

**SALIDA UNION ELEMENTARY
SCHOOL DISTRICT**

ANNUAL FINANCIAL REPORT

JUNE 30, 2006

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

OF STANISLAUS COUNTY

SALIDA, CALIFORNIA

JUNE 30, 2006

GOVERNING BOARD

<u>MEMBER</u>	<u>OFFICE</u>	<u>TERM EXPIRES</u>
Ivan Wyeth	President	2009
Gary Dew	Clerk	2007
Dennis Thompson	Trustee	2007
Lamoine Blocher	Trustee	2009
Mark Hughes	Trustee	2009

ADMINISTRATION

António L. Borba, Ed.D.

Superintendent

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2006

FINANCIAL SECTION

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

REQUIRED SUPPLEMENTARY INFORMATION

General Fund - Budgetary Comparison Schedule	43
Cafeteria Fund - Budgetary Comparison Schedule	44

SUPPLEMENTARY INFORMATION

Schedule of Expenditures of Federal Awards	46
Schedule of Average Daily Attendance	47
Schedule of Instructional Time	48
Reconciliation of Annual Financial and Budget Report with Audited Financial Statements	49
Schedule of Financial Trends and Analysis	50
Note to Supplementary Information	51

SUPPLEMENTARY INFORMATION - UNAUDITED

Combining Statements - Non-Major Governmental Funds	
Combining Balance Sheet - Unaudited	53
Combining Statement of Revenues, Expenditures, and Changes in Fund Balance - Unaudited	55
General Fund Selected Financial Information - Unaudited	57
Cafeteria Account Selected Financial Information - Unaudited	58
Note to Supplementary Information - Unaudited	59

INDEPENDENT AUDITORS' REPORTS

Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <i>Government Auditing Standards</i>	61
Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance in Accordance with OMB Circular A-133	63
Report on State Compliance	65

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

TABLE OF CONTENTS

JUNE 30, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Summary of Auditors' Results	68
Financial Statement Findings	69
Federal Award Findings and Questioned Costs	70
State Award Findings and Questioned Costs	71
Summary Schedule of Prior Audit Findings	73

FINANCIAL SECTION



INDEPENDENT AUDITORS' REPORT

Board of Trustees
Salida Union Elementary School District
Salida, California

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of the Salida Union Elementary School District (the "District") as of and for the year ended June 30, 2006, 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 2005-06*, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of the Salida Union Elementary School District, as of June 30, 2006, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 6, 2006, on our consideration of the District's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in conjunction with this report in considering the results of our audit.

The required supplementary information, such as management's discussion and analysis on pages 4 through 10 and budgetary comparison information on pages 43 and 44, are not a required part of the basic financial statements, but are supplementary information required by the accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

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

The unaudited supplementary information listed in the table of contents, including the Combining Statements - Non-Major Governmental Funds, the Cafeteria Account Selected Financial Information - Unaudited, and the General Fund Selected Financial Information - Unaudited, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we express no opinion on them.

Vavinek, Trine, Day & Co., LLP

Fresno, California
December 6, 2006



Salida Union School District

District Superintendent
Antônio L. Borba, Ed.D.

Board of Trustees
Dennis Thompson
Lamoine Blocher
Mark O. Hughes
Ivan Wyeth, II
Gary Dew

This section of Salida Union School District's 2005-2006 annual financial report presents our discussion and analysis of the District's financial performance during the fiscal year that ended on June 30, 2006. Comparative information is presented between the fiscal years ending June 30, 2006 and 2005, respectively. Please read it in conjunction with the District's financial statements, which immediately follow this section.

OVERVIEW OF THE FINANCIAL STATEMENTS

The Financial Statements

The financial statements presented herein include all of the activities of the Salida Union School District (the District) and its component units using the integrated approach as prescribed by GASB Statement Number 34.

The *Government-Wide Financial Statements* present the financial picture of the District from the economic resources measurement focus using the accrual basis of accounting. They present governmental activities and business-type activities separately. These statements include all assets of the District (including infrastructure) as well as all liabilities (including long-term obligations). Additionally, certain eliminations have occurred as prescribed by the statement in regards to interfund activity, payables and receivables.

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

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

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

REPORTING THE DISTRICT AS A WHOLE

The Statement of Net Assets and the Statement of Activities

The *Statement of Net Assets* and the *Statement of Activities* report information about the District as a whole and about its activities. These statements include *all* assets and liabilities of the District using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

SALIDA UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

These two statements report the District's *net assets* and changes in them. Net assets are the difference between assets and liabilities, one way to measure the District's financial health, or *financial position*. Over time, *increases or decreases* in the District's net assets are one indicator of whether its *financial health* is improving or deteriorating. Other factors to consider are changes in the District's property tax base and the condition of the District's facilities.

The relationship between revenues and expenses is the District's *operating results*. Since the Board's responsibility is to provide services to our students and not to generate a profit as a commercial entity, we must consider other factors when evaluating the *overall health* of the District. The quality of the education and the safety of our schools will likely be the most important component in this evaluation.

In the *Statement of Net Assets* and the *Statement of Activities*, we separate the District activities as follows:

Governmental activities - Most of the District's services are reported in this category. This includes the education of kindergarten through grade eight students, the operation of child development activities, Child Nutrition, and the on-going effort to improve and maintain buildings and sites. Property taxes, state income taxes, user fees, interest income, federal, state and local grants, as well as general obligation bonds, certificates of participation, finance these activities.

REPORTING THE DISTRICT'S MOST SIGNIFICANT FUNDS

Fund Financial Statements

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

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

SALIDA UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

THE DISTRICT AS TRUSTEE

Reporting the District's Fiduciary Responsibilities

The District is the trustee, or *fiduciary*, for funds held on behalf of others, like our funds for associated student body activities, scholarships, employee retiree benefits and pensions. The District's fiduciary activities are reported in separate *Statements of Fiduciary Net Assets*. We exclude these activities from the District's other financial statements because the District cannot use these assets to finance its operations. The District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

THE DISTRICT AS A WHOLE

Net Assets

The District's net assets were \$43.1 million for the fiscal year ended June 30, 2005, and \$41.6 million for the fiscal year ended June 30, 2006, a decrease of \$1.5 million. Of this amount, \$1.4 million was unrestricted. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School Board's ability to use those net assets for day-to-day operations. Our analysis below focuses on the net assets (Table 1) and change in net assets (Table 2) of the District's governmental activities.

Table 1

Net Assets

(Amounts in millions)

	Governmental Activities		
	2005-06	2004-05	Net Change
Current and other assets	\$ 9.8	\$ 14.1	\$ (4.3)
Capital assets	44.5	46.2	(1.7)
Total Assets	54.3	60.3	(6.0)
Current liabilities	2.1	6.2	(4.1)
Long-term obligations	10.6	11.0	(0.4)
Total Liabilities	12.7	17.2	(4.5)
Net assets			
Invested in capital assets, net of related debt	33.9	35.2	(1.3)
Restricted	6.3	6.5	(0.2)
Unrestricted	1.4	1.4	-
Total Net Assets	\$ 41.6	\$ 43.1	\$ (1.5)

The \$1.4 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. It means that if we had to pay of all of our bills *today* including all of our non-capital liabilities (compensated absences as an example), we would have \$1.4 million left.

SALIDA UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

Changes in Net Assets

The results of this year's operations for the District as a whole are reported in the *Statement of Activities*. Table 2 takes the information from the Statement, rounds off the numbers, and rearranges them slightly so you can see our total revenues for the year.

Table 2

Changes in Net Assets

(Amounts in millions)

	Governmental Activities		
	2005-06	2004-05	Net Change
Revenues			
Program revenues:			
Charges for services	\$ 0.6	\$ 0.5	\$ 0.1
Operating grants and contributions	6.9	5.6	1.3
General revenues:			
State revenue limit sources	14.6	14.4	0.2
Property taxes	4.2	4.0	0.2
Other general revenues	1.6	1.9	(0.3)
Total Revenues	<u>27.9</u>	<u>26.4</u>	<u>1.5</u>
Expenses			
Instruction related	17.3	17.0	0.3
Student support services	2.7	2.6	0.1
Administration	1.7	1.4	0.3
Maintenance and operations	2.3	1.9	0.4
Other	5.5	4.6	0.9
Total Expenses	<u>29.5</u>	<u>27.5</u>	<u>2.0</u>
Change in Net Assets	<u>\$ (1.6)</u>	<u>\$ (1.1)</u>	<u>\$ (0.5)</u>

Governmental Activities

As reported in the *Statement of Activities* the cost of all of our governmental activities this year was \$29.5 million as compared to \$27.5 million in the prior year. However, the amount that our taxpayers ultimately financed for these activities through local taxes was only \$4.2 million because the cost was paid by those who benefited from the programs (\$.6 million) or by other governments and organizations who subsidized certain programs with grants and contributions (\$6.9 million). We paid for the remaining "public benefit" portion of our governmental activities with \$14.6 million in State funds and with \$1.6 million in other revenues, like interest and general entitlements.

SALIDA UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

THE DISTRICT'S FUNDS

As the District completed this year, our governmental funds reported a combined fund balance of \$7.6 million, as compared to \$7.8 million in the prior year, which is a decrease of \$.2 million. While the general fund balance increased by more than \$300,000, debt service expenditures contributed to the overall decrease. Our special revenue funds remained fairly stable during the year.

General Fund Budgetary Highlights

Over the course of the year, the District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. The final amendment to the budget was adopted in June 2006 as estimated actuals. (A schedule showing the District's original and final budget amounts compared with amounts actually paid and received is provided in our annual report.)

CAPITAL ASSET & DEBT ADMINISTRATION

Capital Assets

At June 30, 2005, the District had \$46.2 million in a broad range of capital assets, including land, buildings, and furniture and equipment net of depreciation. At June 30, 2006, the District had \$44.5 million in capital assets. This amount represents a net decrease (including additions, deductions and depreciation) of approximately \$1.7 million from last year.

Table 4

(Amounts in millions)

	Governmental Activities		
	2005-06	2004-05	Net Change
Land and construction in progress	\$ 7.6	\$ 7.0	\$ 0.6
Buildings and improvements	36.2	38.4	(2.2)
Equipment	0.7	0.8	(0.1)
Totals	\$ 44.5	\$ 46.2	(1.7)

SALIDA UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS JUNE 30, 2006

Long-Term Obligations

At the end of this year, the District had \$10.6 million in debt outstanding versus \$11.0 million last year, a decrease of \$.4 million. This debt consisted of:

Table 5

(Amounts in millions)

	Governmental Activities		
	2005-06	2004-05	Net Change
General obligation bonds	\$ 1.7	\$ 1.8	\$ (0.1)
Certificates of participation	6.9	7.2	(0.3)
QZAB	2.0	2.0	-
Totals	\$ 10.6	\$ 11.0	\$ (0.4)

The District's general obligation bond rating continues to be "AAA." The State limits the amount of general obligation debt that District's can issue to 35 percent of the assessed value of all taxable property within the District's boundaries. The District's outstanding general obligation debt of \$1.7 million is significantly below this statutorily - imposed limit.

Other obligations include certificates of participation, qualified zoning area bonds and compensated absences payable. We present more detailed information regarding our long-term liabilities in Note 10 of the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

In considering the District Budget for the 2006-07 year, the District Board and management used the following criteria:

The key assumptions in our forecast are:

1. The District's revenue limit will be calculated on a K-8 projected COLA of 5.92% with an offsetting deficit of .01%.
2. The proposed State budget will provide additional funding for revenue limit equalization in the amount of \$75.74 per ADA.
3. There is no projected change in enrollment.
4. Categorical programs are proposed to receive a COLA of 5.92%
5. Lottery revenue is projected to be \$125.25 for unrestricted and \$27.90 for restricted.
6. All step, column, and longevity adjustments for staff will be budgeted.
7. Class size reduction funding and expenditures will be budgeted based on full implementation at all sites for K-3.
8. Projected staffing requirements for next fiscal year will be calculated using maximum class loading factors per grade level.
9. Site allocations will initially be at 2005-2006 levels per student.

SALIDA UNION SCHOOL DISTRICT

MANAGEMENT'S DISCUSSION AND ANALYSIS

JUNE 30, 2006

CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, students, and investors and creditors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have questions about this report or need any additional financial information, contact Jim Yardy, the Director, Business Services, jyardy@salida.k12.ca.us, or Charles Oscar Garza, Supervisor Fiscal Service cogarza@salida.k12.ca.us. The Business Office is located at Salida Union School District, 4801 Sisk Road, Suite 201, Salida, California, 95356

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

STATEMENT OF NET ASSETS JUNE 30, 2006

	Governmental Activities
ASSETS	
Deposits and investments	\$ 7,196,184
Receivables	2,470,874
Prepaid expenses	182,978
Stores inventories	6,185
Nondepreciable capital assets	7,578,569
Depreciable capital assets	55,296,357
Accumulated depreciation	(18,416,765)
Total Assets	<u>54,314,382</u>
LIABILITIES	
Accounts payable	1,393,521
Deferred revenue	697,518
Current portion of long-term obligations	449,465
Noncurrent portion of long-term obligations	10,170,000
Total Liabilities	<u>12,710,504</u>
NET ASSETS	
Invested in capital assets, net of related debt	33,868,161
Restricted for:	
Debt service	1,752,378
Capital projects	2,333,542
Educational programs	808,645
Other activities	1,404,936
Unrestricted	1,436,216
Total Net Assets	<u>\$ 41,603,878</u>

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006**

Functions/Programs	Expenses	Program Revenues		
		Charges for Services and Sales	Operating Grants and Contributions	Capital Grants and Contributions
Governmental Activities:				
Instruction	\$ 15,418,050	\$ 53,144	\$ 2,511,175	\$ 18,068
Instruction-related activities:				
Supervision of instruction	295,054	845	184,346	-
Instructional library, media and technology	154,403	-	13,365	-
School site administration	1,406,480	742	268,875	-
Pupil services:				
Home-to-school transportation	576,629	-	318,477	-
Food services	1,216,700	432,391	816,633	-
All other pupil services	900,701	4,382	101,635	-
General administration:				
All other general administration	1,683,454	13,992	43,189	-
Plant services	2,312,591	7,047	194,506	-
Ancillary services	22,474	-	2,333,228	-
Community services	2,444,975	76,291	-	-
Interest on long-term obligations	395,278	-	-	-
Other outgo	359,366	8,269	142,816	-
Depreciation (unallocated)	2,279,488	-	-	-
Total Governmental-Type Activities	\$ 29,465,643	\$ 597,103	\$ 6,928,245	\$ 18,068
General revenues and subventions:				
Property taxes, levied for general purposes				
Property taxes, levied for debt service				
Taxes levied for other specific purposes				
Federal and State aid not restricted to specific purposes				
Interest and investment earnings				
Miscellaneous				
Subtotal, General Revenues				
Change in Net Assets				
Net Assets - Beginning				
Net Assets - Ending				

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

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

**Governmental
Activities**

\$ (12,835,663)

(109,863)

(141,038)

(1,136,863)

(258,152)

32,324

(794,684)

(1,626,273)

(2,111,038)

2,310,754

(2,368,684)

(395,278)

(208,281)

(2,279,488)

(21,922,227)

3,914,816

170,768

110,902

14,627,222

163,868

1,376,586

20,364,162

(1,558,065)

43,161,943

\$ 41,603,878

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
BALANCE SHEET
JUNE 30, 2006**

	<u>General Fund</u>	<u>Cafeteria Fund</u>	<u>Special Reserve Capital Outlay Fund</u>
ASSETS			
Deposits and investments	\$ 1,718,992	\$ 159,504	\$ 975,594
Receivables	2,128,275	159,544	27,556
Due from other funds	216,866	-	-
Stores inventories	-	6,185	-
Total Assets	<u>\$ 4,064,133</u>	<u>\$ 325,233</u>	<u>\$ 1,003,150</u>
LIABILITIES AND FUND BALANCES			
Liabilities:			
Accounts payable	1,251,831	33,071	11,801
Due to other funds	29,621	216,866	-
Deferred revenue	697,518	-	-
Total Liabilities	<u>1,978,970</u>	<u>249,937</u>	<u>11,801</u>
FUND BALANCES			
Reserved	818,645	6,185	-
Unreserved:			
Designated	1,266,518	-	-
Undesignated, reported in:			
Special revenue funds	-	69,111	-
Debt service funds	-	-	-
Capital projects funds	-	-	991,349
Total Fund Balance	<u>2,085,163</u>	<u>75,296</u>	<u>991,349</u>
Total Liabilities and Fund Balances	<u>\$ 4,064,133</u>	<u>\$ 325,233</u>	<u>\$ 1,003,150</u>

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

QZAB Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ 1,171,713	\$ 3,170,381	\$ 7,196,184
-	155,499	2,470,874
-	29,621	246,487
-	-	6,185
<u>\$ 1,171,713</u>	<u>\$ 3,355,501</u>	<u>\$ 9,919,730</u>
-	96,818	1,393,521
-	-	246,487
-	-	697,518
<u>-</u>	<u>96,818</u>	<u>2,337,526</u>
-	-	824,830
-	-	1,266,518
-	1,335,825	1,404,936
1,171,713	580,665	1,752,378
-	1,342,193	2,333,542
<u>1,171,713</u>	<u>3,258,683</u>	<u>7,582,204</u>
<u>\$ 1,171,713</u>	<u>\$ 3,355,501</u>	<u>\$ 9,919,730</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS
JUNE 30, 2006**

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

Total Fund Balance - Governmental Funds		\$ 7,582,204
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	\$62,874,926	
Accumulated depreciation is	<u>(18,416,765)</u>	
Total capital assets		44,458,161
Expenditures relating to issuance of debt of next fiscal year were recognized in modified accrual basis, but should not be recognized in accrual basis.		182,978
Long-term liabilities at year end consist of:		
General obligation bonds	(1,650,000)	
Certificates of participation	(6,940,000)	
QZAB Obligation	(2,000,000)	
Compensated absences	<u>(29,465)</u>	
Total long-term liabilities		<u>(10,619,465)</u>
Total Net Assets - Governmental Activities		<u><u>\$ 41,603,878</u></u>

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
FOR THE YEAR ENDED JUNE 30, 2006**

	General Fund	Cafeteria Fund	Special Reserve Capital Outlay Fund
REVENUES			
Revenue limit sources	\$ 16,603,798	\$ -	\$ -
Federal sources	2,945,077	764,645	-
Other state sources	3,838,328	52,806	-
Other local sources	1,705,872	492,149	330,508
Total Revenues	25,093,075	1,309,600	330,508
EXPENDITURES			
Current			
Instruction	15,430,048	-	-
Instruction-related activities:			
Supervision of instruction	295,054	-	-
Instructional library, media and technology	154,403	-	-
School site administration	1,406,480	-	-
Pupil Services:			
Home-to-school transportation	576,629	-	-
Food services	275	1,216,425	-
All other pupil services	900,701	-	-
General administration:			
All other general administration	1,547,869	39,251	-
Plant services	2,097,153	19,768	271,938
Facility acquisition and construction	6,039	-	281,221
Ancillary services	22,474	-	-
Community services	1,857,470	-	-
Other outgo	359,366	-	-
Debt service			
Principal	-	-	-
Interest and other	-	-	-
Total Expenditures	24,653,961	1,275,444	553,159
Excess (Deficiency) of Revenues Over Expenditures	439,114	34,156	(222,651)
Other Financing Sources (Uses):			
Transfers in	-	-	-
Transfers out	(132,692)	-	(448,011)
Net Financing Sources (Uses)	(132,692)	-	(448,011)
NET CHANGE IN FUND BALANCES	306,422	34,156	(670,662)
Fund Balance - Beginning	1,778,741	41,140	1,662,011
Fund Balance - Ending	\$ 2,085,163	\$ 75,296	\$ 991,349

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

QZAB Debt Service Fund	Non-Major Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 16,603,798
-	164,426	3,874,148
-	468,777	4,359,911
67,582	473,610	3,069,721
<u>67,582</u>	<u>1,106,813</u>	<u>27,907,578</u>
-	-	15,430,048
-	-	295,054
-	-	154,403
-	-	1,406,480
-	-	576,629
-	-	1,216,700
-	-	900,701
-	-	1,587,120
-	198,335	2,587,194
-	-	287,260
-	-	22,474
-	618,650	2,476,120
-	-	359,366
-	410,000	410,000
-	438,086	438,086
-	<u>1,665,071</u>	<u>28,147,635</u>
<u>67,582</u>	<u>(558,258)</u>	<u>(240,057)</u>
-	729,567	729,567
-	(148,864)	(729,567)
-	<u>580,703</u>	-
67,582	22,445	(240,057)
1,104,131	3,236,238	7,822,261
<u>\$ 1,171,713</u>	<u>\$ 3,258,683</u>	<u>\$ 7,582,204</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES FOR THE YEAR ENDED JUNE 30, 2006

Total Net Change in Fund Balances - Governmental Funds **\$ (240,057)**
Amounts Reported for Governmental Activities in the Statement of Activities are Different Because:

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures, however, for governmental activities, those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of activities.

This is the amount by which depreciation expense exceed capital outlays in the period.

Depreciation expense	\$ (2,279,488)	
Capital outlays	<u>605,006</u>	(1,674,482)

Loss on disposal of capital assets is reported in the government-wide statement of net assets, but is not recorded in the governmental funds. (88,341)

In the statement of activities, compensated absences (vacations) are measured by the amounts earned during the year. In the governmental funds, however, expenditures are measured by the amount of financial resources used (essentially, the amounts actually paid). Vacation earned was more than the amount paid by \$7,993. (7,993)

Governmental funds report the effect of premiums, discounts, issuance costs, and the deferred amount on a refunding when the debt is first issued, whereas the amounts are deferred and amortized in the statement of activities. This amount is the net effect of these related items:

Cost of issuance		(20,531)
------------------	--	----------

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

General obligation bonds		155,000
Certificates of participation		255,000

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

		63,339
Change in Net Assets of Governmental Activities		<u><u>\$ (1,558,065)</u></u>

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET ASSETS
JUNE 30, 2006**

	<u>Agency Funds</u>
ASSETS	
Deposits and investments	\$ 161,855
Total Assets	<u>\$ 161,855</u>
LIABILITIES	
Due to student groups	161,855
Total Liabilities	<u>\$ 161,855</u>

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Reporting Entity

The Salida Union School District was established in 1949 and is comprised of an area of approximately 31 square miles located in Stanislaus County. There were no changes in the boundaries of the District during the current year. The District is currently operating four elementary schools and one middle school providing instruction for kindergarten through eighth grade.

A reporting entity is comprised of the primary government and other organizations that are included to ensure the financial statements are not misleading. The primary government of the District consists of all funds, departments, boards, and agencies that are not legally separate from the District. For Salida Union Elementary School District, this includes general operations, food service, and student related activities of the District.

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. The District has no component units.

Other Related Entities

Joint Powers Agencies The District is associated with one joint powers agency, the Central Region Schools' Insurance Group (CRSIG). This organization does not meet the criteria for inclusion as a component unit of the District. Additional information is presented in Note 17 to the financial statements.

Basis of Presentation - Fund Accounting

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

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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.

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

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

QZAB Debt Service Fund The QZAB Debt Service Fund is used to account for the accumulation of funds for and to payment of debt related to the QZAB Bonds.

Non-Major Governmental Funds

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

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

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

Special Reserve Fund for Other than Capital Outlay The Special Reserve Fund for Other than Capital Outlay is used to provide for the accumulation of General Fund monies for general operating purposes.

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.

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 acquisition of major governmental capital facilities and buildings.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Mello Roos Capital Projects Fund The Mello Roos Capital Projects Fund exists primarily to account separately for proceeds from the Mello Roos District and the acquisition of major governmental capital facilities and buildings.

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

QZAB Capital Projects Fund The QZAB Capital Projects Fund is used to account for the proceeds and expenditures of the proceeds from the QZAB issuance.

County School Facilities Fund The County School Facilities Fund is used primarily to account separately for State apportionments provided for construction and reconstruction of school facilities (Education Code Sections 17010.10-17076.10).

COP Capital Projects Fund The COP Capital Projects Fund is used to account for funds available for capital outlay from the proceeds of sales of Certificates of Participation.

Fiduciary Funds Fiduciary fund reporting focuses on net assets and changes in net assets. The fiduciary fund category is the agency fund. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. The District's agency fund accounts for student body activities (ASB).

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.

The government-wide statement of activities presents a comparison between expenses, both direct and indirect, and program revenues for each governmental function. 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, except for depreciation. 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 proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Non-major funds are aggregated and presented in a single column.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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

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

Revenues – Exchange and Non-Exchange Transactions Revenue resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenue is recorded in the fiscal year in which the resources are measurable and become available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. Generally, available is defined as collectible within 45 or 60 days. However to achieve comparability of reporting among California LEAs and so as not to distort normal revenue patterns, with specific respect to reimbursement grants and corrections to state-aid apportionments, the California Department of Education has defined available for LEAs as collectible within one year.

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

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

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

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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

Cash and Cash Equivalents

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

Investments

Investments held at June 30, 2006, with original maturities greater than one year are stated at fair value. Fair value is estimated based on quoted market prices at year-end. All investments not required to be reported at fair value are stated at cost or amortized cost. Fair values of investments in county and State investment pools are determined by the program sponsor.

Restricted Assets

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

Prepaid Expenditures

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

Stores Inventory

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

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. The District maintains a capitalization threshold of \$5,000. The District does not possess any infrastructure. Improvements are capitalized; the costs of normal maintenance and repairs that do not add to the value of the asset or materially extend an asset's life are not capitalized, but are expensed as incurred.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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

Depreciation of capital assets is computed and recorded by the straight-line method. Estimated useful lives of the various classes of depreciable capital assets are as follows: buildings, 20 to 50 years; improvements/infrastructure, 5 to 50 years; equipment, 2 to 15 years.

Interfund Balances

On fund financial statements, receivables and payables resulting from short-term interfund loans are classified as "interfund receivables/payables." These amounts are eliminated in the governmental activities columns of the statement of net assets.

Compensated Absences

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

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

Accrued Liabilities and Long-Term Obligations

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

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Deferred Issuance Costs, Premiums and Discounts

In the government-wide financial statements, long-term obligations are reported as liabilities in the applicable governmental activities. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight line method.

Fund Balance Reserves and Designations

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

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

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. The District has no related debt outstanding as of June 30, 2006. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the District or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The District first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available. The government-wide financial statements reports \$6,299,501 of restricted net assets, of which \$4,443,688 is restricted by enabling legislation.

Interfund Activity

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

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.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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.

Property Tax

Secured property taxes attach as an enforceable lien on property as of January 1. Taxes are payable in two installments on November 1 and February 1 and become delinquent on December 10 and April 10, respectively. Unsecured property taxes are payable in one installment on or before August 31. The County of Stanislaus bills and collects the taxes on behalf of the District. Local property tax revenues are recorded when received.

New Accounting Pronouncements

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

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

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

In June 2005, the GASB issued GASBS No. 47, *Accounting for Termination Benefits*. GASBS No. 47 addresses accounting for both voluntary and involuntary termination benefits. For termination benefits that affect an employer's obligations for defined benefit OPEB, the provisions of GASBS No. 47 should be applied simultaneously with the requirements of GASBS No. 45. For all other termination benefits, including those that affect an employer's obligations for defined benefit pension benefits, GASBS No. 47 is effective for financial statements for periods beginning after June 15, 2005. Earlier application of GASBS No. 47 is encouraged.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 2 - DEPOSITS AND INVESTMENTS

Summary of Deposits and Investments

Deposits and investments as of June 30, 2006, are classified in the accompanying financial statements as follows:

Governmental activities	\$ 7,196,184
Fiduciary funds	161,855
Total Deposits and Investments	<u>\$ 7,358,039</u>

Deposits and investments as of June 30, 2006, consist of the following:

Cash on hand and in banks	\$ 162,355
Cash in revolving	10,000
Investments	7,185,684
Total Deposits and Investments	<u>\$ 7,358,039</u>

Policies and Practices

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

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

Investment in the State Investment Pool - The District is a voluntary participant in the Local Agency Investment Fund (LAIF) that is regulated by California government code Section 16429 under the oversight of the Treasurer of the State of California. The fair value of the District's investment in the pool is reported in the accompanying financial statement at amounts based upon the District's pro-rata share of the fair value provided by LAIF for the entire LAIF portfolio (in relation to the amortized cost of that portfolio). The balance available for withdrawal is based on the accounting records maintained by LAIF, which is recorded on the amortized cost basis.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

General Authorizations

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

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

Authorized Under Debt Agreements

<u>Authorized Investment Type</u>	<u>Maximum Remaining Maturity</u>	<u>Maximum Percentage of Portfolio</u>	<u>Maximum Investment in One Issuer</u>
AIG investment contract	10 years	None	None

Interest Rate Risk

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Segmented Time Distribution

Information about the sensitivity of the fair values of the District's investments to market interest rate fluctuations is provided by the following schedule that shows the distribution of the District's investments by maturity:

Investment Type	Fair Value	12 Months or Less	13 - 24 Months	25 - 60 Months	More Than 60 Months
Held By Trustee:					
U.S. Treasuries	\$ 108,767	\$ 108,767	\$ -	\$ -	\$ -
AIG Investment Contract	1,171,713	-	-	-	1,171,713
County Pool	5,366,035	5,366,035	-	-	-
State Investment Pool	539,169	539,169	-	-	-
Total	<u>\$ 7,185,684</u>	<u>\$ 6,013,971</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,171,713</u>

Credit Risk

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

Investment Type	Fair Value	Minimum Legal Rating	Rating as of Year End		
			AAA	Aa	Unrated
Held by Trustee:					
U.S. Treasuries	\$ 108,767	N/A	\$ -	\$ -	\$ 108,767
AIG Investment Contract	1,171,713	N/A	-	-	1,171,713
County Pool	5,366,035	N/A	-	-	5,366,035
State Investment Pool	539,169	N/A	-	-	539,169
Total	<u>\$ 7,185,684</u>		<u>\$ -</u>	<u>\$ -</u>	<u>\$ 7,185,684</u>

N/A - Not applicable

Concentration of Credit Risk

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

Issuer	Investment Type	Reported Amount
AIG	Investment contract	<u>\$ 1,171,713</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

Custodial Credit Risk - Deposits

This is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The District does not have a policy for custodial credit risk for deposits. However, the California Government Code requires that a financial institution secure deposits made by state or local governmental units by pledging securities in an undivided collateral pool held by a depository regulated under state law (unless so waived by the governmental unit). The market value of the pledged securities in the collateral pool must equal at least 110 percent of the total amount deposited by the public agencies. California law also allows financial institutions to secure public deposits by pledging first trust deed mortgage notes having a value of 150 percent of the secured public deposits and letters of credit issued by the Federal Home Loan Bank of San Francisco having a value of 105 percent of the secured deposits. As of June 30, 2006, \$75,120 of the District's bank balance was exposed to custodial credit risk because it was uninsured and collateralized with securities held by the pledging financial institution's trust department or agent, but not in the name of the District.

Custodial Credit Risk - Investments

This is the risk that, in the event of the failure of the counterparty, the District will not be able to recover the value of its investments or collateral securities that are in possession of an outside party. Of the investment in U.S. Treasuries and investment contracts of \$1,280,480, the District has a custodial credit risk exposure of \$1,280,480 because the related securities are uninsured, unregistered and held by the brokerage firm which is also the counterparty for these securities. The District does not have a policy limiting the amount of securities that can be held by counterparties.

NOTE 3 - RECEIVABLES

Receivables at June 30, 2006, consisted of intergovernmental grants, entitlements, interest and other local sources. All receivables are considered collectible in full.

	General Fund	Cafeteria Fund	Special Reserve Capital Fund	Non-Major Governmental Funds	Total Governmental Activities
Federal Government					
Categorical aid	\$ 544,897	\$ 143,967	\$ -	\$ 5,138	\$ 694,002
State Government					
Apportionment	779,526	-	-	-	779,526
Categorical aid	606,895	8,509	-	-	615,404
Lottery	121,579	-	-	-	121,579
Other state	-	-	-	130,560	130,560
Local Government					
Other Local Sources	75,378	7,068	27,556	19,801	129,803
Total	<u>\$ 2,128,275</u>	<u>\$ 159,544</u>	<u>\$ 27,556</u>	<u>\$ 155,499</u>	<u>\$ 2,470,874</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Deductions	Balance June 30, 2006
Governmental Activities				
Capital Assets Not Being Depreciated				
Land	\$ 6,990,000	\$ 588,569	\$ -	\$ 7,578,569
Total Capital Assets Not Being Depreciated	<u>6,990,000</u>	<u>588,569</u>	<u>-</u>	<u>7,578,569</u>
Capital Assets Being Depreciated				
Buildings and improvements	53,167,266	16,437	-	53,183,703
Furniture and equipment	2,866,483	-	753,829	2,112,654
Total Capital Assets Being Depreciated	<u>56,033,749</u>	<u>16,437</u>	<u>753,829</u>	<u>55,296,357</u>
Less Accumulated Depreciation				
Buildings and improvements	14,780,837	2,192,922	-	16,973,759
Furniture and equipment	2,021,928	86,566	665,488	1,443,006
Total Accumulated Depreciation	<u>16,802,765</u>	<u>2,279,488</u>	<u>665,488</u>	<u>18,416,765</u>
Governmental Activities Capital Assets, Net	<u>\$46,220,984</u>	<u>\$ (1,674,482)</u>	<u>\$ 88,341</u>	<u>\$ 44,458,161</u>

Depreciation expense was charged as follows:

Governmental Activities	
Unallocated	<u>\$ 2,279,488</u>

NOTE 5 - INTERFUND TRANSACTIONS

Interfund Receivables/Payables (Due To/Due From)

Interfund receivable and payable balances at June 30, 2006, are as follows:

Funds	Interfund Receivables	Interfund Payables
General	\$ 216,866	\$ 29,621
Cafeteria	-	216,866
Special Reserve - Other	29,621	-
Total	<u>\$ 246,487</u>	<u>\$ 246,487</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Operating Transfers

The General Fund transferred to the Deferred Maintenance Fund for the District Match.	\$ 132,692
The Special Reserve Capital Outlay Fund transferred to the COPs-Debt Service Fund for the required debt service payment.	448,011
The Capital Facilities Fund transferred to the COPs-Debt Service Fund for the required debt service payment.	<u>148,864</u>
Total	<u><u>\$ 729,567</u></u>

NOTE 6 - ACCOUNTS PAYABLE

Accounts payable at June 30, 2006, consisted of the following:

	General Fund	Cafeteria Fund	Special Reserve Capital Outlay Fund	Non-Major Governmental Funds	Total Governmental Activities
Vendor payables	\$ 211,511	\$ -	\$ 11,801	\$ 77,260	\$ 300,572
Salaries and benefits	435,039	33,071	-	19,558	487,668
State apportionment	605,281	-	-	-	605,281
Total	<u>\$ 1,251,831</u>	<u>\$ 33,071</u>	<u>\$ 11,801</u>	<u>\$ 96,818</u>	<u>\$ 1,393,521</u>

NOTE 7 - PREPAID EXPENDITURES

Prepaid expenditures at June 30, 2006, consisted of the following:

Debt issuance costs-Government-wide financial statements	<u>\$ 182,978</u>
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NOTE 8 - DEFERRED REVENUE

Deferred revenue at June 30, 2006, consists of the following:

Federal financial assistance	<u>\$ 477,543</u>
State categorical aid	<u>219,975</u>
Total	<u><u>\$ 697,518</u></u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 9 - TAX AND REVENUE ANTICIPATION NOTES (TRANS)

At July 1, 2005, the District had outstanding Tax and Revenue Anticipation Notes in the amount of \$4,000,000, which matured on July 6, 2005.

Changes in the outstanding liabilities for the Tax and Revenue Anticipation Notes are as follows:

<u>Issue Date</u>	<u>Rate</u>	<u>Maturity Date</u>	<u>Outstanding July 1, 2005</u>	<u>Additions</u>	<u>Payments</u>	<u>Outstanding June 30, 2006</u>
July 6, 2004	1.60%	July 6, 2005	<u>\$4,000,000</u>	<u>\$ -</u>	<u>\$ 4,000,000</u>	<u>\$ -</u>

NOTE 10 - LONG-TERM OBLIGATIONS

Summary

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

	<u>Balance July 1, 2005</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2006</u>	<u>Due in One Year</u>
General obligation bonds-1988B	\$ 1,215,000	\$ -	\$ 50,000	\$ 1,165,000	\$ 50,000
General obligation bonds-1996 Refunding	590,000	-	105,000	485,000	110,000
Certificates of Participation-2001	2,730,000	-	80,000	2,650,000	80,000
Certificates of Participation-2003A	2,585,000	-	110,000	2,475,000	110,000
Certificates of Participation-2003B	1,880,000	-	65,000	1,815,000	70,000
Qualified Zone Academy Bond	2,000,000	-	-	2,000,000	-
Accumulated vacation - net	21,472	7,993	-	29,465	29,465
Total	<u>\$ 11,021,472</u>	<u>\$ 7,993</u>	<u>\$ 410,000</u>	<u>\$ 10,619,465</u>	<u>\$ 449,465</u>

Payments on the Certificates of Participation are paid by the General Fund, the Debt Service Fund, and the Capital Facilities Fund. Payments on the general obligation bonds are made by the bond interest and redemption fund with local revenues. The accrued vacation will be paid by the fund for which the employee worked.

Bonded Debt

The outstanding general obligation bonded debt is as follows:

<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Original Issue</u>	<u>Bonds Outstanding July 1, 2005</u>	<u>Redeemed</u>	<u>Bonds Outstanding June 30, 2006</u>
1988	2020	5.00-5.50%	\$ 1,500,000	\$ 1,215,000	\$ 50,000	\$ 1,165,000
1996	2009	5.00-5.25%	1,315,000	590,000	105,000	485,000
Total				<u>\$ 1,805,000</u>	<u>\$ 155,000</u>	<u>\$ 1,650,000</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2006**

Debt Service Requirements to Maturity

General Obligation 1988 Series B Bonds:

The bonds mature through 2021 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2007	\$ 50,000	\$ 61,910	\$ 111,910
2008	55,000	59,258	114,258
2009	60,000	56,295	116,295
2010	60,000	53,160	113,160
2011	65,000	49,863	114,863
2012-2016	375,000	192,061	567,061
2017-2021	500,000	71,500	571,500
Total	<u>\$ 1,165,000</u>	<u>\$ 544,046</u>	<u>\$ 1,709,046</u>

General Obligation 1996 Refunding Bonds:

The bonds mature through 2010 as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2007	\$ 110,000	\$ 22,950	\$ 132,950
2008	120,000	16,625	136,625
2009	125,000	10,075	135,075
2010	130,000	3,413	133,413
Total	<u>\$ 485,000</u>	<u>\$ 53,063</u>	<u>\$ 538,063</u>

Total District General Obligation Bonds Outstanding:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest to Maturity</u>	<u>Total</u>
2007	\$ 160,000	\$ 208,686	\$ 368,686
2008	175,000	75,883	250,883
2009	185,000	66,370	251,370
2010	190,000	56,573	246,573
2011	65,000	49,863	114,863
2012-2016	375,000	192,061	567,061
2017-2021	500,000	71,500	571,500
Total	<u>\$ 1,650,000</u>	<u>\$ 720,935</u>	<u>\$ 2,370,935</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Certificates of Participation – California School Board Association Financing Corporation

On May 2, 2001 the District issued \$3,000,000 in Certificates of Participation under the California School Board Association Financing Corporation. The Certificates were issued to finance the acquisition of three new school sites. Interest is payable on the Certificates on each May 1 and November 1, commencing November 1, 2001. Principal payments on the Certificates will be due and payable each May 1, commencing on May 1, 2002.

On March 1, 2003 The District issued \$2,620,000 in 2003A Tax Exempt and \$1,880,000 in 2003B Taxable Certificates of Participation to finance the site acquisition, construction of and interior improvements for a district-wide administration building. Both series mature through 2023. The Series 2003A Tax Exempt certificates have interest rates ranging from 4.1 to 4.85 percent. Interest and principal payments are due each January 1 and July 1 commencing on July 1, 2004.

Certificates of Participation - 2001 Issue

The certificates mature through 2029 as follows:

Year Ending June 30,	Principal	Interest	Total
2007	\$ 80,000	\$ 134,656	\$ 214,656
2008	85,000	131,376	216,376
2009	90,000	127,764	217,764
2010	100,000	123,894	223,894
2011	100,000	119,544	219,544
2012-2016	550,000	525,744	1,075,744
2017-2021	720,000	368,725	1,088,725
2022-2026	925,000	154,532	1,079,532
Total	<u>\$ 2,650,000</u>	<u>\$ 1,686,235</u>	<u>\$ 4,336,235</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2006

Certificates of Participation - 2003A Issue

The certificates mature through 2023 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 110,000	\$ 100,185	\$ 210,185
2008	110,000	97,710	207,710
2009	115,000	94,740	209,740
2010	120,000	91,290	211,290
2011	120,000	87,390	207,390
2012-2016	675,000	366,286	1,041,286
2017-2021	835,000	211,620	1,046,620
2022-2023	390,000	28,520	418,520
Total	<u>\$ 2,475,000</u>	<u>\$ 1,077,741</u>	<u>\$ 3,552,741</u>

Certificates of Participation - 2003B Issue

The certificates mature through 2023 as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 70,000	\$ 102,438	\$ 172,438
2008	70,000	99,813	169,813
2009	75,000	97,188	172,188
2010	80,000	93,400	173,400
2011	85,000	89,360	174,360
2012-2016	475,000	376,989	851,989
2017-2021	645,000	216,894	861,894
2022-2023	315,000	28,738	343,738
Total	<u>\$ 1,815,000</u>	<u>\$ 1,104,819</u>	<u>\$ 2,919,819</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Qualified Zone Academy Bond Program

On May 9, 2001, the District issued \$2,000,000 in Qualified Zone Academy Bonds. The Bonds were issued to finance the installation of technology infrastructure and related service upgrades and to facilitate the modernization and equipping of the K-8 Magnet School Academy located at Salida Elementary School. Interest is not payable with the bonds. In lieu of receiving periodic interest payments, eligible holders of the Bonds are allowed an annual federal income tax credit equal to the credit rate times the face amount of the Bond. The tax credit rate for the Bonds is 7.08 percent. The District has deposited \$870,596 in a trustee account that has been invested in an AIG Guaranteed Investment Contract paying 6.1209 percent. The account balance as of June 30, 2006 is \$1,171,713. The interest earnings on the deposit have been projected to be sufficient to cover the entire maturing principal balance at May 23, 2015. Should the District determine at any time that the full principal amount would not be covered, the District will be liable to make payments to cover the deficiency. The published projected account balance by fiscal year held for the principal payment on May 23, 2015, is as follows:

Qualified Zone Academy Bond Program

Year Ending June 30,	Interest Earnings	Projected Account Balance
2006	67,583	1,171,713
2007	71,719	1,243,432
2008	76,109	1,319,541
2009	80,767	1,400,308
2010	85,712	1,486,020
2011	90,958	1,576,978
2012	96,525	1,673,503
2013	102,434	1,775,937
2014	108,704	1,884,641
2015 ¹	115,359	2,000,000

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

Accumulated Unpaid Employee Vacation

The long-term portion of accumulated unpaid employee vacation for the District at June 30, 2006, amounted to \$29,465.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 11 - FUND BALANCES

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

	General Fund	Cafeteria Fund	Special Reserve Capital Outlay Fund	QZAB Debt Service Fund	Non-Major Funds	Total
Reserved						
Revolving cash	\$ 10,000	\$ -	\$ -	\$ -	\$ -	\$ 10,000
Stores inventory	-	6,185	-	-	-	6,185
Restricted programs	808,645	-	-	-	-	808,645
Total Reserved	818,645	6,185	-	-	-	824,830
Unreserved						
Designated						
Economic uncertainties	742,718	-	-	-	-	742,718
Other designation	523,800	-	-	-	-	523,800
Total Designated	1,266,518	-	-	-	-	1,266,518
Undesignated	-	69,111	991,349	1,171,713	3,258,683	5,490,856
Total Unreserved	1,266,518	69,111	991,349	1,171,713	3,258,683	6,757,374
Total	\$2,085,163	\$ 75,296	\$ 991,349	\$ 1,171,713	\$ 3,258,683	\$ 7,582,204

NOTE 12 - EXPENDITURES (BUDGET VERSUS ACTUAL)

At June 30, 2006, the following District major funds exceeded the budgeted amounts as follows:

	Expenditures		
	Budget	Actual	Excess
General Fund			
Certificated salaries	\$ 12,208,987	\$ 12,225,268	\$ 16,281
Other outgo	\$ 313,868	\$ 320,115	\$ 6,247
Cafeteria Fund			
Books and supplies	\$ 619,492	\$ 670,456	\$ 50,964
Services and operating expenditures	\$ 43,805	\$ 47,607	\$ 3,802
Other outgo	\$ 32,631	\$ 39,251	\$ 6,620

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 13 - POSTEMPLOYMENT BENEFITS

The District provides postemployment health care benefits as an early retirement incentive program, in accordance with District employment contracts, to all employees who retire from the District with at least 30 years of service as established by PERS or STRS. Currently, three employees meet those eligibility requirements. The District contributes a percent of the amount of premiums incurred by retirees depending on the employee's age at retirement. The percentage of benefits cost paid by the District in relation to the employees age at retirement is as follows: 56 - 100 percent, 57 - 75 percent, 58 - 50 percent, 59 - 25 percent. Expenditures for postemployment benefits are recognized as premiums are paid. During the year, expenditures of \$12,065 were recognized for retirees' health care benefits.

NOTE 14 - RISK MANAGEMENT

Property and Liability

The District is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. During fiscal year ending , the District contracted with Central Region Schools' Insurance Group (CRSIG) for property and liability insurance coverage. Settled claims have not exceeded this commercial coverage in any of the past three years. There has not been a significant reduction in coverage from the prior year.

Workers' Compensation

For fiscal year 2006, the District participated in the Central Region Schools' Insurance Group (CRSIG), an insurance purchasing pool. The intent of the CRSIG is to achieve the benefit of a reduced premium for the District by virtue of its grouping and representation with other participants in the CRSIG. The workers' compensation experience of the participating districts is calculated as one experience and a common premium rate is applied to all districts in the CRSIG. Each participant pays its workers' compensation premium based on its individual rate. A participant will then either receive money from or be required to contribute to the "equity-pooling fund." Participation in the CRSIG is limited to districts that can meet the CRSIG selection criteria.

Employee Medical Benefits

The District has contracted with the CRSIG to provide employee medical and surgical benefits. Rates are set through an annual calculation process. The District pays a monthly contribution, which is placed in a common fund from which claim payments are made for all participating Districts. Claims are paid for all participants regardless of claims flow. The Board of Directors has a right to return monies to a district subsequent to the settlement of all expenses and claims if a district withdraws from the pool.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

NOTE 15 - EMPLOYEE RETIREMENT SYSTEMS

Qualified employees are covered under multiple-employer contributory retirement plans maintained by agencies of the State of California. Certificated employees are members of the State Teachers' Retirement System (STRS) and classified employees are members of the Public Employees' Retirement System (PERS).

STRS

Plan Description

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

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 2005-2006 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, 2006, 2005, and 2004, were \$1,010,318, \$985,593, and \$987,751, respectively, and equal 100 percent of the required contributions for each year.

PERS

Plan Description

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

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 2005-2006 was 9.952 percent of annual payroll. The contribution requirements of the plan members are established by State statute. The District's contributions to CalPERS for the fiscal years ending June 30, 2006, 2005, and 2004, were \$408,851, \$384,298, and \$438,230, respectively, and equal 100 percent of the required contributions for each year.

Social Security

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

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 \$553,163 (4.517 percent of salaries subject to STRS). No contributions were made for PERS for the year ended June 30, 2006. Under accounting principles generally accepted in the United States of America, these amounts are to be reported as revenues and expenditures, however, guidance received from the California Department of Education advises local educational agencies not to record these amounts in the Annual Financial and Budget Report. These amounts have not been included in the budget amounts reported in the General Fund Budgetary Schedule. These amounts have been recorded in these financial statements. On behalf payments have been excluded from the calculation of available reserves.

NOTE 16 - COMMITMENTS AND CONTINGENCIES

Grants

The District received financial assistance from Federal and State agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit by the grantor agencies. Any disallowed claims resulting from such audits could become a liability of the general fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material adverse effect on the overall financial position of the District at June 30, 2006.

Litigation

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

Operating Leases

The District has entered into various operating leases for buildings and equipment with lease terms in excess of one year. None of these agreements contain purchase options. All agreements contain a termination clause providing for cancellation after a specified number of days written notice to lessors, but it is unlikely that the District will cancel any of the agreements prior to the expiration date.

Construction Commitments

As of June 30, 2006, the District had no commitments with respect to the unfinished capital projects.

NOTE 17 - PARTICIPATION IN PUBLIC ENTITY RISK POOLS AND JOINT POWERS AUTHORITIES

The District is a member of the Central Region Schools' Insurance Group (CRSIG) joint powers authority. The District pays an annual premium to CRSIG for its health, workers' compensation, and property liability coverage. The relationship between the District and CRSIG is such that CRSIG is not component unit of the District for financial reporting purposes.

CRSIG has budgeting and financial reporting requirements independent of member units and its financial statements are not presented in these financial statements; however, fund transactions between CRSIG and the District are included in these statements. Audited financial statements are available from CRSIG.

The District has appointed no board members to the governing board of CRSIG.

During the year ended June 30, 2006, the District made payment of \$1,465,741 to CRSIG for workers' compensation, health, and property and liability insurance.

NOTE 18 - SUBSEQUENT EVENTS

The District issued \$590,000 of Tax and Revenue Anticipation Notes dated July 6, 2006. The notes mature on July 6, 2007, and yield 3.5 percent interest. The notes were sold to supplement cash flow. Repayment requirements are that a percentage of principal and interest be deposited with the Fiscal Agent each month until 100 percent of principal and interest due is on account in June 2007.

REQUIRED SUPPLEMENTARY INFORMATION

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**GENERAL FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual ¹ (GAAP Basis)	Variances -
	(GAAP Basis) ¹			Favorable
	Original	Final		(Unfavorable) Final to Actual
REVENUES				
Revenue limit sources	\$16,268,316	\$16,605,960	\$ 16,603,798	\$ (2,162)
Federal sources	2,605,391	3,352,061	2,945,077	(406,984)
Other state sources	3,156,026	4,012,403	3,291,238	(721,165)
Other local sources	1,820,870	1,676,496	1,705,872	29,376
Total Revenues	23,850,603	25,646,920	24,545,985	(1,100,935)
EXPENDITURES				
Current				
Certificated Salaries	11,555,042	12,208,987	12,225,268	(16,281)
Classified salaries	3,588,733	3,812,902	3,803,246	9,656
Employee benefits	3,374,014	3,628,343	3,618,648	9,695
Books and supplies	789,273	1,438,933	1,216,772	222,161
Services and operating expenditures	3,194,032	3,611,761	2,879,164	732,597
Other outgo	324,442	313,868	320,115	(6,247)
Capital outlay	38,850	62,955	43,658	19,297
Total Expenditures	22,864,386	25,077,749	24,106,871	970,878
Excess (Deficiency) of Revenues Over Expenditures	986,217	569,171	439,114	(130,057)
Other Financing Sources (Uses):				
Transfers out	(123,000)	(103,071)	(132,692)	(29,621)
Net Financing Sources (Uses)	(123,000)	(103,071)	(132,692)	(29,621)
NET CHANGE IN FUND BALANCES	863,217	466,100	306,422	(159,678)
Fund Balance - Beginning	1,778,741	1,778,741	1,778,741	-
Fund Balance - Ending	\$ 2,641,958	\$ 2,244,841	\$ 2,085,163	\$ (159,678)

¹ Excludes on behalf payments made to STRS by the State of California.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**CAFETERIA FUND
BUDGETARY COMPARISON SCHEDULE
FOR THE YEAR ENDED JUNE 30, 2006**

	Budgeted Amounts		Actual (GAAP Basis)	Variances -
	(GAAP Basis)			Positive
	Original	Final		(Negative) Final to Actual
REVENUES				
Federal sources	\$ 446,304	\$ 748,954	\$ 764,645	\$ 15,691
Other state sources	87,216	49,372	52,806	3,434
Other local sources	513,359	503,737	492,149	(11,588)
Total Revenues	<u>1,046,879</u>	<u>1,302,063</u>	<u>1,309,600</u>	<u>7,537</u>
EXPENDITURES				
Current				
Classified salaries	430,315	425,441	421,275	4,166
Employee benefits	86,211	103,692	96,855	6,837
Books and supplies	560,450	619,492	670,456	(50,964)
Services and operating expenditures	38,751	43,805	47,607	(3,802)
Other outgo	32,631	32,631	39,251	(6,620)
Total Expenditures	<u>1,148,358</u>	<u>1,225,061</u>	<u>1,275,444</u>	<u>(50,383)</u>
NET CHANGE IN FUND BALANCES	(101,479)	77,002	34,156	(42,846)
Fund Balance - Beginning	41,140	41,140	41,140	-
Fund Balance - Ending	<u>\$ (60,339)</u>	<u>\$ 118,142</u>	<u>\$ 75,296</u>	<u>\$ (42,846)</u>

SUPPLEMENTARY INFORMATION

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
FOR THE YEAR ENDED JUNE 30, 2006**

Federal Grantor/Pass-Through Grantor/Program or Cluster Title	Federal CFDA Number	Pass-Through Entity Identifying Number	Federal Expenditures
U.S. DEPARTMENT OF EDUCATION			
Passed through California Department of Education (CDE):			
No Child Left Behind			
Title I - Basic ¹	84.010	13797	\$ 270,530
Title I - Even Start	84.213C	13700	182,500
Title I - Program Improvement	84.348	14106	107,160
Title II - Teacher Quality	84.376	14341	53,976
Title II - Education Technology	84.318	14334	14,254
Title III - Immigrant Education	84.365	14346	10,873
Title III - LEP	84.365	10084	27,932
Title IV - Drug Free Schools	84.184	13453	28,583
Title IV - 21st Century After School Learning ¹	84.287	14349	446,901
Title V - Part A, Innovative Ed Strategy	84.298A	13340	13,067
Student ID Assignment	²	14498	10,666
Special Education - Local Assistance ¹	84.027	13379	<u>611,162</u>
Total U.S. Department of Education			<u>1,777,604</u>
U.S. DEPARTMENT OF AGRICULTURE			
Passed through CDE:			
National School Lunch	10.555	13755	624,075
Basic School Breakfast Program	10.553	13390	13,408
Especially Needy Breakfast	10.553	13526	111,338
Meals Supplements - Snack	10.555	13755	<u>15,824</u>
Total U.S. Department of Agriculture			<u>764,645</u>
U.S. DEPARTMENT OF HEALTH AND HUMAN SERVICES			
Passed through CDE:			
Medi-Cal	93.778	10013	17,434
Child Development - Quality Improvement	93.575	13942	6,141
Child Development - School Age Resource Contracts	93.575	13941	161,190
Head Start - Basic ¹	93.600	10016	877,866
Head Start - Early Intervention ¹	93.600	10016	<u>269,268</u>
Total U.S. Department of Health and Human Services			<u>1,331,899</u>
Total Expenditures of Federal Awards			<u><u>\$ 3,874,148</u></u>

¹ Tested as a major program

² Catalog number not available

See accompanying note to supplementary information.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF AVERAGE DAILY ATTENDANCE
FOR THE YEAR ENDED JUNE 30, 2006**

	Second Period Report	Annual Report
ELEMENTARY		
Kindergarten	348	348
First through third	1,079	1,076
Fourth through sixth	1,057	1,053
Seventh and eighth	697	696
Home and hospital	1	1
Special education	73	74
Total Elementary	3,255	3,248
		<u>Hours of Attendance</u>
SUPPLEMENTAL HOURS		
Core Instruction		19,162
Remedial Instruction		16,695
Pupils Retained/Recommended for Retention		61,227
Low STAR Score		8,737
Total Hours		105,821

See accompanying note to supplementary information.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**SCHEDULE OF INSTRUCTIONAL TIME
FOR THE YEAR ENDED JUNE 30, 2006**

<u>Grade Level</u>	1982-83	1986-87	2005-06	<u>Number of Days</u>		<u>Status</u>
	<u>Actual Minutes</u>	<u>Minutes Requirement</u>	<u>Actual Minutes</u>	<u>Traditional Calendar</u>	<u>Multitrack Calendar</u>	
Kindergarten	33,325	36,000	37,800	180	175	Complied
Grades 1 - 3	50,580	50,400	51,740	180	175	Complied
Grades 4 - 8	56,790	54,000	58,260	180	175	Complied

See accompanying note to supplementary information.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**RECONCILIATION OF ANNUAL FINANCIAL AND BUDGET REPORT WITH
AUDITED FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2006**

There were no adjustments to the Unaudited Actual Financial Report, which required reconciliation to the audited financial statements at June 30, 2006.

See accompanying note to supplementary information.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

SCHEDULE OF FINANCIAL TRENDS AND ANALYSIS FOR THE YEAR ENDED JUNE 30, 2006

	(Budget) 2007 ¹	2006 ³	2005 ³	2004 ³
GENERAL FUND				
Revenues	\$ 25,993,141	\$ 24,545,985	\$ 23,218,189	\$ 23,266,267
Total Revenues and Other Sources	25,993,141	24,545,985	23,218,189	23,266,267
Expenditures	25,115,298	24,106,871	23,053,260	23,933,476
Other uses and transfers out	132,692	132,692	109,621	-
Total Expenditures and Other Uses	25,247,990	24,239,563	23,162,881	23,933,476
INCREASE/(DECREASE) IN FUND BALANCE	\$ 745,151	\$ 306,422	\$ 55,308	\$ (667,209)
ENDING FUND BALANCE	\$ 2,830,314	\$ 2,085,163	\$ 1,778,741	\$ 1,723,433
AVAILABLE RESERVES²	\$ 1,648,354	\$ 1,607,182	\$ 1,437,120	\$ 721,800
AVAILABLE RESERVES AS A PERCENTAGE OF TOTAL OUTGO	6.5%	6.6%	6.2%	3.0%
LONG-TERM OBLIGATIONS	\$ 10,170,000	\$ 10,619,465	\$ 11,021,472	\$ 11,269,478
AVERAGE DAILY ATTENDANCE AT P-2	3,255	3,255	3,241	3,324

The General Fund balance has increased by \$361,730 over the past two years. The fiscal year 2006-07 budget projects an increase of \$745,151 (36 percent). For a district this size, the State recommends available reserves of at least 3.0 percent of total General Fund expenditures, transfers out, and other uses (total outgo).

The District has incurred operating surpluses in two of the past three years and anticipates incurring an operating surplus during the 2006-07 fiscal year. Total long-term obligations have decreased by \$650,013 over the past two years.

Average daily attendance has decreased by 69 ADA over the past two years. No change in ADA is anticipated during fiscal year 2006-07.

¹ Budget 2007 is included for analytical purposes only and has not been subjected to audit.

² Available reserves consist of all undesignated fund balances and all funds designated for economic uncertainty contained within the General Fund and Special Reserve Fund (other than capital outlay).

³ On behalf payments have been excluded from this schedule.

See accompanying note to supplementary information.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION JUNE 30, 2006

NOTE 1 - PURPOSE OF SCHEDULES

Schedule of Expenditures of Federal Awards

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

Schedule of Average Daily Attendance (ADA)

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

Schedule of Instructional Time

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

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

Reconciliation of Annual Financial and Budget Report with Audited Financial Statements

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

Schedule of Financial Trends and Analysis

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

SUPPLEMENTARY INFORMATION - UNAUDITED

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET - UNAUDITED
JUNE 30, 2006**

	Child Development Fund	Deferred Maintenance Fund	Special Reserve Non-Capital Fund	Building Fund
ASSETS				
Deposits and investments	\$ 51,909	\$ 290,290	\$ 834,843	\$ 26,820
Receivables	20,027	128,711	-	6
Due from other funds	-	-	29,621	-
Total Assets	<u>\$ 71,936</u>	<u>\$ 419,001</u>	<u>\$ 864,464</u>	<u>\$ 26,826</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	19,558	18	-	-
Total Liabilities	<u>19,558</u>	<u>18</u>	<u>-</u>	<u>-</u>
Fund Balances:				
Unreserved:				
Undesignated, reported in:				
Special revenue funds	52,378	418,983	864,464	-
Debt service funds	-	-	-	-
Capital projects funds	-	-	-	26,826
Total Fund Balances	<u>52,378</u>	<u>418,983</u>	<u>864,464</u>	<u>26,826</u>
Total Liabilities and Fund Balances	<u>\$ 71,936</u>	<u>\$ 419,001</u>	<u>\$ 864,464</u>	<u>\$ 26,826</u>

See accompanying note to supplementary information - unaudited.

Capital Facilities Fund	QZAB Capital Projects Fund	County School Facilities Fund	COP Capital Project Fund	Mello Roos Capital Projects Fund	Bond Interest and Redemption Fund
\$ 174,511	\$ 21,945	\$ 611,710	\$ 280,745	\$ 219,701	\$ 312,661
-	-	5,140	-	1,615	-
-	-	-	-	-	-
<u>\$ 174,511</u>	<u>\$ 21,945</u>	<u>\$ 616,850</u>	<u>\$ 280,745</u>	<u>\$ 221,316</u>	<u>\$ 312,661</u>
-	-	-	-	-	77,242
-	-	-	-	-	<u>77,242</u>
-	-	-	-	-	-
-	-	-	-	-	235,419
174,511	21,945	616,850	280,745	221,316	-
<u>174,511</u>	<u>21,945</u>	<u>616,850</u>	<u>280,745</u>	<u>221,316</u>	<u>235,419</u>
<u>\$ 174,511</u>	<u>\$ 21,945</u>	<u>\$ 616,850</u>	<u>\$ 280,745</u>	<u>\$ 221,316</u>	<u>\$ 312,661</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING BALANCE SHEET – UNAUDITED, Continued
JUNE 30, 2006**

	COP Debt Service Fund	Total Non-Major Governmental Funds
ASSETS		
Deposits and investments	\$ 345,246	\$ 3,170,381
Receivables	-	155,499
Due from other funds	-	29,621
Total Assets	\$ 345,246	\$ 3,355,501
LIABILITIES AND FUND BALANCES		
Liabilities:		
Accounts payable	-	96,818
Total Liabilities	-	96,818
Fund Balances:		
Unreserved:		
Undesignated, reported in:		
Special revenue funds	-	1,335,825
Debt service funds	345,246	580,665
Capital projects funds	-	1,342,193
Total Fund Balances	345,246	3,258,683
Total Liabilities and Fund Balances	\$ 345,246	\$ 3,355,501

See accompanying note to supplementary information - unaudited.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2006**

	Child Development Fund	Deferred Maintenance Fund	Special Reserve Non-Capital Fund	Building Fund
REVENUES				
Federal sources	\$ 164,426	\$ -	\$ -	\$ -
Other state sources	336,113	132,664	-	-
Other local sources	80,749	5,374	27,897	899
Total Revenues	<u>581,288</u>	<u>138,038</u>	<u>27,897</u>	<u>899</u>
EXPENDITURES				
Current				
Plant services	-	175,524	-	-
Community services	618,650	-	-	-
Debt service				
Principal	-	-	-	-
Interest and other	-	-	-	-
Total Expenditures	<u>618,650</u>	<u>175,524</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(37,362)</u>	<u>(37,486)</u>	<u>27,897</u>	<u>899</u>
Other Financing Sources (Uses):				
Transfers in	-	132,692	-	-
Transfers out	-	-	-	-
Net Financing Sources (Uses)	<u>-</u>	<u>132,692</u>	<u>-</u>	<u>-</u>
NET CHANGE IN FUND BALANCES	<u>(37,362)</u>	<u>95,206</u>	<u>27,897</u>	<u>899</u>
Fund Balance - Beginning	89,740	323,777	836,567	25,927
Fund Balance - Ending	<u>\$ 52,378</u>	<u>\$ 418,983</u>	<u>\$ 864,464</u>	<u>\$ 26,826</u>

See accompanying note to supplementary information - unaudited.

Capital Facilities Fund	QZAB Capital Projects Fund	County School Facilities Fund	COP Capital Project Fund	Mello Roos Capital Projects Fund	Bond Interest and Redemption Fund
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
-	-	-	-	-	-
106,338	737	40,805	9,390	21,805	170,768
<u>106,338</u>	<u>737</u>	<u>40,805</u>	<u>9,390</u>	<u>21,805</u>	<u>170,768</u>
-	-	22,811	-	-	-
-	-	-	-	-	-
-	-	-	-	-	155,000
-	-	-	-	-	93,010
-	-	<u>22,811</u>	-	-	<u>248,010</u>
<u>106,338</u>	<u>737</u>	<u>17,994</u>	<u>9,390</u>	<u>21,805</u>	<u>(77,242)</u>
-	-	-	-	-	-
(148,864)	-	-	-	-	-
<u>(148,864)</u>	-	-	-	-	-
(42,526)	737	17,994	9,390	21,805	(77,242)
217,037	21,208	598,856	271,355	199,511	312,661
<u>\$ 174,511</u>	<u>\$ 21,945</u>	<u>\$ 616,850</u>	<u>\$ 280,745</u>	<u>\$ 221,316</u>	<u>\$ 235,419</u>

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**NON-MAJOR GOVERNMENTAL FUNDS
COMBINING STATEMENT OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE – UNAUDITED, Continued
FOR THE YEAR ENDED JUNE 30, 2006**

	COP Debt Service Fund	Total Non-Major Governmental Funds
REVENUES		
Federal sources	\$ -	\$ 164,426
Other state sources	-	468,777
Other local sources	8,848	473,610
Total Revenues	8,848	1,106,813
EXPENDITURES		
Current		
Plant services	-	198,335
Community services	-	618,650
Debt service		
Principal	255,000	410,000
Interest and other	345,076	438,086
Total Expenditures	600,076	1,665,071
Excess (Deficiency) of Revenues Over Expenditures	(591,228)	(558,258)
Other Financing Sources (Uses):		
Transfers in	596,875	729,567
Transfers out	-	(148,864)
Net Financing Sources (Uses)	596,875	580,703
NET CHANGE IN FUND BALANCES	5,647	22,445
Fund Balance - Beginning	339,599	3,236,238
Fund Balance - Ending	\$ 345,246	\$ 3,258,683

See accompanying note to supplementary information - unaudited.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**GENERAL FUND SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES, AND
CHANGES OF FUND BALANCE - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2006**

(Amounts in thousands)

	Actual Results for the Years ¹					
	2005-2006		2004-2005		2003-2004	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal revenue	\$ 2,945	12.0	\$ 2,290	9.9	\$ 3,173	13.6
State and local revenue included in revenue limit	16,604	67.6	16,051	69.1	15,385	66.1
Other state revenue	3,291	13.4	3,108	13.4	2,995	12.9
Other local revenue	1,706	7.0	1,769	7.6	1,713	7.4
Total Revenues	<u>24,546</u>	<u>100.0</u>	<u>23,218</u>	<u>100.0</u>	<u>23,266</u>	<u>100.0</u>
EXPENDITURES						
Salaries and Benefits						
Certificated salaries	12,225	49.8	11,904	51.3	12,186	52.4
Classified salaries	3,803	15.5	3,426	14.8	3,767	16.2
Employee benefits	3,619	14.7	3,474	15.0	3,666	15.8
Total Salaries and Benefits	19,647	80.0	18,804	81.0	19,619	84.3
Books and supplies	1,217	5.0	1,120	4.8	1,236	5.3
Contracts and operating expenses	2,879	11.7	2,665	11.5	2,614	11.2
Capital outlay	44	0.2	94	0.4	132	0.6
Other outgoing	320	1.3	370	1.6	332	1.4
Total Expenditures	<u>24,107</u>	<u>98.2</u>	<u>23,053</u>	<u>99.3</u>	<u>23,933</u>	<u>102.9</u>
EXCESS OF REVENUES OVER/ (UNDER) EXPENDITURES	439	1.8	165	0.7	(667)	(2.9)
OTHER FINANCING SOURCES/(USES)						
Transfers out	(133)	(0.5)	(109)	(1)	-	-
Total Other Financing Sources (Uses)	<u>(133)</u>	<u>(0.5)</u>	<u>(109)</u>	<u>(1)</u>	<u>-</u>	<u>-</u>
INCREASE/(DECREASE) IN FUND BALANCE	306	1.2	56	0.2	(667)	(2.9)
FUND BALANCE, BEGINNING	<u>1,779</u>		<u>1,723</u>		<u>2,390</u>	
FUND BALANCE, ENDING	<u>\$ 2,085</u>		<u>\$ 1,779</u>		<u>\$ 1,723</u>	

¹ State of California on behalf payments have been excluded from this schedule.

See accompanying note to supplementary information - unaudited.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**CAFETERIA ACCOUNT SELECTED FINANCIAL INFORMATION
THREE-YEAR SUMMARY OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE - UNAUDITED
FOR THE YEAR ENDED JUNE 30, 2006**

(Amounts in thousands)

	Actual Results for the Years					
	2005-2006		2004-2005		2003-2004	
	Amount	Percent of Revenue	Amount	Percent of Revenue	Amount	Percent of Revenue
REVENUES						
Federal - NSLP	\$ 764	58.4	\$ 705	57.0	\$ 677	55.8
State meal program	53	4.0	50	4.0	44	3.6
Food sales	492	37.6	482	39.0	493	40.6
Total Revenues	<u>1,309</u>	<u>100.0</u>	<u>1,237</u>	<u>100.0</u>	<u>1,214</u>	<u>100.0</u>
EXPENDITURES						
Salaries and employee benefits	421	32.2	559	45.2	534	44.0
Food	97	47.4	586	47.4	-	-
Supplies	670	51.2	39	3.2	655	54.0
Capital outlay	48	0.6	8	0.6	-	-
Other and transfers out	39	3.0	33	2.7	15	1.2
Total Expenditures	<u>1,275</u>	<u>134.3</u>	<u>1,225</u>	<u>99.0</u>	<u>1,204</u>	<u>99.2</u>
INCREASE/(DECREASE) IN FUND BALANCE	34	<u>2.6</u>	12	<u>1.0</u>	10	<u>0.8</u>
FUND BALANCE, BEGINNING	41		29		19	
FUND BALANCE, ENDING	<u>\$ 75</u>		<u>\$ 41</u>		<u>\$ 29</u>	

* * * * *

TYPE 'A' LUNCH/BREAKFAST PARTICIPATION

	2005-2006		2004-2005		2003-2004	
	Amount	Percent	Amount	Percent	Amount	Percent
TYPE 'A' LUNCHES						
Paid	135,343	33.9	151,135	37.2	147,686	37.1
Reduced price	62,685	15.7	63,429	15.6	58,501	14.7
Free	200,811	50.3	192,020	47.2	192,213	48.2
Total Lunches	<u>398,839</u>	<u>100.0</u>	<u>406,584</u>	<u>100.0</u>	<u>398,400</u>	<u>100.0</u>
BREAKFAST						
Paid	10,323	10.8	14,157	16.0	11,954	12.5
Reduced price	14,076	14.7	13,386	15.2	15,063	15.8
Free	71,445	74.5	60,729	68.8	68,394	71.7
Total Breakfast	<u>95,844</u>	<u>100.0</u>	<u>88,272</u>	<u>100.0</u>	<u>95,411</u>	<u>100.0</u>

See accompanying note to supplementary information - unaudited.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

NOTE TO SUPPLEMENTARY INFORMATION - UNAUDITED JUNE 30, 2006

NOTE 1 - PURPOSE OF SCHEDULES

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

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

General Fund Selected Financial Information - Unaudited

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

Cafeteria Account Selected Financial Information - Unaudited

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

INDEPENDENT AUDITORS' REPORTS



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

Board of Trustees
Salida Union Elementary School District
Salida, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salida Union Elementary School District as of and for the year ended June 30, 2006, which collectively comprise the Salida Union Elementary School District's basic financial statements and have issued our report thereon dated December 6, 2006. 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 Salida Union Elementary School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable 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 caused by error or fraud 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. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses. However, we noted other matters involving the internal control over financial reporting that we have reported to the management of Salida Union Elementary School District in a separate letter dated December 6, 2006.

Compliance and Other Matters

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

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

Varinek, Trim, Day & Co., LLP

Fresno, California
December 6, 2006



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

Board of Trustees
Salida Union Elementary School District
Salida, California

Compliance

We have audited the compliance of Salida Union Elementary School District with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major Federal programs for the year ended June 30, 2006. Salida Union Elementary School District's major Federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major Federal programs is the responsibility of Salida Union Elementary School District's management. Our responsibility is to express an opinion on Salida Union Elementary School District's compliance based on our audit.

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

In our opinion, Salida Union Elementary School District complied, in all material respects, with the requirements referred to above that are applicable to each of its major Federal programs for the year ended June 30, 2006.

Internal Control Over Compliance

The management of Salida Union Elementary School District is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to Federal programs. In planning and performing our audit, we considered Salida Union Elementary School District's internal control over compliance with requirements that could have a direct and material effect on a major Federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

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

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

Yarivick, Tine, Day & Co., LLP

Fresno, California
December 6, 2006



INDEPENDENT AUDITORS' REPORT ON STATE COMPLIANCE

Board of Trustees
Salida Union Elementary School District
Salida, California

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Salida Union Elementary School District as of and for the year ended June 30, 2006, and have issued our report thereon dated December 6, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and the Standards and Procedures for Audits of California K-12 Local Educational Agencies 2005-06, issued by the California Education Audit Appeals Panel as regulations. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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

Table with 3 columns: Item, Procedures in Audit Guide, Procedures Performed. Rows include Attendance Accounting, Instructional Time, Instructional Materials, and Ratios of Administrative Employees to Teachers.

	<u>Procedures in Audit Guide</u>	<u>Procedures Performed</u>
Early retirement incentive	4	Not Applicable
Gann limit calculation	1	Yes
School Construction Funds:		
School district bonds	3	Not Applicable
State school facilities funds	1	Yes
Alternative pension plans	2	Not Applicable
Proposition 20 Lottery Funds (Cardenas Textbook Act of 2000)	2	Yes
State Lottery Funds (California State Lottery Act of 1984)	2	Yes
California School Age Families Education (Cal-SAFE) Program	3	Not Applicable
School Accountability Report Card	3	Yes
Class Size Reduction Program (including in Charter Schools):		
General requirements	7	Yes
Option one classes	3	Yes
Option two classes	4	Not Applicable
District or charter schools with only one school serving K-3	4	Not Applicable
Charter Schools:		
Contemporaneous records of attendance	1	Not Applicable
Non classroom-based instruction/independent study	15	Not Applicable
Additional Non classroom-based instruction	1	Not Applicable
Determination of funding for non classroom-based instruction	3	Not Applicable
Annual instruction minutes classroom based	3	Not Applicable

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

Based on our audit, we found that for the items tested, the Salida Union Elementary School District complied with the State laws and regulations referred to above, except as described in the Schedule of State Award Findings and Questioned Costs section of the accompanying Schedule of Findings and Questioned Costs. Further, based on our audit, for items not tested, nothing came to our attention to indicate that the Salida Union Elementary School District had not complied with the laws and regulations. Our audit does not provide a legal determination on Salida Union Elementary School District's compliance with the State laws and regulations referred to above.

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

Varinek, Trine, Day & Co., LLP
 Fresno, California
 December 6, 2006

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**SUMMARY OF AUDITORS' RESULTS
FOR THE YEAR ENDED JUNE 30, 2006**

FINANCIAL STATEMENTS

Type of auditors' report issued:	<u>Unqualified</u>
Internal control over financial reporting:	
Material weaknesses identified?	<u>No</u>
Reporting conditions identified not considered to be material weaknesses?	<u>None reported</u>
Noncompliance material to financial statements noted?	<u>No</u>

FEDERAL AWARDS

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

<u>CFDA Numbers</u>	<u>Name of Federal Program or Cluster</u>
<u>84.010</u>	<u>Title I - Basic</u>
<u>84.027</u>	<u>Special Education - Local Assistance</u>
<u>93.600</u>	<u>Head Start Cluster</u>
<u>84.287</u>	<u>Title IV - 21st Century</u>

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

STATE AWARDS

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

FINANCIAL STATEMENT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

There were no findings representing reportable conditions, material weaknesses, nor instances of noncompliance related to the financial statements that were required to be reported in accordance with *Government Auditing Standards*.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**FEDERAL AWARDS FINDINGS AND QUESTIONED COSTS
FOR THE YEAR ENDED JUNE 30, 2006**

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

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

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

<u>Five Digit Code</u>	<u>AB 3627 Finding Type</u>
70000	Instructional Materials

2006-1 70000

State Instructional Materials

Finding

Under the requirements for the State Instructional Materials program, School Districts are required to make a determination and pass a resolution as to the sufficiency of instructional materials in specific areas adopted by the State Board of Education. We found that the District did pass a resolution, but the determination that there were sufficient instructional materials was not in the language. Also, the resolution did not reference certain specific subjects as prescribed by Education Code 60119(1)(C). There was no determination specific as to the sufficiency of instructional materials that are aligned to the academic content standards and consistent with the cycles and content of the curriculum frameworks in Mathematics, Science, History/Social Science, and English/Language Arts. Also, there was no determination specific as to the sufficiency of foreign language and health instructional materials. The questioned cost associated with this finding is the total amount of funding for the Instructional Materials program of \$198,374.

Recommendation

The District should make sure that future determinations on the sufficiency of instructional materials include the required elements and that it is reflected in the resolution. Also, the District should apply to the County Office of Education for a waiver of the funding penalty.

District Response

Implemented as recommended.

2006-2 70000

Attendance Accounting

Finding

All attendance documentation is required to be maintained for seven years. During our audit of the attendance, we found that the attendance clerk disposes of tardy slips as they occur. Also, teachers are required to certify their attendance by signing their attendance register or rosters. We found that not all teachers are signing their registers. There is no questioned cost associated with these conditions.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

STATE AWARDS FINDINGS AND QUESTIONED COSTS FOR THE YEAR ENDED JUNE 30, 2006

Recommendation

The site attendance clerk should maintain all tardy slips for the required seven years. Also, the site should implement procedures in which all teachers certify their attendance records.

District Response

Sites have been advised. Attendance Clerks have been retrained. Recommendation has been implemented.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

Except as specified in previous sections of this report, summarized below is the current status of all audit findings reported in the prior year's schedule of financial statement findings.

Financial Statement Findings

2005-1 30000

Second Interim Financial Report

Finding

During our audit of the District's Second Interim Financial Report, we noted the following errors/concerns in the second interim report:

1. The General Fund beginning budget was short by \$10,000. Per the Business Manager, the software is not pulling in the \$10,000 reserve for the Revolving Fund.
2. Also in the General Fund, the actuals-to-date total for Federal Revenues is negative \$107,546 despite the fact that the projected year total for Federal Revenue is \$2,732,312. The reason for this could not be explained by the District.
3. In the Child Development Fund, the actuals-to-date for local revenue was at \$34,044 while projected year totals were \$190,254. The reason for this could not be explained by the District.
4. In the Cafeteria Fund, the beginning fund balance is reported at \$12,339, however, the prior year audited ending balance for the fund is \$29,285. The reason for this could not be explained by the District.
5. In the First Tier Review, the undesignated fund balance of the Special Reserve-Non Capital Outlay Fund in the amount of \$798,811 was not included as part of the projected unrestricted reserves. The District was under the assumption that there was an automatic link in the software. Despite that assumption, it is something that should not have been overlooked.
6. Also in the First Tier Review, the District stated that no proposed or negotiated salary increases were budgeted, yet included an amount for salaries.

Recommendation

Care should be taken in the reporting of the District's interim financial conditions and certifications. The fund information should be reviewed for accuracy and reasonableness. The actuals-to-date information should be carefully reviewed and compared to the projected year totals as well as the board approved budgets to verify that they accurately reflect the District's expectations. First Tier Review information on projected year-end reserves should be checked for accuracy and completeness.

Current Status

Implemented.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

**SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED JUNE 30, 2006**

2005-2 60000

Finding

In our examination of the Salida Union School District's Claims for Reimbursement - School Nutrition Programs, we noted that the claims for January and February 2005 were incorrect. The spreadsheet on which the District calculates its meal counts contained a formula error omitting one of the District's sites. The monthly figures for the originally filed claims and the adjusted claims are summarized below:

	January	February	TOTAL
Paid Lunches:			
Submitted Claim	10,789	10,204	20,993
Revised Claim	14,407	12,992	27,399
Difference	<u>3,618</u>	<u>2,788</u>	<u>6,406</u>
Reduced Lunches:			
Submitted Claim	4,674	4,442	9,116
Revised Claim	6,158	5,516	11,674
Difference	<u>1,484</u>	<u>1,074</u>	<u>2,558</u>
Free Lunches:			
Submitted Claim	15,143	15,525	30,668
Revised Claim	17,779	18,148	35,927
Difference	<u>2,636</u>	<u>2,623</u>	<u>5,259</u>
Paid Needy Breakfast:			
Submitted Claim	1,095	1,135	2,230
Revised Claim	1,258	1,322	2,580
Difference	<u>163</u>	<u>187</u>	<u>350</u>
Reduced Needy Breakfast:			
Submitted Claim	1,015	968	1,983
Revised Claim	1,222	1,113	2,335
Difference	<u>207</u>	<u>145</u>	<u>352</u>
Free Needy Breakfast:			
Submitted Claim	4,367	4,904	9,271
Revised Claim	5,098	5,806	10,904
Difference	<u>731</u>	<u>902</u>	<u>1,633</u>

Recommendation

The District should submit revised National School Lunch claims for January and February to the State.

Current Status

Implemented.

SALIDA UNION ELEMENTARY SCHOOL DISTRICT

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS FOR THE YEAR ENDED JUNE 30, 2006

State Award Findings

2005-3 40000

K-3 Class Size Reduction

Finding

During our audit of the District's participation in the K-3 Class Size Reduction program, we found that the District over-reported the number of eligible pupils that participated in the program during the year. The program provides incentive funding for districts that reduce the average enrollment of students to below 20 in kindergarten through third grade classes. In reviewing the daily average class sizes from the SASI enrollment report ATD19 used to tally the number of classes in each grade level by class size, we noted that one second grade class was reported as having a daily average of 20 students when in fact the class actually averaged only 17. The form J-7CSR was overstated by three eligible pupils and therefore the total funding will be reduced by \$2,784 from \$1,355,808 to \$1,353,024.

Recommendation

The District should revise the J-7CSR Report to reflect the audited class and student counts, and accrue a liability for the amount of the questioned cost.

Current Status

Implemented.