

**FRESNO UNIFIED  
SCHOOL DISTRICT**

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ANNUAL FINANCIAL REPORT

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**JUNE 30, 2004**



**FRESNO UNIFIED SCHOOL DISTRICT**  
**OF FRESNO COUNTY**  
**FRESNO, CALIFORNIA**  
**JUNE 30, 2004**

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**GOVERNING BOARD**

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Patricia R. Barr	President	2006
David D. Wright	Clerk	2004
Michael E. O'Hare	Member	2004
Manuel G. Nunez	Member	2004
Luisa Medina	Member	2006
Richard A. Johanson	Member	2006
Tony Vang, Ed. D.	Member	2006

**ADMINISTRATION**

Santiago V. Wood, Ed. D.	Superintendent
Paul C. Disario Ed. D.	Associate Superintendent/Chief Financial Officer
Terry Simerly	Associate Superintendent/Instruction Division
Stanley J. McDonald	Associate Superintendent/Human Resources/Labor Relations
Elva Rodriguez	Assistant Superintendent/K-8 Education
Helen Ramirez	Assistant Superintendent/K-8 Education
Sandra Carsten	Assistant Superintendent
Diane Parrish	Assistant Superintendent/High School Division/Human Resources
Karen Major	Assistant Superintendent/K-8 Education
Chuck McAlexander	Assistant Superintendent/Operational Services
Robert Harris	Assistant Superintendent/Student Support
Jacquie Canfield	Administrator, Fiscal Services
Barbara Bengel	Assistant Superintendent, State and Federal

**ORGANIZATION**

The Fresno Unified School District was organized July 1, 1948, following annexation of the Calwa District to the Fresno City District. The District currently operates sixty-one elementary, fifteen middle and eight comprehensive high schools, five continuation high schools, one independent study center, and eight charter schools. In addition, adult school classes are conducted throughout the District and an opportunity school and vocational training school are maintained. With over 10,000 full-time and part-time employees and ninety schools, Fresno Unified School District is the fourth largest public school district in the State of California.



# FRESNO UNIFIED SCHOOL DISTRICT

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***FINANCIAL SECTION***

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## INDEPENDENT AUDITORS' REPORT

Board of Trustees  
Fresno Unified School District  
Fresno, California

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the District, as of and for the year ended June 30, 2004, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Fresno Unified School District, as of June 30, 2004, and the respective changes in financial positions and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 21, 2005, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants 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 assessing the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 12 and budgetary comparison information on page 53, are not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board (GASB). We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

*Vavrinek, Irvine, Day & Co., LLP*

Fresno, California  
January 21, 2005



## FRESNO UNIFIED SCHOOL DISTRICT

Education Center . 2309 Tulare Street  
Fresno, California 93721-2287 . (559) 457-3000

As management of the Fresno Unified School District, Fresno, Fresno County, California (the District), we offer readers of the District's Comprehensive Annual Financial Report this narrative and analysis of the financial activities of the District for the fiscal year ended June 30, 2004.

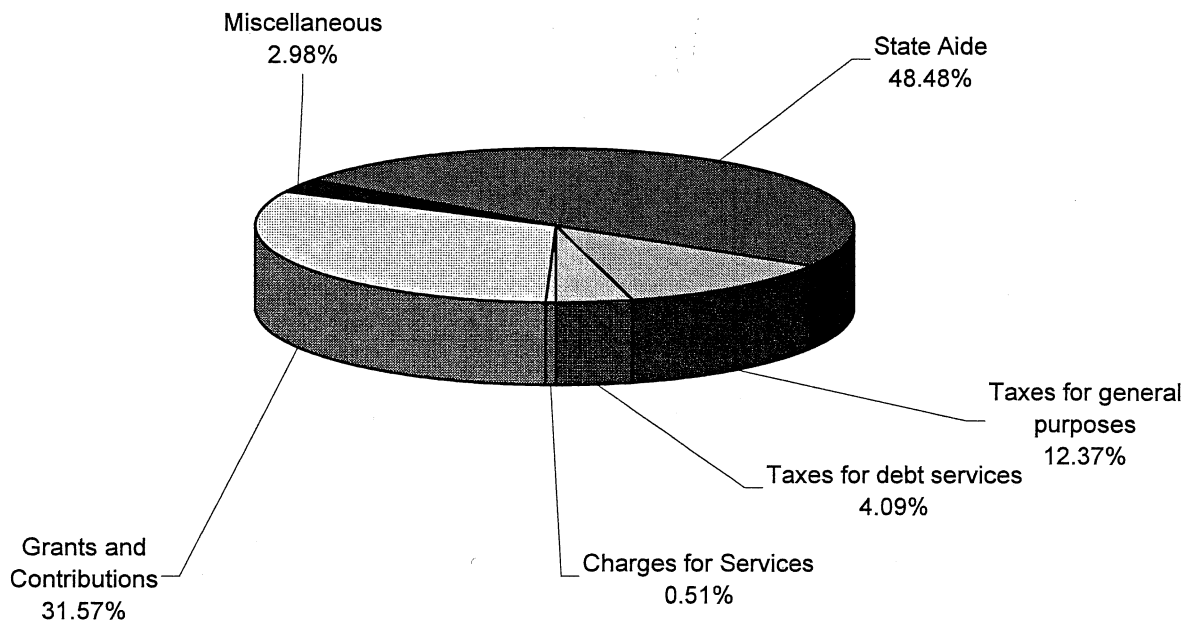
### ***FINANCIAL HIGHLIGHTS***

- The primary government has government-wide net assets totaling \$106 million at the end of the current fiscal year.
- Business-type activities have restricted net assets surplus of \$25 million.
- The total net assets of the District decreased by \$15 million during fiscal year 2004. The decrease is due to the overall impacts rising health and workers' compensation costs; declining enrollment; and the State's economic health.
- Fund balance of the District's governmental funds decreased by \$42 million resulting in an ending fund balance of \$147 million. The majority of the decrease is a result of no issuances in Measure "K," spending of building funds and utilization of the categorical flex transfers
- At the end of the current fiscal year, the fund surplus in the District's general fund decreased by \$7 million. The effects of the District's escalating health and workers' compensation costs; declining enrollment; and the impact of the State's budget crisis are key factors to this change.
- The District's long-term obligations increased by \$2 million to \$381 million as a result of an increase in the Incurred But Not Reported (IBNR) liabilities for the workers compensation fund and repayment to the Office of School Construction.
- The District's financial position remained steady during fiscal 2004 as reflected by Standard and Poor's rating of A+. This experience is a result of the District's cost cutting due to declining enrollment, higher health and workers compensation costs.
- The net assets of the District's business type activities - Food Services – increased by 1.1%.

**GOVERNMENTAL FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2004**

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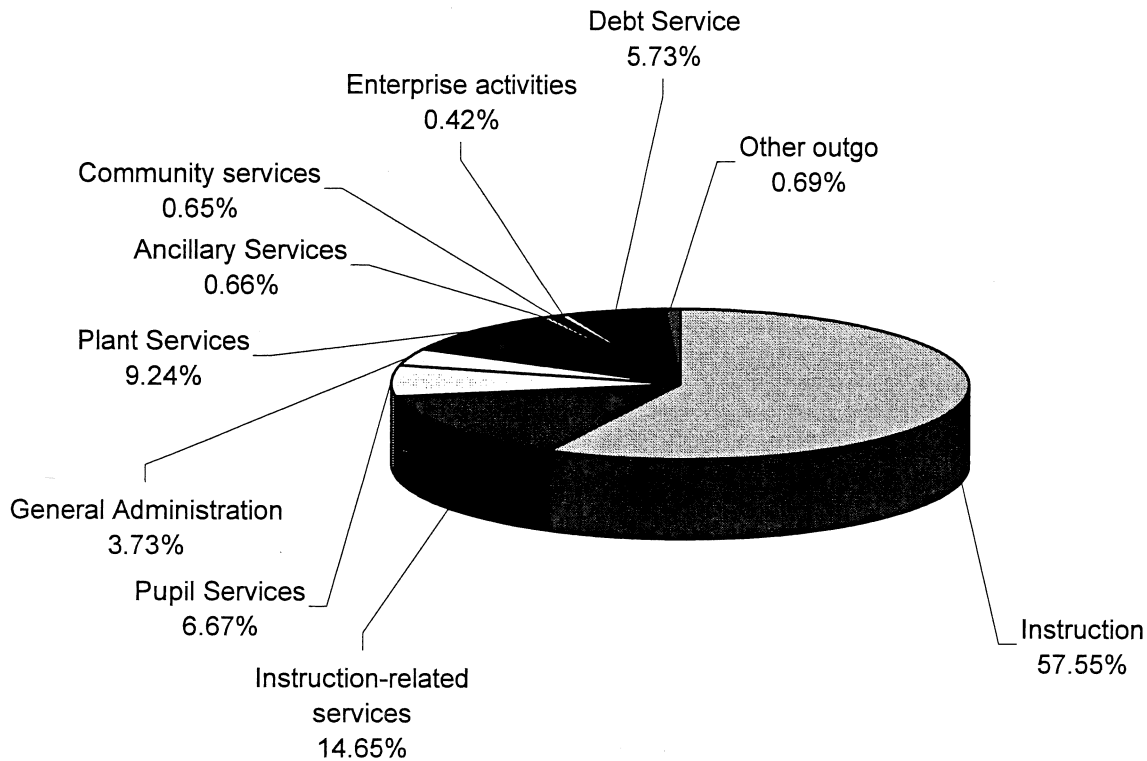
**Government-wide Revenue**



**GOVERNMENTAL FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2004**

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**Government-wide Expenses**



***OVERVIEW OF THE FINANCIAL STATEMENTS***

Management's discussion and analysis is intended to serve as an introduction to the District's basic financial statements. Comparison to the prior year's activity is normally provided in this document. The basic financial statements are comprised of three components: 1.) Government-wide financial statements, 2.) Fund financial statements, and 3.) Notes to the basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**GOVERNMENTAL FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2004**

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*Government-wide Financial Statements*

The government-wide financial statements are designed to provide the reader of the District's Annual Financial Report a broad overview of the financial activities in a manner similar to a private sector business. The government-wide financial statements include the statement of net assets and the statement of activities.

The statement of net assets presents information about all of the District's assets and liabilities. The difference between assets and liabilities is reported as net assets. Over time changes in net assets may serve as a useful indicator whether the financial position of the District is improving or deteriorating.

The statement of activities presents information showing how the net assets of the District changed during the current fiscal year. Changes in net assets are recorded in the statement of activities when the underlying event occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement even though the resulting cash flow may be recorded in a future period.

The government-wide financial statements consolidate governmental and internal service activities that are supported from taxes and intergovernmental revenues and business-type activities that are intended to recover all or most of their costs from user fees and charges. Governmental activities consolidate governmental funds including the general fund, debt service, capital projects funds, special revenue funds and the internal services funds. Business-type activities include the food service fund.

The government-wide financial statements also include information on component units that are legally separate from the District (known as the primary government). At the close of the current fiscal year, the District has included information for one component unit, The Fresno Unified Facilities Corporation.

The District's Facilities Corporation's only activity is to act as a conduit for the transfer of funds relating to the issuance and refunding of certificates of participation. The Corporation has no assets or liabilities at June 30, 2004, and therefore has no financial impact on the District.

*Fund Financial Statements*

Fund financial statements are designed to demonstrate compliance with finance-related legal requirements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific objectives. Fund financial statements for the District include two of the three possible fund types. The fund types presented here are governmental funds and proprietary funds.

Governmental funds account for essentially the same information reported in the governmental activities of the government-wide financial statements. However, unlike the government-wide statements, the governmental fund financial statements focus on near-term financial resources and fund balances. Such information may be useful in evaluating the financing requirements in the near term.

Since the governmental funds and the governmental activities report information using the same functions, it is useful to compare the information presented. Because the focus of each report differs, a reconciliation is provided on the fund financial statements to assist the reader in comparing the near-term requirements with the long-term needs.

The District maintains 12 different governmental funds. The major funds are the general fund, the building fund, county school facilities fund, and cafeteria fund. They are presented separately in the fund financial statements with the remaining governmental funds combined into a single aggregated presentation labeled other governmental funds. Individual fund information for the non-major funds is presented as other supplemental information elsewhere in this document.

**GOVERNMENTAL FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2004**

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The District adopts an annual appropriated budget for each of the governmental funds. A budgetary comparison schedule for the general fund is included in the fund financial statements to demonstrate compliance with the adopted budget. The remaining governmental funds budgetary comparisons are reported as other supplemental information.

The District maintains two types of proprietary funds. Enterprise funds are used to present the same functions as the business-type activities presented in the government-wide financial statements. The fund financial statements of the enterprise fund provide the same information as the government-wide financial statements only in more detail. Internal service funds are used to accumulate and allocate costs internally among the governmental functions.

The enterprise fund is the Cafeteria Fund and is considered to be a major fund. Individual internal service fund information is presented as other supplemental information elsewhere in this document. The District's internal service funds are the property and liability fund, workers' compensation fund, health benefits fund, and the defined benefits fund.

Notes to the Basic Financial Statements

The notes to the basic financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statements.

Other Information

In addition to the basic financial statements and accompanying notes, this report also contains other supplemental information concerning the District's non-major governmental and internal service funds.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Government-wide Net Assets

The assets of the District are classified as follows: Deposits and investments, receivables, internal balances, stores inventories, prepaid expenditures, and capital assets. These assets are available to provide resources for the near-term operations of the District. The majority of the current assets are the result of State revenue limit and property tax funds.

Capital assets are used in the operations of the District. These assets are land, buildings, improvement of sites and equipment. Capital assets are discussed in greater detail in Note #5, Capital Assets in the notes to the financial statements.

Current and long-term liabilities are classified based on anticipated liquidation either in the near-term or in the future. Current liabilities include accounts payable, long-term liabilities, and deferred revenue. The liquidation of current liabilities is anticipated to be either from current available resources, current assets or new resources that become available during fiscal 2004. Long-term liabilities such as bonds payable, COPs, and compensated absences will be liquidated from resources that will become available after fiscal 2005.

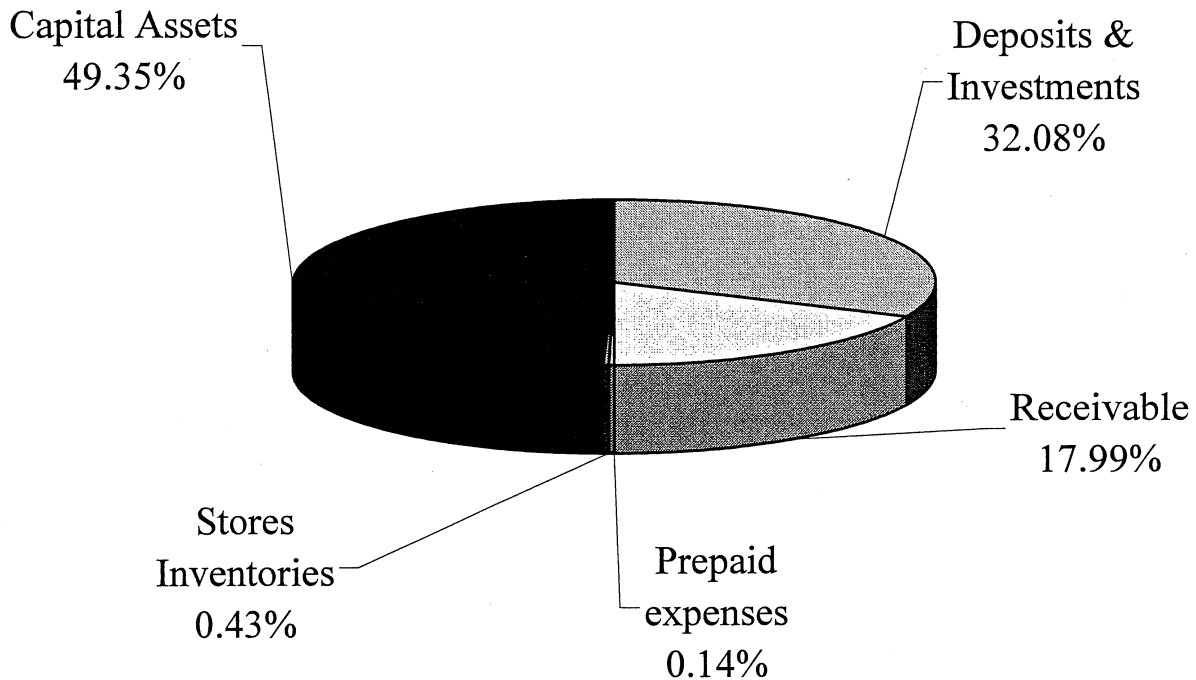
**GOVERNMENTAL FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2004**

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The assets of the primary government activities exceed liabilities by \$81 million. Total net assets of the primary government do not include internal balances. Internal balances are interfund payables and receivables within the governmental activities. The amounts reported in the accounts should be eliminated to avoid the "gross up" effect on the assets and liabilities.

A net investment of \$307 million in land, improvement of sites, buildings, and equipment to provide the services to the District's 80,421 public school students represents 51 percent of the District's total assets. The chart below presents a percentage illustration of the District's government assets.

**Government-wide Net Assets**



Governmental activities – Capital Project Funds for the District provide the same type of information presented in the government-wide financial statements, but in greater detail. The following highlights significant activity in the District's building funds for fiscal year 2004.

- The Building Fund's fund balance decreased by \$68 million. This fund is operating as anticipated.
- The Building Fund's major projects and activities include the following:
 

○ Repayment of the Bond Anticipation Note	\$ 35.2 million
○ New Elementary School No. 2 site acquisition	\$ 4.0 million
○ Design of New Elementary School No. 2	\$ .6 million
○ Construction of New Elementary School No. 1 Awarded	\$10.4 million
○ Site Acquisition and associated costs for Williams Elem.	\$ 1.6 million
○ Lincoln Two Story Building	\$ 3.0 million



**GOVERNMENTAL FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2004**

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- Lincoln's upgrades & improvements heating; air; handicap access; clock system; parking lot; and security upgrades \$ .7 million
- Bullard High School Parking Lot \$ .4 million
- Upgrade Science Classrooms at Bullard High School \$ .3 million
- Designing & planning of modernization at Lane \$ .1 million

The District's Business-type activities increased net assets by \$308,197. Business-type activities account for 24 percent of the District's net assets. Key elements that highlight the activities in fiscal year 2004 are as follows:

- The Cafeteria Fund reported net assets experienced no significant change. This fund is operating as anticipated.
- The Cafeteria Fund provides over 20,000 breakfasts and 50,000 meals and 4,000 snacks a day. Seventy-five percent of the student population qualified for free or reduced price meals. Meals are served at 107 locations, utilizing 570 full and part-time employees. The meals served have remained constant enabling the program to operate on the federal and state reimbursement.
- Sixty-five of the District's schools qualify for Provision 2 status due to the poverty level at these schools. This allows Food Services to provide meals to all enrolled students free of charge at these sites.

Financial Analysis of the District's Governmental Funds

As noted earlier, the District uses fund accounting to ensure and demonstrate compliance with finance related legal requirements.

The general fund is the chief operating fund of the District. Student enrollment decreased by 205 students during the fiscal year according to the October 2003 CBEDS data. The average daily attendance for 2003/04 decreased 436 over the 2002/03 fiscal year. This decrease amounts to approximately \$2.1 million.

The bond redemption debt service fund has adequate resources accumulated to make the principal and interest payments.

The Tax Override Fund was supplemented with revenue from the Special Reserve fund to assist in paying the principal and interest payments.

General Fund Budgetary Highlights

The General Fund budget is composed of the unrestricted and restricted fund budget. Restricted funds are grants or entitlements that have specified rules on how the funds can be spent. Unrestricted funds may be used as determined by the Board. Education Code 41011 requires unified districts to spend at least 55 percent towards classroom compensation. In 2003-04, Fresno Unified spent 61.87 percent towards classroom compensation.

Over the course of the year, the District has revised the annual operating budget ten times. These budget amendments are authorized per Education Code 42601 and fall into the following categories:

- Changes made to recognize revenue anticipated/received from sources outside the District
- Changes made to recognize expenses

The District is also required to project how they will end the year at two different intervals (December and March).

**GOVERNMENTAL FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2004**

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The District as a general rule requires restricted budgets to stay within their allocation. The major exceptions include Community Day, Restricted Routine Maintenance, CSR 9<sup>th</sup>, CSR K-3, Special Education and Transportation. Due to this understanding the only differences from projections were the contributions from the unrestricted general fund to these programs.

The estimated unrestricted ending balance was \$11.3 million. The actual ending balance was \$13.5 million. Some of the main differences were due to:

- Lower utility charges due to a cooler spring and improved energy conservation.
- Additional funds for indirect charges from the categorical programs.
- Higher local revenues

Capital Assets and Debt Administration

The District's investment in capital assets for its governmental and business-type activities as of June 30, 2004 was \$307 million (net of accumulated depreciation). Capital assets include land, buildings, improvement of sites, equipment, and work in progress. Capital assets decreased by 16% in business-type activities. Capital assets for the governmental activities increased by 11%.

Major capital events during the year are included in the governmental activities – capital projects section. Additional information on the District's capital assets can be found in Note 5 of this report.

At June 30, 2004, the District had total bonded debt outstanding of \$271 million backed by the full faith and credit of the District. Additionally, the District has long-term debt obligations for capital leases and certificates of participation in the amount of \$82 million still outstanding at the end of the current fiscal year.

Total long-term debt for the District increased during the current fiscal year according to the normal schedule of payments.

The District's credit rating from Standards and Poor's for general obligation debt maintained at A+.

State statutes limit the amount of general obligation debt that the District may issue. At the end of the current fiscal year, the legal debt limit was \$66 million less than the maximum amount.

Additional information on the District's long-term obligations can be found in Notes 9 and 11.

Economic Factors and Next Year's Budgets and Rates

The annual process to develop the District's budget begins in January, following the Governor's proposed State budget. Since most of the District's revenue comes from the State, we carefully derive assumptions from the Governor's priorities and calculate funding levels based upon our enrollment projections. It was determined that the General Fund unrestricted budget needed a \$19 million adjustment in order to balance and maintain the required 1 percent reserve. The reserve requirement was lowered to 1% through 2004/05.

On August 25, 2004, the Board approved a revised adopted 2004/05 budget. The budget included all items previously outlined in the June Proposed Budget. The Revised Budget Adopted Budget is short of the one percent reserve by \$3.7 million. In addition, it included the following items:

- |  |               |
|--|---------------|
| • Restore Restricted Routine Maintenance to 2003/04 level            | \$3.1 million |
| • Staffing additional special education classes/transportation costs | \$ .8 million |
| • Positions for the Academy for New Americans School                 | \$1.0 million |

As noted in the prior year, a list of reductions was presented to the Board on February 27, 2004.

**GOVERNMENTAL FUNDS  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
JUNE 30, 2004**

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The main State assumptions included COLA of 2.41% on the revenue limit, class size reduction, and special education yielding \$9.3 million. Status quo funding is expected for Summer School, Lottery and Apprentice program and continued deferral of mandated revenue. The continuance of mega item was expected to yield \$1.3 million and no categorical reform measures are assumed. The State rules do not allow the flexibility transfers.

The main local assumptions included a decrease in enrollment of 600 students. The District's ADA will be funded from the prior year's ADA minus the resident charter school students. Due to lower enrollment, lower CSR K-3 revenue is expected as well as the elimination of the 9<sup>th</sup> Grade CSR State funded program. No salary increases are anticipated; however, step and column costs for employees are included. Health and workers compensation costs are projected to be \$6.6 million and \$1.2 million respectively over fiscal year 2004 actuals. A change in K-3 staffing of 1 to 20 will result in \$2.7 million and the contribution increase to restricted programs is anticipated to be \$1.1 million.

Additional local assumptions involve utilizing restricted lottery funds of \$9 million and target instructional improvement of \$5.1 million to support the CSR K-3 program. Teaching positions above Board approved staffing will be funded from unrestricted dollars as well as Title II in the amount \$7.9 million for 95.2 FTE.

The 2004-05 first interim multi-year projections estimated the District will need to make \$40 million in ongoing reductions in 2005-06. The main reasons for the projected reductions are health and workers' compensation costs increase. Due to the State's financial situation, the District anticipates elimination of flexibility transfers; and restoring the reserves in 2005/06. Lastly, the District has agreed to decrease class size in 2005/06.

The District provides postemployment medical benefits for life to all District employees and their dependents with a minimum of 16 years of service. GASB 43 and GASB 45 are new governmental accounting standards that direct how state and local governments will account for these benefits. The District's most recent actuarial study calculated the total gross liability for postemployment benefits to exceed \$1.1 billion. Beginning fiscal year 2005/06, the District will recognize the current portion of the liability.

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**FRESNO UNIFIED SCHOOL DISTRICT**

**STATEMENT OF NET ASSETS  
JUNE 30, 2004**

<b>Assets</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
Deposits and investments	\$ 180,658,592	\$ 19,760,773	\$ 200,419,365
Receivables	108,288,741	4,095,098	112,383,839
Internal balances	772,240	(772,240)	-
Prepaid expenses	895,692	10,000	905,692
Stores inventories	1,535,438	1,174,364	2,709,802
Capital assets			
Land and construction in process	45,718,418	-	45,718,418
Other capital assets	414,492,092	3,230,798	417,722,890
Less: Accumulated depreciation	(153,350,733)	(2,301,253)	(155,651,986)
Total capital assets	<u>306,859,777</u>	<u>929,545</u>	<u>307,789,322</u>
<b>Total Assets</b>	<u>599,010,480</u>	<u>25,197,540</u>	<u>624,208,020</u>
<b>Liabilities</b>			
Accounts payable	113,161,826	430,237	113,592,063
Deferred revenue	23,231,112	-	23,231,112
Long-term liabilities			
Current portion of long-term obligations	29,519,946	-	29,519,946
Noncurrent portion of long-term obligations	<u>352,064,572</u>	<u>-</u>	<u>352,064,572</u>
Total long-term liabilities	<u>381,584,518</u>	<u>-</u>	<u>381,584,518</u>
<b>Total Liabilities</b>	<u>517,977,456</u>	<u>430,237</u>	<u>518,407,693</u>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	(73,566,976)	929,545	(72,637,431)
Restricted for:			
Debt service	32,167,371	-	32,167,371
Capital projects	83,034,990	-	83,034,990
Educational programs	4,588,175	-	4,588,175
Other activities	13,250,149	23,837,758	37,087,907
Unrestricted	21,559,315	-	21,559,315
<b>Total Net Assets</b>	<u>\$ 81,033,024</u>	<u>\$ 24,767,303</u>	<u>\$ 105,800,327</u>

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

**FRESNO UNIFIED SCHOOL DISTRICT**

**STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED JUNE 30, 2004**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
<b>Governmental Activities:</b>				
Instruction	\$ 374,065,923	\$ 1,032,933	\$ 93,940,939	\$ 36,260,650
Instruction-related activities:				
Supervision of instruction	47,592,422	409,381	43,976,165	-
Instructional library, media and technology	9,803,169	-	2,103,473	-
School site administration	37,831,459	101,205	2,062,858	-
Pupil services:				
Home-to-school transportation	11,590,796	843,933	4,344,238	-
Food services	367,076	94,628	232,924	-
All other pupil services	31,389,604	365,286	17,538,799	-
General administration:				
Data processing	3,889,846	-	-	-
All other general administration	20,350,631	167,067	13,043,479	-
Plant services	60,052,444	2,979	2,435,619	-
Ancillary services	4,319,550	22,210	625,581	-
Community services	4,236,650	74,327	2,842,485	-
Enterprise services	2,753,100	-	39,534	-
Interest on long-term debt	37,236,217	-	-	-
Other outgo	4,515,720	29	8,722,576	-
Depreciation (unallocated)	9,742,349	-	-	-
<b>Total Governmental-Type Activities</b>	<b>659,736,956</b>	<b>3,113,978</b>	<b>191,908,670</b>	<b>36,260,650</b>
<b>Business-Type Activities</b>				
Food services	28,069,044	2,475,992	25,901,250	-
<b>Total Business-Type Activities</b>	<b>28,069,044</b>	<b>2,475,992</b>	<b>25,901,250</b>	<b>-</b>
<b>Total School District</b>	<b>\$ 687,806,000</b>	<b>\$ 5,589,970</b>	<b>\$ 217,809,920</b>	<b>\$ 36,260,650</b>
General revenues and subventions:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Federal and State aid not restricted to specific purposes				
Interest and investment earnings				
Miscellaneous				
<b>Subtotal, General Revenues</b>				
<b>Excess (Deficiency) of Revenues Over Expenses</b>				
Net Assets - Beginning				
Net Assets - Ending				

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

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

<b>Governmental Activities</b>	<b>Business- Type Activities</b>	<b>Total</b>
\$ (242,831,401)	\$ -	\$ (242,831,401)
(3,206,876)	-	(3,206,876)
(7,699,696)	-	(7,699,696)
(35,667,396)	-	(35,667,396)
(6,402,625)	-	(6,402,625)
(39,524)	-	(39,524)
(13,485,519)	-	(13,485,519)
(3,889,846)	-	(3,889,846)
(7,140,085)	-	(7,140,085)
(57,613,846)	-	(57,613,846)
(3,671,759)	-	(3,671,759)
(1,319,838)	-	(1,319,838)
(2,713,566)	-	(2,713,566)
(37,236,217)	-	(37,236,217)
4,206,885	-	4,206,885
(9,742,349)	-	(9,742,349)
<u>(428,453,658)</u>	<u>-</u>	<u>(428,453,658)</u>
-	308,198	308,198
-	<u>308,198</u>	<u>308,198</u>
<u>(428,453,658)</u>	<u>308,198</u>	<u>(428,145,460)</u>
75,173,212	-	75,173,212
24,880,009	-	24,880,009
294,675,285	-	294,675,285
-	374,470	374,470
18,092,576	(374,471)	17,718,105
<u>412,821,082</u>	<u>(1)</u>	<u>412,821,081</u>
(15,632,576)	308,197	(15,324,379)
96,665,600	24,459,106	121,124,706
<u>\$ 81,033,024</u>	<u>\$ 24,767,303</u>	<u>\$ 105,800,327</u>

FRESNO UNIFIED SCHOOL DISTRICT

GOVERNMENTAL FUNDS  
BALANCE SHEET  
JUNE 30, 2004

	General Fund	County School Facilities Fund	Non-Major Governmental Funds
<b>ASSETS</b>			
Deposits and investments	\$ 27,792,884	\$ 30,567,438	\$ 87,341,994
Receivables	71,188,792	29,295,465	7,627,525
Due from other funds	9,135,304	292,409	23,441,612
Prepaid expenses	19,800	-	-
Stores inventories	1,462,254	-	73,184
<b>Total Assets</b>	<b>\$ 109,599,034</b>	<b>\$ 60,155,312</b>	<b>\$ 118,484,315</b>
<b>LIABILITIES AND FUND BALANCES</b>			
<b>Liabilities:</b>			
Accounts payable	80,061,987	3,268,124	2,947,025
Due to other funds	3,876,196	10,336,590	17,851,164
Deferred revenue	7,520,082	-	15,711,030
<b>Total Liabilities</b>	<b>91,458,265</b>	<b>13,604,714</b>	<b>36,509,219</b>
<b>FUND BALANCES</b>			
Reserved	6,170,329	-	73,184
Unreserved:			
Designated	11,900,637	-	-
Undesignated, reported in:			
General Fund	69,803	-	-
Special revenue funds	-	-	13,250,149
Debt service funds	-	-	32,167,371
Capital projects funds	-	46,550,598	36,484,392
<b>Total Fund Balance</b>	<b>18,140,769</b>	<b>46,550,598</b>	<b>81,975,096</b>
<b>Total Liabilities and Fund Balances</b>	<b>\$ 109,599,034</b>	<b>\$ 60,155,312</b>	<b>\$ 118,484,315</b>

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



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**Total  
Governmental  
Funds**

\$ 145,702,316  
108,111,782  
32,869,325  
19,800  
1,535,438  
\$ 288,238,661

86,277,136  
32,063,950  
23,231,112  
141,572,198

6,243,513

11,900,637

69,803  
13,250,149  
32,167,371  
83,034,990  
146,666,463

\$ 288,238,661

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**FRESNO UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET  
TO THE STATEMENT OF NET ASSETS  
JUNE 30, 2004**

---

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

<b>Total Fund Balance - Governmental Funds</b>	<b>\$ 146,666,463</b>
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	\$ 460,210,510
Accumulated depreciation is	<u>(153,350,733)</u>
Total capital assets	306,859,777
Expenditures relating to issuance of debt of next fiscal year were recognized in modified accrual basis, but should not be recognized in accrual basis.	
Internal service funds are used by the District's management to charge the costs of the workers' compensation, employee health benefits and property liability insurance programs to the individual funds. The assets and liabilities of the internal service funds are included with governmental activities. Internal service funds net assets are:	
	9,091,302
Long-term liabilities at year end consist of:	
General obligation bonds	(270,663,742)
Certificates of participation	(76,875,000)
Special tax revenue bonds	(2,768,692)
Capital lease obligations	(1,910,426)
Compensated absences	(1,157,765)
Office of public school construction	(3,025,574)
Long term workers' compensation liability	<u>(25,183,319)</u>
Total long-term liabilities	<u>(381,584,518)</u>
<b>Total Net Assets - Governmental Activities</b>	<b><u><u>\$ 81,033,024</u></u></b>

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

**FRESNO UNIFIED SCHOOL DISTRICT**

**GOVERNMENTAL FUNDS  
STATEMENT OF REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2004**

	<b>General Fund</b>	<b>County School Facilities Fund</b>	<b>Non-Major Governmental Funds</b>
<b>REVENUES</b>			
Revenue limit sources	\$359,737,601	\$ -	\$ 9,694,016
Federal sources	86,216,916	-	3,845,682
Other state sources	120,761,638	31,863,564	11,333,353
Other local sources	15,616,694	653,835	31,680,246
<b>Total Revenues</b>	<u>582,332,849</u>	<u>32,517,399</u>	<u>56,553,297</u>
<b>EXPENDITURES</b>			
Current			
Instruction	365,430,572	-	8,654,628
Instruction-related activities:			
Supervision of instruction	46,687,619	-	904,803
Instructional library, media and technology	9,803,169	-	-
School site administration	35,528,629	-	2,335,455
Pupil Services:			
Home-to-school transportation	11,593,136	-	-
Food services	203,666	-	167,329
All other pupil services	31,112,663	-	276,941
General administration:			
Data processing	3,889,846	-	-
All other general administration	16,459,847	-	1,144,718
Plant services	55,448,300	-	4,195,028
Facility acquisition and construction	209,355	6,979,726	33,883,793
Ancillary services	4,319,550	-	-
Community services	2,529,368	-	1,713,758
Other outgo	4,504,923	-	10,797
Enterprise services	2,204,516	-	587,596
Debt service			
Principal	807,841	-	44,338,720
Interest and other	-	-	18,744,236
<b>Total Expenditures</b>	<u>590,733,000</u>	<u>6,979,726</u>	<u>116,957,802</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(8,400,151)</u>	<u>25,537,673</u>	<u>(60,404,505)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	115,365	-	57,786,096
Other sources	1,502,341	-	-
Transfers out	-	(11,621,213)	(46,280,248)
<b>Net Financing Sources (Uses)</b>	<u>1,617,706</u>	<u>(11,621,213)</u>	<u>11,505,848</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(6,782,445)</u>	<u>13,916,460</u>	<u>(48,898,657)</u>
<b>Fund Balance - Beginning</b>	24,923,214	32,634,138	130,873,753
<b>Fund Balance - Ending</b>	<u>\$ 18,140,769</u>	<u>\$46,550,598</u>	<u>\$ 81,975,096</u>

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

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**Total  
Governmental  
Funds**

\$ 369,431,617  
90,062,598  
163,958,555  
47,950,775  
671,403,545

374,085,200

47,592,422  
9,803,169  
37,864,084

11,593,136  
370,995  
31,389,604

3,889,846  
17,604,565  
59,643,328  
41,072,874  
4,319,550  
4,243,126  
4,515,720  
2,792,112

45,146,561  
18,744,236

714,670,528  
(43,266,983)

57,901,461  
1,502,341  
(57,901,461)

1,502,341  
(41,764,642)

188,431,105

\$ 146,666,463

**FRESNO UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2004**

<b>Total Net Change in Fund Balances - Governmental Funds</b>		<b>\$ (41,764,642)</b>
<b>Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:</b>		
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statements of activities.		
This is the amount by which capital outlays exceeds depreciation in the period.		
Depreciation expense	\$ (9,742,349)	
Capital outlays	<u>40,748,130</u>	31,005,781
Some of the capital assets acquired this year were financed with capital leases. The amount financed by the leases is reported in the governmental funds as a source of financing. On the other hand, the capital leases are not revenues in the statement of activities, but rather constitute long-term liabilities in the statement of net assets.		(1,500,000)
In the statement of activities, certain operating expenses - compensated absences (vacations) and workers' compensation long term liabilities 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). This year, the workers' compensation long term liability was \$14,030,617. Vacation used was less than the amounts earned by \$19,277.		(14,011,340)
Proceeds received from issuance of debt is a revenue in the governmental funds, but it increases long-term liabilities in the statement of net assets and does not affect the statement of activities:		
Sale of general obligation bonds		(78,745,000)
Debt issued by the office of public school construction		(3,025,574)
Repayment of bond principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the statement of activities:		
General obligation bonds		85,770,000
Certificates of participation		8,420,000
Special tax revenue bonds		307,633
Capital lease obligations		656,632
An internal service fund is used by the District's management to charge the costs of the unemployment compensation insurance program to the individual funds. The net revenue of the internal service fund is reported with governmental activities.		(2,746,066)
<b>Change in Net Assets of Governmental Activities</b>		<b><u>\$ (15,632,576)</u></b>

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

**FRESNO UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2004**

	<b>Business-Type Activities Enterprise Funds Food Service</b>	<b>Governmental Activities - Internal Service Fund</b>
<b>ASSETS</b>		
<b>Current Assets</b>		
Deposits and investments	\$ 19,760,773	\$ 34,956,276
Receivables	4,095,098	176,959
Due from other funds	1,535,204	2,552,946
Prepaid expenses	10,000	875,892
Stores inventories	1,174,364	-
<b>Total Current Assets</b>	<b>26,575,439</b>	<b>38,562,073</b>
<b>Noncurrent Assets</b>		
Capital assets	3,230,798	-
Less: accumulated depreciation	(2,301,253)	-
<b>Total Noncurrent Assets</b>	<b>929,545</b>	<b>-</b>
<b>Total Assets</b>	<b>27,504,984</b>	<b>38,562,073</b>
<b>LIABILITIES</b>		
<b>Current Liabilities</b>		
Accounts payable	430,237	26,884,690
Due to other funds	2,307,444	2,586,081
<b>Total Current Liabilities</b>	<b>2,737,681</b>	<b>29,470,771</b>
<b>NET ASSETS</b>		
Invested in capital assets, net of related debt	929,545	-
Unrestricted	23,837,758	9,091,302
<b>Total Net Assets</b>	<b>\$ 24,767,303</b>	<b>\$ 9,091,302</b>

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

**FRESNO UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF REVENUES, EXPENSES AND CHANGES  
IN FUND NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2004**

	<b>Business-Type Activities Enterprise Funds</b>	<b>Governmental Activities - Internal Service Fund</b>
	<b>Food Service</b>	
<b>OPERATING REVENUES</b>		
Charges for services	\$ 2,475,992	\$ -
Charges to other funds and miscellaneous revenues	138,328	107,430,747
<b>Total Operating Revenues</b>	<b>2,614,320</b>	<b>107,430,747</b>
<b>OPERATING EXPENSES</b>		
Payroll costs	13,976,248	997,817
Professional and contract services	1,212,548	104,062,598
Supplies and materials	10,792,567	19,322
Facility rental	386,555	-
Other operating cost	1,493,808	-
Depreciation	207,315	-
<b>Total Operating Expenses</b>	<b>28,069,041</b>	<b>105,079,737</b>
<b>Operating Income (Loss)</b>	<b>(25,454,721)</b>	<b>2,351,010</b>
<b>NONOPERATING REVENUES (EXPENSES)</b>		
Interest income	374,467	395,056
Grants	25,388,451	-
<b>Total Nonoperating Revenues (Expenses)</b>	<b>25,762,918</b>	<b>395,056</b>
<b>Income (Loss) Before Capital Contributions and Transfers</b>	<b>308,197</b>	<b>2,746,066</b>
Transfers in	-	2,471,831
Transfers out	-	(2,471,831)
<b>Change in Net Assets</b>	<b>308,197</b>	<b>2,746,066</b>
<b>Total Net Assets - Beginning</b>	<b>24,459,106</b>	<b>6,345,236</b>
<b>Total Net Assets - Ending</b>	<b>\$ 24,767,303</b>	<b>\$ 9,091,302</b>

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



**FRESNO UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED JUNE 30, 2004**

	<b>Business-Type Activities Enterprise Funds</b>	<b>Governmental Activities - Internal Service Fund</b>
	<b>Food Services</b>	
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash received from user charges	\$ 2,614,320	\$ 11,174,342
Cash received from assessments made to other funds	-	98,923,126
Cash payments to employees for services	(13,976,248)	(997,817)
Cash payments for insurance claims	-	(104,062,599)
Cash payments to suppliers for goods and services	(14,503,870)	(19,322)
Cash payments for facility use	(549,577)	-
Cash payments for other operating expenses	-	-
Net Cash Provided (Used) for Operating Activities	(26,415,375)	5,017,730
<b>CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES</b>		
Nonoperating grants received	25,388,451	-
Net Cash Provided (Used) from Noncapital Financing Activities	25,388,451	-
<b>CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES</b>		
Sale of equipment	(62)	-
Acquisition of capital assets	(64,415)	-
Net Cash Provided (Used) for Capital and Related Financing Activities	(64,477)	-
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Interest on investments	374,467	395,056
Net Cash Provided (Used) from Investing Activities	374,467	395,056
Net increase in cash and cash equivalents	(716,934)	5,412,786
Cash and cash equivalents - Beginning	20,477,707	29,543,490
Cash and cash equivalents - Ending	\$ 19,760,773	\$ 34,956,276

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

**FRESNO UNIFIED SCHOOL DISTRICT**

**PROPRIETARY FUNDS  
STATEMENT OF CASH FLOWS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2004**

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**RECONCILIATION OF OPERATING INCOME  
(LOSS) TO NET CASH PROVIDED (USED) BY  
OPERATING ACTIVITIES:**

Operating income (loss)	\$ (25,454,721)	\$ 2,351,010
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:		
Depreciation	207,315	-
Changes in assets and liabilities:		
Receivables	(297,240)	(78,986)
Due from other fund	(1,245,015)	(1,208,557)
Inventories	(4,701)	-
Accrued liabilities	77,525	4,677,632
Due to other fund	301,462	(634,124)
Prepays	-	(89,245)
<b>NET CASH PROVIDED BY OPERATING ACTIVITIES</b>	<u>\$ (26,415,375)</u>	<u>\$ 5,017,730</u>

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

**FRESNO UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS  
STATEMENT OF NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2004**

---

	<b>Other Private- Purpose Trust</b>
<b>ASSETS</b>	
Deposits and investments	\$ 2,203,941
Stores inventories	26,803
<b>Total Assets</b>	<u>2,230,744</u>
<b>LIABILITIES</b>	
Accounts payable	53,157
Due to scholarships	675,133
<b>Total Liabilities</b>	<u>728,290</u>
<b>NET ASSETS</b>	
Reserved for student groups	1,502,454
<b>Total Net Assets</b>	<u>\$ 1,502,454</u>

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

**FRESNO UNIFIED SCHOOL DISTRICT**

**FIDUCIARY FUNDS**

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
FOR THE YEAR ENDED JUNE 30, 2004**

---

	<b>Other Private- Purpose Trust</b>
<b>ADDITIONS</b>	
Donations	\$ 6,408,403
Interest	4,775
<b>Total Additions</b>	<u>6,413,178</u>
<b>DEDUCTIONS</b>	
Expenditures	6,403,895
<b>Total Deductions</b>	<u>6,403,895</u>
<b>Change in Net Assets</b>	9,283
<b>Net Assets - Beginning</b>	<u>1,493,171</u>
<b>Net Assets - Ending</b>	<u><u>\$ 1,502,454</u></u>

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

# FRESNO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

---

### *NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

#### **A. Financial Reporting Entity**

The Fresno Unified School District was organized on July 1, 1948, under the laws of the State of California. The District operates under a locally-elected seven-member Board form of government and provides educational services to grades K - 12 as mandated by the State and/or Federal agencies. The District operates sixty-three elementary, eighteen middle, eight comprehensive high schools, three alternative high schools, one independent study center, and three community day schools. In addition, adult school classes are conducted throughout the District and an opportunity school and vocational training school are maintained.

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 Fresno Unified School District, this includes general operations, food service, and student related activities of the District.

#### **B. State Deferred Appropriations**

As part of its plan to address the budget crisis facing the State of California, Senate Bill (SB) XI 18 (the "Bill") was signed into law during the year ended June 30, 2003. The provisions of the Bill significantly altered funding for California school districts. The Bill, among other things, shifted the appropriation for the payment of the June 2004 principal apportionment for the General and Adult Funds into the 2004-2005 fiscal year. The Bill allowed local educational agencies to recognize for budgetary and financial reporting purposes any amount of state appropriations deferred from the current fiscal year and appropriated from the subsequent fiscal year for payment of current-year costs as a receivable in the current year. In addition, Assembly Bill 2781 deferred the 2003-2004 appropriations for the Home-to-School Transportation, School Safety, and Targeted Instructional Improvement programs into the 2004-2005 fiscal year. Exclusion of the apportionments would have resulted in a decrease in receivables, revenue, and available reserves of \$24,150,574.

#### **C. Component Units**

Component units are legally separate organizations for which the District is financially accountable. Component units may include organizations that are fiscally dependent on the District in that the District approves their budget, the issuance of their debt or the levying of their taxes. In addition, component units are other legally separate organizations for which the District is not financially accountable but the nature and significance of the organization's relationship with the District is such that exclusion would cause the District's financial statements to be misleading or incomplete. For financial reporting purposes, the component unit discussed below is reported in the District's financial statements because 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.

# FRESNO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

---

The Fresno Unified Facilities Corporation's financial activity is presented in the financial statements as the Facilities Corporation Capital Projects Fund and the COP/CFD - Debt Service Fund. Certificates of participation issued by the Corporation are included as long-term liabilities in the government-wide financial statements. Individually-prepared financial statements are not prepared for Fresno Unified Facilities Corporation.

The following are those aspects of the relationship between the District and the Corporation which satisfy GASB Codification Section 2100 criteria.

### Manifestations of Oversight

- The Corporation's Board of Directors were appointed by the District's Board of Education.
- The Corporation has no employees. The District's superintendent and chief financial officer function as agents of the Corporation. Neither individual receives additional compensation for work performed in this capacity.
- The District exercises significant influence over operations of the Corporation as it is anticipated that the District will be sole lessee of all facilities owned by the Corporation.

### Accountability for Fiscal Matters

- All major financing arrangements, contracts, and other transactions of the Corporation must have the consent of the District.
- Any deficits incurred by the Corporation will be reflected in the lease payments of the District. Any surpluses of the Corporation revert to the District at the end of the lease period.
- It is anticipated that the District's lease payments will be the sole revenue source of the Corporation.
- The District has assumed a "moral obligation," and potentially a legal obligation, for any debt incurred by the Corporation.

### Scope of Public Service

- The Corporation was created for the sole purpose of financially assisting the District.
- The Corporation is a nonprofit, public benefit corporation incorporated under the laws of the State of California and recorded by the Secretary of State on March 23, 1978. The Corporation was formed to provide financing assistance to the District by financing and constructing public school building and facilities for the District. Upon completion, the District intends to occupy all Corporation facilities under lease-purchase agreements effective through the year 2011. At the end of the lease term, title of all Corporation property will pass to the District for no additional consideration.
- The Corporation's financial activity is presented in the financial statements as the Corporation Building Fund and the Corporation Debt Service Fund. Certificates of Participation issued by the Corporation are included in the General Long-Term Debt.

# FRESNO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

---

**Charter Schools** The District has granted and approved various charter schools pursuant to Education Code Section 47605. The charter schools are required in their individual charter agreements to have an annual financial audit performed. For disclosure purposes, the financial activities of the Sunset Charter School are presented in the District's General Fund. All other charter schools have their own independent audit and their own audit reports.

### **D. Basis of Presentation - Fund Accounting**

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

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

**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).

#### **Other Non-Major Governmental Funds**

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

**Adult Education Fund** The Adult Education Fund is used to account for resources committed to adult education programs maintained by the District.

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

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

# FRESNO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

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

**Tax Override Fund** The Tax Override Fund is used for the repayment of voted indebtedness tax levies to be financed from ad valorem tax levies.

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

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

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

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

**State School Building Lease-Purchase Fund** The State School Building Lease-Purchase Fund is used primarily to account for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17070-17080).

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

**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:

**Enterprise Fund** Enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The only enterprise fund of the District accounts for the financial transactions related to the Food Service operations of the District.

**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 Self-Insurance programs that are accounted for in an internal service fund.



# FRESNO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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**Fiduciary Funds** Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is used for trust 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 Associated Student Body accounts.

### **E. Basis of Accounting - Measurement Focus**

**Government-Wide Financial Statements** The government-wide financial statements are prepared using the economic resources measurement focus and the accrual basis of accounting. 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 financial statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the District 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 or business segment is self-financing or draws from the general revenues of the District.

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

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

# FRESNO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

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

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

**Revenues – Exchange and Non-Exchange Transactions** Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the District, available means expected to be received within 60 days of fiscal year-end.

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

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

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

# FRESNO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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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 general long-term debt, which has not matured, are recognized when paid in the governmental funds. Allocations of costs, such as depreciation and amortization, are not recognized in the governmental funds.

### **F. Cash and Cash Equivalents**

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

### **G. Investments**

Investments held at June 30, 2004, 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.

### **H. Restricted Assets**

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

### **I. Prepaid Expenditures**

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

### **J. Stores Inventory**

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

# FRESNO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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### **K. Capital Assets and Depreciation**

The accounting and reporting treatment applied to the capital assets associated with a fund are determined by its measurement focus. General capital assets are long-lived assets of the District as a whole. The District maintains a capitalization threshold of \$15,000. 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. Interest incurred during the construction of capital assets utilized by the enterprise fund is also capitalized.

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

Capital assets in the proprietary funds are capitalized in the fund in which they are utilized. The valuation basis for proprietary fund capital assets are the same as those used for the general capital assets. 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, 5 to 50 years; equipment, 2 to 15 years.

### **L. 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.

### **M. Compensated Absences**

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

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.

# FRESNO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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### **N. Accrued Liabilities and Long-Term Obligations**

All payables, accrued liabilities, and long-term obligations are reported in the government-wide financial statements, and all payables, accrued liabilities, and long-term obligations payable from the enterprise fund are reported on the enterprise 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 funds.

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

### **O. 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.

### **P. Net Assets**

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

### **Q. Operating Revenues and Expenses**

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the District, these revenues are Cafeteria and Self-Insurance. Operating expenses are necessary costs incurred to provide the good or service that is the primary activity of the fund.

### **R. Interfund Activity**

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

# FRESNO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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

### S. 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.

### T. Budgetary Data

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

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

### U. 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 Fresno bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

### V. New Accounting Pronouncement

For the fiscal year ended June 30, 2004, the District has implemented Governmental Accounting Standards Board (GASB) Statement No. 39, "Determining Whether Certain Organizations Are Component Units", an amendment of GASB Statement No. 14. This statement provides additional guidance to determine whether certain organizations for which the primary government is not financially accountable should be reported as component units based on the nature and significance of their relationship with the primary government.

# FRESNO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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### *NOTE 2 - DEPOSITS AND INVESTMENTS*

#### **A. Policies and Practices**

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

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

#### **B. Deposits**

At year-end, the carrying amounts of the District's deposits were \$2,233,380 for government activities, \$621 for business activities, and \$2,203,941 held in fiduciary funds. The bank balances totaled \$4,072,424. Of the bank balances, \$609,982 was covered by Federal deposit insurance and \$3,465,532 was covered by pooled and/or pledged collateral, but not necessarily held in the District's name (uncollateralized, risk Category 3).

#### **C. Investments**

The District's investments are categorized to give an indication of the level of risk assumed by the District at year-end. Category 1 includes investments that are insured or registered or for which the securities are held by the District or its agent in the District's name. Category 2 includes uninsured and unregistered investments for which the counterparty's trust department or agent in the District's name holds the securities. Category 3 includes uninsured and unregistered investments for which the securities are held by the financial institution's trust department or agent but not in the District's name. Deposits with the County Treasury are not categorized because they do not represent securities, which exist in physical or book entry form. The deposits with county treasury are valued using the amortized cost method (which approximates fair value). The fair values were provided by the county and trustee.

**FRESNO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

The investments at June 30, 2004, are as follows:

	<u>Reported Amount</u>	<u>Fair Value</u>
Uncategorized		
Deposits with county treasurer	\$ 154,355,602	\$ 153,109,990
U.S. Treasury Notes [1]	3,056,263	3,056,263
First American Treasury Obligations [1]	247,312	247,312
FNMA Discount Notes [1]	23,858	23,858
Guaranteed Investment Contract	35,168,013	35,168,013
Federal Home Loan Mortgage	5,334,316	5,334,316
Total	<u>\$ 198,185,364</u>	<u>\$ 196,939,752</u>

[1] U.S. Government securities are not required to be categorized, since they are backed by the full credit of the United States Government.

**NOTE 3 - RECEIVABLES**

Receivables at June 30, 2004, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	<u>General Fund</u>	<u>County School Facilities Fund</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>	<u>Cafeteria Enterprise Fund</u>	<u>Self Insurance Fund</u>	<u>Total</u>
Federal Government							
Categorical aid	\$28,103,449	\$ -	\$ 702,954	\$ 28,806,403	\$3,641,613	\$ -	\$ 32,448,016
State Government							
Apportionment	23,583,873	-	566,701	24,150,574	-	-	24,150,574
Categorical aid	9,727,839	-	5,121,250	14,849,089	241,666	-	15,090,755
Other state	5,181,415	29,143,449	293,407	34,618,271	-	-	34,618,271
Local Government							
Interest	167,212	152,016	363,386	682,614	-	124,930	807,544
Other Local Sources	4,425,004	-	579,827	5,004,831	211,819	52,029	5,268,679
Total	<u>\$71,188,792</u>	<u>\$29,295,465</u>	<u>\$ 7,627,525</u>	<u>\$ 108,111,782</u>	<u>\$4,095,098</u>	<u>\$176,959</u>	<u>\$ 112,383,839</u>



**FRESNO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**NOTE 4 - CAPITAL ASSETS**

Capital asset activity for the fiscal year ended June 30, 2004, was as follows:

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
<b>Governmental Activities</b>				
Capital Assets not being depreciated				
Land	\$ 31,665,004	\$ 13,689,886	\$ -	\$ 45,354,890
Work in progress	363,528	-	-	363,528
Total Capital Assets not Being Depreciated	<u>32,028,532</u>	<u>13,689,886</u>	<u>-</u>	<u>45,718,418</u>
Capital Assets being depreciated				
Land improvements	21,545,878	239,266	-	21,785,144
Buildings and improvements	360,347,020	19,333,282	-	379,680,302
Furniture and equipment	5,540,950	7,485,696	-	13,026,646
Total Capital Assets Being Depreciated	<u>387,433,848</u>	<u>27,058,244</u>	<u>-</u>	<u>414,492,092</u>
Less Accumulated Depreciation				
Land improvements	11,738,477	642,285	-	12,380,762
Buildings and improvements	130,739,429	7,990,498	-	138,729,927
Furniture and equipment	1,130,478	1,109,566	-	2,240,044
Total Accumulated Depreciation	<u>143,608,384</u>	<u>9,742,349</u>	<u>-</u>	<u>153,350,733</u>
Governmental Activities Capital Assets, Net	<u>\$275,853,996</u>	<u>\$ 31,005,781</u>	<u>\$ -</u>	<u>\$ 306,859,777</u>
<b>Business-Type Activities</b>				
Furniture and equipment	\$ 3,591,357	\$ 16,258	\$ 376,817	\$ 3,230,798
Less Accumulated Depreciation	2,477,135	200,873	376,755	2,301,253
Business-Type Activities Capital Assets, Net	<u>\$ 1,114,222</u>	<u>\$ (184,615)</u>	<u>\$ 62</u>	<u>\$ 929,545</u>

Depreciation expense was charged to governmental and business-type functions as follows:

<b>Governmental Activities</b>		
Unallocated depreciation expense		\$ 9,742,349
<b>Business-Type Activities</b>		
Cafeteria Enterprise depreciation expense		200,873
Total Depreciation Expense - All Activities		<u>\$ 9,943,222</u>

**FRESNO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

**NOTE 5 - INTERFUND TRANSACTIONS**

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

Interfund receivable and payable balances consist of amounts for temporary loans between funds. Interfund receivable and payable balances at June 30, 2004, between major and nonmajor governmental funds, nonmajor enterprise funds, and internal service funds are as follows:

	<u>Interfund Receivables</u>	<u>Interfund Payables</u>
General Fund	\$ 9,135,304	\$ 3,876,196
Adult	444,468	793,126
Child Development	97,284	5,082,170
Deferred Maintenance	-	151,440
Tax Override	3,735,845	-
Building	6,072,911	7,310,017
Capital Facilities	1,041,018	87,647
State School Building Lease Purchase	-	334,549
County School Facilities	292,409	10,336,590
Special Reserve Captial Outlay	12,050,086	4,092,215
Subtotal	<u>32,869,325</u>	<u>32,063,950</u>
Cafeteria Enterprise	1,535,204	2,307,444
Self Insurance Internal Service	2,552,946	2,586,081
Total	<u><u>\$ 36,957,475</u></u>	<u><u>\$ 36,957,475</u></u>

**FRESNO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

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**B. Operating Transfers**

Interfund transfers for the year ended June 30, 2004, consisted of the following:

The County School Facilities Fund transferred to the Capital Facilities Fund for reimbursement of costs incurred by the District.	\$ 2,399,966
The Building Fund transferred to the Deferred Maintenance Fund for the required State match.	2,695,065
The Building Fund transferred to the Bond Interest and Redemption Fund for debt service payment on the Bond anticipation Notes.	35,168,013
The Child Development Fund transferred to the General Fund.	28,400
The Capital Facilities Fund transferred to the General Fund.	86,965
The Series H Fund transferred to the Tax Override Fund to assist with the Department Service payments.	34,719
The Special Reserve - Capital Outlay Fund transferred to the tax Override Fund to assist with the debt service payment.	3,735,845
County School Facilities Fund transferred to the Special Reserve Capital Outlay Fund to close out the fund to the Special Reserve Fund.	9,221,247
State School Building Fund transferred to the Special Reserve Capital Outlay Fund to close out the fund to the Special Reserve Fund.	4,397,086
The Bond Anticipation Repayment Fund transferred to the Tax Override Fund for interest income.	162,555
Subtotal	<u>57,929,861</u>
The Property/Liability Fund transferred to the Workers' Compensation Fund to restore the fund's diminishing fund balance.	2,471,831
Total	<u><u>\$ 60,401,692</u></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.

**FRESNO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**NOTE 6 - ACCOUNTS PAYABLE**

Accounts payable at June 30, 2004, consisted of the following:

	General Fund	County School Facilities Fund	Nonmajor Governmental Funds	Subtotal	Cafeteria Enterprise Fund	Internal Service Fund	Total
Vendor payables	\$ 9,754,360	\$ 1,544,958	\$ 2,397,596	\$ 13,696,914	\$ 430,237	\$ 1,939,810	\$ 16,066,961
State categorical	8,598,334	1,723,166	549,429	10,870,929	-	2,768,824	13,639,753
Deferred payroll	19,487,588	-	-	19,487,588	-	-	19,487,588
Accrued payroll	7,053,692	-	-	7,053,692	-	-	7,053,692
BANS	35,168,013	-	-	35,168,013	-	-	35,168,013
IBNR	-	-	-	-	-	22,176,056	22,176,056
<b>Total</b>	<b>\$ 80,061,987</b>	<b>\$ 3,268,124</b>	<b>\$ 2,947,025</b>	<b>\$ 86,277,136</b>	<b>\$ 430,237</b>	<b>\$ 26,884,690</b>	<b>\$ 113,592,063</b>

**NOTE 7 - DEFERRED REVENUE**

Deferred revenue at June 30, 2004, consists of the following:

	General Fund	Nonmajor Governmental Funds	Total
Federal financial assistance	\$ 3,046,706	\$ -	\$ 3,046,706
State categorical aid	4,394,835	-	4,394,835
School facilities apportionment	-	15,711,030	15,711,030
Other local	78,541	-	78,541
<b>Total</b>	<b>\$ 7,520,082</b>	<b>\$ 15,711,030</b>	<b>\$ 23,231,112</b>

**FRESNO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**NOTE 8 - LONG-TERM LIABILITIES**

**A. Long-Term Debt Summary**

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

	Balance June 30, 2004	Additions	Deductions	Balance June 30, 2004	Due in One Year
General obligation bonds	\$ 277,688,742	\$ 78,745,000	\$ 85,770,000	\$ 270,663,742	\$ 8,465,000
Educational Facilities Corporation (COPs)	85,295,000	-	8,420,000	76,875,000	8,945,000
Accumulated vacation - net	1,177,042	1,157,765	1,177,042	1,157,765	1,157,765
Capital leases	1,067,058	1,500,000	656,632	1,910,426	627,018
Office of Public School Construction	-	3,025,574	-	3,025,574	605,115
Lease Revenue Bonds - 1998, Series A	3,076,325	-	307,633	2,768,692	307,633
Workers' compensation Liability for claims - Long-term portion (See Note #12)	11,152,702	14,030,617	-	25,183,319	9,412,415
Total	<u>\$ 379,456,869</u>	<u>\$ 98,458,956</u>	<u>\$ 96,331,307</u>	<u>\$ 381,584,518</u>	<u>\$ 29,519,946</u>

**B. Bonded Debt**

The outstanding general obligation bonded debt is as follows:

Issue Date	Issue	Maturity Date	Interest Rate	Original Issue	Bonds Outstanding Beginning of Year	Interest Issued	Defeased/ Redeemed	Bonds Outstanding End of Year
02/10/98	98A	08/01/2013	4.8-6.15%	\$ 33,235,000	\$ 28,625,000	\$ -	\$ 920,000	\$ 27,705,000
08/06/98	98B	08/01/2022	5.5-6.95%	26,998,742	23,153,742	-	935,000	22,218,742
10/01/99	99C	10/01/2023	4.5-5.125%	40,640,000	36,800,000	-	1,050,000	35,750,000
01/16/01	95E	08/01/2022	3.0-4.75%	46,820,000	44,930,000	-	44,930,000	-
07/12/01	95F	08/01/2026	5.0-5.25%	15,400,000	15,400,000	-	15,400,000	-
03/27/02	95G	08/01/2026	4.1-7.0%	15,400,000	15,400,000	-	135,000	15,265,000
05/01/04	95H	05/01/2028	3.25-6.20	10,060,000	-	10,060,000	-	10,060,000
07/12/01	01A	08/01/2026	5.0-5.25%	10,000,000	10,000,000	-	10,000,000	-
03/27/02	01B	08/01/2026	4.375-6.75%	19,000,000	19,000,000	-	165,000	18,835,000
01/23/03	01C	08/01/2028	4.0-4.8%	19,000,000	10,405,000	-	10,405,000	-
12/01/02	02A	08/01/2027	2.25-6.0%	65,485,000	63,595,000	-	785,000	62,810,000
05/01/03	03A	05/01/2012	2.0-3.5%	10,380,000	10,380,000	-	1,045,000	9,335,000
05/01/04	04A	05/04/2028	1.70-5.25	58,040,000	-	58,040,000	-	58,040,000
05/04/04	04R	08/01/2012	2.0-4.25%	10,645,000	-	10,645,000	-	10,645,000
Total				<u>\$ 277,688,742</u>	<u>\$ 78,745,000</u>	<u>\$ 85,770,000</u>	<u>\$ 270,663,742</u>	<u>\$ 270,663,742</u>

**FRESNO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**Debt Service Requirements to Maturity**

The bonds mature through 2027 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2005	\$ 8,465,000	\$ 11,995,228	\$ 20,460,228
2006	8,505,000	13,709,374	22,214,374
2007	8,885,000	13,337,091	22,222,091
2008	9,300,000	12,937,663	22,237,663
2009	9,755,000	12,503,858	22,258,858
2010-2014	58,430,000	54,614,929	113,044,929
2015-2019	71,971,384	41,112,208	113,083,592
2020-2024	67,597,358	22,566,611	90,163,969
2025-2027	27,755,000	2,442,133	30,197,133
Total	<u>\$ 270,663,742</u>	<u>\$ 185,219,095</u>	<u>\$ 455,882,837</u>

**C. Certificates of Participation**

The District has issued Certificates of Participation (COPs) through the Fresno Unified School District Educational Facilities Corporation since 1979 as follows:

<u>Series</u>	<u>Issue Date</u>	<u>Amount Issued</u>	<u>Interest Rates</u>	<u>Principal Paid/ Defeased-Current Year</u>	<u>Outstanding End of Year</u>
1992	1991-92	\$35,295,000	4.50 - 7.25%	\$ 2,445,000	\$ 8,125,000
1992A	1991-92	5,680,000	6.50 - 7.00%	75,000	725,000
1993A	1993-94	4,885,000	4.00 - 5.75%	500,000	525,000
1993B	1993-94	15,925,000	4.80 - 5.25%	945,000	9,560,000
1995A	1994-95	10,510,000	5.50 - 6.80%	550,000	7,485,000
1997	1997-98	20,840,000	4.00 - 5.00%	1,355,000	13,575,000
1998A	1997-98	51,930,000	4.00 - 4.75%	2,550,000	36,880,000
	Total			<u>\$ 8,420,000</u>	<u>\$ 76,875,000</u>

**FRESNO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

The certificates mature through 2012 as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 8,945,000	\$ 3,893,984	\$ 12,838,984
2006	8,920,000	3,412,451	12,332,451
2007	10,755,000	2,927,646	13,682,646
2008	8,445,000	2,353,134	10,798,134
2009	8,965,000	1,953,554	10,918,554
2010-2012	30,845,000	3,073,789	33,918,789
Total	<u>\$ 76,875,000</u>	<u>\$ 17,614,558</u>	<u>\$ 94,489,558</u>

**D. Accumulated Unpaid Employee Vacation**

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2004, amounted to \$1,575,765.

**E. Capital Leases**

The District has entered into various capital lease arrangements. The District's liability on lease agreements with options to purchase are summarized below:

Balance, July 1, 2003	\$ 1,067,058
Payments	656,632
Balance, June 30, 2004	<u>\$ 1,910,426</u>

The capital leases have minimum lease payments as follows:

Year Ending June 30,	Lease Payment
2005	\$ 677,832
2006	404,431
2007	390,797
2008	390,797
2009	74,093
2010	74,093
Total	<u>2,012,043</u>
Less: Amount Representing Interest	101,617
Present Value of Minimum Lease Payments	<u>\$ 1,910,426</u>

**FRESNO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

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**F. Office of Public School Construction**

<u>Year Ending June 30,</u>	<u>Debt Payment</u>
2005	\$ 605,115
2006	605,115
2007	605,115
2008	605,115
2009	605,114
Total	<u>\$ 3,025,574</u>

Note: Simple interest on the principal amount will be charged at the pooled money investment account rate.

**G. 1998 Lease Revenue Bonds, Series A (Qualified Zone Academy Bonds) – Center for Advanced Research and Technology**

The District entered into an agreement to issue \$12,000,000 in lease revenue bonds (Qualified Zone Academy Bonds) with Clovis Unified School District to finance the rehabilitation of the Center for Advanced Research and Technology. The bonds do not bear interest. In lieu of periodic interest payments to purchasers of the bonds, the bonds qualify for an annual Federal income tax credit to the purchasers.

Lease payments will be made by both Districts for an equal (50 percent) share of the funds necessary to repay the principal of the bonds. The Fresno Unified School District's share of the principal amounts to \$6,000,000 with annual required lease payments totaling \$307,633 due each July 15 commencing July 15, 1999, and ending July 15, 2012. The lease payments are to be placed in a Guaranteed Investment Contract paying interest at 4.785 percent. Principal payments and earned interest are projected to be sufficient to retire the bonds principal balance by October 1, 2012. The lease payments outstanding at June 30, 2004, are \$2,768,692.



**FRESNO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2004**

**NOTE 9 - FUND BALANCES**

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

	General Fund	County School Facilities Fund	Nonmajor Governmental Funds	Total
<b>Reserved</b>				
Revolving cash	\$ 100,100	\$ -	\$ -	\$ 100,100
Stores inventory	1,462,254	-	73,184	1,535,438
Prepaid expenditures	19,800	-	-	19,800
Legally restricted	4,588,175	-	-	-
Total Reserved	<u>6,170,329</u>	<u>-</u>	<u>73,184</u>	<u>1,655,338</u>
<b>Unreserved</b>				
<b>Designated</b>				
Economic uncertainties	11,330,303	-	-	11,330,303
Other designations	570,334	-	-	570,334
Total Designated	<u>11,900,637</u>	<u>-</u>	<u>-</u>	<u>11,900,637</u>
<b>Undesignated</b>	<u>69,803</u>	<u>46,550,598</u>	<u>81,901,912</u>	<u>128,522,313</u>
Total Unreserved	<u>11,970,440</u>	<u>46,550,598</u>	<u>81,901,912</u>	<u>140,422,950</u>
Total	<u><u>\$18,140,769</u></u>	<u><u>\$ 46,550,598</u></u>	<u><u>\$ 81,975,096</u></u>	<u><u>\$142,078,288</u></u>

The State School Building Fund ended the year with a \$127,116 deficit fund balance.

**NOTE 10 - POSTEMPLOYMENT BENEFITS**

The District provides postemployment medical benefits in accordance with District employment contracts. All District employees with a minimum of 16 years of service receive health benefits for life for the employee and their dependents. Currently, former employees and their dependents are receiving these benefits. The District contributes 100 percent of the premiums. Expenditures for postemployment benefits are recognized on a pay-as-you-go basis as former employees report claims.

The District obtained an actuarial study of the future liability of post-retirement plan benefits. The results of this study estimated the future liability to be \$1.1 billion.

# FRESNO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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### NOTE 11 - RISK MANAGEMENT

#### A. Description

The District's risk management activities are recorded in the Self-Insurance Funds. The purpose of the funds are to administer employee health, property and liability and workers' compensation programs of the Fresno Unified School District on a cost-reimbursement basis. These funds account for the risk financing activities of the Fresno Unified School District, but does not constitute a transfer of risk from the Fresno Unified School District.

Significant losses are covered by commercial insurance for all major programs except for workers' compensation, for which the Fresno Unified School District retains risk of loss. For insured programs, there have been no significant reductions in insurance coverage.

#### B. Claims Liabilities

The District records an estimated liability for indemnity health care, workers' compensation, torts, and other claims against the Fresno Unified School District. Claims liabilities are based on estimates of the ultimate cost of reported claims including future claim adjustment expenses and an estimate for claims incurred, but not reported based on historical experience.

#### C. Unpaid Claims Liabilities

The fund establishes a liability for both reported and unreported events, which includes estimates of both future payments of losses and related claim adjustment expenses. The following represent the changes in approximate aggregate liabilities for the District from June 30, 2002 to June 30, 2004 (in thousands):

Liability Balance, June 30, 2002	\$ 21,914
Claims and changes in estimates	92,611
Claims payments	92,318
Liability Balance, June 30, 2003	<u>22,207</u>
Claims and changes in estimates	104,063
Claims payments	104,094
Liability Balance, June 30, 2004	<u>\$ 22,176</u>
Assets available to pay claims at June 30, 2004	<u>\$ 38,562</u>

#### D. Trust Accounts

To facilitate the processing of claims, revolving types of trust bank accounts were established. All claims arising are handled by the District's Independent Administrators, Risk Management Resources and RX Net, who write and issue checks in settlement of claims against the District. The \$1,500,000 trust account is periodically reimbursed by the District.

# FRESNO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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### **E. Liabilities for Claims - Workers' Compensation**

The liability of \$34,595,734 is based upon an actuarial study performed in November 2004. The liability for claims represents an estimate of costs of open claims and an estimate for incurred but not reported claims (IBNR). The District has recorded a portion of the liability for claims in the Workers' Compensation Fund in the amount of \$9,412,415. The balance of the liability for claims of \$25,183,319 has been recorded in the Long-Term Debt since funds are not available in the Internal Service Fund and the ultimate liability for the Long-Term portion will be from the General Fund and applicable Special Revenue Funds.

### ***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).

#### **A. STRS**

##### **Plan Description**

The District contributes to the California State Teachers' Retirement System (STRS); a cost-sharing multiple-employer public employee retirement system defined benefit pension plan administered by STRS. The plan provides retirement and disability benefits and survivor benefits to beneficiaries. Benefit provisions are established by State statutes, as legislatively amended, within the State Teachers' Retirement Law. STRS issues a separate comprehensive annual financial report that includes financial statements and required supplementary information. Copies of the STRS annual financial report may be obtained from STRS, 7667 Folsom Blvd., Sacramento, CA 95826.

##### **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 2003-2004 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, 2004, 2003, and 2002, were \$24,644,859, \$24,103,482, and \$23,756,274, respectively, and equal 100 percent of the required contributions for each year.

# FRESNO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2004

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### B. PERS

#### Plan Description

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

#### Funding Policy

Active plan members are required to contribute 7.0 percent of their salary and the District is required to contribute an actuarially determined rate. The actuarial methods and assumptions used for determining the rate are those adopted by the CalPERS Board of Administration. The required employer contribution rate for fiscal year 2003-2004 was 10.42 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, 2004, 2003, and 2002, were \$7,987,876, \$2,245,815, and \$0, respectively, and equal 100 percent of the required contributions for each year.

### C. Social Security

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

During the year the District made the required contribution, which was 6.2 percent of its current year covered payroll for employees not covered by STRS or PERS. Employees required and actual contributions matched that of the employer's.

### D. On Behalf Payments

The State of California makes contributions to STRS and PERS on behalf of the District. These payments consist of State General Fund contributions to STRS in the amount of \$6,943,399 (2.28 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2004. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts also have not been recorded in these financial statements.

# FRESNO UNIFIED SCHOOL DISTRICT

## NOTES TO FINANCIAL STATEMENTS JUNE 30, 2004

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### *NOTE 13 - COMMITMENTS AND CONTINGENCIES*

#### **A. Grants**

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2004.

#### **B. Litigation**

The District is involved in various litigation arising from the normal course of business. In the opinion of management and legal counsel, the disposition of all litigation pending is not expected to have a material adverse effect on the overall financial position of the District at June 30, 2004.

#### **C. Operating Leases**

The District has entered into various operating leases for equipment with lease terms not in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors.

**FRESNO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

**D. Construction Commitments**

As of June 30, 2004, the District had the following commitments with respect to the unfinished capital projects:

CAPITAL PROJECT	Remaining Construction Commitment	Expected Date of Completion
Library/Media Centers	\$ 1,079,107	December 2004
Street, Water, Storm Drain	206,765	July 2004
Cafeteria/Multiuse Room	2,070,590	June 2005
School and Gym Modernization	3,377,529	December 2004
School Modernization	774,193	January 2005
New Parking Lot	12,246	August 2004
New Building and Site Improvements	1,400,477	February 2005
School Modernization	9,823,754	September 2005
Auditorium Modernization	1,988,375	September 2004
Reroof	76,185	August 2004
New School	10,396,000	August 2005
Parking Lot	39,250	September 2004
Parking Lot, Fire Lane	445,990	September 2004
Parking Lot	51,000	September 2004
Parking Lot	133,200	September 2004
Modernization	2,600,000	January 2005
Modernization	1,157,800	February 2005
HVAC	95,700	September 2004
HVAC	30,378	September 2004
Reroof	107,450	August 2004
Modernization	1,162,600	February 2005
Tennis Court Resurfacing	53,070	August 2004
Fire Lane	58,900	September 2004
Total	<u>\$ 37,140,559</u>	

**NOTE 14 - EXPENDITURES (BUDGET VERSUS ACTUAL)**

At June 30, 2004, there were no District major funds that exceeded the budgeted amounts.

**FRESNO UNIFIED SCHOOL DISTRICT**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2004**

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***NOTE 15 - BOND ANTICIPATION NOTE***

At July 1, 2003, the District had outstanding Bond Anticipation Notes in the amount of \$26,000,000, which matured on July 1, 2003. On July 1, 2003, the District issued \$35,000,000 Bond Anticipation Notes bearing interest at 1.05 percent. The notes were issued to supplement cash flows. Interest and principal were due and payable on July 1, 2004. By June 30, 2004, the District had placed 100 percent of principal and interest in an irrevocable trust for the sole purpose of satisfying the notes. The District was not required to make any additional payments on the notes. The District has recorded the cash available to make the principal and interest payments as Investments and with the corresponding liability as an accounts payable.

	Outstanding July 30, 2003	Additions	Deletions	Outstanding June 30, 2004
2003 1.30% BAN	\$26,000,000	\$ -	\$ 26,000,000	\$ -
2004 1.05% BAN	-	35,000,000	-	35,000,000
Total	<u>\$26,000,000</u>	<u>\$35,000,000</u>	<u>\$ 26,000,000</u>	<u>\$ 35,000,000</u>

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***REQUIRED SUPPLEMENTARY INFORMATION***

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**FRESNO UNIFIED SCHOOL DISTRICT**

**GENERAL FUND  
BUDGETARY COMPARISON SCHEDULE  
FOR THE YEAR ENDED JUNE 30, 2004**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Favorable
	Original	Final		(Unfavorable) Final to Actual
<b>REVENUES</b>				
Revenue limit sources	\$363,108,328	\$359,125,471	\$359,737,601	\$ 612,130
Federal sources	74,853,552	101,431,720	86,216,916	(15,214,804)
Other state sources	122,242,283	130,240,530	120,761,638	(9,478,892)
Other local sources	12,207,806	16,007,328	15,616,694	(390,634)
<b>Total Revenues</b>	<u>572,411,969</u>	<u>606,805,049</u>	<u>582,332,849</u>	<u>(24,472,200)</u>
<b>EXPENDITURES</b>				
Current				
Certificated Salaries	287,708,077	301,066,944	297,154,345	3,912,599
Classified salaries	80,993,720	84,973,373	84,239,883	733,490
Employee benefits	137,042,972	134,481,027	131,478,556	3,002,471
Books and supplies	30,738,619	42,209,856	25,305,722	16,904,134
Services and operating expenditures	42,412,824	50,670,823	43,179,332	7,491,491
Other outgo	1,686,692	3,151,789	2,097,302	1,054,487
Capital outlay	2,911,083	8,692,802	6,470,019	2,222,783
Debt service	491,058	1,046,853	807,841	239,012
<b>Total Expenditures</b>	<u>583,985,045</u>	<u>626,293,467</u>	<u>590,733,000</u>	<u>35,560,467</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>(11,573,076)</u>	<u>(19,488,418)</u>	<u>(8,400,151)</u>	<u>11,088,267</u>
<b>Other Financing Sources (Uses):</b>				
Transfers in	2,725,065	3,995,467	115,365	(3,880,102)
Other sources	-	-	1,502,341	1,502,341
Transfers out	(2,695,065)	(2,695,065)	-	2,695,065
<b>Net Financing Sources (Uses)</b>	<u>30,000</u>	<u>1,300,402</u>	<u>1,617,706</u>	<u>317,304</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(11,543,076)</u>	<u>(18,188,016)</u>	<u>(6,782,445)</u>	<u>11,405,571</u>
<b>Fund Balance - Beginning</b>	<u>24,923,214</u>	<u>24,923,214</u>	<u>24,923,214</u>	<u>-</u>
<b>Fund Balance - Ending</b>	<u>\$ 13,380,138</u>	<u>\$ 6,735,198</u>	<u>\$ 18,140,769</u>	<u>\$ 11,405,571</u>

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

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***ADDITIONAL INFORMATION***

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**FRESNO UNIFIED SCHOOL DISTRICT**

**GENERAL FUND  
COMBINING STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total Fund</u>
<b>REVENUES</b>			
Revenue limit sources	\$ 349,250,428	\$ 10,487,171	\$ 359,737,599
Federal sources	-	86,216,916	86,216,916
Other state sources	35,552,295	85,209,343	120,761,638
Other local sources	9,743,683	5,873,013	15,616,696
<b>Total Revenues</b>	<u>394,546,406</u>	<u>187,786,443</u>	<u>582,332,849</u>
<b>EXPENDITURES</b>			
Current			
Certificated Salaries	215,210,175	81,944,170	297,154,345
Classified salaries	42,314,811	41,925,072	84,239,883
Employee benefits	88,501,093	42,977,463	131,478,556
Books and supplies	4,785,444	20,520,278	25,305,722
Services and operating expenditures	26,881,192	16,298,140	43,179,332
Other outgo	(12,780,529)	14,877,831	2,097,302
Capital outlay	980,889	5,489,130	6,470,019
Debt service	794,841	13,000	807,841
<b>Total Expenditures</b>	<u>366,687,916</u>	<u>224,045,084</u>	<u>590,733,000</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>27,858,490</u>	<u>(36,258,641)</u>	<u>(8,400,151)</u>
<b>Other Financing Sources (Uses):</b>			
Transfers in	86,965	28,400	115,365
Other sources	1,502,341	-	1,502,341
Contributions	(31,724,759)	31,724,759	-
<b>Net Financing Sources (Uses)</b>	<u>(30,135,453)</u>	<u>31,753,159</u>	<u>1,617,706</u>
<b>NET CHANGE IN FUND BALANCES</b>	<u>(2,276,963)</u>	<u>(4,505,482)</u>	<u>(6,782,445)</u>
<b>Fund Balance - Beginning</b>	<u>15,801,157</u>	<u>9,122,057</u>	<u>24,923,214</u>
<b>Fund Balance - Ending</b>	<u>\$ 13,524,194</u>	<u>\$ 4,616,575</u>	<u>\$ 18,140,769</u>

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

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***SUPPLEMENTARY INFORMATION***

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FRESNO UNIFIED SCHOOL DISTRICT

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
FOR THE YEAR ENDED JUNE 30, 2004

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<b>U.S. DEPARTMENT OF EDUCATION</b>			
Passed through California Department of Education (CDE):			
Adult Education - 321 Grant	84.002	03802	\$ 353,256
Adult Education - ESL Handicap	84.002	03303	502,650
Adult Education - English Literacy	84.002	14103	398,133
Adult Education - Vocational Literacy	84.002	14434	18,000
Arts in Education	N/A	N/A	131,251
Ascend	N/A	N/A	42,214
Assessment Science Knowledge	N/A	N/A	11,868
No Child Left Behind			
Title I - Basic [1]	84.010	03797	39,233,967
Title I - Capital Expenditures	84.216	13953	78,390
Title I - Delinquent [1]	84.010	14357	54,577
Title I - Comprehensive School Reform [1]	84.010	03966	1,905,506
Title I - Reading First	84.357	14328	2,822,827
Title I - Even Start	84.213C	13700	204,927
Title II - Improving Teacher Quality	84.367	14341	7,268,121
Title III - Technology & Literacy	84.318	03285	32,337
Title III - Enhancing Education through Technology	84.318	14334	865,707
Title III - Immigrant	84.365	14346	158,548
Title III - LEP	84.365	10084	1,423,681
Title IV- Drug Free Schools	84.184	03453	1,133,814
Title VI - Innovative Strategies	84.298	03073	772,842
Charter School Grants	84.282	03150	50,000
Safe School/Healthy Students	N/A	N/A	2,916,559
Family Preservation	N/A	N/A	189,089
Foreign Language Assistance	N/A	N/A	181,743
Homeless Child and Youth	84.136	13697	149,970
Magnet School Assistance	84.156A	04052	1,776,354
Operation RID	N/A	N/A	155,278
Nutrition Network Grant	N/A	N/A	216,348
Indian Education	84.014	10011	152,279
Migrant Education [1]			
Regular School 2003/04	84.011	03628	3,019,632
Summer School 2003/04	84.011	03628	963,925
Regular School 2002/03	84.011	03628	158,549
Special Education - State Grants			
Local Assistance	84.027	03379	11,138,992
Low Incident	84.027	13459	25,909
Early Intervention	84.181	23761	95,874
Preschool Staff Development	84.173	03431	2,771
Staff Development	84.027	03613	38,431
Idea Preschool	84.027	03379	677,896
Infant Discretionary	84.027	03612	27,407

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

[2] National Food Distribution not recorded in District Financial Statements.

See accompanying note to supplementary information.

**FRESNO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS (CONTINUED)  
FOR THE YEAR ENDED JUNE 30, 2004**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
Passed through CDE - Continued:			
21st Century	84.287	10042	\$ 1,360,842
Improvement Education	N/A	N/A	181,066
Smaller Learning	84.215	03063	156,861
Mentoring Program	N/A	N/A	252,721
Teaching American History	N/A	N/A	163,041
Urban Systemic Program	N/A	N/A	842,451
Vocational Educational Grants			
Carl Perkins	84.048	03569	1,087,356
Carl Perkins - Adult	84.048	03569	598,839
Passed through the Office of Public School Construction (OPSC):			
Federal Renovation Grant	84.352A	14318	1,957,784
Total U.S. Department of Education			<u>85,950,583</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
Children's Center Food Program			
Child Development Center	10.558	03755	269,608
National Food Distribution [2]	10.550	03755	1,477,545
National School Lunch	10.555	03755	23,809,351
Total U.S. Department of Agriculture			<u>25,556,504</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Child Development Quality Improvement	93.575	03942	3,758
Child Development School age Resource	93.575	13341	4,021
Child Development Infant/Toddler	93.575	03942	3,238
Medi-Cal Option Billing	93.767	10013	2,797,398
Total U.S. Department of Health & Human Services			<u>2,808,415</u>
U.S. DEPARTMENT OF LABOR			
Passed through CDE:			
WIA - Youth Collaborative	17.250	03770	683,781
WIA - Carol M White - Physical Ed	17.255	03422	350,212
Total U.S. Department of Labor			<u>1,033,993</u>
Total Expenditures of Federal Awards			<u>\$ 115,349,495</u>

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

[2] National Food Distribution not recorded in District Financial Statements.

See accompanying note to supplementary information.

**FRESNO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF AVERAGE DAILY ATTENDANCE  
FOR THE YEAR ENDED JUNE 30, 2004**

	Revised Second Period Report	Revised Annual Report
<b>ELEMENTARY</b>		
Kindergarten	5,676.61	5,736.67
First through third	17,883.37	17,927.43
Fourth through sixth	17,778.61	17,802.02
Seventh and eighth	11,452.71	11,463.60
Home and hospital	5.86	6.07
Community day school	47.68	46.66
Special education	1,407.54	1,428.60
Total Elementary	54,252.38	54,411.05
<b>SECONDARY</b>		
Regular classes	17,807.22	17,530.69
Continuation education	841.67	833.64
Home and hospital	5.68	6.26
Special education	872.79	870.24
Total Secondary	19,527.36	19,240.83
Total K-12	73,779.74	73,651.88
<b>REGIONAL OCCUPATIONAL PROGRAM CLASSES FOR ADULTS</b>		
Concurrently enrolled	218.15	212.33
Not concurrently enrolled	3,737.83	3,761.67
Students 21 and over and 19 or older not continuously enrolled since their 18th birthday, enrolled in K-12 through independent study	231.88	240.18
Total Classes for Adults	4,187.86	4,214.18
Grand Total	77,967.60	77,866.06
		<u>Hours of Attendance</u>
<b>SUMMER SCHOOL AND OTHER SUPPLEMENTARY PROGRAMS</b>		
<b>Elementary</b>		
Core Instruction		343,248
Remedial Instruction		304,861
Pupils Retained/Recommended for Retention		179,620
Pupils at Risk of Retention		101,421
Pupils with Low STAR Scores		24,090
<b>High school</b>		
Core Instruction		168,550
Remedial Instruction		614,402
Total Hours		1,736,192

See accompanying note to supplementary information.

**FRESNO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF INSTRUCTIONAL TIME  
FOR THE YEAR ENDED JUNE 30, 2004**

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<u>Grade Level</u>	1982-83	1986-87	2003-04	<u>Number of Days</u>		<u>Status</u>
	<u>Actual</u> <u>Minutes</u>	<u>Minutes</u> <u>Requirement</u>	<u>Actual</u> <u>Minutes</u>	<u>Traditional</u> <u>Calendar</u>	<u>Multitrack</u> <u>Calendar</u>	
Kindergarten	31,680	36,000	36,000	180	176	Complied
Grades 1 - 3	43,095	50,400	50,400	180	176	Complied
Grades 4 - 6	54,000	54,000	54,045	180	176	Complied
Grades 7 - 8	54,000	54,000	55,200	180	N/A	Complied
Grades 9 - 12	54,560	64,800	64,800	180	N/A	Complied

See accompanying note to supplementary information.

**FRESNO UNIFIED SCHOOL DISTRICT**

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH  
AUDITED FINANCIAL STATEMENTS  
FOR THE YEAR ENDED JUNE 30, 2004**

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

	General Fund	State School Building Fund	Cafeteria Enterprise Fund
	<u>          </u>	<u>          </u>	<u>          </u>
<b>FUND BALANCE</b>			
Balance, June 30, 2004, Unaudited Actuals	\$ 18,070,966	\$ -	\$ 24,928,062
Adjustments and reclassifications:			
Cash	-	(127,116)	(160,759)
Accounts receivable	69,803	-	-
Balance, June 30, 2004, Audited Financial Statement	<u>\$ 18,140,769</u>	<u>\$ (127,116)</u>	<u>\$ 24,767,303</u>
			<u>General Long- Term Debt Account Group</u>
<b>GENERAL LONG-TERM LIABILITIES</b>			
Total Liabilities, June 30, 2004, Unaudited Actuals			\$ 364,511,238
Adjustments			
Increase in:			
General obligation bonds			7,680,000
Office of public school construction			3,025,574
Workers' compensation			15,707,706
Decrease in:			
COPS			(9,340,000)
Total Liabilities, June 30, 2004, Audit Financial Statement			<u>\$ 381,584,518</u>

See accompanying note to supplementary information.

**FRESNO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS  
FOR THE YEAR ENDED JUNE 30, 2004**

	(Budget) 2005 <sup>1</sup>	2004	2003	2002
<b>GENERAL FUND</b>				
Revenues	\$ 585,520,413	\$ 582,332,849	\$ 587,207,045	\$ 572,377,949
Other sources and transfers in	3,134,919	1,617,706	2,784,518	9,188,438
Total Revenues and Other Sources	588,655,332	583,950,555	589,991,563	581,566,387
Expenditures	596,296,533	590,733,000	595,664,720	568,524,965
Other uses and transfers out	3,077,919	-	2,716,132	4,354,771
Total Expenditures and Other Uses	599,374,452	590,733,000	598,380,852	572,879,736
<b>INCREASE (DECREASE) IN FUND BALANCE</b>	<u>\$ (10,719,120)</u>	<u>\$ (6,782,445)</u>	<u>\$ (8,389,289)</u>	<u>\$ 8,686,651</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 7,421,649</u>	<u>\$ 18,140,769</u>	<u>\$ 24,923,214 *</u>	<u>\$ 33,312,503</u>
<b>AVAILABLE RESERVES<sup>2</sup></b>	<u>\$ 4,528,608</u>	<u>\$ 11,400,106</u>	<u>\$ 11,967,617</u>	<u>\$ 16,128,184</u>
<b>AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO</b>	<u>0.76%</u>	<u>1.93%</u>	<u>2.00%</u>	<u>2.82%</u>
<b>LONG-TERM DEBT</b>	<u>\$ 380,957,500</u>	<u>\$ 381,584,518</u>	<u>\$ 379,456,869</u>	<u>\$ 314,076,695</u>
<b>AVERAGE DAILY ATTENDANCE AT P-2<sup>3</sup></b>	<u>73,296</u>	<u>73,780</u>	<u>74,220</u>	<u>73,581</u>

\*Beginning Fund Balance was restated

The General Fund balance has decreased by \$15,171,734 over the past two years. The fiscal year 2004-05 budget projects a decrease of \$10,719,120 (59.1 percent). For a district this size, the State recommends available reserves of at least two percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating deficits in two of the past three years and anticipates incurring an operating deficit during the 2004-05 fiscal year. Total long-term debt has increased by \$67,507,823 over the past two years. The 2004-05 preliminary budget projects a reserve of 0.76 percent, which is 1.24 percent below the State recommended minimum reserve level. See Going Concern Finding 2004-1.

Average daily attendance has decreased by 440 ADA over the past year. A decline of 484 ADA is anticipated during the 2004-05 fiscal year.

1 Budget 2005 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 Excludes Adult Education ADA.

See accompanying note to supplementary information.



**FRESNO UNIFIED SCHOOL DISTRICT**

**SCHEDULE OF CHARTER SCHOOLS  
FOR THE YEAR ENDED JUNE 30, 2004**

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<u>Name of Charter School</u>	<u>Included in Audit Report</u>
Sunset Charter School	Yes

See accompanying note to supplementary information.

# FRESNO UNIFIED SCHOOL DISTRICT

## NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2004

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### *NOTE 1 - PURPOSE OF SCHEDULES*

#### **A. Schedule of Expenditures of Federal Awards**

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

#### **B. Schedule of Average Daily Attendance (ADA)**

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

#### **C. Schedule of Instructional Time**

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

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

#### **D. Reconciliation of Annual Financial and Budget Report with Audited Financial Statements**

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

#### **E. Schedule of Financial Trends and Analysis**

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

#### **F. Schedule of Charter Schools**

This schedule lists all charter schools chartered by the District, and displays information for each charter school on whether or not the charter school is included in the District audit.

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*INDEPENDENT AUDITORS' REPORTS*

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

Board of Trustees  
Fresno Unified School District  
Fresno, California

We have audited the financial statements of Fresno Unified School District as of and for the year ended June 30, 2004, and have issued our report thereon dated January 21, 2005. In our report, our opinion was qualified because the District did not maintain a general fixed asset group of accounts. 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 Fresno Unified School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect Fresno Unified School District's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying Schedule of Financial Statement Findings as items 2004-1 through 2004-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Fresno Unified School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of the Governing Board, audit committee, 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.

Vavrinak, Irvine, Day & Co, LLP

Fresno, California  
January 21, 2005



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

Board of Trustees  
Fresno Unified School District  
Fresno, California

Compliance

We have audited the compliance of Fresno Unified 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, 2004. Fresno Unified 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 Fresno Unified School District's management. Our responsibility is to express an opinion on Fresno Unified 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 Fresno Unified 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 Fresno Unified School District's compliance with those requirements.

In our opinion, Fresno Unified 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, 2004.

Internal Control Over Compliance

The management of Fresno Unified 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 Fresno Unified School District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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

*Vavrinek, Urine, Day & Co., LLP*

Fresno, California  
January 21, 2005





INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Fresno Unified School District
Fresno, California

We have audited the financial statements of the Fresno Unified School District as of and for the year ended June 30, 2004, and have issued our report thereon dated January 21, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial and compliance audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the State Controller's Standards and Procedures for Audits of California K-12 Local Educational Agencies. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The management of Fresno Unified School District is responsible for the District's compliance with laws and regulations. In connection with the audit referred to above, we selected and tested transactions and records to determine the Fresno Unified School District's compliance with the State laws and regulations applicable to the following items:

Table with 3 columns: Item, Procedures in Controller's Audit Guide, and Procedures Performed. Rows include Attendance accounting, Kindergarten continuance, Independent study, Continuation education, Adult education, Regional occupational centers and programs, Instructional time and staff development reform program, Instructional Time (School districts, County Offices of Education, Community day schools).

	Procedures in Controller's Audit Guide	Procedures Performed
Class size reduction program:		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school servicing K-3	4	Not Applicable
Instructional Materials:		
General requirements	9	Yes
K-8 only	1	Yes
9-12 only	1	Yes
Ratios of Administrative Employees to Teachers	1	Yes
Early retirement incentive	4	Not Applicable
GANN limit calculation	1	Yes
Office of Criminal Justice Planning	-	Not Applicable

We did not perform testing for Community Day School because the ADA earned was below the State's required testing level.

Based on our audit, we found that for the items tested, the Fresno Unified School District complied with the State laws and regulations referred to above, except as described in the Schedule of State Award Findings and Questioned Costs included in this report. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Fresno Unified School District had not complied with the laws and regulations.

This report is intended solely for the information and use of the Governing Board, audit committee, 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.

*Vauhinek, Urine, Day & Co., LLP*

Fresno, California  
January 21, 2005

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***SCHEDULE OF FINDINGS AND QUESTIONED COSTS***

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**FRESNO UNIFIED SCHOOL DISTRICT**

**SUMMARY OF AUDITORS' RESULTS  
FOR THE YEAR ENDED JUNE 30, 2004**

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**FINANCIAL STATEMENTS**

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

**FEDERAL AWARDS**

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

<u>CFDA Number</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I Cluster</u>
<u>84.011</u>	<u>Migrant Education</u>

Dollar threshold used to distinguish between Type A and Type B programs:	<u>\$ 3,000,000</u>
Auditee qualified as low-risk auditee?	<u>Yes</u>

**STATE AWARDS**

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

# FRESNO UNIFIED SCHOOL DISTRICT

## FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2004

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The following findings represent reportable conditions 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>
30000	Internal Control
60000	Miscellaneous

2004-1 60000

### *Going Concern*

#### Finding

The District is projecting not to maintain the State's required available reserves for economic uncertainties of 2.0 percent or \$11,987,489 for 2004-05. The District is projecting to under fund the reserve for the 2004-05 fiscal year by \$7,458,881. In addition, the District is projecting a deficit in the 2005-06 fiscal year in excess of \$40 million. Also, the General Fund has a potential liability to the Workers' Compensation Self-Insurance Fund of \$34,595,734.

#### Recommendation

The District should develop a specific plan to address the above listed serious financial conditions and develop monitoring procedures to ensure that the financial plan is being implemented and achieving the projected results.

#### District Response

The District concurs with the auditors' finding. The District is working on a solution to significantly reduce the District's health plan cost.

2004-2 60000

#### Finding

In our verifying of the Cash in County Treasurer, we noted that the June 30, 2004, balance for the General Fund had a deficit of \$7,484,377. This would generally indicate that the District is going to have problems meeting its financial obligation in the year 2005-06.

#### Recommendation

The District should develop a specific plan to address the above listed serious financial conditions and develop monitoring procedures to ensure that the financial plan is being implemented and achieving the projected results.

# FRESNO UNIFIED SCHOOL DISTRICT

## FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2004

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### District Response

The District agrees with the auditors' finding. The deficit cash balance was due to Senate Bill XI 18 deferring the payment of the District's June 2004 principal apportionment until July. The District will continue to monitor its monthly cash flow and take measures (i.e. borrowing from other funds) to prevent the deficit cash balance at year-end.

2004-3 30000

### *Self Insuring*

#### Finding

An internal review by the Administration of the individuals carried on the benefit listing of the Health and Benefit Fund, disclosed that over 200 individuals were improperly listed as eligible to receive benefits. This has resulted in an overpayment of administrative fees for the Health and Benefit Fund.

#### Recommendation

The District should continue to pursue the refunding of the overpayment of Administrative fees and the monitoring of the benefit listings so that only eligible individuals are listed.

#### District Response

The District has put into place a process to mitigate the possibility of this occurring again. The District is now subscribing to the National Technical Information Service and on a quarterly basis will be verifying eligibility against this database. The District is pursuing the refund of the overpayment of administrative fees.

2004-4 30000

### *Personnel and Payroll*

#### Finding

An examination conducted by the District's Internal Audit disclosed that the Human Resources Department does not receive termination notices in a timely manner. As a result of the late termination notices, overpayments are made to employees who remain on the payroll system after their effective termination date. In some instances the notices were not submitted timely by the school sites to Human Resources. In some cases the notices were sent by the sites to the wrong departments and not to Human Resources. In other case the notices were processed by Human Resources after the payroll cutoff date which resulted in overpayments.

# FRESNO UNIFIED SCHOOL DISTRICT

## FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2004

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### Recommendation

The Notification of Resignation form should be filled out and sent to the Human Resources Department immediately by the sites. Human Resources personnel should promptly input the data into the system. If a department other than Human Resources receives a resignation notice, that department must also send the notice immediately to the Human Resources Department for processing. Site personnel should be informed of the importance of obtaining resignation forms and submitting them in a timely manner to the Human Resource Department. Prior to the processing of payroll, the Human Resources Department should notify payroll of any unprocessed employees so that payroll can then make the necessary changes. If other departments require a copy of the resignation notice, the Human Resources Department should issue a copy to those departments, but in all cases the sites should know that the forms should be sent to the Human Resources Department. Also, there must be better coordination and communication between the Payroll and Human Resources Departments.

### District Response

The District concurs with the finding related to the Notice of Resignation form and its respective contribution to overpayments. In this connection, Human Resources will work closely with principals and department heads to ensure they understand the importance of the Notice of Resignation form reaching Human Resources in a timely manner. In addition, Human Resources will continue to improve efforts to communicate in advance to Payroll any known but unprocessed Notice of Resignations to prevent overpayments.



**FRESNO UNIFIED SCHOOL DISTRICT**

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004**

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

FRESNO UNIFIED SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS  
FOR THE YEAR ENDED JUNE 30, 2004

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

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

2004-5 10000

*Viking Elementary and Pyle Elementary School*

*Retentions*

Finding

We noted four students that were retained in kindergarten beyond their one year anniversary date that did not have a "Permission to Retain" form approved in form and content by the State Department of Education, signed by the parent/guardian, on file at the site as required by California Education Code Section 46300 (g).

Recommendation

In order to claim the apportionment attendance credit for a kindergarten student who has been retained beyond his or her one year anniversary date must have a "Permission to Retain" form on file. California Education Code Section 46300 (g) states, "In computing the average daily attendance of a school district, there shall be included the attendance of pupils in kindergarten after they have completed one school year in kindergarten only if the school district has on file for each of those pupils an agreement made pursuant to Section 48011, approved in form and content by the State Department of Education and signed by the pupil's parent or guardian, that the pupil may continue in kindergarten for not more than an additional year." **The attendance for these students who were retained in kindergarten without having the required retention form on file was 3.44 ADA. The attendance reports which have been filed must be revised and resubmitted to the appropriate agencies.**

District Response

The District agrees with the auditors' finding and has amended the Second Period Attendance Report.

**FRESNO UNIFIED SCHOOL DISTRICT**

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS  
FOR THE YEAR ENDED JUNE 30, 2004**

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There were no prior year findings representing reportable conditions, material weaknesses, nor instances of noncompliance related to the financial statements that were required to be reported in accordance with generally accepted government audit standards.

