600 cap.
5. Increase supplies and services for growth.
6. Utilities increased due to opening of the new wings at Hawkins and anticipated opening of Traina Phase II.

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 Business Manager, Business Services, at Jefferson Elementary School District, 7500 W. Linne Road, Tracy, California, 95304

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets* and the *Statement of Activities* 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.

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*, we include the District activities as follows:

Governmental activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade eight students, the operation of child development activities, and the ongoing 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 certificates of participation, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

Proprietary funds - When the District charges users for the services it provides, whether to outside customers or to other departments within the District, these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the *Statement of Net Assets* and the *Statement of Revenues, Expenses and Changes in Fund Net Assets*. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the District's other programs and activities - such as the District's Self-Insurance Fund. The internal service funds are reported with governmental activities in the government-wide financial statements.

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. 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 \$35.4 million and \$28.1 million, respectively, for the fiscal years ended June 30, 2005 and 2004. Of this amount, \$2.9 million and \$1.9 million, respectively, were 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 A-1) and change in net assets (Table A-2) of the District's governmental activities.

Table A-1

(Amounts in millions)

	2005	2004
Current and other assets	\$ 14.8	\$ 14.4
Capital assets	27.8	20.1
Total Assets	42.6	34.5
Current liabilities	3.1	1.0
Long-term debt	4.1	5.4
Total Liabilities	7.2	6.4
Net assets		
Invested in capital assets, net of related debt	22.8	15.0
Restricted	9.7	11.2
Unrestricted	2.9	1.9
Total Net Assets	\$ 35.4	\$ 28.1

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 long term liabilities (compensated absences as an example), we would have \$2.9 million left.

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities* on page 12. 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 A-2

(Amounts in millions)

	2005	2004
Revenues		
Program revenues		
Charges for services	\$ 0.5	\$ 0.4
Operating grants and contributions	1.7	1.2
Capital grants and contributions	4.1	0.1
General revenues:		
Federal and state aid not restricted	8.2	6.4
Property taxes	2.9	3.1
Other general revenues	3.9	3.2
Total Revenues	21.3	14.4
Expenses		
Instruction related	10.3	8.7
Pupil services	1.1	1.0
Administration	1.1	0.8
Maintenance and operations	1.2	1.4
Other	0.3	0.1
Total Expenses	14.0	12.0
Change in Net Assets	\$ 7.3	\$ 2.4

Governmental Activities

As reported in the Statement of Activities on pages 12, the cost of all of our governmental activities for the years ended June 30, 2005 and 2004 were \$14.0 million and \$12.0 million, respectively. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$2.9 million and \$3.1 million, respectively, because the cost was paid by those who benefited from the programs (\$0.5 million and \$0.4 million, respectively) or by other governments and organizations who subsidized certain programs with grants and contributions (\$1.7 million and \$1.2 million, respectively). We paid for the remaining "public benefit" portion of our governmental activities with \$8.2 million and \$6.4 million, respectively, in other federal and state sources, and \$3.9 million and \$3.2 million, respectively, in other revenues, like interest and general entitlements.

In Table A-3, we have presented the cost of each of the District's five largest functions - instruction, school administration, pupil services, maintenance and operations, and other services as well as each program's *net* cost (total cost less revenues generated by the activities). 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.

Table A-3

(Dollar amounts in millions)

	2005	2004
Instruction	\$ 5.0	\$ 7.8
Pupil services	0.2	0.3
Administration	1.1	0.8
Maintenance and operations	1.1	1.4
Other	0.3	0.1
Totals	7.7	\$ 10.4

THE DISTRICT'S FUNDS

As the District completed June 2005 and 2004, our governmental funds reported combined fund balances of \$12.4 million and \$13.3 million, respectively. The decrease during the year ended June 30, 2005, was \$0.9 million.

The primary reasons for these changes are:

- a. Our General Fund is our principal operating fund. The fund balance in the General Fund increased \$0.6 million to \$3.0 million. This increase is due to:
 1. Increased enrollment
 2. Increased State revenue
- b. Our special revenue funds remained fairly stable from the prior year.
- c. Our capital project funds decreased by approximately \$1.5, which is a combination of increases for receipts of \$4.2 million for the State's share of funding for Traina Phase I and decreases for expenditures for Traina Phase I, Traina Phase II, and the Hawkins expansion for two wings.

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 September 13, 2005. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report on page 42).

The District originally projected revenues of approximately \$12.5 million. The revised budget projected revenues of \$12.9 million, an increase of approximately \$0.4 million. Expenditure projections remained stable between the original and final budgets. Actual revenues and expenditures were materially similar to the actual results with the exception that the on behalf PERS revenue and expenditure was not budgeted for.

- Approximately \$0.1 million of the increase in revenue is from revenue limit sources due to updated enrollment data.
- In addition, the other state sources increased \$0.2 million due to prior year carryover of categorical funds.
- Salaries and fringe benefit expenditures remained stable between the original and final budget projections.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2005 and 2004, the District had \$27.2 million and \$20.1 million, respectively, in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount represents a net increase for the year (including additions, deductions and depreciation) of just under \$7.1, or 35 percent, from last year.

Table A-4

(Amounts in millions)

	2005	2004
	Governmental	Governmental
	Activities	Activities
Land	\$ 5.8	\$ 5.8
Construction in Progress	6.9	2.9
Buildings and improvements	13.7	10.5
Equipment	0.8	0.9
Totals	<u>\$ 27.2</u>	<u>\$ 20.1</u>

This year's additions of \$7.1 million included the completion of Traina Phase I and a portion of Traina Phase II construction as well as work on the Hawkins 7th and 8th grade wings.

Two major capital projects are planned for the 2005-06 year – the completion of Anthony Traina Phase II and the expansion of the 7th & 8th grade classroom wings at Tom Hawkins School. We anticipate capital additions to be \$14.9 million for the 2005-06 year. More detailed information about our capital assets is presented in Note 4 to the financial statements.

Long-Term Liabilities

As of June 30, 2005 and 2004, the District had \$4.3 million and \$4.3 million, respectively, in certificates of participation outstanding. The District's long - term liabilities consisted of the following:

Table A-5

(Amounts in millions)

	2005	2004
	Governmental	Governmental
	Activities	Activities
Certificates of participation	\$ 4.3	\$ 4.3
Capitalized lease obligations	0.1	0.1
Other	(0.1)	1.1
Totals	<u>\$ 4.3</u>	<u>\$ 5.5</u>

Other obligations include compensated absences payable, and original issue discounts on the certificates of deposit. We present more detailed information regarding our long-term liabilities in Note 8 of the financial statements.

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

- Jefferson School District expanded the energy efficient fleet of vehicles with the addition of a natural gas (CNG) school bus from the State School Bus Replacement program and the District received a donation of a CNG car from a private citizen.
- Construction of Anthony Traina Elementary School Phase II began.
- Construction of Tom Hawkins School 7th & 8th grade wings began in April 2005.
- Academic Performance Index (API) Scores:

<u>School</u>	<u>2005 API</u>	<u>2004 API</u>
Tom Hawkins Elementary School	817	815
Monticello Elementary School	821	812
Jefferson Elementary School	810	784
Anthony Traina Elementary School	813	n/a
Overall	813	802

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2005/2006 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Revenue limit income is increasing but at a lower rate than in previous years.
2. Developer fee collections are based on approximately 360 new housing units to be constructed.
3. Federal income will decrease slightly due to the elimination of prior year carryover funds.
4. State income will increase by 4.23 percent cost of living adjustments.
5. Charges to other funds are projected to be positive with the exception of food services.

Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through third	20:1	1055
Grades four through eight	28:1	1216

The key assumptions in our expenditure forecasts are:

1. Additional certificated and classified staff for 5.5% growth.
2. Step and column movement projected at 2.3%.
3. Second Year of two-year salary settlement – 2%.
4. Increases for unemployment and workers compensation rates.
5. Health and welfare budgeted at \$8,600 cap.
6. Increase supplies and services for growth.
7. Utilities increased due to opening of the new wings at Hawkins and anticipated opening of Traina Phase II.

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 Business Manager, Business Services, at Jefferson Elementary School District, 7500 W. Linne Road, Tracy, California, 95304, or e-mail at dataylor@sjcoe.net.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2005

	Governmental Activities
Assets	
Deposits and investments	\$ 14,181,389
Receivables	1,039,818
Stores inventories	3,578
Deferred charges	131,625
Land and construction in progress	12,696,456
Capital assets, depreciable	17,759,004
Less: Accumulated depreciation	(3,207,001)
Total assets	42,604,869
Liabilities	
Accounts payable	2,723,651
Interest payable	160,860
Deferred revenue	30,678
Current portion of long-term liabilities	147,726
Noncurrent portion of long-term liabilities	4,101,774
Total liabilities	7,164,689
Net Assets	
Invested in capital assets, net of related debt	22,821,484
Restricted for:	
Capital projects	8,827,457
Legally restricted	415,707
Other activities	443,733
Unrestricted	2,931,799
Total net assets	\$ 35,440,180

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2005

Functions/Programs	Expenses	Program Revenues			Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental activities:					
Instruction	\$ 9,059,882	\$ 17,670	\$ 964,337	\$ 4,160,058	\$ (3,917,817)
Instruction related activities:					
Supervision of instruction	25,601	-	2,269	-	(23,332)
Instructional library, media and technology	139,288	-	5,065	-	(134,223)
School site administration	1,072,183	-	118,143	-	(954,040)
Pupil services:					
Home-to-school transportation	312,873	66,018	239,664	-	(7,191)
Food services	592,201	377,718	175,210	-	(39,273)
All other pupil services	195,102	-	56,384	-	(138,718)
General administration:					
Data processing	54,625	-	-	-	(54,625)
All other general administration	1,031,843	-	22,708	-	(1,009,135)
Plant services	1,183,317	-	65,099	-	(1,118,218)
Ancillary services	13,672	-	-	-	(13,672)
Interest on long-term debt	292,728	-	-	-	(292,728)
Other (outgo)	51,535	-	34,636	-	(16,899)
Total government-type activities	\$ 14,024,850	\$ 461,406	\$ 1,683,515	\$ 4,160,058	(7,719,871)
General revenues and subventions:					
Property taxes, levied for general purposes					2,879,644
Federal and State aid not restricted to specific purposes					8,181,817
Interest and investment earnings					283,281
Miscellaneous					3,679,636
Subtotal, general revenues					15,024,378
Change in net assets					7,304,507
Net assets - beginning					28,135,673
Net assets - ending					\$ 35,440,180

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2005

	General Fund	Capital Facilities Fund	County School Facilities Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS					
Deposits and investments	\$ 2,469,599	\$10,529,257	\$ 590,595	\$ 533,364	\$ 14,122,815
Receivables	918,457	70,971	2,985	20,283	1,012,696
Due from other funds	21,544	40	-	-	21,584
Stores inventories	-	-	-	3,578	3,578
Total Assets	\$ 3,409,600	\$10,600,268	\$ 593,580	\$ 557,225	\$ 15,160,673
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	\$ 316,508	\$ 1,898,931	\$ 490,802	\$ 17,410	\$ 2,723,651
Due to other funds	-	-	-	21,584	21,584
Deferred revenue	30,678	-	-	-	30,678
Total Liabilities	347,186	1,898,931	490,802	38,994	2,775,913
Fund Balances:					
Reserved for:					
Stores inventories	-	-	-	3,577	3,577
Other reservations	420,707	-	-	30	420,737
Unreserved:					
Designated	1,248,479	8,701,337	102,778	514,624	10,567,218
Undesignated, reported in:					
General fund	1,393,228	-	-	-	1,393,228
Capital projects funds	-	-	-	-	-
Total Fund Balance	3,062,414	8,701,337	102,778	518,231	12,384,760
Total Liabilities and Fund Balances	\$ 3,409,600	\$10,600,268	\$ 593,580	\$ 557,225	\$ 15,160,673

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

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

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

Total Fund Balance - Governmental Funds		\$ 12,384,760
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	\$ 30,455,460	
Accumulated depreciation is	<u>(3,207,001)</u>	27,248,459
In the governmental funds, the receipt of the special education mandated settlement is reported as revenue in the year received. On the statement of net assets, the settlement amount is recorded as a receivable and payments received in the current year reduce the receivable amount.		26,716
Discount relating to issuance of debt are expensed in the governmental funds, but they are capitalized and amortized to operations in the government-wide financial statements.		131,625
In governmental funds, unmatured interest on long-term debt is recognized in the period when it is due. On the government-wide statements, unmatured interest on long-term debt is recognized when it is incurred.		(160,860)
An internal service fund is used by the District's management to charge the costs of the workers' compensation insurance program to the individual funds. The assets and liabilities of the internal service fund are included with governmental activities.		58,979
Long-term liabilities, including bonds payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds.		
Long-term liabilities at year end consist of:		
Certificates of Participation	4,285,000	
Discounts on certificates of participation	(141,975)	
Capital leases payable	74,439	
Compensated absences (vacations)	<u>32,035</u>	(4,249,499)
Total Net Assets - Governmental Activities		<u>\$ 35,440,180</u>

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUE, EXPENDITURES, AND CHANGES IN FUND BALANCE

JUNE 30, 2005

	General Fund	Capital Facilities Fund	County School Facilities Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES					
Revenue limit sources	\$ 9,892,865	\$ -	\$ -	\$ -	\$ 9,892,865
Federal sources	288,241	-	-	116,676	404,917
Other state sources	2,064,748	-	4,136,828	64,653	6,266,229
Other local sources	956,604	3,300,358	22,662	490,175	4,769,799
Total Revenues	13,202,458	3,300,358	4,159,490	671,504	21,333,810
EXPENDITURES					
Current					
Instruction	8,753,768	-	-	-	8,753,768
Instruction related activities:					
Supervision of instruction	25,601	-	-	-	25,601
Instructional library, media and technology	139,288	-	-	-	139,288
School site administration	1,032,900	-	-	-	1,032,900
Pupil Services:					
Home-to school transportation	360,104	-	-	49,187	409,291
Food services	-	-	-	592,201	592,201
All other pupil services	195,102	-	-	-	195,102
General administration:					
Data processing	54,625	-	-	-	54,625
All other general administration	758,169	-	-	-	758,169
Plant services	970,586	121,440	-	55,942	1,147,968
Facility acquisition and construction	-	6,924,471	611,776	128,436	7,664,683
Ancillary services	13,171	-	-	-	13,171
Other uses	44,794	-	-	-	44,794
Debt service					
Principal	48,642	1,190,933	-	-	1,239,575
Interest and other	-	132,442	-	-	132,442
Total Expenditures	12,396,750	8,369,286	611,776	825,766	22,203,578
Excess (deficiency) of revenues over expenditures	805,708	(5,068,928)	3,547,714	(154,262)	(869,768)
Other Financing Sources (Uses):					
Transfers in	-	4,115,654	200,000	138,686	4,454,340
Transfers out	(138,686)	(200,000)	(4,115,654)	-	(4,454,340)
Net Financing Sources (Uses)	(138,686)	3,915,654	(3,915,654)	138,686	-
NET CHANGE IN FUND BALANCES	667,022	(1,153,274)	(367,940)	(15,576)	(869,768)
Fund Balance - Beginning	2,395,392	9,854,611	470,718	533,807	13,254,528
Fund Balance - Ending	\$ 3,062,414	\$ 8,701,337	\$ 102,778	\$ 518,231	\$ 12,384,760

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

GOVERNMENTAL FUNDS

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

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

Total Net Change in Fund Balances - Governmental Funds

\$ (869,768)

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 exceeds depreciation in the period.

Depreciation expense

\$ (475,196)

Capital outlay

7,814,920 7,339,724

The disposal of capital assets is not recognized in the governmental funds, however, it is reflected in the statement of activities.

(221,703)

In the statement of activities, certain operating expenses - compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation used was less than the amounts earned by \$19,761.

(19,761)

Amortization of issue costs and discounts of certificates of participation is an expenditure in the governmental funds, but it should be amortized on the statement of net assets.

(11,400)

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

1,239,575

Special Education mandate settlement received in the current fiscal year in the governmental funds was accrued in prior years in the statement of net asset, therefore it is excluded in the statement of activities.

(4,453)

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

(148,885)

An internal service fund is used by the District's management to charge the costs of the workers compensation insurance program to the individual funds.

The net revenue of the internal service fund is not reported with governmental activities.

1,178

Change in Net Assets of Governmental Activities

\$ 7,304,507

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

PROPRIETARY FUNDS STATEMENT OF NET ASSETS JUNE 30, 2005

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 58,574
Receivables	405
Total Assets	<u>\$ 58,979</u>
NET ASSETS	
Unrestricted	58,979
Total Net Assets	<u><u>\$ 58,979</u></u>

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN FUND

NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2005

	Governmental Activities - Internal Service Fund
NONOPERATING REVENUES (EXPENSES)	
Interest income	\$ 1,178
Total Nonoperating Revenues (Expenses)	<u>1,178</u>
Change in net assets	1,178
Total Net Assets - Beginning	<u>57,801</u>
Total Net Assets - Ending	<u><u>\$ 58,979</u></u>

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2005

	Governmental Activities - Internal Service Fund
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest on investments	\$ 1,178
Net Cash Provided from Investing Activities	1,178
Net increase in cash and cash equivalents	1,178
Cash and cash equivalents - Beginning	57,396
Cash and cash equivalents - Ending	\$ 58,574

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF NET ASSETS
JUNE 30, 2005**

	<u>Agency Funds (ASB)</u>
ASSETS	
Deposits and investments	\$ 56,346
Total assets	<u>\$ 56,346</u>
LIABILITIES	
Due to student groups	\$ 56,346
Total liabilities	<u>\$ 56,346</u>

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Jefferson Elementary School District was organized in June 1870 under the laws of the State of California. The District operates under a locally-elected 5-member Board form of government and provides educational services to grades K - 8 as mandated by the State and/or Federal agencies. The District operates 3 elementary and 1 middle school.

A reporting entity is comprised of the primary government, component units, 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 Jefferson Elementary School District, this includes general operations, food service, and student related activities of the District.

Component Units

Component units are legally separate organizations for which the District is financially accountable. Component units may 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. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component unit discussed below is reported in the District's financial statements because of the significance of its relationship with the District. The component unit, although a legally separate entity, is reported in the financial statements using the blended presentation method as if it were part of the District's operations because the governing board of the component unit is essentially the same as the governing board of the District and because its purpose is to finance the construction of facilities to be used for the benefit of the District.

The Community Facilities District No 1 (CFD) was formed under the provisions of the Mello-Roos Community Facilities Act of 1982, was amended by Chapter 2.5, Part I, Division 2, Title 5 of the Government Code of the State of California established March 30, 1989. For financial presentation, the CFD's financial activity has been blended or combined with the financial data for the District. The financial statements present the CFD's financial activity within the Capital Projects for Blended Component Units and the Debt Service for Blended Units Funds. Individually-prepared financial statements are not prepared for the CFD.

Joint Powers Agencies and Public Entity Risk Pools The District is associated with 2 joint powers agencies and 2 public entity risk pools. These organizations do not meet the criteria for inclusion as component units of the District. Additional information regarding these organizations is presented in Note 14 to the financial statements. These organizations are: San Joaquin County Schools Workers' Compensation Insurance Group, San Joaquin County Schools Property and Liability Insurance Group, San Joaquin County Schools Data Processing Group and Tracy Area Public Facilities Financing Agency.

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 three broad fund categories: governmental, proprietary, and fiduciary.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

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.

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).

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).

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:

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.

Pupil Transportation Equipment Fund The Pupil Transportation Equipment Fund is used to account separately for state and local revenues for the acquisition, rehabilitation, or replacement of equipment used to transport students (*Education Code* Section 41852[b]).

Retiree Benefits Fund The Retiree Benefits Fund is used for accumulating general fund monies for retiree benefits purposes.

Capital Project 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 project funds:

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

Capital Project Fund for Blended Component Unit The Capital Project Fund for Blended Component Units is used to account for capital projects finance by Mello-Roos Community Facilities Districts and similar entities that are considered blended component units of the District under generally accepted accounting principles (GAAP).

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Proprietary Funds Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows. The District applies all GASB pronouncements, as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements. Proprietary funds are classified as enterprise or internal service. The District has the following proprietary funds:

Internal Service Fund Internal service funds may be used to account for any activity for which goods or services are provided to other funds of the District in return for a fee to cover the cost of operations. The District operates a Self Insurance fund that is accounted for in an internal service fund.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The District has only one Fiduciary fund, which is an 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) and scholarship activities.

Basis of Accounting - Measurement Focus

Government-Wide Financial Statements The government-wide statements are prepared using the economic resources measurement focus and the accrual basis of accounting. This is the same approach used in the preparation of the proprietary fund financial statements, but differs from the manner in which governmental fund financial statements are prepared.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and 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. The internal service fund is presented in a single column on the face of the proprietary fund statements.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

Proprietary Funds Proprietary funds are accounted for using a flow of economic resources measurement focus and the accrual basis of accounting. All assets and all liabilities associated with the operation of this fund are included in the statement of net assets. The statement of changes in fund net assets presents increases (revenues) and decreases (expenses) in net total assets. The statement of cash flows provides information about how the District finances and meets the cash flow needs of its proprietary fund.

Fiduciary Funds Fiduciary funds are accounted for using the flow of economic resources measurement focus and the accrual basis of accounting. Fiduciary funds are excluded from the government-wide financial statements because they do not represent resources of the District.

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 60 days of fiscal year-end.

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

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

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

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

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

Cash and Cash Equivalents The District's cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with original maturities of three months or less from the date of acquisition. Cash equivalents also include cash with county treasury balances for purposes of the statement of cash flows.

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

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 Capital Facilities Fund represent cash and cash equivalents required by the Certificates of Participation to be set aside by the District for the purpose of satisfying certain requirements of the repayment reserves.

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. The District does not have any prepaid expenditures as of June 30, 2005.

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

Capital Assets and Depreciation The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District 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 in the government-wide statement of net assets. The valuation basis for capital assets is 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.

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets is the same as those used for the capital assets of governmental funds.

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.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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 columns of the statement of net assets.

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

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

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

However, claims and judgments, compensated absences, special termination benefits, and contractually required pension contributions that will be paid from governmental funds are reported as a liability in the 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 liabilities in the governmental fund financial statements when due.

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

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

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Operating Revenues and Expenses Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

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 and after non-operating revenues/expenses in proprietary funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

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

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

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. For purposes of the budget, on-behalf payments have not been included as revenue and expenditures as required under generally accepted accounting principles.

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 San Joaquin bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

Changes in Accounting Principles

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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

This Statement also specifies the accounting and financial reporting requirements if new enabling legislation replaces existing enabling legislation or if legal enforceability is reevaluated. Finally, this Statement requires governments to disclose the portion of total net assets that is restricted by enabling legislation. The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2005. The District has implemented this pronouncement and it had no effect on the current year financial statements.

New Accounting Pronouncements

In November 2003, Governmental Accounting Standards Board (GASB) issued GASBS No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. This Statement establishes guidance for accounting and reporting for impairment of capital assets and for insurance recoveries, whether associated with an impaired capital asset or not. This Statement is effective for periods beginning after December 31, 2004, or during the 2005-06 fiscal year. This District does not believe this pronouncement will have a significant impact on its financial statements.

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

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

This Statement generally provides for prospective implementation - that is, that employers set the beginning net OPEB obligation at zero as of the beginning of the initial year. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2010. The District is in the process of determining the impact the implementation of this Statement will have on the government-wide statement of net assets and activities.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

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

Governmental funds	\$ 14,122,815
Proprietary fund	58,574
Fiduciary funds	56,346
Total Deposits and Investments	<u>\$ 14,237,735</u>

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

Cash on hand and in banks	\$ 57,937
Cash in revolving	5,030
Investments	14,174,768
Total Deposits and Investments	<u>\$ 14,237,735</u>

Policies and Practices

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

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

General Authorizations

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

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

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by purchasing a combination of shorter term and longer term investments and by timing cash flows from maturities so that a portion of the portfolio is maturing or coming close to maturity evenly over time as necessary to provide the cash flow and liquidity needed for operations. Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuation is provided by the following schedule that shows the distribution of the District's investment by maturity:

Investment Type	Fair Value	Maturity Date
Money Market Mutual Funds	\$ 3,554,856	29 days
County Pool	10,612,480	62 days average
Total	<u>\$ 14,167,336</u>	

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Credit Risk

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

Investment Type	Fair Value	Minimum Legal Rating	Not Required To Be Rated	Rating as of Year End		
				AAA	Aa	Unrated
Money Market Mutual Funds	\$ 3,554,856	A	\$ -	\$3,554,856	\$ -	\$ -
County Pool	10,612,480	N/A	10,612,480	-	-	-
Total	<u>\$ 14,167,336</u>		<u>\$ 10,612,480</u>	<u>\$3,554,856</u>	<u>\$ -</u>	<u>\$ -</u>

Concentration of Credit Risk

The investment policy of the District contains no limitations on the amount that can be invested in any one issuer beyond the amount stipulated by the California Government code. Investments in any one issuer that represent five percent (5%) or more of the total investments are as follows:

Investment Type	Issuer	Reported Amount
Money Market Mutual Funds	Dreyfus	<u>\$3,554,856</u>

NOTE 3 - RECEIVABLES

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

	General	Capital Facilities	County School Facilities	Nonmajor Funds	Governmental Fund Total	Proprietary
Federal Government						
Categorical aid	\$ 73,377	\$ -	\$ -	\$ 15,906	\$ 89,283	\$ -
State Government						
Apportionment	369,737	-	-	-	369,737	-
Categorical aid	209,743	-	-	817	210,560	-
Lottery	122,565	-	-	-	122,565	-
Other state	105,963	-	-	-	105,963	-
Local Government						
Interest	29,453	58,517	2,985	3,415	94,370	405
Other Local Sources	7,619	12,454	-	145	20,218	-
Total	<u>\$ 918,457</u>	<u>\$ 70,971</u>	<u>\$ 2,985</u>	<u>\$ 20,283</u>	<u>\$ 1,012,696</u>	<u>\$ 405</u>

Long-Term receivables of \$26,716 consist of the special education mandated settlement which will be received at a rate of approximately \$4,400 each year for the next (6) years.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 4 - CAPITAL ASSETS

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

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005
Governmental Activities				
Capital Assets not being depreciated:				
Land	\$ 5,825,263	\$ -	\$ -	\$ 5,825,263
Construction in Progress	2,870,455	6,871,193	2,870,455	6,871,193
Total Capital Assets not being depreciated	8,695,718	6,871,193	2,870,455	12,696,456
Capital Assets being depreciated:				
Buildings and Improvements	12,846,854	3,635,911	-	16,482,765
Furniture and Equipment	1,399,025	178,271	301,058	1,276,238
Total Capital Assets being depreciated	14,245,879	3,814,182	301,058	17,759,003
Total Capital Assets	22,941,597	10,685,375	3,171,513	30,455,459
Less Accumulated Depreciation:				
Buildings and Improvements	2,306,769	429,990	-	2,736,759
Furniture and Equipment	504,391	45,206	79,355	470,242
Total Accumulated Depreciation	2,811,160	475,196	79,355	3,207,001
Governmental Activities Capital Assets, Net	\$ 20,130,437	\$ 10,210,179	\$ 3,092,158	\$ 27,248,458

Assets consisting of land and building in the amount of \$4,285,000 have been pledged as collateral for the certificates of participation described in Note 8.

Depreciation expense charged as a direct expense to governmental functions are as follows:

Governmental Activities	
Instruction	\$ 306,114
School site administration	39,283
Home-to-school transportation	45,509
All other general administration	33,389
Plant services	43,659
Ancillary Services	501
Unallocated	6,741
Total Depreciation Expenses Governmental Activities	\$ 475,196

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2005, between major and nonmajor governmental funds are as follows:

	Due From		
	General Fund	Capital Facilities	Total
Due To Non-Major Governmental	\$ 21,544	\$ 40	\$ 21,584
Total	\$ 21,544	\$ 40	\$ 21,584

All remaining balances resulted from the time lag between the date that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transaction are recorded in the accounting system, and (3) payments between funds are made.

Operating Transfers

Interfund transfers for the year ended June 30, 2005, consisted of the following:

Transfer To	Transfer from		
	General	Capital Facilities	County School Facilities
Capital Facilities	\$ -	\$ -	\$ 4,115,654
County School Facilities		200,000	
Nonmajor governmental	138,686	-	-
Total	\$138,686	\$ 200,000	\$ 4,115,654

The General Fund transferred to the Cafeteria Fund to cover operating expenses.	\$ 39,836
The General Fund transferred to the Deferred Maintenance Fund for District contribution.	58,850
The General Fund transferred to the Pupil Transportation fund for the future bus purchase.	40,000
The County School Facilities Fund transferred to the Capital Facilities fund for construction of Traina School Phase I.	4,115,654
The Capital Facilities fund transferred to the County School Facilities Fund to cover construction expenditures.	200,000
Total	\$ 4,454,340

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.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 6 – ACCOUNTS PAYABLE

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

	General	Capital Facilities	County School Facilities	Nonmajor Governmental	Total
Vendor payables	\$ 122,455	\$ 1,898,931	\$ 490,802	\$ 16,970	\$ 2,529,158
Salaries and benefits	79,020	-	-	440	79,460
Categorical significant payables	115,033	-	-	-	115,033
Total	<u>\$ 316,508</u>	<u>\$ 1,898,931</u>	<u>\$ 490,802</u>	<u>\$ 17,410</u>	<u>\$ 2,723,651</u>

NOTE 7 – DEFERRED REVENUE

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

	General
Federal financial assistance	\$ 29,840
State categorical aid	838
Total	<u>\$ 30,678</u>

NOTE 8 – LONG-TERM LIABILITIES

Long-Term Liabilities Summary

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

	Balance July 1, 2004	Additions	Deductions	Balance June 30, 2005	Due in One Year
Certificates of participation	\$ 4,285,000	\$ -	\$ -	\$ 4,285,000	\$ 105,000
Accumulated vacation - net	12,274	19,761	-	32,035	-
Capital leases	123,081	-	48,642	74,439	48,642
Other general long-term	1,190,933	-	1,190,933	-	-
	<u>5,611,288</u>	<u>19,761</u>	<u>1,239,575</u>	<u>4,391,474</u>	<u>153,642</u>
Premiums/(discounts), net of amortization	(147,891)	-	5,916	(141,975)	(5,916)
	<u>\$ 5,463,397</u>	<u>\$ 19,761</u>	<u>\$ 1,245,491</u>	<u>\$ 4,249,499</u>	<u>\$ 147,726</u>

Payments on the Certificates of Participation will be made by the Capital Facilities Fund. The General Fund pays the capital lease payments and the accrued vacation will be paid by the fund for which the employee worked.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Certificates of Participation

In May 2004, the District issued certificates of participation in the amount of \$4,285,000 with interest rates ranging from 3 to 5 percent. As of June 30, 2005, the principal balance outstanding was \$4,285,000. The certificates mature through September 1, 2029 as follows:

Fiscal Year	Principal	Interest to Maturity	Total
2006	\$ 105,000	\$ 193,033	\$ 298,033
2007	105,000	189,883	294,883
2008	110,000	186,733	296,733
2009	115,000	183,433	298,433
2010	115,000	179,983	294,983
2011-2015	650,000	833,914	1,483,914
2016-2020	800,000	683,736	1,483,736
2021-2025	1,005,000	474,500	1,479,500
2026-2030	1,280,000	198,250	1,478,250
Total	<u>\$ 4,285,000</u>	<u>\$ 3,123,463</u>	<u>\$ 7,408,463</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2005, amounted to \$32,035.

Capital Leases

The District has entered into various capital lease arrangements and has recorded capital assets in the amount of \$266,632 with corresponding accumulated depreciation of \$75,002 at June 30, 2005. The District's liability on lease agreements with options to purchase are summarized below:

Balance, July 1, 2004	\$ 123,081
Payments	48,642
Balance, June 30, 2005	<u>\$ 74,439</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2006	\$ 56,027
2007	23,345
Total	79,372
Less: Amount Representing Interest	4,933
Present Value of Minimum Lease Payments	<u>\$ 74,439</u>

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

NOTE 9 – FUND BALANCES

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

	General	Capital Facilities Fund	County School Facilities Fund	Nonmajor Governmental	Total
Reserved					
Revolving cash	\$ 5,000	\$ -	\$ -	\$ 30	\$ 5,030
Stores inventory	-	-	-	3,577	3,577
Restricted programs	415,707	-	-	-	415,707
Total Reserved	420,707	-	-	3,607	424,314
Unreserved					
Designated					
Economic uncertainties	368,596	-	-	-	368,596
Other designation	879,883	8,701,337	102,778	514,624	10,198,622
Total Designated	1,248,479	8,701,337	102,778	514,624	10,567,218
Undesignated	1,393,228	-	-	-	1,393,228
Total Unreserved	2,641,707	8,701,337	102,778	514,624	11,960,446
Total	\$ 3,062,414	\$ 8,701,337	\$ 102,778	\$ 518,231	\$ 12,384,760

NOTE 10 – POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits, in accordance with District employment contracts, to all employees who retire from the District on or after attaining age 62 to 70 depending on agreement with at least 25 years of service. Currently, 3 employees meet those eligibility requirements. The District contributes based on the individual contractually determined percentage of the amount of premiums incurred by retirees and their dependents and the retiree contributes the remainder. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis, as premiums are paid. During the year, expenditures of \$16,201 were recognized for retirees' health care benefits.

The accumulated future liability as of April 1, 2003, the date of the most recent actuarial study, amounts to approximately \$1,250,000 for both retired and active employees.

NOTE 11 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending June 30, 2005, the District contracted with San Joaquin County Schools Insurance Group 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.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

Workers' Compensation

For fiscal year 2005, the District participated in the San Joaquin County Schools Workers' Compensation (SJCSWC), an insurance purchasing pool. The intent of the SJCSWC is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the SJCSWC. 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 SJCSWC. Each participant pays its workers' compensation premium based on its individual rate. Total savings are then calculated and each participant's individual performance is compared to the overall savings percentage of each participated school districts. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." This "equity pooling" arrangement insures that each participant shares equally in the overall performance of the SJCSWC.

Employee Medical Benefits

The District has contracted with the Self Insured Schools of California Health Benefits Trust to provide employee medical and surgical benefits. The Self Insured Schools of California Health Benefits Trust is a shared risk pool comprised of Districts within California. 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.

Coverage provided by San Joaquin County Schools Workers' Compensation and San Joaquin County Schools Property & Liability for property and liability and workers' compensation is as follows:

Insurance Program / Company Name	Type of Coverage	Limits
<u>Workers' Compensation Program</u>		
San Joaquin County Schools Workers' Compensation	Workers' Compensation	State Statutory Limits
<u>Property and Liability Program</u>		
San Joaquin County Schools Property & Liability	Property and Liability	\$ 5,000 per incident

NOTE 12 – 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).

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

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.

Funding Policy

Active plan members are required to contribute 8.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2004-2005 was 8.25 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to STRS for the fiscal years ending June 30, 2005, 2004, and 2003, were \$484,740, \$414,251, and \$356,826, respectively, and equal 100 percent of the required contributions for each year.

PERS

Plan Description

The District contributes to the School Employer Pool under the California Public Employees' Retirement System (CalPERS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by CalPERS. The plan provides retirement and disability benefits, annual cost-of-living adjustments, and death benefits to plan members and beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the Public Employees' Retirement Laws. CalPERS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the CalPERS' annual financial report may be obtained from the CalPERS Executive Office, 400 P Street, Sacramento, CA 95814.

Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2004-2005 was 9.952 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2005, 2004, and 2003 were \$156,692, \$18,615, and \$32,042, respectively, and equal 100 percent of the required contributions for each year.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2005

On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$265,402 (4.517 percent of salaries subject to STRS) and during the current fiscal year mandated costs were reduced to zero, therefore, there was no on-behalf rate to report and no on-behalf PERS benefit mandated costs to report. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures; however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have been recorded in these financial statements.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Grants

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

Construction Commitments

As of June 30, 2005, the District had the following commitments with respect to the unfinished capital projects:

Capital Project	Remaining Construction Commitment	Expected Date of Completion
Hawkins 7th/8th grade wings	\$ 882,460	08/08/05
Traina Phase II	8,940,945	03/01/06
	<u>\$ 9,823,405</u>	

In addition, the District entered into a guaranteed minimum contract with Edge Construction to finance a portion of Phase II of the construction of a new school for \$12,350,007. The District leased the Traina school site to Edge Construction for \$1. The contractor then leases the site back to the school for a minimum of \$48,000 per month for 257 months with a final payment of \$14,000. The contractor bills the District monthly for the amount of the progress payments due on the construction. As of June 30, 2005, \$3,408,769 has been billed by the contractor for progress on the construction of the school. The minimum amount remaining to be paid after June 30, 2005 under this contract was \$8,941,238.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2005

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWER AUTHORITIES

The District is a member of the San Joaquin County Schools Workers' Compensation Group (SJCSWCIG), San Joaquin County Schools Property and Liability Insurance Group (SJCSP&LIG) public entity risk pools, Tracy Area Public Facilities Financing Agency (TAPFFA) joint powers agency, and the San Joaquin County Schools Data Processing Group (SJCSDPG). The District pays an annual premium to the applicable entity for its health, workers' compensation, legal services, data processing, and property liability coverage. The relationships between the District, and the JPA's are such that they are not component units of the District for financial reporting purposes.

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

The District has appointed 5 board members to the Governing Board of Jefferson Elementary School District. During the year ended, the District made payments of \$262,148, \$62,605, and \$54,625 to San Joaquin County Schools Workers' Compensation Insurance Group, San Joaquin County Schools Property and Liability Insurance Group, and San Joaquin County Schools Data Processing, respectively, for the workers' compensation insurance, property and liability insurance, and data processing.

REQUIRED SUPPLEMENTARY INFORMATION

JEFFERSON ELEMENTARY SCHOOL DISTRICT

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

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Positive (Negative) Final to Actual
	Original Unaudited	Final Unaudited		
REVENUES				
Revenue limit sources	\$ 9,812,854	\$ 9,892,888	\$ 9,892,865	\$ (23)
Federal sources	216,515	288,245	288,241	(4)
Other state sources ¹	1,643,728	1,799,351	2,064,748	265,397
Other local sources	814,458	956,779	956,604	(175)
Total Revenues	12,487,555	12,937,263	13,202,458	265,195
EXPENDITURES				
Current				
Instruction ¹	8,276,353	8,494,415	8,753,768	(259,353)
Instruction related activities:				
Supervision of instruction	30,804	25,618	25,601	17
Instructional library, media, and technology	152,478	139,306	139,288	18
School site administration	1,029,859	1,032,969	1,032,900	69
Pupil services:				
Home-to-school transportation	297,124	360,125	360,104	21
All other pupil services	213,671	195,137	195,102	35
General administration:				
Data processing	54,625	54,625	54,625	-
All other general administration	844,089	823,342	758,169	65,173
Plant services	1,109,330	970,633	970,586	47
Facility acquisition and construction	69,394	-	-	-
Ancillary services	13,772	13,175	13,171	4
Other outgo	84,111	44,794	44,794	-
Debt service				
Principal	-	-	48,642	(48,642)
Total Expenditures	12,175,610	12,154,139	12,396,750	(242,611)
Excess (Deficiency) of Revenues Over Expenditures	311,945	783,124	805,708	(22,584)
Other Financing Sources (Uses)				
Transfers out	(176,425)	(138,687)	(138,686)	(1)
Net Financing Sources (Uses)	(176,425)	(138,687)	(138,686)	(1)
NET CHANGE IN FUND BALANCES	135,520	644,437	667,022	22,585
Fund Balance - Beginning	2,395,392	2,395,392	2,395,392	-
Fund Balance - Ending	\$ 2,530,912	\$ 3,039,829	\$ 3,062,414	\$ 22,585

¹ The budget columns do not include on behalf payments of \$265,402. This amount has been included in the actual column and allocated to the various functions.

SUPPLEMENTARY INFORMATION

JEFFERSON ELEMENTARY SCHOOL DISTRICT

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

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
Title IV- Drug Free Schools	84.186	04347	\$ 4,195
Title II - Teacher Quality Elementary and Secondary Education Act	84.367	04341	19,917
Title I - Basic	84.010	04329	44,449
Title III - Limited English Proficiency Student Program	84.365	00084	13,626
Title V- Innovative Education Strategies	84.298A	04354	3,867
Migrant Education			
Regular and Summer Program	84.011	03174	4,391
Special Education - State Grants			
Local Assistance	84.027	03379	156,638
Low Incidence	84.027A	03459	162
Preschool Grant	84.173	03430	11,845
Preschool Local Entitlement	84.027A	03682	25,514
Personnel Development	84.027A	03613	302
Flexibility and Accountability for English Language Test	[1]	14498	2,115
English Language Development Test 03/04			
Administration	[1]	14363	1,220
Total U.S. Department of Education	84.027	03379	<u>288,241</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Fair Market Value of Commodities	10.550	[1]	31,831
Total U.S. Department of Agriculture			<u>148,507</u>
Total Expenditures of Federal Awards			<u>\$ 436,748</u>

[1] Catalog number currently unavailable.

See accompanying note to supplementary information.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

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

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	236	238
First through third	702	705
Fourth through sixth	663	665
Seventh and eighth	422	420
Special education	22	23
Total Elementary	2,045	2,051
		Hours of Attendance
SUMMER SCHOOL		
Elementary		34,468
Total Hours		34,468

See accompanying note to supplementary information.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

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

Grade Level	1982-83	1986-87	2004-05	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,500	36,000	42,570	180	-	In Compliance
Grades 1 - 3	41,780	50,400	50,460	180	-	In Compliance
Grades 4 - 6	54,000	54,000	61,020	180	-	In Compliance
Grades 7 - 8	54,000	54,000	61,020	180	-	In Compliance

See accompanying note to supplementary information.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

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

The following adjustments were made to the Annual Financial and Budget Report Unaudited Actuals, which required reconciliation to the audited financial statements at June 30, 2005.

	General Fund
FUND BALANCE	
Balance, June 30, 2005, Unaudited Actuals	\$ 3,045,916
Decrease in:	
Accounts Payable	<u>16,498</u>
Balance, June 30, 2005, Audited Financial Statement	<u><u>\$ 3,062,414</u></u>

See accompanying note to supplementary information.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

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

	(Budget) 2006 ¹	2005	2004	2003
GENERAL FUND				
Revenues	\$ 13,850,640	\$ 13,202,458	\$ 10,932,571	\$ 9,498,336
Other sources	-	-	55,735	-
Total Revenues and Other Sources	13,850,640	13,202,458	10,988,306	9,498,336
Expenditures	14,150,847	12,396,750	10,529,208	8,873,701
Other uses and transfers out	165,928	138,686	124,616	144,169
Total Expenditures and Other Uses	14,316,775	12,535,436	10,653,824	9,017,870
INCREASE (DECREASE) IN FUND BALANCE	\$ (466,135)	\$ 667,022	\$ 334,482	\$ 480,466
ENDING FUND BALANCE	\$ 2,596,279	\$ 3,062,414	\$ 2,395,392	\$ 2,060,910
AVAILABLE RESERVES ²	\$ 1,863,052	\$ 1,761,824	\$ 1,562,618	\$ 735,993
AVAILABLE RESERVES AS A ³ PERCENTAGE OF TOTAL OUTGO	13.01%	14.36%	14.67%	8.16%
LONG-TERM DEBT	\$ 8,043,011	\$ 4,249,499	\$ 5,463,397	\$ 231,227
K-12 AVERAGE DAILY ATTENDANCE AT P-2	2,157	2,045	1,808	1,504

The General Fund balance has increased by \$1,001,504 over the past two years. The fiscal year 2005-06 budget projects a decrease of \$466,135 (15 percent). For a district this size, the State recommends available reserves of at least three percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surplus in all three of the past three years and anticipates incurring an operating deficit during the 2005-06 fiscal year. Total long-term debt has increased by \$4,018,272 over the past two years, primarily due to the issuance of \$4,285,000 of certificate of participation in 2003-04.

Average daily attendance has increased by 541 over the past two years. Additional growth of 112 ADA is anticipated during fiscal year 2005-06.

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

² Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund.

³ On-behalf payment of \$265,402, \$113,492, and \$192,537, respectively, have been excluded from the calculation of the available reserves for fiscal years ended June 30, 2005, 2004 and 2003.

See accompanying note to supplementary information.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION

JUNE 30, 2005

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

Schedule of Financial Trends and Analysis

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

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.

SUPPLEMENTARY INFORMATION - UNAUDITED

JEFFERSON ELEMENTARY SCHOOL DISTRICT

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

	Cafeteria Fund	Deferred Maintenance Fund	Pupil Transportation Fund
ASSETS			
Deposits and investments	\$ 4,931	\$ 379,962	\$ 74,376
Receivables	17,117	2,366	357
Stores inventories	3,578	-	-
Total assets	<u>\$ 25,626</u>	<u>\$ 382,328</u>	<u>\$ 74,733</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	\$ 475	\$ 16,935	\$ -
Due to other funds	21,544	-	-
Total liabilities	<u>22,019</u>	<u>16,935</u>	<u>-</u>
Fund Balances:			
Reserved for:			
Stores inventories	3,577	-	-
Other reservations	30	-	-
Unreserved:			
Designated	-	365,393	74,733
Undesignated, reported in:			
Total fund balance	<u>3,607</u>	<u>365,393</u>	<u>74,733</u>
Total Liabilities and Fund Balances	<u>\$ 25,626</u>	<u>\$ 382,328</u>	<u>\$ 74,733</u>

See accompanying note to supplementary information unaudited.

Special Reserve Capital Outlay Fund	Capital Project Blended Component Unit	Retiree Benefits Fund	Non Major Governmental Funds
\$ 40	\$ 23,182	\$ 50,873	\$ 533,364
-	160	283	20,283
-	-	-	3,578
<u>\$ 40</u>	<u>\$ 23,342</u>	<u>\$ 51,156</u>	<u>\$ 557,225</u>

\$ -	\$ -	\$ -	\$ 17,410
40	-	-	21,584
<u>40</u>	<u>-</u>	<u>-</u>	<u>38,994</u>

-	-	-	3,577
-	-	-	30
-	23,342	51,156	514,624
<u>-</u>	<u>23,342</u>	<u>51,156</u>	<u>518,231</u>
<u>\$ 40</u>	<u>\$ 23,342</u>	<u>\$ 51,156</u>	<u>\$ 557,225</u>

JEFFERSON ELEMENTARY SCHOOL DISTRICT

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

	Cafeteria Fund	Deferred Maintenance Fund	Pupil Transpiration Fund
REVENUES			
Federal sources	\$ 116,676	\$ -	\$ -
Other state sources	5,803	58,850	-
Other local sources	430,448	6,249	1,289
Total Revenues	552,927	65,099	1,289
EXPENDITURES			
Current			
Pupil Services:			
Home-to school transportation	-	-	49,187
Food services	592,201	-	-
Plant services	-	55,942	-
Facility acquisition and construction	-	-	-
Total Expenditures	592,201	55,942	49,187
Excess (deficiency) of revenues over expenditures	(39,274)	9,157	(47,898)
Other Financing Sources (Uses):			
Transfers in	39,836	58,850	40,000
Net Financing Sources (Uses)	39,836	58,850	40,000
NET CHANGE IN FUND BALANCES	562	68,007	(7,898)
Fund Balance - Beginning	3,045	297,386	82,631
Fund Balance - Ending	\$ 3,607	\$ 365,393	\$ 74,733

See accompanying note to supplementary information unaudited.

Special Reserve Capital Fund	Capital Project Blended Component Unit	Retiree Benefits Fund	Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 116,676
-	-	-	64,653
568	465	51,156	490,175
568	465	51,156	671,504
-	-	-	49,187
-	-	-	592,201
-	-	-	55,942
128,436	-	-	128,436
128,436	-	-	825,766
(127,868)	465	51,156	(154,262)
-	-	-	138,686
-	-	-	138,686
(127,868)	465	51,156	(15,576)
127,868	22,877	-	533,807
\$ -	\$ 23,342	\$ 51,156	\$ 518,231

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION (UNAUDITED) JUNE 30, 2005

NOTE 1 - PURPOSE OF SCHEDULES

Non-major Governmental Funds – Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balance (Unaudited)

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

INDEPENDENT AUDITORS' REPORTS



**INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

Governing Board
Jefferson Elementary School District
Tracy, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Jefferson Elementary School District as of and for the year ended June 30, 2005, and have issued our report thereon dated September 15, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Jefferson Elementary School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Jefferson 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 item 2005-1 and 2005-2.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements 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.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Jefferson Elementary School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those

provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

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

Vavrinek, Trune, Day & Co LLP

Pleasanton, California
September 15, 2005



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Jefferson Elementary School District
Tracy, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Jefferson Elementary School District as of and for the year ended June 30, 2005, and have issued our report thereon dated September 15, 2005. 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 *2004-05 Standards and Procedures for Audits of California K-12 Local Educational Agencies* prescribed in the California Code of Regulations, Title 5, Section 19810 and following. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

	Procedures in Title V	Procedures Performed
Attendance accounting		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	22	Not applicable
Continuation education	10	Not applicable
Adult education	9	Not applicable
Regional occupational centers and programs	6	Not applicable
Instructional time and staff development reform program	7	Yes
Instructional Time:		
School districts	4	Yes
County Offices of Education	3	Not applicable
Community day schools	9	None

	Procedures in Title V	Procedures Performed
Class size reduction program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not applicable
District or charter schools with only one school servicing K-3	4	Not applicable
Instructional Materials:		
General requirements	12	Yes
K-8 only	1	Yes
9-12 only	1	Not applicable
Ratios of Administrative Employees to Teachers	1	Yes
Early retirement incentive	4	Not applicable
GANN limit calculation	1	Yes
School Construction Funds:		
School District bonds	3	Not applicable
State school facilities funds	1	Yes
Alternative pension plans	2	Yes
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not applicable
School Accountability Report Card	3	Yes

We did not perform testing for Community Day School because the District's ADA was below the minimum threshold for testing as prescribed by the *2004-05 Standards and procedures for Audits of California K-12 Local Educational Agencies*. With respect to the Alternative Pension Plan compliance requirement, the District has represented to us that they have not entered into any such arrangement.

Based on our audit, we found that for the items tested, the Jefferson Elementary School District complied with the State laws and regulations referred to above. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Jefferson Elementary School District had not complied with the laws and regulations. Our audit does not provide a legal determination on Jefferson Elementary School District's compliance with the State laws and regulations referred to above.

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

Vavrinek, Trine, Day & Co LLP
Pleasanton, California
September 15, 2005

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JEFFERSON ELEMENTARY SCHOOL DISTRICT

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

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>N/A</u>
Reporting conditions identified not considered to be material weaknesses?	<u>N/A</u>
Type of auditors' report issued on compliance for major programs:	<u>N/A</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>N/A</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>Not Applicable</u>	<u>Not Applicable</u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>

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

STATE AWARDS

Internal control over State 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 State programs:	<u>Unqualified</u>

JEFFERSON ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005

FINANCIAL STATEMENT FINDINGS AND QUESTIONED COSTS

The following findings represent reportable conditions, material weaknesses, and/or instances of noncompliance related to the financial statements that are 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>
20000	Inventory of Equipment
30000	Internal Control
60000	Miscellaneous

2005-1 60000

Criteria or Specific Requirements

Strong internal controls include consideration of establishing a board policy on a maximum allowable vacation hour carryover balances.

Condition

In our review of the compensated absences, we noted that there is no policy in place on a maximum allowable vacation carryover. Lack of policy on maximum vacation carryovers could subject the District to an uncontrolled liability that may accumulate should a long term employee build up vacation balances and then retire.

Questioned costs

Not applicable

Context

We noted that employee carryover vacation hours at June 30, 2005 ranged from 12 to 230 hours per employee.

Effect

Without a policy on allowable maximum carryover vacation hours, the District has no control over the potential amount of vacation liability that will be paid out upon termination of an employee.

Cause

The District has not implemented a policy to manage earned vacation carryover balances.

Recommendation

In order to manage the District's potential future liability, the District should consider establishing a policy on the maximum vacation carryover. If a carryover policy is implemented, the District will also need to assign a designated employee to keep track vacation hours earned and verify that employees do not exceed the maximum allowable carryover amounts.

District Response

The District has established a policy on the maximum vacation carryover effective November 8, 2005.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005

2005-2 60000

Criteria or Specific Requirements

Internal control policies and procedures designed to manage and safeguard assets of the District, typically include a policy over the receiving of and recording of inventory.

Condition

During our audit, we noted that the District does not have a written procedure documenting the appropriate receiving procedures and recording procedures to be used for inventory items.

Questioned costs

Not applicable

Context

An inventory of cafeteria food and supplies received and on hand is regularly performed, however, the process is not documented in a written procedure.

Effect

Without having any formal procedure in place, there is a potential for mishandling of inventory should an individual unfamiliar with the inventory process need to perform the tasks.

Cause

The lack of a written procedure over the handling and counting of inventory, results in the District relying on existing personnel to perform undocumented tasks appropriately.

Recommendation

In order to prevent confusion on the procedures for receipt of or counting of inventory, we recommend that the District develop a formal written procedure for tasks involved in the receipt and use of inventory. By having a written policy, the District may limit potential miscommunication problems or uncertainty on the part of new personnel as to what procedures are to be performed.

District Response

The District will develop formal written procedures for receipting and documenting District inventory.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2005**

FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

None reported.

STATE AWARD FINDINGS AND QUESTIONED COSTS

None reported.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005

SUMMARY SCHEDULE OF PRIOR YEAR FINDINGS

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.

JOURNAL ENTRY

2004-1 Code (60000)

Criteria or specific requirements

Strong internal controls over accounting systems include review and approval of all transactions by a person other than the one initiating the entries.

Condition

In reviewing the journal entry processing activity we noted that journal entries are not supported by an adjusting entries report that documents the description of the entry and who prepared, approved or posted the entry.

Questioned costs

None.

Context

We reviewed eleven journal entries prepared throughout the year and were unable to locate any adjusting journal entry reports supporting those entries.

Effect

The lack of support for journal entries results in not ensuring that there are adequate segregation of duties and adequate monitoring being performed on all transactions that affect the general ledger.

Cause

Small district with limiting District office staff available often results in less opportunities for adequate separate of duties.

Recommendation

The District should improve documentation procedures supporting all journal entries posted to the accounting system and ensure that reports are maintained indicating the purpose of each journal entry, who initiated it, who approved it, and who posted it to the general ledger. Due to the small size of the District staff it may be appropriate to have the business manager initiate and post the entries and print a monthly report of all journal entry transactions and have the Superintendent review and document that review by initialing the report on a monthly basis.

Current Status

Implemented

JEFFERSON ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2005

STATE COMPLIANCE

2004-2 Code (40000)

Criteria or specific requirements

State regulations over the class size reduction program require submission of an accurate form J-7, CSR to report the pupils enrolled in each class size under this program.

Condition

In verifying the class sizes being reported on the form J-7, we noted that the District had reported one second grade student on the wrong line of the form.

Questioned costs

None. The total number of students enrolled did not change. The funds received per student are the same if they are in a class of 19 or a class of 20 therefore, there was no change to the program funding.

Context

The form J-7 CSR reported 3 classes with 19 students enrolled and 8 classes with 20 students enrolled for a total of 50 students. When comparing the form to the site enrollment summaries, we noted that there were actually 4 classes with 19 students enrolled and 7 classes with 20 students enrolled for a total of 50 students.

Effect

The data on the form was too low on one line and too high on another.

Cause

Supporting enrollment summaries for grade two do not match information entered on the form J-7 CSR.

Recommendation

The District needs to revise and resubmit the form J-7 CSR with the corrections indicated.

Current Status

Implemented

