

**JEFFERSON ELEMENTARY
SCHOOL DISTRICT**

**ANNUAL FINANCIAL REPORT
JUNE 30, 2007**



JEFFERSON ELEMENTARY SCHOOL DISTRICT
OF SAN JOAQUIN COUNTY
TRACY, CALIFORNIA
JUNE 30, 2007

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Debbie Wingo	President	2008
Pete Carlson	Vice President	2008
Todd Wetherell	Clerk	2010
Dan Wells	Member	2010
Brian Jackman	Member	2010

ADMINISTRATION

Ed Quinn	Superintendent
Mindy Maxedon	Chief Business Officer



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 (the "District") as of and for the year ended June 30, 2007, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2006-07* issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Jefferson Elementary School District, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 11, 2007, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 11 and budgetary comparison information on pages 44, is not a required part of the basic financial statements, but is supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information listed in the table of contents, including the schedule of expenditures of Federal awards which is required by U.S. Office of Management and Budget Circular A-133, *Audits of State, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is 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, is 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 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion.

VaurineK, Trine, Day & Co LLP
Pleasanton, California
December 11, 2007

JEFFERSON ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

This section of Jefferson Elementary School District's 2006-2007 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2007. 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 15 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.

FINANCIAL HIGHLIGHTS OF THE PAST YEAR

Total revenue and income received for 2006-07 was \$19.1 million (20% less than 2005-06). The decrease was attributed to state construction revenue received in 2005-2006 that does not reoccur in 2006-2007. Jefferson School District receives 66% of its revenue from the State based on the Revenue Limit. The remaining 34% comes from Lottery, State and Federal grants, and interest income.

Jefferson School District surpassed its goal and reported a final ADA of 2,321. Budget adoption ADA was 2,296, an increase of 25 ADA.

All Certificated, Classified, and Administrative employees received a 7% increase to salaries for 06-07, and a \$200/year increase to the health benefits cap.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

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 - All 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.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

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 \$44.9 million and \$44.0 million for the fiscal years ended June 30, 2007 and 2006, respectively. Of this amount, \$4.1 million and \$3.9 million were unrestricted for 2007 and 2006. 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

	Governmental Activities	
	2007	2006
Current and other assets	\$ 12.9	\$ 12.3
Capital assets	36.7	36.6
Total Assets	49.6	48.9
Current liabilities	0.7	0.7
Long-term debt	4.0	4.2
Total Liabilities	4.7	4.9
Net assets		
Invested in capital assets, net of related debt	32.4	32.1
Restricted	8.4	8.0
Unrestricted	4.1	3.9
Total Net Assets	\$ 44.9	\$ 44.0

JEFFERSON ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

The \$4.1 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 \$4.1 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 13. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues and expenses for the year.

Table A-2

(Amounts in millions)

	Governmental Activities	
	2007	2006
Revenues		
Program revenues:		
Charges for services	\$ 0.6	\$ 0.5
Operating grants and contributions	2.4	1.8
Capital grants and contributions	-	6.4
General revenues:		
Federal and state aid not restricted	10.3	9.4
Property taxes	3.7	3.2
Other general revenues	2.1	2.9
Total Revenues	19.1	24.2
Expenses		
Instruction related	13.5	11.1
Pupil services	1.4	1.2
Administration	1.2	1.5
Maintenance and operations	1.7	1.6
Other	0.3	0.3
Total Expenses	18.1	15.7
Change in Net Assets	\$ 1.0	\$ 8.5

Governmental Activities

As reported in the Statement of Activities on page 13, the cost of all of our governmental activities for the years ended June 30, 2007 and 2006 were \$18.1 million and \$15.7 million, respectively. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$3.7 million and \$3.2 million, respectively, because the cost was paid by those who benefited from the programs (\$0.6 million and \$0.5 million, respectively) or by other governments and organizations who subsidized certain programs with grants and contributions (\$2.4 million and \$1.8 million, respectively). We paid for the remaining "public benefit" portion of our governmental activities with \$10.3 million and \$9.4 million, respectively, in other federal and state sources, and \$2.1 million and \$2.9 million, respectively, in other revenues, like interest and general entitlements.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

In Table A-3, we have presented the net 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

(Amounts in millions)

	Net Cost	
	2007	2006
Instruction	\$ 11.7	\$ 3.4
Pupil services	0.3	0.3
Administration	1.2	1.5
Maintenance and operations	1.6	1.5
Other	0.3	0.3
Totals	\$ 15.1	\$ 7.0

The change in the net cost of instruction from \$3.4 million in 2006, to \$11.7 million in 2007, was a result of the effect of a one-time reimbursement of state construction funds received in 2006. The state construction fund reimbursement offsets, or reduces, each of the 2006 expense functions below what they would normally amount to. The majority of the construction reimbursement amount is netted against the cost of instruction as it was used to build the Traina school site. The gross cost of instruction and other expenses without the effect of this one time construction reimbursement are presented in Table A-2 on the prior page.

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$12.3 million, which is an increase of \$0.8 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 \$0.8 million to \$5.2 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 11, 2007. 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 44.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2007

The District originally projected revenues of approximately \$15.8 million. The revised budget projected revenues of \$17.1 million, an increase of approximately \$1.3 million.

- State revenue increased 0.7 million due to increased grants and other local revenue that exceeded amounts originally budgeted.
- The revised budget included adjustments for salary increases and changes in the benefits cap that were not in the original budget.

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2007, the District had \$36.7 million in a broad range of capital assets, including land, buildings, and furniture and equipment. This amount is consistent with prior years.

Table A-4

(Amounts in millions)

	Governmental Activities	
	2007	2006
Land	\$ 5.8	\$ 5.8
Construction in Progress	-	14.2
Buildings and improvements	30.0	15.7
Equipment	0.9	0.9
Totals	\$ 36.7	\$ 36.6

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

Traina School Phase II	\$ 0.6	\$ 8.5
Hawkins School Classroom Wings	0.2	0.6
District Office Move	0.3	-

This years additions of \$1.0 million included classroom equipment and building improvements as noted above.

There were two major capital projects completed during the 2006-07 year, which were the completion of the Anthony Traina Phase II construction and the District office relocation. More detailed information about our capital assets is presented in Note 4 to the financial statements.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

Long-Term Obligations

As of June 30, 2007, the District had \$4.1 million in certificates of participation outstanding. The District's long term obligations consisted of the following:

Table A-5

(Amounts in millions)

	Governmental Activities	
	2007	2006
Certificates of participation	\$ 4.1	\$ 4.2
Capital leases	0.2	0.2
Other	(0.1)	(0.1)
Totals	\$ 4.2	\$ 4.3

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

SIGNIFICANT ACCOMPLISHMENTS OF FISCAL YEAR 2006-07 ARE NOTED BELOW:

- Completion of the construction of Anthony Traina Elementary School Phase II was completed and school was opened in August 2006.
- The District offices were relocated to Traina school site in January 2007, occupying the portables previously used as Traina classrooms.
- Academic Performance Index (API) Scores:

<u>School</u>	<u>2007 API</u>	<u>2006 API</u>
Tom Hawkins Elementary School	806	813
Monticello Elementary School	839	834
Jefferson Elementary School	789	795
Anthony Traina Elementary School	814	820
Overall	807	812

JEFFERSON ELEMENTARY SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2007

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2007-08 year, the District Board and management used the following criteria:

The key assumptions in our revenue forecast are:

1. Revenue limit income.
2. State income will increase by 5.43 percent cost of living adjustments.
3. Expenditures are based on the following forecasts:

	<u>Staffing Ratio</u>	<u>Enrollment</u>
Grades kindergarten through third	20:1	1047
Grades four through eight	28:1	1357

The key assumptions in our expenditure forecasts are:

1. Step and column movement projected at 2.5%.
2. Health and welfare budgeted at \$8,800 cap.
3. Increase supplies and services for growth and adjustments for increased costs based on CPI.
4. Utilities increased due to opening of Traina Phase II and the district relocation.

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 Chief Business Officer, Business Services, at Jefferson Elementary School District, 1219 Whispering Wind Road, Tracy, California, 95377.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2007

	Governmental Activities
ASSETS	
Deposits and investments	\$ 11,458,366
Receivables	1,359,637
Deferred charges	120,655
Stores inventories	492
Capital assets not depreciated	5,852,123
Capital assets, net of accumulated depreciation	30,843,633
Total Assets	49,634,906
LIABILITIES	
Accounts payable	287,881
Interest payable	155,610
Deferred revenue	121,141
Current portion of long-term obligations	167,683
Noncurrent portion of long-term obligations	4,026,318
Total Liabilities	4,758,633
NET ASSETS	
Invested in capital assets, net of related debt	32,392,823
Restricted for:	
Capital projects	6,331,341
Educational programs	1,262,378
Other activities	754,660
Unrestricted	4,135,071
Total Net Assets	\$ 44,876,273

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expenses) Revenues and Changes in Net Assets
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities
Governmental Activities:					
Instruction	\$ 11,851,882	\$ 20,185	\$ 1,530,547	\$ 1,790	\$ (10,299,360)
Instruction-related activities:					
Supervision of instruction	139,991	785	38,725	-	(100,481)
Instructional library, media, and technology	204,270	2,977	32,976	-	(168,317)
School site administration	1,284,728	428	102,850	-	(1,181,450)
Pupil services:					
Home-to-school transportation	213,468	42,134	141,493	-	(29,841)
Food services	771,408	508,934	254,642	-	(7,832)
All other pupil services	370,579	92	98,074	-	(272,413)
General administration:					
Data processing	181,515	-	-	-	(181,515)
All other general administration	1,029,228	783	40,722	-	(987,723)
Plant services	1,702,878	-	106,707	-	(1,596,171)
Ancillary services	20,982	-	-	-	(20,982)
Interest on long-term obligations	196,170	-	-	-	(196,170)
Other outgo	93,476	-	50,437	-	(43,039)
Total Governmental-Type Activities	\$ 18,060,575	\$ 576,318	\$ 2,397,173	\$ 1,790	(15,085,294)
General revenues and subventions:					
Property taxes, levied for general purposes					3,680,643
Federal and State aid not restricted to specific purposes					10,326,506
Interest and investment earnings					635,297
Miscellaneous					1,450,358
Subtotal, General Revenues					16,092,804
Change in Net Assets					1,007,510
Net Assets - Beginning					43,963,189
Equity transfer					(94,426)
Net Assets - Ending					\$ 44,876,273

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

GOVERNMENTAL FUNDS BALANCE SHEET JUNE 30, 2007

	General Fund	Capital Facilities Fund	Non Major Governmental Funds	Total Governmental Funds
ASSETS				
Deposits and investments	\$ 4,347,088	\$ 6,291,940	\$ 755,518	\$ 11,394,546
Receivables	1,272,278	32,888	35,826	1,340,992
Due from other funds	12,402	-	-	12,402
Stores inventories	-	-	492	492
Total Assets	\$ 5,631,768	\$ 6,324,828	\$ 791,836	\$ 12,748,432
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 269,620	\$ 10,572	\$ 7,689	\$ 287,881
Due to other funds	-	12,402	-	12,402
Deferred revenue	121,141	-	-	121,141
Total Liabilities	390,761	22,974	7,689	421,424
Fund Balances:				
Reserved for:				
Legally restricted balances	1,262,328	-	-	1,262,328
Other reservations	505,000	-	522	505,522
Unreserved:				
Designated	997,808	-	-	997,808
Undesignated, reported in:				
General Fund	2,475,871	-	-	2,475,871
Special revenue funds	-	-	754,138	754,138
Capital projects funds	-	6,301,854	29,487	6,331,341
Total Fund Balance	5,241,007	6,301,854	784,147	12,327,008
Total Liabilities and Fund Balances	\$ 5,631,768	\$ 6,324,828	\$ 791,836	\$ 12,748,432

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, 2007

Total Fund Balance - Governmental Funds **\$ 12,327,008**

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

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

\$41,371,800

 Accumulated depreciation is

(4,676,044)

36,695,756

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.

17,811

Expenses 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.

120,655

In governmental funds, unmatured interest on long-term obligations 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.

(155,610)

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.

64,654

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

4,075,000

 Discounts on certificates of participation

(130,144)

 Compensated absences (vacations)

46,678

 Capital leases payable

202,467

(4,194,001)

Total Net Assets - Governmental Activities

\$ 44,876,273

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

GOVERNMENTAL FUNDS

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE FOR THE YEAR ENDED JUNE 30, 2007

	General Fund	Capital Facilities Fund	Nonmajor Governmental Funds	Total Governmental Funds
REVENUES				
Revenue limit sources	\$ 12,537,583	\$ -	\$ -	\$ 12,537,583
Federal sources	451,094	-	185,441	636,535
Other state sources	3,054,922	-	95,404	3,150,326
Other local sources	1,548,583	601,647	597,864	2,748,094
Total Revenues	17,592,182	601,647	878,709	19,072,538
EXPENDITURES				
Current				
Instruction	10,946,263	-	-	10,946,263
Instruction-related activities:				
Supervision of instruction	164,458	-	-	164,458
Instructional library, media and technology	254,025	-	-	254,025
School site administration	1,284,728	-	-	1,284,728
Pupil services:				
Home-to-school transportation	213,033	-	-	213,033
Food services	7,816	-	763,592	771,408
All other pupil services	370,579	-	-	370,579
General administration:				
Data processing	181,515	-	-	181,515
All other general administration	1,015,510	-	-	1,015,510
Plant services	1,436,997	66,720	25,067	1,528,784
Facility acquisition and construction	521,955	582,806	-	1,104,761
Ancillary services	20,982	-	-	20,982
Other outgo	93,476	-	-	93,476
Debt service				
Principal	59,997	105,000	-	164,997
Interest and other	12,342	189,489	-	201,831
Total Expenditures	16,583,676	944,015	788,659	18,316,350
Excess (Deficiency) of				
Revenues Over Expenditures	1,008,506	(342,368)	90,050	756,188
Other Financing Sources (Uses):				
Transfers in	-	45,432	167,683	213,115
Transfers out	(167,683)	-	(45,432)	(213,115)
Net Financing Sources (Uses)	(167,683)	45,432	122,251	-
NET CHANGE IN FUND BALANCES	840,823	(296,936)	212,301	756,188
Fund Balance - Beginning	4,400,184	6,598,790	666,272	11,570,820
Equity transfer	-	-	(94,426)	(94,426)
Fund Balance - Ending	\$ 5,241,007	\$ 6,301,854	\$ 784,147	\$ 12,327,008

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2007

Total Net Change in Fund Balances - Governmental Funds	\$	756,188
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense.		
This is the amount by which capital outlay exceeds depreciation in the period.		
Depreciation expense	\$	(925,779)
Capital outlay		<u>1,022,563</u>
		96,784
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). At year-end, compensated absences earned was greater than amounts used.		(14,924)
Amortization of issue costs and discounts of certificates of participation is an expenditure in the governmental funds, but it is 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.		164,997
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.		17,061
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.		
		<u>3,257</u>
Change in Net Assets of Governmental Activities	\$	<u><u>1,007,510</u></u>

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF NET ASSETS
JUNE 30, 2007**

	Governmental Activities - Internal Service Fund
ASSETS	
Current Assets	
Deposits and investments	\$ 63,820
Receivables	834
Total Current Assets	<u>64,654</u>
NET ASSETS	
Unrestricted	64,654
Total Net Assets	<u><u>\$ 64,654</u></u>

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

PROPRIETARY FUND

STATEMENT OF REVENUES, EXPENSES, AND CHANGES

IN FUND NET ASSETS

FOR THE YEAR ENDED JUNE 30, 2007

	Governmental Activities - Internal Service Fund
NONOPERATING REVENUES (EXPENSES)	
Interest income	\$ 3,257
Total Nonoperating Revenues (Expenses)	3,257
Change in Net Assets	3,257
Total Net Assets - Beginning	61,397
Total Net Assets - Ending	\$ 64,654

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

**PROPRIETARY FUND
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2007**

**Governmental
Activities -
Internal
Service Fund**

CASH FLOWS FROM INVESTING ACTIVITIES

Interest on investments	\$ 3,148
Net Cash Provided from Investing Activities	<u>3,148</u>
Net Increase in Cash and Cash Equivalents	3,148
Cash and Cash Equivalents - Beginning	<u>60,672</u>
Cash and Cash Equivalents - Ending	<u><u>\$ 63,820</u></u>

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

FIDUCIARY FUND STATEMENT OF NET ASSETS JUNE 30, 2007

	Retiree Benefits Trust	Scholarship Trust	Agency Funds (ASB)
ASSETS			
Deposits and investments	\$ 150,542	\$ 2,711	\$ 66,407
Receivables	2,837	-	-
Total Assets	<u>153,379</u>	<u>2,711</u>	<u>\$ 66,407</u>
LIABILITIES			
Due to student groups	-	-	\$ 66,407
Total Liabilities	<u>-</u>	<u>-</u>	<u>\$ 66,407</u>
NET ASSETS			
Unreserved	153,379	2,711	
Total Net Assets	<u>\$ 153,379</u>	<u>\$ 2,711</u>	

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

FIDUCIARY FUND STATEMENT OF CHANGES IN NET ASSETS FOR THE YEAR ENDED JUNE 30, 2007

	Retiree Benefits Trust	Scholarship Trust
ADDITIONS		
District contributions	\$ 66,384	-
Interest and investment earnings	7,093	-
Total Additions	73,477	2,711
DEDUCTIONS		
Other expenditures	14,524	-
Total Deductions	14,524	-
Change in Net Assets	58,953	2,711
Net Assets - Beginning	-	-
Equity transfer	94,426	
Net Assets - Ending	\$ 153,379	\$ 2,711

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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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 five-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 three elementary, and one 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 two joint powers agencies and two 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, 2007

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).

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]).

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:

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).

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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).

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 fiduciary fund category is split into four classifications: pension trust funds, investment trust funds, private-purpose trust funds, and agency funds.

Trust funds are used to account for the assets held by the District under a trust agreement for individuals, private organizations, or other governments and are therefore, not available to support the District's own programs. The District's trust funds are the Scholarship Trust and the Retiree Benefit Trust.

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 financial 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.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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.

Governmental Funds All governmental funds are accounted for using the flow of current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. The statement of revenues, expenditures, and changes in fund balance reports on the sources (revenues and other financing sources) and uses (expenditures and other financing uses) of current financial resources. This approach differs from the manner in which the governmental activities of the government-wide financial statements are prepared. Governmental fund financial statements, therefore, include reconciliations with brief explanations to better identify the relationship between the government-wide financial 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 the 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. Generally, available is defined as collectible within 45 or 60 days. However, to achieve comparability of reporting among California districts and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to State-aid apportionments, the California Department of Education has defined available for districts as collectible within one year. 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.

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 restrictions. On a modified accrual basis, revenue from non-exchange transactions must also be available before it can be recognized.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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 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.

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 obligations, 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, 2007, 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, 2007.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Stores Inventories

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.

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 and business-type activities columns of the statement of net assets, except for the net residual amounts due between governmental and business-type activities, which are presented as internal balances.

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 statement of net assets. 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.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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

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

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.

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.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Interfund Activity

Transfers between governmental activities in the government-wide financial statements are reported in the same manner as general revenues.

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 in 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 1st 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.

New Accounting Pronouncements

In July 2004, the Governmental Accounting Standards Board (GASB) issued GASBS No. 43, *Financial Reporting for Postemployment Benefits Plans Other Than Pension Plans*. This Statement established financial reporting standards and requires reporting of funding status for state and local government employers whose OPEB plans are administered as trust arrangements through which assets are accumulated and benefits are paid as they come due in accordance with an agreement between the employer and the plan members and their beneficiaries in which a) employer contributions are irrevocable, b) plan assets are dedicated to providing benefits

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

to retirees and their beneficiaries in accordance with the terms of the plans, c) plan assets are legally protected from creditors of the employer or plan administrator.

This Statement generally provides for retroactive implementation - that is, if comparative statements are presented, restatement of prior year results is required. The District will be required to implement the provisions of this Statement for the fiscal year ended June 30, 2008. 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.

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

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

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

NOTE 2 – DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2007, are classified in the accompanying financial statements as follows:

Governmental funds	\$ 11,394,546
Proprietary fund	63,820
Fiduciary funds	219,660
Total Deposits and Investments	<u>\$ 11,678,026</u>

Deposits and investments as of June 30, 2007, consist of the following:

Cash on hand and in banks	\$ 3,655,549
Cash in revolving	5,030
Investments	8,017,447
Total Deposits and Investments	<u>\$ 11,678,026</u>

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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.

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 Corporate 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

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The District manages its exposure to interest rate risk by investing in the county pool. The fair value of the county cash pool was \$8,017,447 and the weighted average maturity was 87 days.

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2007, \$3.5 million of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2007, consisted of intergovernmental grants, entitlements, interest, and other local sources. All receivables are considered collectible in full.

	General Fund	Capital Facilities	Non-Major Governmental Funds	Total	Proprietary Funds	Fiduciary Funds
Federal Government						
Categorical aid	\$ 143,751	\$ -	\$ 22,327	\$ 166,078	\$ -	\$ -
State Government						
Apportionment	433,477	-	169	433,646	-	-
Categorical aid	242,230	-	-	242,230	-	-
Lottery	185,829	-	-	185,829	-	-
Local Government						
Interest	90,315	32,888	9,349	132,552	834	2,837
Other Local Sources	176,676	-	3,981	180,657	-	-
Total	<u>\$ 1,272,278</u>	<u>\$ 32,888</u>	<u>\$ 35,826</u>	<u>\$ 1,340,992</u>	<u>\$ 834</u>	<u>\$ 2,837</u>

Long-Term receivables of \$17,811 consist of the special education mandated settlement which will be received at a rate of approximately \$4,453 each year for the next four years.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2007, was as follows:

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Governmental Activities				
Capital Assets Not Being Depreciated:				
Land	\$ 5,825,263	\$ -	\$ -	\$ 5,825,263
Construction in Progress	14,154,792	1,154,516	15,282,448	26,860
Total Capital Assets Not Being Depreciated	19,980,055	1,154,516	15,282,448	5,852,123
Capital Assets Being Depreciated:				
Buildings and Improvements	18,925,461	15,114,062	-	34,039,523
Furniture and Equipment	1,443,721	36,433	-	1,480,154
Total Capital Assets Being Depreciated	20,369,182	15,150,495	-	35,519,677
Total Capital Assets	40,349,237	16,305,011	15,282,448	41,371,800
Less Accumulated Depreciation:				
Buildings and Improvements	3,226,261	798,734	-	4,024,995
Furniture and Equipment	524,004	127,045	-	651,049
Total Accumulated Depreciation	3,750,265	925,779	-	4,676,044
Governmental Activities Capital Assets, Net	<u>\$36,598,972</u>	<u>\$ 15,379,232</u>	<u>\$ 15,282,448</u>	<u>\$ 36,695,756</u>

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

Governmental Activities	
Instruction	\$ 911,879
All other general administration	13,900
Total Depreciation Expenses Governmental Activities	<u>\$ 925,779</u>

NOTE 5 – INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2007, consist of an amount of \$12,402 due to General Fund from Capital Facilities Fund to close out the Capital Facilities Fund.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Operating Transfers

Interfund transfers for the year ended June 30, 2007, consisted of the following:

Transfer To	Transfer From		
	General Fund	Non-Major Governmental Funds	Total
Capital Facilities	\$ -	\$ 45,432	\$ 45,432
Non-Major Governmental Funds	167,683	-	167,683
Total	\$ 167,683	\$ 45,432	\$ 213,115

The General fund transferred to the Deferred Maintenance fund for the state match.	\$ 87,000
The General fund transferred to the Cafeteria fund for operating contribution.	60,683
The General fund transferred to the Pupil Transportation fund to set aside funds for future transportation equipment purchases.	20,000
The County School Facilities fund transferred to Capital Facilities fund for the construction of Traina elementary school.	45,432
Total	<u>\$ 213,115</u>

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.

Equity Fund Transfers

Equity fund transfers involve non-recurring or non-routine transfers of equity between funds. On August 8, 2006, the District established an irrevocable trust for the purpose of funding certain other post employment health benefits. The balance of \$94,426 that was previously set aside for this purpose was transferred into the trust.

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2007, consisted of the following:

	General Fund	Capital Facilities	Non-Major Governmental Funds	Total
Vendor payables	\$ 144,465	\$ 10,572	\$ 7,212	\$ 162,249
Salaries and benefits	125,155	-	477	125,632
Total	<u>\$ 269,620</u>	<u>\$ 10,572</u>	<u>\$ 7,689</u>	<u>\$ 287,881</u>

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 7 - DEFERRED REVENUE

Deferred revenue at June 30, 2007, consists of the following:

	General Fund
Federal financial assistance	\$ 22,787
State categorical aid	20,139
Other local	78,215
Total	<u>\$ 121,141</u>

NOTE 8 - LONG-TERM OBLIGATIONS

Summary

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

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007	Due in One Year
Certificates of participation	\$4,180,000	\$ -	\$ 105,000	\$ 4,075,000	\$ 110,000
Accumulated vacation - net	31,754	14,924	-	46,678	-
Capital leases	262,464	-	59,997	202,467	63,597
	4,474,218	14,924	164,997	4,324,145	173,597
Premiums/(discounts), net of amortization	(136,058)	-	(5,914)	(130,144)	(5,914)
	<u>\$4,338,160</u>	<u>\$ 14,924</u>	<u>\$ 159,083</u>	<u>\$ 4,194,001</u>	<u>\$ 167,683</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.

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 and mature through September 1, 2029. As of June 30, 2007, the principal balance outstanding was \$4,075,000.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

The certificates mature through September 1, 2029 as follows:

Year Ending June 30,	Principal	Interest	Total
2008	\$ 110,000	\$ 186,733	\$ 296,733
2009	115,000	183,433	298,433
2010	115,000	179,983	294,983
2011	120,000	176,245	296,245
2012	125,000	171,925	296,925
2013-2017	705,000	780,438	1,485,438
2018-2022	875,000	607,542	1,482,542
2023-2027	1,105,000	372,500	1,477,500
2027-2029	805,000	81,750	886,750
Total	<u>\$ 4,075,000</u>	<u>\$ 2,740,549</u>	<u>\$ 6,815,549</u>

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2007, amounted to \$46,678.

Capital Leases

The District has entered into various capital lease arrangements and has recorded capital assets in the amount of \$337,765 with corresponding accumulated depreciation of \$135,106 at June 30, 2007. The District's liability on lease agreements with options to purchase are summarized below:

	Copier Leases
Balance, July 1, 2006	\$ 262,464
Payments	59,997
Balance, July 1, 2007	<u>\$ 202,467</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2008	\$ 75,745
2009	75,745
2010	75,745
Total	<u>227,235</u>
Less: Amount Representing Interest	24,768
Present Value of Minimum Lease Payments	<u>\$ 202,467</u>

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

NOTE 9 - FUND BALANCES

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

	General Fund	Capital Facilities Fund	Non Major Governmental Funds	Total
Reserved				
Revolving cash	\$ 5,000	\$ -	\$ 30	\$ 5,030
Stores inventory	-	-	492	492
General reserve	500,000	-	-	500,000
Restricted programs	1,262,328	-	-	1,262,328
Total Reserved	1,767,328	-	522	1,767,850
Unreserved				
Designated				
Economic uncertainties	513,611	-	-	513,611
Other designation	484,197	-	-	484,197
Total Designated	997,808	-	-	997,808
Undesignated	2,475,871	6,301,854	783,625	9,561,350
Total Unreserved	3,473,679	6,301,854	783,625	10,559,158
Total	\$ 5,241,007	\$ 6,301,854	\$ 784,147	\$ 12,327,008

NOTE 10 - POSTEMPLOYMENT BENEFITS

For employees eligible between April 10, 1973 to October 10, 1989, 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, 13 employees meet those eligibility requirements, 2 are retired and 11 are actively employed by the District. The District contributions are 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 \$14,524 were recognized for retirees' health care benefits.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2007

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, 2007, 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.

Workers' Compensation

For fiscal year 2006-07, 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 Group and San Joaquin County Schools Property & Liability Group for property and liability and workers' compensation is as follows:

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

Insurance Program / Company Name	Type of Coverage	Limits	
<u>Workers' Compensation Program</u>			
San Joaquin County Schools Workers' Compensation Group	Workers' Compensation	State Statutory Limits	
<u>Other Insurance</u>			
The Fidelity and Deposit Company of Maryland	Crime	\$5,000,000	
Hartford Steam Boiler	Equipment Breakdown	\$100,000	
Chubb	EDP	\$8,036,719	
<u>Property and Liability Program</u>		<u>Property Limits</u>	<u>Liability Limits</u>
Northern California Regional Excess of Liability Fund (ReLIEF)	Property and Liability	\$25,000-\$250,000	\$50,000-\$1,000,000
Schools Association for Excess Risk (SAFER)	Property and Liability	\$250,000-\$250,000,000	\$1,000,000-\$24,000,000

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).

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.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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 2006-2007 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, 2007, 2006, and 2005, were \$644,849, \$544,831, and \$484,740, 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 2006-2007 was 9.116 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, 2007, 2006, and 2005, were \$190,153, \$160,109, and \$156,692, respectively, and equal 100 percent of the required contributions for each year.

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 \$348,739 (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. On behalf payments have been excluded from the calculation of available reserves.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2007

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, 2007.

Litigation

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

NOTE 14 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS, JOINT POWER AUTHORITIES AND OTHER RELATED PARTY TRANSACTIONS

The District is a member of the San Joaquin County Schools Workers' Compensation Group (SJCSWCIG), San Joaquin County Schools Property and Liability Insurance Group (SJCSPLIG) 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 generally 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 \$271,076, \$99,518 and \$105,261 to the 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.

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REQUIRED SUPPLEMENTARY INFORMATION

JEFFERSON ELEMENTARY SCHOOL DISTRICT

GENERAL FUND BUDGETARY COMPARISON SCHEDULE FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts (GAAP Basis)		Actual (GAAP Basis)	Variances - Positive (Negative) Final to Actual
	Original	Final		
REVENUES				
Revenue limit sources	\$ 12,462,691	\$ 12,576,493	\$ 12,537,583	\$ (38,910)
Federal sources	348,535	472,652	451,094	(21,558)
Other State sources	2,109,086	2,781,828	3,054,922	273,094
Other local sources	848,854	1,302,755	1,548,583	245,828
Total Revenues¹	15,769,166	17,133,728	17,592,182	458,454
EXPENDITURES				
Current				
Instruction	11,023,265	11,648,067	10,946,263	701,804
Instruction-related activities:				
Supervision of instruction	140,978	150,351	164,458	(14,107)
Instructional library, media, and technology	244,270	305,711	254,025	51,686
School site administration	1,297,806	1,334,251	1,284,728	49,523
Pupil services:				
Home-to-school transportation	231,215	242,036	213,033	29,003
Food services	8,320	8,020	7,816	204
All other pupil services	288,215	421,381	370,579	50,802
General administration:				
Data processing	105,261	164,376	181,515	(17,139)
All other general administration	1,023,664	1,118,593	1,015,510	103,083
Plant services	1,372,116	1,432,644	1,436,997	(4,353)
Facility acquisition and construction	719,600	538,288	521,955	16,333
Ancillary services	19,357	21,114	20,982	132
Other outgo	92,000	122,898	93,476	29,422
Debt service				
Principal	-	-	59,997	(59,997)
Interest	-	-	12,342	(12,342)
Total Expenditures¹	16,566,067	17,507,730	16,583,676	924,054
Excess (Deficiency) of Revenues Over Expenditures	(796,901)	(374,002)	1,008,506	1,382,508
Other Financing Sources (Uses):				
Transfers out	(146,761)	(167,683)	(167,683)	-
Net Financing Sources (Uses)	(146,761)	(167,683)	(167,683)	-
NET CHANGE IN FUND BALANCES	(943,662)	(541,685)	840,823	1,382,508
Fund Balance - Beginning	4,400,184	4,400,184	4,400,184	-
Fund Balance - Ending	\$ 3,456,522	\$ 3,858,499	\$ 5,241,007	\$ 1,382,508

¹ On behalf payments of \$348,739 are included in the actual revenues and expenditures, but have not been included in the budget amounts.

SUPPLEMENTARY INFORMATION

JEFFERSON ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS FOR THE YEAR ENDED JUNE 30, 2007

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 I - Part A, Basic Grants Low Income and Neglected	84.010	14329	\$ 26,635
Title II - Part A, Teacher Quality	84.367	14341	64,589
Title III - Limited English Student Proficient (LEP) Student Program	84.365	10084	33,770
Title IV - Part A, Drug Free Schools	84.186	14347	1,729
Title V - Part A, Innovative Education Strategies	84.298A	14354	1,624
Migrant Education			-
Regular and Summer Program	84.011	13174	-
Special Education - State Grants ¹			
IDEA, Basic Local Assistance, Entitlement Part B, Sec 611	84.027	13379	279,018
Low Incidence Entitlement	84.027A	24464	357
IDEA Preschool Grants, Part B, Sec 619	84.173	13430	6,164
IDEA Preschool Local Entitlement	84.027A	13682	14,234
Personnel Development	84.027A	13613	396
Total U.S. Department of Education			<u>428,516</u>
US DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Medi-Cal Billing Option	93.778	10013	<u>22,578</u>
Total U.S. Department of Health and Human Services			<u>22,578</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Child Nutrition Cluster ¹			
Basic School Breakfast Program	10.553	13525	13,649
National School Lunch	10.555	13396	171,792
Fair Market Value of Commodities ³	10.550	²	<u>21,291</u>
Total U.S. Department of Agriculture			<u>206,732</u>
Total Expenditures of Federal Awards			<u>\$ 657,826</u>

¹ Tested as a major program

² Pass-through entity identifying number not available

³ Amount not included in the financial statement

JEFFERSON ELEMENTARY SCHOOL DISTRICT

LOCAL EDUCATION AGENCY ORGANIZATION STRUCTURE JUNE 30, 2007

ORGANIZATION

The Jefferson Elementary School District was established in June 1870 and consists of an area comprising approximately 130 square miles. The District operates three elementary, and one middle school. There were no boundary changes during the year.

GOVERNING BOARD

<u>NAME</u>	<u>TITLE</u>	<u>YEAR</u>
Debbie Wingo	President	2008
Peter Carlson	Vice President	2008
Todd Wetherell	Clerk	2010
Dan Wells	Member	2010
Brian Jackman	Member	2010

ADMINISTRATION

<u>NAME</u>	<u>TITLE</u>
Ed Quinn	Superintendent
Mindy Maxedon	Chief Business Official

JEFFERSON ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF AVERAGE DAILY ATTENDANCE FOR THE YEAR ENDED JUNE 30, 2007

		Revised Second Period Report	Annual Report
ELEMENTARY			
Kindergarten		226	226
First through third		784	788
Fourth through sixth		787	786
Seventh through eighth		494	493
Home and hospital		2	2
Special education		30	26
Total Elementary		<u>2,323</u>	<u>2,321</u>
SUMMER SCHOOL			Hours of Attendance
Elementary			<u>40,820</u>
Total Hours			<u>40,820</u>

JEFFERSON ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF INSTRUCTIONAL TIME FOR THE YEAR ENDED JUNE 30, 2007

Grade Level	1982-83	1986-87	2006-07	Number of Days		Status
	Actual Minutes	Minutes Requirement	Actual Minutes	Traditional Calendar	Multitrack Calendar	
Kindergarten	31,500	36,000	42,570	180	-	In Compliance
Grade 1	41,780	50,400	50,460	180	-	In Compliance
Grade 2	41,780	50,400	50,460	180	-	In Compliance
Grade 3	41,780	50,400	50,460	180	-	In Compliance
Grade 4	54,000	54,000	60,324	180	-	In Compliance
Grade 5	54,000	54,000	60,324	180	-	In Compliance
Grade 6	54,000	54,000	60,324	180	-	In Compliance
Grade 7	54,000	54,000	60,420	180	-	In Compliance
Grade 8	54,000	54,000	60,420	180	-	In Compliance

JEFFERSON ELEMENTARY SCHOOL DISTRICT

RECONCILIATION AND ANNUAL FINANCIAL BUDGET REPORT WITH AUDITED FINANCIAL STATEMENTS FOR THE YEAR ENDED JUNE 30, 2007

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

FORM ASSET

Total Assets, June 30, 2007, Unaudited Actuals	\$ 36,789,921
Increase (decrease) in:	
Work in process	(14,252,693)
Buildings	15,114,062
Equipment	(29,755)
(Increase) decrease in:	
Accumulated depreciation - buildings	(798,734)
Accumulated depreciation - equipment	(127,045)
Total Assets, June 30, 2007, Audited Financial Statement	<u>\$ 36,695,756</u>

FORM DEBT

Total Liabilities, June 30, 2007, Unaudited Actuals	\$ 4,324,145
Decrease in:	
Premium/Discount on certificate of participation	(130,144)
Total Liabilities, June 30, 2007, Audited Financial Statement	<u>\$ 4,194,001</u>

JEFFERSON ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2007

	(Budget) 2008 ¹	2007	2006	2005
GENERAL FUND				
Revenues	\$ 16,916,298	17,592,182	\$ 15,005,298	\$ 13,202,458
Other sources	-	-	337,765	-
Total Revenues and Other Sources	16,916,298	17,592,182	15,343,063	13,202,458
Expenditures	17,002,913	16,583,676	13,925,293	12,396,750
Other uses and transfers out	205,682	167,683	80,000	138,686
Total Expenditures and Other Uses	17,208,595	16,751,359	14,005,293	12,535,436
INCREASE (DECREASE) IN FUND BALANCE	\$ (292,297)	\$ 840,823	\$ 1,337,770	\$ 667,022
ENDING FUND BALANCE	\$ 4,948,710	\$ 5,241,007	\$ 4,400,184	\$ 3,062,414
AVAILABLE RESERVES ²	\$ 1,015,160	\$ 2,989,482	\$ 2,017,291	\$ 1,761,824
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO ³	5.90%	18.23%	14.71%	14.05%
LONG-TERM DEBT	\$ 4,026,318	\$ 4,194,001	\$ 4,338,160	\$ 4,249,499
K-12 AVERAGE DAILY ATTENDANCE AT P-2	2,324	2,323	2,210	2,045

The General Fund balance has increased by \$2,178,593 over the past two years. The fiscal year 2007-2008 budget projects a decrease of \$292,297 (6 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 surpluses in all of the past three years and anticipates incurring an operating deficit during the 2007-2008 fiscal year. Total long-term obligations have decreased by \$55,498 over the past two years.

Average daily attendance has increased by 278 over the past two years. Additional growth of 1 ADA is anticipated during fiscal year 2007-2008.

¹ Budget 2008 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 payments of \$348,739, \$294,011, and \$265,402 have been excluded from the calculation of available reserves for fiscal years ending June 30, 2007, 2006, and 2005.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

EXCESS SICK LEAVE

JUNE 30, 2007

Section 19833.5 (a)(3) Disclosure

Jefferson Elementary School District does not provide more than 12 sick leave days in a school year to any CalSTRS member.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION FOR THE YEAR ENDED JUNE 30, 2007

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.

Local Education Agency Organization Structure

This schedule provides information about the District's boundaries and schools operated, members of the governing board, and members of the administration.

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

Excess Sick Leave

This schedule provides information required by the Audit Guide for California K-12 Local Educational Agencies for excess sick leave authorized or accrued for members of the California State Teachers Retirement System (CalSTRS).

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SUPPLEMENTARY INFORMATION - UNAUDITED

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING BALANCE SHEET - UNAUDITED FOR THE YEAR ENDED JUNE 30, 2007

	Cafeteria Fund	Deferred Maintenance Fund	Pupil Transportation Fund
ASSETS			
Deposits and investments	\$ 42,239	\$ 559,173	\$ 121,658
Receivables	27,374	6,648	1,381
Stores inventories	492	-	-
Total Assets	<u>\$ 70,105</u>	<u>\$ 565,821</u>	<u>\$ 123,039</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	2,202	2,103	-
Total Liabilities	<u>2,202</u>	<u>2,103</u>	<u>-</u>
Fund Balances:			
Reserved for:			
Other reservations	522	-	-
Unreserved:			
Undesignated, reported in:			
Special revenue funds	67,381	563,718	123,039
Capital projects funds	-	-	-
Total Fund Balance	<u>67,903</u>	<u>563,718</u>	<u>123,039</u>
Total Liabilities and Fund Balances	<u>\$ 70,105</u>	<u>\$ 565,821</u>	<u>\$ 123,039</u>

See accompanying note to supplementary information – unaudited.

County School Facilities Fund	Capital Projects Blended Component Fund	Total Non-Major Governmental Funds
\$ 5,108	\$ 27,340	\$ 755,518
66	357	35,826
-	-	492
<u>\$ 5,174</u>	<u>\$ 27,697</u>	<u>\$ 791,836</u>

3,384	-	\$ 7,689
<u>3,384</u>	<u>-</u>	<u>7,689</u>

-	-	522
---	---	-----

-	-	754,138
1,790	27,697	29,487
<u>1,790</u>	<u>27,697</u>	<u>784,147</u>
<u>\$ 5,174</u>	<u>\$ 27,697</u>	<u>\$ 791,836</u>

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NON-MAJOR GOVERNMENTAL FUNDS COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - UNAUDITED FOR THE YEAR ENDED JUNE 30, 2007

	Cafeteria Fund	Deferred Maintenance Fund	Pupil Transportation Fund
REVENUES			
Federal sources	\$ 185,441	\$ -	\$ -
Other state sources	11,794	83,610	-
Other local sources	566,342	23,097	5,241
Total Revenues	763,577	106,707	5,241
EXPENDITURES			
Current			
Pupil services:			
Food services	763,592	-	-
Plant services	-	25,067	-
Total Expenditures	763,592	25,067	-
Excess (Deficiency) of			
Revenues Over Expenditures	(15)	81,640	5,241
Other Financing Sources (Uses):			
Transfers in	60,683	87,000	20,000
Transfers out	-	-	-
Net Financing Sources (Uses)	60,683	87,000	20,000
NET CHANGE IN FUND BALANCES	60,668	168,640	25,241
Fund Balance - Beginning	7,235	395,078	97,798
Equity transfer	-	-	-
Fund Balance - Ending	\$ 67,903	\$ 563,718	\$ 123,039

See accompanying note to supplementary information – unaudited.

County School Facilities Fund	Capital Project Blended Component Fund	Retiree Benefits Fund	Total Non-Major Governmental Funds
\$ -	\$ -	\$ -	\$ 185,441
-	-	-	95,404
1,790	1,394	-	597,864
1,790	1,394	-	878,709
-	-	-	763,592
-	-	-	25,067
-	-	-	788,659
1,790	1,394	-	90,050
-	-	-	167,683
(45,432)	-	-	(45,432)
(45,432)	-	-	122,251
(43,642)	1,394	-	212,301
45,432	26,303	94,426	666,272
-	-	(94,426)	(94,426)
\$ 1,790	\$ 27,697	\$ -	\$ 784,147

JEFFERSON ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED FOR THE YEAR ENDED JUNE 30, 2007

NOTE 1 - PURPOSE OF SCHEDULES

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

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

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 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, 2007, which collectively comprise Jefferson Elementary School District's basic financial statements and have issued our report thereon dated December 11, 2007. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Jefferson Elementary School District's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Jefferson Elementary School District's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the District's financial statements that is more than inconsequential will not be prevented or detected by the District's internal control. We consider the deficiencies described in the accompanying schedule of findings as item 2007-1 to be a control deficiency in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the District's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the control deficiencies 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 instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards* and which are described in the accompanying schedule of findings and responses as item 2007-2.

We noted certain matters that we reported to management of Jefferson Elementary School District in a separate letter dated December 11, 2007.

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.

Vavurek, Trine, Day & Co LLP
Pleasanton, California
December 11, 2007



**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH
REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND ON INTERNAL
CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

Governing Board
Jefferson Elementary School District
Tracy, California

Compliance

We have audited the compliance of Jefferson Elementary School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2007. Jefferson Elementary School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Jefferson Elementary School District's management. Our responsibility is to express an opinion on Jefferson Elementary School District's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Jefferson Elementary School District's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Jefferson Elementary School District's compliance with those requirements.

In our opinion, Jefferson Elementary School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2007. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as item 2007-2.

Internal Control Over Compliance

The management of Jefferson Elementary School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Jefferson Elementary School District's internal control over compliance with the requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Jefferson Elementary School District's internal control over compliance.

A *control deficiency* in a district's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a Federal program on a timely basis.

A *significant deficiency* is a control deficiency, or combination of control deficiencies, that adversely affects the District's ability to administer a Federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a Federal program that is more than inconsequential will not be prevented or detected by the District's internal control.

A *material weakness* is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material noncompliance with a type of compliance requirement of a Federal program will not be prevented or detected by the District's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

Jefferson Elementary School District's response to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Jefferson Elementary School District's response and, accordingly, we express no opinion on it.

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.

Varinek, Trine, Day & Co LLP
Pleasanton, California
December 11, 2007



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Governing Board
Jefferson Elementary School District
Tracy, California

We have audited the 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, 2007, and have issued our report thereon dated December 11, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the *Standards and Procedures for Audits of California K-12 Local Educational Agencies 2006-07*, issued by the California Education Audit Appeals Panel as regulations. 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 Audit Guide	Procedures Performed
Attendance Accounting:		
Attendance reporting	8	Yes
Kindergarten continuance	3	Yes
Independent study	23	Not Applicable
Continuation education	10	Not Applicable
Adult education	9	Not Applicable
Regional occupational centers and programs	6	Not Applicable
Instructional Time:		
School districts	6	Yes
County offices of education	3	Not Applicable
Community day schools	9	Not Applicable
Morgan-Hart Class Size Reduction	7	Not Applicable

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
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	Not Applicable
Excess sick leave	2	Yes
Notice of right to elect California State Teachers Retirement System (CalSTRS) membership	1	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
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Mode of instruction	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

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
December 11, 2007

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JEFFERSON ELEMENTARY SCHOOL DISTRICT

SUMMARY OF AUDITORS' RESULTS FOR THE YEAR ENDED JUNE 30, 2007

FINANCIAL STATEMENTS

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

FEDERAL AWARDS

Internal control over major programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies identified not considered to be material weaknesses?	<u>Yes</u>
Type of auditors' report issued on compliance for major programs:	<u>Unqualified</u>
Any audit findings disclosed that are required to be reported in accordance with Circular A-133, Section .510(a)	<u>Yes</u>
Identification of major programs:	

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
<u>84.027-84.173</u>	<u>Special Education Cluster</u>
<u>10.550-10.555</u>	<u>Child Nutrition Cluster</u>
<u> </u>	<u> </u>
<u> </u>	<u> </u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 300,000</u>
Auditee qualified as low-risk auditee?	<u>No</u>

STATE AWARDS

Internal control over State programs:	
Material weaknesses identified?	<u>No</u>
Significant deficiencies 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

SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2007

FINANCIAL STATEMENT FINDINGS

The following findings represent significant deficiencies, 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

2007-1 Excess Vacation Accrual (30000)

Criteria or Specific Requirements

Management is responsible for establishing and maintaining internal controls, including those related to the prevention and detection of fraud, and monitoring activities of those controls. This responsibility extends to the operations of District policies and procedures.

Condition

Control Deficiency - District policy 4262(a) limits the carryover of vacation time of classified employees to five days or 40 hours as of September 30th of each year. We noted that at least two of the approximately 20 individuals with vacation carryover had not reduced their unused vacation time to below 40 hours by September 30.

Questioned costs

None

Context

There was a combined reported balance for vacation liability of \$46,678 at June 30, 2007.

Effect

The District has determined that a 40 hour carryover limit provides for a reasonable level of carryover while managing the liabilities of the district. Allowing employees to exceed the limit specified in the policies causes the District's liability for unpaid vacation time to increase.

Cause

Allowing employees to carryover more than the 40 hour vacation time limit as specified by the District policies.

Recommendation

We recommend that policies of the District be followed and that a plan be developed to bring unused vacation leave carryovers for the employees in question into line with the policies of the District.

District Response

District will tighten controls over vacation carryover balances going forward. In addition, District will revise Board policy to allow for carryover in excess of 40 hours on an exception basis with the Superintendent's approval.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2007

FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS

The following findings represent significant deficiencies, material weaknesses, and/or instances of noncompliance including questioned costs that are required to be reported by OMB Circular A-133. The findings have been coded as follows:

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
50000	Federal Compliance

2007-2 National School Lunch Program CFDA#10.555 (50000)

Criteria or Specific Requirements

Federal Compliance Supplement, Child Nutrition Programs III (3)(b)(1) - General Rule: Annual Certification A child's eligibility for free or reduced price meals under a Child Nutrition Cluster program may be established by the submission of an annual application or statement which furnishes such information as family income and family size. Eligibility is determined by comparing the data reported by the child's household to published income eligibility guidelines.

Condition

Significant deficiency - We noted five Applications for Free and Reduced Price Meals and Free Milk that were not completed in their entirety. Information such as reviewer's signature, determination, or household size was not indicated on those applications.

Questioned Costs

None.

Context

We reviewed 30 National School Lunch applications and noted 5 applications that had one or more missing elements.

Effect

Completed applications in accordance with requirements of the National School Lunch program are not on file. Incomplete applications cause the district to be out of compliance with the regulations of the program.

Cause

Insufficient time spent in reviewing National School Lunch applications received from parents.

Recommendation

We suggest that all National School Lunch applications be reviewed by cafeteria personnel to verify that all required elements are completed.

District Response

Procedures have been reviewed with applicable Food Services staff and the importance of completing these applications appropriately and completely has been communicated. In addition, CBO will conduct onsite visits to spot check completion of applications throughout the school year.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

**SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2007**

STATE AWARDS FINDINGS AND QUESTIONED COSTS

None noted.

JEFFERSON ELEMENTARY SCHOOL DISTRICT

SUMMARY SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2007

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.

Financial Statement Findings

2006-1 **Code 50000 U.S. Department of Education, Passed Through California Department of Education, Special Education Cluster CFDA 84.027 & 84.173**

Criteria or Specific Requirements In accordance with state and federal regulations, if an employee is funded solely (100%) from a single federal categorical program or cost objective, the minimum requirement for documenting salary or wages in a semi-annual certification by the employee that he/she worked solely on that federal categorical program or cost objective. The certification must be signed by the employee and the supervisor having firsthand knowledge of the work performed

In addition, employees funded by more than one source should prepare personnel activity reports or use other methods to document the allocation of an employees salary and benefits. These personnel activity reports should be prepared on a monthly basis unless the District elects to use the approved substitute system beginning July 1, 1998. Under this substitute system, the personnel activity reports are required to be completed every fourth month (three times per year).

Condition Payroll charges to the Special Education cluster, during fiscal year 2005-06, were not supported by semi-annual certifications or monthly personnel activity reports where applicable.

Questioned Costs \$255,284 for Special Education cluster program employees during fiscal year 2005-06.

Context Semi-annual certifications were not prepared for the Special Education cluster program employees during fiscal year 2005/06.

Effect There was improper documentation of federal program expenditures. In addition, the costs allocated to the Special Education cluster programs could be disallowed due to lack of adequate documentation.

Cause The District was unable to locate certifications or personnel activity reports for two multi-funded employees.

Recommendation The District should implement procedures to ensure that the required certifications are prepared on a semi-annual basis for those individuals charged 100% to a federal program, and that personnel activity reports are prepared on a monthly basis for those individuals whose time is partially allocated to a federal program. The certifications or reports should be signed by the employee and the supervisor having firsthand knowledge of the work performed. .

Current Status: Implemented.