

**CAJON VALLEY UNION SCHOOL DISTRICT
COUNTY OF SAN DIEGO
EL CAJON, CALIFORNIA**

AUDIT REPORT

JUNE 30, 2004

**Wilkinson Hadley & Co., LLP
250 E. Douglas Avenue
Suite 200
El Cajon, CA 92020**

Introductory Section

Cajon Valley Union School District
 Audit Report
 For The Year Ended June 30, 2004

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Financial Section



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Independent Auditor's Report on Financial Statements

Board of Trustees
Cajon Valley Union School District
El Cajon, California 92022

Members of the Board of Trustees:

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Cajon Valley Union School 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 Cajon Valley Union School 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

In accordance with *Government Auditing Standards*, we have also issued our report dated October 21, 2004, on our consideration of Cajon Valley Union School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary information identified as Required Supplementary Information in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplemental information. However, we did not audit the information and express no opinion on it.

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

Wilkinson Hadley & Co. LLP

Wilkinson Hadley & Co., LLP
October 21, 2004

**CAJON VALLEY UNION SCHOOL DISTRICT
MANAGEMENT'S DISCUSSION AND ANALYSIS
For the Fiscal Year Ended June 30, 2004
(Unaudited)**

This discussion and analysis of the Cajon Valley Union School District's financial performance provides an overall review of the district's financial activities for the fiscal year ended June 30, 2004. The intent of this discussion and analysis is to look at the district's financial performance as a whole. Readers should also review the notes to the basic financial statements and the financial statements to enhance their understanding of the district's financial performance.

USING THESE FINANCIAL STATEMENTS

This report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand the Cajon Valley Union School District as a complex financial entity. The statements then proceed to provide an increasingly detailed look at specific financial activities. The Cajon Valley Union School District does not operate any business-type activities, so the information presented is solely for governmental activities.

The Statement of Net Assets and Statement of Activities provide information about the activities of the whole district, presenting both an aggregate view of the district's finances and a longer-term view of those finances. Fund financial statements provide the next level of detail.

FINANCIAL HIGHLIGHTS

Key financial highlights for 2004 are as follows:

- Despite ongoing financial difficulties in State and local funding, the District ended the 2003/04 year with a strong unrestricted reserve balance of \$4,249,488 in the General Fund.
- Outstanding Capital Lease-Purchase Debt decreased by \$855,615, from \$3,413,038 to \$2,557,423, during the 2003/04 fiscal year.
- \$10,180,000 in Certificates of Participation (C.O.P.'s) were sold during the year. These funds are being used to supplement State construction grants and District general obligation bond funds to renovate Cajon Valley Middle School, including providing a new gymnasium that will be used by both the school and the City of El Cajon Recreation Department.
- \$4.5 million in ongoing budget reductions were implemented, effective July, 2003. In addition, \$1.8 million in ongoing budget reductions were approved by the Governing Board for implementation in the 2004/05 school year. The primary factors determining the need for ongoing budget reductions are continued decline in student population, which affects revenue calculations, and deficits applied to State revenue limit and categorical program funds.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual audit report consists of three parts: Management's discussion and analysis (this section), the basic financial statements, and required supplementary information. The basic financial statements include different kinds of statements which present both a view of the district as a whole, and individual fund statements that focus on various parts of the district's operations in more detail. The financial statements also include notes that explain some of the information presented in the statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the financial statements.

REPORTING THE DISTRICT AS A WHOLE FINANCIAL ENTITY

Statement of Net Assets and Statement of Activities

While this document contains several funds used by the district to provide programs and activities, the view of the district as a whole looks at all financial transactions and asks the question, "How did we do financially during 2003-2004?" The Statement of Net Assets and the Statement of Activities answer this question. These statements include all assets and all liabilities using the accrual basis of accounting similar to the accounting used by most private-sector companies. This basis of accounting takes into account all of the current year's revenues and expenses regardless of when cash is received or disbursed.

These two statements report the district's net assets and changes in those assets. This change in net assets is important because it tells the reader whether, for the district as a whole, the financial position of the district has improved or diminished.

In the Statement of Net Assets and the Statement of Activities, the district is presented in just one kind of activity, Governmental Activities. All the district's programs and services are reported here including instructional, support services, and operation and maintenance of grounds and facilities. The district does not operate any business-type activities, so none are presented here.

REPORTING THE DISTRICT'S MOST SIGNIFICANT INDIVIDUAL FUNDS

Fund Financial Statements

Major Funds: An analysis of the district's major funds is included in the audit report. Fund financial reports provide detailed information about the district's major funds. The district uses many funds to account for a multitude of financial transactions. However, these fund financial statements focus on the most significant funds. The major governmental fund, which accounts for most of the day-to-day programs and services provided by the district, is the General Fund.

Governmental Funds: Most of the district's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the balances left at year-end available for spending in future periods. These funds are reported using an accounting method called modified accrual, which measures cash and all other financial assets that can readily be converted into cash. The governmental fund statements provide a detailed short-term view of the district's general government operations and the basic services it provides. Governmental fund information helps you determine the financial resources that can be spent in the near future to finance educational programs. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and governmental funds is reconciled in the financial statements.

CAJON VALLEY UNION SCHOOL DISTRICT AS A COMPLETE FINANCIAL ENTITY

The Statement of Net Assets provides a perspective of the district as a whole. Table I provides a summary of the district's net assets as of June 30, 2004, compared with net assets as of June 30, 2003.

Table 1
Statement of Net Assets

	6/30/04	6/30/03	% Change
Assets			
Cash	46,600,987	32,889,963	41.7%
Investments	-	-	-
Receivables	9,953,944	27,450,385	-63.7%
Due from other funds	-	-	-
Stores	260,047	283,323	-7.2%
Prepaid expenses	325,845	-	-
Other current assets	-	-	-
Capital Assets:			
Land	3,207,994	3,207,994	-
Sites and improvements	5,699,222	5,334,274	6.8%
Buildings and improvements	145,160,021	130,575,480	11.2%
Equipment	3,606,140	3,473,400	3.8%
Work in progress	19,884,551	20,482,458	-2.9%
Less accumulated depreciation	<45,584,787>	<41,860,592>	8.9%
Total Assets	\$189,113,964	\$181,836,685	4.0%
Liabilities			
Accounts payable and other current assets	4,096,983	3,662,987	11.8%
Due to other funds	-	-	-
Deferred revenue	2,902,000	4,370,236	-33.6%
Long term liabilities:			
Due within one year	3,924,728	3,115,118	26.0%
Due in more than one year	55,696,159	47,132,423	18.2%
Total Liabilities	\$66,619,870	\$58,280,764	14.3%
Net Assets			
Invested in capital assets, net of related debt	74,660,717	70,965,473	5.2%
Restricted	44,483,382	48,877,561	-9.0%
Unrestricted	3,349,995	3,712,887	-9.8%
Total Net Assets	\$122,494,094	\$123,555,921	-0.9%

REVENUE AND EXPENDITURES FOR GOVERNMENTAL ACTIVITIES

Revenue in the Governmental Funds is divided into general revenue, which funds the basic ongoing instructional program and related support services; and program revenue, which funds specific program activities that support the children enrolled in Cajon Valley's schools.

The primary sources of general revenue are the state Revenue Limit and local property tax revenue. The primary sources of program revenue are the state of California and the federal government, which fund many programs operated by the district, and fees collected for meals and transportation. Table 2 shows revenue for the 2003/04 year, compared with revenue for the 2002/03 year.

Table 2
Revenue – Governmental Activities

	<u>2003/2004</u>	<u>2002/2003</u>
General Revenue	\$ 98,352,556	\$ 97,471,341
Program Revenue & Fees for Services	<u>37,718,511</u>	<u>48,442,363</u>
Total Revenue	\$136,071,067	\$145,913,704

The primary activities that are required to operate our district schools can be summarized into the nine categories, or functions, listed below. Table 3 shows the expenditures for each function for the 2003/04 year, compared with expenditures for the 2002/03 year.

Table 3
Expenditures – Governmental Activities

	<u>2003/04</u>	<u>2002/03</u>
Classroom Instruction	\$ 88,683,881	\$ 86,820,663
Instructional Related Services	12,911,571	14,234,660
Pupil Services	13,443,700	14,687,767
General Administration	9,052,687	7,836,821
Plant Services	9,959,775	10,731,870
Community Services	82,455	69,150
Enterprise Activities	81,369	-
Interest on Long Term Debt	2,217,256	1,637,877
Other Outgo	<u>700,201</u>	<u>597,962</u>
Total Expenditures	\$137,132,895	\$136,616,770

This chart does not include interest payments on long-term general obligation bond debt to be paid from property tax collections in future years.

THE GENERAL FUND OPERATING BUDGET

Information about the district's major fund, the General Fund, is shown later in this report. This fund is accounted for using the modified accrual basis of accounting. The district's budget is prepared according to California law and is based on accounting for certain transactions on a basis of cash receipts, disbursements and encumbrances.

During the course of the 2003/04 fiscal year, the district revised its general fund budget on occasion to better reflect new grants and awards, and to portray the most current state and federal budget projections, as that information became available. Budget revisions are presented to the Governing Board for review and approved at regularly scheduled Board meetings. A budgetary comparison schedule, showing the original and final budgets compared with actual income and expenditures, is shown in the "Required Supplementary Information" section of this audit report.

CAPITAL ASSETS

At the end of the 2003/04 fiscal year, the district had \$177,557,928 invested in land, buildings, work-in-progress, and capital equipment. Depreciation totaling \$45,584,787 was charged against the value of those assets for net capital assets of \$131,973,141. Net capital assets at the end of the 2002/03 year were \$121,213,014.

Since July, 2000 approximately \$33 million in capital improvement projects have been completed throughout the district. Completed projects include modernization of older classroom buildings, computer network upgrades, campus safety measures, library and multipurpose room expansions, playground improvements, lunch shade shelters and a variety of other school campus improvements. Many additional projects are in progress or will commence in the near future. These projects are being funded primarily through a combination of State grants, district general obligation bond funds and local redevelopment funds.

CURRENT FINANCIAL RELATED ACTIVITIES

Over the years, Cajon Valley Union School District has maintained a strong, financially responsible budget. Each year the district takes a very careful look at revenue and expenditure projections on a multi-year basis, and adjusts its budget accordingly, to maintain an acceptable and safe reserve balance. As the preceding information shows, assets are substantial and the amount of debt paid from general operating revenues is a very small percentage of the overall budget. However, the financial future is full of challenges due to the district's dependence on the state of California for the bulk of its general operating revenue and due to the district's decline in enrollment in the primary grades, which affects overall district revenue.

The state of California's economy has presented serious challenges in recent years; however, some modest recovery in education funding has occurred in 2004/05. Future state funding levels are still somewhat uncertain; therefore, the district will continue to carefully monitor state budget discussions throughout the coming year. The district must remain diligent in adjusting to its ever-changing financial picture to maintain its history of strong financial responsibility.

The district is currently developing budget reduction proposals to deal with an anticipated decrease in revenue. This will be accomplished with the assistance of an established budget advisory committee that works with the Governing Board and administration to review and develop budget recommendations. All budget recommendations will be reviewed in light of the district's multi-year financial projection, which includes adjustments for enrollment decreases, labor-related increases, and other inflationary factors.

CONTACTING THE DISTRICT'S FINANCIAL MANAGERS

This financial report is designed to provide our citizens, taxpayers, investors, and creditors with a general overview of the district's finances and to show the district's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Rebecca Williams, Controller/Assistant Business Manager, or G. Wayne Oetken, Assistant Superintendent, at Cajon Valley Union School District, 189 Roanoke Road, El Cajon, CA 92020. Or e-mail to williamsr@cajonvalley.net.

Basic Financial Statements

CAJON VALLEY UNION SCHOOL DISTRICT

STATEMENT OF NET ASSETS

JUNE 30, 2004

	Governmental Activities
ASSETS:	
Cash in County Treasury	\$ 35,599,553
Cash on Hand and in Banks	1,305,037
Cash in Revolving Fund	15,000
Cash with a Fiscal Agent/Trustee	9,681,397
Accounts Receivable	9,953,944
Stores Inventories	260,047
Prepaid Expenses	325,845
Capital Assets:	
Land	3,207,994
Improvement of Sites	5,699,222
Buildings	145,160,021
Equipment	3,606,140
Work in Progress	19,884,551
Less Accumulated Depreciation	<u>(45,584,787)</u>
Total Assets	<u>189,113,964</u>
LIABILITIES:	
Accounts Payable	4,096,983
Deferred Revenues	2,902,000
Long-Term Liabilities:	
Due within One Year	3,924,728
Due in More Than One Year	<u>55,696,159</u>
Total Liabilities	<u>66,619,870</u>
NET ASSETS:	
Invested in Capital Assets, net of Related Debt	74,660,717
Restricted For:	
Capital Projects	32,007,023
Debt Service	1,947,400
Educational Programs	5,498,306
Other Purposes (Expendable)	754,755
Other Purposes (Nonexpendable)	4,275,898
Unrestricted	<u>3,349,995</u>
Total Net Assets	<u>\$ 122,494,094</u>

The accompanying notes are an integral part of this statement.

Net (Expense)
Revenue and
Changes in
Net Assets

Governmental
Activities

\$ (67,136,682)
(8,122,635)
(4,089,147)
(7,369,764)
(9,601,515)
(82,455)
(81,369)
(2,217,256)
(713,561)
(99,414,384)
(99,414,384)

38,205,835
55,810,282
573,962
3,762,477
98,352,556
(1,061,828)
123,555,922
\$ 122,494,094

EXHIBIT A-3

<u>Building Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 18,514,271	\$ 6,438,693	\$ 33,605,260
-	-	1,005,036
-	-	15,000
9,681,397	-	9,681,397
65,310	88,992	9,745,192
225,000	-	2,193,587
-	-	260,047
<u>\$ 28,485,978</u>	<u>\$ 6,527,685</u>	<u>\$ 56,505,519</u>
\$ 401,654	\$ 186,611	\$ 3,285,194
-	320,463	2,123,843
-	150,504	2,902,001
<u>401,654</u>	<u>657,578</u>	<u>8,311,038</u>
-	-	15,000
-	-	260,047
-	-	4,081,295
-	-	5,603,885
28,084,324	-	32,364,147
-	908,407	908,407
-	1,947,400	1,947,400
-	3,014,300	3,014,300
<u>28,084,324</u>	<u>5,870,107</u>	<u>48,194,481</u>
<u>\$ 28,485,978</u>	<u>\$ 6,527,685</u>	<u>\$ 56,505,519</u>

CAJON VALLEY UNION SCHOOL DISTRICT
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2004

Total fund balances - governmental funds balance sheet	\$ 48,194,481
Amounts reported for governmental activities in the statement of net assets ("SNA") are different because:	
Capital assets used in governmental activities are not reported in the funds, net of accumulated depreciation.	131,973,141
Unamortized costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, debt issue costs are amortized over the life of the debt. Unamortized debt issue costs included in prepaid expense on the statement of net assets are:	325,847
Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is not recognized until the period in which it matures and is paid. In government-wide statement of activities, it is recognized in the period that it is incurred. The additional liability for unamatured interest owing at the end of the period was :	(614,680)
Long-term liabilities: In governmental funds, only current liabilities are reported. In the statement of net assets, all liabilities, including long-term liabilities, are reported. Long-term liabilities relating to governmental activities consisted of:	(58,043,670)
Internal service funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to operate for the benefit of governmental activities, assets and liabilities of internal service funds are reported with governmental activities in the statement of net assets. Net assets for internal service funds are:	<u>658,975</u>
Net assets of governmental activities - statement of net assets	\$ <u><u>122,494,094</u></u>

The accompanying notes are an integral part of this statement.

<u>Building Fund</u>	<u>Other Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ -	\$ -	\$ 46,481,842
-	-	35,609,643
-	3,758	14,342,761
-	1,491,595	20,561,728
657,607	4,464,447	19,075,091
<u>657,607</u>	<u>5,959,800</u>	<u>136,071,065</u>
-	1,042,883	85,429,759
-	93,821	12,931,033
-	-	13,146,083
-	-	82,290
-	228,451	8,385,533
11,985,369	3,314,933	24,872,420
325,845	-	1,026,046
422,152	185,000	1,040,615
256,488	1,841,669	2,235,024
<u>12,989,854</u>	<u>6,706,757</u>	<u>149,148,803</u>
<u>(12,332,247)</u>	<u>(746,957)</u>	<u>(13,077,738)</u>
195,159	-	195,159
-	(195,159)	(270,159)
10,180,000	-	10,180,000
<u>10,375,159</u>	<u>(195,159)</u>	<u>10,105,000</u>
(1,957,088)	(942,116)	(2,972,738)
30,041,412	6,812,223	51,167,219
<u>\$ 28,084,324</u>	<u>\$ 5,870,107</u>	<u>\$ 48,194,481</u>

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

Net change in fund balances - total governmental funds \$ (2,972,738)

Amounts reported for governmental activities in the statement of activities are different because:

Capital Outlay: In governmental funds, the cost of capital assets are reported as expenditures in the period when the assets are acquired. In the statement of activities, costs of capital assets are allocated over their estimated useful lives as depreciation expense. The difference between capital outlay expenditures and depreciation expense for the period is:

Expenditures for capital outlay	15,105,029	
Depreciation expense	<u>(3,724,195)</u>	
Net		11,380,834

Debt service: In governmental funds, repayment of long-term debt are reported as expenditures. In the government-wide statements, repayments of long-term debt are reported as reductions of liabilities. Expenditures for repayment of the principal portion of long-term debt were: 1,040,615

Debt proceeds: In governmental funds, proceeds from debt are recognized as Other Financing Sources. In the government-wide statements, proceeds from debt are reported as increases to liabilities. Amounts recognized in governmental funds as proceeds from debt were: (10,180,000)

Debt issue costs: In governmental funds, debt issue costs are recognized as expenditures in the period they are incurred. In the government-wide statements, issue costs are amortized over the life of the debt. The difference between debt issue costs recognized in the current period and issue costs amortized for the period is:

Issue costs incurred during the period	325,845	
Issue costs amortized for the period	<u>-</u>	
		325,845

Unmatured interest on long-term debt: In governmental funds, interest on long-term debt is recognized in the period that it becomes due. In the governmental-wide statement of activities, it is recognized in the period that it is incurred. Unmatured interest owing at the end of the period, less matured interest paid during the period but owing from the prior period was: 17,770

Compensated absences: In governmental funds, compensated absences are measured by the amounts paid during the period. In the statement of activities, compensated absences are measured by the amounts earned. The difference between compensated absences paid and compensated absences earned was: (47,142)

Cost write-off for canceled capital projects: If a planned capital project is canceled and will not be completed, costs previously capitalized as Work in Progress must be written off to expense. Costs written off for canceled projects were: (620,708)

Internal Service Funds: Internal service funds are used to conduct certain activities for which costs are charged to other funds on a full cost-recovery basis. Because internal service funds are presumed to benefit governmental activities, internal service activities are reported as governmental in the statement of activities. The net increase or decrease in internal service funds was: (6,304)

Change in net assets of governmental activities - statement of activities \$ (1,061,828)

CAJON VALLEY UNION SCHOOL DISTRICT

STATEMENT OF NET ASSETS

INTERNAL SERVICE FUND

JUNE 30, 2004

	Nonmajor Internal Service Fund	Self-Insurance Fund
ASSETS:		
Current Assets:		
Cash in County Treasury	\$ 1,994,292	
Cash on Hand and in Banks	300,000	
Accounts Receivable	208,753	
Total Current Assets	<u>2,503,045</u>	
Total Assets	<u>\$ 2,503,045</u>	
LIABILITIES:		
Current Liabilities:		
Accounts Payable	\$ 197,109	
Due to Other Funds	69,744	
Total Current Liabilities	<u>266,853</u>	
Noncurrent Liabilities:		
Other General Long-Term Debt	1,577,217	
Total Noncurrent Liabilities	<u>1,577,217</u>	
Total Liabilities	<u>1,844,070</u>	
NET ASSETS:		
Unrestricted Net Assets	658,975	
Total Net Assets	<u>\$ 658,975</u>	

The accompanying notes are an integral part of this statement.

CAJON VALLEY UNION SCHOOL DISTRICT
STATEMENT OF REVENUES, EXPENSES, AND CHANGES
IN FUND NET ASSETS - INTERNAL SERVICE FUND
FOR THE YEAR ENDED JUNE 30, 2004

	Nonmajor Internal Service Fund
	<u>Self-Insurance Fund</u>
Operating Revenues:	
Local Revenue	\$ 14,301,772
Total Revenues	<u>14,301,772</u>
Operating Expenses:	
Certificated Personnel Salaries	750
Classified Personnel Salaries	29,519
Employee Benefits	14,665
Books and Supplies	35,577
Services and Other Operating Expenses	14,302,566
Total Expenses	<u>14,383,077</u>
Income (Loss) before Contributions and Transfers	(81,305)
Interfund Transfers In	<u>75,000</u>
Change in Net Assets	(6,305)
Total Net Assets - Beginning	665,280
Total Net Assets - Ending	<u>\$ 658,975</u>

The accompanying notes are an integral part of this statement.

CAJON VALLEY UNION SCHOOL DISTRICT

STATEMENT OF CASH FLOWS

PROPRIETARY FUNDS

FOR THE YEAR ENDED JUNE 30, 2004

	Nonmajor Internal Service Fund
	Self Insurance Fund
Cash Flows from Operating Activities:	
<i>Cash Received from Customers</i>	\$ 14,462,956
<i>Cash Payments to Other Suppliers for Goods and Services</i>	<u>(14,576,247)</u>
Net Cash Provided (Used) by Operating Activities	<u>(113,291)</u>
Cash Flows from Non-capital Financing Activities:	
<i>Operating Transfers From (To) Primary Government</i>	<u>75,000</u>
Net Cash Provided (Used) by Non-capital Financing Activities	<u>75,000</u>
Cash Flows from Investing Activities:	
<i>Interest and Dividends on Investments</i>	<u>11,646</u>
Net Cash Provided (Used) for Investing Activities	<u>11,646</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(26,645)
Cash and Cash Equivalents at Beginning of Year	<u>2,320,937</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,294,292</u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:	
Operating Income (Loss)	\$ (6,305)
Change in Assets and Liabilities:	
<i>Decrease (Increase) in Receivables</i>	(77,296)
<i>Increase (Decrease) in Accounts Payable</i>	(6,350)
<i>Increase (Decrease) in Due to Other Funds</i>	<u>63,306</u>
Total Adjustments	<u>(20,340)</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (26,645)</u>

The accompanying notes are an integral part of this statement.

CAJON VALLEY UNION SCHOOL DISTRICT
 STATEMENT OF FIDUCIARY NET ASSETS
 FIDUCIARY FUNDS
 JUNE 30, 2004

Agency Fund
Student Body Fund
\$ 270,919
\$ 270,919
\$ 270,919
\$ 270,919
\$ -

ASSETS:

Cash on Hand and in Banks
 Total Assets

\$ 270,919
 \$ 270,919

LIABILITIES:

Due to Student Groups
 Total Liabilities

\$ 270,919
 270,919

NET ASSETS:

Total Net Assets

\$ -

The accompanying notes are an integral part of this statement.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

A. Summary of Significant Accounting Policies

Cajon Valley Union School District (District) accounts for its financial transactions in accordance with the policies and procedures of the Department of Education's "California School Accounting Manual". The accounting policies of the District conform to accounting principles generally accepted in the United States of America (GAAP) as prescribed by the Governmental Accounting Standards Board (GASB) and the American Institute of Certified Public Accountants (AICPA).

1. Reporting Entity

The District's combined financial statements include the accounts of all its operations. The District evaluated whether any other entity should be included in these financial statements. The criteria for including organizations as component units within the District's reporting entity, as set forth in GASB Statement No. 14, "The Financial Reporting Entity," include whether:

- the organization is legally separate (can sue and be sued in its name)
- the District holds the corporate powers of the organization
- the District appoints a voting majority of the organization's board
- the District is able to impose its will on the organization
- the organization has the potential to impose a financial benefit/burden on the District
- there is fiscal dependency by the organization on the District

The District also evaluated each legally separate, tax-exempt organization whose resources are used principally to provide support to the District to determine if its omission from the reporting entity would result in financial statements which are misleading or incomplete. GASB Statement No. 14 requires inclusion of such an organization as a component unit when: 1) The economic resources received or held by the organization are entirely or almost entirely for the direct benefit of the District, its component units or its constituents; and 2) The District or its component units is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the organization; and 3) Such economic resources are significant to the District.

Based on these criteria, the District has no component units. Additionally, the District is not a component unit of any other reporting entity as defined by the GASB Statement.

2. Basis of Presentation, Basis of Accounting

a. Basis of Presentation

Government-wide Statements: The statement of net assets and the statement of activities include the financial activities of the overall government, except for fiduciary activities. Eliminations have been made to minimize the double-counting of internal activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange transactions.

The statement of activities presents a comparison between direct expenses and program revenues for each function of the District's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The District does not allocate indirect expenses in the statement of activities. Program revenues include (a) fees, fines, and charges paid by the recipients of goods or services offered by the programs and (b) 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, including all taxes, are presented as general revenues.

Fund Financial Statements: The fund financial statements provide information about the District's funds, with separate statements presented for each fund category. The emphasis of fund financial statements is on major governmental funds, each displayed in a separate column. All remaining governmental funds are aggregated and reported as nonmajor funds.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as subsidies and investment earnings, result from nonexchange transactions or ancillary activities.

The District reports the following major governmental funds:

General Fund. This is the District's primary operating fund. It accounts for all financial resources of the District except those required to be accounted for in another fund.

Cafeteria Fund. This fund is used to account separately for federal, state, and local resources to operate the food service program.

Building Fund. This fund accounts for the acquisition of major governmental capital facilities and buildings from the sale of bond proceeds.

In addition, the District reports the following fund types:

Special Revenue Funds: These funds are used to account for the proceeds of specific revenue sources that are legally restricted to expenditures for specific purposes.

Capital Projects Funds: These funds account for the acquisition and/or construction of all major governmental general fixed assets.

Debt Service Funds. These funds account for the accumulation of resources for, and the payment of general long-term debt principal, interest, and related costs.

Internal Service Funds: These funds are used to account for revenues and expenses related to services provided to parties inside the District. These funds facilitate distribution of support costs to the users of support services on a cost-reimbursement basis. Because the principal users of the internal services are the District's governmental activities, this fund type is included in the "Governmental Activities" column of the government-wide financial statements.

Agency Funds: These funds are used to report student activity funds and other resources held in a purely custodial capacity (assets equal liabilities). Agency funds typically involve only the receipt, temporary investment, and remittance of fiduciary resources to individuals, private organizations, or other governments.

Fiduciary funds are reported in the fiduciary fund financial statements. However, because their assets are held in a trustee or agent capacity and are therefore not available to support District programs, these funds are not included in the government-wide statements.

b. Measurement Focus, Basis of Accounting

Government-wide, Proprietary, and Fiduciary Fund Financial Statements: These financial statements are reported using the economic resources measurement focus. The government-wide and proprietary fund financial statements are reported using the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of when the related cash flows take place. Nonexchange transactions, in which the District gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements, and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements, and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

Governmental Fund Financial Statements: Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when measurable and available. The District does not consider revenues collected after its year-end to be available in the current period. Revenues from local sources consist primarily of property taxes. Property tax revenues and revenues received from the State are recognized under the susceptible-to-accrual concept. Miscellaneous revenues are recorded as revenue when received in cash because they are generally not measurable until actually received. Investment earnings are recorded as earned, since they are both measurable and available. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments, and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

When the District incurs an expenditure or expense for which both restricted and unrestricted resources may be used, it is the District's policy to use restricted resources first, then unrestricted resources.

Under GASB Statement No. 20, "Accounting and Financial Reporting for Proprietary Funds and Other Governmental Entities That Use Proprietary Fund Accounting," all proprietary funds will continue to follow Financial Accounting Standards Board ("FASB") standards issued on or before November 30, 1989. However, from that date forward, proprietary funds will have the option of either 1) choosing not to apply future FASB standards (including amendments of earlier pronouncements), or 2) continuing to follow new FASB pronouncements unless they conflict with GASB guidance. The District has chosen to apply future FASB standards.

3. Encumbrances

Encumbrance accounting is used in all budgeted funds to reserve portions of applicable appropriations for which commitments have been made. Encumbrances are recorded for purchase orders, contracts, and other commitments when they are written. Encumbrances are liquidated when the commitments are paid. All encumbrances are liquidated as of June 30.

4. Assets, Liabilities, and Equity

a. Deposits and Investments

Cash balances held in banks and in revolving funds are insured to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institutions is fully insured or collateralized. For purposes of the statement of cash flows, highly liquid investments are considered to be cash equivalents if they have a maturity of three months or less when purchased.

In accordance with Education Code Section 41001, the District maintains substantially all its cash in the San Diego County Treasury. The county pools these funds with those of other districts in the county and invests the cash. These pooled funds are carried at cost, which approximates market value. Interest earned is deposited quarterly into participating funds, except for the Tax Override Funds, in which interest earned is credited to the general fund. Any investment losses are proportionately shared by all funds in the pool.

The county is authorized to deposit cash and invest excess funds by California Government Code Section 53648 et seq. The funds maintained by the county are either secured by federal depository insurance or are collateralized.

Information regarding the amount of dollars invested in derivatives with San Diego County Treasury was not available.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

b. Stores Inventories and Prepaid Expenditures

Inventories are recorded using the purchases method in that the cost is recorded as an expenditure at the time individual inventory items are purchased. Inventories are valued at average cost and consist of expendable supplies held for consumption. Reported inventories are equally offset by a fund balance reserve, which indicates that these amounts are not "available for appropriation and expenditure" even though they are a component of net current assets.

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 expenditure when incurred.

c. Capital Assets

Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated fixed assets are recorded at their estimated fair value at the date of the donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. A capitalization threshold of \$5,000 is used.

Capital assets are being depreciated using the straight-line method over the following estimated useful lives:

<u>Asset Class</u>	<u>Estimated Useful Lives</u>
Infrastructure	30
Buildings	50
Building Improvements	20
Vehicles	2-15
Office Equipment	3-15
Computer Equipment	3-15

d. Receivable and Payable Balances

The District believes that sufficient detail of receivable and payable balances is provided in the financial statements to avoid the obscuring of significant components by aggregation. Therefore, no disclosure is provided which disaggregates those balances.

There are no significant receivables which are not scheduled for collection within one year of year end.

e. Compensated Absences

Accumulated unpaid employee vacation benefits are recognized as liabilities of the District. The current portion of the liabilities is recognized in the general fund at year end.

Accumulated sick leave benefits are not recognized as liabilities of the District. The District's policy is to record sick leave as an operating expense in the period taken since such benefits do not vest nor is payment probable; however, unused sick leave is added to the creditable service period for calculation of retirement benefits when the employee retires.

f. Deferred Revenue

Cash received for federal and state special projects and programs is recognized as revenue to the extent that qualified expenditures have been incurred. Deferred revenue is recorded to the extent cash received on specific projects and programs exceeds qualified expenditures.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

g. Interfund Activity

Interfund activity results from loans, services provided, reimbursements or transfers between funds. Loans are reported as interfund receivables and payables as appropriate and are subject to elimination upon consolidation. Services provided, deemed to be at market or near market rates, are treated as revenues and expenditures or expenses. Reimbursements occur when one fund incurs a cost, charges the appropriate benefiting fund and reduces its related cost as a reimbursement. All other interfund transactions are treated as transfers. Transfers In and Transfers Out are netted and presented as a single "Transfers" line on the government-wide statement of activities. Similarly, interfund receivables and payables are netted and presented as a single "Internal Balances" line of the government-wide statement of net assets.

h. Property Taxes

Secured property taxes attach as an enforceable lien on property as of March 1. Taxes are payable in two installments on November 15 and March 15. Unsecured property taxes are payable in one installment on or before August 31. The County of San Diego bills and collects the taxes for the District.

i. Fund Balance Reserves and Designations

Reservations of the ending fund balance indicate the portions of fund balance not appropriable for expenditure or amounts legally segregated for a specific future use. The reserve for revolving fund and reserve for stores inventory reflect the portions of fund balance represented by revolving fund cash and stores inventory, respectively. These amounts are not available for appropriation and expenditure at the balance sheet date.

Designations of the ending fund balance indicate tentative plans for financial resource utilization in a future period.

j. Use of Estimates

The preparation of financial statements in conformity with GAAP requires the use of management's estimates. Actual results could differ from those estimates.

B. Compliance and Accountability

1. Finance-Related Legal and Contractual Provisions

In accordance with GASB Statement No. 38, "Certain Financial Statement Note Disclosures," violations of finance-related legal and contractual provisions, if any, are reported below, along with actions taken to address such violations:

<u>Violation</u>	<u>Action Taken</u>
None reported	Not applicable

2. Deficit Fund Balance or Fund Net Assets of Individual Funds

Following are funds having deficit fund balances or fund net assets at year end, if any, along with remarks which address such deficits:

<u>Fund Name</u>	<u>Deficit Amount</u>	<u>Remarks</u>
None reported	Not applicable	Not applicable

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

C. Excess of Expenditures Over Appropriations

As of June 30, 2004, expenditures exceeded appropriations in individual funds as follows:

<u>Appropriations Category</u>	<u>Excess Expenditures</u>
General Fund:	
Community services	\$ 13,674
Cafeteria Fund:	
Plant services	66,634

D. Cash and Investments

Cash in County Treasury:

In accordance with Education Code Section 41001, the District maintains substantially all of its cash in the San Diego County Treasury as part of the common investment pool (\$35,599,553 as of June 30, 2004). The fair value of the District's portion of this pool as of that date, as provided by the pool sponsor, was \$356,599,553. Assumptions made in determining the fair value of the pooled investment portfolios are available from the County Treasurer. The county is restricted by Government Code Section 53635 pursuant to Section 53601 to invest in time deposits, U.S. government securities, state registered warrants, notes or bonds, State Treasurer's investment pool, bankers' acceptances, commercial paper, negotiable certificates of deposit, and repurchase or reverse repurchase agreements.

Cash on Hand in Banks, and in Revolving Fund

Cash balances on hand and in banks (\$1,575,956 as of June 30, 2004) and in the revolving fund (\$15,000) are insured up to \$100,000 by the Federal Depository Insurance Corporation. All cash held by the financial institution is fully insured or collateralized.

Investment Accounting Policy

The District is required by GASB Statement No. 31 to disclose its policy for determining which investments, if any, are reported at amortized cost. The District's general policy is to report money market investments and short-term participating interest-earning investment contracts at amortized cost and to report nonparticipating interest-earning investment contracts using a cost-based measure. However, if the fair value of an investment is significantly affected by the impairment of the credit standing of the issuer or by other factors, it is reported at fair value. All other investments are reported at fair value unless a legal contract exists which guarantees a higher value. The term "short-term" refers to investments which have a remaining term of one year or less at time of purchase. The term "nonparticipating" means that the investment's value does not vary with market interest rate changes. Nonnegotiable certificates of deposit are examples of nonparticipating interest-earning investment contracts.

The District's investments in external investment pools are reported at an amount determined by the fair value per share of the pool's underlying portfolio, unless the pool is 2a7-like, in which case they are reported at share value. A 2a7-like pool is one which is not registered with the Securities and Exchange Commission ("SEC") as an investment company, but nevertheless has a policy that it will, and does, operate in a manner consistent with the SEC's Rule 2a7 of the Investment Company Act of 1940.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

E. Capital Assets

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

	Beginning Balances	Increases	Decreases	Ending Balances
Governmental activities:				
<i>Capital assets not being depreciated:</i>				
Land	\$ 3,207,994	\$ -	\$ -	\$ 3,207,994
Work in progress	20,482,458	-	597,907	19,884,551
Total capital assets not being depreciated	<u>23,690,452</u>	<u>-</u>	<u>597,907</u>	<u>23,092,545</u>
<i>Capital assets being depreciated:</i>				
Buildings	130,575,480	14,584,541	-	145,160,021
Improvements	5,334,274	364,948	-	5,699,222
Equipment	3,473,400	132,740	-	3,606,140
Total capital assets being depreciated	<u>139,383,154</u>	<u>15,082,229</u>	<u>-</u>	<u>154,465,383</u>
Less accumulated depreciation for:				
Buildings	(35,849,861)	(3,161,837)	-	(39,011,698)
Improvements	(3,954,134)	(129,007)	-	(4,083,141)
Equipment	(2,056,597)	(433,351)	-	(2,489,948)
Total accumulated depreciation	<u>(41,860,592)</u>	<u>(3,724,195)</u>	<u>-</u>	<u>(45,584,787)</u>
Total capital assets being depreciated, net	<u>97,522,562</u>	<u>11,358,034</u>	<u>-</u>	<u>108,880,596</u>
Governmental activities capital assets, net	<u>\$ 121,213,014</u>	<u>\$ 11,358,034</u>	<u>\$ 597,907</u>	<u>\$ 131,973,141</u>

Depreciation was charged to functions as follows:

Instruction	\$ 3,296,770
Instruction-Related Services	43,855
Pupil Services	286,701
General Administration	46,461
Plant Services	50,408
	<u>\$ 3,724,195</u>

F. Interfund Balances and Activities

1. Due To and From Other Funds

Balances due to and due from other funds at June 30, 2004, consisted of the following:

Due To Fund	Due From Fund	Amount
General Fund	Child Development Fund	\$ 89,599
General Fund	Cafeteria Fund	1,797,674
General Fund	Capital Facilities Fund	5,864
General Fund	Self Insurance Fund	69,744
Cafeteria Fund	General Fund	5,706
Building Fund	Capital Facilities Fund	225,000
	Total	<u>\$ 2,193,587</u>

All amounts due are scheduled to be repaid within one year.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

2. Transfers To and From Other Funds

Transfers to and from other funds at June 30, 2004, consisted of the following:

Transfers From	Transfers To	Amount
General Fund	Self Insurance Fund	\$ 75,000
County School Facilities Fund	Building Fund	195,159
	Total	<u>\$ 270,159</u>

G. Short-Term Debt Activity

The District accounts for short-term debts for maintenance purposes through the General Fund. The proceeds from loans are shown in the financial statements as Other Resources.

H. Long-Term Obligations

1. Long-Term Obligation Activity

Long-term obligations include debt and other long-term liabilities. Changes in long-term obligations for the period ended June 30, 2004, are as follows:

	Beginning Balance	Increases	Decreases	Ending Balance	Amounts Due Within One Year
Governmental activities:					
General obligation bonds	\$ 44,760,000	\$ -	\$ 185,000	\$ 44,575,000	705,000
Capital leases	3,413,038	-	855,615	2,557,423	911,264
Certificates of participation	-	10,180,000	-	10,180,000	-
Other Long-term Debt	1,390,398	8,078,987	7,892,168	1,577,217	1,577,217
Compensated absences *	684,105	47,142	-	731,247	731,247
Total governmental activities	<u>\$ 50,247,541</u>	<u>\$ 18,306,129</u>	<u>\$ 8,932,783</u>	<u>\$ 59,620,887</u>	<u>\$ 3,924,728</u>

* Other long-term liabilities

The funds typically used to liquidate other long-term liabilities in the past are as follows:

Liability	Activity Type	Fund
Compensated absences	Governmental	General

2. Debt Service Requirements

Debt service requirements on long-term debt, net of certificates of participation, at June 30, 2004, are as follows:

Year Ending June 30,	Governmental Activities		
	Principal	Interest	Total
2005	\$ 3,924,728	\$ 2,256,513	\$ 6,181,241
2006	1,246,141	2,155,745	3,401,886
2007	1,207,656	2,080,629	3,288,285
2008	1,206,210	2,005,992	3,212,202
2009	1,263,502	1,931,739	3,195,241
2010-2014	5,532,650	8,807,570	14,340,220
2015-2019	6,615,000	7,572,795	14,187,795
2020-2024	8,370,000	5,906,679	14,276,679
2025-2029	10,610,000	3,658,003	14,268,003
2030-2034	9,465,000	907,866	10,372,866
Totals	<u>\$ 49,440,887</u>	<u>\$ 37,283,531</u>	<u>\$ 86,724,418</u>

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

3. Capital Leases

Commitments under capitalized lease agreements for facilities and equipment provide for minimum future lease payments as of June 30, 2004, as follows:

<u>Year Ending June 30:</u>	
2005	\$ 1,049,765
2006	542,839
2007	428,912
2008	361,048
2009	364,234
2010-2014	<u>182,927</u>
Total Minimum Lease Payment	2,929,725
Less Amount Representing Interest	<u>372,302</u>
Net Present Value of Minimum Lease Payments	<u>\$ 2,557,423</u>

4. Certificates of Participation

Future commitments for certificates of participation as of June 30, 2004 are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ -	\$ 347,278	\$ 347,278
2006	515,000	347,278	862,278
2007	590,000	334,402	924,402
2008	660,000	319,652	979,652
2009	735,000	303,153	1,038,153
2010-2014	4,985,000	1,107,447	6,092,447
2015-2019	2,695,000	164,000	2,859,000
Totals	<u>\$ 10,180,000</u>	<u>\$ 2,923,210</u>	<u>\$ 13,103,210</u>

I. Joint Ventures (Joint Powers Agreements)

The District participates in one joint powers agreement (JPA) entity, the San Diego County Schools Risk Management (SDCSRM). The relationship between the District and the JPA is such that the JPA is not a component unit of the District.

The JPA arranges for and provides for various types of insurances for its member districts as requested. The JPA is governed by a board consisting of a representative from each member district. The board controls the operations of the JPA, including selection of management and approval of operating budgets, independent of any influence by the member districts beyond their representation on the board. Each member district pays a premium commensurate with the level of coverage requested and shares surpluses and deficits proportionate to their participation in the JPA.

Combined condensed unaudited financial information of the District's share of the JPA for the year ended June 30, 2004 is as follows:

Total Assets	\$ 1,703,272
Total Liabilities	2,392,068
Total Fund Balance	(688,796)
Total Cash Receipts	2,363,383
Total Cash Disbursements	2,148,959
Net Change in Fund Balance	214,424

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

J. Employee Retirement Systems

Qualified employees are covered under multiple-employer defined benefit pension 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).

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 Law. 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, California 95814.

Funding Policy

Active plan members are required to contribute 7% of their salary (7% of monthly salary over \$133.33 if the member participates in Social Security), 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 rates for fiscal year 2003-04 were 2.894% of payroll for the six months ending December 31, 2003, and 2.771% of payroll for the remaining six months ending June 30, 2004. The contribution requirements of the plan members are established by state statute. The District's contributions to CalPERS for the fiscal year ending June 30, 2004, 2003 and 2002 were \$1,883,921, \$558,497 and \$0, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$16,633.

STRS:

Plan Description

The District contributes to the 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, disability, 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 the STRS, 7667 Folsom Boulevard, Sacramento, California 95826.

Funding Policy

Active plan members are required to contribute 8% 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 STRS Teachers' Retirement Board. The required employer contribution rate for fiscal year 2003-04 was 8.25% of annual payroll. The contribution requirements of the plan members are established by state statute. The District's contributions to STRS for the fiscal year ending June 30, 2004, 2003 and 2002 were \$5,027,427, \$5,410,483 and \$5,388,150, respectively, and equal 100% of the required contributions for each year. The amount contributed by the State on behalf of the District was \$3,070,381.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004

K. Postemployment Benefits Other Than Pension Benefits

The District provides postretirement health care benefits, as established by board policy, to all employees who retire from the District on or after attaining age 55 with at least 10 years of service.

The District pays health insurance premiums on behalf of qualified pre-Medicare retirees at a rate ranging from 50% to 100% of the cost, depending on length of service and other factors. During the year ended June 30 2004, expenditures of \$1,583,951 were recognized for postretirement health care. These costs were funded on a pay-as-you-go basis. The District does not recognize a liability for future postemployment health care benefits because the amount cannot be reasonably determined.

L. Commitments and Contingencies

Litigation

The District is involved in various litigation. In the opinion of management and legal counsel, the disposition of all litigation pending will not have a material effect on the financial statements.

State and Federal Allowances, Awards, and Grants

The District has received state and federal funds for specific purposes that are subject to view and audit by the grantor agencies. Although such audits could generate expenditure disallowances under terms of the grants, it is believed that any required reimbursement will not be material.

M. Risk Management

The District is exposed to various risks of loss related to torts, theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The District has one self-insurance fund (Internal Service Fund) to account for and finance its uninsured risks of loss. The Internal Service Fund provides dental and vision coverage to employees.

All funds of the District participate in the program, but only the General Fund makes payments to the Self Insurance Fund based on actuarial estimates of the amounts needed to pay prior and current year claims and to establish a liability for open claims and Incurred But Not Reported (IBNR) claims. The claims and liability of \$1,577,217 is included in the liabilities under accounts payable and is reported in accordance with Financial Accounting Standards Board Statement No. 10, which requires that a liability for claims be reported if information prior to the issuance of the financial statements indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of the loss can be reasonably estimated at the end of the fiscal year. Changes in the Internal Service Fund's claim liability in the fiscal year ended June 30, 2004 are indicated below: (Note- The latest estimate of self-funding rates for the District's self insurance dental plan was as of October, 2002. The amount of the June 30, 2004 liability reflects the estimate as of October 2002)

Internal Service Fund:	<u>Beginning Fiscal Year Liability</u>	<u>Current Year Claims and Changes in Estimates</u>	<u>Claim Payments</u>	<u>Ending Fiscal Year Liability</u>
Year 2003-04	\$ <u>1,390,398</u>	\$ <u>8,078,987</u>	\$ <u>7,892,168</u>	\$ <u>1,577,217</u>

Required Supplementary Information

Required supplementary information includes financial information and disclosures required by the Governmental Accounting Standards Board but not considered a part of the basic financial statements.

CAJON VALLEY UNION SCHOOL DISTRICT

EXHIBIT B-1

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
Revenue Limit Sources:				
State Apportionments	\$ 48,696,013	\$ 48,889,665	\$ 46,481,842	\$ (2,407,823)
Local Sources	33,692,871	33,692,871	35,609,643	1,916,772
Federal Revenue	8,461,283	14,682,003	11,091,414	(3,590,589)
Other State Revenue	16,763,168	20,045,219	18,611,603	(1,433,616)
Other Local Revenue	11,114,146	12,271,767	12,145,748	(126,019)
Total Revenues	<u>118,727,481</u>	<u>129,581,525</u>	<u>123,940,250</u>	<u>(5,641,275)</u>
Expenditures:				
Instruction	82,845,048	95,114,361	84,386,876	10,727,485
Instruction - Related Services	11,597,778	14,259,522	12,837,212	1,422,310
Pupil Services	7,898,664	8,205,860	7,702,606	503,254
Community Services	68,466	68,616	82,290	(13,674)
General Administration	6,933,710	8,448,860	8,069,402	379,458
Plant Services	9,489,884	9,529,327	9,505,484	23,843
Other Outgo	654,270	735,354	700,201	35,153
Debt Service:				
Principal	433,463	433,463	433,463	-
Interest	136,867	136,867	136,867	-
Total Expenditures	<u>120,058,150</u>	<u>136,932,230</u>	<u>123,854,401</u>	<u>13,077,829</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>(1,330,669)</u>	<u>(7,350,705)</u>	<u>85,849</u>	<u>7,436,554</u>
Other Financing Sources (Uses):				
Operating Transfers Out	<u>(75,000)</u>	<u>(75,000)</u>	<u>(75,000)</u>	<u>-</u>
Total Other Financing Sources (Uses)	<u>(75,000)</u>	<u>(75,000)</u>	<u>(75,000)</u>	<u>-</u>
Net Change in Fund Balance	<u>(1,405,669)</u>	<u>(7,425,705)</u>	<u>10,849</u>	<u>7,436,554</u>
Fund Balance, July 1	<u>14,133,422</u>	<u>14,133,422</u>	<u>14,133,422</u>	<u>-</u>
Fund Balance, June 30	<u>\$ 12,727,753</u>	<u>\$ 6,707,717</u>	<u>\$ 14,144,271</u>	<u>\$ 7,436,554</u>

CAJON VALLEY UNION SCHOOL DISTRICT

EXHIBIT B-2

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

	Budgeted Amounts		Actual	Variance with Final Budget Positive (Negative)
	Original	Final		
Revenues:				
<i>Federal Revenue</i>	\$ 3,320,560	\$ 3,320,560	\$ 3,247,589	\$ (72,971)
<i>Other State Revenue</i>	217,289	448,509	458,530	10,021
<i>Other Local Revenue</i>	<u>2,084,386</u>	<u>2,084,386</u>	<u>1,807,289</u>	<u>(277,097)</u>
Total Revenues	<u>5,622,235</u>	<u>5,853,455</u>	<u>5,513,408</u>	<u>(340,047)</u>
Expenditures:				
<i>Pupil Services</i>	5,288,316	5,510,169	5,443,477	66,692
<i>General Administration</i>	125,000	87,680	87,680	-
<i>Plant Services</i>	-	-	66,634	(66,634)
Total Expenditures	<u>5,413,316</u>	<u>5,597,849</u>	<u>5,597,791</u>	<u>58</u>
Excess (Deficiency) of Revenues Over (Under) Expenditures	<u>208,919</u>	<u>255,606</u>	<u>(84,383)</u>	<u>(339,989)</u>
Net Change in Fund Balance	<u>208,919</u>	<u>255,606</u>	<u>(84,383)</u>	<u>(339,989)</u>
Fund Balance, July 1	<u>180,162</u>	<u>180,162</u>	<u>180,162</u>	<u>-</u>
Fund Balance, June 30	<u>\$ 389,081</u>	<u>\$ 435,768</u>	<u>\$ 95,779</u>	<u>\$ (339,989)</u>

Other Supplementary Information

This section includes financial information and disclosures not required by the Governmental Accounting Standards Board and not considered a part of the basic financial statements. It may, however, include information which is required by other entities.

Supplementary Information Section

CAJON VALLEY UNION SCHOOL DISTRICT
SCHEDULE OF AVERAGE DAILY ATTENDANCE
YEAR ENDED JUNE 30, 2004

TABLE C-1

	<u>Second Period Report</u>	<u>Annual Report</u>
Elementary:		
Kindergarten	1,515.48	1,517.91
Grades 1 through 3	5,244.17	5,240.50
Grades 4 through 6	5,698.07	5,695.39
Grades 7 and 8	3,886.02	3,876.22
Community day schools	40.55	46.83
Home & Hospital	6.37	6.19
Special education	850.46	856.90
Elementary totals	<u>17,241.12</u>	<u>17,239.94</u>
 ADA totals	 <u>17,241.12</u>	 <u>17,239.94</u>

<u>Summer School</u>	<u>Hours of Attendance</u>
Elementary	216668

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

CAJON VALLEY UNION SCHOOL DISTRICT

TABLE C-2

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

<u>Grade Level</u>	<u>1982-83 Actual Minutes</u>	<u>1986-87 Minutes Requirement</u>	<u>2003-04 Actual Minutes</u>	<u>Number of Days Traditional Calendar</u>	<u>Number of Days Multitrack Calendar</u>	<u>Status</u>
Kindergarten	31,680	36,000	37,035	180	-	Complied
Grades 1 through 3	42,380	50,400	50,760	180	-	Complied
Grades 4 through 8	52,560	54,000	55,245	180	-	Complied

Districts, including basic aid districts, must maintain their instructional minutes at either the 1982-83 actual minutes or the 1986-87 requirements, whichever is greater, as required by Education Code Section 46201. This schedule is required of all districts, including basic aid districts.

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 instruction time offered by the district and whether the district complied with the provisions of Education Code Sections 46200 through 46206.

CAJON VALLEY UNION SCHOOL DISTRICT
SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS
YEAR ENDED JUNE 30, 2004

TABLE C-3

General Fund	(Budget) 2005	2004	2003	2002
Revenues and other financial sources	\$ 121,715,988	\$ 123,940,252	\$ 125,602,100	\$ 127,133,410
Expenditures, other uses and transfers out	121,890,246	123,929,392	125,215,710	127,128,939
Change in fund balance (deficit)	(174,258)	10,860	386,390	4,471
Ending fund balance	\$ 13,970,013	\$ 14,144,271	\$ 14,133,411	\$ 13,747,021
Available reserves	\$ 13,760,410	\$ 13,934,668	\$ 13,904,793	\$ 13,482,845
Available reserves as a percentage of total outgo	11.3%	11.2%	11.1%	10.6%
Total long-term debt	\$ 55,696,159	\$ 59,620,887	\$ 50,247,541	\$ 34,626,011
Average daily attendance at P-2	17,245	17,241	17,852	18,143

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.

The general fund balance has increased by \$401,712 over the past three years. The fiscal year 2004-05 budget projects a decrease of \$174,258. For a district this size, the state recommends available reserves of at least 3% of total general fund expenditures and other outgo.

Total long-term debt has increased by \$45,785,782 over the past three years.

Average daily attendance (ADA) has decreased by 1,008 over the past three years.

CAJON VALLEY UNION SCHOOL DISTRICT
*RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET
REPORT WITH AUDITED FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2004*

TABLE C-4

The fund balances for all funds as reported in the accompanying audited financial statements are in agreement with the fund balances reported by the district in their unaudited financial statements.

This schedule provides the information necessary to reconcile the fund balances of all funds and the total liabilities balance of the general long-term debt account group as reported on the SACS report to the audited financial statements. Funds that required no adjustment are not presented.

CAJON VALLEY UNION SCHOOL DISTRICT
SCHEDULE OF CHARTER SCHOOLS
YEAR ENDED JUNE 30, 2004

TABLE C-5

No charter schools are chartered by Cajon Valley Union School District.

<u>Charter Schools</u>	<u>Included In Audit?</u>
None	N/A

CAJON VALLEY UNION SCHOOL DISTRICT
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
YEAR ENDED JUNE 30, 2004

TABLE C-6

Federal Grantor/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
<u>U. S. DEPARTMENT OF THE INTERIOR</u>			
Direct Program:			
U. S. Wildlife *	15.611	-	\$ 19,690
Total U. S. Department of the Interior			<u>19,690</u>
<u>U. S. DEPARTMENT OF HEALTH AND HUMAN SERVICES</u>			
Direct Program:			
Medi-Cal *	93.778	-	94,012
Passed Through California Department of Education:			
Child Care and Development *	93.575	-	3,758
Total U. S. Department of Health and Human Services			<u>97,770</u>
<u>U. S. DEPARTMENT OF EDUCATION</u>			
Direct Program:			
Impact Aid - P.L. 81.874	84.041	-	11,635
Passed Through California Department of Education:			
Title I	84.010	03064	4,485,368
Title I-Local Improvement	84.011	03035	319,901
Middle School Coordinator	84.013	03066	16,397
Special Education *	84.027	03379	2,404,775
Preschool *	84.173	03430	457,373
Title IV Drug Free	84.186	03453	159,784
Title V Innovative	84.298	04110	19,060
Title II Technology	84.318	04046	313,018
Title II EETT	84.318	04046	868,400
School Renovation	84.352	04141	408,000
Reading First	84.357	03030	494,000
Title III Immigrant	84.365	04201	76,917
Title III LEP	84.365	04203	292,062
Title II Teacher Quality	84.367	04035	651,023
Total Passed Through California Department of Education			<u>10,966,078</u>
Total U. S. Department of Education			<u>10,977,713</u>
<u>U. S. DEPARTMENT OF AGRICULTURE</u>			
Passed Through State Department of Education:			
School Breakfast Program *	10.553	03988	422,117
National School Lunch Program *	10.555	03396	2,825,471
Total Passed Through State Department of Education			<u>3,247,588</u>
Total U. S. Department of Agriculture			<u>3,247,588</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ <u>14,342,761</u>

* Indicates clustered program under OMB Circular A-133 Compliance Supplement

The accompanying notes are an integral part of this schedule.

CAJON VALLEY UNION SCHOOL DISTRICT
NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2004

Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Cajon Valley Union School District and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB 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 general purpose financial statements.

Other Independent Auditor's Reports



Wilkinson Hadley & Co. LLP
CPAs and Advisors

250 E. Douglas Ave., Suite 200 ♦ El Cajon, CA 92020
Tel (619) 447-6700 ♦ Fax (619) 447-6707

Report on Compliance and on Internal Control over Financial
Reporting Based on an Audit of Financial Statements Performed
in Accordance with Government Auditing Standards

Board of Trustees
Cajon Valley Union School District
El Cajon, California 92022

Members of the Board of Trustees:

We have audited the basic financial statements of Cajon Valley Union School District as of and for the year ended June 30, 2004, and have issued our report thereon dated October 21, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

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

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Cajon Valley Union School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the basic financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting 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 misstatements in amounts that would be material in relation to the basic 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. We noted no matters involving the internal control over financial reporting and its operation that we considered to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the Board of Trustees, and 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.

Wilkinson Hadley & Co. LLP

Wilkinson Hadley & Co., LLP
October 21, 2004



Wilkinson Hadley & Co. LLP
CPAs and Advisors

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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
Cajon Valley Union School District
El Cajon, California 92022

Members of the Board of Trustees:

Compliance

We have audited the compliance of Cajon Valley Union 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. Cajon Valley Union School District's major federal programs are identified in the summary of auditor's 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 Cajon Valley Union School District's management. Our responsibility is to express an opinion on Cajon Valley Union 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 Cajon Valley Union 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 on Cajon Valley Union School District's compliance with those requirements.

In our opinion, Cajon Valley Union 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 Cajon Valley Union School District is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered Cajon Valley Union 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 the 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 considered to be material weaknesses.

This report is intended solely for the information and use of management, others within the organization, the Board of Trustees, and 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.

Wilkinson Hadley & Co. LLP

Wilkinson Hadley & Co., LLP
October 21, 2004



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Auditor's Report on State Compliance

Board of Trustees
Cajon Valley Union School District
El Cajon, California 92022

Members of the Board of Trustees:

We have audited the basic financial statements of the Cajon Valley Union School District ("District") as of and for the year ended June 30, 2004, and have issued our report thereon dated October 21, 2004. Our audit was made in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State's audit guide, *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 District's management 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 District's compliance with the state laws and regulations applicable to the following items:

<u>Description</u>	<u>Procedures In Audit Guide</u>	<u>Procedures Performed</u>
Attendance Accounting:		
Attendance Reporting	6	Yes
Kindergarten Continuation	3	Yes
Independent Study	22	No (see below)
Continuation Education	10	Not Applicable
Adult Education	9	Not Applicable
Regional Occupational Centers and Programs	6	Not Applicable
Instructional Time and Staff Development Reform Program	7	Yes
Instructional Time:		
School Districts	4	Yes
County Offices of Education	3	Not Applicable
Community Day Schools	9	No (see below)
Class Size Reduction Program:		
General Requirements	7	Yes
Option One Classes	3	Yes
Option Two Classes	4	Yes
Only One School Serving Grades K-3	4	Not Applicable
Instructional Materials:		

General Requirements	9	Yes
Grades K-8 Only	1	Yes
Grades 9-12 Only	1	Not Applicable
Ratios of Administrative Employees to Teachers	1	Yes
Early Retirement Incentive Program	4	Not Applicable
GANN Limit Calculation	1	Yes

We did not perform testing for independent study and community day schools because the ADA was under the level that requires testing.

Based on our audit, we found that, for the items tested, Cajon Valley Union School District complied with the state laws and regulations referred to above, except as described in the Findings and Recommendations section of this report. Further, based on our examination, for items not tested, nothing came to our attention to indicate that the Cajon Valley Union School District had not complied with the state laws and regulations, except as described in the Findings and Recommendations section of this report.

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

Wilkinson Hadley & Co. LLP

Wilkinson Hadley & Co., LLP
October 21, 2004

Findings and Recommendations Section

CAJON VALLEY UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

A. Summary of Auditor's Results

1. Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

Material weakness(es) identified? Yes No

Reportable condition(s) identified that are not considered to be material weaknesses? Yes None Reported

Noncompliance material to financial statements noted? Yes No

2. Federal Awards

Internal control over major programs:

Material weakness(es) identified? Yes No

Reportable condition(s) identified that are not considered to be material weaknesses? Yes None Reported

Type of auditor's report issued on compliance for major programs: Unqualified

Any audit findings disclosed that are required to be reported in accordance with section 510(a) of Circular A-133? Yes No

Identification of major programs:

<u>CFDA Number(s)</u>	<u>Name of Federal Program or Cluster</u>
84.010	Title I
84.027	Special Education
84.318	Title II-EETT
10.555	National School Lunch
84.367	Title II-Teacher Quality

Dollar threshold used to distinguish between type A and type B programs: \$500,000

Auditee qualified as low-risk auditee? Yes No

CAJON VALLEY UNION SCHOOL DISTRICT
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2004

3. State Awards

Internal control over state programs:

Material weakness(es) identified?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Reportable condition(s) identified that are not considered to be material weaknesses?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> None Reported

Type of auditor's report issued on compliance for state programs: Unqualified

B. Financial Statement Findings

NONE

C. Federal Award Findings and Questioned Costs

NONE

D. State Award Findings and Questioned Costs

Finding 2004-1 (1000)
 Attendance Accounting

Criteria or Specific Requirement

Determine that supporting documentation for attendance, including class rosters, are properly completed, signed, and dated by the supervising teacher.

Condition

In our review of the class rosters, we noted a significant number that were not signed by the teacher as verification of attendance at Hillsdale Middle School. We noted the absences recorded on the rosters reconciled to the attendance reports with additional auditing procedures performed; therefore, there appears to be no impact on the average daily attendance reported by the district.

Questioned Costs

None

Recommendation

We recommend that the teachers at Hillsdale Middle School sign all monthly class rosters as verification of attendance.

LEA's Response

The Hillsdale principal has been notified that a number of rosters were not signed by teachers in 2003/04. He will remind all teachers that it is a requirement, and the school attendance clerk will monitor the attendance rosters to ensure they are signed at the end of each attendance period.

CAJON VALLEY UNION SCHOOL DISTRICT
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2004

<u>Finding/Recommendation</u>	<u>Current Status</u>	<u>Management's Explanation If Not Implemented</u>
<p>Finding 2003-1 Cafeteria Stores Inventory</p>	<p>Implemented</p>	<p>Fair market value of commodities and the adjustment to the physical count had not been booked to the inventory value at year end.</p>
<p>Post all journal entries including the commodities fair market value that should be adjusted to the inventory value at year end to ensure the proper value is stated.</p>		
<p>Finding 2003-2 Staff Development Days</p>	<p>Implemented</p>	<p>The tabulation for reimbursement of staff development days was understated six days due to clerical error,</p>
<p>Amend the Consolidated Application to reflect the correct number of staff development days to be reimbursed.</p>		